

**Bank Islam Brunei Darussalam Berhad
and its Subsidiaries**

Financial Statements
Year ended 31 December 2017

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Directors' report

The directors have pleasure in presenting this report together with the audited financial statements of Bank Islam Brunei Darussalam Berhad ("the Bank") and its subsidiaries ("the Group") for the financial year ended 31 December 2017.

Principal activities

The Bank is principally engaged in the provision of Islamic banking business as allowed under the Islamic Banking Order, 2008 and Shariah principles.

The subsidiaries are principally engaged in the provision of investment banking, Islamic hire-purchase, stockbroking, asset and fund management, leasing and management services.

There were no significant changes in these activities during the financial year.

Results

	Group BS'000	Bank BS'000
Profit for the year	116,182	169,818
Attributable to:		
Equity holders of the Bank	110,582	169,818
Non-controlling interest	5,600	–
	<u>116,182</u>	<u>169,818</u>

Dividends

The amount of dividends paid by the Bank since 31 December 2016 are as follows:

	BS'000
In respect of the financial year ended 31 December 2016:	
Final dividend of 14.7 cents per ordinary share paid on 13 July 2017	106,538
In respect of the financial year ended 31 December 2017:	
Interim dividend of 12.4974 cents per ordinary share paid on 30 August 2017	90,575

At the forthcoming Annual General Meeting, a final dividend in respect of financial year ended 31 December 2017 of 5.075 cents on 724,749,512 number of ordinary shares, amounting to B\$36,781,038 will be proposed.

Directors

The names of directors of the Bank at the date of this report are:

Dato Seri Paduka Dr Awang Haji Mohd (Chairman, appointed on 30 January 2018)
Amin Liew bin Abdullah

Dato Seri Setia Awang Haji Bahrin bin (retired on 30 January 2018)
Abdullah

Dato Paduka Iqbal Ahmad Khan

Junaidi bin Hj Masri

Dr Jan Hendrik van Greuning

Mubashar Khokhar

Majeed Nasser Alsubeaei

Dr Abdul Manaf bin Haji Metussin

Mozart bin Haji Brahim (Alternate Director to Junaidi bin Hj Masri)

Directors' benefits

Neither at the end of the financial year, nor at any time during that year, did there exist any arrangements to which the Bank was a party, whereby the directors might acquire benefits by means of acquisition of shares in the Bank or any other corporate body.

Since the end of the previous financial year, no director has received or become entitled to receive a benefit (other than benefit included in the aggregate amount of emoluments received or due receivable by directors, or the fixed salary of a full time employee of the Bank as disclosed in Note 36 of the financial statements) by reason of a contract made by the Bank or a related corporation with any director, or with a firm of which he is a member, or with a company in which he has a substantial financial interest.

Directors' interests

The following directors who held office at the end of the financial year had, according to the register required to be kept under Section 95, of the Companies Act, Chapter 39, an interest in shares of the Bank, as stated below:

Name of directors	Number of ordinary shares of B\$1/B\$0.70 each	
	At beginning of the year	At end of the year
Dato Seri Setia Awang Haji Bahrin bin Abdullah	4,441	4,441
Dato Paduka Iqbal Ahmad Khan	1	1
Junaidi bin Hj Masri	1	1
Mubashar Khokhar	1	1

Other than as disclosed, none of the directors in office at the end of the financial year had any interest in shares and in options in the Bank or its related corporations during the financial year.

Signed on behalf of the Board in accordance with a resolution of the directors dated 23 March 2018



Dato Seri Paduka Dr Awang Haji Mohd Amin Liew bin Abdullah
Chairman



Mubashar Khokhar
Managing Director



Junaidi bin Hj Masri
Director

Brunei Darussalam

Statement by Directors

In the opinion of the Directors, the financial statements set out on pages FS1 to FS117 are drawn up in accordance with International Financial Reporting Standards ("IFRS"), and the provisions of the Islamic Banking Order, 2008 so as to give a true and fair view of the financial position of the Group and the Bank as of 31 December 2017 and the financial performance, changes in equity and cash flows of the Group and the Bank for the financial year ended 31 December 2017.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors dated 23 March 2018:

Dato Seri Paduka Dr Awang Haji Mohd Amin Liew bin Abdullah
Chairman

Mubashar Khokhar
Managing Director

Junaidi bin Hj Masri
Director

Brunei Darussalam

Shariah Advisory Body Report

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

الحمد لله رب العالمين والصلاة والسلام على سيدنا محمد وعلى آله وصحبه أجمعين

To the Shareholders of Bank Islam Brunei Darussalam Berhad,

السلام عليكم ورحمة الله وبركاته

To fulfil the terms of our appointment and in our capacity as members of Bank Islam Brunei Darussalam Berhad's Shariah Advisory Body, we are pleased to report as follows:

- a) We have reviewed the principles outlined in the contracts that relate to the transactions as well as the applications of these principles in the products and services introduced by Bank Islam Brunei Darussalam Berhad ("Bank") and its Group of Companies ("Group") during the financial year ended 31 December 2017 to ensure conformity with the rules and principles of Shariah.
- b) In ensuring the Bank has complied with the Shariah rules and principles and rulings issued by us, we have also performed oversight role through the Shariah review and Shariah audit functions carried out by the Shariah Department.
- c) We have assessed the work carried out by Shariah Department and its effectiveness to implement the Shariah Governance Framework which included pre and post Shariah review and examination, on a test basis towards the business transaction, the relevant documentations and procedures adopted and/or entered into by the Bank.
- d) The Bank's management is responsible for ensuring that the Bank conducts its business in accordance with Shariah rules and principles. It is our responsibility to present an independent opinion base on our review of the Bank's business operations and to subsequently report to you.
- e) We obtained all information and explanations which we consider necessary in order to provide us with sufficient evidence to give reasonable assurance that the Bank has not violated the Shariah rules and principles in all transaction that had been presented to us.

On that note, we, the Shariah Advisory Body of Bank Islam Brunei Darussalam Berhad, are of the opinion and hereby confirm that:

- a. The products and services, contracts and dealings transactions entered into by the Bank and the Group during the financial period ending 31 December 2017 that we have reviewed are in compliance with Shariah rules and principles;
- b. In fulfilling the Shariah compliancy, all tainted earnings that have been realised from sources or manner which have not fulfil the Shariah requirement have been separated and considered for disposal to charitable causes; and
- c. The zakat of the Bank and the Group's business is in accordance with the calculation methodology approved by this Body.

This opinion is rendered based on what has been presented by the management of the Bank to us.

We pray to Allah *Subhanahu Wa Ta'ala* to assist everyone to act in accordance with the rulings of Islamic banking and to keep away from carrying out any transactions that are prohibited by Allah *Subhanahu Wa Ta'ala*. May Allah *Subhanahu Wa Ta'ala* bless us with the best *taufik* and *hidayah* to accomplish these cherished tasks, make us successful and forgive us in this world and in the hereafter.

والله ولي التوفيق

Signed on behalf of the Shariah Advisory Body in accordance with a resolution of the members,



**Dato Seri Setia Awang Haji Abdul Aziz bin
Orang Kaya Maharaja Lela Haji Yussof**
Chairman

Brunei Darussalam
23 March 2018



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Independent auditors' report

Members of Bank Islam Brunei Darussalam Berhad and its subsidiaries

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Bank Islam Brunei Darussalam Berhad (the "Bank") and its subsidiaries (the "Group"), which comprise the statements of financial position of the Group and the Bank as at 31 December 2017, the income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group and the Bank for the year then ended, and notes to the financial statements, including a summary of significant accounting policies as set out on pages FS1 to FS117.

In our opinion, the accompanying financial statements of the Group and the Bank are properly drawn up in accordance with the provisions of the Brunei Darussalam Companies Act, Cap. 39 (the "Act") and International Financial Reporting Standards ("IFRS"), so as to give a true and fair view of the financial position of the Group and of the Bank as at 31 December 2017 and the financial performance, changes in equity and cash flows of the Group and of the Bank for the year ended on that date.

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 '*Auditors' responsibilities for the audit of the financial statements*' section of our report. We are independent of the Group and the Bank 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

Management and directors are responsible for the other information. The other information comprises *Directors' Report, Statement by Directors and Shariah Advisory Body Report* but does not include the financial statements and our auditors' report thereon, which we obtained prior to the date of this auditors' report, and the *Vision and Mission, Management Insights, About Us, Business Review, Milestone, Corporate Activities, Achievements and Awards*, ("*the Reports*") which are expected to be made available to us after that date.

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 above 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 that we obtained prior to the date of this auditors' 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.

When we read the Reports, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and take appropriate actions in accordance with ISAs.

Responsibilities of management and directors for the financial statements

Management and directors are responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act and IFRS and for such internal control as the management and directors determine is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the management and directors are responsible for assessing the Group's and the Bank'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 the management and directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Directors' responsibilities include overseeing the Group's and the Bank's financial reporting process.

Auditors' 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 auditors' 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.



As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism 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 controls.
- Obtain an understanding of internal controls 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 Group's and the Bank's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management and directors.
- Conclude on the appropriateness of management and directors' 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 Group's and the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Group and the Bank 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group and the Bank to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group and the Bank audit. We remain solely responsible for our audit opinion.

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



We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Report on other legal and regulatory requirements

We formed our audit opinion on the statement of financial position of the Bank based on the information and explanations given to us and as shown by the books of the Bank. We have obtained all the information and explanations that we required.

KPMG LLP

*Singapore Public Accountant and
Singapore Chartered Accountants*

David Jason Waller

Brunei Darussalam Public Accountant

Singapore

23 March 2018

Income Statements
Year ended 31 December 2017

		Group		Bank	
	Note	2017	2016	2017	2016
		B\$'000	B\$'000	B\$'000	B\$'000
Profit from financing, leasing and investments	3	300,392	283,099	252,582	233,967
Profit paid/payable to depositors	4	(42,582)	(39,064)	(39,534)	(35,813)
Net profit margin		257,810	244,035	213,048	198,154
Fee and commission income	6	33,360	29,869	32,112	29,116
Fee and commission expense	6	(5,457)	(4,433)	(5,457)	(4,433)
Net fee and commission income		27,903	25,436	26,655	24,683
Gain/(Loss) from derivatives and investments	5	282,551	(141,899)	282,551	(142,933)
Net foreign exchange (loss)/gain	5	(287,894)	158,976	(287,894)	158,976
Other operating income	7	51,151	44,452	113,659	68,677
Total income		331,521	331,000	348,019	307,557
Less:					
Personnel expenses	8	(70,745)	(66,485)	(59,677)	(54,310)
Other expenses	9	(74,370)	(62,671)	(56,791)	(47,302)
Total operating expenses		(145,115)	(129,156)	(116,468)	(101,612)
Operating profit before allowances		186,406	201,844	231,551	205,945
Less:					
Allowance for impairment on financing and advances, net	10	(38,222)	(23,850)	(36,374)	(22,527)
Allowance for impairment on receivables		(1,864)	(1,230)	(739)	(1,230)
Allowance for impairment on investments, net	11	(1,964)	(40,017)	(1,964)	(40,017)
Allowance for investment in subsidiary, net		–	–	(1,715)	–
Operating profit		144,356	136,747	190,759	142,171
Share of profit of associate	25	2,073	722	–	–
Profit before zakat and tax		146,429	137,469	190,759	142,171
Less:					
Zakat	12	(2,692)	(3,349)	(2,692)	(3,349)
Income tax expense	13	(27,555)	(29,904)	(18,249)	(16,765)
Total zakat and income tax expense		(30,247)	(33,253)	(20,941)	(20,114)
Profit for the year		116,182	104,216	169,818	122,057
Profit for the year attributable to:					
Equity holders of the Bank		110,582	101,899	169,818	122,057
Non-controlling interests		5,600	2,317	–	–
Profit for the year		116,182	104,216	169,818	122,057
Earnings per share					
Basic earnings per share (dollars)	15	0.15	0.14		
Diluted earnings per share (dollars)	15	0.15	0.14		

The accompanying notes form an integral part of these financial statements.

**Statements of Comprehensive Income
Year ended 31 December 2017**

	Group		Bank	
	2017	2016	2017	2016
	B\$'000	B\$'000	B\$'000	B\$'000
Profit for the year	116,182	104,216	169,818	122,057
Other comprehensive income:				
<i>Items that are or may be reclassified to profit or loss</i>				
Fair value reserve (available-for-sale financial assets):				
- Net change in fair value	804	(155)	803	(173)
- Net amount transferred to profit or loss	437	18,472	594	18,472
Share of other comprehensive income of associate	893	(38)	—	—
Tax on other comprehensive income	(258)	(3,388)	(258)	(3,388)
Other comprehensive income for the year, net of tax	1,876	14,891	1,139	14,911
Total comprehensive income for the year	118,058	119,107	170,957	136,968
Attributable to:				
Equity holders of the Bank	112,458	116,790	170,957	136,968
Non-controlling interests	5,600	2,317	—	—
Total comprehensive income for the year	118,058	119,107	170,957	136,968

The accompanying notes form an integral part of these financial statements.

**Statements of Financial Position
As at 31 December 2017**

		Group		Bank	
	Note	2017	2016	2017	2016
		B\$'000	B\$'000	B\$'000	B\$'000
Assets					
Cash and cash equivalents	16	2,419,360	2,113,791	2,610,380	2,294,667
Balances with Autoriti Monetari					
Brunei Darussalam	17	456,933	463,382	419,913	430,531
Placements with and financing					
and advances to banks	18	1,974,964	2,588,964	2,150,964	2,662,314
Government sukuks	19	16,198	26,715	16,198	26,715
Investments	20	1,179,002	804,651	1,179,002	799,447
Derivative financial assets	21	40,865	17,971	40,865	17,971
Financing and advances	22	3,231,905	3,186,405	2,639,100	2,602,613
Finance lease receivables	23	12,587	12,556	12,587	12,556
Investments in subsidiaries	24	—	—	39,804	40,826
Investment in associate	25	17,388	14,513	7,080	7,080
Other assets	26	41,786	39,344	31,712	46,084
Property and equipment	27	174,470	178,337	50,392	47,955
Investment property	28	25,887	27,434	25,887	27,434
Deferred tax assets	29	—	8,557	6,038	17,288
Total assets		9,591,345	9,482,620	9,229,922	9,033,481
Liabilities and equity					
Deposits from customers	30	7,526,368	7,214,644	7,434,748	7,114,615
Deposits from banks and other					
financial institutions	31	521,433	510,272	394,108	363,939
Placements from other financial					
institutions	18	240,716	57,872	240,716	57,872
Derivative financial liabilities	21	15,860	110,620	15,860	110,620
Other liabilities	32	115,400	102,711	99,808	82,413
Zakat	33	2,831	4,037	2,831	4,037
Provision for taxation	33	54,783	68,580	38,150	52,703
Deferred tax liabilities	29	3,371	—	—	—
Total liabilities		8,480,762	8,068,736	8,226,221	7,786,199
Equity					
Share capital	34	507,325	724,750	507,325	724,750
Statutory reserves fund	35	497,499	453,044	458,495	416,040
Other reserves	35	84,583	213,711	37,881	106,492
Total equity attributable to					
 equity holders of the Bank		1,089,407	1,391,505	1,003,701	1,247,282
Non-controlling interests		21,176	22,379	—	—
Total equity		1,110,583	1,413,884	1,003,701	1,247,282
Total liabilities and equity		9,591,345	9,482,620	9,229,922	9,033,481

The accompanying notes form an integral part of these financial statements.

Certification

I certify that the above financial statements give a true and fair view of the financial position as at 31 December 2017 and the financial performance for the year ended 31 December 2017.



Mubashar Khokhar
Managing Director

The financial statements were approved by the Board of Directors and signed for and on its behalf of the Board.



Dato Seri Paduka Dr Awang Haji Mohd Amin Liew bin Abdullah
Chairman



Mubashar Khokhar
Managing Director



Junaidi bin Hj Masri
Director

Brunei Darussalam
23 March 2018

**Consolidated Statement of Changes in Equity
Year ended 31 December 2017**

Group	Note	-----Attributable to equity holders of the Bank-----								
		-----Other reserves-----								
		Share capital B\$'000	Treasury Shares B\$'000	Statutory reserve B\$'000	Fair value reserve B\$'000	Translation Reserve B\$'000	Retained profits B\$'000	Total shareholders' funds B\$'000	Non- controlling interests B\$'000	Total equity B\$'000
At 1 January 2017		724,750	—	453,044	530	—	213,181	1,391,505	22,379	1,413,884
Profit for the year		—	—	—	—	—	110,582	110,582	5,600	116,182
Other comprehensive income		—	—	—	1,876	—	—	1,876	—	1,876
Total comprehensive income for the year		—	—	—	1,876	—	110,582	112,458	5,600	118,058
Transfers to statutory reserve	35	—	—	44,455	—	—	(44,455)	—	—	—
Foreign currency movement		—	—	—	—	(18)	—	(18)	—	(18)
Transactions with owners of the Bank										
Contributions and distributions										
Reduction in share capital		(217,425)	—	—	—	—	—	(217,425)	—	(217,425)
Dividends paid on ordinary shares	14	—	—	—	—	—	(197,113)	(197,113)	(1,000)	(198,113)
Redemptions by non-controlling interest		—	—	—	—	—	—	—	(5,803)	(5,803)
Total contributions and distributions		(217,425)	—	—	—	—	(197,113)	(414,538)	(6,803)	(421,341)
At 31 December 2017		507,325	—	497,499	2,406	(18)	82,195	1,089,407	21,176	1,110,583

The accompanying notes form an integral part of these financial statements.

Consolidated Statement of Changes in Equity (Cont'd)

Group	Note	-----Attributable to equity holders of the Bank-----								
		-----Other reserves-----								
		Share capital B\$'000	Treasury shares B\$'000	Statutory reserve B\$'000	Fair value reserve B\$'000	Translation Reserve B\$'000	Retained profits B\$'000	Total shareholders' funds B\$'000	Non- controlling interests B\$'000	Total equity B\$'000
At 1 January 2016		724,750	(3)	420,531	(14,361)	–	196,702	1,327,619	26,425	1,354,044
Profit for the year		–	–	–	–	–	101,899	101,899	2,317	104,216
Other comprehensive income		–	–	–	14,891	–	–	14,891	–	14,891
Total comprehensive income for the year		–	–	–	14,891	–	101,899	116,790	2,317	119,107
Transfers to statutory reserve	35	–	–	32,513	–	–	(32,513)	–	–	–
Transactions with owners of the Bank										
Contributions and distributions										
Dividends paid on ordinary shares	14	–	–	–	–	–	(52,907)	(52,907)	–	(52,907)
Redemptions by non-controlling interest		–	3	–	–	–	–	3	(6,363)	(6,360)
Total contributions and distributions		–	3	–	–	–	(52,907)	(52,904)	(6,363)	(59,267)
At 31 December 2016		724,750	–	453,044	530	–	213,181	1,391,505	22,379	1,413,884

The accompanying notes form an integral part of these financial statements.

**Statement of Changes in Equity
Year ended 31 December 2017**

Bank	Note	-----Other reserves-----				Total B\$'000
		Share capital B\$'000	Statutory reserve B\$'000	Fair value reserve B\$'000	Retained profits B\$'000	
At 1 January 2017		724,750	416,040	(762)	107,254	1,247,282
Profit for the year		–	–	–	169,818	169,818
Other comprehensive income		–	–	1,139	–	1,139
Total comprehensive income for the year		–	–	1,139	169,818	170,957
Transfer to statutory reserve	35	–	42,455	–	(42,455)	–
Transactions with owners of the Bank						
Contributions and distributions						
Reduction in share capital		(217,425)	–	–	–	(217,425)
Dividends paid on ordinary shares	14	–	–	–	(197,113)	(197,113)
Total contributions and distributions		(217,425)	–	–	(197,113)	(414,538)
At 31 December 2017		507,325	458,495	377	37,504	1,003,701

The accompanying notes form an integral part of these financial statements.

Statement of Changes in Equity (Cont'd)

Bank	Note	Share capital B\$'000	Statutory reserve B\$'000	-----Other reserves-----		Total B\$'000
				Fair value reserve B\$'000	Retained profits B\$'000	
At 1 January 2016		724,750	385,526	(15,673)	68,618	1,163,221
Profit for the year		—	—	—	122,057	122,057
Other comprehensive income		—	—	14,911	—	14,911
Total comprehensive income for the year		—	—	14,911	122,057	136,968
Transfer to statutory reserve	35	—	30,514	—	(30,514)	—
Transactions with owners of the Bank						
Contributions and distributions						
Dividends paid on ordinary shares	14	—	—	—	(52,907)	(52,907)
Total contributions and distributions		—	—	—	(52,907)	(52,907)
At 31 December 2016		724,750	416,040	(762)	107,254	1,247,282

The accompanying notes form an integral part of these financial statements.

**Statements of Cash Flows
Year ended 31 December 2017**

	Group		Bank	
	2017	2016	2017	2016
	B\$'000	B\$'000	B\$'000	B\$'000
Cash flows from operating activities				
Profit before zakat and tax	146,429	137,469	190,759	142,171
Adjustments for:				
Dividend income from subsidiaries	–	–	(98,328)	(56,091)
Allowance for impairment on financing and advances	38,222	23,850	36,374	22,527
Allowance for impairment on receivables	1,864	1,230	739	1,230
Change in fair value of derivatives and investments	5,785	(16,977)	5,708	(15,647)
Depreciation of property and equipment and investment property	20,067	22,478	13,363	14,966
Allowance for impairment of investments, net	1,964	40,017	1,964	40,017
Allowance for impairment on investment in subsidiary, net	–	–	1,715	–
Gain on disposal of property and equipment	(138)	–	(138)	–
Loss on write-off of investment property	243	–	243	–
Share of profit of associate	(2,073)	(722)	–	–
	212,363	207,345	152,399	149,173
Changes in:				
Deposits from customers	348,925	1,832,484	357,334	1,856,814
Deposits from banks and other financial institutions	11,161	(34,942)	30,169	(88,774)
Other liabilities	12,423	9,965	17,397	9,991
Balances with Autoriti Monetari Brunei Darussalam	6,449	(80,999)	10,618	(79,790)
Placements with and financing and advances to banks	552,067	(653,972)	449,417	(465,722)
Government sukuks	10,517	(5,964)	10,517	(5,964)
Investments	(413,271)	(197,615)	(418,241)	(205,108)
Placements from other financial institutions	182,844	57,872	182,844	57,872
Financing and advances	(92,188)	184,207	(81,327)	192,616
Other assets	(5,331)	(12,380)	13,602	(4,049)
	825,959	1,306,001	724,729	1,417,059
Zakat paid	(3,898)	(3,117)	(3,899)	(3,117)
Taxes paid	(29,416)	(30,958)	(21,811)	(23,569)
Net cash generated from operating activities	792,645	1,271,926	699,019	1,390,373

The accompanying notes form an integral part of these financial statements.

**Statements of Cash Flows (Cont'd)
Year ended 31 December 2017**

	Group		Bank	
	2017	2016	2017	2016
	B\$'000	B\$'000	B\$'000	B\$'000
Cash flow from investing activities				
Purchase of property and equipment	(14,909)	(14,981)	(14,509)	(14,935)
Purchase of investment property	(12)	(133)	(12)	(133)
Investment in subsidiary	–	–	(693)	(4,144)
Proceeds from disposal of property and equipment	163	–	163	–
Dividend income from subsidiaries	–	–	98,328	56,091
Dividend income from associate	91	–	–	–
Net cash (used in)/from investing activities	(14,667)	(15,114)	83,277	36,879
Cash flow from financing activities				
Dividends paid	(197,113)	(52,907)	(197,113)	(52,907)
Reduction in capital	(217,425)	–	(217,425)	–
Capital redeemed by non-controlling interest	(5,803)	(6,363)	–	–
Net cash used in financing activities	(420,341)	(59,270)	(414,538)	(52,907)
Net change in cash and cash equivalents	357,637	1,197,542	367,758	1,374,345
Cash and cash equivalents at 1 January	2,113,791	888,313	2,294,667	892,387
Effect of exchange rate fluctuations on cash and cash equivalents held	(52,068)	27,936	(52,045)	27,935
Cash and cash equivalents at 31 December	2,419,360	2,113,791	2,610,380	2,294,667

The accompanying notes form an integral part of these financial statements.

Statement pursuant to Section 125 of the Brunei Darussalam Companies Act

The consolidated profit for the financial year ended 31 December 2017 as shown in the consolidated financial statements of the Group includes the share of profit/(loss) from the following subsidiaries, for the financial year ended 31 December 2017:

- (a) BIBD At-Tamwil Bhd
- (b) BIBD Securities Sdn Bhd
- (c) IDBB Sukuk Inc
- (d) BIBD Management & Services Bhd
- (e) IBB Capital Asset Management Sdn Bhd
- (f) Belait Barakah Sdn Bhd
- (g) BIBD Al-Kauthar Funds DCC Incorporated
- (h) BIBD Al-Kauthar Asia-Pacific Fund
- (i) IBB Transport Sdn Bhd
- (j) Saujana Sdn Bhd
- (k) BIBD Global Equity Funds
- (l) BIBD Asia Equity Funds
- (m) Belait CSS Sdn Bhd
- (n) Better Sdn Bhd
- (o) BIBD Middle East Limited

During the year, a provision or impairment of B\$1,715,000 has been made by the Bank for its investments in one of the subsidiaries. The profit/(loss) of the subsidiaries have been taken into account by the directors of the Bank in arriving at the profit of the Group as disclosed in the financial statements.

On behalf of the Board of Directors



Dato Seri Paduka Dr Awang Haji Mohd Amin Liew bin Abdullah
Chairman



Mubashar Khokhar
Managing Director



Junaidi bin Hj Masri
Director

Brunei Darussalam
23 March 2018

The accompanying notes form an integral part of these financial statements.

Notes to the financial statements

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

1 Principal activities and general information

Bank Islam Brunei Darussalam Berhad (“the Bank”) is incorporated and domiciled in Negara Brunei Darussalam and the registered office of the Bank is Bangunan BIBD, Lot 159, Jalan Pemancha, Bandar Seri Begawan BS8711, Negara Brunei Darussalam.

The Bank is principally engaged in the provision of Islamic banking business in accordance with Shariah principles as allowed under the Islamic Banking Order, 2008.

The subsidiaries are principally engaged in the provision of Islamic hire-purchase, stockbroking, asset and fund management, leasing and management services. There were no significant changes in these activities during the financial year.

The consolidated financial statements of the Bank and its subsidiaries (together referred to as “the Group” and individually as “Group entities”) as at and for the year ended 31 December 2017 comprise the results and financial positions of the Bank and its subsidiaries.

2 Summary of significant accounting policies

2.1 Basis of preparation

(a) Statement of compliance

The financial statements of the Group and of the Bank have been prepared in accordance with the International Financial Reporting Standards (“IFRS”).

The Group and Bank adopted revised IFRS and interpretations which became effective during the year. The initial adoption of these standards and interpretations did not have a significant impact on the Group and the Bank.

The accounting policies and methods of computation have been applied consistently to all periods presented in these financial statements.

Standards and interpretations issued but not yet effective

The following accounting standards, amendments and interpretations have been issued by the International Accounting Standards Board (“IASB”) but are not yet effective for the Group and the Bank. The Group and Bank intend to adopt these standards and interpretations, if applicable, when they become effective.

Summary of quantitative impact

The following provides an estimate of the expected impacts on initial application of IFRS 9 on the Group's and the Bank's financial position as at 31 December 2017 and 1 January 2018.

(i) IFRS 9 *Financial Instruments*

IFRS 9 introduces new requirements for the classification and measurement of financial instruments, methods of measuring impairment based on the expected credit loss model, and introduces new requirements for hedge accounting. The IFRS 9 requirements represent a significant change from the existing requirements in IAS 39 in respect of financial assets. The standard contains two primary measurement categories for financial assets: amortised cost and fair value. A financial asset would be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. The standard eliminates the existing IAS 39 categories of held-to-maturity, available-for-sale and loans and receivables. For an investment in an equity instrument that is not held for trading, the standard permits an irrevocable election, on initial recognition, on an individual investment-by-investment basis, to present all fair value changes from the investment in Other Comprehensive Income ("OCI"). No amount recognised in OCI would ever be reclassified to profit or loss at a later date. However, dividends on such investments would be recognised in profit or loss, rather than OCI, unless they clearly represent a partial recovery of the cost of the investment. Investments in equity instruments in respect of which an entity does not elect to present fair value changes in OCI would be measured at fair value with changes in fair value recognised in profit or loss.

The standard requires derivatives embedded in contracts with a host that is a financial asset in the scope of the standard not to be separated; instead, the hybrid financial instrument is assessed in its entirety for whether it should be measured at amortised cost or fair value.

IFRS 9 introduces a new requirement in respect of financial liabilities designated under the fair value option to generally present fair value changes that are attributable to the liability's credit risk in OCI rather than in profit or loss. Apart from this change, IFRS 9 largely carries forward without substantive amendment the guidance on classification and measurement of financial liabilities from IAS 39.

IFRS 9 also introduces a new impairment model that replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. Under the 'expected credit loss' model, a loss event will no longer need to occur before an impairment allowance is recognised.

The IFRS 9 'expected credit loss' model uses a dual measurement approach. If the credit risk of a financial asset has not increased significantly since its initial recognition, the financial asset will attract a loss allowance equal to 12-month expected credit losses. If its credit risk has increased significantly, it will attract an allowance equal to lifetime expected credit losses, thereby increasing the amount of impairment recognised.

IFRS 9 introduces new requirements for hedge accounting that align hedge accounting more closely with risk management. The requirements also establish a more principles-based approach to hedge accounting and address inconsistencies and weaknesses in the hedge accounting model in IAS 39.

The Group has performed a quantitative impact assessment (“QIA”) on the likely effect of IFRS 9 to the Bank and the Group. The QIA for IFRS 9 resulted in an overall increase in loss allowance when compared with the existing basis of measurement under IAS 39 as at 31 December 2017 of approximately BND18 million to BND23 million for the Group and BND15 million to BND20 million for the Bank.

(ii) IFRS 15 *Revenue from Contracts with Customers*

The IASB issued IFRS 15 *Revenue recognition for contracts with customers* to replace IAS 18 *Revenue*, IAS 11 *Construction Contracts*, IFRIC 13 *Customer loyalty programmes* and related interpretations. The core principle of the new standard is for companies to recognise revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively and improve guidance for multiple-element arrangements.

The Group expects the key changes to impact customer loyalty programme. The Group currently allocates a portion of the fair value of the revenue consideration under its customer loyalty programme for its credit and debit cards. Under IFRS15, the loyalty credits give rise to a separate performance obligation as the loyalty credits provide a material right to the customer.

The mandatory effective date of IFRS 15 is 1 January 2018, with earlier application permitted. BIBD has not early adopted IFRS 15 and will implement the new requirements in 2018.

The Group does not expect significant impact on adoption of IFRS15.

(iii) IFRS 16 *Leases*

IFRS 16 was issued in January 2016 and specifies the recognition, measurement, presentation and disclosure of leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases, in the form of a right-of-use on the leased asset presented under fixed assets, along with the recognition of a financial liability for the rent and other payments to be made over the leasing periods. The right-of-use assets will be amortised on a straight-line basis and the financial liabilities will be amortised on an effective yield-rate method over the lease period. Lessors continue to classify leases as operating or finance, with IFRS 16’s approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

IFRS 16 applies with effect from 1 January 2019.

The Group is in the process of evaluating the potential effect of this standard.

(iv) Amendments and improvements

IASB also introduces the following improvements and amendments:

IFRS	Effective for annual period beginning or after
Amendments to IAS 28 – <i>Measuring associate or joint venture at fair value</i>	1 January 2018
Amendments to IAS 40 – <i>Transfers of investment property</i>	1 January 2018
Amendments to IFRS 1 – <i>Annual improvements 2014-2016 Cycle</i>	1 January 2018
Amendments to IFRS 2 – <i>Clarify the classification and measurement of share-based payment transactions</i>	1 January 2018
IFRIC 22 – <i>Foreign currency transactions and advance consideration</i>	1 January 2018
IFRS 17 – <i>Insurance contracts</i>	1 January 2021
Amendments to IFRS 10 – <i>Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures – Sale or contribution of assets between an investor and its associate or joint venture</i>	To be determined

The Group is in the process of evaluating the potential effect of the adoption of IFRS17. For those standards effective 1 January 2018, the Group does not expect significant impact on adoption.

(b) Basis measurement

The financial statements have been prepared under the historical cost convention except for derivative financial instruments, financial assets at fair value through profit or loss and financial assets available-for-sale, which have been measured at fair value.

(c) Functional and presentation currency

The financial statements are presented in Brunei dollars (B\$), which is the Bank's functional currency and all values are rounded to the nearest thousand (B\$'000), unless otherwise stated.

(d) Use of estimates and judgements

The preparation of the financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in Note 2.9 – Impairment.

2.2 Basis of consolidation

Business combinations

Business combinations are accounted for using the acquisition method from the acquisition date, which is the date on which control is transferred to the Group.

For new acquisitions, the Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interest in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

For each business combination, the Group elects whether it measures the non-controlling interests in the acquiree either at fair value or at proportionate share of the acquiree's identifiable net assets at the acquisition date.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Acquisition of non-controlling interest

The Group treats all changes in its ownership interest in subsidiary that do not result in loss of control as equity transactions between Group and its non-controlling interest holders. Any difference between Group's share of net assets before and after the change, and any consideration received or paid, is recognised in Group reserves.

Subsidiaries

Subsidiaries are entities controlled by the Bank. The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Control exists when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Potential voting rights are considered when assessing control only when such rights are substantive.

The Group considers it has de facto power over an investee when, despite not having the majority of voting rights, it has the current ability to direct the activities of the investee that significantly affect the investee's return.

Investments in subsidiaries are stated in the Bank's statement of financial position at cost less impairment losses, if any. Where there is indication of impairment, the carrying amount of the investment is assessed. A write down is made if the carrying amount exceeds its recoverable amount.

Loss of control

Upon the loss of control of a subsidiary, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the former subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as a financial asset available-for-sale depending on the level of influence retained.

Associate

An associate is an entity in which the Group has significant influence but not control. Significant influence is the power to participate in the financial and operating policy decisions of the associate but not the power to exercise control over the policies.

Investment in associate is accounted for in the Group's consolidated financial statements using the equity method less any impairment losses. The cost of the investment includes transaction costs. The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of the associate, after adjustments if any, to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

When the Group's share of losses exceeds its interest in the associate, the carrying amount of that interest including any long-term investments is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the associate.

When the Group ceases to have significant influence over an associate, any retained interest in the former associate at the date when significant influence is lost is measured at fair value and this amount is regarded as the initial carrying amount of a financial asset. The difference between the fair value of any retained interest plus proceeds from the interest disposed of and the carrying amount of the investment at the date when equity method is discontinued is recognised in the profit or loss.

When the Group's interest in an associate decreases but does not result in a loss of significant influence, any retained interest is not re-measured. Any gain or loss arising from the decrease in interest is recognised in profit or loss. Any gains or losses previously recognised in other comprehensive income are also reclassified proportionately to profit or loss if that gain or loss would be required to be reclassified to profit or loss on the disposal of the related assets or liabilities.

In the Bank's separate financial statements, the investment in associate is stated at cost less impairment losses, if any. The cost of the investment includes transaction costs.

Non-controlling interests

Non-controlling interests at the end of the reporting period, being the equity in a subsidiary not attributable directly or indirectly to the equity holders of the Bank, are presented in the consolidated statement of financial position and statement of changes in equity within equity, separately from equity attributable to the equity holders of the Bank. Non-controlling interest in the results of the Group is presented in the consolidated profit or loss and other comprehensive income as an allocation of the profit or loss and the comprehensive income for the year between non-controlling interests and equity holders of the Bank.

Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

Transactions eliminated on consolidation

In preparing the consolidated financial statements, intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions are eliminated.

Unrealised gains arising from transactions with associates are eliminated against the investment to the extent of the Group's interest in the associate. Unrealised losses are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

2.3 Foreign currency

Foreign currency transactions and balances

In preparing the financial statements of the individual entities, transactions in foreign currencies are translated into the respective entity's functional currency at the exchange rate prevailing at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the year, adjusted for effective yield and payments during the year, and the amortised cost in the foreign currency translated at the spot exchange rate at the end of the year.

Non-monetary assets and liabilities denominated in foreign currencies are not retranslated at the reporting date, except for those that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments which are recognised in other comprehensive income.

2.4 Cash and cash equivalents

Cash and cash equivalents include cash on hand, balances with banks and other financial institutions and money-at-call and short notice and interbank placements with original maturities not exceeding three months.

2.5 Financial instruments

Recognition

A financial asset or a financial liability is recognised in the statement of financial position when, and only when, the Group or the Bank becomes a party to the contractual provisions of the instrument.

A financial instrument is recognised initially, at its fair value plus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial instrument.

The Group and the Bank categorises its financial instruments as follows:

Financial assets

(a) Financing and receivables

Financing and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

These financial assets are subsequently measured at amortised cost using the effective profit rate method, less any impairment loss.

(b) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are either:

(i) Held-for-trading

Financial assets acquired or incurred principally for the purpose of selling or repurchasing them in the near term or they are part of a portfolio that is managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or

(ii) Designated under fair value option

Financial assets meet at least one of the following criteria upon designation:

- it eliminates or significantly reduces measurement or recognition inconsistencies that would otherwise arise from measuring financial assets, or recognising gains or losses on them, using different bases;

- a group of financial assets is managed and its performance is evaluated on a fair value basis in accordance with the entity's documented risk management or investment strategy and information is provided to key management personnel on this basis; or
- the financial asset contains an embedded derivative that would otherwise need to be separately recorded.

These financial assets are subsequently measured at their fair values and any gain or loss arising from a change in the fair value will be recognised in profit or loss.

(c) Financial assets held-to-maturity

Financial assets held-to-maturity are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity. These financial assets are subsequently measured at amortised cost using effective profit rate method, less any impairment loss.

Any sale or reclassification of more than an insignificant amount of financial assets held-to-maturity not close to their maturity would result in the reclassification of all financial assets held-to-maturity to financial assets available-for-sale and the Group would be prevented from classifying any financial assets as financial assets held-to-maturity for the current and following two financial years. However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- sales or reclassifications that are so close to maturity that changes in the market rate of profit would not have a significant effect on the financial asset's fair value;
- sales or reclassifications after the Group has collected substantially all of the asset's original principal; and
- sales or reclassifications that are attributable to non-recurring isolated events beyond the Group's control that could not have been reasonably anticipated.

(d) Financial assets available-for-sale

Financial assets available-for-sale are financial assets that are either designated in this category or not classified in any other category and are subsequently measured at fair value. They include equity instruments, investment in funds and money market, and debt instruments.

The fair value for quoted investment is derived from market bid prices. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost less any impairment loss.

Any gain or loss arising from a change in the fair value is recognised in the fair value reserve through other comprehensive income except for impairment losses and foreign exchange gains and losses arising from monetary items which are recognised in profit or loss.

On derecognition or disposal, the cumulative gains or losses previously recognised in other comprehensive income are reclassified from equity into profit or loss. Where the Group and the Bank hold more than one investment in the same security they are deemed to be disposed of on a first-in-first-out basis. Profit calculated for a debt instrument using the effective profit method is recognised in profit or loss.

Profit earned whilst holding available-for-sale investments is reported as income. Dividends earned are recognised in profit or loss when the right of the payment is established.

All financial assets, except for those measured at fair value through profit or loss, are subject to review for impairment. See note 2.9 Impairment.

Derivative financial instruments

The Group and the Bank holds derivative financial instruments to economically hedge their foreign currency and profit rate exposures.

Foreign exchange trading positions, including spot and forward contracts, are revalued at prevailing market rates at the reporting date and the resultant gains and losses for the financial year are recognised in profit or loss.

An embedded derivative is recognised separately from the host contract and accounted for as a derivative if, and only if, it is not closely related to the economic characteristics and risks of the host contract and the host contract is not categorised at fair value through profit or loss. The host contract, in the event an embedded derivative is recognised separately, is accounted for in accordance with policy applicable to the nature of the host contract.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost other than those classified as fair value through profit or loss.

Fair value through profit or loss category comprises financial liabilities that are derivatives or financial liabilities that are specifically designated into this category upon initial recognition.

Derivatives that are linked to and must be settled by delivery of equity instruments that do not have quoted price in an active market for identical instruments whose fair value otherwise cannot be reliably measured are measured at cost.

Other financial liabilities categorised as fair value through profit or loss are subsequently measured at their fair values with the gain or loss recognised in profit or loss.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a financing instruments.

Initial fair values of financial guarantee contracts are classified as deferred income and are amortised to profit or loss using a straight-line method over the contractual period or, when there is no specified contractual period, recognised in profit or loss upon discharge of the guarantee. When settlement of a financial guarantee contract becomes probable, an estimate of the obligation is made. If the carrying value of the financial guarantee contract is lower than the obligation, the carrying value is adjusted to the obligation amount and accounted for as a provision.

Fair value measurement

The fair values of financial instruments traded in active markets (such as over-the-counter securities and derivatives) are based on quoted market prices at the reporting date derived from market prices. For unquoted financial instruments, fair value is determined using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models.

Reclassification of financial assets

A non-derivative financial asset held for trading may be reclassified if the financial asset is no longer held for the purpose of selling in the near term. In addition, a financial asset that meets the definition of financing and receivables may be reclassified out of held-for-trading or available-for-sale categories if there is the intention and ability to hold the financial asset for the foreseeable future or until maturity at the date of reclassification.

Reclassifications are made at fair value as of the reclassification date. The fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective profit rates for financial assets reclassified to financing and receivables and held-to maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust the effective profit rate prospectively.

Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial assets expire, or it transfers the right to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of risks and rewards of ownership and it does not retain control of the financial asset. On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in equity is recognised in profit or loss.

A financial liability or a part of it is derecognised when, and only when, the obligation specified in the contract is discharged or cancelled or expires. On derecognition of a financial liability, the difference between the carrying amount of the financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legal enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

2.6 Property and equipment

(a) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset and any other costs directly attributable to bringing the asset to working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. The cost of self-constructed assets also includes the cost of materials and direct labour. For qualifying assets, borrowing costs are capitalised in accordance with the accounting policy on borrowing costs. Cost also may include transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property and equipment.

When significant parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of property and equipment and is recognised net within "other income" and "other expenses" respectively in profit or loss.

(b) Subsequent costs

The cost of replacing a component of an item of property and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Group or the Bank, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised to profit or loss. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

(c) Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed, and if a component has a useful life that is different from the remainder of that asset, then that component is depreciated separately.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property and equipment.

Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group or the Bank will obtain ownership by the end of the lease term. Land is not depreciated. Property and equipment under construction are not depreciated until the assets are ready for their intended use.

The estimated useful lives for the current period are as follows:

- | | |
|-------------------------------------|--|
| • Leasehold improvements | Over the lease term and not more than 10 years |
| • Equipment, furniture and fittings | 3-5 years |
| • Motor vehicles | 7 years |
| • Ship vessel | 25 years |
| • Computer software | 5 years |

Depreciation methods, useful lives and residual values are reassessed at end of the reporting period.

2.7 Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the supply of services or for administrative purposes. The Group holds investment property which has been acquired through the enforcement of security over financing and advances. Investment property is initially measured at cost and subsequently at cost less accumulated depreciation and impairment loss.

The cost of replacing a component of an item of investment property is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Group or the Bank, and its cost can be measured reliably.

Any gain or loss on disposal of an investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

Depreciation on investment property is recognised in profit or loss on a straight-line basis over the lease term and not more than 50 years.

2.8 Leases

Lease payments - Lessee

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of profit on the remaining balance of the balance of the liability.

Lease assets - Lessee

Assets held by the Group and the Bank under leases that transfer to the Group and the Bank substantially all of the risks and rewards of ownership are classified as finance leases. The leased asset is initially measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases are classified as operating leases and are not recognised in the Group's and the Bank's statement of financial position.

Lease assets - Lessor

If the Group or the Bank is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of the asset to the lessee, then the arrangement is classified as a finance lease and a receivable equal to the net investment in the lease is recognised.

2.9 Impairment

Financial assets

The Group and the Bank assess at each reporting date whether there is objective evidence that financing and receivables, held-to-maturity financial assets or available-for-sale financial assets are impaired. A financial asset or a group of financial assets are impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the assets and prior to the reporting date ("a loss event") and that loss event or events has an impact on the estimated future cash flow of the financial asset or the group of financial assets as that can be reliably estimated.

The criteria that the Group and the Bank uses to determine that there is objective evidence of an impairment loss include:

- (i) significant financial difficulty of the issuer or obligor;
- (ii) restructuring of an amount due to the Group and the Bank on terms that the Group and the Bank would not consider otherwise;
- (iii) indications that a debtor or issuer will enter bankruptcy;
- (iv) adverse changes in the payment status of borrowers or issuers in the Group and the Bank;
- (v) economic conditions that correlate with defaults; or
- (vi) the disappearance of an active market for a security.

Financing and advances are classified as impaired when there is objective evidence of impairment. Such objective evidence of impairment can include significant financial difficulty of the borrower, breach of contract or delinquency in profit or principal payments.

For financing and advances, the Group and the Bank first assess whether objective evidence of impairment exists individually for financing and receivables that are individually significant, and collectively for financing and advances that are not individually significant. If the Group and the Bank determine that no objective evidence of impairment exist for an individually assessed financing and advances, whether significant or not, it includes the assets in a group of financing and advances with similar credit risk characteristics and collectively assesses them for impairment. Financing and advances that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in the collective assessment for impairment.

The amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective profit rate. The amount of the loss is recognised using an allowance account and recognised in profit or loss. Where appropriate, the calculation of the present value of estimated future cash flows of a collateralised financing reflects the cash flows that may result from foreclosure less costs of obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financing and advances are grouped on the basis of similar risk characteristics, taking into account the asset type, industry, geographical location, collateral type, past-due status and other relevant factors. These characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the counterparty's ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows for a group of financing and advances that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted based on current observable data to reflect the effects of current conditions that did not affect the period in which the historical loss experience is based and remove the effects of conditions in the historical period that do not currently exist.

When a financing is uncollectible, it is written off against the related allowance for impairment. Such financing is written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to profit or loss.

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 for impairment account. The amount of reversal is recognised in profit or loss.

In the case of available-for-sale equity securities, a significant or prolonged decline in the fair value of the security below its cost is also considered in determining whether impairment exists. Where such evidence exists, the cumulative net loss that has been previously recognised directly in equity is removed from equity and recognised in profit or loss. In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as all other financial assets available-for-sale. Reversals of impairment of debt instruments are recognised in profit or loss. Reversals of impairment of equity shares are not recognised in profit or loss; increases in the fair value of equity shares after impairment are recognised directly in equity.

Non-financial assets

The carrying amount of other assets are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that is largely independent of the cash inflows of other assets or cash-generating units ("CGUs"). Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset is the greater of its value in use and its 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 exceeds its recoverable amount. Impairment losses are recognised in profit or loss.

Impairment losses recognised in prior periods are 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 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. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

2.10 Deposits, financing and other liabilities

Deposits and financing are the Group's sources of funding.

When the Group sells a financial asset and simultaneously enters into an agreement to repurchase the asset (or a similar asset) at a fixed price on a future date (sale and repurchase agreement), the arrangement is accounted for as a deposit, and the underlying asset continues to be recognised in the Group's financial statements.

Deposits and financing are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective profit method.

Other liabilities are stated at cost which is the fair value of the amounts expected to be paid in future for the goods and services received or to transfer the liability.

2.11 Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

2.12 Contingent liabilities

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is not recognised in the statements of financial position and is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

2.13 Contingent assets

A contingent asset is a possible asset that arises from past events whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. The Group does not recognise contingent assets in the financial statements but discloses its existence where inflows of economic benefits are probable, but not virtually certain.

2.14 Share capital

Ordinary shares and the golden share are classified as equity in the statement of financial position. Costs directly attributable to the issuance of new equity shares are taken to equity as a deduction from the proceeds.

2.15 Recognition of income and expense

Profit from financing and leasing and profit paid/payable to depositors

Profit from financing and leasing and profit paid/payable to depositors are recognised in the profit or loss using the effective profit rate method. The effective profit rate is the rate that 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 instruments.

When calculating the effective profit rate, the Group and the Bank have considered the contractual terms of the financial instruments but do not consider future credit losses. The calculation includes all fees and transaction costs integral to the effective profit rate, as well as premium or discounts.

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

Fee and commission

Fee and commission income and expense that are integral to the effective profit rate on a financial asset or financial liability are included in the measurement of the effective profit rate.

Other fee and commission income, including financing arrangements, participation fees, underwriting commissions and brokerage fees are recognised as income earned. Fees from advisory and corporate finance activities are recognised net of service taxes and discounts on completion of each stage of the assignment.

Other fee and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

Profit from placements and investments

Profit from deposit placements and investments are recognised on an effective yield basis.

Dividend income

Dividend income from subsidiaries and other investments are recognised when the Bank's rights to receive payment is established.

2.16 Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination or items recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted by the end of the reporting period, and any adjustment to tax payable in respect of previous financial years.

Provision for taxation is made on the basis of the profit for the year as adjusted for taxation purposes in accordance with the provisions of the Income Tax Act (Chapter 35) and amendments thereto.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

2.17 Zakat

This represents tithes payable by the Group to comply with the principles of Shariah and as approved by the Shariah Advisory Board.

2.18 Employee benefits

Short term employee benefits

Short-term employee benefit obligations in respect of salaries, annual bonuses, paid annual leave and sick leave are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group and the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Defined contribution plan

The Group contributes to the Tabung Amanah Pekerja (“TAP”) and the Supplemental Contributory Pension scheme (“SCP”), both defined contribution plans regulated and managed by the Government of Negara Brunei Darussalam, which applies to the majority of the employees. Obligations for contributions to defined contribution plans are recognised as an employee benefits expense in income statement in the period during which related services are rendered by employees.

The Bank operates an Employee Retirement Fund (“ERF”) with monthly contributions made to the pension fund based on a percentage of the gross emoluments excluding certain allowances. The Bank matches employees’ contributions up to a maximum of 12% (inclusive of TAP contribution) of contribution made by the employee. The contributions to TAP and ERF are charged to profit or loss in the period to which the contributions relate.

Other long-term employee benefits

The Group’s net obligation in respect of other long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. Re-measurements are recognised in profit or loss in the period in which they arise.

2.19 Earnings per ordinary share

The Group presents basic and diluted earnings per share data for its ordinary shares (“EPS”).

Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss that is attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

2.20 Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenue and incur expenses, including revenues and expenses that relate to transactions with any of the Group’s other components. All operating segments’ operating results are reviewed regularly by the Group’s CEO (the chief operating decision maker) to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

Segment results that are reported to the Group’s CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly central cost, share of profit of associate, zakat and income tax expense.

Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment, and intangible asset other than goodwill.

All transactions between business segments (intra-segment revenue and costs) are being eliminated at head office. Income and expenses are directly associated with each business segment are included in determining business segment performance.

3 Profit from financing, leasing and investments

	Group		Bank	
	2017	2016	2017	2016
	B\$’000	B\$’000	B\$’000	B\$’000
Financing and leasing	207,408	217,769	157,755	167,128
Securities				
- Profit from sukuk	33,581	24,127	33,581	24,127
- Dividend income	2,570	3,086	2,570	2,645
Balances and placements with banks and other financial institutions	56,833	38,117	58,676	40,067
Total	300,392	283,099	252,582	233,967

Financing and leasing profit comprise profit and expenses calculated using the effective yield method that relate to financial assets not carried at fair value through profit or loss.

4 Profit paid/payable to depositors

	Group		Bank	
	2017	2016	2017	2016
	BS'000	BS'000	BS'000	BS'000
Deposits from customers:				
- Mudharabah fund	164	161	164	161
- Non-Mudharabah fund	38,839	34,981	38,198	34,394
	39,003	35,142	38,362	34,555
Deposits and placements of banks and other financial institutions:				
- Non-Mudharabah fund	3,579	3,922	1,172	1,258
Total	42,582	39,064	39,534	35,813

5 Gain/(Loss) from derivatives and investments

	Group		Bank	
	2017	2016	2017	2016
	BS'000	BS'000	BS'000	BS'000
Net fair value gain/(loss) on held-for-trading derivatives	280,945	(143,951)	280,945	(143,951)
Fair value gain on investments designated at fair value through profit and loss	1,318	2,123	1,318	1,089
Loss from sale of available for sale investment securities	288	(71)	288	(71)
Total	282,551	(141,899)	282,551	(142,933)
Net fair value gain/(loss) on held-for-trading derivatives	280,945	(143,951)	280,945	(143,951)
Net foreign exchange (loss)/gain	(287,894)	158,976	(287,894)	158,976
Net effect from derivatives and foreign exchange (loss)/gain	(6,949)	15,025	(6,949)	15,025

The foreign exchange risk exposure is managed through the use of foreign exchange forwards and swaps to hedge currency risk as set out in Note 37. The Bank does not adopt hedge accounting for such currency hedges, so in accordance with the accounting policies in Note 2, the foreign exchange gains or losses on assets are recognised in net foreign exchange (loss)/gain of the income statements and the fair value movements in the forward currency hedges are included in gain or loss from derivatives and investments.

6 Net fee and commission income

	Group		Bank	
	2017	2016	2017	2016
	B\$'000	B\$'000	B\$'000	B\$'000
Fee and commission income:				
- Trade finance and Al-Kafalah (guarantee)	2,740	2,584	2,740	2,584
- Ar-Rahnu (pawn/pledge)	1,763	1,578	1,763	1,578
- Credit and debit cards	18,850	15,957	18,850	15,957
- Commission	3,872	3,421	3,660	3,248
- Others	6,135	6,329	5,099	5,749
Total fee and commission income	33,360	29,869	32,112	29,116
Fee and commission expense:				
- Credit cards	(5,457)	(4,433)	(5,457)	(4,433)
Total fee and commission expense	(5,457)	(4,433)	(5,457)	(4,433)
Net fee and commission income	27,903	25,436	26,655	24,683

The net fee and commission income above excludes amount included in determining the effective profit rate on financial assets and financial liabilities that are not at fair value through profit or loss but includes other income and expense relating to such financial assets and financial liabilities.

7 Other operating income

	Group		Bank	
	2017	2016	2017	2016
	B\$'000	B\$'000	B\$'000	B\$'000
Dividend income from subsidiaries	–	–	98,328	56,091
Rental income from investment property	3,147	3,212	3,147	3,212
Income from charter of vessels	34,147	31,635	–	–
Recovery of financing written off	12,051	8,285	10,908	8,285
Others	1,806	1,320	1,276	1,089
Total	51,151	44,452	113,659	68,677

Others include finance lease income of B\$691,348 (2016: B\$689,674) on finance lease receivables for the current financial year.

8 Personnel expenses

	Group		Bank	
	2017	2016	2017	2016
	B\$'000	B\$'000	B\$'000	B\$'000
Salaries and wages	40,947	40,820	33,803	32,480
Allowances and bonuses	21,953	18,963	18,523	15,466
Contributions to defined contribution plans	3,635	3,290	3,349	3,034
Others	4,210	3,412	4,002	3,330
Total	70,745	66,485	59,677	54,310

9 Other expenses

	Group		Bank	
	2017	2016	2017	2016
	B\$'000	B\$'000	B\$'000	B\$'000
Promotion				
Advertisement and publicity	1,891	2,099	1,303	2,000
Operational				
Office rental	5,166	4,925	4,786	4,611
Depreciation of property and equipment and investment property	20,067	22,478	13,363	14,966
Electronic data processing expenses	9,057	6,697	7,119	5,729
Hire of equipment	150	139	150	139
Office expenses	9,321	8,425	8,819	7,577
	43,761	42,664	34,237	33,022
General expenses				
Management fees	623	1,004	—	—
Auditors' remuneration:				
- Statutory audit fees	625	537	561	436
- Audit related fees	800	250	800	250
- Non-audit services	442	119	436	119
Professional fees	9,007	3,305	8,507	3,041
Other operating expense - Investment property	946	911	946	911
Insurance coverage	2,002	1,216	1,535	897
Repairs and maintenance	2,602	1,893	1,626	1,201
Licenses	1,741	1,460	1,704	1,460
Others	9,930	7,213	5,136	3,965
	28,718	17,908	21,251	12,280
Total	74,370	62,671	56,791	47,302

10 Allowance for impairment on financing and advances (net)

		Group		Bank	
	Note	2017 B\$'000	2016 B\$'000	2017 B\$'000	2016 B\$'000
Allowance for impaired financing and advances:					
- collective allowance	22	17,057	10,049	17,313	10,974
- individual allowance	22	21,165	13,801	19,061	11,553
Total		38,222	23,850	36,374	22,527

Profit accrued during the year on impaired financing amounts to B\$1,363,281 (2016: B\$2,354,908).

11 Allowance for impairment on investments (net)

		Group		Bank	
		2017 B\$'000	2016 B\$'000	2017 B\$'000	2016 B\$'000
Allowance for impairment on investment:					
- Investment in unquoted fund		758	393	758	393
- Investment in quoted debt securities		1,206	39,624	1,206	39,624
Total		1,964	40,017	1,964	40,017

12 Zakat

		Group		Bank	
		2017 B\$'000	2016 B\$'000	2017 B\$'000	2016 B\$'000
Zakat					
Current zakat provision		2,692	3,349	2,692	3,349

The amount of zakat is determined by using 2.5775% based on the net asset method and is payable by the Bank to comply with the principles of Shariah.

13 Taxation

Tax recognised in profit or loss	Group		Bank	
	2017 B\$'000	2016 B\$'000	2017 B\$'000	2016 B\$'000
<i>Current tax expense</i>				
Current year	15,885	31,059	7,257	23,603
<i>Deferred tax expense</i>				
Origination and reversal of temporary differences	11,670	(1,155)	10,992	(6,838)
Total tax expense recognised in profit or loss	27,555	29,904	18,249	16,765
Tax recognised in other comprehensive income				
Available-for-sale financial instrument	258	3,388	258	3,388

A reconciliation of effective tax expense for the Group and Bank is as follows:

	Group		Bank	
	2017 B\$'000	2016 B\$'000	2017 B\$'000	2016 B\$'000
Profit before zakat and taxation	146,429	137,469	190,759	142,171
Income tax using the domestic corporate tax rate of 18.5% (2016: 18.5%)	27,089	25,432	35,290	26,302
Tax effect of non-deductible expenses	3,172	8,652	2,124	2,690
Tax effect of non-taxable revenue	–	–	(18,191)	(10,376)
Tax incentives	(447)	(382)	(447)	(357)
Tax effect of zakat	(495)	(620)	(495)	(620)
Others	(1,764)	(3,178)	(32)	(874)
Total	27,555	29,904	18,249	16,765

14 Dividend per ordinary share

	Group and Bank	
	2017	2016
	B\$'000	B\$'000
On ordinary shares		
Net dividend paid on ordinary shares	197,113	52,907

	-----Group and Bank-----			
	2017		2016	
	Gross dividend per share B\$	Dividend net of tax B\$'000	Gross dividend per share B\$	Dividend net of tax B\$'000
Authorised:				
Final dividend paid	0.147000	106,538	0.073	52,907
Interim dividend paid	0.124974	90,575	—	—

At the Annual General Meeting on 15 June 2017, a final dividend in respect of financial year ended 31 December 2016 of B\$0.147 on 724,749,512 ordinary shares, amounting to B\$106,538,182 was approved and paid on 13 July 2017.

On 15 June 2017, an interim dividend of B\$0.124974 per share on 724,749,512 ordinary shares, amounting to B\$90,574,843 was approved and paid on 30 August 2017.

At the annual general meeting to be held, a final dividend of 5.075 cents per ordinary share in respect of financial year end 31 December 2017, amounting to B\$36,781,038 will be proposed. The dividend will be accounted for as a distribution in the 2018 financial statements.

15 Earnings per share

Basic Earnings per Share ("EPS")

The basic earnings per share of the Group has been calculated by dividing the net profit for the year attributable to equity holders of the Bank by the weighted average number of ordinary shares in issue during the financial year.

	Group	
	2017	2016
Profit for the year attributable to equity holders of the Bank (B\$'000)	110,582	101,899
Weighted average number of ordinary shares ('000)	724,750	724,750
Basic EPS (B\$)	0.15	0.14

Diluted Earnings per Share

The calculation of diluted earnings per share is based on the profit attributable to equity holders of the Bank divided by the weighted average number of ordinary shares in issue at the reporting date, after adjusting for the effects of all potentially dilutive ordinary shares.

The diluted earnings per share is the same as basic earnings per share.

16 Cash and cash equivalents

	Group		Bank	
	2017	2016	2017	2016
	BS'000	BS'000	BS'000	BS'000
Cash in hand	55,463	55,483	55,126	55,218
Balances with banks and other financial institutions	543,139	163,328	546,496	166,469
Money at call and short notice and interbank placements with original maturities not exceeding three months	1,820,758	1,894,980	2,008,758	2,072,980
Cash and cash equivalents in the statements of financial position	2,419,360	2,113,791	2,610,380	2,294,667

17 Balances with Autoriti Monetari Brunei Darussalam

As required by the provisions of Section 45 of the Islamic Banking Order, 2008 and Section 13A of the Finance Companies Act, a cash balance is maintained with the Autoriti Monetari Brunei Darussalam (AMBD). At present, the minimum cash reserve requirement is 6% of the weighted average deposit liabilities as defined by the AMBD.

18 Placements with and financing and advances to banks

Money at call and short notice and interbank placements have original maturities greater than three months but not exceeding one year.

19 Government sukuk

Government sukuk are classified as held-to-maturity or available-for-sale and have maturities less than one year.

	Group		Bank	
	2017	2016	2017	2016
	BS'000	BS'000	BS'000	BS'000
Available-for-sale investments	16,198	12,738	16,198	12,738
Held-to-maturity investments	–	13,977	–	13,977
Total	16,198	26,715	16,198	26,715

20 Investments

	Note	Group		Bank	
		2017 B\$'000	2016 B\$'000	2017 B\$'000	2016 B\$'000
Investments at fair value through profit or loss	20.1	1,816	13,514	1,816	603
Available-for-sale investments	20.2	1,177,186	791,137	1,177,186	798,844
Total		1,179,002	804,651	1,179,002	799,447

20.1 Investments at fair value through profit or loss

		Group		Bank	
		2017 B\$'000	2016 B\$'000	2017 B\$'000	2016 B\$'000
Quoted equities		–	12,911	–	–
Structured deposits		1,816	603	1,816	603
Total		1,816	13,514	1,816	603

20.2 Available-for-sale investments

		Group		Bank	
		2017 B\$'000	2016 B\$'000	2017 B\$'000	2016 B\$'000
Quoted debt securities		1,105,631	712,021	1,105,631	712,021
Unquoted security		–	–	–	7,707
Unquoted fund		1,470	2,499	1,470	2,499
Structured deposits		70,085	76,617	70,085	76,617
Total		1,177,186	791,137	1,177,186	798,844

21 Derivative financial assets/(liabilities)

The following tables summarise the contractual or underlying principal amounts of derivative financial instruments held at fair value through profit or loss. The principal or contractual amount of these instruments reflects the volume of transactions outstanding at the reporting date and do not necessarily represent amounts at risk.

Trading derivative financial instruments are revalued on a gross position and the unrealised gains or losses are reflected as derivative financial assets and liabilities respectively.

	Group and Bank			
	Principal/Nominal amount		Carrying amount	
	2017 B\$'000	2016 B\$'000	2017 B\$'000	2016 B\$'000
Foreign exchange forward contracts:				
Derivative assets	4,007,746	725,923	40,865	17,971
Derivative liabilities	590,694	3,859,942	(15,860)	(110,620)
Total	4,598,440	4,585,865	25,005	(92,649)

The Group uses foreign exchange forward contracts to manage its foreign exchange risk as set out in Note 37.

22 Financing and advances

(a) By type of product

	Group		Bank	
	2017	2016	2017	2016
	B\$'000	B\$'000	B\$'000	B\$'000
At amortised cost				
Cash line/Naqad (overdrafts)	118,180	101,515	118,180	101,515
Mortgages	542,361	497,885	542,361	497,885
Syndicated financing	20,117	36,632	20,117	36,632
Hire purchase	595,970	588,044	–	–
Lease receivables	162,647	184,532	162,647	184,532
Other term financing	1,645,058	1,647,155	1,640,620	1,644,629
Bills receivable	136,341	137,549	136,341	137,549
Staff financing	25,248	28,100	25,248	28,100
Credit/charge cards	47,732	51,060	47,732	51,060
Revolving credits	–	4,134	–	4,134
Others	15,494	15,488	13,556	13,014
Gross financing and advances	3,309,148	3,292,094	2,706,802	2,699,050
Less: Allowances for losses on financing and advances				
Individual assessment allowance	(44,334)	(61,475)	(38,396)	(56,082)
Collective assessment allowance	(32,909)	(44,214)	(29,306)	(40,355)
Net financing and advances	3,231,905	3,186,405	2,639,100	2,602,613

(b) By contract

	Group		Bank	
	2017	2016	2017	2016
	B\$'000	B\$'000	B\$'000	B\$'000
Al-Kafalah bil Mal and Al-Bai	2,765	2,004	2,765	2,004
Al-Wakalah bil Ujrah	44,967	49,056	44,967	49,056
Bal' Bithaman Ajil (<i>deferred payment sale</i>)	790,715	954,646	790,715	954,646
Ijarah (<i>lease</i>)	162,647	184,020	162,647	184,532
Ijarah Muntahiah Bittamlik/AITAB (<i>lease ended with ownership</i>)	682,237	681,119	–	–
Murabahah (<i>cost-plus</i>)	112,468	97,032	192,359	184,595
Musharakah (<i>profit and loss sharing</i>)	118,694	99,066	118,694	99,066
Qard (<i>benevolent loan</i>)	4	5	4	5
Tawarruq	1,381,094	1,212,132	1,381,094	1,212,132
Others	13,557	13,014	13,557	13,014
Total	3,309,148	3,292,094	2,706,802	2,699,050

(c) By security

	Group		Bank	
	2017	2016	2017	2016
	B\$'000	B\$'000	B\$'000	B\$'000
Unsecured	111,089	96,759	111,089	97,271
Credit enhanced by:				
- Assignment of salary	1,213,060	1,200,108	1,213,060	1,200,108
- Assignment of project income or receivables	35,200	40,323	35,200	40,323
- Assignment of fixed or floating charges	25,394	32,284	25,394	32,284
- Assignment of rental	7,402	12,853	7,402	12,853
Secured by:				
- Cash	238,595	224,418	238,595	224,418
- Properties	750,046	720,732	750,046	720,732
- Vessels	231,095	269,302	310,987	352,117
- Guarantees	897	—	897	—
- Motor vehicles	614,644	610,557	1,319	6,855
- Others	81,726	84,758	12,813	12,089
Total	3,309,148	3,292,094	2,706,802	2,699,050

(d) By sector

	Group		Bank	
	2017	2016	2017	2016
	B\$'000	B\$'000	B\$'000	B\$'000
Agricultural	15,203	9,690	15,203	9,690
Financial	20,140	24,179	20,140	24,179
Manufacturing	59,093	40,494	59,093	40,494
Transportation	542,049	532,401	8,004	15,565
Infrastructure	49,528	50,512	48,042	45,763
Traders	116,008	118,008	116,008	118,008
Services	72,443	41,517	72,443	41,517
Residential property (personal)	713,007	686,111	713,007	686,111
Commercial (property development)	114,573	134,208	114,573	134,208
Tourism	2,755	19,106	2,755	19,106
Telecommunication and information technology	2,846	8,511	2,846	8,511
Personal and consumption financing	1,157,782	1,129,682	1,090,967	1,057,712
Oil and gas	443,721	497,675	443,721	498,186
Total	3,309,148	3,292,094	2,706,802	2,699,050

Included in Transportation sector is the Group's car financing portfolio.

(e) **By type of customer**

	Group		Bank	
	2017	2016	2017	2016
	BS'000	BS'000	BS'000	BS'000
Domestic business enterprise	557,061	589,737	637,565	677,813
Small and medium industries	219,730	224,746	196,222	200,583
Individuals	2,464,515	2,404,664	1,805,173	1,747,707
Other domestic entities	–	2,047	–	2,047
Foreign entities	67,842	70,900	67,842	70,900
Total	3,309,148	3,292,094	2,706,802	2,699,050

(f) **Non-performing financing and advances**

Movements in the non-performing financing and advances are as follows:

	Group		Bank	
	2017	2016	2017	2016
	BS'000	BS'000	BS'000	BS'000
At 1 January	160,416	164,556	153,416	158,512
Classified as impaired during the year	30,564	61,955	26,890	57,994
Reclassified as performing	(3,137)	(1,309)	(2,058)	(728)
Amount received	(36,362)	(20,928)	(36,362)	(20,047)
Amount written off against allowances	(66,668)	(43,858)	(65,109)	(42,315)
At 31 December	84,813	160,416	76,777	153,416
Gross impaired financing as a percentage of gross financing and advances	2.6%	4.9%	2.8%	5.7%

The Group considers a financing as non-performing when the financing is 90 days past due.

(g) **Non-performing financing and advances by sector**

	Group		Bank	
	2017	2016	2017	2016
	BS'000	BS'000	BS'000	BS'000
Agricultural	1,465	5,260	1,465	5,260
Manufacturing	2,239	3,791	2,239	3,791
Transportation	8,825	4,034	2,763	4,034
Infrastructure	1,474	99	1,462	99
Traders	5,429	21,634	5,429	21,634
Services	900	3,958	900	3,958
Residential property (personal)	31,786	41,120	31,785	41,120
Commercial (property development)	17,696	24,512	17,696	24,512
Tourism	204	13,011	204	13,011
Telecommunication and information technology	–	250	–	250
Personal and consumption financing	14,795	24,661	12,834	17,661
Oil and gas	–	18,086	–	18,086
Total	84,813	160,416	76,777	153,416

(h) Movements in the allowances for losses on financing and advances

	Note	Group B\$'000	Bank B\$'000
Collective allowance			
At 1 January 2016		52,027	47,241
Allowance made during the year	10	10,049	10,974
Amount written off during the year		(17,862)	(17,860)
At 31 December 2016		44,214	40,355
Allowance made during the year	10	17,057	17,313
Amount written off during the year		(28,362)	(28,362)
At 31 December 2017		32,909	29,306
Individual allowance			
At 1 January 2016		73,670	68,984
Allowance made during the year	10	13,801	11,553
Amount written off during the year		(25,996)	(24,455)
At 31 December 2016		61,475	56,082
Allowance made during the year	10	21,165	19,061
Amount written off during the year		(38,306)	(36,747)
At 31 December 2017		44,334	38,396

23 Finance lease receivables

The Bank was granted the lease of the land and a hotel building for a period of 40 years commencing 1 May 2014, for waiving and releasing its rights to enforce the judgment debt against one of its debtors. The Bank then entered into a sub-lease agreement with a third party, leasing the land together with a hotel building for 40 years.

The finance lease receivables are as follows:

	-----Group and Bank -----		
	Future minimum lease payments B\$'000	Profit B\$'000	Present value of minimum lease payments B\$'000
2017			
Within one year	660	19	641
Between one and five years	2,860	437	2,423
More than five years	27,060	17,537	9,523
Total	30,580	17,993	12,587
2016			
Within one year	660	19	641
Between one and five years	2,800	431	2,369
More than five years	27,780	18,234	9,546
Total	31,240	18,684	12,556

24 Investments in subsidiaries

	Bank
	2017
	2016
	BS'000
	BS'000
Unquoted equity investments, at cost	41,519
Less: Allowances for investment in subsidiary	(1,715)
	<u>39,804</u>
	<u>40,826</u>

Details of the Group's subsidiaries are as follows:

Name of Company	Principal activities	Country of incorporation/ Place of business	Effective ownership interest	
			2017 %	2016 %
BIBD At-Tamwil Bhd	Lease financing	Negara Brunei Darussalam	100	100
- Better Sdn Bhd	Car rental	Negara Brunei Darussalam	100	100
BIBD Securities Sdn Bhd	Stockbrokers/ sharebrokers	Negara Brunei Darussalam	100	100
IDBB Sukuk Inc	Islamic financing arrangement	Negara Brunei Darussalam	100	100
BIBD Management & Services Bhd	Management services	Negara Brunei Darussalam	100	100
IBB Capital Asset Management Sdn Bhd	Fund management	Negara Brunei Darussalam	100	100
- Belait CSS Sdn Bhd	Vessel leasing	Negara Brunei Darussalam	50	50
Belait Barakah Sdn Bhd	Vessel leasing	Negara Brunei Darussalam	50	50
BIBD Al-Kauthar Funds DCC Incorporated (closed in 2017)	Fund management	Negara Brunei Darussalam	–	100
BIBD Al-Kauthar Asia- Pacific Fund (disposed in 2017)	Investment fund	Negara Brunei Darussalam	–	60.4
IBB Transport Sdn Bhd	Vehicle leasing	Negara Brunei Darussalam	100	100
Saujana Sdn Bhd	Aircraft leasing	Negara Brunei Darussalam	52.5	52.5
BIBD Global Equity Funds (disposed in 2017)	Investment fund	Negara Brunei Darussalam	–	98.9
BIBD Asia Equity Funds (disposed in 2017)	Investment fund	Negara Brunei Darussalam	–	98.6
BIBD Middle East Limited	Fund management	United Arab Emirates	100	–

Non-controlling interests in subsidiaries

The following table summarises the information relating to each of the Group's subsidiaries that has material non-controlling interests (NCI), before any intra-group eliminations.

NCI percentage	----- 2017 -----	
	Belait Barakah 50% B\$'000	Belait CSS 50% B\$'000
Non-current assets	23,629	101,600
Current assets	9,099	6,962
Non-current liabilities	—	(79,822)
Current liabilities	(9,555)	(10,448)
Net assets	23,173	18,292
Net assets attributable to NCI	11,587	9,146
Revenue	10,919	23,228
Profit	5,864	5,335
Total comprehensive income	5,864	5,335
Attributable to NCI:		
Profit	2,932	2,668
Total comprehensive income allocated to NCI	2,932	2,668
Cash flows from operating activities	1,315	10,362
Cash flows used in investing activities	—	(1)
Cash flows used in financing activities, before dividends to NCI	—	(7,596)
Net increase in cash and cash equivalents	1,315	2,765
----- 2016 -----		
NCI percentage	Belait Barakah 50% B\$'000	Belait CSS 50% B\$'000
Non-current assets	24,781	106,275
Current assets	8,697	4,554
Non-current liabilities	—	(87,488)
Current liabilities	(13,176)	(10,454)
Net assets	20,302	12,887
Net assets attributable to NCI	10,151	6,444
Revenue	9,346	22,290
Profit / (Loss)	7,391	(3,129)
Total comprehensive income	7,391	(3,129)
Attributable to NCI:		
Profit / (Loss)	3,696	(1,565)
Total comprehensive income allocated to NCI	3,696	(1,565)
Cash flows from operating activities	4,080	6,888
Cash flows used in investing activities	—	(17)
Cash flows used in financing activities, before dividends to NCI	—	(7,832)
Net increase / (decrease) in cash and cash equivalents	4,080	(961)

The Group has performed control assessments on the above subsidiaries with material non-controlling interest and had concluded that the Bank has control over these subsidiaries as the Group has ability to affect those returns through its power over these subsidiaries, as well as has exposure to variability of returns from the involvement with the subsidiaries.

25 Investment in associate

	Group		Bank	
	2017	2016	2017	2016
	B\$'000	B\$'000	B\$'000	B\$'000
At cost				
Unquoted shares	7,080	7,080	7,080	7,080
Share of post-acquisition reserves	10,308	7,433	—	—
Investment in associate	17,388	14,513	7,080	7,080

Details of the associate, which is unquoted, are as follows:

Name of Company	Principal activities	Country of incorporation/ Place of business	Effective ownership interest	
			2017	2016
			%	%
Syarikat Takaful Brunei Darussalam Sdn Bhd	Family and general takaful businesses	Negara Brunei Darussalam	31	31
			2017	2016
			B\$'000	B\$'000
Group's share in net assets of associate at the beginning of the year			14,513	13,829
Group's share of:				
- profit from continuing operations			2,073	722
- dividends received			(91)	—
- other comprehensive income			893	(38)
Carrying amount of interest in associate at the end of the year			17,388	14,513

The summarised financial information of the associate, not adjusted for the percentage ownership held by the Group is as follows:

	2017	2016
	B\$'000	B\$'000
Current assets	247,028	225,152
Non-current assets	55,375	65,153
Current liabilities	(16,770)	(22,008)
Non-current liabilities	(229,425)	(221,949)
Net assets	56,208	46,348

	2017 B\$'000	2016 B\$'000
Revenue	30,908	21,259
Profit from continuing operations	6,687	2,329
Other comprehensive income	2,880	(124)
Total comprehensive income	9,567	2,205

Included in balances above are the following amounts:

	2017 B\$'000	2016 B\$'000
Cash and cash equivalents	230,675	205,751
Current financial liabilities excluding trade, other payables and provisions	(2,059)	(6,174)
Non-current financial liabilities excluding trade, other payables and provisions	(229,425)	(221,949)
Depreciation and amortisation	(563)	(642)
Income tax expense or income	(187)	(465)

The aggregate amounts of the Group's share in the associate are as follows:

	Group 2017 B\$'000	2016 B\$'000
Profit from continuing operations	2,073	722
Dividend received	(91)	–
Other comprehensive income	893	(38)
Total comprehensive income	2,875	684

26 Other assets

	Group 2017 B\$'000	2016 B\$'000	Bank 2017 B\$'000	2016 B\$'000
Receivables	15,376	19,161	8,411	26,080
Accrued income and bills receivable	12,779	10,322	12,863	10,428
Foreign acceptance receivables	1,036	1,840	1,036	1,840
Sundry debtors	3,881	1,255	1,214	1,255
Intercompany receivables	–	–	131	179
	33,072	32,578	23,655	39,782
Prepayments	8,714	6,766	8,057	6,302
Total	41,786	39,344	31,712	46,084

During the year, the Group and the Bank recognised an allowance for impairment of B\$1,864,000 (2016: B\$1,230,000) and B\$ 739,000 (2016: B\$1,230,000) respectively on its receivables in the profit or loss.

27 Property and equipment

Group	Leasehold improvements B\$'000	Equipment, furniture and fittings B\$'000	Motor vehicles B\$'000	Ship vessel B\$'000	Work-in- progress B\$'000	Computer software B\$'000	Total B\$'000
Cost							
At 1 January 2016	30,807	46,039	730	147,922	14,858	44,363	284,719
Additions	1,879	2,504	–	16	8,179	2,403	14,981
Disposals	(12,450)	(11,241)	–	–	–	(751)	(24,442)
Transfers	13,144	2,428	–	–	(17,713)	2,141	–
At 31 December 2016	33,380	39,730	730	147,938	5,324	48,156	275,258
Additions	1,019	1,645	–	–	9,138	3,107	14,909
Disposals	(40)	(95)	(575)	–	–	–	(710)
Transfers	240	788	–	–	(11,354)	10,326	–
At 31 December 2017	34,599	42,068	155	147,938	3,108	61,589	289,457
Accumulated depreciation							
At 1 January 2016	21,440	29,694	536	16,569	–	31,991	100,230
Depreciation for the year	3,815	5,849	66	5,521	–	5,882	21,133
Disposals	(12,450)	(11,241)	–	–	–	(751)	(24,442)
At 31 December 2016	12,805	24,302	602	22,090	–	37,122	96,921
Depreciation for the year	2,468	4,867	61	5,886	–	5,469	18,751
Disposals	(40)	(95)	(550)	–	–	–	(685)
At 31 December 2017	15,233	29,074	113	27,976	–	42,591	114,987
Carrying amounts							
At 31 December 2016	20,575	15,428	128	125,848	5,324	11,034	178,337
At 31 December 2017	19,366	12,994	42	119,962	3,108	18,998	174,470

	Leasehold improvements BS'000	Equipment, furniture and fittings BS'000	Motor vehicles BS'000	Work-in- progress BS'000	Computer software BS'000	Total BS'000
Bank						
Cost						
At 1 January 2016	28,990	35,471	735	14,858	44,363	124,417
Additions	1,879	2,535	–	8,179	2,342	14,935
Disposals	(12,450)	(11,241)	–	–	(751)	(24,442)
Transfers	13,144	2,428	–	(17,713)	2,141	–
At 31 December 2016	31,563	29,193	735	5,324	48,095	114,910
Additions	1,019	1,245	–	9,138	3,107	14,509
Disposals	–	–	(575)	–	–	(575)
Transfers	240	788	–	(11,354)	10,326	–
At 31 December 2017	32,822	31,226	160	3,108	61,528	128,844
Accumulated depreciation						
At 1 January 2016	20,473	24,770	540	–	31,993	77,776
Depreciation for the year	3,679	4,053	66	–	5,823	13,621
Disposals	(12,450)	(11,241)	–	–	(751)	(24,442)
At 31 December 2016	11,702	17,582	606	–	37,065	66,955
Depreciation for the year	2,405	4,110	61	–	5,471	12,047
Disposals	–	–	(550)	–	–	(550)
At 31 December 2017	14,107	21,692	117	–	42,536	78,452
Carrying amounts						
At 31 December 2016	19,861	11,611	129	5,324	11,030	47,955
At 31 December 2017	18,715	9,534	43	3,108	18,992	50,392

28 Investment property

	Group and Bank B\$'000
Cost	
At 1 January 2016	32,712
Additions	133
At 31 December 2016	32,845
Additions	12
Write-off	(412)
At 31 December 2017	32,445
Accumulated depreciation	
At 1 January 2016	4,066
Charge for the year	1,345
At 31 December 2016	5,411
Charge for the year	1,316
Write-off	(169)
At 31 December 2017	6,558
Carrying amounts	
At 31 December 2016	27,434
At 31 December 2017	25,887

In 2011, the Bank entered into a lease agreement with a customer pursuant to which the Bank was granted rights to the lease with a remaining term of 49 years in consideration for the Bank agreeing to waive its right to repayment of a financing extended to the customer. As a result, the Bank recorded its interest in the investment property based on the carrying amount of the outstanding financing amount as at the date of the agreement. This amount also approximated the fair value of the investment property at that date.

Fair value hierarchy, valuation technique and unobservable inputs

The fair value of the investment property as at 31 December 2017 is B\$36,100,000 (2016: B\$36,100,000). The fair value of the investment property was based on the valuation report provided by a firm of external, independent professional valuers, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued.

The valuation technique applied is the discounted cash flow approach (Level 3). Fair value of the investment property is derived from the potential cash flows from the building based on the remaining lease term. The key unobservable input includes estimated occupancy rate of 70.0% (2016: 75.5%).

29 Deferred tax assets/(liabilities)

Deferred tax assets and liabilities are attributed to the following:

Group	At 1 January 2016 B\$'000	Recognised in profit or loss B\$'000	Recognised in other comprehensive income B\$'000	At 31 December 2016 B\$'000	Recognised in profit or loss B\$'000	Recognised in other comprehensive income B\$'000	At 31 December 2017 B\$'000
Deferred tax assets							
Allowance for financing and advances	12,758	(794)	—	11,964	(1,696)	—	10,268
Allowance for investment	—	7,331	—	7,331	(7,331)	—	—
Allowance for investment in subsidiary	—	—	—	—	317	—	317
Available-for-sale investments	3,561	—	(3,388)	173	—	(173)	—
Other liabilities	—	—	—	—	370	—	370
Total	16,319	6,537	(3,388)	19,468	(8,340)	(173)	10,955
Deferred tax liabilities							
Property and equipment	(5,529)	(5,382)	—	(10,911)	(3,330)	—	(14,241)
Available-for-sale investments	—	—	—	—	—	(85)	(85)
Total	(5,529)	(5,382)	—	(10,911)	(3,330)	(85)	(14,326)
Total deferred tax assets/(liabilities)	10,790	1,155	(3,388)	8,557	(11,670)	(258)	(3,371)

Bank	At 1 January 2016 B\$'000	Recognised in profit or loss B\$'000	Recognised in other comprehensive income B\$'000	At 31 December 2016 B\$'000	Recognised in profit or loss B\$'000	Recognised in other comprehensive income B\$'000	At 31 December 2017 B\$'000
Deferred tax assets							
Allowance for financing and advances	12,914	(760)	—	12,154	(1,874)	—	10,280
Allowance for investment	—	7,331	—	7,331	(7,331)	—	—
Allowance for investment in subsidiary	—	—	—	—	317	—	317
Available-for-sale investments	3,561	—	(3,388)	173	—	(173)	—
Total	16,475	6,571	(3,388)	19,658	(8,888)	(173)	10,597
Deferred tax liabilities							
Property and equipment	(2,637)	267	—	(2,370)	(2,104)	—	(4,474)
Available-for-sale investments	—	—	—	—	—	(85)	(85)
Total	(2,637)	267	—	(2,370)	(2,104)	(85)	(4,559)
Total deferred tax assets/(liabilities)	13,838	6,838	(3,388)	17,288	(10,992)	(258)	6,038

30 Deposits from customers

(a) By type of deposit

	Group		Bank	
	2017	2016	2017	2016
	B\$'000	B\$'000	B\$'000	B\$'000
Non-Mudharabah				
Demand deposits	1,582,402	1,696,378	1,597,157	1,725,983
Saving deposits	1,101,916	1,003,007	1,051,841	950,323
General investment deposits	4,640,357	4,271,079	4,584,057	4,194,129
	7,324,675	6,970,464	7,233,055	6,870,435
Mudharabah (<i>profit sharing</i>)				
Demand deposits	86,084	129,952	86,084	129,952
Savings deposits	115,609	114,228	115,609	114,228
	201,693	244,180	201,693	244,180
Total	7,526,368	7,214,644	7,434,748	7,114,615

(b) By type of customer

	Group		Bank	
	2017	2016	2017	2016
	B\$'000	B\$'000	B\$'000	B\$'000
Government and statutory bodies	2,102,297	3,015,098	2,102,297	3,015,098
Business enterprises	2,831,732	1,726,690	2,838,310	1,732,600
Individuals	2,592,339	2,472,856	2,494,141	2,366,917
Total	7,526,368	7,214,644	7,434,748	7,114,615

31 Deposits from banks and other financial institutions

	Group		Bank	
	2017	2016	2017	2016
	B\$'000	B\$'000	B\$'000	B\$'000
Non-Mudharabah				
Licensed conventional banks and financial institutions in Brunei Darussalam	6,853	226	6,853	226
Licensed Islamic banks and financial institutions in Brunei Darussalam	179,396	221,616	79,816	122,220
Licensed finance companies in Brunei Darussalam	2	–	154,228	98,200
Licensed insurance companies in Brunei Darussalam	3,783	–	3,783	–
Licensed Islamic insurance companies in Brunei Darussalam	308,950	263,233	126,979	118,096
Other banks and financial institutions abroad	7,979	7,954	7,979	7,954
Total	506,963	493,029	379,638	346,696
Mudharabah (profit sharing)				
Licensed Islamic banks and financial institutions in Brunei Darussalam	10,180	6,941	10,180	6,941
Licensed insurance companies in Brunei Darussalam	–	–	–	–
Licensed Islamic insurance companies in Brunei Darussalam	4,290	10,302	4,290	10,302
Total	14,470	17,243	14,470	17,243
Total	521,433	510,272	394,108	363,939

32 Other liabilities

	Group		Bank	
	2017	2016	2017	2016
	BS'000	BS'000	BS'000	BS'000
Accrued expenditure	26,763	17,569	24,094	15,529
Provisions for defined contribution plan	515	491	406	383
Liability for long service award	3,027	2,830	2,982	2,792
Short-term employee benefit	13,738	11,334	11,340	8,978
Cashier's order payable	5,360	13,283	5,360	13,283
Profit payable to depositors	17,202	16,366	14,979	14,044
Foreign acceptance payable	909	1,840	908	1,840
Merchant payable	3,339	3,320	3,339	3,320
Share dividend payable	5,429	3,748	3,429	1,748
Sundry creditors	11,680	14,015	6,614	4,284
Financing deposits related liabilities	8,698	6,102	8,698	6,102
Intercompany payables	—	—	979	698
Others	18,740	11,813	16,680	9,412
Total	115,400	102,711	99,808	82,413

33 Zakat and provision for taxation

	Group		Bank	
	2017	2016	2017	2016
	BS'000	BS'000	BS'000	BS'000
Zakat	2,831	4,037	2,831	4,037
Provision for taxation	54,783	68,580	38,150	52,703
Total	57,614	72,617	40,981	56,740

34 Share capital

Group and Bank	Number of shares of B\$1.00/B\$0.70 each		Amount	
	2017	2016	2017 B\$	2016 B\$
Authorised:				
Golden share of B\$1.00 each	—	1	—	1
Ordinary shares of B\$0.70 (2016: B\$1.00) each	1,428,571,429	999,999,999	1,000,000,000	999,999,999
Total	1,428,571,429	1,000,000,000	1,000,000,000	1,000,000,000
Issued and fully paid:				
Golden share of B\$1.00 each	—	1	—	1
Ordinary shares of B\$0.70 (2016: B\$1.00) each	724,749,512	724,749,511	507,324,512	724,749,511
At the end of the year	724,749,512	724,749,512	507,324,512	724,749,512

The holders of the ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders meetings of the Bank. All ordinary shares rank equally with regard to the Bank's residual assets.

During the year ended 31 December 2017, the Golden share was converted to an ordinary share. This amendment to the Memorandum and Articles of Association of the Bank was approved by the shareholders of the Bank in the Extraordinary General Meeting held on 15 June 2017.

During the financial year, a capital reduction reduced the par value per share from B\$1.00 to B\$0.70 each was completed with a distribution of B\$217,424,853. In the same Extraordinary General Meeting held on 15 June 2017, it was resolved that upon the capital reduction above, the authorised share capital of the Bank be increased to BND1,000,000,000 with 428,571,429 new authorised shares at B\$0.70 each.

35 Statutory and other reserves

Statutory reserves

	Total B\$'000
Group	
At 1 January 2016	420,531
Transfer in respect of current year's profit	32,513
At 31 December 2016	453,044
Transfer in respect of current year's profit	44,455
At 31 December 2017	497,499

	Total B\$'000
Bank	
At 1 January 2016	385,526
Transfer in respect of current year's profit	30,514
At 31 December 2016	416,040
Transfer in respect of current year's profit	42,455
At 31 December 2017	458,495

The statutory reserves are maintained in compliance with Section 24(1) of the Islamic Banking Order, 2008, and Section 13 of the Finance Companies Act, Chapter 89 and are not distributable as dividend.

Other reserves

	Fair value reserve B\$'000	Foreign currency reserve translations B\$'000	Retained profits B\$'000	Total B\$'000
Group				
At 1 January 2016	(14,361)	–	196,702	182,341
Total comprehensive income for the year	14,891	–	101,899	116,790
Transfer to statutory reserves	–	–	(32,513)	(32,513)
Dividends paid on ordinary shares	–	–	(52,907)	(52,907)
At 31 December 2016	530	–	213,181	213,711
Total comprehensive income for the year	1,876	–	110,582	112,458
Foreign currency movement	–	(18)	–	(18)
Transfer to statutory reserves	–	–	(44,455)	(44,455)
Dividends paid on ordinary shares	–	–	(197,113)	(197,113)
At 31 December 2017	2,406	(18)	82,195	84,583

	Fair value reserve BS'000	Retained profits BS'000	Total BS'000
Bank			
At 1 January 2016	(15,673)	68,618	52,945
Total comprehensive income for the year	14,911	122,057	136,968
Transfer to statutory reserve	–	(30,514)	(30,514)
Dividends paid on ordinary shares	–	(52,907)	(52,907)
At 31 December 2016	(762)	107,254	106,492
Total comprehensive income for the year	1,139	169,818	170,957
Transfer to statutory reserve	–	(42,455)	(42,455)
Dividends paid on ordinary shares	–	(197,113)	(197,113)
At 31 December 2017	377	37,504	37,881

The fair value reserve includes the cumulative net change in the fair value of financial assets available-for-sale, excluding impairment losses, until the financial asset is derecognised.

36 Related party transactions

Identity of related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control. Related parties may be individuals or other entities.

The Group and Bank have related party relationships with its subsidiaries, substantial shareholders, associate and key management personnel.

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group either directly or indirectly. The key management personnel include all the Directors of the Group, and certain senior management members of the Group.

Key management have banking relationships with Group entities which are entered into in the normal course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with other persons of a similar standing or, where applicable, with other employees. These transactions did not involve more than the normal risk of repayment or present other unfavourable features.

(a) The significant outstanding balances of the Group and the Bank with related parties are as follows:

	Group	
	2017	2016
	B\$'000	B\$'000
Associate		
<i>Amount due to</i>		
Deposits	249,277	224,440
Others	1,864	1,205
Key management personnel		
<i>Amount due from</i>		
Financing (ex. Credit cards)	2,245	1,566
Credit cards	61	49
<i>Amount due to</i>		
Deposits	3,698	4,268
Other related parties		
<i>Amount due to</i>		
Deposits	1,928,351	1,391,316
Subsidiaries		
<i>Amount due from</i>		
Financing	79,892	90,515
Investments	–	7,439
Placements	364,000	251,350
Others	330	17,735
<i>Amount due to</i>		
Deposits	169,309	125,739
Others	1,144	918
Associate		
<i>Amount due to</i>		
Deposits	132,806	141,803
Others	808	480
Key management personnel		
<i>Amount due from</i>		
Financing (ex. Credit cards)	1,938	1,261
Credit cards	61	49

	Bank	
	2017	2016
	B\$'000	B\$'000
Key management personnel		
<i>Amount due to</i>		
Deposits	3,677	3,753
Other related parties		
<i>Amount due to</i>		
Deposits	1,928,351	1,391,316

(b) The significant related party transactions of the Group and the Bank are as follows:

	Group		Bank	
	2017	2016	2017	2016
	B\$'000	B\$'000	B\$'000	B\$'000
Subsidiaries				
<i>Income</i>				
Income on financing	—	—	5,533	5,867
Other income	—	—	100,183	58,151
<i>Expenditure</i>				
Profit paid/payable to depositors	—	—	1,019	604
Associate				
<i>Income</i>				
Fees and commission	212	173	—	—
<i>Expenditure</i>				
Profit paid/payable to depositors	1,915	1,770	722	737
Other Expenditure	95	88	—	—
Key management personnel				
<i>Income</i>				
Income on financing	57	48	32	27
<i>Expenditure</i>				
Profit paid/payable to depositors	10	42	10	12
Other related parties				
<i>Expenditure</i>				
Profit paid/payable to depositors	9,610	4,371	9,610	4,371

Key management personnel

Key management personnel compensation including Directors' remuneration is as follows:

	Group		Bank	
	2017	2016	2017	2016
	B\$'000	B\$'000	B\$'000	B\$'000
Directors' fees and other remuneration	1,222	1,188	1,222	1,188
Other key management personnel:				
- Salary and employee benefits	6,486	6,339	6,279	6,044
Withholding tax paid	621	1,148	621	1,148

Number of shares held by key management personnel is as follows:

	Group	
	2017	2016
Number of shares held ('000)	63	58

Interest held by associate

The number of shares of the Bank held by the associate as at 31 December 2017 is 11,707,000 (2016: 11,707,000).

Interest held by the government and government controlled entities

The government of Brunei Darussalam through its various ministries and statutory boards has control over the Group via the shareholdings. As a result, the government of Brunei Darussalam and other government controlled bodies are related parties of the Group.

The Group enters into transactions with many of these bodies on an arm's length basis. The principal transactions undertaken with these entities are disclosed below.

Individually significant transactions

Other transactions include the payment of Brunei Darussalam corporation tax (Note 12, 13 and 33) and banking transactions such as financing and deposits undertaken in the normal course of banker-customer relationships.

37 Financial risk management

As the Group's statements of financial position, income statements, statements of comprehensive income, changes in equity and cash flows comprise mainly the Bank and a material subsidiary, the financial risk management policies disclosed relates to the Bank, unless otherwise stated.

Overview of risk management

The Group has exposure to the following risks from financial instruments:

- Credit risk
- Market risks
- Liquidity risk
- Operational risks

Risk management functional and governance structure

The Bank has aligned its risk organisational responsibilities with the objective of ensuring a common view of risks across the Bank. As a matter of good business practice and prudence, the Bank's core risk management functions, which report to the Audit, Finance and Risk Committee ("AFRC") through its Asset Liability Committee ("ALCO"), are independent and clearly segregated from the business divisions.

Credit risk

Overview of credit risk of the Bank

Credit risk arises as a result of customers' or counterparties' to a financial instruments failure to meet their contractual obligations when they fall due. These obligations arise from the Bank's direct financing operations, trade finance and investments undertaken by the Bank. The Bank's exposure to credit risk is primarily from its financing activities to retail, corporate borrowers', including small & medium enterprises ("SMEs") and financial institutions.

Management of credit risk

The Board of Directors of the Bank has delegated responsibility for oversight of credit risk to its Credit Risk Committee. A separate Risk Management Division, reporting to the Credit Risk Committee, is responsible for managing the Bank's credit risk, including the following:

- To support management in building a healthy credit portfolio in line with the Bank's overall strategy and risk appetite;
- To develop an increasing ability to recognise, measure and avoid or mitigate potential credit risk issues; and
- To conform with statutory, regulatory and internal credit requirements.

Corporate credit risks are assessed by business units and evaluated and approved in accordance to the Bank's Credit Risk Governance. Each borrower is assigned a credit rating based on the assessment of relevant qualitative and quantitative factors including a borrower's financial position, types of facilities and proposed securities or collateral. Bank wide hierarchy of credit approving authorities and committee structures are in place to ensure appropriate underwriting standards are enforced consistently within the Bank.

Reviews are conducted on a regular basis with updated information on a borrower's financial position, market position, industry and economic condition and conduct of account. Corrective actions are taken when there are signs of credit deterioration.

Retail credit exposures are managed on a programme basis. Credit programmes are assessed jointly between credit risk and business units. Reviews on credit programmes are conducted on a regular basis to assess the performance of the portfolio.

Counterparty credit risk exposures are managed via counterparty limits either on a single name basis or counterparty group basis which adheres to the Guidance on Single Borrowing Limit issued by AMBD. The Bank monitors and manages its exposures to counterparties on a day-to-day basis.

To avoid concentration of credit risk in its financing and advances portfolio, the Bank imposes limits and related lending guidelines on:

- Sovereign;
- Business segments;
- Economic sectors;
- Single customer groups;
- Banks and non-bank financial institutions;
- Counterparties; and
- Collaterals.

The Bank has established a dedicated team of Collections and Recovery to effectively manage vulnerable borrowers. Special attention is given to vulnerable borrowers where frequent and intensive monitoring are performed to accelerate remedial action.

Internal credit rating reviews

Internal credit rating reviews are an integral part of the Bank's credit risk management, decision making process, adequacy of provision and capital assessment.

The credit risk grades for Corporates, SMEs, Financial Institutions and Banks are assessed using the Standard & Poor's ("S&P") rating methodology. The ratings are linked to the Bank's risk appetite and allow the Bank to map the ratings to default statistics.

Overview of credit risk of the subsidiary

Credit risk arises as a result of customers' or counterparties' to a financial instruments failure to settle their, financial or non-financial, contractual obligations. During the reporting period, the subsidiary's highest credit risks exposures are from its hire-purchase financing activities followed by its cash placements with the Bank and the regulator, and to lesser extent, its other accounts receivables.

(a) Business rules committee

To manage its most significant credit risk, the subsidiary board, through the business rules committee, has established a sales policy, with business rules and approval authority matrix operationalised by the use of a decision support system, which ensure consistency and compliance in its credit underwriting process. The performance of the decision support system is monitored, monthly, by the committee and policies adjustments are made as necessary.

(b) Internal credit rating scorecard

Internal credit rating scorecard models are an integral part of the subsidiary's credit risk management, decision making process, adequacy of provision and capital assessment. Retail exposure is assigned a rating utilising customised application and behavioural scorecard model, based on assessment of relevant predictive characteristics. The predictive performance of the two scorecards are validated monthly by the business rules committee using established methods, including rank ordering, PSI statistics, K factor and Gini coefficient.

(c) Recovery department

The subsidiary has established a dedicated recovery department function comprising of three units to deal with the different stages of default; the front-end negotiation team, the repossession and collateral disposal team and the litigation team. The teams report to the Head of Recovery who, in turn, report to the business rules committee its performance to minimise the incurred credit losses.

Maximum exposure to credit risk

The following table presents the Group's and Bank's maximum exposure to credit risk of recognised assets and unrecognised financial instruments, without taking into account of any collateral held or other credit enhancements. For recognised assets, the exposure to credit risk equals their carrying amount. For contingent liabilities, the maximum exposure to credit risk is the maximum amount that the Group and Bank would have to pay if the obligations of the instruments issued are called upon. For credit commitments, the maximum exposure to credit risk is the full amount of the undrawn credit facilities granted to customers.

	Group		Bank	
	2017	2016	2017	2016
	B\$'000	B\$'000	B\$'000	B\$'000
<i>Credit risk exposure of recognised assets:</i>				
Cash and cash equivalents	2,419,360	2,113,791	2,610,380	2,294,667
Balances with Autoriti Monetari				
Brunei Darussalam	456,933	463,382	419,913	430,531
Placements with and financing and advances to banks	1,974,964	2,588,964	2,150,964	2,662,314
Government sukuks	16,198	26,715	16,198	26,715
Investments	1,177,532	789,241	1,177,532	789,241
Derivative financial assets	40,865	17,971	40,865	17,971
Financing and advances	3,231,905	3,186,405	2,639,100	2,602,613
Finance lease receivables	12,587	12,556	12,587	12,556
Other assets	33,072	32,578	23,655	39,782
Sub-total	9,363,416	9,231,603	9,091,194	8,876,390
<i>Credit risk exposure of unrecognised financial instruments:</i>				
Credit commitments	179,528	202,507	179,528	202,507
Contingent liabilities	595,366	501,993	595,366	501,993
Sub-total	774,894	704,500	774,894	704,500
Total credit exposures	10,138,310	9,936,103	9,866,088	9,580,890

Investments excludes equity investments which comprise of quoted equities, unquoted security and unquoted fund.
Other assets exclude prepayments.

(i) Concentration of credit risk for Group and Bank

The Group monitors concentrations of credit risk by sector. An analysis of concentrations of credit risk from the assets is shown below:

Group	Cash and short-term funds and placements with financial institutions B\$'000	Balances with Autoriti Monetari Brunei Darussalam B\$'000	Government sukuk B\$'000	Investments B\$'000	Derivative financial assets B\$'000	Financing and advances B\$'000	Financing lease receivables B\$'000	Other assets B\$'000	On-balance sheet total B\$'000	Commitments and contingencies B\$'000
2017										
Agricultural	—	—	—	—	—	8,701	—	—	8,701	5,775
Financial	4,394,324	—	—	642,437	40,865	19,675	—	—	5,097,301	269,544
Manufacturing	—	—	—	—	—	57,618	—	—	57,618	1,386
Transportation	—	—	—	52,902	—	611,630	—	—	664,532	29,640
Infrastructure	—	—	—	—	—	49,138	—	—	49,138	215,575
Traders	—	—	—	—	—	107,646	—	—	107,646	25,568
Services	—	—	—	47,498	—	70,166	12,587	—	130,251	30,708
Residential property (personal)	—	—	—	—	—	701,477	—	—	701,477	19,670
Commercial (property development)	—	—	—	126,847	—	107,707	—	—	234,554	33,100
Tourism	—	—	—	—	—	2,744	—	—	2,744	3,590
Telecommunication and information technology	—	—	—	—	—	2,819	—	—	2,819	6,233
Personal and consumption financing	—	—	—	—	—	1,141,837	—	—	1,141,837	69,036
Oil and gas	—	—	—	—	—	350,747	—	—	350,747	65,069
Others	—	456,933	16,198	307,848	—	—	—	33,072	814,051	—
Total	4,394,324	456,933	16,198	1,177,532	40,865	3,231,905	12,587	33,072	9,363,416	774,894

Investments excludes equity investments which comprise of quoted equities, unquoted security and unquoted fund.

Other assets exclude prepayments.

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Group	Cash and short-term funds and deposits and placements with financial institutions B\$'000	Balances with Autoriti Monetari Brunei Darussalam B\$'000	Government sukuku B\$'000	Investments B\$'000	Derivative financial assets B\$'000	Financing and advances B\$'000	Financing lease receivables B\$'000	Other assets B\$'000	On-balance sheet total B\$'000	Commitments and contingencies B\$'000
2016										
Agricultural	—	—	—	—	—	7,295	—	—	7,295	1,443
Financial	4,702,755	—	—	422,536	17,971	23,866	—	—	5,167,128	165,485
Manufacturing	—	—	—	—	—	39,461	—	—	39,461	3,033
Transportation	—	—	—	37,563	—	523,420	—	—	560,983	20,494
Infrastructure	—	—	—	—	—	49,669	—	—	49,669	216,341
Traders	—	—	—	—	—	101,090	—	—	101,090	29,937
Services	—	—	—	8,189	—	40,272	12,556	—	61,017	14,026
Residential property (personal)	—	—	—	—	—	665,930	—	—	665,930	20,298
Commercial (property development)	—	—	—	25,174	—	126,836	—	—	152,010	100,791
Tourism	—	—	—	—	—	16,368	—	—	16,368	4,278
Telecommunication and information technology	—	—	—	—	—	8,228	—	—	8,228	8,495
Personal and consumption financing	—	—	—	—	—	1,105,226	—	—	1,105,226	62,560
Oil and gas	—	—	—	—	—	478,744	—	—	478,744	57,319
Others	—	463,382	26,715	295,779	—	—	—	32,578	818,454	—
Total	4,702,755	463,382	26,715	789,241	17,971	3,186,405	12,556	32,578	9,231,603	704,500

Investments excludes equity investments which comprise of quoted equities, unquoted security and unquoted fund.

Other assets exclude prepayments.

Bank Islam Brunei Darussalam Berhad
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Year ended 31 December 2017

Bank	Cash and short-term funds and deposits and placements with financial institutions B\$'000	Balances with Autoriti Monetari Brunei Darussalam B\$'000	Government sukuk B\$'000	Investments B\$'000	Derivative financial assets B\$'000	Financing and advances B\$'000	Financing lease receivables B\$'000	Other assets B\$'000	On-balance sheet total B\$'000	Commitments and contingencies B\$'000
2017										
Agricultural	—	—	—	—	—	8,701	—	—	8,701	5,775
Financial	4,761,344	—	—	642,437	40,865	19,675	—	—	5,464,321	269,544
Manufacturing	—	—	—	—	—	57,618	—	—	57,618	1,386
Transportation	—	—	—	52,902	—	7,235	—	—	60,137	29,640
Infrastructure	—	—	—	—	—	47,653	—	—	47,653	215,575
Traders	—	—	—	—	—	107,647	—	—	107,647	25,568
Services	—	—	—	47,498	—	70,166	12,587	—	130,251	30,708
Residential property (personal)	—	—	—	—	—	701,477	—	—	701,477	19,670
Commercial (property development)	—	—	—	126,847	—	107,707	—	—	234,554	33,100
Tourism	—	—	—	—	—	2,743	—	—	2,743	3,590
Telecommunication and information technology	—	—	—	—	—	2,819	—	—	2,819	6,233
Personal and consumption financing	—	—	—	—	—	1,075,021	—	—	1,075,021	69,036
Oil & gas	—	—	—	—	—	430,638	—	—	430,638	65,069
Others	—	419,913	16,198	307,848	—	—	—	23,655	767,614	—
Total	4,761,344	419,913	16,198	1,177,532	40,865	2,639,100	12,587	23,655	9,091,194	774,894

Investments excludes equity investments which comprise of quoted equities, unquoted security and unquoted fund.

Other assets exclude prepayments.

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Bank	Cash and short-term funds and deposits and placements with financial institutions B\$'000	Balances with Autoriti Monetari Brunei Darussalam B\$'000	Government sukuk B\$'000	Investments B\$'000	Derivative financial assets B\$'000	Financing and advances B\$'000	Financing lease receivables B\$'000	Other assets B\$'000	On-balance sheet total B\$'000	Commitments and contingencies B\$'000
2016										
Agricultural	—	—	—	—	—	7,295	—	—	7,295	1,443
Financial	4,956,981	—	—	422,536	17,971	23,866	—	—	5,421,354	165,485
Manufacturing	—	—	—	—	—	39,461	—	—	39,461	3,033
Transportation	—	—	—	37,563	—	14,891	—	—	52,454	20,494
Infrastructure	—	—	—	—	—	45,136	—	—	45,136	216,341
Traders	—	—	—	—	—	101,090	—	—	101,090	29,937
Services	—	—	—	8,189	—	40,272	12,556	—	61,017	14,026
Residential property (personal)	—	—	—	—	—	665,930	—	—	665,930	20,298
Commercial (property development)	—	—	—	25,174	—	126,836	—	—	152,010	100,791
Tourism	—	—	—	—	—	16,368	—	—	16,368	4,278
Telecommunication and information technology	—	—	—	—	—	8,228	—	—	8,228	8,495
Personal and consumption financing	—	—	—	—	—	1,033,984	—	—	1,033,984	62,560
Oil & gas	—	—	—	—	—	479,256	—	—	479,256	57,319
Others	—	430,531	26,715	295,779	—	—	—	39,782	792,807	—
Total	4,956,981	430,531	26,715	789,241	17,971	2,602,613	12,556	39,782	8,876,390	704,500

Investments excludes equity investments which comprise of quoted equities, unquoted security and unquoted fund.

Other assets exclude prepayments.

(ii) Collateral

The main types of collateral obtained by the Group and the Bank to mitigate credit risk are as follows:

- For programme lending – assignment of income;
- For mortgages – charges over residential properties;
- For auto financing – ownership claims over the vehicles financed;
- For commercial property financing – charges over the properties financed; and
- For other financing – charges over business assets such as premises, inventories, assignment of receivables or under lien deposits.

Based on the secured financings, the fair values of collaterals held by the Group and Bank for which they are entitled to sell or pledge in the event of default is as follows: (Refer to Note 22 for the breakdown of financings by security)

Group	2017		2016	
	Carrying amount of financing and advances B\$'000	Fair value of collateral B\$'000	Carrying amount of financing and advances B\$'000	Fair value of collateral B\$'000
Type of collateral				
Cash	238,595	238,595	224,418	224,418
Properties	750,046	679,542	720,732	645,656
Vessels	231,095	230,432	269,302	267,768
Guarantees	897	897	–	–
Motor vehicles and others	696,370	579,245	695,315	582,575
Total	1,917,003	1,728,711	1,909,767	1,720,417

Bank	2017		2016	
	Carrying amount of financing and advances B\$'000	Fair value of collateral B\$'000	Carrying amount of financing and advances B\$'000	Fair value of collateral B\$'000
Type of collateral				
Cash	238,595	238,595	224,418	224,418
Properties	750,046	679,542	720,732	645,656
Vessels	310,987	310,324	352,117	350,583
Guarantees	897	897	–	–
Motor vehicles and others	14,132	14,132	18,944	18,944
Total	1,314,657	1,243,490	1,316,211	1,239,601

The fair value of collateral excluded the effect of over-collateralisation.

The carrying amount of properties and motor vehicles that have been repossessed during the year amount to B\$16,360,000 for the Group (2016: B\$10,171,000) and B\$14,221,000 for the Bank (2016: B\$5,375,000).

(iii) Credit quality of gross financing and advances

Gross financing and advances are classified as follows:

- Neither past due nor impaired financing and advances

Financing and advances which the borrower has not missed a contractual payment (profit or principal) when contractually due and are not impaired as there is no objective evidence of impairment.

- Past due but not impaired financing and advances

Those financing and advances which the contractual profit or principal payments are past due, but the Group and the Bank believe that impairment is not appropriate on the basis of the level of collateral available to the Group and the Bank.

- Impaired financing and advances

Financing and advances are classified as impaired when the principal or profit are past due for three months or more, or where a financing is in arrears for less than three months, but the financing exhibits indications of significant credit weakness.

The table below summarises the credit quality of the Group's and the Bank's gross financing according to the above classifications.

	Group		Bank	
	2017	2016	2017	2016
	B\$'000	B\$'000	B\$'000	B\$'000
Neither past due nor impaired	3,094,615	3,030,485	2,501,406	2,445,144
Past due but not impaired	63,130	64,242	62,028	63,538
Impaired	151,403	197,367	143,368	190,368
	3,309,148	3,292,094	2,706,802	2,699,050
Allowance for impaired financing and advances				
- collective allowance	(32,909)	(44,214)	(29,306)	(40,355)
- individual allowance	(44,334)	(61,475)	(38,396)	(56,082)
Total	3,231,905	3,186,405	2,639,100	2,602,613

Neither past due nor impaired financing

	Group		Bank	
	2017	2016	2017	2016
	B\$'000	B\$'000	B\$'000	B\$'000
Retail	2,374,873	2,310,911	1,725,191	1,661,512
Corporate	719,742	719,574	776,215	783,632
Total	3,094,615	3,030,485	2,501,406	2,445,144

Past due but not impaired financing

	----- Group -----			
	2017		2016	
	B\$'000	% of gross financing	B\$'000	% of gross financing
By ageing:				
1 month-in-arrears (1 to 30 days)	48,321	1.5	44,913	1.4
2 months-in-arrears (31 to 60 days)	10,007	0.3	10,881	0.3
3 months-in-arrears (61 to 90 days)	4,802	0.1	8,448	0.3
Total	63,130	1.9	64,242	2.0

	----- Bank -----			
	2017		2016	
	B\$'000	% of gross financing	B\$'000	% of gross financing
By ageing:				
1 month-in-arrears (1 to 30 days)	47,223	1.7	44,210	1.6
2 months-in-arrears (31 to 60 days)	10,003	0.4	10,880	0.4
3 months-in-arrears (61 to 90 days)	4,802	0.2	8,448	0.3
Total	62,028	2.3	63,538	2.3

Impaired financing

	Group		Bank	
	2017	2016	2017	2016
	B\$'000	B\$'000	B\$'000	B\$'000
Individually assessed	113,495	150,850	105,460	143,851
Of which:				
0 month-in-arrears	58,297	40,541	55,225	37,556
1 month-in-arrears (1 to 30 days)	122	137	—	—
2 months-in-arrears (31 to 60 days)	5,098	996	4,676	530
3 months-in-arrears and above (> 60 days)	49,978	109,176	45,559	105,765
Collectively assessed	37,908	46,517	37,908	46,517
Total	151,403	197,367	143,368	190,368

Impaired financing - rescheduled and restructured financing

	Group		Bank	
	2017	2016	2017	2016
	B\$'000	B\$'000	B\$'000	B\$'000
Retail	3,450	4,325	2,487	2,837
Corporate	16,713	10,687	16,549	10,500
Total	20,163	15,012	19,036	13,337

Rescheduled and restructured financing are financing where the terms have been renegotiated due to deterioration in the borrowers' financial position and the Bank has made concessions that it would not otherwise consider. Once the financing is rescheduled or restructured, its satisfactory performance is monitored for a period of six months before it is reclassified to performing.

Internal rating definition:

The internal risk category is as described below:

Excellent to good	Obligors rated in this category have an excellent to good capacity to meet financial commitments with very low credit risk.
Fair	Obligors rated in this category have a fairly acceptable capacity to meet financial commitments with moderate credit risk.
Past due but not impaired	Obligors rated in this category have financial commitments that are past due but no objective evidence of impairment.
Impaired	Obligors with objective evidence of impairment as a result of one or more events that have an impact on the estimated future cash flows of the obligors that can be reliably estimated.

Financing and advances by line of business assessed by reference to internal rating system

	Retail	Corporate	Total
	B\$'000	B\$'000	B\$'000
Group			
2017			
Neither past due nor impaired			
Excellent to good	1,753,299	495,064	2,248,363
Fair	622,185	224,067	846,252
Past due but not impaired	26,779	36,351	63,130
Impaired	62,252	89,151	151,403
Total	2,464,515	844,633	3,309,148

Group	Retail B\$'000	Corporate B\$'000	Total B\$'000
2016			
Neither past due nor impaired			
Excellent to good	1,942,399	625,976	2,568,375
Fair	368,512	93,598	462,110
Past due but not impaired	19,986	44,256	64,242
Impaired	73,767	123,600	197,367
Total	2,404,664	887,430	3,292,094

Bank	Retail B\$'000	Corporate B\$'000	Total B\$'000
2017			
Neither past due nor impaired			
Excellent to good	1,363,771	563,964	1,927,735
Fair	361,419	212,252	573,671
Past due but not impaired	25,745	36,283	62,028
Impaired	54,238	89,130	143,368
Total	1,805,173	901,629	2,706,802

2016			
Neither past due nor impaired			
Excellent to good	1,396,716	714,051	2,110,767
Fair	264,797	69,580	334,377
Past due but not impaired	19,338	44,200	63,538
Impaired	66,856	123,512	190,368
Total	1,747,707	951,343	2,699,050

(iv) Credit quality of other financial assets (excluding equity securities)

Credit quality of other financial assets (excluding equity securities) due from external parties are as follows:

Group	Investments – Financial assets at fair value through PL B\$'000	Investments – Financial assets available-for-sale B\$'000	Total B\$'000
2017			
Islamic financing securities			
Rated AAA	–	–	–
Rated AA1 to AA3	–	26,608	26,608
Rated A1 to A3	–	653,663	653,663
Rated A or below	–	345,921	345,921
Unrated – Quasi-government	–	79,439	79,439
Unrated – Others	–	–	–
Other investments	1,816	70,085	71,901
Total	1,816	1,175,716	1,177,532
2016			
Islamic financing securities			
Rated AAA	–	–	–
Rated AA1 to AA3	–	50,746	50,746
Rated A1 to A3	–	373,462	373,462
Rated A or below	–	212,082	212,082
Unrated – Quasi-government	–	73,508	73,508
Unrated – Others	–	2,223	2,223
Other investments	603	76,617	77,220
Total	603	788,638	789,241

Government sukuks held by the Group (refer to Note 19) are issued by Autoriti Monetari Brunei Darussalam. Derivative financial assets held with other counterparties (refer to Note 21) are generally above the rating of A-.

	Investments – Financial assets at fair value through PL B\$'000	Investments – Financial assets available-for-sale B\$'000	Total B\$'000
Bank			
2017			
Islamic debt securities			
Rated AAA	–	–	–
Rated AA1 to AA3	–	26,608	26,608
Rated A1 to A3	–	653,663	653,663
Rated A or below	–	345,921	345,921
Unrated – Quasi-government	–	79,439	79,439
Unrated – Others	–	–	–
Other investments	1,816	70,085	71,901
Total	1,816	1,175,716	1,177,532
2016			
Islamic debt securities			
Rated AAA	–	–	–
Rated AA1 to AA3	–	50,746	50,746
Rated A1 to A3	–	373,462	373,462
Rated A or below	–	212,082	212,082
Unrated – Quasi-government	–	73,508	73,508
Unrated – Others	–	2,223	2,223
Other investments	603	76,617	77,220
Total	603	788,638	789,241

Government sukuks held by the Group (refer to Note 19) are issued by Autoriti Monetari Brunei Darussalam. Derivative financial assets held with other counterparties (refer to Note 21) are generally above the rating of A-.

(v) Offsetting financial assets and financial liabilities

The disclosures set out in the table below include financial assets and liabilities that:

- are offset in the statements of financial position of the Group and Bank; or
- are subject to an enforceable master netting arrangement, irrespective of whether are offset in the statements of financial position.

Financial instruments such as financings and advances, deposits, other assets and other liabilities do not offset in the statements of financial position of the Group and Bank.

The derivative transactions of the Group and Bank that are not transacted on an exchange are entered into under Master Agreement for Islamic Transactions. In general, under such agreement the amounts owed by each counterparty that are due on a single day in respect of all transactions outstanding in the same currency under the agreement are aggregated into a single net amount being payable by one party to the other. In certain circumstances, for example when a credit event such as a default occurs, all outstanding transactions under the agreement are terminated, the termination value is assessed and only a single net amount is due or payable in settlement of all transactions.

The above agreement does not meet the criteria for offsetting in the statements of financial position. This is because they create a right of set-off recognised amounts that is enforceable only following an event of default, insolvency or bankruptcy of the Group and Bank or the counterparties. In addition, the Group and Bank and its counterparties do not intend to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

Financial assets and financial liabilities subject to offsetting, enforceable master agreement for Islamic transactions

	Gross amounts of recognised financial instruments BS'000	Gross amounts of recognised financial instruments offset in the statements of financial position BS'000	Net amounts of financial instruments presented in the statements of financial position BS'000	Related amounts not offset in the statements of financial position		Net amount BS'000
				Financing instruments BS'000	Financing collateral BS'000	
Group and Bank						
2017						
Derivative financial assets	40,865	—	40,865	(11,323)	—	29,542
Derivative financial liabilities	15,860	—	15,860	(11,323)	—	4,537
2016						
Derivative financial assets	17,971	—	17,971	(17,777)	—	194
Derivative financial liabilities	110,620	—	110,620	(17,777)	—	92,843

The gross amounts of financial assets and financial liabilities and their net amounts as presented in the statements of financial position that are disclosed in the above tables are measured in the statements of financial position on fair value.

(b) Market risk

Overview of the Bank's market risk

Market risk is defined as the uncertainty of market value and earnings from changes in profit rates, exchange rates, market prices and volatilities. The Bank assumes market risk from trading and investment activities and from retail and corporate financings.

The Bank's asset and liability profile can be characterised as that of a standard retail bank. Trading activities are negligible, with an investment portfolio of no more than 15% of the Bank's total assets. Stress testing and sensitivity analysis are performed to assess the impact from changes in the yield curve for income on a monthly basis and for market value on a quarterly basis.

Management of market risk

Market risk of the Bank is managed by the Market Risk unit of the Risk Management Division. Market risk report is presented monthly to the Bank's ALCO and quarterly to the AFRC committee. ALCO provides general guidelines to the parameters and limits applied in deriving the report's outcome. ALCO maintains the policy and procedures with regards to the market risk framework that are consistent and in-line with the short and long-term strategic goals and directions of the Board of Directors.

The objective of the Bank's market risk management is to manage and control market risk exposures in order to optimise return on risk while maintaining a market risk profile consistent with the Bank's approved risk appetite.

The Bank is exposed to the following risks:

Profit Rate Risk: Changes in the market wide profit rate i.e. yield curve will have an impact on the income of the Bank. This depends on how quickly the Bank can absorb the change in profit rate and price this in the composition of assets and liabilities. Stress test and sensitivity analysis is performed at 1%, 3% and 8% parallel shift in market profit rates and the resulting change in 1 year net income position of the Bank.

Fair Value/Duration Risk: The fair value of assets and liabilities changes as the discount factor i.e. the yield curve moves up or down. The composition and duration of the assets and liabilities will determine the net change in net asset value. The base discount factor is the market SGD yield curve, to which a premium is added to reflect the market perception of the Bank's credit standing. The changes in fair value will not have a material impact on the financial statements of the Group and the Bank.

Foreign Exchange Risk: The Bank has substantial exposure in foreign exchange denominated assets, particularly the United States Dollar ("USD"). This foreign exchange risk is managed through foreign exchange forward currency hedges, whereby all foreign exchange assets are required to be covered by either liabilities in the same currency and/or foreign exchange forward hedge with a reputable international counterparty. The Bank's Executive Committee has given approval for only B\$10 million equivalent in total aggregate of foreign currency open position.

Overview of the subsidiary's market risk

All the subsidiary's financing assets are fixed rate and is not subject to future movement. However, the subsidiary's deposit from customers are subject to future repricing risk and the risk that prices and rates will move, resulting in profit or loss to the subsidiary.

The subsidiary is exposed to the following risks:

Rate of return or profit risk: risk that changes in prevailing profit rate for deposits will adversely affect the earnings stream of the subsidiary, thus resulting in reduced net financing income;

Price Risk: risk that changes in prevailing profit rate will adversely affect the values of assets, liabilities, and capital. Price risk is the valuation effect due to changes in rates and other market factors both internal and external to the subsidiary. The objective of the subsidiary's market risk management is to manage and control market risk exposures in order to optimise return on risk while maintaining a market risk profile consistent with the subsidiary's approved risk appetite.

Market risk governance and management

The board of the subsidiary reviews these risks at least annually, and more often as conditions may warrant. This helps to provide for growth that is sound, profitable and balanced without sacrificing the quality of service and to manage and maintain policies and procedures that are consistent with the subsidiary's and Group's strategic goals.

(i) Profit rate risk

The tables below summarise the Group's and Bank's exposure to profit rate risk and gap position on non-trading portfolio. The tables indicate the periods in which the financial instruments reprice or mature, whichever is earlier.

	Up to 1 month B\$'000	1 – 3 months B\$'000	3 – 12 months B\$'000	1 – 5 years B\$'000	Over 5 years B\$'000	Non profit sensitive B\$'000	Trading book B\$'000	Total B\$'000
Group 2017								
Assets								
Cash and cash equivalents	1,269,469	547,933	–	–	–	601,958	–	2,419,360
Balances with Autoriti Monetari Brunei Darussalam	–	–	–	–	–	456,933	–	456,933
Placements with and financing and advances to bank	–	–	1,974,964	–	–	–	–	1,974,964
Government sukuks	–	–	16,198	–	–	–	–	16,198
Financial assets at fair value through profit or loss	–	–	–	–	–	–	1,816	1,816
Financial assets available-for- sale	66,866	181,088	67,119	505,751	354,892	–	–	1,175,716
Derivative financial assets	–	–	–	–	–	–	40,865	40,865
Financing and advances								
- non-impaired	56,231	130,108	227,072	970,412	1,809,352	–	–	3,193,175
- impaired	4,904	–	4,909	20,950	7,967	–	–	38,730
Finance lease receivables	–	–	–	–	–	12,587	–	12,587
Other assets	–	–	–	–	–	33,072	–	33,072
Total	1,397,470	859,129	2,290,262	1,497,113	2,172,211	1,104,550	42,681	9,363,416

Financing assets at fair value through profit or loss and available-for-sale exclude equity investments which comprise of quoted equities, unquoted security and unquoted fund.
Financing and advances is arrived at after deducting collective assessment allowance and individual assessment allowance from the outstanding gross impaired financing.
Other assets exclude prepayments.

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Group 2017	Up to 1 month B\$'000	1 – 3 months B\$'000	3 – 12 months B\$'000	1 – 5 years B\$'000	Over 5 years B\$'000	Non profit sensitive B\$'000	Trading book B\$'000	Total B\$'000
Liabilities								
Deposits from customers	(3,903,630)	(1,578,702)	(1,854,560)	(189,436)	(40)	–	–	(7,526,368)
Deposits from banks and other financial institutions	(185,015)	(81,975)	(146,743)	(107,700)	–	–	–	(521,433)
Derivative financial liabilities	–	–	–	–	–	–	(15,860)	(15,860)
Placements from other financial institutions	(240,716)	–	–	–	–	–	–	(240,716)
Other liabilities	–	–	–	–	–	(115,400)	–	(115,400)
Total	(4,329,361)	(1,660,677)	(2,001,303)	(297,136)	(40)	(115,400)	(15,860)	(8,419,777)
Recognised assets profit sensitivity gap	(2,931,891)	(801,548)	288,959	1,199,977	2,172,171	989,150	26,821	943,639
Unrecognised financial instruments profit sensitivity gap	–	–	–	–	–	(774,894)	–	(774,894)
Total profit sensitivity gap	(2,931,891)	(801,548)	288,959	1,199,977	2,172,171	214,256	26,821	168,745

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Group	Up to	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Non profit	Trading	Total
2016	1 month	B\$'000	B\$'000	B\$'000	B\$'000	sensitive	book	B\$'000
	B\$'000		B\$'000	B\$'000	B\$'000	B\$'000	B\$'000	B\$'000
Assets								
Cash and cash equivalents	1,174,294	723,457	–	–	–	216,040	–	2,113,791
Balances with Autoriti Monetari Brunei Darussalam	–	–	–	–	–	463,382	–	463,382
Placements with and financing and advances to bank	–	–	2,588,964	–	–	–	–	2,588,964
Government sukuks	–	9,988	16,727	–	–	–	–	26,715
Financial assets at fair value through profit or loss	–	–	–	–	–	–	603	603
Financial assets available-for- sale	45,048	–	71,707	449,790	222,093	–	–	788,638
Derivative financial assets	–	–	–	–	–	–	17,971	17,971
Financing and advances								
- non-impaired	38,066	88,611	221,797	870,777	1,875,525	–	–	3,094,776
- impaired	31,092	2,868	7,304	27,672	21,817	876	–	91,629
Finance lease receivables	–	–	–	–	–	12,556	–	12,556
Other assets	–	–	–	–	–	32,578	–	32,578
Total	1,288,500	824,924	2,906,499	1,348,239	2,119,435	725,432	18,574	9,231,603

Financing assets at fair value through profit or loss and available-for-sale exclude equity investments which comprise of quoted equities, unquoted security and unquoted fund.
Financing and advances is arrived at after deducting collective assessment allowance and individual assessment allowance from the outstanding gross impaired financing.
Other assets exclude prepayments.

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Group 2016	Up to 1 month B\$'000	1 – 3 months B\$'000	3 – 12 months B\$'000	1 – 5 years B\$'000	Over 5 years B\$'000	Non profit sensitive B\$'000	Trading book B\$'000	Total B\$'000
Liabilities								
Deposits from customers	(4,216,459)	(1,182,476)	(1,657,376)	(157,375)	(958)	–	–	(7,214,644)
Deposits from banks and other financial institutions	(298,288)	–	(141,584)	(70,400)	–	–	–	(510,272)
Derivative financial liabilities	–	–	–	–	–	–	(110,620)	(110,620)
Placements from other financial institutions	(57,872)	–	–	–	–	–	–	(57,872)
Other liabilities	–	–	–	–	–	(102,711)	–	(102,711)
Total	(4,572,619)	(1,182,476)	(1,798,960)	(227,775)	(958)	(102,711)	(110,620)	(7,996,119)
Recognised assets profit sensitivity gap	(3,284,119)	(357,552)	1,107,539	1,120,464	2,118,477	622,721	(92,046)	1,235,484
Unrecognised financial instruments profit sensitivity gap	–	–	–	–	–	(704,500)	–	(704,500)
Total profit sensitivity gap	(3,284,119)	(357,552)	1,107,539	1,120,464	2,118,477	(81,779)	(92,046)	530,984

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	Up to 1 month B\$'000	1 – 3 months B\$'000	3 – 12 months B\$'000	1 – 5 years B\$'000	Over 5 years B\$'000	Non profit sensitive B\$'000	Trading book B\$'000	Total B\$'000
Bank 2017								
Assets								
Cash and cash equivalents	1,272,825	735,933	–	–	–	601,622	–	2,610,380
Balances with Autoriti Monetari Brunei Darussalam	–	–	–	–	–	419,913	–	419,913
Placements with and financing and advances to bank	–	–	2,150,964	–	–	–	–	2,150,964
Government sukuks	–	–	16,198	–	–	–	–	16,198
Financial assets at fair value through profit or loss	–	–	–	–	–	–	1,816	1,816
Financial assets available-for- sale	66,866	181,088	67,119	505,751	354,892	–	–	1,175,716
Derivative financial assets	–	–	–	–	–	–	40,865	40,865
Financing and advances								
- non-impaired	55,978	129,427	214,822	601,631	1,598,512	–	–	2,600,370
- impaired	4,904	–	4,909	20,950	7,967	–	–	38,730
Finance lease receivables	–	–	–	–	–	12,587	–	12,587
Other assets	–	–	–	–	–	23,655	–	23,655
Total	1,400,573	1,046,448	2,454,012	1,128,332	1,961,371	1,057,777	42,681	9,091,194

Financing assets at fair value through profit or loss and available-for-sale exclude equity investments which comprise of quoted equities, unquoted security and unquoted fund.
Financing and advances is arrived at after deducting collective assessment allowance and individual assessment allowance from the outstanding gross impaired financing.
Other assets exclude prepayments.

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	Up to 1 month B\$'000	1 – 3 months B\$'000	3 – 12 months B\$'000	1 – 5 years B\$'000	Over 5 years B\$'000	Non profit sensitive B\$'000	Trading book B\$'000	Total B\$'000
Bank 2017								
Liabilities								
Deposits from customers	(3,863,993)	(1,565,045)	(1,826,717)	(178,993)	–	–	–	(7,434,748)
Deposits and placements of banks and other financial institutions	(140,424)	(27,200)	(203,984)	(22,500)	–	–	–	(394,108)
Derivative financial liabilities	–	–	–	–	–	–	(15,860)	(15,860)
Placements from other financial institutions	(240,716)	–	–	–	–	–	–	(240,716)
Other liabilities	–	–	–	–	–	(99,808)	–	(99,808)
Total	(4,245,133)	(1,592,245)	(2,030,701)	(201,493)	–	(99,808)	(15,860)	(8,185,240)
Recognised assets profit sensitivity gap	(2,844,560)	(545,797)	423,311	926,839	1,961,371	957,969	26,821	905,954
Unrecognised financial instruments profit sensitivity gap	–	–	–	–	–	(774,894)	–	(774,894)
Total profit sensitivity gap	(2,844,560)	(545,797)	423,311	926,839	1,961,371	183,075	26,821	131,060

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	Up to 1 month B\$'000	1 – 3 months B\$'000	3 – 12 months B\$'000	1 – 5 years B\$'000	Over 5 years B\$'000	Non profit sensitive B\$'000	Trading book B\$'000	Total B\$'000
Bank 2016								
Assets								
Cash and cash equivalents	1,171,523	901,457	–	–	–	221,687	–	2,294,667
Balances with Autoriti Monetari Brunei Darussalam	–	–	–	–	–	430,531	–	430,531
Placements with and financing and advances to bank	–	–	2,662,314	–	–	–	–	2,662,314
Government sukuks	–	9,988	16,727	–	–	–	–	26,715
Financial assets at fair value through profit or loss	–	–	–	–	–	–	603	603
Financial assets available-for- sale	45,048	–	71,707	449,790	222,093	–	–	788,638
Derivative financial assets	–	–	–	–	–	–	17,971	17,971
Financing and advances								
- non-impaired	37,923	87,976	210,654	509,904	1,662,274	–	–	2,508,731
- impaired	31,089	2,855	7,286	28,986	23,666	–	–	93,882
Finance lease receivables	–	–	–	–	–	12,556	–	12,556
Other assets	–	–	–	–	–	39,782	–	39,782
Total	1,285,583	1,002,276	2,968,688	988,680	1,908,033	704,556	18,574	8,876,390

Financing assets at fair value through profit or loss and available-for-sale exclude equity investments which comprise of quoted equities, unquoted security and unquoted fund.
Financing and advances is arrived at after deducting collective assessment allowance and individual assessment allowance from the outstanding gross impaired financing.
Other assets exclude prepayments.

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	Up to 1 month B\$'000	1 – 3 months B\$'000	3 – 12 months B\$'000	1 – 5 years B\$'000	Over 5 years B\$'000	Non profit sensitive B\$'000	Trading book B\$'000	Total B\$'000
Bank 2016								
Liabilities								
Deposits from customers	(4,188,566)	(1,173,742)	(1,615,078)	(137,229)	–	–	–	(7,114,615)
Deposits and placements of banks and other financial institutions	(137,899)	(13,523)	(191,417)	(21,100)	–	–	–	(363,939)
Derivative financial liabilities	–	–	–	–	–	–	(110,620)	(110,620)
Placements from other financial institutions	(57,872)	–	–	–	–	–	–	(57,872)
Other liabilities	–	–	–	–	–	(82,413)	–	(82,413)
Total	(4,384,337)	(1,187,265)	(1,806,495)	(158,329)	–	(82,413)	(110,620)	(7,729,459)
Recognised assets profit sensitivity gap	(3,098,754)	(184,989)	1,162,193	830,351	1,908,033	622,143	(92,046)	1,146,931
Unrecognised financial instruments profit sensitivity gap	–	–	–	–	–	(704,500)	–	(704,500)
Total profit sensitivity gap	(3,098,754)	(184,989)	1,162,193	830,351	1,908,033	(82,357)	(92,046)	442,431

Profit sensitivity analysis for variable rate instruments:

A change of 100, 300 and 800 basis points in profit rates at the reporting date would have increased/(decreased) equity and profit or loss by the amounts shown below. The analysis assumes that all other variables, in particular foreign currency rates, remain constant.

Group and Bank	Profit or loss / Equity					
	100 bp	100 bp	300 bp	300 bp	800 bp	800 bp
	increase	decrease	increase	decrease	increase	decrease
	B\$'000	B\$'000	B\$'000	B\$'000	B\$'000	B\$'000
2017						
Variable rate instruments	1,809	(1,809)	5,427	(5,427)	14,472	(14,472)
2016						
Variable rate instruments	2,532	(2,532)	7,596	(7,596)	20,256	(20,256)

(ii) Foreign exchange risk of the Bank

Trading positions

The Bank controls the foreign exchange risk within the trading portfolio by limiting the open exposure to individual currencies, and on an aggregate basis.

Overall (trading and non-trading positions)

To mitigate the risk of loss due to foreign currency rate changes the Bank will match its positions as closely as possible.

Trading is always conducted to ensure that internal set limits are adhered to.

Positions will be analysed on a daily basis, whereby a currency risk report will be produced for the Managing Director and the Chief Risk Officer on a daily basis and for the Board of Directors at the end of each quarter.

Foreign exchange risk of the subsidiaries

The subsidiaries' nature of business does not maintain any trading positions and to have significant exposure to foreign exchange risk.

Exposure to foreign exchange risk

As at the reporting date, net currency exposures arising from the Group's major trading currencies were as follows:

	-----Group and Bank-----			
	USD B\$'000	EUR B\$'000	GBP B\$'000	Others B\$'000
2017				
Assets				
Cash and short term funds	1,489,165	8,970	123,390	10,620
Placements with and financing and advances to bank	1,783,277	–	10,812	–
Investments	1,129,159	–	–	–
Financing and advances	242,230	–	–	–
Others	18,539	–	1,249	–
Total	4,662,370	8,970	135,451	10,620
Liabilities				
Deposits from customers	(812,331)	(7,945)	(337,400)	(9,965)
Deposits from banks and other financial institutions	(9,965)	(1,374)	(752)	–
Placements from other financial institutions	(240,716)	–	–	–
Others	(2,712)	(2)	(562)	(54)
Total	(1,065,724)	(9,321)	(338,714)	(10,019)
Net foreign exchange exposure	3,596,646	(351)	(203,263)	601
Effect of use of derivatives	(3,588,814)	428	203,358	83
Net exposure	7,832	77	95	684

2016

Assets				
Cash and short term funds	1,835,980	8,996	136,689	9,586
Placements with and financing and advances to bank	2,344,560	–	193,744	–
Investments	791,748	–	–	–
Financing and advances	252,767	–	–	–
Others	15,623	71	3,046	–
Total	5,240,678	9,067	333,479	9,586

	-----Group and Bank-----			
2016	USD BS'000	EUR BS'000	GBP BS'000	Others BS'000
Liabilities				
Deposits from customers	(898,837)	(7,909)	(367,574)	(8,547)
Deposits from banks and other financial institutions	(2,016)	(1,122)	(479)	–
Placements from other financial institutions	(57,872)	–	–	–
Others	(5,666)	(74)	(787)	(162)
Total	(964,391)	(9,105)	(368,840)	(8,709)
Net foreign exchange exposure	4,276,287	(38)	(35,361)	877
Effect of use of derivatives	(4,276,364)	228	35,515	575
Net exposure	(77)	190	154	1,452

Sensitivity analysis

Considering that other risk variables remain constant, the foreign currency revaluation sensitivity for the Group and Bank as at the reporting date is summarised as follows:

Group and Bank	Profit or loss / Equity			
	2017		2016	
	- 1% depreciation BS'000	+ 1% appreciation BS'000	- 1% depreciation BS'000	+ 1% Appreciation BS'000
USD	(78)	78	1	(1)
EUR	(1)	1	(2)	2
GBP	(1)	1	(2)	2
Others	(7)	7	(15)	15
Total	(87)	87	(18)	18

(iii) Equity price risk

The Group is exposed to equity price risk on its equity investments that are carried at fair value through other comprehensive income.

For the year ended 31 December 2017, the impact on profit or loss of the Group and the Bank due to a 10% increase in the value of equity securities would have been an increase of B\$147,000 and B\$147,000 respectively after tax (2016: B\$250,000 and B\$1,021,000 respectively). A 10% decrease in the value of the equity securities would have had an equal and opposite effect on the profit or loss of the Group and the Bank. This analysis assumes that all other variables remain constant.

(c) Liquidity risk

Overview of the Bank's liquidity risk

The Group's exposure to liquidity risk arises when there is a possibility of the Group not having sufficient funds to meet its obligations from its financial liabilities.

The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stress conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

In addition, the Bank and one of its subsidiaries have to comply with Section 45(1) of the Islamic Banking Order, 2008 and section 13A of the Finance Companies Act, Cap 89 respectively to maintain minimum cash balances with the AMBD. The Bank and the subsidiary were in compliance with these requirements during the year ended 31 December 2017.

Management of liquidity and funding risk

The Bank manages its liquidity under the purview of its ALCO which is responsible for establishing the liquidity policy as well as monitoring liquidity on an ongoing basis. A Minimum Liquid Asset requirement has been established to ensure that the ratio of liquid assets to qualifying liabilities is subject to a minimum threshold at all times.

Overview of the subsidiary's liquidity risk

Liquidity risk is the risk that the subsidiary will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The subsidiary's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stress conditions, without incurring unacceptable losses or risking damage to the subsidiary's reputation.

Management of liquidity risk

Liquidity risk is managed in accordance with the subsidiary's liquidity needs through, in large part, receipt of placements from the Bank, in addition to the receipt of deposits from other financial institutions and retail depositors. This will ensure that liquidity risk is monitored and managed in a manner that ensures sufficient funds are available over a range of market conditions.

Maturity analysis

The table below summarises the Group's and Bank's assets and liabilities based on remaining contractual maturities. The expected cash flows of these assets and liabilities could vary significantly from what is shown in the table. For example, deposits from customers are not all expected to be withdrawn immediately.

	Carrying amount B\$'000	Gross nominal inflow/ (outflow) B\$'000	Less than 3 months B\$'000	3 – 6 months B\$'000	6 – 12 months B\$'000	1 – 3 years B\$'000	3 – 5 years B\$'000	Over 5 years B\$'000	No specific maturity B\$'000
Group									
2017									
Assets									
Cash, balances and placements with banks	2,419,360	2,608,442	2,608,442	–	–	–	–	–	–
Balances with Autoriti Monetari Brunei Darussalam	456,933	456,933	301,063	72,712	35,331	10,807	–	37,020	–
Placements with and financing and advances to banks	1,974,964	2,164,465	962,641	803,335	398,489	–	–	–	–
Government sukuks	16,198	16,310	–	6,310	10,000	–	–	–	–
Investments	1,177,532	1,305,872	256,465	8,073	80,060	264,037	318,730	266,451	112,056
Derivatives financial assets	40,865	39,526	35,134	525	2,105	1,762	–	–	–
Financing and advances	3,231,905	4,048,277	534,836	195,759	443,551	1,341,672	612,272	920,187	–
Finance lease receivables	12,587	30,580	165	165	330	1,420	1,440	27,060	–
Other assets	33,072	33,072	20,311	3,306	1,873	1,565	3,443	2,574	–
Total	9,363,416	10,703,477	4,719,057	1,090,185	971,739	1,621,263	935,885	1,253,292	112,056

Investments excludes equity investments which comprise of quoted equities, unquoted security and unquoted fund.

Other assets exclude prepayments.

	Carrying amount B\$'000	Gross nominal inflow/ (outflow) B\$'000	Less than 3 months B\$'000	3 – 6 months B\$'000	6 – 12 months B\$'000	1 – 3 years B\$'000	3 – 5 years B\$'000	Over 5 years B\$'000	No specific maturity B\$'000
Group 2017									
Liabilities									
Deposits from customers	(7,526,368)	(7,527,667)	(5,503,289)	(1,282,409)	(552,511)	(189,415)	–	(43)	–
Deposits and placements of banks and other financial institutions	(521,433)	(526,422)	(201,800)	(141,251)	(103,342)	(80,029)	–	–	–
Derivative financial liabilities	(15,860)	(15,981)	(3,173)	(342)	(7,107)	(5,359)	–	–	–
Placements from other financial institutions	(240,716)	(240,741)	(240,741)	–	–	–	–	–	–
Other liabilities	(115,400)	(115,400)	(71,735)	(14,531)	(14,819)	(8,718)	(639)	(4,958)	–
Total	(8,419,777)	(8,426,211)	(6,020,738)	(1,438,533)	(677,779)	(283,521)	(639)	(5,001)	–
Recognised assets net liquidity gap	943,639	2,277,266	(1,301,681)	(348,348)	293,960	1,337,742	935,246	1,248,291	112,056
Commitments and contingencies	(774,894)	(774,894)	(774,894)	–	–	–	–	–	–
Net liquidity gap	168,745	1,502,372	(2,076,575)	(348,348)	293,960	1,337,742	935,246	1,248,291	112,056

Group	Carrying amount B\$'000	Gross nominal inflow/ (outflow) B\$'000	Less than 3 months B\$'000	3 – 6 months B\$'000	6 – 12 months B\$'000	1 – 3 years B\$'000	3 – 5 years B\$'000	Over 5 years B\$'000	No specific maturity B\$'000
2016									
Assets									
Cash, balances and placements with banks	2,113,791	2,114,192	2,114,192	–	–	–	–	–	–
Balances with Autoriti Monetari Brunei Darussalam	463,382	463,382	317,414	42,373	61,628	9,116	–	32,851	–
Placements with and financing and advances to banks	2,588,964	2,597,507	1,039,894	693,521	864,092	–	–	–	–
Government sukuks	26,715	26,850	10,000	4,000	12,850	–	–	–	–
Investments	789,241	811,819	44,933	13,843	71,331	196,517	255,639	108,292	121,264
Derivatives financial assets	17,971	17,778	1,400	61	4,873	11,444	–	–	–
Financing and advances	3,186,405	4,069,766	517,840	343,344	268,900	1,347,974	601,312	990,396	–
Finance lease receivables	12,556	31,240	165	165	330	1,360	1,440	27,780	–
Other assets	32,578	32,578	18,718	4,109	2,309	3,026	2,911	1,505	–
Total	9,231,603	10,165,112	4,064,556	1,101,416	1,286,313	1,569,437	861,302	1,160,824	121,264

Investments excludes equity investments which comprise of quoted equities, unquoted security and unquoted fund.

Other assets exclude prepayments.

	Carrying amount B\$'000	Gross nominal inflow/ (outflow) B\$'000	Less than 3 months B\$'000	3 – 6 months B\$'000	6 – 12 months B\$'000	1 – 3 years B\$'000	3 – 5 years B\$'000	Over 5 years B\$'000	No specific maturity B\$'000
Group 2016									
Liabilities									
Deposits from customers	(7,214,644)	(7,215,958)	(5,405,989)	(673,380)	(977,822)	(157,749)	–	(1,018)	–
Deposits and placements of banks and other financial institutions	(510,272)	(515,158)	(249,082)	(211,111)	(3,643)	(51,322)	–	–	–
Derivative financial liabilities	(110,620)	(109,798)	(81,985)	(253)	(5,736)	(21,824)	–	–	–
Placements from other financial institutions	(57,872)	(57,878)	(57,878)	–	–	–	–	–	–
Other liabilities	(102,711)	(102,711)	(75,819)	(15,950)	(3,766)	(1,996)	(1,442)	(3,738)	–
Total	(7,996,119)	(8,001,503)	(5,870,753)	(900,694)	(990,967)	(232,891)	(1,442)	(4,756)	–
Recognised assets net liquidity gap	1,235,484	2,163,609	(1,806,197)	200,722	295,346	1,336,546	859,860	1,156,068	121,264
Commitments and contingencies	(704,500)	(704,500)	(704,500)	–	–	–	–	–	–
Net liquidity gap	530,984	1,459,109	(2,510,697)	200,722	295,346	1,336,546	859,860	1,156,068	121,264

	Carrying amount B\$'000	Gross nominal inflow/ (outflow) B\$'000	Less than 3 months B\$'000	3 – 6 months B\$'000	6 – 12 months B\$'000	1 – 3 years B\$'000	3 – 5 years B\$'000	Over 5 years B\$'000	No specific maturity B\$'000
Bank 2017									
Assets									
Cash and cash equivalents	2,610,380	2,611,462	2,611,462	–	–	–	–	–	–
Balances with Autoriti Monetari Brunei Darussalam	419,913	419,913	301,063	72,712	35,331	10,807	–	–	–
Placements with and financing and advances to banks	2,150,964	2,152,991	959,488	798,510	394,993	–	–	–	–
Government sukuks	16,198	16,310	–	6,310	10,000	–	–	–	–
Investments	1,177,532	1,298,035	243,498	8,073	80,152	264,405	315,817	274,034	112,056
Derivative financial assets	40,865	38,169	33,777	525	2,105	1,762	–	–	–
Financing and advances	2,639,100	3,316,014	479,697	195,759	287,634	804,990	612,272	935,662	–
Finance lease receivables	12,587	30,580	165	165	330	1,420	1,440	27,060	–
Other assets	23,655	23,655	10,892	3,309	1,872	1,565	3,443	2,574	–
Total	9,091,194	9,907,129	4,640,042	1,085,363	812,417	1,084,949	932,972	1,239,330	112,056

Investments excludes equity investments which comprise of quoted equities, unquoted security and unquoted fund.

Other assets exclude prepayments.

	Carrying amount B\$'000	Gross nominal inflow/ (outflow) B\$'000	Less than 3 months B\$'000	3 – 6 months B\$'000	6 – 12 months B\$'000	1 – 3 years B\$'000	3 – 5 years B\$'000	Over 5 years B\$'000	No specific maturity B\$'000
Bank 2017									
Liabilities									
Deposits from customers	(7,434,748)	(7,449,852)	(5,448,082)	(1,269,612)	(549,145)	(183,013)	–	–	–
Deposits from banks and other financial institutions	(394,108)	(395,867)	(167,672)	(90,744)	(114,629)	(22,822)	–	–	–
Derivative financial liabilities	(15,860)	(16,175)	(3,367)	(342)	(7,107)	(5,359)	–	–	–
Placements from other financial institutions	(240,716)	(240,741)	(240,741)	–	–	–	–	–	–
Other liabilities	(99,808)	(99,808)	(56,145)	(14,530)	(14,819)	(8,718)	(638)	(4,958)	–
Total	(8,185,240)	(8,202,443)	(5,916,007)	(1,375,228)	(685,700)	(219,912)	(638)	(4,958)	–
Recognised assets net liquidity gap	905,954	1,704,686	(1,275,965)	(289,865)	126,717	865,037	932,334	1,234,372	112,056
Commitments and contingencies	(774,894)	(774,894)	(774,894)	–	–	–	–	–	–
Net liquidity gap	131,060	929,792	(2,050,859)	(289,865)	126,717	865,037	932,334	1,234,372	112,056

	Carrying amount B\$'000	Gross nominal inflow/ (outflow) B\$'000	Less than 3 months B\$'000	3 – 6 months B\$'000	6 – 12 months B\$'000	1 – 3 years B\$'000	3 – 5 years B\$'000	Over 5 years B\$'000	No specific maturity B\$'000
Bank 2016									
Assets									
Cash and cash equivalents	2,294,667	2,295,069	2,295,069	–	–	–	–	–	–
Balances with Autoriti Monetari Brunei Darussalam	430,531	430,531	317,414	42,373	61,628	9,116	–	–	–
Placements with and financing and advances to banks	2,662,314	2,670,857	1,039,894	766,871	864,092	–	–	–	–
Government sukuks	26,715	26,850	10,000	4,000	12,850	–	–	–	–
Investments	789,241	811,819	44,933	13,843	71,331	196,517	255,639	108,292	121,264
Derivative financial assets	17,971	17,778	1,400	61	4,873	11,444	–	–	–
Financing and advances	2,602,613	3,343,190	463,063	188,514	268,900	805,405	601,312	1,015,996	–
Finance lease receivables	12,556	31,240	165	165	330	1,360	1,440	27,780	–
Other assets	39,782	39,782	25,411	4,620	2,309	3,026	2,911	1,505	–
Total	8,876,390	9,667,116	4,197,349	1,020,447	1,286,313	1,026,868	861,302	1,153,573	121,264

Investments excludes equity investments which comprise of quoted equities, unquoted security and unquoted fund.

Other assets exclude prepayments.

	Carrying amount B\$'000	Gross nominal inflow/ (outflow) B\$'000	Less than 3 months B\$'000	> 3 – 6 months B\$'000	> 6 – 12 months B\$'000	> 1 – 3 years B\$'000	> 3 – 5 years B\$'000	Over 5 years B\$'000	No specific maturity B\$'000
Bank 2016									
Liabilities									
Deposits from customers	(7,114,615)	(7,114,201)	(5,361,771)	(633,183)	(982,000)	(137,247)	–	–	–
Deposits from banks and other financial institutions	(363,939)	(364,542)	(152,024)	(102,884)	(88,534)	(21,100)	–	–	–
Derivative financial liabilities	(110,620)	(109,798)	(81,985)	(253)	(5,736)	(21,824)	–	–	–
Placements from other financial institutions	(57,872)	(57,878)	(57,878)	–	–	–	–	–	–
Other liabilities	(82,413)	(82,413)	(56,167)	(15,673)	(3,487)	(1,906)	(1,442)	(3,738)	–
Total	(7,729,459)	(7,728,832)	(5,709,825)	(751,993)	(1,079,757)	(182,077)	(1,442)	(3,738)	–
Recognised assets net liquidity gap	1,146,931	1,938,284	(1,512,476)	268,454	206,556	844,791	859,860	1,149,835	121,264
Commitments and contingencies	(704,500)	(704,500)	(704,500)	–	–	–	–	–	–
Net liquidity gap	442,431	1,233,784	(2,216,976)	268,454	206,556	844,791	859,860	1,149,835	121,264

(d) Operational Risk of the Bank

Overview of the Bank's operational risk

Operational risk is the potential for loss resulting from events involving people, internal processes, systems or external events. A set of minimum control standards for operational risk management has been developed with the objective of ensuring that operational risks within the Group are identified and managed in a structured and consistent manner.

Operational Risk Management Framework

Operational risks can arise from all business lines and from all activities carried out by the Bank. Operational risks are systematically identified at the divisional level. Risk Coordinators are appointed from each division and are responsible for risk identification and risk management in all the identified risk areas. This includes maintaining an effective control environment arising from those activities as their first line of defence responsibilities.

Operational risk exposures can take various forms, and the Bank seeks to manage them in accordance with standards that drive systematic risk identification, assessment, control and monitoring. These standards are reviewed regularly to ensure their ongoing effectiveness. To support the systematic identification of material operational risk exposures associated with a given process, the Bank classifies them into the following risk types:

- People
- Process
- System
- External

Operational risk exposures are rated 'high', 'medium' or 'low' in accordance with defined risk assessment criteria. Risks that are outside set materiality thresholds receive a different level of management attention and are reported to Senior Management (Ad-Hoc Basis) and Enterprise Risk Management ("ERM") committee (Monthly Basis) and AFRC (Quarterly Basis). Significant risk events or financial losses that have occurred are analysed to identify the root cause of any failure for remediation and future mitigation. Actual operational losses are recorded.

As the second line of defence, Operational Risk Management ("ORM") unit of the Risk Management Division is responsible for setting and maintaining the standards for operational risk management and control. ORM also creates awareness of possible risk issues in business units and provides risk awareness training and workshops.

The ERM Committee oversees the management of operational risks across the Bank, supported by all business unit heads. The ERM Committee operates on the basis of terms of reference derived from the Operational Risk Management mandate/framework which is approved by the Leadership Forum.

Overview of the subsidiary's operational risk

Operational risk is the potential for loss resulting from events involving people, internal processes, systems or external events. A set of minimum control standards for operational risk management has been developed with the objective of ensuring that operational risks within the subsidiary are identified and managed in a structured and consistent manner.

(a) ORIC committee

The subsidiary's board, through the Operational Risk and Internal Controls Committee ("ORIC"), is responsible for the ongoing monitoring of operational risks and the development, implementation and monitoring of established internal controls to address the operational risks, by monitoring identified key risk indicators, measuring board approved risk appetite limit against near-miss, potential loss and actual-loss events, monitoring of identified early warning signals indicators and operational risk incident reports. The committee is also responsible to ensure timely closures of audit points raised by internal and external auditors.

(b) Risk controls self-assessment

All divisions in the subsidiary have established internal controls framework ("ICF"), requiring appropriate segregation of duties, reconciliation and monitoring of transactions. The ICF is updated at least annually, as part of the risk controls self-assessment exercise, where each department will assess its level of compliance to the ICF, identify control gaps and report its findings to ORIC.

38 Fair value of financial assets and liabilities

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 in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The information presented herein represents the estimates of fair values as at the reporting date.

Quoted and observable market prices, where available, are used as the measure of fair values of the financial instruments. Where such quoted and observable market prices are not available, fair values are estimated based on a range of methodologies and assumptions regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows and other factors.

Fair value information for non-financial assets and liabilities are excluded from this note as they do not fall within the scope of IFRS 13: *Fair Value Measurements* which requires the fair value information to be disclosed. These include investment in subsidiaries and property and equipment.

The fair value of the Group's and the Bank's financial instruments such as cash and short-term funds, balances with AMBD, deposits and placements with banks and other financial institutions, deposits from customers and banks, government sukuk, other assets, other liabilities and short-term borrowings are not materially sensitive to shifts in market profit rate because of the limited term to maturity of these instruments. As such, the carrying value of these financial assets and liabilities at the reporting date approximate their fair values.

The fair values are based on the following methodologies and assumptions:

Investments

The estimated fair values are generally based on quoted and observable market prices. Where there is no ready market in certain securities, fair values have been estimated by reference to market indicative yields or net tangible asset of the investee.

Financing and advances

The fair value is estimated by discounting the estimated future cash flows using the prevailing market rates of financing with similar credit risks and maturities.

Derivatives

The fair values of derivatives are obtained based on quoted rates of similar instruments at the reporting date.

Fair value hierarchy

IFRS 13 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources and unobservable inputs reflect the Group's market assumptions. The fair value hierarchy is as follows:

- Level 1 – Quoted price (unadjusted) in active markets for the identical assets or liabilities. This level includes listed equity securities and debt instruments.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3 – Inputs for assets or liabilities that are not based on observable market data (unobservable inputs). This level includes equity instruments and debt instruments with significant unobservable components.

The carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy are as follows. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	Carrying amounts					Fair values			
	Designated at fair value B\$'000	Held for trading B\$'000	Available for sale B\$'000	Loans and receivables B\$'000	Total B\$'000	Level 1 B\$'000	Level 2 B\$'000	Level 3 B\$'000	Total B\$'000
Group 2017									
Financial assets measured at fair value									
Investments	1,816	–	1,177,186	–	1,179,002	–	1,177,532	1,470	1,179,002
Government sukuks	–	–	16,198	–	16,198	–	–	16,198	16,198
Forward exchange contracts	–	40,865	–	–	40,865	–	40,865	–	40,865
	<u>1,816</u>	<u>40,865</u>	<u>1,193,384</u>	<u>–</u>	<u>1,236,065</u>	<u>–</u>	<u>1,218,397</u>	<u>17,668</u>	<u>1,236,065</u>
Financial assets not measured at fair value									
Financing and advances	–	–	–	3,231,905	3,231,905	–	–	3,221,006	3,221,006
Financial liabilities measured at fair value									
Forward exchange contracts	–	15,860	–	–	15,860	–	15,860	–	15,860

	Carrying amounts					Fair values			
	Designated at fair value B\$'000	Held for trading B\$'000	Available for sale B\$'000	Loans and receivables B\$'000	Total B\$'000	Level 1 B\$'000	Level 2 B\$'000	Level 3 B\$'000	Total B\$'000
Group									
2016									
Financial assets measured at fair value									
Investments	13,514	–	791,137	–	804,651	12,911	789,241	2,499	804,651
Government sukus	–	–	12,738	–	12,738	–	–	12,738	12,738
Forward exchange contracts	–	17,971	–	–	17,971	–	17,971	–	17,971
	<u>13,514</u>	<u>17,971</u>	<u>803,875</u>	<u>–</u>	<u>835,360</u>	<u>12,911</u>	<u>807,212</u>	<u>15,237</u>	<u>835,360</u>
Financial assets not measured at fair value									
Financing and advances	–	–	–	3,186,405	3,186,405	–	–	2,938,650	2,938,650
Financial liabilities measured at fair value									
Forward exchange contracts	–	110,620	–	–	110,620	–	110,620	–	110,620

	Carrying amounts					Fair values			
	Designated at fair value B\$'000	Held for trading B\$'000	Available for sale B\$'000	Loans and receivables B\$'000	Total B\$'000	Level 1 B\$'000	Level 2 B\$'000	Level 3 B\$'000	Total B\$'000
Bank 2017									
Financial assets measured at fair value									
Investments	1,816	–	1,177,186	–	1,179,002	–	1,177,532	1,470	1,179,002
Government sukuks	–	–	16,198	–	16,198	–	–	16,198	16,198
Forward exchange contracts	–	40,865	–	–	40,865	–	40,865	–	40,865
	<u>1,816</u>	<u>40,865</u>	<u>1,193,384</u>	<u>–</u>	<u>1,236,065</u>	<u>–</u>	<u>1,218,397</u>	<u>17,668</u>	<u>1,236,065</u>
Financial assets not measured at fair value									
Financing and advances	–	–	–	2,639,100	2,639,100	–	–	2,554,704	2,554,704
Financial liabilities measured at fair value									
Forward exchange contracts	–	15,860	–	–	15,860	–	15,860	–	15,860

	Carrying amounts					Fair values			
	Designated at fair value B\$'000	Held for trading B\$'000	Available for sale B\$'000	Loans and receivables B\$'000	Total B\$'000	Level 1 B\$'000	Level 2 B\$'000	Level 3 B\$'000	Total B\$'000
Bank									
2016									
Financial assets measured at fair value									
Investments	603	–	798,844	–	799,447	–	796,948	2,499	799,447
Government sukus	–	–	12,738	–	12,738	–	–	12,738	12,738
Forward exchange contracts	–	17,971	–	–	17,971	–	17,971	–	17,971
	<u>603</u>	<u>17,971</u>	<u>811,582</u>	<u>–</u>	<u>830,156</u>	<u>–</u>	<u>814,919</u>	<u>15,237</u>	<u>830,156</u>
Financial assets not measured at fair value									
Financing and advances	–	–	–	2,602,613	2,602,613	–	–	2,364,667	2,364,667
Financial liabilities measured at fair value									
Forward exchange contracts	–	110,620	–	–	110,620	–	110,620	–	110,620

Valuation techniques and significant unobservable inputs

The table below sets out information about valuation techniques and significant unobservable inputs used at in measuring financial instruments categorised as Level 2 and 3 in the fair value hierarchy:

Type of financial instruments	Classifications	Level of the fair value hierarchy	Valuation techniques	Significant unobservable inputs
Investment deposit	FVTPL	2	Option pricing	–
Quoted debt securities	Available for sale	2	Quoted prices	–
Unquoted equity security	Available for sale	2	Net asset value	–
Forward exchange contracts	Held for trading	2	Quoted prices	–
Investment deposit	Available for sale	2	Quoted prices	–
Financing and advances	Loans and receivables	3	Discounted cash flows	Yield curve and credit spreads
Unquoted funds	Available for sale	3	Net asset value	Net asset value
Government sukuk	Available for sale	3	Discounted cash flows	Yield curve and credit spreads

There are limited inter-relationships between unobservable inputs as the financial instruments are usually categorised into Level 3 because of a single unobservable input.

In estimating significance, the Group performed sensitivity analysis based on methodologies applied for fair value adjustments. These adjustments reflect the values which the Group estimates to be appropriate to reflect uncertainties in the inputs used (e.g. based on stress testing methodologies on the unobservable input). The methodologies used can be statistical or based on other relevant approved techniques.

Management considers that any reasonably possible changes to the unobservable inputs will not result in a significant financial impact.

Changes in Level 3 for financial instruments that are measured at fair value

The following table presents the changes in Level 3 instruments for the Group and the Bank:

	2017	2016
	BS'000	BS'000
Securities available-for-sale		
At 1 January	15,237	4,000
Unrealised gains recognised in other comprehensive income	2,431	11,237
At 31 December	17,668	15,237

There are no gains and losses through profit and loss for the above Level 3 instruments and there are no transfers in and out of Level 3 during the year (2016: Nil).

There are no transfers from Level 1 instruments to Level 2 (2016: Nil).

39 Lease commitments

Leases as lessee

The Group and the Bank have lease commitments in respect of rental of premises, all of which are classified as operating leases. A summary of the non-cancellable long term minimum lease payments are as follows:

	Group		Bank	
	2017	2016	2017	2016
	BS'000	BS'000	BS'000	BS'000
Within one year	1,996	1,623	1,719	1,347
Between one and five years	3,565	3,763	3,489	3,410
More than five years	15	48	15	48
Total	5,576	5,434	5,223	4,805

40 Non-current assets and liabilities

Assets and liabilities other than those disclosed below are current.

	Group		Bank	
	2017	2016	2017	2016
	B\$'000	B\$'000	B\$'000	B\$'000
Assets				
Investments	860,643	671,883	860,643	671,883
Financing and advances	2,779,764	2,746,302	2,200,143	2,172,178
Finance lease receivables	11,946	11,915	11,946	11,915
Investments in subsidiaries	–	–	39,804	40,826
Investment in associate	17,388	14,513	7,080	7,080
Property and equipment	174,470	178,337	50,392	47,955
Investment property	25,887	27,434	25,887	27,434
Deferred tax assets	–	8,557	6,038	17,288
Liabilities				
Deposits from customers	189,476	158,333	178,993	137,229
Deposits from banks and other financial institutions	107,700	70,400	22,500	21,100
Deferred tax liabilities	3,371	–	–	–

41 Commitments

	Group		Bank	
	2017	2016	2017	2016
	B\$'000	B\$'000	B\$'000	B\$'000
Commitments:				
Undrawn credit lines	179,083	193,240	179,083	193,240
Forward deposits	445	–	445	–
Total	179,528	193,240	179,528	193,240
Capital expenditure:				
- Approved and contracted for but not provided for in the financial statements	5,337	6,917	5,337	6,917
- Approved but not contracted for and provided for in the financial statements	250	2,350	250	2,350
Total	5,587	9,267	5,587	9,267
Total commitments	185,115	202,507	185,115	202,507

42 Capital adequacy

Capital Management

The Group's objective when managing capital is to maintain a strong capital position to support business growth, and to maintain investor, depositor, customer, rating agency and market confidence. In line with this, the Group manages its capital actively and ensure the capital adequacy ratios which takes into account the risk profile of the Group are comfortably above the regulatory minimum.

Reconciliation from IFRS to regulatory capital

The Group and the Bank has applied all effective pronouncements and interpretations of IFRS in arriving at the capital position of the Group and the Bank. Some of the IFRS requirements were different in prior years from the prudential capital requirements as set by AMBD as below. With effect from 31 March 2017, the Group and the Bank prepared their capital adequacy returns based on IFRS pronouncements and interpretations. No adjustments were made for the prudential capital requirements.

Differences between IFRS and AMBD's prudential capital requirements

Intangible assets

IFRS requires recognition of any intangible assets which meet the qualifying criteria. Under the prudential capital requirements, no dividends can be declared so long as intangible assets are recognised in the statement of financial position.

Capitalised costs

In accordance to IAS 39, financing and advances are recorded initially at fair value plus any directly attributable transaction costs and are subsequently measured at amortised cost using the effective yield method, less impairment losses. Under the prudential requirement, fees charged on financing and advances are recorded in the income statement as they arise.

Repossession of collateral

Under AMBD guidelines, allowances made for financings for which the Bank repossesses collateral, cannot be released unless the collateral has been sold. IFRS requires de-recognition of the financing and recognition of the repossessed asset at the fair value of the asset. If such fair value exceeds the carrying amount of the financing net of any specific provision, the allowances made would be released to the extent that the collateral value covers the notional amount of the financing.

Profit in suspense

Under AMBD guidelines, profit from financings that are overdue for more than 90 days will be suspended in a 'profit in suspense' account. Under IFRS, profit will continue to be accrued even when the financing is overdue.

Impairment on financing

Based on AMBD, credit allowances are made based on specified percentages of the amounts outstanding and ageing. These requirements deviate from the individual and collective allowance requirements under IAS 39 which is based on the incurred loss model.

A reconciliation of total equity attributable to equity holders of the Group and Bank to regulatory capital is performed below:

	Group		Bank	
	2017	2016	2017	2016
	B\$'000	B\$'000	B\$'000	B\$'000
Regulatory capital				
Total equity attributable to equity holders of the Group and Bank	1,089,407	1,391,505	1,003,701	1,247,282
<i>Less adjustments for:</i>				
Capitalised costs	–	(17,722)	–	(7,109)
Repossession of collateral	–	(14,796)	–	(14,796)
Profit in suspense	–	(13,105)	–	(13,105)
Impairment on financing	–	4,198	–	4,141
Adjusted Core capital (Tier 1) based on AMBD prudential capital requirements	1,089,407	1,350,080	1,003,701	1,216,413

Capital Adequacy Ratios

The Group and Bank are required to comply with the core capital ratio and risk-weighted capital adequacy ratio prescribed by AMBD. The Group and Bank were in compliance with all prescribed capital ratios throughout the year.

	Group		Bank	
	2017	2016	2017	2016
	B\$'000	B\$'000	B\$'000	B\$'000
Regulatory capital				
Core capital (Tier 1 capital) before dividend	1,089,407	1,350,080	1,003,701	1,216,413
Less: Dividends to be proposed for the financial year	(36,781)	(106,538)	(36,781)	(106,538)
Core capital (Tier 1 capital) after dividend	1,052,626	1,243,542	966,920	1,109,875
Supplementary capital (Tier II capital)	32,909	30,175	29,306	25,437
Less: Investments in associate and subsidiaries	(7,080)	(14,513)	(31,603)	(47,906)
Total capital base	1,078,455	1,259,204	964,623	1,087,406
Total risk-weighted amount				
Risk-weighted amount for credit risk	5,502,408	5,558,895	5,137,779	4,892,364
Risk-weighted amount for operational risk	570,978	422,116	480,008	331,782
Risk-weighted amount for market risk	5,644	–	5,644	–
Total risk-weighted amount	6,079,030	5,981,011	5,623,431	5,224,146

	Group		Bank	
	2017	2016	2017	2016
	B\$'000	B\$'000	B\$'000	B\$'000
Capital ratios				
Core capital (Tier 1) ratio %	17.3%	20.8%	17.2%	21.2%
Total capital ratio %	17.7%	21.1%	17.2%	20.8%

The core capital is derived after deducting the dividends to be proposed for the financial year ended 31 December 2017 subsequent to the year end amounting to B\$36,781,038 (2016: B\$106,538,178).

The capital adequacy ratio is derived after IFRS adjustments, except for those adjustments in relation to capitalisation of fees, collateral, profit in suspense and allowance for impairment.

In accordance to Section 11(2) of the Islamic Banking Order, 2008, the Group and Bank shall not, at any time, have a capital adequacy ratio of less than 10 per cent or such percentage as may be determined by the Authority.

43 **Contingent liabilities**

	Group		Bank	
	2017	2016	2017	2016
	B\$'000	B\$'000	B\$'000	B\$'000
Letters of credit	26,385	20,879	26,385	20,879
Guarantees, bonds	420,815	461,357	420,815	461,357
Shipping guarantees	7,120	16,436	7,120	16,436
Acceptances	10	3,044	10	3,044
Trade risk participation	140,782	–	140,782	–
Import bills	254	277	254	277
Total	595,366	501,993	595,366	501,993

In the normal course of business, the Group and Bank incur certain contingent liabilities with legal recourse to their customers. No material losses are anticipated as a result of these transactions.

44 Operating segments

Segment information is presented in respect of the Group's business segments. The Group determines and presents operating segments based on information provided to the Board and senior management of the Group.

Retail Banking – The Retail Banking group encompasses offerings of products and services to the individual customers of the Bank. These include deposits (current, savings, time and foreign currency), financing (personal, overdraft, home, education and pawn financing), bank cards (credit, debit and virtual prepaid) and other personal services such as financial planning and segmented service proposition namely Perdana Privilege Banking. The service channels range from branch networks to online platforms as well as a mobile banking application.

Corporate Banking – The Corporate Banking group is responsible for meeting the financial needs for Bank's corporate customers including government linked entities. In addition, it caters to micro, small and medium sized enterprises. It provides a range of products and services from deposits and financing products, to trade financing arrangements such as letters of credit and collection bills as well as other services including bankers guarantee, payroll services, remittances and cash management.

Treasury and Global Markets (TGM) – TGM has two principal sub-segments - Treasury and Global Markets. The Treasury segment manages the Group's balance sheet, liquidity, foreign exchange ("FX") and duration risk. It primarily uses Shariah compliant international money and capital market instruments to manage the liquidity and cash flows. Treasury is also responsible for institutional liabilities, hedging and yield enhancement structures. Global Markets focuses on providing services including international banking, project finance as well as structured finance from its offices in Brunei, Singapore and Dubai.

Hire Purchase – The Hire Purchase segment comprises the activities of the Bank's subsidiary BIBD At-Tamwil in the provision of financing for vehicles, customer products and other related financial services.

Head Office and Others – Head Office and Others comprises of results from operations, recovery, Human Resources, IT and other Group functions.

By business segments

----- Business segments -----						
Group	Retail Banking Group BS'000	Corporate Banking Division BS'000	Treasury and Global Markets BS'000	Hire Purchase BS'000	Head Office and Others BS'000	Total BS'000
2017						
Total income	125,563	68,759	72,139	52,844	12,216	331,521
Operating profit before allowances	108,815	48,847	65,394	41,315	(77,965)	186,406
Allowances and impairment for financing and advances and other assets	(12,035)	(26,693)	(2,349)	(973)	—	(42,050)
Operating profit	96,780	22,154	63,045	40,342	(77,965)	144,356
Share of profit of associate						2,073
Profit before zakat and tax						146,429
Zakat and income tax expense						(30,247)
Profit for the year						116,182
Non-controlling interests						(5,600)
Profit for the year attributable to equity holders of the Bank						110,582
Other information:						
Depreciation	643	6,996	417	870	11,141	20,067

----- Business segments -----

Group	Retail Banking Group B\$'000	Corporate Banking Division B\$'000	Treasury and Global Markets B\$'000	Hire Purchase B\$'000	Head Office and Others B\$'000	Total B\$'000
2016						
Total income	126,617	70,470	71,888	53,227	8,798	331,000
Operating profit before allowances	110,283	48,246	64,867	42,690	(64,242)	201,844
Allowances and impairment for financing and advances and other assets	(10,553)	(36,147)	(17,152)	(1,245)	–	(65,097)
Operating profit	99,730	12,099	47,715	41,445	(64,242)	136,747
Share of profit of associate						722
Profit before zakat and tax						137,469
Zakat and income tax expense						(33,253)
Profit for the year						104,216
Non-controlling interests						(2,317)
Profit for the year attributable to equity holders of the Bank						101,899
Other information:						
Depreciation	584	6,896	185	1,871	12,942	22,478

Bank	Business segments				
	Retail Banking Group B\$'000	Corporate Banking Division B\$'000	Treasury and Global Markets B\$'000	Head Office and Others B\$'000	Total B\$'000
2017					
Total income	125,563	40,145	72,583	109,728	348,019
Operating profit before allowances	108,815	33,563	66,849	22,324	231,551
Allowances and impairment for financing and advances and other assets	(12,035)	(23,954)	(2,349)	(2,454)	(40,792)
Operating profit	96,780	9,609	64,500	19,870	190,759
Profit before zakat and tax					190,759
Zakat and income tax expense					(20,941)
Profit for the year attributable to equity holders of the Bank					169,818
Other information:					
Depreciation	643	1,169	415	11,136	13,363

Bank	Business segments				
	Retail Banking Group B\$'000	Corporate Banking Division B\$'000	Treasury and Global Markets B\$'000	Head Office and Others B\$'000	Total B\$'000
2016					
Total income	126,617	44,686	71,706	64,548	307,557
Operating profit before allowances	110,283	38,010	65,249	(7,597)	205,945
Allowances and impairment for financing and advances and other assets	(10,553)	(36,070)	(17,151)	–	(63,774)
Operating profit	99,730	1,940	48,098	(7,597)	142,171
Profit before zakat and tax					142,171
Zakat and income tax expense					(20,114)
Profit for the year attributable to equity holders of the Bank					122,057
Other information:					
Depreciation	584	1,316	185	12,881	14,966