اءوتوريتي مونيتاري بروني دارالسلام

AUTORITI MONETARI BRUNEI DARUSSALAM

2018

Annual **Report**

His Majesty Sultan Haji Hassanal Bolkiah Mu'izzaddin Waddaulah Ibni Al-Marhum Sultan Haji Omar 'Ali Saifuddien Sa'adul Khairi Waddien, Sultan and Yang Di-Pertuan of Negara Brunei Darussalam

Contents

Chairman's Sabda

His Royal Highness Prince Haji Al-Muhtadee Billah ibni
His Majesty Sultan Haji Hassanal Bolkiah Mu'izzaddin Waddaulah,
The Crown Prince and Senior Minister at the Prime Minister's Office
As Chairman of Autoriti Monetari Brunei Darussalam (AMBD)

بسم الله الرحمن الرحيم

السلام عليكم ورحمة الله وبركاته

الحمد لله رب العالمين، والصلاة والسلام على أشرف المرسلين، سيدنا محمد وعلى آله وصحبه أجمعين، وبعد

Alhamdulillah, since its establishment eight years ago, AMBD has demonstrated its continuous commitment in safeguarding the stability of the financial system, whilst embracing innovation and fostering a sound and progressive financial services sector.

The year 2018 was no different. Through various initiatives and reforms, AMBD continued to facilitate the evolution of the finance landscape in the country. These efforts were recognised and reflected in global performance indicators. Brunei Darussalam attained first position in the getting credit indicator, alongside New Zealand, in the World Bank's Doing Business 2019 report. Brunei Darussalam also maintained its rank as one of the top 10 performing Islamic finance markets out of 131 countries and second in ASEAN according to the ICD-Thomson Reuters Islamic Finance Development Report 2018.

The need to develop an environment that allows innovative financial solutions to thrive is becoming more important over the past few years. With the FinTech Regulatory Sandbox Guidelines in place, AMBD also continued to support the development in this field with the signing of the FinTech Cooperation Agreement with the Monetary Authority of Singapore (MAS). This agreement was a significant step towards encouraging joint innovation projects and spurring FinTech industries in both countries.

Furthermore, the recently launched Digital Payment Roadmap for Brunei Darussalam 2019-2025 sheds light on the vision of digital transformation in the country. The financial sector must continue to innovate and leverage on new technologies to stay ahead of consumer demand. I urge industry players to drive the digital transformation in the payments market, leading to the creation of a safe and efficient digital payment ecosystem, which is fundamental to a digital economy.

Moving forward, AMBD will continue to cooperate, collaborate and coordinate with its stakeholders in delivering its mandate as well as the goals stipulated in the Brunei Darussalam Financial Sector Blueprint 2016-2025 in support of Wawasan 2035.

Alhamdulillah, I am thankful for the tireless efforts put into by the officers and staff of AMBD, led by the Managing Director. I would also like to take this opportunity to thank leaving members of the AMBD Board of Directors for their contribution over their term and to welcome new board members. The years to come will not be without challenges and AMBD will need to keep pace with the ever-evolving financial landscape. However, I am confident that AMBD will continue to display their dedication in delivering AMBD's objectives, especially with the continued guidance and support of the Board and the management. Finally, it is my pleasure to introduce Annual Report 2018.

Managing Director's Foreword

بسم الله الرحمن الرحيم

السلام عليكم ورحمة الله وبركاته

AMBD made great strides in facilitating the development of the financial sector in 2018, especially in the field of Islamic finance. AMBD issued two notices to ensure Islamic financial institutions are properly governed by Syariah principles and that internal audits are carried out effectively for compliance to Hukum Syara'. AMBD also introduced a new sukuk structure namely Sukuk Ijarah Fi Zimmah to fund the construction of the AMBD headquarters. This is a milestone in the domestic sukuk development where sukuk financing was used for the first time in the country to fund a large construction project. It is hoped that this will encourage the use of Syariah-compliant funding for other large infrastructure projects in the country.

The FinTech Regulatory Sandbox Guidelines have been well received by the industry. In 2018, AMBD granted its first three approvals for FinTech solutions to enter the sandbox. This shows that with the right regulatory support, we can provide an ideal testbed for the market players to test their innovative ideas and further spur the development of innovative financial solutions.

AMBD launched its Digital Payment Roadmap for Brunei Darussalam 2019-2025 that envisions Brunei Darussalam to become a Digital Payment Nation by 2025. It is encouraging to see that there has been increased usage of e-payments and e-commerce in the country, indicating that the market is ready to utilise payments technology in day-to-day transactions. I hope with this Roadmap, there will be more integrated collaboration amongst the industry players and relevant stakeholders towards the creation of a safe and efficient digital payment ecosystem.

Safety and confidence are two key elements that will determine the success of further development in the payments landscape. AMBD will continue to work closely with national agencies in strengthening the resilience of the financial system against cyber threats. Combined with socialisation initiatives with the public and industry players, it is hoped that greater awareness in cyber threats can be instilled as the world faces the growing trend of technological transformation. As technological advancement continues to accelerate, the demand for modern financial infrastructure and legislation will also rise.

While financial institutions in the country remain highly liquid and resilient, AMBD continues to enhance its supervisory framework to ensure the safety and soundness of supervised financial institutions amidst the changing global and domestic economic conditions. AMBD is working towards a risk-based supervision approach that is forward-looking and geared towards the strengthening of the risk management system and the early identification and resolution of threats to the safety and soundness of the financial system.

The Credit Bureau has launched two new key initiatives. The Bureau Credit Score assigns borrowers with a three-digit numerical expression, which can assist financial institutions in making more informed and risk-based decisions when lending. At a considerably high scoreable coverage of 76.8% of the population, the credit score can facilitate easier access to funding for micro, small and medium enterprises (MSMEs). Additionally, the public can now request for their self-inquiry reports online which provides greater convenience to the public.

As part of our continuous efforts to develop the domestic money market, I am pleased to share that AMBD has launched its Overnight Standing Facilities, which consist of both Islamic and conventional tools. Through provision of more liquidity tools for the banks, AMBD can facilitate the smooth functioning of the financial system through ensuring efficient and effective liquidity management. This framework is designed to ensure the existing Currency Board Arrangement is not compromised.

AMBD has introduced the country's first Residential Property Price Index (RPPI), in close cooperation with the Authority for Building Control and Construction Industry (ABCi), Ministry of Development. The index measures the change in the average level of prices paid by households for residential properties sold in the country. Besides providing more insights on the domestic housing market, the RPPI serves as a financial stability indicator as well as a macroeconomic indicator of domestic economic growth.

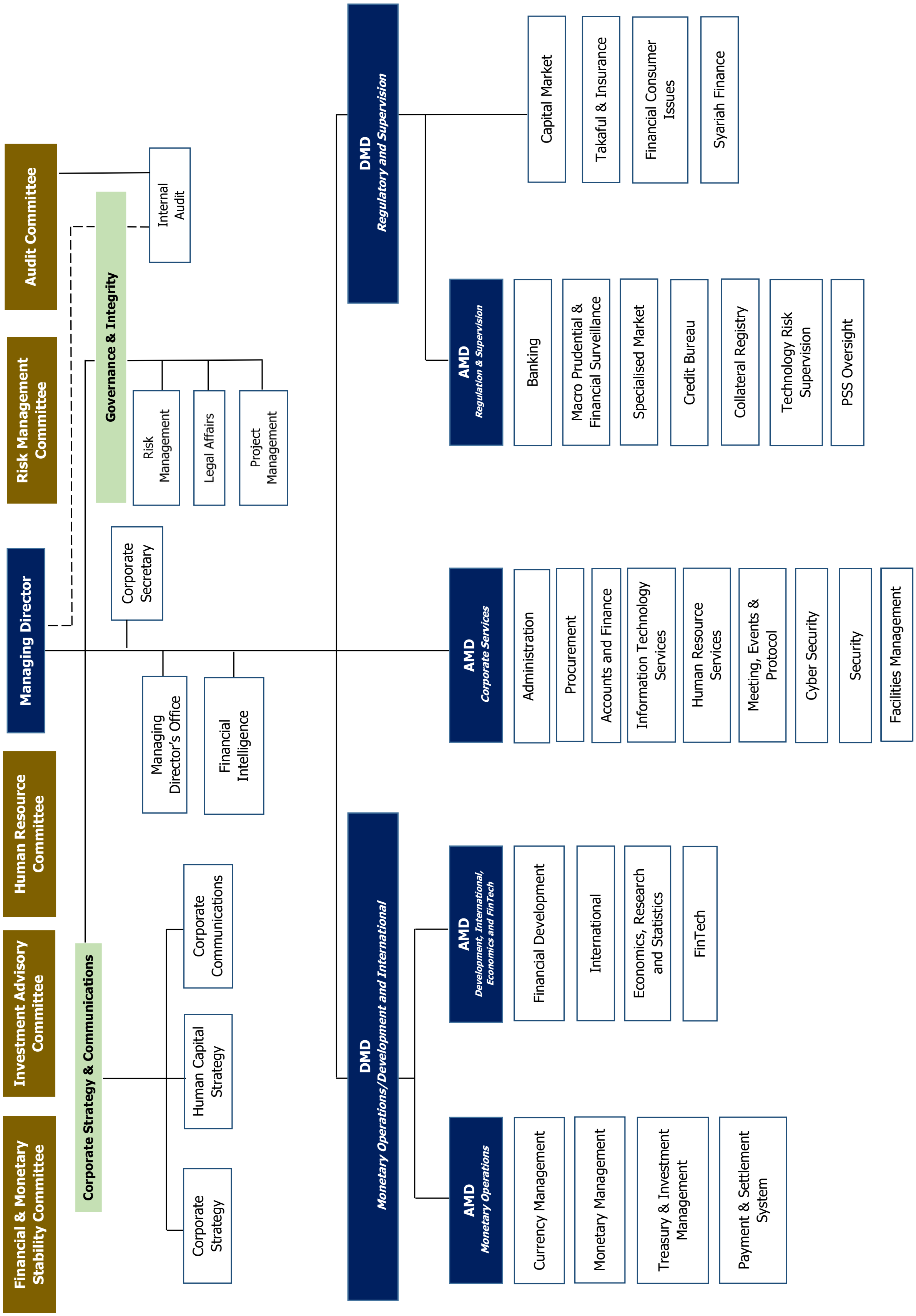
Empowering the public through information and knowledge remains a key agenda for AMBD. AMBD ran a variety of awareness campaigns, with topics ranging from the Brunei currency and Islamic finance to financial literacy. Socialisation activities to promote greater awareness and better understanding on the roles and functions of the AMBD were also conducted. Continued awareness initiatives will help to contribute to the successful delivery of AMBD's objectives.

Alhamdulillah, this annual report goes into more detail on another successful year for AMBD. Going forward, I have no doubt that AMBD personnel will continue to demonstrate their commitment in addressing any challenges to achieve AMBD's objectives and goals. Lastly, I would like to express my deepest appreciation to His Royal Highness Prince Haji Al-Muhtadee Billah ibni His Majesty Sultan Haji Hassanal Bolkiah Mu'izzaddin Waddaulah, the Crown Prince and Senior Minister at the Prime Minister's Office, as Chairman of AMBD as well as to our Board of Directors, for their continuous guidance and to all officers and staff for their ongoing effort and dedication.

Awg Yusof bin Haji Abd Rahman

Managing Director, AMBD

Organisational Structure



AMBD in Brief

Monetary Policy

The monetary policy framework in Brunei Darussalam is based on a currency board system with the Brunei dollar pegged to the Singapore dollar at par.

Brunei Darussalam also has a Currency Interchangeability Agreement (CIA) in place with the Republic of Singapore that was signed in 1967. This agreement continues to remain in effect between AMBD and Monetary Authority of Singapore (MAS).

Main Objectives

The principal objectives of AMBD under the Autoriti Monetari Brunei Darussalam Order, 2010 are:

- To achieve and maintain domestic price stability
- To ensure the stability of the financial system, in particular by formulating financial regulations and prudential standards
- To assist in the establishment and functioning of efficient payment systems and to oversee them
- To foster and develop a sound and progressive financial services sector

AMBD Personnel

92

133

Economic Review

A less synchronised global growth

Global growth continued its steady expansion in 2018, but with much less synchronicity than in 2017. While the economy of the United States was booming, most of the rest of the world slowed or even stagnated. The United States maintained solid growth as the fiscal stimulus, from increased government expenditure and reduced taxation, provided a boost to employment, confidence and thus consumer spending, notwithstanding ongoing political issues and trade tensions.

On the other hand, growth in the United Kingdom had been largely mired by Brexit uncertainty, while Japan and the Euro area lost momentum on weaker trade activity. China and a number of Asian economies also faced weaker growth driven largely by trade issues. Among emerging markets and developing economies, tighter financial conditions, geopolitical tensions, and higher oil prices posed challenges to growth.

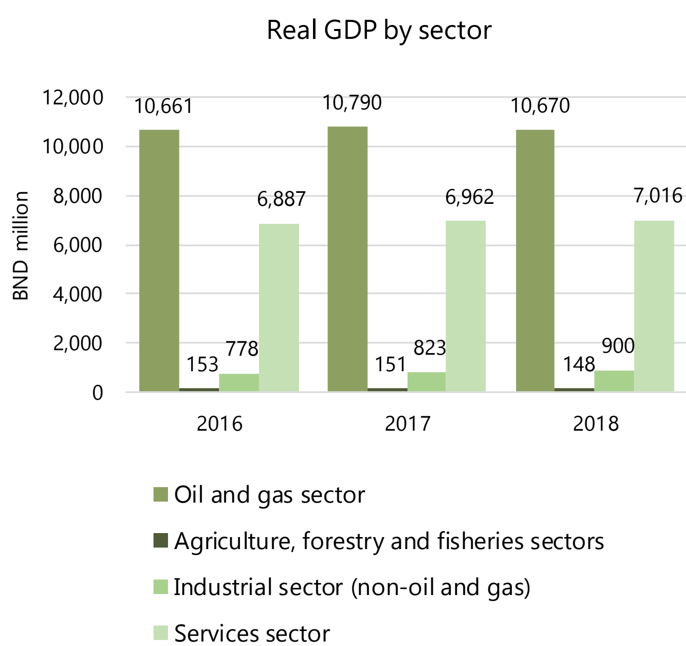
Financial waters were choppy

The global equity market started the year with exuberance and ended on a downturn; with most key equity indices registering declines by the end of 2018 as markets struggled with increased volatility. The ongoing trade tensions and geopolitical issues combined with concerns of further tightening of financial conditions and a global growth slowdown were among the factors impacting investor sentiment. The commodities market experienced a sell-off in the oil market driven by sustained oversupply, despite efforts by OPEC and non-OPEC countries to support higher prices, as well as worries of waning demand due to weaker global growth. Such market volatility combined with a weaker-than-expected outlook brought about a wave of risk aversion among investors, which resulted in gold prices ending the year on a high note.

Domestic economy slowed

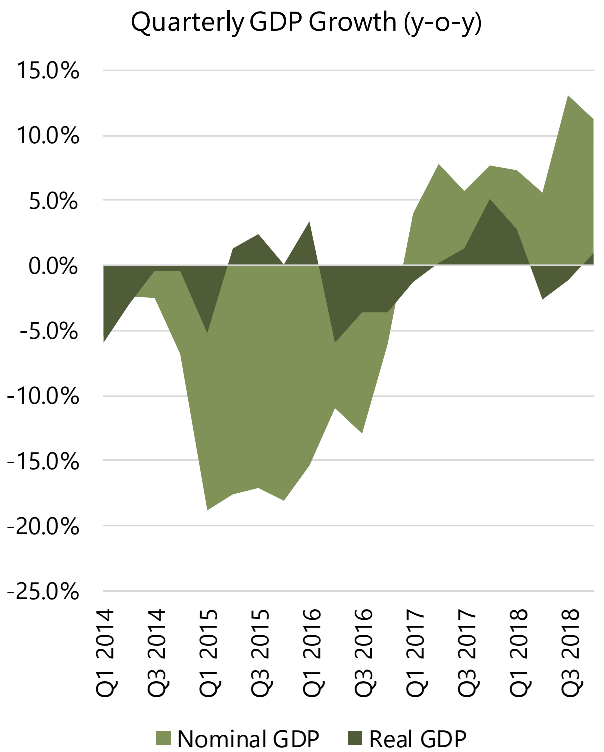
The economy of Brunei Darussalam maintained overall positive growth in 2018 with an expansion of 0.1% year-on-year (y-o-y), although slower than the 1.3% y-o-y growth in 2017. The expansions in Q1 and Q4 2018 by 2.8% y-o-y and 1.0% y-o-y respectively managed to offset the contractions in Q2 (-2.6% y-o-y) and Q3 2018 (-1.1% y-o-y). As of Q4 2018, real Gross Domestic Product (GDP) was BND 4,783.3 million and for the whole of 2018, real GDP was BND 18,387.1 million.

In terms of production, the oil and gas sector declined by 1.1% y-o-y in 2018, following declines in both oil and gas mining and the manufacture of liquefied natural gas (LNG) and methanol. Meanwhile, the non-oil and gas sector grew by 1.6% y-o-y in 2018, driven largely by gains in the services sector, particularly the 3.4% y-o-y growth in government services/public administration, which made up 11.9% of real GDP.



In terms of expenditure, private sector investments jumped 37.2% y-o-y in 2018 from 16.5% y-o-y in 2017. This increase was largely linked to Foreign Direct Investment (FDI) projects such as Hengyi Industries Sdn. Bhd.'s petrochemical plant at Pulau Muara Besar, among many other initiatives.

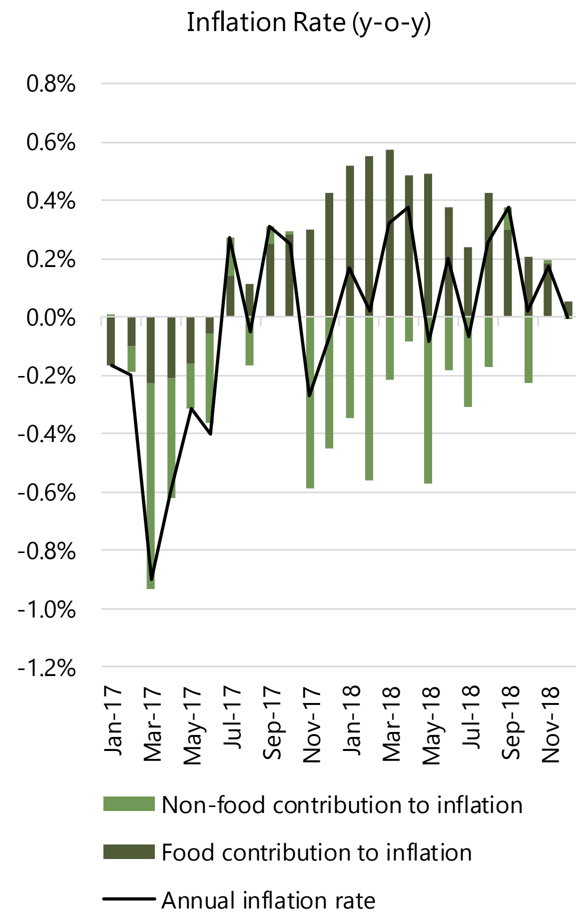
Also indicative of such activities is the sharp rise in imports by 28.1% y-o-y in 2018. Approximately 38.3% of imports during the year comprised of machinery and transport equipment. Exports, on the other hand, grew by only 2.8% y-o-y. Thus, net exports recorded an overall decline of 36.8% y-o-y.



Inflation continued to pick up

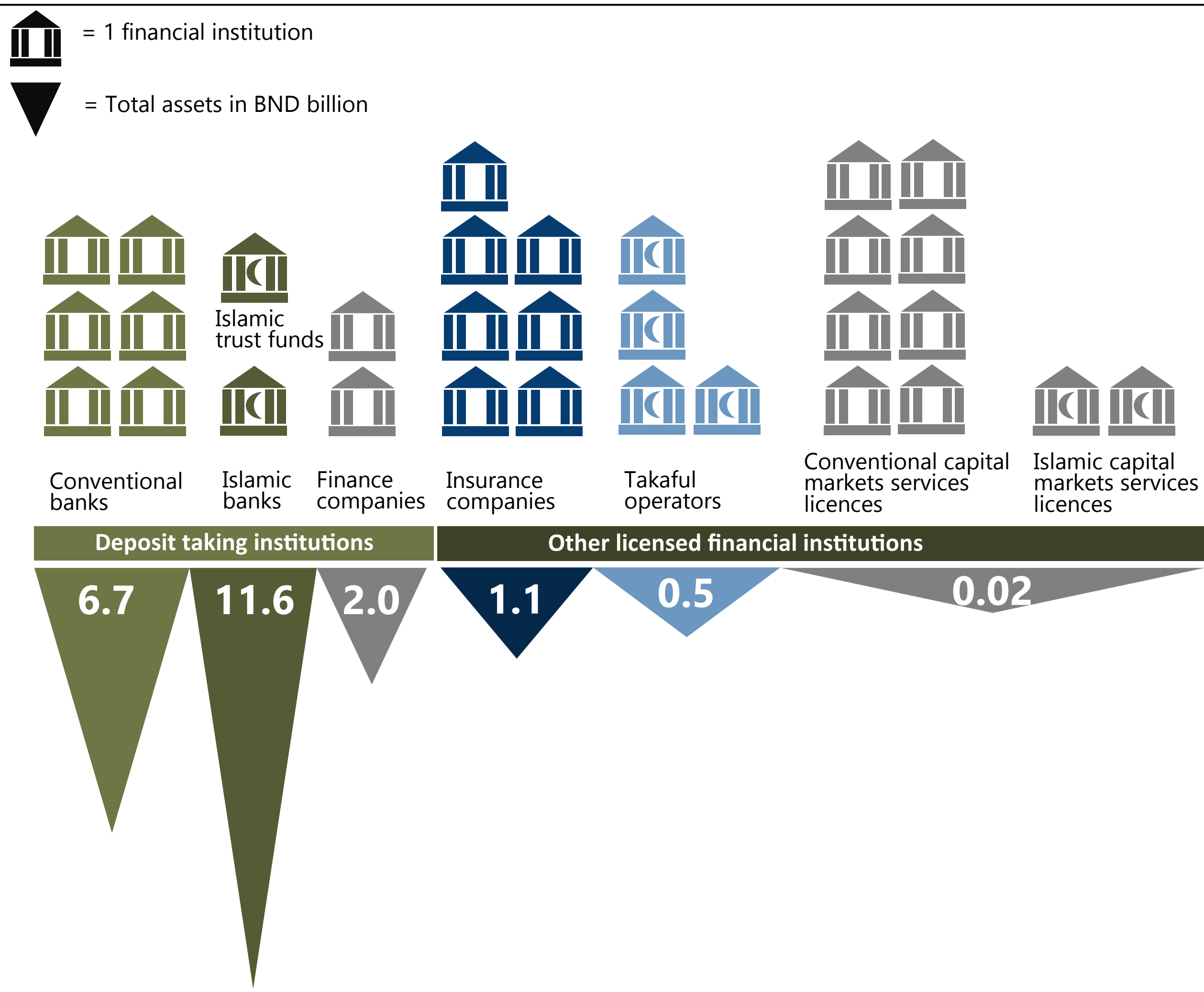
Inflation rose 0.1% in 2018 compared to -0.2% in 2017. Based on the Consumer Price Index for 2018, the indices with the largest price gains were those of *food and non-alcoholic beverages* (1.9%), *education* (1.8%), and *health* (1.6%). Meanwhile, the indices with the biggest declines were those of *clothing and footwear* (-4.4%), *furnishings, household equipment and routine household maintenance* (-0.9%), and *housing, water, electricity, gas and other fuels* (-0.5%).

AMBD forecasted inflation to be in the range of 0% to 1% for 2018. Inflation for the year ended up in the lower half of the forecast range due to a number of factors including softer-than-expected global inflation, slightly appreciating stance of MAS on the Singapore Dollar Nominal Effective Exchange Rate (S$NEER), and a relatively subdued domestic economy.

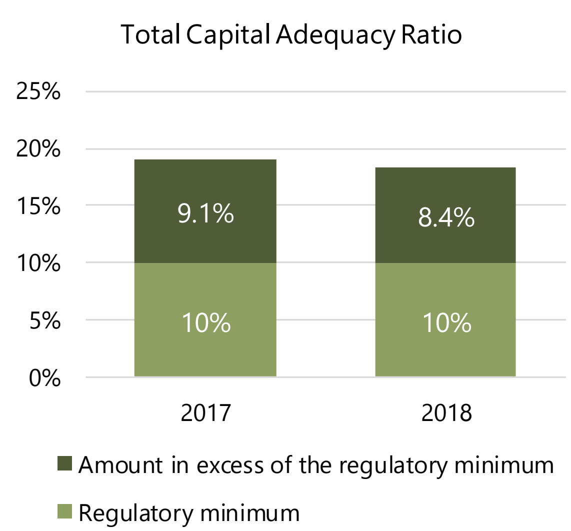


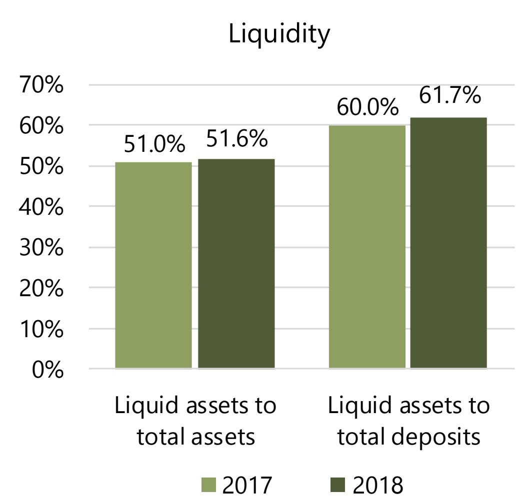
Data source: Department of Economic Planning and Development (DEPD), Ministry of Finance and Economy

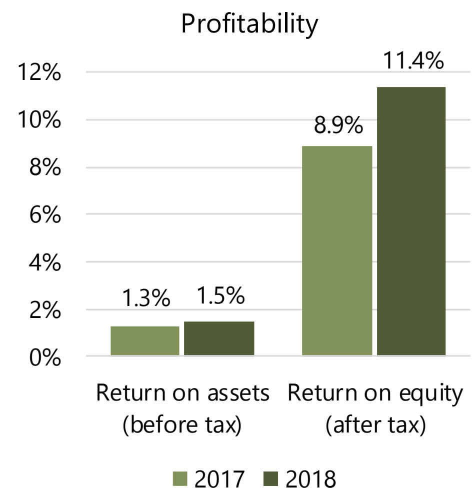
The Financial Sector in Numbers

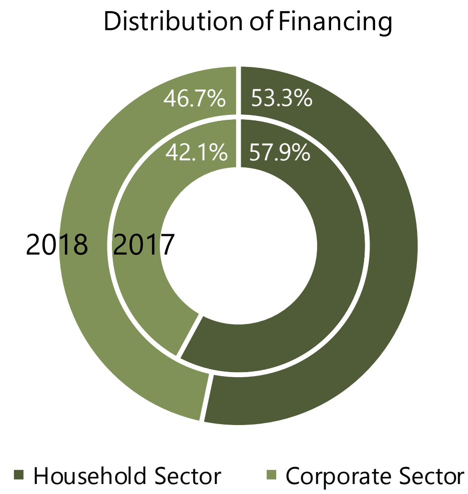


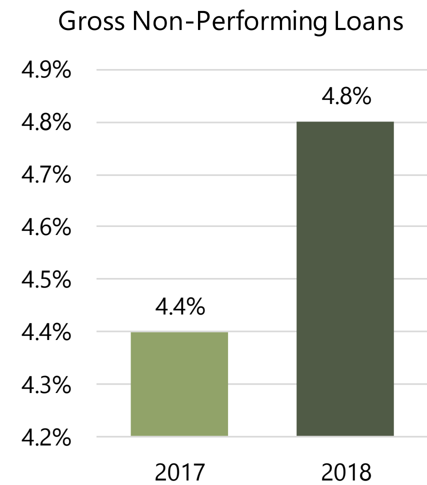
Banks including Tabung Amanah Islam Brunei (TAIB)

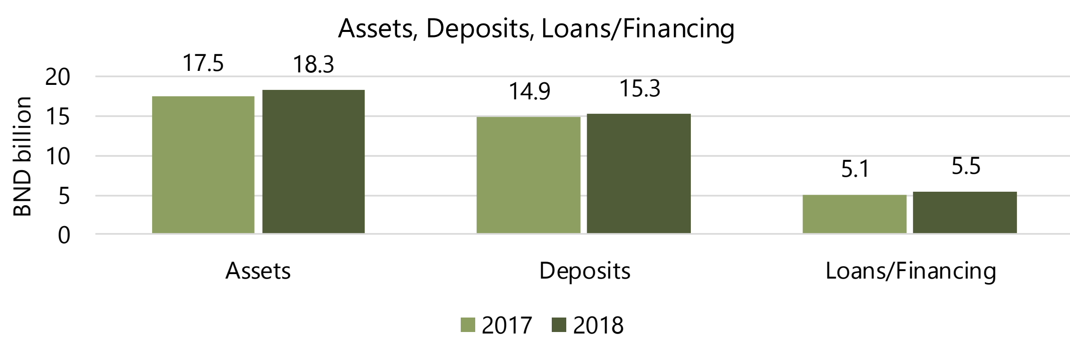




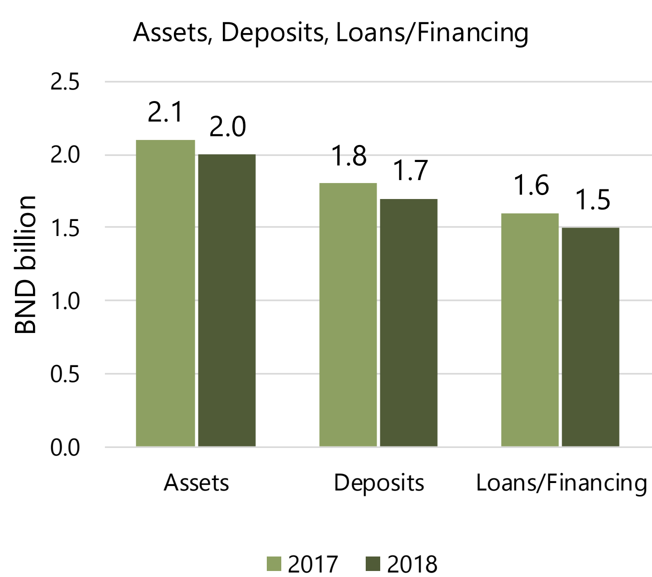


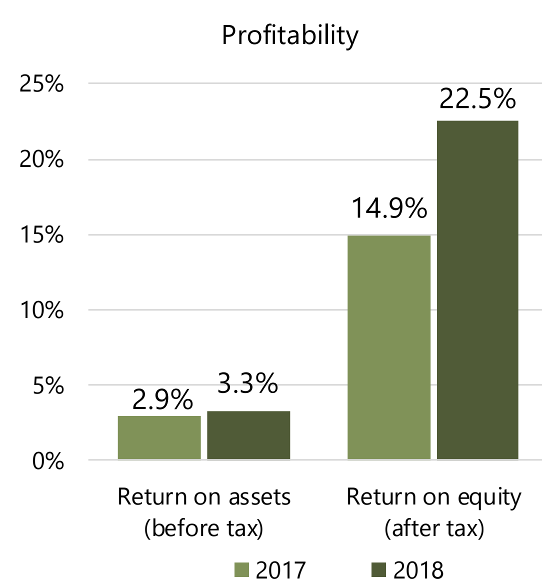




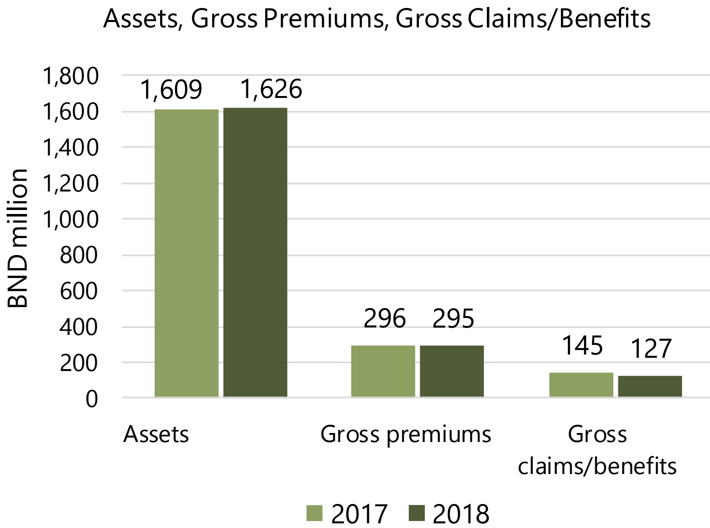


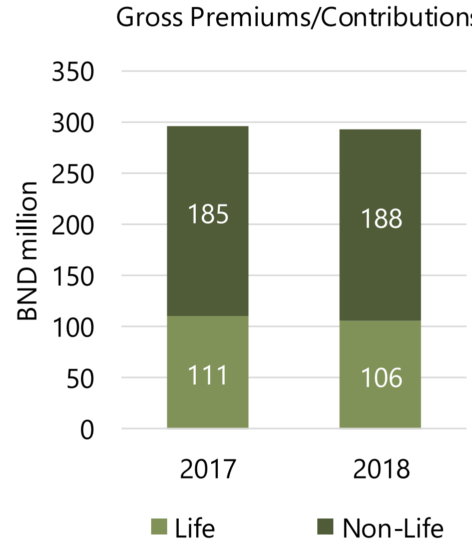
Finance Companies

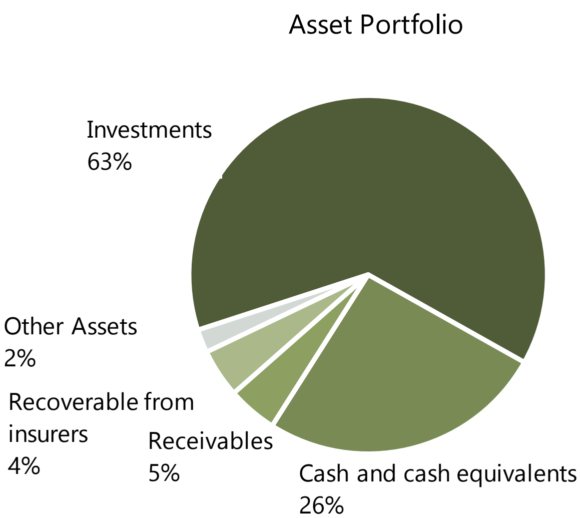


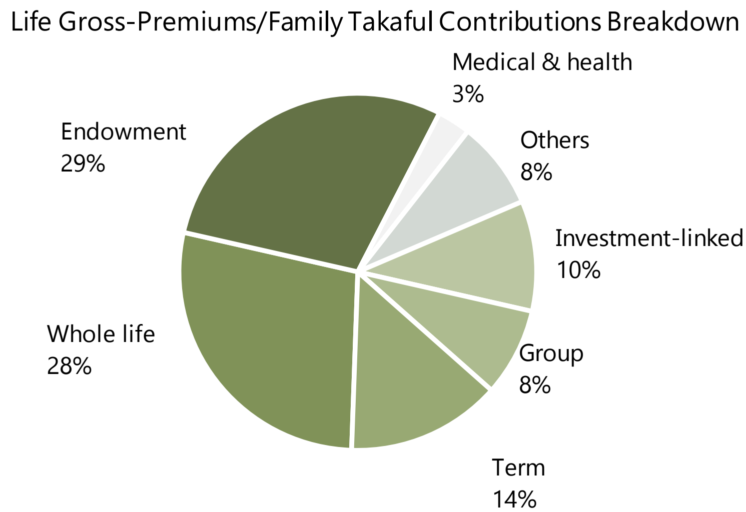


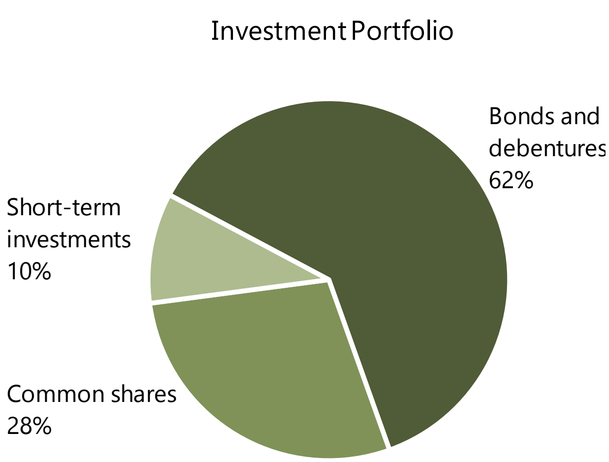
Takaful Operators and Insurance Companies

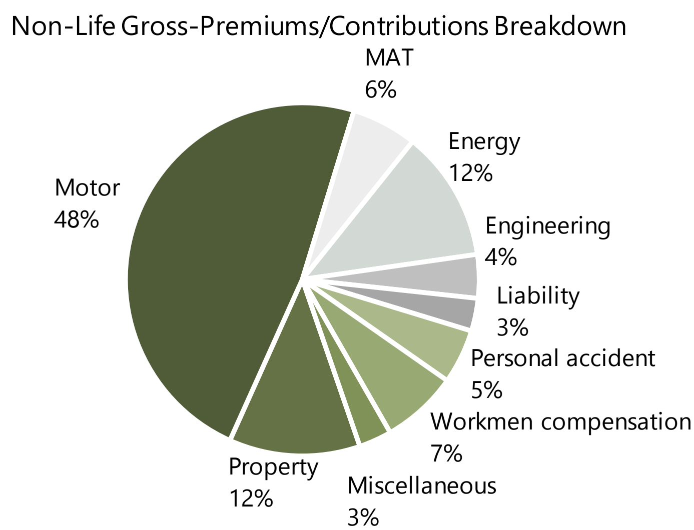






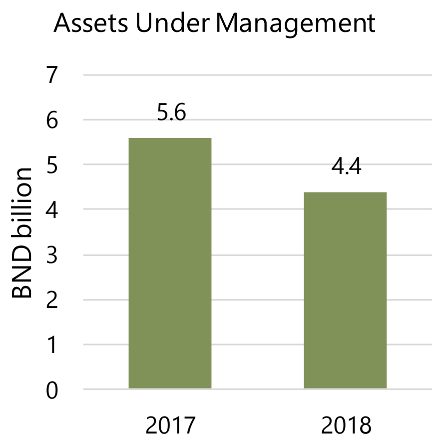


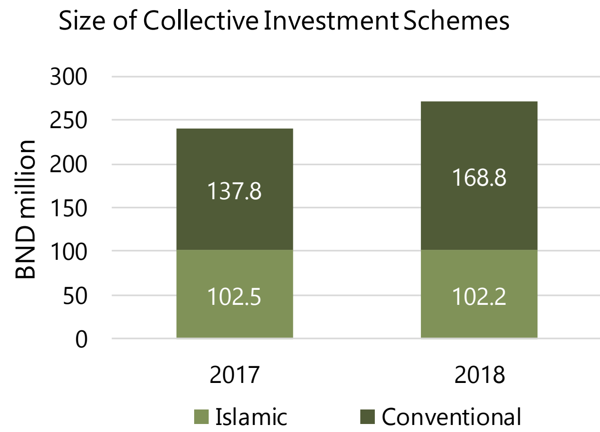




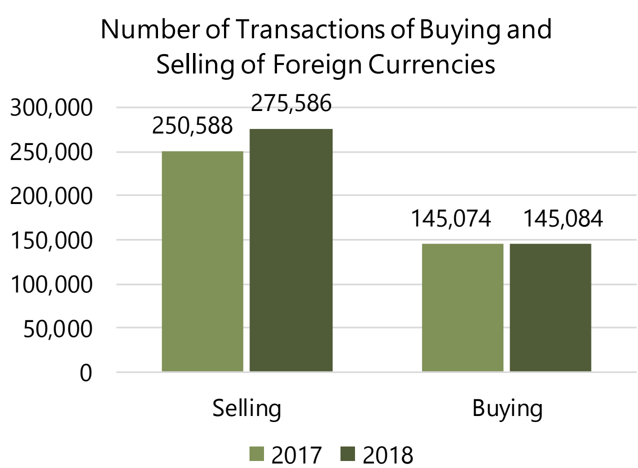
MAT stands for Marine, Aviation and Transit

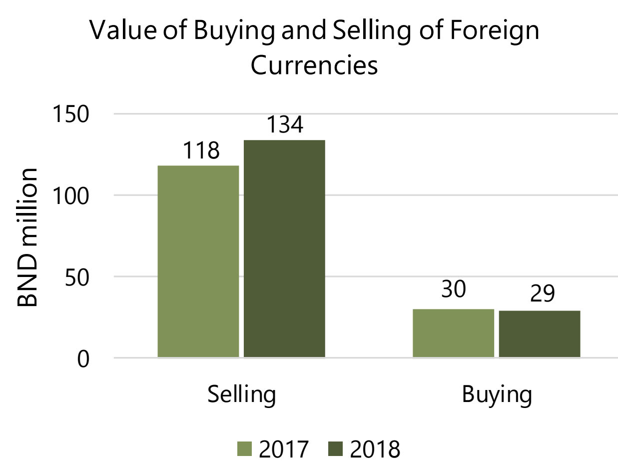
Capital Market



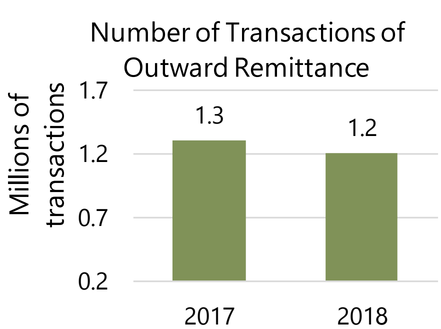


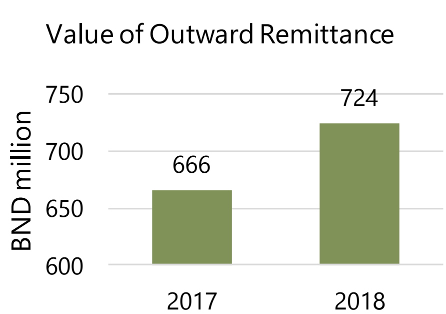
Money Changing

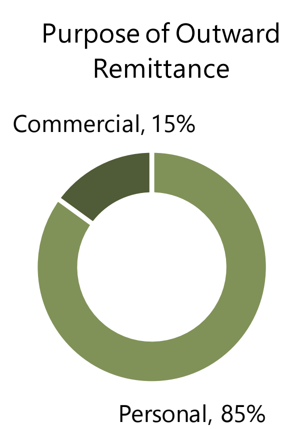


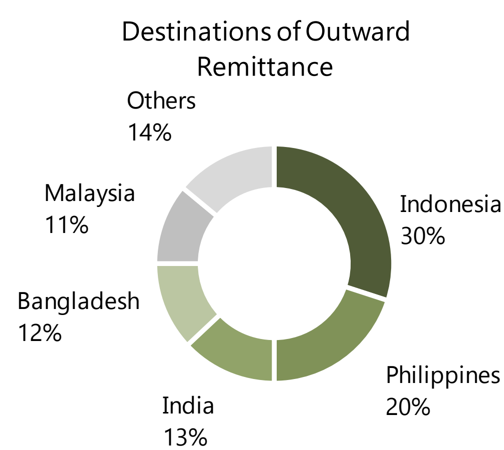


Money Remittance





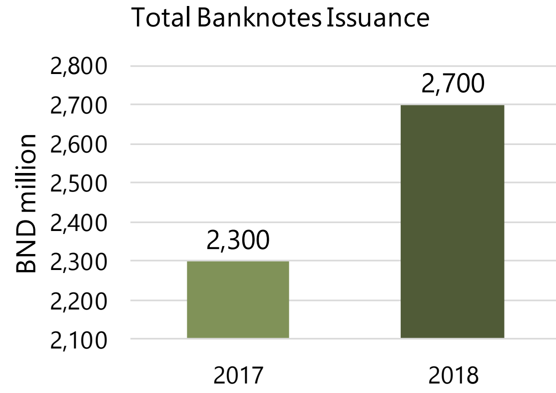


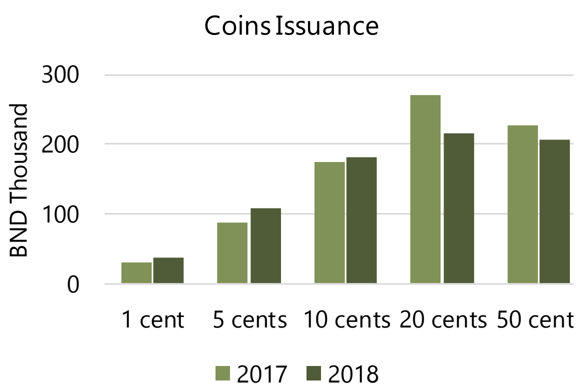


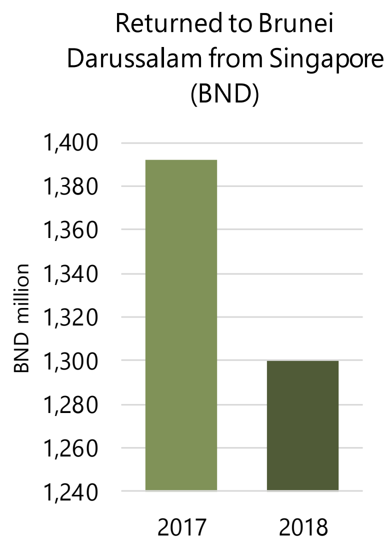
Data source: AMBD

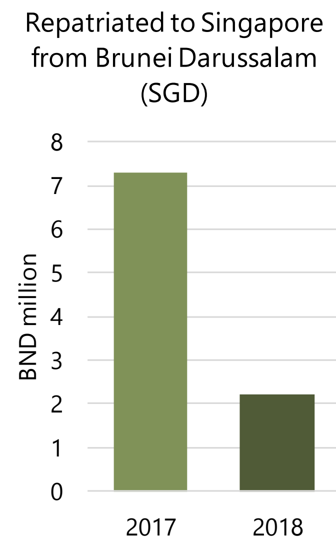
The Monetary Sector in Numbers

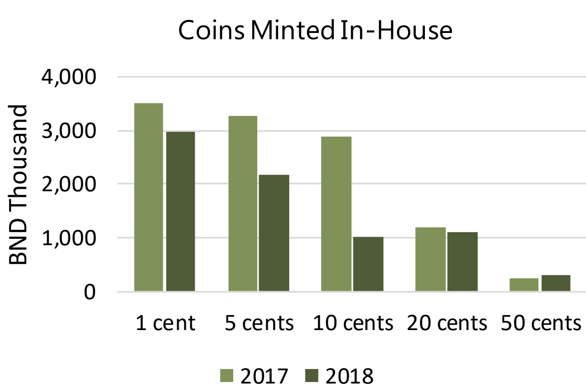
Banknotes Issuance by Denomination (BND)		
	2017	2018
BND 1	15,800,000	14,900,000
BND 5	9,800,000	12,300,000
BND 10	167,000,000	203,200,000
BND 20	3,000,000	696,500
BND 50	68,000,000	54,400,000
BND 100	1,600,000,000	2,000,000,000
BND 500	233,100,000	246,400,000
BND 1,000	119,900,000	113,300,000
BND 10,000	28,000,000	27,100,000

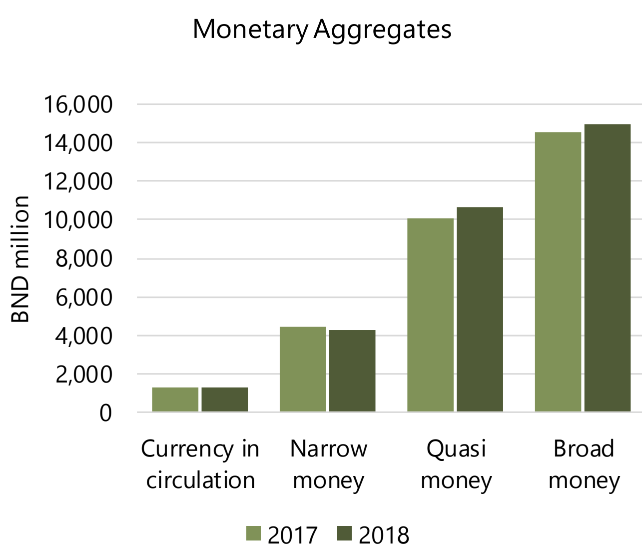












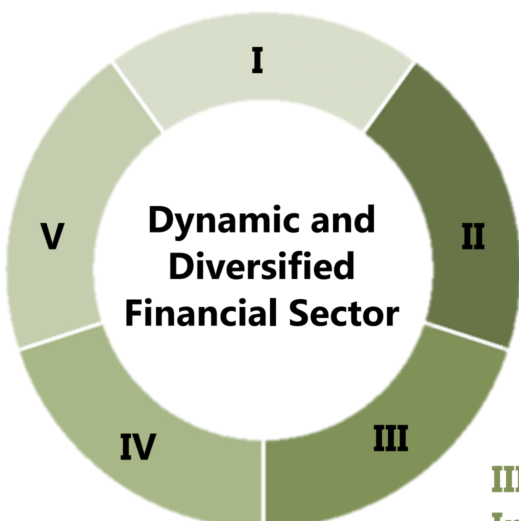
Data source: AMBD

Financial Sector Developments

Financial Sector Blueprint 2016-2025: Progress in 2018

I. Monetary and Financial Stability

- Several new Notices aimed at strengthening the regulatory foundations for a safe and stronger financial system took effect on 1 January 2018:
  - Notice on Market Conduct
  - Notice on The Application for Approval of Key Responsible Persons and Key Persons in Control Functions
  - Notice for The Establishment of a Complaints Handling Function within Financial Institutions
  - Notice on Disclosure on Risk Management, Credit Risk Management, Internal Audit Function, Compliance and Compliance Function and Internal Control Systems
- Introduction of Brunei Supervisory Risk Assessment (BSRA) framework
- Publication of Residential Property Price Index (RPPI)
- Introduction of Syariah-compliant and conventional overnight standing facilities
- Issuance of Guidance on Obligations under the Anti-Terrorism (Terrorist Financing) Regulations, 2013
- Implementation of IFRS 9 and Guidelines on the Treatment of Problem Assets to banks and finance companies



II. Innovative and Competitive Financial Institutions and Services

Approval of first three FinTech solutions to enter the FinTech Regulatory Sandbox

III. Robust and Modern Infrastructure

Launch of the Bureau Credit Score and the Digital Payment Roadmap for Brunei Darussalam 2016-2025

IV. Enhanced International Integration

Appointment of AMBD as the National Numbering Agency (NNA) for Brunei Darussalam in November 2018

Signing of several Memorandums of Understanding (MoU) in the areas of anti-money laundering/combating the financing of terrorism and FinTech

V. Human Capital Development

AMBD supported the Centre for Islamic Banking, Finance and Management (CIBFM) in delivering high quality programmes and events such as the Brunei Darussalam Islamic Capital Market Conference, Islamic Capital Market Masterclass, Muzakarah Kewangan Ilmuan Islam and Human Resource Forum

Banking

AMBD continues to review the banking regulatory framework against international standards and best practices.

1. Issuance of Notices

Disclosure on Risk Management, Credit Risk Management, Internal Audit Function, Compliance and Compliance Function and Internal Control Systems

This Notice sets out the requirements for banks to comply with Guidelines on Risk Management, Credit Risk Management, Internal Audit Function, Compliance and Compliance Function and Internal Control Systems.

Pillar 2 - Supervisory Review and Evaluation Process (SREP)

This Notice supplements the Notice on Maintenance of Capital Adequacy Ratio issued in 2017 and aims to ensure all banks have adequate capital to support their operations at all times.

The Internal Capital Adequacy Assessment Process (ICAAP) promotes the adoption of a more forward-looking approach to capital management and encourages banks to develop and employ more rigorous risk management techniques.

In addition, the SREP facilitates supervisory monitoring of the capital adequacy of banks to support the risks in their business activities.

Pillar 3 - Public Disclosure Requirements

The Notice aims to further enhance public transparency on the bank's capital, risk profile and risk management including capital adequacy. Banks are required to make the first public disclosure for their annual report for the year ending 31 December 2018 and on a semi-annual basis thereon.

Prudential Treatment of Problem Assets and Accounting for Allowance for Credit Losses

With the effective implementation of IFRS 9 from 1 January 2018, this Notice aims to integrate key features of IFRS 9 and Basel Committee on Banking Supervision in the regulatory definitions of non-performing, forborne, and classified exposures.

Furthermore, it aims to unify the earlier identification of problem credits, timely execution of remedial measures, and recognition of appropriate level of loss allowance.

2. Issuance of Guidelines

Guidelines on Credit Risk Management

Credit risk is one of the main inherent risks that a bank is exposed to. These Guidelines articulate sound principles and practices that should be embedded in the credit risk management framework of the banks and are essential to the long-term success of any banking entity.

Guidelines on Internal Audit Function and Guidelines on Compliance and Compliance Function

These Guidelines serve as part of the supervisory assessment of a bank's governance arrangements.

A strong internal audit and compliance function play a crucial role in an ongoing maintenance and assessment of a bank's internal controls, risk management, governance and processes.

Guidelines on Internal Control Systems

These Guidelines describe the essential elements of a sound internal control systems in a bank, which is a critical component of a bank's management and the foundation for the safe and sound operation of any banking entity. Effective internal controls system can help to ensure that the bank comply with laws and regulations as well as policies, plans, internal rules and procedures. This will reduce the risk of unexpected losses or damage to the bank's reputation.

Guidelines on Risk Management Framework

This Notice sets out AMBD's expectations with respect to a bank's risk management framework which encompasses governance, systems, structures, policies, procedures and people that should be in place to effectively identify, measure, control and mitigate risks on a bank-wide basis.

3. Issuance of Consultation Paper

Consultation Paper on IFSB standards

As part of AMBD's commitment to adopt the Islamic Financial Services Board (IFSB) standards, AMBD issued a consultation paper on additional guidelines on Corporate Governance for Islamic Banks in August.

These guidelines incorporated the IFSB standards which address the specificities of Islamic banking amongst others, the rights of investment account holders and transparency of financial reporting with respect to investment accounts.

4. Brunei Supervisory Risk Assessment (BSRA)

AMBD adopts risk-based supervision towards the banking sector to promote the safety and soundness of the financial system, an approach that is consistent with the Basel Core Principles and Core Principles for Islamic Finance Regulation.

This supervision approach is principles-based and requires sound judgement in identifying and assessing risks, and determining the most appropriate method to ensure that the risks that a bank faces are adequately managed.

The BSRA enables the supervisors to regularly assess the consolidated risks of supervised financial institutions, the soundness of the business models, and the adequacy of processes and controls in managing risks. The scope and extent of the application is commensurate with the nature, size and complexity of the bank's business operations.

For the purpose of performing supervisory reviews, AMBD developed a Supervisory Review Lifecycle as shown in the figure below for the ongoing assessment of a bank's risks and controls, governance environment, offsite supervisory surveillance, onsite examination activities and reporting and enforcement actions.

Risk-based supervision is at the core of this lifecycle and allows for the effective allocation of supervisory resources by focusing on areas that are of higher risk. This will be accomplished by the following:

- Identifying risks using common definitions. The categories of risk, as they are defined, are the foundation for supervisory activities.
- Assessing risks using common methods of evaluation.
- Evaluating the quality of risk management to determine whether the systems and processes are adequate relative to risk exposures, strategic direction, and management's risk appetite.

Capital Market

AMBD continues to strengthen the rules and regulations pertaining to the administration of the Securities Markets Order, 2013 (SMO).

1. Issuance of Notices

Amendment - Notice on the Offering of Debentures

This amendment enhances the definition of sophisticated investors and imposes additional requirements on distributors of debentures to sophisticated investors.

Licensing Examination

This Notice imposes additional requirements and varies existing requirements relating to licensing examinations following Regulation 40(3) of the Securities Markets Regulations, 2015. This Notice requires new applicants and existing holders of Capital Markets Services Representative's Licence to pass relevant licensing examinations at any of the four licensing examination centres recognised by AMBD.

Offering of Debentures to Retail Investors

This Notice enhances investor protection by imposing additional requirements on distributors and issuers to ensure debentures are rated investment grade, at a minimum, by a credit rating agency of global renown prior to issuing, offering or sale of the debentures to retail investors in Brunei Darussalam. The Notice also exempts secondary offering of debentures to retail investors in Brunei Darussalam from the public offering registration requirement.

2. Issuance of Consultation Papers

Peer-to-Peer Lending

This consultation paper sought feedback on a proposal to develop a peer-to-peer lending framework as an alternative capital-raising framework that is technology-oriented.

Temporary Licence

This consultation paper sought feedback on a proposal to develop a second licensing regime tailored to foreign individuals or companies that do not have a physical presence in Brunei Darussalam but are appropriately licensed in their home jurisdiction, for the purpose of market testing.

Private Equity and Venture Capital Fund Management Companies

This consultation paper sought feedback on a proposal to add and vary provisions in the Securities Markets Order, 2013 and the Securities Markets Regulations, 2015 to support private equity and venture capital fund management companies.

3. Establishment of the Stock Exchange

The Ministry of Finance and Economy (MoFE) spearheads the establishment of the Stock Exchange. As a member of the Steering Committee, the Secretariat and Working Group for the Stock Exchange project, AMBD continues to work closely with the Stock Exchange Project Team to ensure readiness and preparation of all key stakeholders within the capital market ecosystem. Concurrently, AMBD continues to enhance the legal and regulatory framework to facilitate the operationalisation and supervision of the securities exchange.

4. AMBD as the National Numbering Agency (NNA)

On 1 November 2018, AMBD was appointed as the National Numbering Agency (NNA) for Brunei Darussalam. Going forward, AMBD will look into the adoption of International Organization for Standardization (ISO) standard identifiers for securities registered in the Central Securities Depository system operated by AMBD. This demonstrates AMBD's continuous effort in developing a domestic capital market that aligns with international best practices.

Takaful and Insurance

AMBD also continues to improve the takaful and insurance regulatory framework in accordance to the International Association of Insurance Supervisors (IAIS) Insurance Core Principles (ICPs).

1. Issuance of Notice

Application for Approval of Key Responsible Persons and Key Persons in Control Functions

This Notice sets out the requirements of all Key Responsible Persons and Key Persons in Control Functions. AMBD requires that in order to be suitable to fulfil their roles, Key Responsible Persons and Key Persons in Control Functions must possess adequate competence and integrity. Further, all significant owners should possess the necessary financial soundness and integrity.

2. Issuance of Guidelines

Fit and Proper Criteria for Key Responsible Persons and Key Persons in Control Functions

These Guidelines determine the criteria for assessment of fit and proper persons with respect to the Key Responsible Persons and Key Persons in Control Functions in registered insurance companies and takaful operators. These Guidelines also address the additional criteria that AMBD may consider for proposed controllers.

Registration of Life Insurance and Family Takaful Agents

These Guidelines provide guidance on the registration conditions and procedures for persons registering to become life insurance agents. The Guidelines take effect on 1 January 2019.

Risk Management and Internal Controls

These Guidelines provide guidance on effective risk management framework and internal controls, including effective functions for risk management, compliance, actuarial matters and internal audit. These Guidelines take effect on 1 January 2020.

Fraud Risk Management in Insurance and Takaful

These Guidelines provide guidance on sound risk management practices to identify and mitigate insurers' and takaful operators' exposure to insurance fraud risk. These Guidelines also address principles that cover fraud management strategy, organisational structure, policies and procedures for managing insurance or Takaful fraud risk. The Guidelines will take effect on 1 January 2020.

3. Issuance of Consultation Papers

Reinsurance/Retakaful Management

This consultation paper sought feedback on reinsurance/retakaful management, specifically in relation to AMBD's expectations on reinsurance/retakaful management strategy, the roles of the board of directors and senior management, the reinsurance/retakaful programme and supervisory review of reinsurance/retakaful arrangements.

Outsourcing

This consultation paper sought feedback on AMBD's expectations on sound practices on risk management of outsourcing arrangements that is commensurate with the nature of risks in, and materiality of, the outsourcing arrangement.

Risk Based Capital Framework

AMBD implemented a risk-based supervisory approach on insurance companies and takaful operators in 2017. In 2018, AMBD embarked on a project to develop a risk-based capital framework to enable different risks factors to be taken into account when assessing the capital adequacy of insurance companies and takaful operators, thus enhancing the protection of policyholders. It is expected that this project will take two years to complete.

Islamic Finance

AMBD continues to provide an enabling regulatory environment to support the development of the Islamic finance industry.

1. Issuance of Notices

Syariah Governance Framework

This Notice requires Islamic Financial Institutions (IFIs) to establish a Syariah Governance Framework and to report to AMBD on any Syariah non-compliance issues including its rectification plan within 30 days. Furthermore, the framework requires these IFIs to set up Syariah-compliance functions including Syariah Audit, Syariah Review, Syariah Risk Management and Syariah Research. The Guidelines provide guidance for implementing these new requirements. The implementation of this framework is aimed at ensuring that IFIs' operations as well as their products and services are Syariah-compliant and are in line with best practices. This will further strengthen the governance of the IFIs, enhance stakeholders' confidence, and improve the reputation of the domestic Islamic finance industry.

Internal Syariah Audit Framework for Financial Institutions Offering Islamic Financial Products and Services in Brunei Darussalam

This Notice requires IFIs to establish an Internal Syariah Audit function. The corresponding Guidelines provide guidance in determining the scope, objectives, governance, audit charter, efficiency, processes and reports of the Internal Syariah Audit.

2. Issuance of Guidelines

Guidelines on Islamic Product Approval Process under Section 14 of The Syariah Financial Supervisory Board Order, 2006

These Guidelines provide guidance to IFIs on the requirements for the approval of new products and services or the variation of existing products and services under section 14 of the Syariah Financial Supervisory Board Order, 2006.

3. First Construction Project Development in Brunei Darussalam Funded by Sukuk

AMBD introduced a financing instrument for the construction of the new AMBD building. The Syariah-compliant instrument, Sukuk Ijarah Mausufah Fi Zimmah, was set to be a landmark issuance as it was the first time sukuk was used for construction financing in Brunei Darussalam. It is hoped that with this initiative, more infrastructure development projects in the country will use sukuk as an alternative source of funding in the future.

4. Brunei Darussalam's Ranking in the ICD-Thomson Reuters Islamic Finance Development Report 2018

The ICD-Thomson Reuters Islamic Finance Development Report 2018 revealed that Brunei Darussalam's score in the Islamic Finance Development Indicator (IFDI) has increased from 47 to 50, ranking Brunei Darussalam at the ninth position, and second in the ASEAN region. The report recognised Brunei Darussalam as one of the countries with a strong regulatory landscape with governance being assessed through regulations, corporate governance, and Shariah governance. It reported that Brunei Darussalam had attained the top 10 position in the Seminars and Conferences Sub-Indicators under the Awareness indicator, and at third place for Seminars and second place for Conferences.

Monetary Management

As part of the objectives set out in the Brunei Darussalam Financial Sector Blueprint 2016-2025, AMBD has taken steps towards creating a conducive environment for the development of a more efficient money market in Brunei Darussalam. In September 2018, AMBD launched the Overnight Standing Facilities, comprising of both Syariah-compliant Funding/Acceptance Facilities and Conventional Lending/Deposit Facilities.

In designing these facilities, AMBD ensures that the instruments and operations are strictly consistent with the Currency Board Principles as Brunei Darussalam remains fully committed to the Currency Board Arrangement and the Currency Interchangeability Agreement with Singapore.

The Overnight Standing Facilities aim 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. The Syariah-compliant Facility uses Ar-Rahnu and Wadiah concepts.

The Overnight Standing Facilities also play 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, in particular Syariah-compliant financial instruments.

AMBD as the agent to the Brunei Darussalam Government, through the Ministry of Finance and Economy, on matters pertaining to the issuance and administration of the Brunei Government Sukuk Al-Ijarah Programme, issues the Brunei Government Sukuk Al-Ijarah on a regular basis. The objective of this programme is to develop the Brunei Government securities yield curve as a benchmark for corporate sukuk and provide a safe and liquid investment instrument for domestic financial institutions. The first Brunei Government Sukuk Al-Ijarah was issued on 6 April 2006. Since the inception of this programme, the Brunei Government has issued a total of 164 issuances of short-term Sukuk Al-Ijarah, with maturities of three months and one year with total value of BND12.4 billion.

FinTech

FinTech Regulatory Sandbox

Three local companies were given approval to operate in the AMBD FinTech Regulatory Sandbox in 2018. The companies were also given approval to offer their products and services to consumers in Brunei Darussalam within a specified regulatory space, designed with limits to mitigate the risks involved with their products and services.

The range of services provided include i) electronic remittances; ii) an Islamic crowdfunding platform to provide SMEs with alternate sources of funding; and iii) an electronic wallet platform allowing merchants to accept payments from the users of the electronic wallets, in addition to peer-to-peer transfers between users as well. These companies are subject to further review and monitoring by AMBD before exiting the FinTech Regulatory Sandbox.

DIGITAL PAYMENT ROADMAP FOR BRUNEI DARUSSALAM 2019-2025

The Digital Payment Roadmap envisages Brunei Darussalam to become a Digital Payment Nation by 2025. This vision is inspired by the strategies presented in the Brunei Darussalam Financial Sector Blueprint 2016-2025 and Wawasan Brunei 2035's aspiration towards a dynamic and diversified economy.

Vision: Digital Payment Nation

Mission

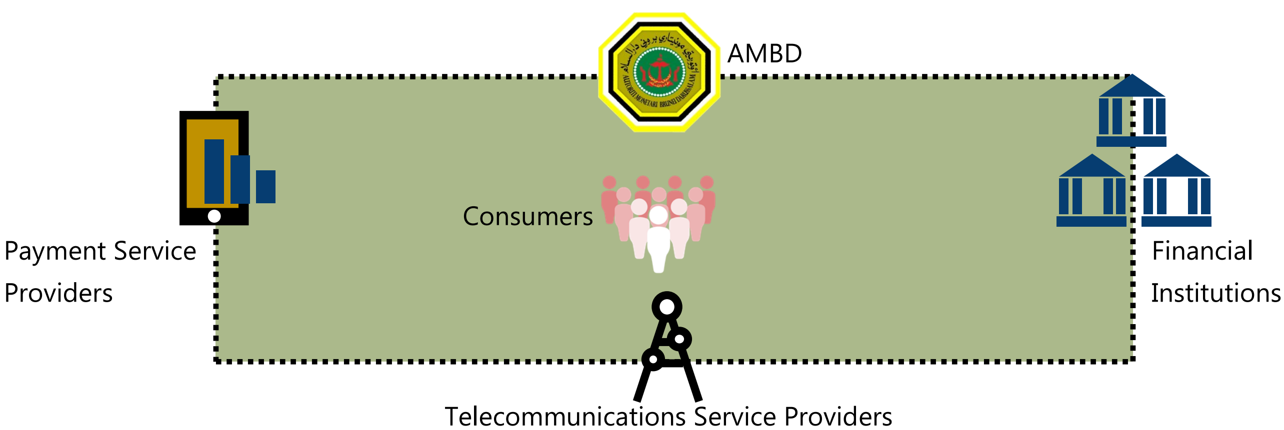
Promote digital payment as the preferred payment method for customers, corporate businesses and retailers including MSMEs

Goals

- Increased digital payment transactions
- Reduced cash and cheque usage

Digital Payment Ecosystem

Creation of a safe and efficient digital payment ecosystem to support a digital economy

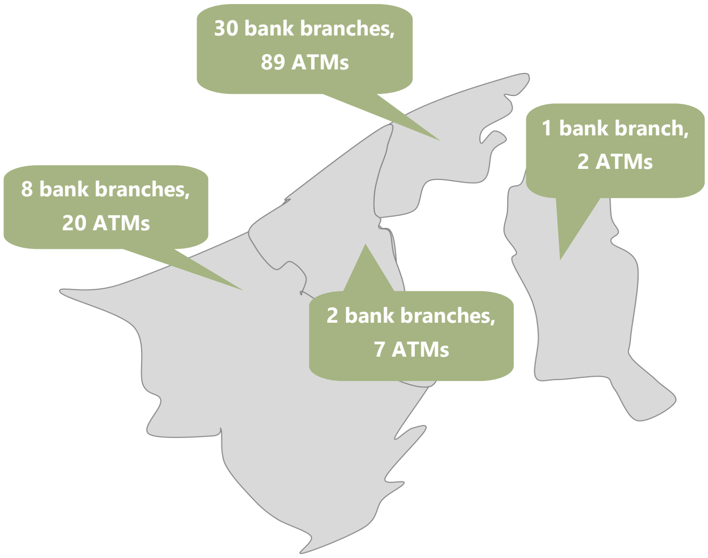


BALANCING INNOVATION AND REGULATION	ADOPTION OF OPEN DIGITAL PAYMENT	PUBLIC AWARENESS AND EDUCATION
Strive for balanced regulations whilst fostering competition	Innovation to drive usage of digital payment	Build digital trust and improve public understanding
Formation of a Digital Payment Committee to promote collaboration	Eliminate barriers to accept digital payment	Training on new payment solutions for consumers and retailers
Brunei Darussalam as an ideal testbed for FinTech solutions	An open Payment Hub to allow integration	Educate consumers on cyber safety

Access to Finance

Distribution of Bank Facilities

The geographical segmentation of bank facilities in Brunei Darussalam is heavily concentrated in the Brunei-Muara district, the most populated district and the centre of economic and financial activities. Nevertheless, other districts also have good access to bank facilities.



Credit Bureau

1. The Introduction of Credit Scoring as an Objective Credit Assessment Tool

AMBD implemented its first national credit scoring in Brunei Darussalam in 2018, known as Bureau Credit Score. This represents an additional provision of a numerical credit score in the credit report as a form of value-added service made available for banks and finance companies. This initiative aims to provide banks and finance companies with a more objective credit assessment tool which can assist them in making better-informed lending decisions and enhance their credit risk management. The availability of credit scores can also further facilitate easier access to financing for both individuals and businesses, particularly MSMEs. Further, the provision of credit scores is in line with government initiatives - by benchmarking against the World Bank's Doing Business methodology, which aims to make the business environment in Brunei Darussalam more conducive. At the same time, the Bureau Credit Score will inculcate greater financial discipline and promote responsible borrowing behaviour among the general public.

The Bureau Credit Score was developed based on a Probability of Default (PD) scorecard model, in which five years of historical credit data of both consumers and commercial entities, sourced from the Credit Bureau's repository, are analysed. Brunei Darussalam's credit score is represented in a three-digit numerical expression, which ranges between 215 and 570. An individual with a high score indicates that the borrower poses a low credit risk whilst a low score would indicate otherwise. Based on the Credit Bureau's repository, the scoreable coverage is considerably high at 76.8% of the population in Brunei Darussalam.

Determinants of credit score:

- Payment history
- Amount owed
- Length of credit history
- Types of credit in use
- New credit

2. The Roll-Out of Online Self-Inquiry

AMBD launched an online Self-Inquiry which allows the general public to have direct access to their own personal credit report and credit scoring through a secure online portal.

The Self-Inquiry Report contains detailed information of credit that the individual has taken up such as personal financing, credit card and motor vehicle financing from different financial institutions. The Self-Inquiry Report serves as a self verification to ensure the information being reported in consumers' credit reports is correct and updated.

3. Onboarding of New Data Providers

The Signing of Participant Service Agreement (PSA) with Bank Usahawan

A PSA was signed between AMBD and Bank Usahawan. The PSA enables Bank Usahawan to submit credit information of MSMEs that have obtained financing from Bank Usahawan to AMBD. It also enables Bank Usahawan to obtain credit reports provided by AMBD, which can assist Bank Usahawan in assessing the creditworthiness of its applicants.

The underlying objective of the collaboration is to provide Bank Usahawan with a better assessment tool in determining the suitability or appropriateness of the potential types of financing extended to its applicants.

The Signing of Memorandum of Understanding (MoU) with DST Affiliates

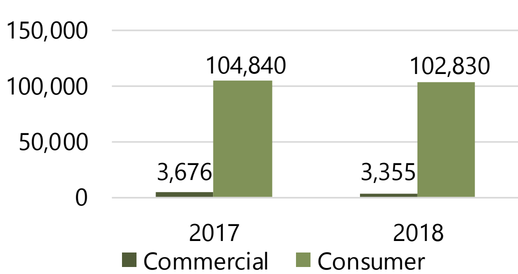
In line with the Credit Bureau's strategic plan in expanding data coverage beyond the traditional credit information obtained from financial institutions, the Credit Bureau signed another MoU with four of DST Group's Affiliate Companies, in particular DST Integrated Communications Sdn Bhd, DST Technical Services Sdn Bhd, Kristal Astro Sdn Bhd, and Kristal Media Sdn Bhd.

The availability of alternative credit information from utility and service providers further enhances the credit risk management of the Credit Bureau members as it provides them with a more holistic view of their customers' credit commitment beyond the financial industry. It will also encourage good and disciplined payment behaviour amongst customers of these services.

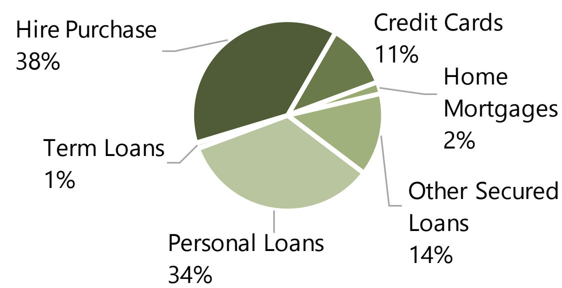
Credit Bureau's Repository		
	2017	**2018**
Total Reporting Financial Institutions	12	11
Total Reporting Non-Financial Institutions	5	9
Total Accounts	1,217,988	1,287,968
Total Individuals	215,829	220,858
Total Individual Accounts	1,072,325	1,124,216
Active Individual Accounts	502,367	469,470
Total Commercial Entities	12,062	15,186
Active Commercial Credit Facilities	20,489	26,125
Historical Records Duration (Months)	96	108

As of 31 December 2018, a total of 608,868 credit reports were requested by the Members of the Credit Bureau.

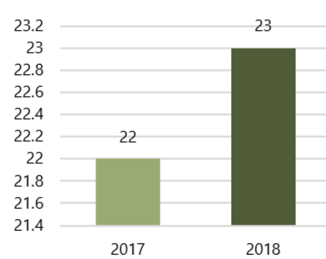
Credit Reports Requested by Financial Institutions



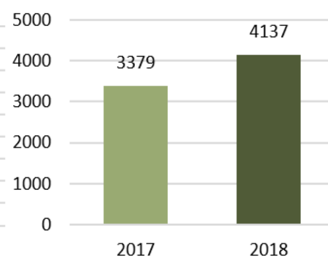
Consumer Credit Facilities Requested in 2018



Self-Inquiry Report Applications and Requests (Commercial)

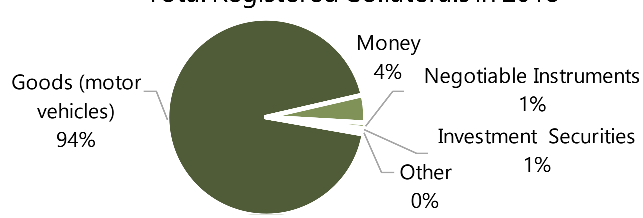


Self-Inquiry Report Applications and Requests (Consumer)

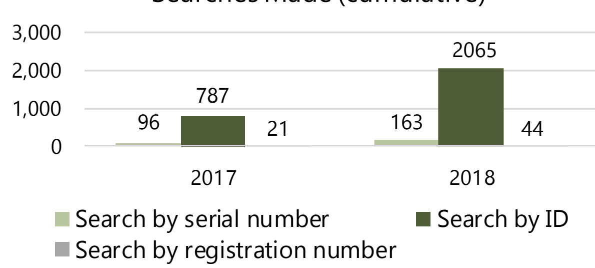


Collateral Registry

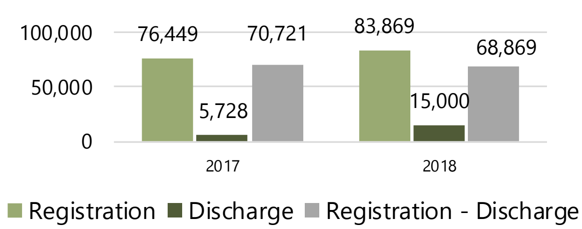
Total Registered Collaterals in 2018



Searches Made (cumulative)



Active Financing (cumulative)



Data source: AMBD

Macroprudential Supervision

Established in 2017, the Macroprudential Policy and Financial Surveillance Office of AMBD is responsible for supervising developments in the financial system as a whole to identify, assess and monitor potential systemic risks.

The office has established a risk dashboard that acts as an early warning system that identifies vulnerabilities that could potentially cause harm to the financial system and have a contagion effect to the economy. The office assesses the magnitude of the identified risks and based on the assessment, implements appropriate measures and/or policies.

The risk dashboard monitors six major indicators:

- External risks or risks originating from external factors such as international economies and financial markets;
- Macroeconomic risks or risks faced by the domestic economy;
- Credit risks or risks originating from excessive lending into certain economic sectors;
- Banking liquidity and funding risks in terms of adequacy of liquid funds and assets;
- Banking overall health risks in terms of capital adequacy, levels of profit and income, and quality of assets; and
- Corporate and household sector risks arising from over-indebtedness and difficulty for borrowers to service repayments for bank loans.

In November, AMBD held a seminar on the role of macro-prudential analysis in enhancing financial stability which was attended by the top management of banks, insurance companies, takaful operators and capital market licensees. The seminar gave an opportunity for AMBD to exchange views with representatives of the financial institutions on the issues of macroprudential analysis and remedial policy actions for maintaining the stability and enhancing the resilience of the financial system.

Strengthening Cybersecurity

In addressing the cybersecurity and technological risks to safeguard the financial system, AMBD has conducted both offsite and onsite assessments on the banks' IT governance, process, system and infrastructure to evaluate the current compliance level with AMBD IT Risk Management Guidelines (ITRMG). AMBD also conducted thematic onsite assessments on remittance companies to assess the technology and security controls put in place.

Preventing Money Laundering and Terrorist Financing

1. Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) Supervision

The Financial Intelligence Unit, AMBD monitors the compliance of financial institutions and designated non-financial businesses and professions (DNFBPs) towards AML/CFT obligations. In 2018, six supervisory actions were taken; one of which was an issuance of a direction and five were issuances of supervisory letters.

2. Guidance on Obligations Under the Anti-Terrorism (Terrorist Financing) Regulations, 2013

On 20 June 2018, AMBD issued the Guidance on Obligations under the Anti-Terrorism (Terrorist Financing) Regulations, 2013 to financial institutions and DNFBPs to assist the institutions in implementing their obligations under the Anti-Terrorism (Terrorist Financing) Regulations, 2013. The Regulations set out prohibitions and offences in dealing with designated persons or entities under the United Nations Security Council Resolutions (UNSCRs) relating to terrorism and terrorist financing.

3. Preparation for Mutual Evaluation

Asia/Pacific Group on Money Laundering (APG) Regional Pre-Mutual Evaluation Training Workshop

AMBD hosted the Asia/Pacific Group on Money Laundering (APG) Regional Pre-Mutual Evaluation Training Workshop on 12-14 February 2018 to assist APG member countries, including Brunei Darussalam, that will undergo the Mutual Evaluation process during the period of 2018-2020.

A range of topics were covered during the workshop, including the assessment methodology of the Mutual Evaluation, and adopting a risk-based approach for the implementation of AML/CFT measures. Mock interviews were also conducted to simulate a Mutual Evaluation onsite visit. The workshop was attended by agencies from the National Anti-Money Laundering and Combating the Financing of Terrorism Committee (NAMLC), and government representatives from Chinese Taipei, Pakistan, Papua New Guinea, the Republic of the Philippines, Solomon Islands, Tonga and Vietnam.

Briefing to the National Security Council

On 8 May 2018, AMBD briefed the National Security Council on the Guidance on Implementation of the United Nations Security Council Resolutions (UNSCRs) Concerning Targeted Financial Sanctions Relating to the Prevention and Suppression of Terrorism and Terrorist Financing. The Guidance provides procedures and mechanisms to be adopted in the implementation of targeted financial sanctions to prevent and suppress terrorist financing in accordance to UNSCRs 1267 (1999), 1989 (2011), 2253 (2015) and successor resolutions, which require countries to freeze, without delay, the funds or other assets of, and to ensure that no funds or other assets are made available, directly or indirectly, to or for the benefit of, any designated persons or entities.

Mock Mutual Evaluation on Brunei Darussalam

To better prepare the NAMLC agencies for the upcoming Mutual Evaluation in 2020, AMBD organised a mock assessment on 11-14 December 2018, which was conducted by The International Governance and Risk Institute (GovRisk), an international AML/CFT consultancy firm. The objectives of the mock assessment were to identify gaps in the current AML/CFT regime and to provide recommendations to improve compliance towards FATF Recommendations.

To familiarise the agencies with the processes during the actual Mutual Evaluation, interviews were conducted and each agency was tasked to complete questionnaires, which will be submitted for the purposes of the assessors.

4. Implementation of Section 39, Criminal Asset Recovery Order, 2012

Section 39, Criminal Asset Recovery Order, 2012 was implemented on 1 May 2018, requiring reports for the transportation of physical currency and bearer negotiable instruments (CBNI) amounting BND 15,000 and above by cargo, courier or postal service to be submitted to the AMBD. To facilitate the implementation of the reporting requirement, AMBD conducted a briefing to the Department of Postal Services and Brunei Freight Forwarders Association on 12 April 2018.

Educating and Empowering the Public

Awareness

1. Residential Property Price Index (RPPI)

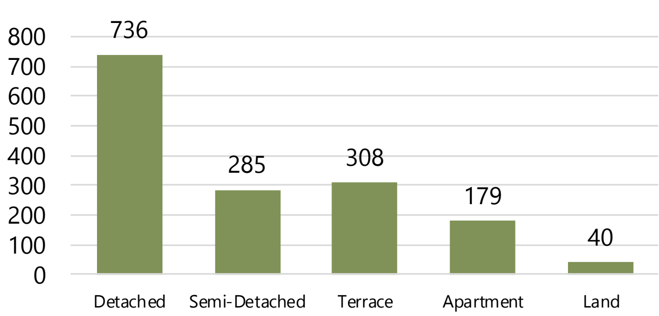
The index, which was successfully launched in July 2018, assesses the real estate market conditions and tracks changes in the average price level of residential properties in all four districts of Brunei Darussalam. The index can play a role in the measurement of affordability of home-ownership. It may also serve as a macroeconomic indicator of economic growth and a financial stability or soundness indicator to measure risk exposure. Thus, the index can provide the public with more insights of the domestic property market and economy.

The RPPI is compiled from a variety of data sources. The principal data source is from mortgage loans/financing transactions reported to AMBD by financial institutions licensed in Brunei Darussalam. To address data gaps in property characteristics such as the number of bedrooms and bathrooms, floor area and land size, these data are matched with the records kept by the Land Department, Ministry of Development and Authority for Building Control and Construction Industry (ABCi), Ministry of Development.

The different types of residential properties for which data is collected for the index include detached houses, semi-detached houses, terrace houses, apartment and land. The RPPI is estimated for the entire country of Brunei Darussalam using landed properties only due to limited data.

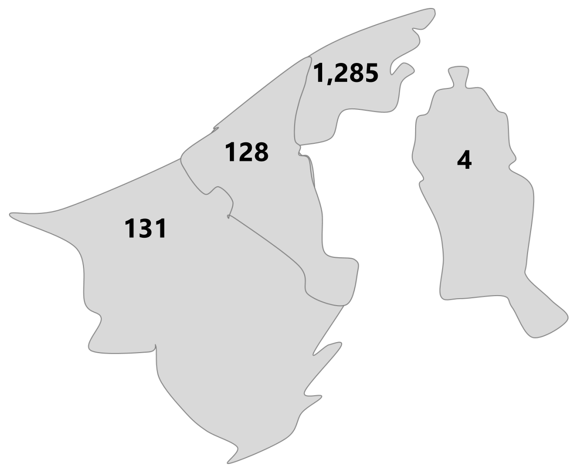
Since the start of the data collection, detached houses have remained the most popular type of residential property purchased through bank financing.

Number of Properties Purchased Through Bank Financing 2015 - 2018



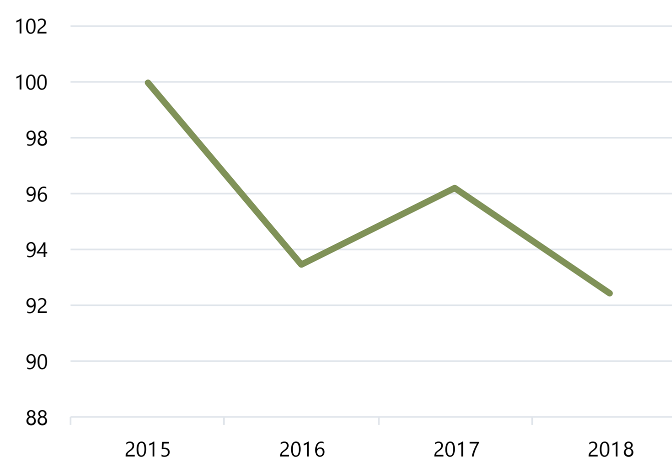
Meanwhile, most residential properties purchased through bank financing from 2015 to 2018 were concentrated in the Brunei Muara district, as the district is the most populated area and is the centre of economic activity.

Number of Transactions by District 2015-2018



The chart below shows the performance of the index since 2015 (base year).

RPPI



Data source: AMBD

2. Financial Literacy

Throughout 2018, AMBD organised various financial literacy programmes designed to promote a savings culture; to assist the general public in identifying the characteristics of financial scams; and to increase the general public's familiarity with financial products and services available in Brunei Darussalam. This was done through roadshows, talks, events and visits. Among the financial literacy programmes conducted by AMBD were National Savings Day 2018, AMBD Ministerial Roadshows, and school visits.

AMBD has conducted three financial awareness/outreach talks, six ministerial roadshows and four roadshows to schools in conjunction with National Savings Day 2018, and two roadshows in conjunction with World Investor Week.

3. "Know Your Banknotes" Initiative

The "Know Your Banknotes" Initiative was implemented in 2018 with the aim to increase public awareness and knowledge about Brunei Darussalam's banknotes and their security features. The initiative was socialised to government ministries and agencies, retailers, schools and financial institutions through talks, in collaboration with the Royal Brunei Police Force, and a series of roadshows.

To allow interactive learning and deeper understanding on the security features of Brunei Darussalam's banknotes, a showcase was held for the first time at Times Square Shopping Centre, Bandar Seri Begawan. It demonstrated to the public existing and latest security features of the banknotes and the proper handling of Brunei Darussalam banknotes and coins in accordance to the Currency Order, 2004.

4. Socialisation on Getting Credit

In continuing the efforts to promote greater awareness and better understanding on the role and function of AMBD's Credit Bureau and Collateral Registry functions, AMBD conducted socialisation activities which included talks on the roles and responsibilities of the respective functions, understanding the credit report, understanding the value of assets, as well as engagements with external stakeholders.

5. World Investor Week (WIW) 2018

In promoting public awareness in investments, AMBD participated in the WIW 2018 which is an annual global campaign initiated by the International Organisation of Securities Commissions (IOSCO) to raise awareness about the importance of investor education and protection, and to highlight investor education and protection initiatives of securities regulators around the world. The Financial Planning Association of Brunei Darussalam (FPAB) and the Brunei Darussalam Capital Markets Association (BCMA) had also collaborated with AMBD in support of WIW.

Education initiatives carried out by AMBD throughout WIW included the publication of the "Smart Investments" video to introduce capital market products such as shares and mutual funds in a simple manner. AMBD uses graphical representations of educational material in an easy-to-understand format to introduce the key elements of Brunei Darussalam's capital market ecosystem through the "Minah Cermat Smart Investment Series" Instagram campaign. AMBD also conducted roadshows to the Prime Minister's Office and the Royal Brunei Police Force where talks on the basics of investing and tips to protect oneself from financial scams were shared. Members of the BCMA and members of the FPAB also participated in these roadshows.

6. Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT)

In line with the best practices of financial intelligence units around the globe, the Financial Intelligence Unit, AMBD published the Financial Intelligence Unit Annual Report 2017, providing an insight into the AML/CFT regime in Brunei Darussalam.

This includes the outline of the National Strategy on Anti-Money Laundering and Combating the Financing of Terrorism 2017-2019, and the legal and regulatory framework that prescribes the roles and grants powers to the Financial Intelligence Unit, as well as authorities and law enforcement agencies relevant to safeguarding the country from money laundering, terrorist financing and associated predicated offences. The Report also provides the achievements of the Financial Intelligence Unit, the statistics and trends of suspicious transactions, cash transactions, and physical currency and bearer negotiable instruments reports. A copy of the Report is publicly available online via the AMBD website.

Financial Inclusion

As part of AMBD's continuous efforts to enhance financial inclusion in Brunei Darussalam, AMBD collects data to determine the level of financial inclusion in Brunei Darussalam as well as to enable formulation of relevant policy in relation to financial inclusion.

AMBD collects supply-side data on a half-yearly basis to gauge the level of accessibility to deposit accounts, financing and life insurance/family Takaful products from all licensed financial institutions in Brunei Darussalam. This data can assist in formulating policy that can best serve the country especially the underserved. The first set of statistics collected was as of December 2017.

AMBD also conducted a nation-wide demand-side financial inclusion survey in February 2018 using the Findex methodology. This measures individuals' behaviour in saving and borrowing money, making payments, and managing financial risks.

86.3%
of the population aged 15 and above have an account at a financial institution

29.8%
of the population aged 15 and above have a credit card

75.5%
of the population aged 15 and above have a debit card

Consumer Protection

1. Guidelines on Fit And Proper Criteria for Financial Institutions' Frontline Staff

AMBD issued the Guidelines on Fit and Proper Criteria for Financial Institutions' Frontline Staff, effective June 2018. These Guidelines act as a supplement to Section 4.3 of Notice on Market Conduct.

The purpose of these Guidelines are to provide guidance on the assessment of fit and proper criteria for the appointment of frontline staff for financial institutions licensed under AMBD. The criteria considered are, but not limited to the following:

- Competence and capability;
- Honesty, integrity, fairness and ethical behaviour; and
- Financial soundness

With these Guidelines, financial institutions are encouraged to surpass the minimum standards of the aforementioned criteria. In the event that a frontline staff is deemed unable to fulfil these criteria, financial institutions may provide the frontline staff with the relevant knowledge, qualifications and/or certifications to enable frontline staff to undertake their tasks effectively.

These criteria are essential in ensuring that the frontline staff provide satisfactory services to the customers and members of the public in an efficient and effective manner.

2. AMBD Alert List

The Alert List is a list of persons (companies and individuals) and websites which are neither authorised nor approved under the relevant laws and regulations administered by AMBD or whose activities raise a suspicion of illegal activity.

Through the publication of the Alert List, AMBD reminds the public that only financial institutions licensed by AMBD, under the relevant laws and regulations administered by AMBD, are allowed to provide financial services in Brunei Darussalam.

As of 31 December 2018, 81 unauthorised entities were included in the Alert List.

Investment-Related Competitions

BCMA Investment Challenge 2018

AMBD collaborated with the BCMA in organising its second BCMA Investment Challenge with the support of Progresif Cellullar Sdn Bhd. The aim of the challenge is to generate greater interest amongst younger generations in the workings of the capital market whilst providing an opportunity for the students to demonstrate their investment and analytical skills and stimulate their interest in considering careers in the capital market.

The competition, participated by a total of seven teams, comprising of students from several higher educational institutions namely Universiti Brunei Darussalam (UBD), Universiti Teknologi Brunei (UTB), Universiti Islam Sultan Sharif Ali (UNISSA), Kolej International Graduate Studies (KIGS), Politeknik Brunei, Kolej International Graduate Studies (IGS), Laksamana College of Business (LCB), Cosmopolitan College of Commerce & Technology (CCCT), Kemuda Institute and Institute of Brunei Technical Education, Gadong (IBTE, Gadong).

Promoting Islamic Finance

1. Muzakarah Ilmuan Kewangan Islam

AMBD collaborated with CIBFM in organising the *Muzakarah Ilmuan Kewangan Islam* (MIKI) on 23 May, 26 July and 13 December 2018. MIKI is a platform for professional open discussion focusing on issues and trends in the Islamic finance industry in Brunei Darussalam. MIKI was conducted three times in 2018.

MIKI 1 (8 March 2018)

Theme: *Inovasi Produk dan Perkhidmatan dalam Kewangan Islam*

Topics:

i. *Mata Wang Kripto dari Perspektif Syariah;*

ii. *Pengenalan* BIBD Virtual Mastercard (VMC): *Satu Evolusi kepada Pasaran Brunei*

iii. *Inovasi Pembangunan Modal Insan di Takaful Brunei;* and

iv. *Murabahah atau Ijarah: Konsep Terbaik Pembiayaan Hartanah Patuh Syara.*

MIKI 2 (26 July 2018)

Theme: *Rangkuman Kewangan Melalui Kewangan Islam*

Topics:

i. *Gambaran Keseluruhan Rangkuman Kewangan melalui Kewangan Islam;*

ii. *Instrumen Pengedaran Semula Kewangan Islam;*

iii. *Takaful sebagai Satu Cabang Kewangan Islam;*

iv. *Perancangan Kewangan di Takaful Brunei;* and

v. Connecting the Dots with BIBD.

MIKI 3 (13 December 2018)

Theme: *Inovasi Teknologi di dalam Kewangan Islam*

Topics:

i. InsurTech: *Perspektif Takaful Brunei;*

ii. Smart Contract *daripada Perspektif Syarak;* and

iii. *Revolusi Industri* 4.0.

2. Participation In Brunei Halal Showcase 2018 (BruHAS 2018)

AMBD participated in the BruHAS 2018 organised by the Ministry of Energy, Manpower and Industry in collaboration with UNISSA on 8-12 August 2018 with the theme "Strengthening Halalan Thayyiban Industry in Safeguarding National Insights". AMBD shared information on the regulatory framework for Islamic finance in Brunei Darussalam including on the Syariah Governance Framework and Product Approval Process Guidelines. The objective was to increase the consumers' confidence in the domestic Islamic IFIs.

Engagement with Stakeholders

Islamic Finance

1. Training Programs

AMBD and CIBFM conducted the Syariah Audit Training for IFIs on 17-18 September 2018. The training was designed to equip participants with fundamental and technical understanding of Syariah compliance audit; and the professional skills required in handling Syariah control and compliance processes for IFIs. The training was jointly conducted by the Associate Professor in the Faculty of Economics and Muamalat, Universiti Sains Islam Malaysia and the former head of Syariah Audit in Bank Pertanian Malaysia Berhad (Agrobank).

2. Roundtable Discussion on Waqaf

AMBD collaborated with the Faculty of Islamic Economics and Finance (FEKIm), UNISSA in organising the Roundtable Discussion on Waqaf on 25-28 April 2018 and 9-12 May 2018. The Roundtable provided an avenue for the exchange of ideas and views on waqaf, including the consolidation of waqaf. Eleven working papers were presented and discussed by academicians and local industry practitioners, as well as invited guests from Malaysia, Indonesia and Singapore.

Credit Bureau and Collateral Registry

Brunei Darussalam Getting Credit (BDGC) Conference 2018

AMBD hosted the BDGC Conference 2018 in collaboration with APEC Business Advisory Council (ABAC); Asia-Pacific Financial Forum (APFF); Asia-Pacific Credit Coalition (APCC); and Policy and Economic Research Council (PERC) on 15 November 2018.

The conference, which carried the theme "Leveraging on Reputational, Traditional, and Alternative Collateral to Raise Capital", aimed to bring together key stakeholders in the development of MSMEs to look at the varying strategies being developed at the regulatory and policy level. The speakers were international experts and local professionals who provided valuable insights on MSMEs financing and explored international best practices that may be suitable in local context. The participants comprised of representatives from government ministries and agencies, regulators, financial industry and business industry participants, as well as academics.

FinTech

ASEAN FinTech Roadshow and Pitchfest

AMBD and Darussalam Enterprise (DARe) co-hosted the Brunei Darussalam edition of the Singapore FinTech Festival's ASEAN FinTech Roadshow and Pitchfest on 27 August 2018. The event was supported and organised by the MAS, Brunei Association of Banks (BAB), and PriceWaterhouseCoopers (PwC). During the event, local FinTech companies pitched their proposed innovative solutions to a panel of judges. The winner of the Brunei Darussalam edition of the ASEAN PitchFest had the chance to promote their solution at the Singapore FinTech Festival in November 2018.

Participation in Singapore Fintech Festival

AMBD participated in the Singapore FinTech Festival in November 2018 and showcased AMBD's FinTech-related initiatives in the Regulators Zone. AMBD was joined by other financial regulators who also signed the Innovation Functions Cooperation Agreement with the MAS. The Regulators Zone gave its participants the opportunity to gain exposure to the international FinTech ecosystem and provide information on their countries FinTech regulatory landscapes.

Cybersecurity

AMBD delivered a cybersecurity awareness briefing on 17-18 April 2018 to compliance officers of licensed money changers and money remittance companies, sharing knowledge on which common cyber attacks that can affect their businesses, such as phishing and malware and also highlighted the importance of having proper cybersecurity management and controls in place.

In February 2018, AMBD also conducted sharing sessions on the management of cybersecurity issues with several government agencies in Brunei Darussalam such as the Ministry of Defence, E-Government National Centre (EGNC) and Authority for Info-communications Technology Industry (AITI). In collaboration with Brunei Computer Emergency Response Team (BruCERT), AMBD delivered presentations on the risks of phishing and payment fraud to the public during the AMBD National Savings Day Financial Showcase.

Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT)

AMBD conducted a briefing to explain the AML/CFT regime of Brunei Darussalam to participants of the International Compliance Association (ICA) Certification in Anti-Money Laundering Course on 6-7 February 2018. The course was conducted by CIBFM in collaboration with the International Compliance Training Academy (ICTA). The briefing included the sharing of the findings from the National Risk Assessment conducted by the AMBD in 2016 on money laundering, terrorism financing and associated offences, and the reporting obligations and reporting structure of reporting entities with regards to the AML/CFT legislation. Participants of the course included representatives from the banking sector.

AMBD also conducted bilateral meetings with the Royal Brunei Police Force on 28 March 2018 and Anti-Corruption Bureau on 5 April 2018 to discuss on-going cases and enhance cooperation between the FIU and law enforcement agencies to improve the quality of information exchange and intelligence disseminations.

On 7 May 2018, AMBD held an annual Compliance Officers Meeting for the banking sector and finance companies to keep the industry abreast of regional and local trends to improve their transaction monitoring systems and quality of reports submitted. The meeting shared outcomes of the projects that Financial Intelligence Unit, AMBD participated in through the Financial Intelligence Consultative Group (FICG), namely the Terrorist Financing through Cross Border Cash Movements Regional Risk Assessment 2017 and the Non-Profit Organisations and Terrorist Financing Regional Risk Assessment 2017.

On 4 December 2018, AMBD held an AML/CFT Talk for the remittance sector aimed at improving their transaction monitoring systems to detect suspicious activities, in relation to money laundering and terrorist financing, which included suspicious trends and indicators of the sector. AMBD also provided a briefing on the processes and expectations of the upcoming Mutual Evaluation in 2020 by the APG, as well as a refresher course on using the Integrated Financial Intelligence System (IFIS) to submit reports to Financial Intelligence Unit, AMBD.

Enhancing International Relations

Memorandums of Understanding

During the state visit of the President of the Republic of Singapore to Brunei Darussalam, on 12 May 2018, AMBD signed a FinTech Cooperation Agreement with the Monetary Authority of Singapore (MAS), and a Memorandum of Understanding (MoU) with the Suspicious Transaction Reporting Office, Commercial Affairs Department, Singapore Police Force (STRO). The signing of both the Fintech Cooperation Agreement and MoU with STRO was witnessed by both His Majesty Sultan Haji Hassanal Bolkiah Mu'izzaddin Waddaulah ibni Al-Marhum Sultan Haji Omar 'Ali Saifuddien Sa'adul Khairi Waddien, Sultan and Yang Di-Pertuan of Brunei Darussalam and Her Excellency Madam Halimah Yacob.

The FinTech Cooperation Agreement fosters innovation in the financial services between both Brunei Darussalam and Singapore and facilitates the sharing of information on emerging FinTech trends and developments. It also aims to promote joint innovation projects between both countries and has established a framework providing support for FinTech companies to increase the level of understanding on the different regulatory regimes and opportunities in each jurisdiction.

Meanwhile, under the MoU with the STRO, the Financial Intelligence Unit, AMBD and STRO have agreed to cooperate in the exchange of financial intelligence that may assist in the investigation and prosecution of persons suspected of money laundering and terrorist financing.

On 25 July 2018, the Financial Intelligence Unit, AMBD signed a MoU with the Anti-Money Laundering Intelligence Office (AMLIO), Lao People's Democratic Republic on the sidelines of the APG Annual Meeting in Kathmandu, Nepal. Under the MoU, both agencies agree to cooperate in the exchange of financial intelligence. The MoU with AMLIO is the 7th MoU signed by the Financial Intelligence Unit, AMBD. Current MoUs include those signed with the Financial Intelligence Units of Malaysia, Indonesia, South Korea, Bangladesh, Cambodia and Singapore.

Chairing and Hosting Regional Forums

In 2018, AMBD concluded the tenure for the co-chairmanship of Working Committee on Financial Services Liberalisation (WC-FSL) and Working Committee on Capital Account Liberalisation (WC-CAL). Subsequently, AMBD took over the co-chairmanship of Working Committee on ASEAN Banking Integration (WC-ABIF) and Working Committee on Financial Inclusion (WC-FINC) for 2018-2020.

AMBD also hosted the Steering Committee on Capacity Building Meeting on 19 February 2018, the 15th ASEAN Senior Level Committee on Financial Integration Meeting on 20 February 2018 and the 44th IFSB Technical Committee Meeting on 22 March 2018 in Brunei Darussalam. AMBD also hosted the 5th Meeting of WC-ABIF on 7 August 2018, which was co-chaired by AMBD and MAS.

On 6-8 August 2018, AMBD's Financial Intelligence Unit, AMBD hosted the Financial Intelligence Consultative Group (FICG) Regional Face to Face Meetings to facilitate and finalise discussions for the 4th Counter Terrorism Financing Summit in November 2018. The FIU is a founding member of the FICG, an information exchange platform on financial intelligence to combat terrorist financing within the Southeast Asian and Oceania regions.

Financial Intelligence Unit, AMBD also hosted the first regional Financial Intelligence Analyst Course (FIAC) on 27 August - 7 September 2018, which was conducted by the Australian Transaction Reports and Analysis Centre (AUSTRAC). The course was intended to better equip financial intelligence analysts from across the region to work collectively to prevent, detect and disrupt financial crime, which was attended by 20 participants from all the financial intelligence units of the ten ASEAN member states.

Membership to International Sharing Platform

AMBD became a member to the Central Banks, Regulators and Supervisors (CERES) Platform on 27 July 2018. CERES was established by the Financial Services — Information Sharing and Analysis Centre (FS-ISAC) on 1 July 2018 and was specially designed to facilitate information sharing and discussion between central banks and regulators related to regulation and supervision of technology risk and cybersecurity on the financial institutions. Members to the group also benefit from reliable intelligence on global cyber threats.

Other Engagements with Counterparts

AMBD actively participates in both regional and international platforms including the ASEAN Finance and Central Bank track meetings, Asia/Pacific Group on Money Laundering, International Association of Insurance Supervisors, International Organisation of Securities Commissions, Egmont Group and South East Asian Central Banks Research and Training Centre (SEACEN).

In pursuit of realising the expected outcomes in the Brunei Darussalam Financial Sector Blueprint 2016-2025, several working visits were conducted in 2018 including visits to Hong Kong Monetary Authority (HKMA), Indonesia's Otoritas Jasa Keuangan (OJK) and Bank Negara Malaysia (BNM).

Strategic Plans

Individual business functions developed their respective strategic plans to define their future priorities, activities and desired outcomes for the next three years (2018-2020). The strategic plans take into account the current and future trends that will have an impact on the way AMBD operates in the future including changes in the economy and demographics, global regulatory developments and technological innovation. These strategic plans also serve as a forward-planning tool for the business functions to close identified gaps and to allocate resources based on priorities.

Risk Management

1. Business Continuity Management

AMBD commenced the Crisis Management and Communications Project with the objectives of:

- Ensuring the crisis readiness of AMBD;
- Establishing a clear documented plan and procedures for crisis handling and communications;
- Streamlining the crisis response procedures to the recovery procedures of critical business functions; and
- Building the capacity and awareness of AMBD employees on actions to take during a crisis.

2. Business Continuity Plan Testing

AMBD tested a total of four business continuity plans by simulating recovery in a controlled environment. The objectives of these exercises were to identify gaps and to make the necessary recommendations in ensuring the robustness of the recovery plans.

3. Information Security Management System

The Information Security Management System Working Group (ISWG) was established in March 2017. The group was tasked to draft and review certain information security related policies for AMBD in line with the ISO 27001. Additionally, the working group is responsible for the operationalisation of the Information Security Management Systems (ISMS) in AMBD. As of December 2018, the ISWG has drafted 86.4% of the 44 policies planned under this project. The ISWG also rolled out several major policies to AMBD officers and staff.

4. Risk Awareness

In an effort to implement a holistic approach of risk management and to increase the level of risk awareness in the organisation, AMBD invited external risk experts and conducted a total of four sharing sessions in 2018.

5. Crisis Management and Communications

A presentation on the topic of Crisis Management and Communications was conducted on 25 January 2018 highlighting the differences between emergency response, crisis management and business continuity. The presentation also demonstrated the success factors of a resilient organisation, particularly in terms of handling a crisis management programme such as segregation of duties and structured communication.

6. Sharing Session by National Disaster Management Centre (NDMC)

On 4 October 2018, a representative from the Natural Disaster Management Centre (NDMC) presented on the role of NDMC and Disaster Management in Brunei Darussalam. The organisation was established by the Disaster Management Order, 2006, as the lead agency for disaster risk management as well as the focal point for the country of the ASEAN Committee on Disaster Management (ACDM) on top of being a member of the Governing Board (GB) of ASEAN Coordinating Centre for Humanitarian Assistance on Disaster Management (AHA) Centre. Currently, it also functions as Secretariat to the National Disaster Council (NDC).

7. Sharing Session by Asian Development Bank (ADB)

On 29 November 2018, three representatives from the Asian Development bank (ADB) presented on four topics namely Operational Risk Management in ADB, Operational Risk Management Scenario Analysis: Cyber Security Scenarios in Payment Systems; Information Technology Security; and Cybersecurity in ADB (for IT Specialists).

Human Capital Development

AMBD places great importance on professional training and development for all of its personnel. In 2018, AMBD continued to organise customised programmes for its officers besides sending them to both local and international training courses.

1. Training Programmes

A total of 187 officers and staff attended 64 training programmes in 2018. In addition, 119 officers and staff attended in-house trainings aimed at developing both their soft and technical skills.

2. Young Executive Leadership Programme (YELP)

YELP is a customised programme designed to provide junior level officers at AMBD with management and leadership skills. In August 2018, YELP was organised for the third cohort consisting of 15 officers.

3. Mentorship Programme

On 27 September 2018, AMBD launched its first mentoring programme during which 10 junior officers had the opportunity to receive support and guidance from the Managing Director. The objectives of this programme are to create an inclusive working culture, improve managerial competency, share insights and help develop talent and professionalism.

Thanksgiving Prayer Ceremony in Conjunction with AMBD's 7th Year of Establishment

On 4 January 2018, AMBD held a thanksgiving prayer ceremony in conjunction with its 7th year of establishment.

Thanksgiving Prayer Ceremony in Conjunction with HRH Chairman of AMBD's 44th Birthday

On 19 February 2018, AMBD held a thanksgiving prayer ceremony in conjunction with HRH Chairman of AMBD's 44th birthday at the Suri Seri Begawan Raja Pengiran Anak Damit Mosque, Kampong Manggis/Madang.

Hari Raya Aidilfitri Get-Together

On 3 July 2018, HRH Chairman of AMBD graced AMBD's *Majlis Ramah Mesra Aidilfitri AMBD*, held at the Banquet Hall, Prime Minister's Office Building. The event showcased a short performance put together by AMBD personnel as well as several booths inspired by Turkish bazaars. The objective of the event was to strengthen ties among AMBD personnel and to encourage a harmonious working culture. At the event, HRH Chairman of AMBD also presented souvenirs and certificates of appreciation to four AMBD staff who retired in 2017.

Beach Cleaning Campaign

On 17 November 2018, AMBD personnel gathered at Berakas Beach for a cleaning campaign as part of their Corporate Social Responsibility initiatives. AMBD managed to collect 33 bags of waste weighing a total of 144 kilograms.

Kids of AMBD

AMBD ran the Kids of AMBD programme throughout the year which included interactive and educational activities about the history of money as well as the basics of financial literacy.

AMBD Interhouse Games 2018

The annual interhouse games were contested between four teams: Incredibles, Jaukers, Logans and Megaminds. AMBD management and staff showcased their skills in track and field, paintball, basketball and a gameshow. The Incredibles emerged as the overall champion in 2018.

AMBD Townhall 2018

AMBD held a townhall event during which there was a sharing of AMBD's business functions' achievements as well as mini games to foster bonding amongst AMBD management and staff.

Mental Health Programme

AMBD held a Mental Health Awareness Programme consisting of a presentation by representatives of the Health Promotion Centre, Ministry of Health, a health exhibition and a mental health screening. The presentation emphasised the importance of maintaining work-life balance and seeking professional help when facing emotional or psychological distress.

In a separate session, AMBD invited the Counselling Service Division, Public Service Department, Prime Minister's Office to deliver a presentation on the topic of psychosocial risks. The presentation highlighted factors relating to work-related stress that has the potential of negatively affecting an individual's psychological and physical health.

Audited Financial Statements

The Members of the Board hereby submit their report and the audited financial statements of Autoriti Monetari Brunei Darussalam for the year ended 31 December 2018.

Principal Activities

Autoriti Monetari Brunei Darussalam ("the Authority") was established on 1 January 2011 pursuant to Section 3(1) of the Autoriti Monetari Brunei Darussalam Order, 2010 ("the Order").

Under Section 4 of the Order, the principal objects of the Authority are:

(a) to achieve and maintain domestic price stability;
(b) to ensure the stability of the financial system, in particular by formulating financial regulation and prudential standards;
(c) to assist in the establishment and functioning of efficient payment systems and to oversee them; and
(d) to foster and develop a sound and progressive financial services sector.

Without prejudice to the above-mentioned principal objects, the Authority shall support the general economic policies of the Government to the extent that it considers appropriate.

An amendment was also made to the Order in 2015 which took effect from 9 February 2015 whereby Section 9 of the principal Order is amended, in subsection (1)(a), by deleting "10 per cent" from the third line and by substituting "100 per cent" therefore.

In line with the introduction of the Order His Majesty the Sultan and Yang Di-Pertuan of Brunei Darussalam also consented to the amendment of the Currency and Monetary Order, 2004, now cited as Currency Order, 2004 ("the CO"), which came into effect on 1 January 2011.

The CO, amongst other things, provides for the transfer of the powers of the Brunei Currency and Monetary Board ("BCMB") to the Authority, including its assets and liabilities. Therefore, assets and liabilities previously held under BCMB which were valued using Generally Accepted Accounting Practice in Brunei ("GAAP") have now been transferred to the Authority valued in accordance with International Financial Reporting Standards ("IFRS"). The CO also provides for the establishment of the Currency Fund for the purpose of currency management. Following this amendment, the Authority is the sole authority for the issuance of Brunei currency notes and coins.

Financial Statements

	B$'000
Total comprehensive loss	(555)

Members of the Board

The members of the Board are as follows:-

Duli Yang Teramat Mulia Paduka Seri Pengiran Muda Mahkota Pengiran Muda
Haji Al-Muhtadee Billah ibni Kebawah Duli Yang Maha Mulia Paduka Seri Baginda
Sultan Haji Hassanal Bolkiah Mu'izzaddin Waddaulah
Senior Minister at the Prime Minister's Office
As Chairman

Yang Berhormat Pehin Orang Kaya Seri Kerna Dato Seri Setia (Dr.) Haji Awang Abu Bakar bin Haji Apong
Minister of Home Affairs
As Deputy Chairman
(1st January 2017 – Present)

Yang Berhormat Dato Seri Setia Haji Awang Abdul Mokti bin Haji Mohd Daud
Minister at the Prime Minister's Office
(30th January 2018 – Present)

Yang Berhormat Dato Seri Setia Dr. Awang Haji Mohd Amin Liew bin Abdullah
Minister at the Prime Minister's Office and Minister of Finance and Economy II
(30th January 2018 – Present)

Yang Berhormat Dato Seri Setia Awang Haji Hamzah bin Haji Sulaiman
Minister of Education
(1st January 2018 – Present)

Yang Mulia Dayang Zuraini binti Haji Sharbawi
Solicitor General at Attorney General's Chambers, Prime Minister's Office
(10th August 2018 – Present)

Yang Mulia Dato Seri Setia Haji Awang Metussin bin Haji Baki
Member of Brunei Islamic Religious Council (MUIB) and Syariah Financial Supervisory Board (SFSB)
(1st January 2017 – Present)

Yang Mulia Awang Yusof bin Haji Abd Rahman
Managing Director, Autoriti Monetari Brunei Darussalam
(1st January 2017 – Present)

Yang Berhormat Pehin Orang Kaya Laila Setia Dato Seri Setia Awang Haji Abd Rahman bin Haji Ibrahim
Former Minister at the Prime Minister's Office and Minister of Finance II
(1st January 2017 – 29th January 2018)

Yang Berhormat Pehin Datu Singamanteri Colonel (Rtd.) Dato Seri Setia (Dr.) Awang Haji Mohammad Yasmin bin Haji Umar
Former Minister of Energy and Industry at the Prime Minister's Office
(1st January 2017 – 29th January 2018)

Yang Mulia Dato Seri Paduka Awang Haji Mohd Roselan bin Haji Mohd Daud
Former Deputy Minister (Corporate, PENGGERAK & Economy) at the Prime Minister's Office
(1st January 2017 – 29th January 2018)

Yang Mulia Dato Seri Paduka Awang Haji Hisham bin Haji Mohd Hanifah
Former Deputy Minister (Fiscal), Minister of Finance
(1st January 2017 – 29th January 2018)

Yang Mulia Awang Haji Mohammad Yusree bin Haji Junaidi
Former Solicitor General at Attorney General's Chambers, Prime Minister's Office
(30th January 2018 – 9th August 2018)

Audit Committee

The members of the Audit Committee are as follows:

Yang Mulia Dayang Zuraini binti Haji Sharbawi
Solicitor General at Attorney General's Chambers, Prime Minister's Office
As Chairman
(10th August 2018 – Present)

Yang Mulia Awang Haji Maswadi bin Haji Mohsin
(23rd April 2018 – Present)

Yang Mulia Awang Haji Yusop bin Haji Mahmud
(23rd April 2018 – Present)

Yang Mulia Dayang Mazriyani binti Haji Abdul Ghani
(23rd April 2018 – Present)

Yang Mulia Dayang Hajah Rokiah binti Haji Badar
(23rd April 2018 – Present)

Yang Mulia Pengiran Haji Johari bin Pengiran Haji Abdul Ghani
(23rd April 2018 – Present)

Yang Mulia Pengiran Maslina binti Pengiran Haji Mahmud
Head of Risk Management, AMBD
As Observer

Yang Mulia Awang Haji Mohammad Yusree bin Haji Junaidi
Former Solicitor General at Attorney General's Chambers, Prime Minister's Office
(23rd April 2018 – 9th August 2018)

The Audit Committee has held several meetings in 2018. In performing its functions, the Audit Committee met with the Authority's external auditors to discuss the scope of their work, the results of their examination and evaluation of the Authority's internal accounting control system.

For and on behalf of the Board

....	....
Yang Berhormat Pehin Orang Kaya Seri Kerna Dato Seri Setia (Dr.) Haji Awang Abu Bakar bin Haji Apong Deputy Chairman	Yang Mulia Awang Yusof bin Haji Abd Rahman Managing Director

Independent Auditor's Report

To the Board of Directors of
Autoriti Monetari Brunei Darussalam
Level 14, Ministry of Finance and Economy Building
Commonwealth Drive, Bandar Seri Begawan
BB3910, Negara Brunei Darussalam

Opinion

We have audited the accompanying financial statements of Autoriti Monetari Brunei Darussalam (the "Authority"), which comprise the statement of financial position as at 31 December 2018, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the financial statements of the Authority are properly drawn up in accordance with the provisions the Autoriti Monetari Brunei Darussalam Order, 2010 (the "Order"), the Currency Order, 2004 (the "CO") and the International Financial Reporting Standards (IFRSs), to give a true and fair view of the financial position of the Authority as at 31 December 2018, and its financial performance, changes in equity and cash flows for the year then ended.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Authority in accordance with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code), together with the ethical requirements that are relevant to our audit of the financial statements in Brunei Darussalam, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Other Matter

The financial statements of the Authority as at and for the year ended 31 December 2017 were audited by the Auditor General of Brunei Darussalam, who expressed an unmodified opinion on those statements on 25 April 2018.

PricewaterhouseCoopers Services, 10th Floor, Units 14 & 15 PGGMB Building
Jalan Kianggeh, Bandar Seri Begawan BS8111, Brunei Darussalam
T: +67 (3) 224 1951 to 53, www.pwc.com/bn

Other Information

Management is responsible for the other information. The other information obtained at the date of this auditor's report is the information included in the Authority's Annual Report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the provisions of the Order, the CO, and the IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Authority or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Independent Auditor's Report
To the Board of Directors of
Autoriti Monetari Brunei Darussalam

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Authority to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers Services

Roderick M. Danao
Partner

Brunei Darussalam
13 March 2019

STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

(With comparative figures as at 31 December 2017)

	Note	2018	2017
		B$'000	B$'000
ASSETS			
Current assets			
Cash and cash equivalents	4	1,794,519	2,398,739
Deposits with financial institutions		248,631	19,631
Investment securities	5	1,882,613	2,126,288
Derivative financial assets	6	2,802	5,696
Inventories		12,062	13,636
Assets held with International Monetary Fund (IMF)	7	490,999	486,383
Other assets	8	16,932	16,326
Total current assets		4,448,558	5,066,699
Non-current assets			
Gold	9	254,544	251,918
Property and equipment, net	10	26,006	24,600
Total non-current assets		280,550	276,518
TOTAL ASSETS		**4,729,108**	**5,343,217**
LIABILITIES AND EQUITY			
Current liabilities			
Currency in circulation	12	1,248,786	1,263,048
Deposits and balances of local banks and local financial institutions	14	1,811,992	2,400,363
Deposit balance of international financial institutions	15	23,222	22,716
Derivative financial liabilities	6	49	124
Payables to the Government of Brunei Darussalam		103,557	99,411
Liabilities with IMF	7	388,408	388,111
Other liabilities	16	8,560	8,054
Total current liabilities		3,584,574	4,181,827

The notes set out on pages 45 to 86 form part of these financial statements

STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

(With comparative figures as at 31 December 2017)

	Note	2018	2017
		B$'000	B$'000
Non-current liabilities			
Provisions	17	19,226	18,969
Total non-current liabilities		19,226	18,969
Total liabilities		**3,603,800**	**4,200,796**
Equity			
Capital	11	1,000,000	1,000,000
Reserve fund	11	105,399	98,303
Market valuation reserve	11	19,909	44,118
Total equity		**1,125,308**	**1,142,421**
TOTAL LIABILITIES AND EQUITY		**4,729,108**	**5,343,217**

For and on behalf of the Board

Yang Berhormat Pehin Orang Kaya Seri Kerna Dato Seri Setia (Dr.) Haji Awang Abu Bakar bin Haji Apong
Deputy Chairman

Yang Mulia Awang Yusof bin Haji Abd Rahman
Managing Director

The notes set out on pages 45 to 86 form part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

(With comparative figures for the year ended 31 December 2017)

	Note	2018 B$'000	2017 B$'000 (Restated)
Income			
Interest income	18	40,179	33,021
Dividend income		4,181	2,371
Net (losses)/gains on investment securities measured at fair value through profit or loss (FVTPL)	19	(27,332)	23,627
Operating income	20	8,632	9,363
Total income		**25,660**	**68,382**
Expenses			
Fee and commission expense		(2,399)	(2,663)
Staff costs	21	(15,647)	(14,484)
Other operating expenses	22	(15,270)	(18,268)
Total expenses		**(33,316)**	**(35,415)**
Net (loss)/profit for the year		**(7,656)**	**32,967**
Other comprehensive income (OCI)			
Net gains on investment securities measured at fair value through other comprehensive income (FVOCI)	23	4,475	-
Net gains on gold revaluation	9	2,626	10,193
Total OCI		**7,101**	**10,193**
Total comprehensive (loss)/income for the year		**(555)**	**43,160**

The notes set out on pages 45 to 86 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018
(With comparative figures for the year ended 31 December 2017)

	Share capital B$'000	Distributable earnings B$'000	Reserve fund B$'000	Currency valuation reserve B$'000	Market valuation reserve B$'000	Total B$'000
Balance as at 1 January 2017	**1,000,000**	**-**	**91,150**	**1,362**	**23,441**	**1,115,953**
Comprehensive income						
Net profit for the year (Restated)	-	32,967	-	-	-	**32,967**
Other comprehensive income		10,193			-	**10,193**
Total comprehensive income for the year	**-**	**43,160**	**-**	**-**	**-**	**43,160**
Transfer during the year:						
Transfer as distribution of profits	-	(26,468)	7,153	(1,362)	20,677	**-**
Transfer to the Government of Brunei Darussalam*	-	(16,692)	-	-	-	**(16,692)**
Balance as at 31 December 2017	**1,000,000**	**-**	**98,303**	**-**	**44,118**	**1,142,421**
Balance as at 31 December 2017	**1,000,000**	**-**	**98,303**	**-**	**44,118**	**1,142,421**
Comprehensive loss						
Net loss for the year	-	(7,656)	-	-	-	**(7,656)**
Other comprehensive income	-	7,101	-	-	-	**7,101**
Total comprehensive loss for the year	**-**	**(555)**	**-**	**-**	**-**	**(555)**
Transfer during the year:						
Fair value movement of investment securities at FVOCI	-	(2,626)	-	-	2,626	**-**
Fair value movement of investment securities at FVTPL	-	26,835	-	-	(26,835)	**-**
Transfer as distribution of profits	-	(7,096)	7,096	-		**-**
Transfer to the Government of Brunei Darussalam*	-	(16,558)	-	-	-	**(16,558)**
Balance as at 31 December 2018	**1,000,000**	**-**	**105,399**	**-**	**19,909**	**1,125,308**

*Transfer to the Government of Brunei Darussalam in accordance with Section 9 of the Order.

The notes set out on pages 45 to 86 form part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2018
(With comparative figures for the year ended 31 December 2017)

	2018 B$'000	2017 B$'000
Cash flows from operating activities		
Net (loss)/profit for the year	(7,656)	32,967
Adjustments for:		
Depreciation on property and equipment	2,951	2,739
Unrealised losses on currency and market	18,032	445
	13,327	36,151
Changes in operating assets and liabilities		
(Increase)/decrease in operating assets:		
Deposits with financial institutions	(229,000)	-
Investment securities	230,118	(149,531)
Derivative financial assets	2,894	(5,556)
Inventories	1,574	(2,104)
Other assets	(606)	(232)
(Decrease)/increase in operating liabilities:		
Deposits and balances of local banks and other local financial institutions	(588,371)	421,227
Deposit balance of international institutions	506	1,558
Derivative financial liabilities	(75)	(789)
Payables to the Government of Brunei Darussalam	(175)	(13)
Other liabilities	506	(54,390)
Provisions	(16,300)	(24,573)
Net cash (used in)/from operating activities	(598,929)	185,597
Cash flows from investing activities		
Purchase of property and equipment	(4,356)	(4,745)
Net cash used in investing activities	(4,356)	(4,745)
Cash flows from financing activities:		
Decrease in currency in circulation	(14,262)	(117,760)
Net cash used in financing activities	(14,262)	(117,760)
Net (decrease) increase in cash & cash equivalents	**(604,220)**	**99,243**
Cash and cash equivalents at beginning of the year	2,398,739	2,299,496
Cash & cash equivalents at the end of the year	**1,794,519**	**2,398,739**

The Authority's cash and cash equivalents include restricted cash balance (Note 4).

The notes set out on pages 45 to 86 form part of these financial statements.

These notes form an integral part of and should be read in conjunction with the accompanying financial statements.

The financial statements were authorized for issue by the Board of Directors on 7 March 2019. There are no material events that occurred subsequent to 7 March 2019 until 13 March 2019.

1. Domicile and activities

Autoriti Monetari Brunei Darussalam ("the Authority") acts as a central bank of Brunei Darussalam, domiciled in Brunei Darussalam and was established on 1 January 2011 pursuant to Section 3(1) of the Order.

Under Section 4 of the Order, the principal objects of the Authority are:
(a) to achieve and maintain domestic price stability;
(b) to ensure the stability of the financial system, in particular by formulating financial regulation and prudential standards;
(c) to assist in the establishment and functioning of efficient payment systems and to oversee them; and
(d) to foster and develop a sound and progressive financial services sector.

Without prejudice to the above-mentioned principal objects, the Authority shall support the general economic policies of the Government to the extent that it considers appropriate.

The address of the Authority's registered office is Level 14, Ministry of Finance and Economy Building, Commonwealth Drive, Bandar Seri Begawan, BB3910, Negara Brunei Darussalam.

The Government of Brunei Darussalam is the sole shareholder of the Authority.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to both years presented, unless otherwise stated.

2.1. Basis of preparation

2.1.1. Statement of compliance

The financial statements of the Authority have been prepared in accordance with the Autoriti Monetari Brunei Darussalam Order, 2010 (the "Order"), the Currency Order, 2004 (the "CO"), and the International Financial Reporting Standards (IFRS) including any relevant interpretations issued by the IFRS Interpretations Committee (IFRIC) applicable to entities reporting under IFRS.

The financial statements comply with the Order and the CO issued by the Government of Brunei Darussalam, and IFRS issued by the International Accounting Standards Board (IASB).

2.1.2. Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment securities measured at FVTPL and FVOCI, derivative contracts and gold.

2.2. Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Authority

The Authority has adopted the following standards effective 1 January 2018:

- IFRS 9, 'Financial instruments' replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

  The adoption of IFRS 9 from 1 January 2018 resulted in changes in accounting policies in the financial statements. The new accounting policies are set out in subsequent notes.

  As permitted by the transitional provisions of IFRS 9, the Authority elected not to restate comparative figures. The transition from IAS 39 to IFRS 9 did not result in adjustments of carrying amounts of financial assets and liabilities at the date of transition. Therefore, no adjustments were recognised in the opening balance of Reserve fund as of 1 January 2018.

  The adoption of IFRS 9 has resulted in changes mainly in the Authority's accounting policies for classification and measurement and impairment of financial assets. There were no changes in the classification of financial liabilities. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7, Financial Instruments: Disclosures.

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Authority's financial assets as at 1 January 2018.

	Original classification under IAS 39	**New classification under IFRS 9**	**Original carrying amount under IAS 39**	**New carrying amount under IFRS 9**
	B$'000	**B$'000**	**B$'000**	**B$'000**
Financial assets				
Cash and cash equivalents	Loans and receivables	Amortised cost	2,067,367	2,067,367
Cash and cash equivalents	Loans and receivables	At FVOCI	331,372	331,372
Deposits with financial institutions	Loans and receivables	Amortised cost	19,631	19,631
Investment securities	At FVTPL	At FVTPL	52,920	52,920
Investment securities*	At FVTPL	At FVOCI	2,073,368	2,073,368
Derivative financial assets	At FVTPL	At FVTPL	5,696	5,696
Assets held with IMF	Loans and receivables	Amortised cost	486,383	486,383
Other assets	Loans and receivables	Amortised cost	11,557	11,557
Total financial assets			**5,048,294**	**5,048,294**

Cash and cash equivalents classified as loans and receivables as at 31 December 2017 are short-term treasury bills of which interest rates periodically reset at market rates. Accordingly, their estimated fair values as at 1 January 2018 approximate their carrying values; thus, there is no difference in amounts as at transition date.

For financial liabilities, there is no change in the classification and measurement observed in the prior year.

* Debt instruments that were previously classified as securities – FVTPL and carried at FVTPL were assessed to have a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. Accordingly, these are classified at FVOCI under IFRS 9 as at 1 January 2018.

The following table reconciles the carrying amounts under IAS 39 to the carrying amounts under IFRS 9 on transition to the new standard on 1 January 2018.

Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 at 1 January 2018

	IAS 39 carrying amount as at 31 December 2017	**Re-classification**	**Re-measurement**	**IFRS 9 carrying amount as at 1 January 2018**
	B$'000	**B$'000**	**B$'000**	**B$'000**
Investment Securities at FVTPL				
Opening balance	2,126,288	-	-	-
Reclassifications:				
To investment securities at FVOCI under IFRS 9	-	(2,073,368)	-	-
Total investment securities at FVTPL	**2,126,288**	**(2,073,368)**	**-**	**52,920**
Investment Securities - FVOCI				
Opening balance	-	-	-	-
Reclassifications:				
From investment securities at FVTPL (IAS 39)	-	2,073,368	-	-
Total investment securities at FVOCI	**-**	**2,073,368**	**-**	**2,073,368**

	Effect on Reserve fund	**Effect on Market valuation reserve fund**
Opening balance under IAS 39	98,303	44,118
Change in classification of financial assets	-	-
Impact of expected credit losses under IFRS 9	-	-
Opening balance under IFRS 9 (1 January 2018)	**98,303**	**44,118**

Impact of IFRS 9 on allowance for impairment

The Authority shifted from the incurred loss model under IAS 39 to expected credit loss model in the determination of impairment provisions for financial assets not carried at FVTPL upon adoption of IFRS 9. The adoption however, did not result in an adjustment to the financial statements as the calculated ECL is considered immaterial.

- IFRS 15, 'Revenue from contracts with customers' replaces IAS 18, 'Revenue' which covers contracts for goods and services and IAS 11, 'Construction contracts' which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer, thus, the notion of control replaces the existing notion of risks and rewards. A new five-step process must be applied before revenue can be recognised: (1) identify contracts with customers, (2) identify the separate performance obligation, (3) determine the transaction price of the contract, (4) allocate the transaction price to each of the separate performance obligations, and (5) recognise the revenue as each performance obligation is satisfied. Key changes to current practice are: (1) Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements; (2) Revenue may be recognised earlier than under current standards if the consideration varies for any reasons (such as for incentives, rebates, performance fees, royalties, and success of an outcome) - minimum amounts must be recognised if they are not at significant risk of reversal; (3) The point at which revenue is able to be recognised may shift: some revenue which is currently recognised at a point in time at the end of a contract may have to be recognised over the contract term and vice versa; (4) There are new specific rules on licenses, warranties, non-refundable upfront fees and, consignment arrangements, to name a few; and (5) As with any new standard, there are also increased disclosures. The impact of IFRS 15 adoption is not significant to the financial statements of the Authority.

(b) New standards, amendments and interpretations not yet adopted

IFRS 16, Leases (effective for annual periods beginning on or after 1 January 2019)

IFRS 16 will replace the current guidance in IAS 17, Leases. IFRS 16 which is effective on 1 January 2019 affects primarily the accounting by lessees and will result in the recognition of almost all leases on balance sheet. IFRS 16 removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. An optional exemption exists for short-term and low-value leases.

The impact of IFRS 16 is not expected to significantly affect the financial statements of the Authority as the operating lease arrangements are minimal.

2.3. Financial instruments

Financial assets and financial liabilities are recognised when the Authority becomes a party to the contractual provisions of the financial instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (except for financial assets and financial liabilities measured at FVTPL and FVOCI) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Transaction costs directly attributable to the acquisition of financial assets or financial liabilities measured at FVTPL and FVOCI are recognised immediately in profit or loss.

2.4. Financial assets

Financial assets consist of cash balances with banks and other financial institutions, investments in equity and debt securities, assets held with IMF, and other receivables.

2.4.1 Classification and subsequent measurement

31 December 2018

From 1 January 2018, the Authority has applied IFRS 9 and classifies its financial assets in the following measurement categories:

- Investment securities at FVTPL;
- Investment securities at FVOCI; or
- Investment securities at amortised cost.

The classification requirements for debt and equity instruments are described below:

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as government and corporate bonds, loans, and other receivables.

Classification and subsequent measurement of debt instruments depend on:

(i) the Authority's business model for managing the asset; and
(ii) the cash flow characteristics of the asset.

Based on these factors, the Authority classifies its debt instruments into one of the following three measurement categories:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVTPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured. Interest income from these financial assets is included in 'Interest and similar income' using the effective interest rate (EIR) method.

- FVOCI: Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FTVPL, are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in "Net gains on investment securities measured at FVOCI". Interest income from these financial assets is included in 'Interest income' using the EIR method.

- FVTPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL and is not part of a hedging relationship is recognised in profit or loss and presented within "Net gains on investment securities measured at FVTPL" in the period in which it arises. Interest income from these financial assets is included in 'Interest income' using the EIR method.

Business model: An assessment of business models for managing financial assets is fundamental to the classification of a financial asset. The Authority determines the business models at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The Authority's business model does not depend on management's intentions for an individual instrument, therefore the business model assessment is performed at a higher level of aggregation rather than on an instrument-by-instrument basis.
The Authority has more than one business model for managing its financial instruments which reflect how the Authority manages its financial assets in order to generate cash flows. The Authority's business models determine whether cash flows will result from collecting contractual cash flows, selling financial assets or both.

The Authority considers all relevant information available when making the business model assessment. However, this assessment is not performed on the basis of scenarios that the Authority does not reasonably expect to occur, such as so-called 'worst case' or 'stress case' scenarios.

The Authority takes into account all relevant evidences available such as:

- how the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way in which those risks are managed; and
- how managers of the business are compensated (e.g. whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).

At initial recognition of a financial asset, the Authority determines whether newly recognised financial assets are part of an existing business model or whether they reflect the commencement of a new business model. The Authority reassesses its business models each reporting period to determine whether the business models have changed since the preceding period. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

SPPI: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Authority assesses whether the financial instruments' cash flows represent SPPI (the 'SPPI test'). In making this assessment, the Authority considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.
The Authority subsequently measures all equity investments at FVTPL, except where the Authority's management has elected, at initial recognition, to irrevocably designate an equity investment at FVOCI. The Authority's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognised in other comprehensive income and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognised in profit or loss as other income when the Authority's right to receive payments is established. Gains and losses on equity investments at FVTPL are included in the "Net gains on investment securities measured at FVOCI" line in the statement of comprehensive income.

31 December 2017

Financial assets are classified in the following categories: FVTPL and loans and receivables.

Regular way purchases and sales of financial assets at FVTPL are recognised on trade date – the date on which the Authority commits to purchase or sell the asset. Loans and receivables are recognised on the date they are originated.

The EIR method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The EIR is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the EIR, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

FVTPL

This category has two sub-categories: financial instruments held for trading, and those designated as FVTPL at inception ("fair value option").

A financial asset is classified as held for trading if:
a) it has been acquired principally for the purpose of selling it in the near term; or
b) on initial recognition it is part of a portfolio of identified financial instruments that the Authority manages together and has a recent actual pattern of short-term profit-taking; or
c) it is a derivative that is not designated and effective as a hedging instrument.

2.4.2 Impairment of financial assets

31 December 2018

Beginning 1 January 2018, the Authority assesses on a forward-looking basis the expected credit losses ('ECL') associated with its debt instrument assets carried at amortised cost and FVOCI. The Authority recognises a loss allowance for such loss at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

ECLs are required to be measured through a loss allowance at an amount equal to:

- 12-month ECL, i.e. lifetime ECL that result from those default events on the financial instruments that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- full lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the financial instruments, (referred to as Stage 2 and Stage 3); or

- A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL. More details on the determination of a significant increase in credit risk (SICR) are provided in Note 26.2.1(c).

ECLs are probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Authority under the contract and the cash flows that the Authority expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's EIR.

The Authority measures ECL on an individual basis, or on a collective basis for portfolios of securities that share similar economic risk characteristics. The measurement of the loss allowance is based on the present value of the asset's expected cash flows using the asset's original EIR, regardless of whether it is measured on an individual basis or a collective basis.

Credit-impaired financial assets

A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Credit-impaired financial assets are referred to as Stage 3 assets. Evidence of credit-impairment includes observable data about the following events:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the lender or the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- the disappearance of an active market for a security because of financial difficulties; or
- the purchase of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event - instead, the combined effect of several events may have caused financial assets to become credit-impaired. The Authority assesses whether debt instruments that are measured at amortised cost or FVOCI are credit-impaired at each reporting date. To assess if sovereign and corporate debt instruments are credit impaired, the Authority considers factors such as bond yields, credit ratings and the ability of the borrower to raise funding.

Definition of default

Critical to the determination of ECL is the definition of default. The definition of default is used in measuring the amount of ECL and in the determination of whether the loss allowance is based on 12-month or lifetime ECL, as default is a component of the probability of default (PD) which affects both the measurement of ECLs and the identification of a SICR.

The Authority considers the following as constituting an event of default:

- the borrower is past due more than 90 days on any material credit obligation to the Authority; or
- the borrower is unlikely to pay its credit obligations to the Authority in full.

When assessing if the borrower is unlikely to pay its credit obligation, the Authority takes into account both qualitative and quantitative indicators. The information assessed depends on the type of the asset, for example in debt securities a qualitative indicator used is the breach of covenants. Quantitative indicators, such as overdue status and non-payment on another obligation of the same counterparty are key inputs in this analysis.

Significant increase in credit risk

The Authority monitors all financial assets that are subject to the impairment requirements to assess whether there has been a SICR since initial recognition. If there has been a SICR, the Authority will measure the loss allowance based on lifetime rather than 12-month ECL. The Authority assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

- the financial instrument has a low risk of default
- the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and
- adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Authority considers a financial asset to have low credit risk when it has an external credit rating of 'investment grade', which is above Baa2 for Moody's and above BBB for S&P and Fitch. Accordingly, the Authority assumes the application of the low credit risk expedient on the debt securities portfolio that broadly represents bonds issued with strong credit ratings of at least A3 for Moody's and A- for S&P and Fitch.

For cash and cash equivalents, assets held with IMF, deposits with financial institutions and other receivables, these are either repayable on demand, mature within a year or placed with reputable financial institutions with high external credit rating. Accordingly, determination of staging triggers for identifying significant increase in credit risk is not consequential taking into account the rating of the counterparties are consistent

Irrespective of the outcome of the above assessment, the Authority presumes that the credit risk on a financial asset has significantly increased since initial recognition when contractual payments are more than 90 days past due, unless the Authority has reasonable and supportable information that demonstrates otherwise.

The Authority incorporates forward-looking information in its determination whether credit risks have increased significantly since initial recognition through its rating mechanism using external rating or based on criteria involving qualitative forward-looking elements.

The Authority regularly monitors the effectiveness of the criteria used to identify whether there has been a SICR before the amount becomes past due.

Presentation of allowance for ECL in the statement of financial position

<u>31 December 2018</u>

Loss allowances for ECL are presented in the statement of financial position as follows:

- for financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets; and
- for debt instruments measured at FVOCI: the carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised as a part of net income in the statement of comprehensive income. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised as a part of net income in the statement of comprehensive income. When a financial asset is uncollectible, it is written off against the related allowance account. Such financial assets are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Recoveries of accounts previously written off are recognised directly in the statement of comprehensive income as a part of net income.

<u>31 December 2017</u>

Financial assets, other than those measured at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is an objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected, and that loss can be estimated reliably.

For all other financial assets, objective evidence of impairment could include:

a) significant financial difficulty of the issuer or counterparty; or
b) breach of contract, such as a default or delinquency in interest or principal payments; or
c) it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
d) the disappearance of an active market for that financial asset because of financial difficulties.

For financial assets carried at amortised cost, the amount of the impairment loss is recognised as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original EIR.

For financial assets that are carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.
For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

2.4.3. Modification and derecognition of financial assets

A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. A modification affects the amount and/or timing of the contractual cash flows either immediately or at a future date. In addition, the introduction or adjustment of existing covenants of an existing debt security would constitute a modification even if these new or adjusted covenants do not yet affect the cash flows immediately but may affect the cash flows depending on whether the covenant is or is not met (e.g. a change to the increase in the interest rate that arises when covenants are breached).

The Authority derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Authority neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Authority recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Authority retains substantially all the risks and rewards of ownership of a transferred financial asset, the Authority continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset’s carrying amount and the sum of the consideration received and receivable and the cumulative gain/loss that had been recognised in OCI and accumulated in equity is recognised in profit or loss, with the exception of equity investment designated as measured at FVOCI, where the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss.

2.4.4 Write-off

Debt securities are written off when the Authority has no reasonable expectations of recovering the financial asset (either in its entirety or in a portion of it). This is the case when the Authority determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. A write-off constitutes a derecognition event. The Authority may apply enforcement activities to financial assets written off. Recoveries resulting from the Authority’s enforcement activities will result in other income.

2.5. Financial liabilities

Classification and subsequent measurement

Financial liabilities are any liabilities that are contractual obligations to deliver cash or another financial asset to another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Authority; or a contract that will or may be settled in the Authority’s own equity instrument. Financial liabilities are classified as either financial liabilities at FVTPL (including financial liabilities held for trading and those designated at FVTPL) or financial liabilities at amortised cost.

i) Financial liabilities at FVTPL

A financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking or if so designated by management. Financial liabilities designated as at FVTPL at inception are those that are managed and whose performance is evaluated on a fair value basis, and are intended to be held for an indefinite period of time but may be extinguished in response to needs for liquidity or changes in interest rates or exchange rates. Information about these financial liabilities is provided internally on a fair value basis to the Treasury Investment Management. Financial liabilities classified as FVTPL consist of derivative financial liabilities.

Financial liabilities at FVTPL are initially recognised and subsequently measured at fair value with any gains or losses recognised in profit or loss. Fair value is computed using quoted market prices.

ii) Other financial liabilities at amortised cost

Other financial liabilities are initially recognised at fair value and subsequently measured at amortised cost using the EIR method, where applicable.

Derecognition of financial liabilities

The Authority derecognises financial liabilities only when the Authority's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

2.6. Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices in active markets including recent market transactions, and valuation techniques (for example for structured notes), including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The Authority’s derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that do not qualify for hedge accounting are recognised immediately in the statement of comprehensive income under “Net (losses)/gains on investment securities measured at FVTPL”.

2.7. Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value of a non-financial asset is measured based on its highest and best use. The asset’s current use is presumed to be its highest and best use.

The fair value of financial and non-financial liabilities takes into account non-performance risk, which is the risk that the entity will not fulfill an obligation.

The Authority classifies its fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

• Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges.

• Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the majority of the over-the-counter ("OTC") derivative contracts. The primary source of input parameters like LIBOR yield curve or counterparty credit risk is Bloomberg.

• Level 3 - Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available. The Authority considers relevant and observable market prices in its valuations where possible. The Authority has no assets or liabilities classified under Level 3 as at 31 December 2018 and 2017.
The appropriate level is determined on the basis of the lowest level input that is significant to the fair value measurement.

(a) Financial instruments

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations. This includes listed equity securities and quoted debt instruments on major exchanges and broker quotes mainly from Bloomberg.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indications that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

For all other financial instruments, fair value is determined using valuation techniques. In these techniques, fair values are estimated from observable data in respect of similar financial instruments, using models to estimate the present value of expected future cash flows or other valuation techniques, using inputs (for example, LIBOR yield curve, FX rates, volatilities and counterparty spreads) existing at reporting date. The Authority uses widely recognised valuation models for determining fair values of non-standardised financial instruments of lower complexity such as forward contracts. For these financial instruments, inputs into models are generally market observable.

For more complex instruments, the Authority uses internally developed models, which are usually based on valuation methods and techniques generally recognised as standard within the industry. Valuation models are used primarily to value derivatives transacted in the OTC market, unlisted debt securities (including those with embedded derivatives) and other debt instruments for which markets were or have become illiquid. Some of the inputs to these models may not be market observable and are therefore estimated based on assumptions.

The fair value of OTC derivatives is determined using valuation methods that are commonly accepted in the financial markets, such as present value techniques and option pricing models. The fair value of foreign exchange forwards is generally based on current forward exchange rates, with the resulting value discounted back to present value.

2.8. Property and equipment

Property and equipment are stated at cost and depreciated on a straight-line basis over their estimated useful lives. The periods used for this purpose are:-

Buildings	– 3 to 50 years
Furniture, fixtures & fittings	– 5 to 10 years
Motor vehicles	– 7 years
Office equipment, machinery & computers	– 3 to 10 years

Fully depreciated assets are retained in the financial statements until they are no longer in use.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of reporting period. Assets that are subject to depreciation are reviewed at each reporting date to assess whether there is any indication that an asset may be impaired. An asset's carrying amount is written down immediately to its recoverable amount if the carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value (less costs to sell) and value in use.

Gains and losses on disposal are determined by comparing proceeds with carrying amount. These are included in the statement of comprehensive income.

Construction-in-progress consists of items of property under construction. Assets under construction are depreciated once they are completed and ready for operational use, at which time these are derecognised in the construction-in-progress account and recognised within the specific asset classification in property and equipment account.

2.9. Gold

Gold is recognised initially at cost and subsequently measured at fair value at reporting date. The Authority's intention is to hold the asset as part of its long-term reserves and classified in the statement of financial position as a non-current asset.

Changes in carrying amount of gold relating to the price of gold bullion are recognised in OCI as "Net gains on gold revaluation". This in turn forms part of market valuation reserve in accordance with Section 7 of the Order. When gold is derecognised, the cumulative gain or loss previously recognised in market valuation reserve is retained in equity and will be reclassified to reserve fund.

2.10. Impairment on non-financial assets

The carrying amounts of the Authority's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. If this is not possible to do so, the recoverable amount for the cash-generating unit to which the asset belongs to shall be determined. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating units.

The recoverable amount of an asset or cash generating unit is the greater of the value in use and the fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.
An impairment loss is recognised if the carrying amount of an asset or a cash-generating unit exceeds the estimated recoverable amount. Impairment losses are recognised in profit or loss.

An impairment loss recognised in prior periods is assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's or cash generating unit's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

2.11. Interest income and expense

Interest income and expense are recognised in profit or loss for all interest-bearing financial instruments using the EIR method.

The EIR method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

When calculating the EIR, the Authority estimates cash flows considering all contractual terms of the financial instruments but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the EIR, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring impairment loss.

2.12. Dividend income

Dividends are recognised in profit or loss when the Authority's right to receive payment is established.

2.13. Operating income

Operating income is recognised in the accounting period in which it is earned, except where it is charged to cover the costs of a continuing service to, or risk borne for, the customer, or is interest in nature. In these cases, the income is recognised as revenue as the services are provided, or when the significant act has been completed, or as an adjustment to the EIR.

2.14. Fee and commission expense

Fee and commission expense is recognised in the period in which related revenue is recognised. This includes management fee, custody fee and other charges arising from other operations.

2.15. Foreign currency transactions and translation

Functional and presentation currency

Items in the financial statements of the Authority are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial statements are presented in Brunei dollar, which is the Authority's functional currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Non-monetary items measured at historical cost denominated in a foreign currency are translated at exchange rates as at the date of initial recognition. Non-monetary items in a foreign currency that are measured at fair value are translated using the exchange rates at the date when the fair value is determined.

Changes in the fair value of monetary securities denominated in foreign currency classified as financial assets at FVOCI are analysed between translation differences resulting from changes in the amortised cost of the security, and other changes in the carrying amount of the security. Translation differences are recognised in profit or loss, and other changes in carrying amount are recognised in OCI. However, any foreign currency valuation losses are deducted from the currency valuation reserve fund to the extent that there are credit funds available in the currency valuation reserve fund to cover such losses.

Translation differences on non-monetary financial instruments, such as equities held at FVTPL, are reported as part of the fair value gain or loss recognised under "Net (losses)/gains on investment securities measured at FVTPL" in the statement of comprehensive income.

2.16. Offsetting

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when the Authority has a legally enforceable right to set off the recognised amounts and the transactions are intended to be settled on a net basis. The right to offset must not be contingent on a future event and must be enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties.

As at 31 December 2018 and 2017, there are no financial assets and liabilities that have been offset.

2.17. Cash and cash equivalents

Cash and cash equivalents consist of cash and other cash items, deposit placements with local and international financial institutions with maturities of less than three months from the date of acquisition and that are subject to insignificant risk of changes in value.

2.18. Advances to suppliers and other assets

Advances to suppliers are expenses paid in advance and recorded as assets before they are used or consumed, as the service or benefit will be received in the future. Advances to suppliers expire and are recognised as expense either with the passage of time or through use or consumption.

Other assets include assets that are realised as part of the normal operating cycle and are expected to be realised within twelve months after the reporting period.

2.19. Inventories

Inventories consist of bank notes and coins and are recorded at cost upon receipt of stock. They are subsequently expensed when issued into circulation.

Inventories also consist of numismatic notes and coins, which are specially minted or packaged as collectors' items which are not issued for monetary purposes and are not included as part of currency in circulation. Any profit or loss arising from the sale of these coins is included in the statement of comprehensive income.
The cost of inventories is based on the first-in first-out principle, and is defined as the sum of all costs of purchase and other costs incurred in bringing the inventories to their present location and condition.

2.20. Currency in circulation

Currency issued is a claim on the Authority for notes and coins issued for circulation, fully guaranteed by the Government of the Brunei Darussalam, in favor of the holder. Currency in circulation is recorded at face value as a liability in the statement of financial position.

2.21. Provisions

Provisions are recognised when the Authority has a present obligation (legal or constructive) as a result of a past event, it is probable that the Authority will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

2.22 Accrued expenses and other liabilities

These amounts represent liabilities for goods and services provided to the Authority prior to the end of financial year that are unpaid. The amounts are unsecured and are usually paid subsequent to year-end.
Accrued expenses and other liabilities are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the EIR method.

2.23. Employee benefits

2.23.1 Defined contribution plans

Defined contribution plans are post-employment benefit plans under which the Authority pays fixed contributions and will have no legal or constructive obligation to pay further contributions. Obligations for contributions to defined contribution plans are recognised as personnel expenses in profit or loss in the periods during which related services are rendered.

(a) Employees Trust Fund (“TAP”) and Supplemental Contributory Pension (“SCP”)

Under Section 26 of the Order, the laws of Brunei Darussalam which relate to retirement benefits schemes shall apply to the employees of the Authority. The Authority participates in TAP and SCP.

(b) Incentive scheme

The incentive scheme is a bonus scheme of which the calculation is referenced to monthly salary of the employee. Employees are eligible to participate in the incentive scheme after completing the six-month trial period. The main objective of this incentive is to provide incentives to employees to improve the level and quality of their services according to their capabilities. The Authority contributes 5 or 10 percent of employee’s monthly salary depending on the employee’s annual performance. This incentive scheme is recognised as an employee benefits expense under “Staff costs” in the statement of comprehensive income.

2.23.2 Annual leave

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting period.

2.24. Distributable earnings

The earnings available for distribution shall be determined under Section 8 of the Order as follows:

a) where profits include realised and unrealised foreign currency valuation gains, by deducting the amount of such gains from the net profits and adding the amount to the currency valuation reserve fund;

b) where profits include realised and unrealised foreign currency valuation losses, by adding back such losses to the net profits and deducting the amount from the currency valuation reserve fund to the extent that there are credit funds available in the currency valuation reserve fund to cover such losses;

c) where profits include market unrealised valuation gains, by deducting the amount of such gains from the net profits and adding the amount to the market valuation reserve fund; and

d) where profits include market unrealised valuation losses, by adding back such losses to the net profit and deducting such losses from the market valuation reserve fund to the extent that there are credit funds available in the market valuation reserve fund to cover such losses.

2.25. Allocation of distributable earnings

The allocation of distributable earnings shall be determined under Section 9 of the Order as follows:

a) Within 3 months after the end of every financial year of the Authority, the Authority shall allocate the distributable earnings as follows:
   - where the total balance of the paid-up capital and the Reserve Fund is less than 20 percent of the total assets at the end of the financial year, 100 percent of the distributable profit is to be transferred to the Reserve Fund until the 20 percent level is met.
   - where the total balance of the paid-up capital and the Reserve Fund is greater than 20 percent of the total assets at the end of the financial year, 30 percent of the distributable profit is to be transferred to the Reserve Fund and the balance of 70 percent is to be transferred to the Government of Brunei Darussalam.

b) No distribution shall be made out of the current income of the Authority except as permitted by subsection (a) above; and

c) If in any financial year the Authority incurs negative distributable earnings, these earnings shall first be charged to the Reserve Fund and subsequently be covered by capital.

2.26. Other operating expenses

Other operating expenses are recognised in the financial statements as incurred.

3. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Authority's accounting policies, which are described in the below notes to the financial statements, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

3.1 Critical judgements in applying the accounting policies

The following are the critical judgments, apart from those involving estimations (which are dealt with separately below), that the management has made in the process of applying the accounting policies and with the most significant effect on the financial statements.

a) Business model assessment: Classification and measurement of financial assets depends on the results of the SPPI and the business model test. The Authority determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Authority monitors financial assets measured at amortised cost or FVOCI that are derecognised prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Authority's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets.

b) Significant increase in credit risk: ECL is measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a SICR. In assessing whether the credit risk of an asset has significantly increased the Authority applied the 'low credit risk' expedient. Refer to Note 26.2.1 for more details.

c) Establishing groups of assets with similar credit risk characteristics: When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics. Refer to Note 26.2.1 for details of the characteristics considered in this judgement. The Authority monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets.

d) Models and assumptions used: The Authority uses various models and assumptions in measuring fair value of financial assets as well as in estimating ECL. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk. Refer to Note 26.2.1 for more details on the ECL.

e) Impairment of property and equipment: Assets that have definite useful lives are subject to depreciation and amortisation and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. In assessing whether there is any indication that an asset may be impaired, management considers evidence of obsolescence or physical damage of an asset, assets becoming idle, or the economic performance of the asset is, or will be, worse than expected. If any such evidence exists for any item of property and equipment, changes in those estimates and judgments could result in adjustments to the net carrying amount of property and equipment.

There is no recorded provision for impairment loss pertaining to property and equipment during the reporting period considering the absence of impairment indicators such as evidence of obsolescence or physical damage to any item of property and equipment or significant changes in the Authority's industry to which it operates.

3.2 Key sources of estimation uncertainty

The following are key estimations that the management has used in the process of applying the Authority's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

a) Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and determining the forward-looking information relevant to each scenario: When measuring ECL the Authority uses reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

b) Probability of default: PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

c) Loss Given Default: LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

d) Useful lives of property and equipment: Management estimates the useful lives of property and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

In addition, the estimation of the useful lives of property and equipment is based on the Authority's collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that the future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amount and timing of recorded expenses for any period would be affected by changes in these circumstances. A change in the estimated useful lives of property and equipment would impact recorded costs and expenses, and non-current assets.

The carrying amounts of property and equipment are presented in Note 10. Based on management's assessment as at 31 December 2018 and 2017, there is no change in estimated useful lives of those assets during those years. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

4. Cash and cash equivalents

Cash and cash equivalents per statement of cash flows comprise the following:

	2018 B$'000	2017 B$'000
Cash	1,277,448	1,942,233
Short-term deposits	113,888	125,134
Short-term government treasury bills	403,183	330,039
Short-term corporate debt securities	-	1,333
Total cash and cash equivalents	**1,794,519**	**2,398,739**
Less:		
Restricted cash	(82,119)	(154,941)
Total cash and cash equivalents - unrestricted	**1,712,400**	**2,243,798**

Short-term deposits with banks have average maturities of less than or equal to 90 days and carry effective interest rates of 1.33% to 2.60% in 2018 (2017 - 0.97% to 1.50%). Interest earned from cash and deposits with banks and financial institutions is disclosed in Note 18.

Restricted cash and cash equivalents are not available for use in the Authority's day-to-day operations and used as a back-up to the currency in circulation as at 31 December 2018, in compliance with the requirements of Section 24 of the CO (Note 13).

5. Investment securities

	2018 B$'000	2017 B$'000
Investment securities at FVOCI:		
- Government debt securities	693,831	-
- Corporate debt securities	400,483	-
- Government treasury bills	594,836	-
	1,689,150	-
Investment securities at FVTPL:		
- Government debt securities	1,924	605,756
- Corporate debt securities	31,331	526,015
- Government treasury bills	-	940,997
- Listed equity instruments	160,208	53,520
	193,463	**2,126,288**
Total investment securities	**1,882,613**	**2,126,288**

Certain investment securities were reclassified from financial assets at FVTPL to financial assets at FVOCI following the adoption of IFRS 9 (Note 2.3).

Debt securities classified as FVOCI that are expected to mature within 12 months after reporting date amounts to B$317,357,607. The remaining balance of FVOCI has a maturity of more than 12 months after reporting date.

The dividend income from listed equity instruments recognised by the Authority for the year amounts to B$4,181 (2017 - B$2,371).

6. Derivative financial assets and liabilities

Derivatives held by the Authority for non-hedging purposes mainly consist of foreign exchange forwards representing commitments to purchase or sell one currency against another at an agreed forward rate on a specified date in the future. Settlement can be made via full delivery of forward proceeds or via payment of the difference (non-deliverable forward) between the contracted forward rate and the prevailing market rate on maturity.

As at 31 December, the Authority had contractual commitments under open forward currency contracts as follows:

	2018 Contract/Notional Amount in B$'000	2017 Contract/Notional Amount in B$'000
Commitments to purchase currencies under forward contracts	381,257	403,294
Commitments to sell currencies under forward contracts	(378,504)	(397,723)

As at 31 December 2018, the derivative financial assets amount to B$2,802,014 (2017 - B$5,695,790), while the derivative financial liabilities amount to B$49,090 (2017 - B$124,318). The contract amounts of these instruments reflect the extent of the Authority's involvement in forward currency contracts and do not represent the risk of loss due to counterparty non-performance. The fair values of these derivatives are presented on the statement of financial position.

7. Assets held and liabilities with IMF

Brunei Darussalam became a member country of the International Monetary Fund ("IMF") in October 1995. The Ministry of Finance and Economy is the fiscal agent and the Authority was appointed to be a depository for the IMF deposits. These deposits which were paid by the Government of Brunei Darussalam to IMF through the Ministry of Finance and Economy were maintained by the

Authority (as a depository) under IMF Account No. 1, IMF Account No. 2 and IMF Securities Account. The deposits represented the Domestic Currency Portion amounting to SDR201,730,037 of Brunei Darussalam's Quota Subscription payment to IMF.

Borrowings from and repayments to the IMF are denominated in Special Drawing Rights ("SDRs"). The SDR balances in IMF accounts are translated into Brunei currency at the prevailing exchange rates and any unrealised gains or losses are accounted for in accordance with accounting policy on foreign currencies.

The IMF account is as detailed below:

	2018	2017
	B$'000	B$'000
ASSETS		
Foreign currency investment and claims:		
IMF quota subscription	573,463	573,524
Less:		
IMF No.1 currency account	(84,193)	(84,193)
IMF securities account	(411,286)	(411,286)
Currency valuation adjustment account	(10,993)	(11,046)
Reserve Tranche Position	66,991	66,999
Add:		
SDR holdings	413,088	412,472
Account receivable:		
Accrued remuneration on Brunei's reserve tranche position	91	61
Accrued interest on SDR holdings	740	494
IMF expenses on SDR allocation	10,089	6,357
	490,999	**486,383**
LIABILITIES		
IMF No.2 currency account	378	378
Currency valuation adjustment account No.2	8	8
IMF SDR allocation	387,328	387,368
IMF accrued expenses on SDR allocation	694	357
	388,408	**388,111**

8. Other assets

	2018	2017
	B$'000	B$'000
Interest and dividend receivables	9,658	9,411
Advances to suppliers	6,094	4,769
Miscellaneous assets	1,180	2,146
	16,932	**16,326**

9. Gold

	2018	2017
	B$'000	**B$'000**
At 1 January	251,918	241,725
Revaluation	2,626	10,193
At 31 December	**254,544**	**251,918**

Gold is measured at fair value at the end of each reporting period. The fair value of gold is calculated using unadjusted quoted prices in active markets for identical assets. The fair value measurement of gold is under Level 1 of the fair value hierarchy.

10. Property and equipment, net

	Buildings	Construction-in-progress	Furniture, fixtures & fittings	Motor vehicles	Office equipment, machinery & computers	Total
	B$'000	B$'000	B$'000	B$'000	B$'000	B$'000
Cost						
Balance as at 1 January 2018	41,311	2,490	1,095	541	17,880	63,317
Additions	118	3,527	33	-	738	4,416
Disposals	-	-	-	(220)	-	(220)
Balance as at 31 December 2018	41,429	6,017	1,128	321	18,618	67,513
Accumulated depreciation						
Balance as at 1 January 2018	26,597	-	699	364	11,057	38,717
Depreciation charge for the year	618	-	100	56	2,177	2,951
Disposals	-	-	-	(161)	-	(161)
Balance as at 31 December 2018	27,215	-	799	259	13,234	41,507
Net book value as at 31 December 2018	**14,214**	**6,017**	**329**	**62**	**5,384**	**26,006**

	Buildings B$'000	Construction-in-progress B$'000	Furniture, fixtures & fittings B$'000	Motor vehicles B$'000	Office equipment, machinery & computers B$'000	Total B$'000
Cost						
Balance as at 1 January 2017	41,188	1,660	1,056	577	14,127	58,608
Additions	123	830	39	-	3,753	4,745
Disposals	-	-	-	(36)	-	(36)
Balance as at 31 December 2017	41,311	2,490	1,095	541	17,880	63,317
Accumulated depreciation						
Balance as at 1 January 2017	25,985	-	598	332	9,099	36,014
Depreciation charge for the year	612	-	101	68	1,958	2,739
Disposals	-	-	-	(36)	-	(36)
Balance as at 31 December 2017	26,597	-	699	364	11,057	38,717
Net book value as at 31 December 2017	**14,714**	**2,490**	**396**	**177**	**6,823**	**24,600**

Construction-in-progress is related to the construction of the Authority's new building which is expected to be completed in 2021.

11. Equity including reserves

The authorized capital of the Authority is B$2,000,000,000 and the paid-up capital is B$1,000,000,000. The entire capital is held by the Government of Brunei Darussalam.

The Authority regards its shareholder's funds as capital to support its normal operations.

Capital management

The Authority's objectives when managing capital are as follows:

- To comply with the capital requirements outlined in Sections 6 of the Order;

- To safeguard the Authority's ability to continue as a going concern in its provision of Central Banking facilities for the Government of Brunei Darussalam as outlined in Sections 49 to 51 of the Order; and

- To maintain a strong capital base to support the development of the Brunei economy.

Capital adequacy is monitored by the Authority's management, and in accordance with the guidelines established by the Order.

Reserve fund and reserve accounts

The reserve fund was established in accordance with the provisions of Section 7 of the Order as follow:

(a) a Reserve Fund which shall not be used except for the purpose of covering losses sustained by the Authority;

(b) a Currency Valuation Reserve Fund which shall be used to account for realised and unrealised gains and losses arising from its positions with foreign currencies;

(c) a Market Valuation Reserve Fund which shall be used to account for unrealised gains and losses arising from its positions with gold, financial instruments and other assets; and

(d) such other funds as the Authority may determine.

Effective from 1 January 2018 market valuation reserve consists of the following:
- Market valuation reserve for investment securities measured at FVTPL
- Market valuation reserve for investment securities measured at FVOCI
- Market valuation reserve for revaluation of gold

The distribution of earnings is in accordance with Section 8 of the Order is as follows:

(1) The net profits or losses determined by the Authority shall be in conformity with the accounting standards adopted by the Authority.
(2) The earnings available for distribution under section 9 shall be determined –

(a) where profits include realised and unrealised foreign currency valuation gains, by deducting the amount of such gains from the net profits and adding the amount to the currency valuation reserve fund;

(b) where profits include realised and unrealised foreign currency valuation losses, by adding back such losses to the net profits and deducting the amount from the currency valuation reserve fund to the extent that there are credit funds available in the currency valuation reserve fund to cover such losses;

(c) where profits include market unrealised valuation gains, by deducting the amount of such gains from the net profits and adding the amount to the market valuation reserve fund;

(d) where profits include market unrealised valuation losses, by adding back such losses to the net profit and deducting such losses from the market valuation reserve fund to the extent that there are credit funds available in the market valuation reserve fund to cover such losses.

The table below shows the distribution of available earnings for the years ended 31 December:

	2018	**2017**
	B$'000	**B$'000 (Restated)**
Total comprehensive (loss)/income	(555)	43,160
Transfer from currency valuation reserve fund	-	1,362
Transfer from market valuation reserve fund for investment securities measured at FVTPL	26,835	-
Earnings available for distribution	**26,280**	**44,522**
Distributed as follows:		
Transfer to reserve fund	(7,096)	(7,153)
Transfer to market valuation reserve fund for investment securities measured at FVTPL	-	(10,484)
Transfer to market valuation reserve fund for gold revaluation	(2,626)	(10,193)
Transfer to the Government of Brunei Darussalam	(16,558)	(16,692)
	-	**-**

12. Currency in circulation

In accordance with section 13 of the CO, the Authority has the sole authority to issue banknotes and coins for circulation in Brunei Darussalam. A breakdown, by denomination, is presented below.

	2018	2017
Denomination	**B$'000**	**B$'000**
$1	40,232	39,028
$5	30,099	27,771
$10	129,645	127,822
$20	14,050	13,376
$25	8,686	8,443
$50	99,463	86,109
$100	623,284	607,047
$500	166,977	190,603
$1,000	34,733	51,949
$10,000	66,580	68,060
Other notes and coins	35,037	42,840
	1,248,786	**1,263,048**

Currency in circulation represents the face value of banknotes and coins in circulation. Notes and coins held by the Authority as cash in vault and cashier/teller at the end of the financial year have been excluded from the liability of banknotes and coins in circulation because they do not represent currency in circulation.

13. External assets

Under Section 24 of the CO, the external assets of the Currency Fund shall at all times be not less than 100 per cent of the face value of the currency in circulation.

The assets and liabilities of the Currency Fund as at 31 December are as follows:

	2018	2017
External Assets:	**B$'000**	**B$'000**
Cash & cash equivalents	82,119	154,941
Fixed deposit	26,000	
Investment securities	1,252,758	1,192,452
Other assets	8,965	12,269
	1,369,842	1,359,662
Less:		
Active currency in circulation	1,248,786	1,263,048
	121,056	**96,614**

14. Deposits and local balances of banks and other local financial institutions

	2018 B$'000	2017 B$'000
Minimum cash balance:		
Finance companies	94,876	98,995
Current account:		
Commercial banks	1,593,116	2,301,368
Financial institutions	124,000	-
	1,811,992	**2,400,363**

Deposits from local banks and other local financial institutions include:

a) The minimum cash balance maintained by banks and finance companies with the Authority as required under Section 45 of the Banking Order, 2006 and the Islamic Banking Order, 2008 and Section 13A of the Finance Companies Act (Chapter 89) respectively. Deposits from companies holding licenses under the Securities Order (SO), 2001 represents statutory deposits as required under Section 27 of the SO 2001.

   With effect from 21 December 2017, the current account maintained by each bank with the Authority shall be used to satisfy the Minimum Cash Balance and as a settlement account for each bank within the Real-Time Gross Settlement ("RTGS"). This means that the balances on the current account can be maintained, up to the Minimum Cash Balance utilization rate of 30%, and may be used for intraday settlement within the RTGS.

b) The current account maintained by the banks with the Authority shall be used as a settlement account for each bank within the RTGS. RTGS is a process and computer installations providing continuous (real-time) settlement of fund transfers individually on an order basis (without netting).

15. Deposit balance of international financial institutions

	2018 B$'000	2017 B$'000
Deposit from World Bank	19,631	19,631
Other institutions	3,591	3,085
	23,222	**22,716**

16. Other liabilities

	2018 B$'000	2017 B$'000
Accrued expenses	6,698	6,823
Fees received in advance	1,862	1,231
	8,560	**8,054**

Fees received in advance relates to cash received in advance for licensing and regulatory operations.

17. Provisions

	2018	2017
	B$'000	**B$'000**
Provision for incentive scheme	2,571	2,193
Provision for leave expenses	97	84
Provision for distributable earnings to the Government of Brunei Darussalam	16,558	16,692
	19,226	**18,969**

The provision for distributable earnings to the Government of Brunei Darussalam is as follows (Note 2.24):

	2018	2017
	B$'000	**B$'000**
As at 1 January	16,692	24,966
Distributable earnings for the year	16,558	16,692
Payment made during the year	(16,692)	(24,966)
As at 31 December	**16,558**	**16,692**

18. Interest income

	2018	2017
	B$'000	**B$'000**
On investment securities	32,859	27,256
On deposits with banks	7,320	5,765
	40,179	**33,021**

19. Net (losses)/gains on investment securities measured at FVTPL

	2018	2017
	B$'000	**B$'000**
Investment in debt securities		
- Realised (losses)/gains	(12)	15,048
- Unrealised (losses)/gains	(1,921)	7,800
Investment in equity securities		
- Realised gains/(losses)	602	(213)
- Unrealised (losses)/gains	(24,915)	2,683
Loss on foreign exchange	(1,086)	(1,691)
	(27,332)	**23,627**

20. Operating income

	2018	2017
	B$'000	**B$'000**
Sale of commemorative coins	6,728	3,951
Credit Bureau services	850	833
Payment settlements	561	500
Registration and licensing of banks and other financial institutions	288	2,658
Collateral registry	79	64
Registry of international business companies	18	1,333
Other income	108	24
	8,632	**9,363**

21. Staff costs

	2018	2017
	B$'000	**B$'000**
Salaries and wages	9,471	8,882
Allowances	2,793	2,647
Bonuses	2,244	1,848
Other staff costs	697	647
Long-term incentive scheme	442	460
	15,647	**14,484**

22. Other operating expenses

	2018	2017
	B$'000	**B$'000**
Consultancy and developmental expenditure	4,169	3,308
Depreciation	2,951	2,739
Currency operation expenses	2,258	5,666
Maintenance of building, office equipment & computer	1,861	1,893
Others	4,031	4,662
	15,270	**18,268**

Others mainly pertain to rental and utilities expense.

23. Net gains on investment securities measured at FVOCI

	2018 B$'000	2017 B$'000
Investment securities at FVOCI:		
- Realised gains	9,667	-
- Unrealised losses	(5,192)	-
	4,475	**-**

24. Related Party

In the normal course of its operation, the Authority can enter into transactions with a related party. Related party includes the Government of Brunei Darussalam and Al-Munawwarah Sdn Bhd (AMSB).

The Authority may serve as banker to and act as the financial agent to the Government of Brunei Darussalam. Other than the transfer to the Government of Brunei Darussalam in accordance with Section 9 of the Order, there were no other significant related party transaction during the current financial year.

AMSB is a special purpose vehicle (SPV), which facilitate the Authority's liquidity management activities and other investment activities through the issuance of sukuk under a variety of Syariah principles. AMSB and AMBD have common key officers.

On 12 November 2018, AMSB issued its first 10 years sukuk to finance the construction of AMBD Building with an issuance size of BND 120 million via a private placement. The Sukuk were issued pursuant to the Syariah-compliant financing principles of Wakalah, Istisna' and Ijara. The transaction, structured using the concept of Ijarah Mausufah Fi Zimmah, has a unique structure not commonly adopted in Islamic finance by creatively using three structures. The first structure is the treasury structure, or wakalah. AMBD acts as wakeel to invest the sukuk issuance proceeds in accordance with a Syariah compliant treasury mandate. The second structure is the construction structure, or istisna'. The sukuk issuance proceeds will be used to fund the construction of the underlying asset. The third structure is the lease structure, or ijara, and is separated into two stages namely the advance rental and rental stage. The advance rental stage runs together with the construction phase. Upon completion of the building of the underlying asset, the rental stage will begin and the lease of the underlying asset will commence.

25. Events after the reporting date

Post year-end events that provide additional information about the Authority's financial position at reporting date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the financial statements when material.

26. Financial instruments and financial risks

26.1 Fair value of financial instruments

The Authority ranks its investment securities based on the hierarchy of valuation techniques required by IFRS, which is determined based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Authority's market assumptions.

The table below presents the hierarchy levels of the Authority's assets and liabilities measured at fair value.

31 December 2018	**Level 1 B$'000**	**Level 2 B$'000**	**Level 3 B$'000**	**Total B$'000**
Financial assets				
Investment securities	1,882,613	-	-	1,882,613
Derivatives financial assets	-	2,802	-	2,802
	1,882,613	**2,802**	**-**	**1,885,415**
Financial Liabilities				
Derivatives financial liabilities	-	49	-	49
	-	**49**	**-**	**49**

31 December 2017	**Level 1 B$'000**	**Level 2 B$'000**	**Level 3 B$'000**	**Total B$'000**
Financial assets				
Investment securities	2,126,288	-	-	2,126,288
Derivatives financial assets	-	5,696	-	5,696
	2,126,288	**5,696**	**-**	**2,131,984**
Financial Liabilities				
Derivatives financial liabilities	-	124	-	124
	-	**124**	**-**	**124**

26.2. Financial risk management

The Authority's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Authority's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Authority's financial performance.

The most important types of financial risks are credit risk, liquidity risk and market risk. Market risk includes currency risk, price risk and interest rate risk.

The Authority's investment policy statements are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Authority regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practices.

26.2.1. Credit risk

Credit risk is the risk of financial loss resulting from the failure of counterparty to settle its financial and contractual obligations to the Authority, as and when they fall due.

Credit exposures arise principally in debt securities and other treasury bills in the Authority's asset portfolio. The AMBD Risk Committee manages and controls credit risk by monitoring the investment guidelines and directives issued to the fund managers of the Authority.

The Directors do not consider that the Authority is exposed to any significant credit risk because its financial assets consist primarily of cash and securities issued or guaranteed by Government of sovereign countries (i.e. Singapore, Hong-Kong, and China). The Authority does not have any significant credit risk exposure to any single non-investment grade counterparty or any group of counterparties having similar characteristics.

(a) Credit risk management

Debt securities and treasury portfolio

For debt securities and other treasury bills, external ratings such as Standard & Poor's ratings or their equivalents are used by the Authority for managing credit risk exposures. Investments in these securities and bills are viewed as a way to gain better credit quality mix and at the same time, maintain a readily available source to meet funding requirements. The PD's associated with each grade are determined based on realised default rates over the prior 12 months, as published by the rating agency.

(b) Expected credit loss measurement

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarised below:

• A financial instrument that is not credit-impaired on initial recognition is classified in "Stage 1" and has its credit risk continuously monitored by the Authority.

• If a significant increase in credit risk since initial recognition is identified, the financial instrument is moved to "Stage 2" but is not yet deemed to be credit-impaired.

• If the financial instrument is credit-impaired, the financial instrument is then moved to "Stage 3".

• Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis.

• A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information.

• Purchased or originated credit-impaired financial assets are those financial assets that are credit impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3).

Further explanation is also provided of how the Authority determines appropriate groupings when ECL is measured on a collective basis.
The following diagram summarises the impairment requirements under IFRS 9 (other than purchased originated credit-impaired financial assets):

Change in credit quality since initial recognition

Stage 1	**Stage 2**	**Stage 3**
(Initial recognition)	(Significant increase in credit risk since initial recognition)	(Credit-impaired assets)
12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses

(c) Significant increase in credit risk ('SICR')

Due to the generally high quality of the securities as stipulated in Investment Policy Statement of respective funds and the overall low credit risk exposures whereby investments are commonly rated "investment grade" by the global credit rating agencies, the Authority has opted for the practical expedient of the general approach through applying low credit risk operational simplification.

(d) Definition of default and credit-impaired assets

The Authority defines a financial instrument as in default if the issuer of the investment securities are downgraded to below investment grade, which is below Baa2 for Moody's and below BBB for S&P and Fitch. Notwithstanding the above, the Authority does not intend to rebut the "90 days overdue" presumed definition of default.

(e) Measuring ECL – Explanation of inputs, assumptions and estimation techniques

The key inputs used for measuring ECL are:
• Probability of default (PD);
• Loss given default (LGD); and
• Exposure at default (EAD).

These ECL are generally derived from internally developed statistical models and other historical data and they are adjusted to reflect probability-weighted forward-looking information.

PD is an estimate of the likelihood of default over a given time horizon. It is estimated as at a point in time. The calculation is based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on market data (where available), as well as internal data comprising both quantitative and qualitative factors. Given that there has not been any historical instance of defaults on the portfolio, the Authority applied the external credit rating agency's historical observed default rates to derive the portfolio's average default rates for respective historical years. The estimation is based on current conditions, adjusted to take into account estimates of future conditions that will impact PD.

LGD is an estimate of the loss severity arising from default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from any collateral. Given that there has not been any historical instance of defaults on the portfolio, the Authority bases its LGD estimates from data published by external rating agency. The LGD parameter will be determined based on average historical LGD on the basis that there is a limited statistical significance between LGD and macroeconomic indicators. The cash flows are not discounted as any discounting effects are not expected to be significant for measuring 12 months ECL on the debt securities portfolio.

EAD is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest. The Authority's modelling approach for EAD reflects expected changes in the balance outstanding over the lifetime of the debt security exposure that are permitted by the current contractual terms, such as amortisation profiles and early repayment.

The measurement of ECL is based on probability weighted average credit loss. As a result, the measurement of the loss allowance should be the same regardless of whether it is measured on an individual basis or a collective basis (although measurement on a collective basis is more practical for large portfolios of items). In relation to the assessment of whether there has been a SICR it can be necessary to perform the assessment on a collective basis as noted below.

There has been no change in the estimation techniques or significant assumptions made during the current reporting period in assessing the loss allowance for these financial assets.

(f) Forward-looking information incorporated in the ECL model

The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The Authority has performed historical analysis and identified economic variables impacting credit risk and expected credit losses for each portfolio. The macroeconomic indicators should be both sensitive and reflective of Authority's portfolio based on the following considerations:

• Intuitiveness for users to interpret and understand the relationship between macroeconomic indicators and the segment of the portfolios' default risk.

• Readily available forecasts to operationalize the model. In the absence of available forecasts, Authority would require a separate forecasting process or introduce an element of expert judgement to derive the forecast estimate.
• Accommodates assignment of probability weights.

Based on those considerations and the nature of the investment portfolio and the selected segmentation approach, we further narrowed down the potential economic factors to the following:

I. Singapore economic factors - Singapore Macroeconomic Variables (MEVs)

The Singapore MEVs will be tested for correlation with credit quality of Singapore issuer counterparties within AMBD's investment portfolio, which are the following:

Singapore MEVs	Description	Category
SIN_STI	Singapore STI Index which is one of the main stock indices for Singapore equities.	Equity Price
SIN_GDP	Singapore GDP (absolute value in SGD million) which measures economic growth for the country	Economic Growth
SIN_CPI_YOY%	Singapore Consumer Price Index	Inflation
SIN_PPI_MANF	Singapore Producer Price Index	Economic Growth
SIN_3M_SIBOR	Singapore 3-month Interbank Offer Rate	Interest Rate
SIN_IMP_PRICE	Singapore Import Price Index	Economic Growth
SIN_EXP_PRICE	Singapore Export Price Index	Economic Growth
SIN_EMPL	Singapore Employment Number	Employment

II. World economic factors - World MEVs

The World MEVs will be tested for correlation with credit quality of both Singapore and non-Singapore counterparties. They are:

World MEVs	Description	Category
WORLD_GDP	World GDP (%) which measures the economic growth globally	Economic Growth
WORLD_TRADE_VOL	World Trade Volume which measures trade flow globally	Trade
WORLD_WTI_OIL	World WTI crude oil prices measuring global demand for energy	Economic Growth
WORLD_BRENT_OIL	World Brent crude oil prices measuring global demand for energy	Economic Growth
WORLD_3M_LIBOR	World 3M LIBOR which measure interbank lending rate globally	Interest Rate
WORLD_US_CPI	US CPI Index which measures inflation in the world's largest economy	Inflation
WORLD_US_IND_PROD	US Industrial Production which measures industrial activities in the US	Economic Growth
WORLD_US_10Y	US 10Y Benchmark Yield	Interest Rate
WORLD_US_UNEMPL	US Unemployment Rate	Employment
S&P 500	S&P 500 which measure equity prices of the largest 500 companies in US	Equity Prices
DJIA	Dow Jones Industrial Average which measure the largest 30 biggest market cap companies in the US	Equity Prices
NASDAQ	NASDAQ index measures the equity prices of largest tech companies in the US	Equity Prices
US_OIS_3M	USD3M Overnight Index Swap serves as the indicator of overnight benchmark lending rate	Interest Rate
LIBOR_OIS_SPREAD	Spread between LIBOR and OIS tend to measure the market liquidity status	Interest Rate

The macro-economic indicators are shortlisted for further statistical analyses process to determine the highest predictive power for the Authority's portfolio. Those shortlisted will be further examined before arriving at the final economic indicators that are both statistically significant, intuitive and reflective of the Authority's portfolio.

Other forward-looking considerations not otherwise incorporated within the above scenarios, such as the impact of any regulatory, legislative or political changes, have been considered, but are not deemed to have a material impact and therefore no adjustment has been made to the ECL for such factors.

(g) Groupings based on shared risks characteristics

For expected credit loss provisions modelled on a collective basis, a grouping is performed on the basis of shared risk characteristics, such that risk exposures within a group are homogeneous. In performing this grouping, there must be sufficient information for the group to be statistically credible. When ECL are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics, such as:

• instrument type;
• credit risk grade;
• date of initial recognition;
• remaining term to maturity;
• industry; and
• geographic location of the borrower.

The groupings are reviewed on a regular basis to ensure that each group is comprised of homogenous exposures.

(h) Credit risk exposure

Maximum exposure to credit risk - Financial instruments subject to impairment

The following tables contain an analysis of the credit risk exposure of each financial instrument. The gross carrying amount of financial assets below also represents the Authority's maximum exposure to credit risk on these assets.

The table below presents the ratings of debt securities, treasury bills and other government securities as at
31 December 2018 and 2017 based on international and domestic credit assessment agencies:

	Financial assets at fair value through OCI				
	2018				**2017**
	ECL Staging *(B$' 000)*				
	Stage 1 12-month ECL	**Stage 2** Lifetime ECL	**Stage 3** Lifetime ECL	**Total**	**Total**
Credit grade					
AAA	1,546,497	-	-	1,546,497	-
Aa1 to Aa3	105,205	-	-	105,205	-
A1 to A3	221,792	-	-	221,792	-
Lower than A1	94,391	-	-	94,391	-
Unrated	124,448	-	-	124,448	-
Gross carrying amount	**2,092,333**	**-**	**-**	**2,092,333**	**-**
Loss allowance	-	-	-	-	-
Carrying amount	**2,092,333**	**-**	**-**	**2,092,333**	**-**

	Deposits with financial institutions				
	2018				2017
	ECL Staging *(in B$' 000)*				
	Stage 1 12-month ECL	**Stage 2** Lifetime ECL	**Stage 3** Lifetime ECL	**Total**	**Total**
Credit grade					
AAA	19,631	-	-	19,631	-
Aa1 to Aa3	-	-	-	-	-
A1 to A3	174,000	-	-	174,000	-
Lower than A1	-	-	-	-	-
Unrated	55,000	-	-	55,000	-
Gross carrying amount	**248,631**	**-**	**-**	**248,631**	**-**
Loss allowance					
Carrying amount	**248,631**	**-**	**-**	**248,631**	**-**

As at 31 December 2018 and 2017, the Authority's deposits are placed with highly reputable financial institutions.

The entity is also exposed to credit risk in relation to Assets held with IMF that are measured at amortised cost. The maximum exposure at the end of the reporting period is the carrying amount of the asset at B$490,999,585 (2017 - B$486,382,972).

Maximum exposure to credit risk - Financial instruments not subject to impairment

The following table contains an analysis of the maximum credit risk exposure from financial assets not subject to impairment:

	Maximum exposure to credit risk (in B$' 000)	
	2018	**2017**
Financial assets at fair value through profit or loss		
Debt securities	33,255	1,131,771

26.2.2. Market risk

The Authority takes on exposure to market risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices. The Authority's exposure to market risk is from its financial investment portfolios.

The market risks arising from the Authority's activities are monitored by the Investment Advisory Committee (IAC). Regular reports are submitted to the Management and IAC.

(a) Currency risk

Apart from the Authority's assets and liabilities with the IMF, which are denominated in SDRs, its exposure to foreign currency risk is limited. The only other significant foreign currency is Singapore Dollar (SGD), on which there is no exposure because the Brunei and the SGD are pegged 1:1. The Authority manages any other foreign currency exposure using internal hedging techniques, by matching assets and liabilities wherever possible.

As at 31 December, the Authority's exposure to other foreign currencies follows:

	2018	2017
Investment securities	(in B$' 000)	
US Dollar	481,418	367,798
Euro	16,951	1,081
Australian dollar	3,424	1,679
Hong Kong dollar	87	-

SDR, the IMF's unit of account, is essentially a specified basket of four (4) major international currencies (i.e., the U.S. Dollar, Euro, Japanese Yen, Pound Sterling and Chinese Renminbi). The weightage of each currency is as follows:

Currency	Weight
USD	41.73%
EUR	30.93%
CNY	10.92%
JPY	8.33%
GBP	8.09%
	100%

(b) Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Authority takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may decrease or create losses in the event that unexpected movements arise. The level of mismatch of interest rate repricing that may be undertaken by the Authority is monitored frequently by the IAC.

The following table shows the information relating to the Authority's investments in fixed income securities that are exposed to fair value interest rate risk presented by maturity profile.

31 December 2018	Range of rates	Up to a year	2-5 years	Over 5 years	Total
			(in B$' 000)		
Financial assets at FVOCI	0.0% - 4.7%	-	1,924	31,331	33,255
Financial assets at FVTPL	0.0% - 5.875%	91,486	547,558	455,270	1,094,314

31 December 2017	Range of rates	Up to a year	2-5 years	Over 5 years	Total
			(in B$' 000)		
Financial assets at FVOCI	0.5% - 7.39%	67,080	634,666	430,025	1,131,771
Financial assets at FVTPL	-	-	-	-	-

The analysis below is performed for reasonably possible movements in interest rate with all other variables held constant, showing the impact on profit for the year ended 31 December 2018:

	Change in interest rate	Impact on profit (in B$' 000) Increase (decrease)
31 December 2018	+1%	(10,795)
	-1%	10,795

(c) Price risk

Price risk relates to financial assets and liabilities whose values will fluctuate as a result of changes in market prices. The Authority is exposed to price risk in respect of its investments in listed equities amounting to B$160,208,387 (2017 - B$53,520,898).

As at 31 December 2018, based on a 10% fall in equity prices, the impact on profit or loss would be reduction of B$16,020,839.

26.2.3. Liquidity risk

Liquidity risk is the risk that the Authority will encounter difficulty in meeting the commitments associated with liabilities and other payment obligations. Such risk may result from inadequate market depth or disruption or refinancing problems.

The Authority's objective is to ensure that adequate liquidity is maintained at all times. The Authority manages such risk by investing mainly in liquid money market instruments for maturities not exceeding 12 months so as to meet its day-to-day liquidity needs. Alongside with this, the Authority imposes exposure limits on its approved counterparty list. Diversification of the fund is also achieved by investing in other asset classes such as debt securities and equities.

The following tables analyse the Authority's financial assets and liabilities at the end of reporting period into relevant maturity groupings based on the remaining period to the contractual maturity date:

31 December 2018	No specific maturity B$'000	Up to 1 month B$'000	1-3 months B$'000	3-12 months B$'000	1-5 years B$'000	> 5 years B$'000	Total B$'000
Financial assets							
Cash and cash equivalents	1,303,679	-	490,840	-	-	-	**1,794,519**
Deposits with financial institutions	19,631	-	-	229,000	-	-	**248,631**
Debt securities	-	2,725	4,766	83,952	549,482	460,412	**1,101,337**
Government treasury bills	-	26,232	5,779	589,057	-	-	**621,068**
Equity securities	160,208	-	-	-	-	-	**160,208**
Assets held with IMF	490,999	-	-	-	-	-	**490,999**
Other assets	10,838	-	-	-	-	-	**10,838**
	1,985,355	**28,957**	**501,385**	**902,009**	**549,482**	**460,412**	**4,427,600**
Financial liabilities							
Currency in circulation	1,248,786	-	-	-	-	-	**1,248,786**
Deposit and balances of banks and other financial institutions	1,717,116	94,876	-	-	-	-	**1,811,992**
Deposit balance of international institutions	23,222	-	-	-	-	-	**23,222**
Payables to Brunei Government	103,557	-	-	-	-	-	**103,557**
Liabilities with IMF	388,408	-	-	-	-	-	**388,408**
Other liabilities	8,423	-	-	-	-	-	**8,423**
	3,489,512	**94,876**	**-**	**-**	**-**	**-**	**3,584,388**
Derivative financial instruments							
Foreign exchange contracts							
- Inflow	-	311,313	69,944	-	-	-	**381,257**
- Outflow	-	(308,854)	(69,650)	-	-	-	**(378,504)**
	-	**2,459**	**294**	**-**	**-**	**-**	**2,753**

NOTES TO THE FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018
(With comparative figures and notes as at and for the year ended 31 December 2017)

	No specific maturity	Up to 1 month	1-3 months	3-12 months	1-5 years	> 5 years	Total
31 December 2017	**B$'000**	**B$'000**	**B$'000**	**B$'000**	**B$'000**	**B$'000**	**B$'000**
Financial assets							
Cash and cash equivalents	1,942,233	20,987	435,519	-	-	-	**2,398,739**
Deposit with financial institutions	19,631	-	-	-	-	-	**19,631**
Debt securities	-	-	-	66,874	634,666	430,025	**1,131,565**
Government treasury bills	-	-	-	940,997	-	-	**940,997**
Equity securities	53,520	-	-	-	-	-	**53,520**
Assets held with IMF	486,383	-	-	-	-	-	**486,383**
Other assets	11,557	-	-	-	-	-	**11,557**
	2,513,324	**20,987**	**435,519**	**1,007,871**	**634,666**	**430,025**	**5,042,392**
Financial liabilities							
Currency in Circulation	1,263,048	-	-	-	-	-	**1,263,048**
Deposits and balances of banks and other financial institutions	98,995	2,301,368	-	-	-	-	**2,400,363**
Deposit and balances by international institutions	22,716						**22,716**
Payables to the Government of Brunei Darussalam	99,411	-	-	-	-	-	**99,411**
Liabilities with IMF	388,111	-	-	-	-	-	**388,111**
Other liabilities	8,054	-	-	-	-	-	**8,054**
	1,880,335	**2,301,368**	**-**	**-**	**-**	**-**	**4,181,703**
Derivative instruments							
Foreign exchange contracts							
- Inflow	-	370,806	32,488	-	-	-	**403,294**
- Outflow	-	(365,423)	(32,300)	-	-	-	**(397,723)**
	-	**5,383**	**188**	**-**	**-**	**-**	**5,571**

27. Reclassification

The Authority reclassified the net gains on gold revaluation in the statement of comprehensive income in the prior year to conform to the current year's presentation. The net gains on gold revaluation in 2017 have been reclassified under other comprehensive income from the prior year's presentation under profit or loss. This has no effect on amounts reported for total comprehensive income, assets and equity in the prior year; thus, a third statement of financial position is no longer presented.

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AMBD Currency Gallery and Gift Shop opening hours:

Monday - Thursday	0830 - 1130 1330 - 1530
Friday	0830 - 1100 1500 - 1600
Weekends and public holidays	Closed

Coin deposit machine opening hours:

Monday - Thursday	0830 - 1100 1400 - 1600
Friday	0830 - 1000
Weekends and public holidays	Closed