Crown Agents
Bank

Pillar 3 Disclosures

31 December 2018

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GLOSSARY

The following terms are used throughout these Disclosures:

ALCO	Asset and Liability Committee
CC	Credit Committee
CCB	Capital Conservation Buffer
CCYB	Countercyclical Capital Buffer
CEO	Chief Executive Officer
CET 1	Common Equity Tier 1 Capital
CORC	Compliance & Operational Risk Committee
COREP	The regulators' Common Reporting Framework introduced under CRD IV
CRD	Capital Requirements Directives
CRR	Capital Requirement Regulations
EBA	European Banking Authority
ED	Executive Director
EXCO	Executive Committee
FCA	Financial Conduct Authority
FSCS	Financial Services Compensation Scheme
HQLA	High Quality Liquid Asset
ICAAP	Individual Capital Adequacy Assessment Process
ILAAP	Individual Liquidity Adequacy Assessment Process
ILG	Individual Liquidity Guidance
INED	Independent Non-Executive Director
IT	Information Technology
JMSLG	Joint Money Laundering Steering Group
LCP	Liquidity Contingency Plan
LCR	Liquidity Coverage Ratio
MLRO	Money Laundering Reporting Officer
NED	Non-Executive Director
NGO	Non-Governmental Organisation
NSFR	Net Stable Funding Ratio
PRA	Prudential Regulation Authority
RATS	Risk Appetite and Tolerances Statement
SME	Small & Medium Size Enterprise
SREP	Supervisory Review and Evaluation Process
TCR	Total Capital Requirement as set by the PRA

1. Introduction

1.1 Background

The Capital Requirements Directive ("CRD") introduced a new framework under which banks and financial institutions are required to calculate their capital. This was based on global standards introduced by the Basel Committee on Banking Supervision through the Basel framework (now Basel III). The framework consists of 3 Pillars:

Pillar 1	**Minimum capital requirements:** defines the rules for the calculation of credit, market and operational risk to ensure that banks hold adequate regulatory capital against the risks they assume within their current business.
Pillar 2	**Supervisory review process:** sets out the key principles for the supervisory review of a bank's risk management framework and its capital adequacy. It sets out specific oversight responsibilities for both the Board and senior management, thereby reinforcing the principles of internal control and other corporate governance practices.
Pillar 3	**Market discipline:** sets out the items covered by this report; it requires expanded disclosures to permit investors and other market participants to obtain an understanding of the risk profiles of the bank.

The Financial Conduct Authority ("FCA") and Prudential Regulation Authority ("PRA") have responsibility for implementing the CRD within the United Kingdom.

The disclosure requirements set out the minimum capital requirements (Pillar 1) and the supervisory review process (Pillar 2), and are designed to promote market discipline by allowing market participants to assess the impact of key information on risk exposures and the risk assessment processes of the firm (Pillar 3).

The following represents the Bank's Pillar 3 disclosures in accordance with this requirement.

1.2 Frequency, Location, and Verification

The Bank publishes its Pillar 3 Disclosures on an annual basis. Disclosures comply with the disclosure requirements laid out in the Capital Requirements Regulations 2015 (Part Eight) ("CRR") and are based on the financial year end following publication of audited accounts. These disclosures are therefore based on the results of the year ended 31st December 2018 (with comparatives) unless otherwise stated. The Disclosures include the impact of the 2018 financial performance and have been updated to reflect the most recent operational risk capital requirements.

The Pillar 3 disclosures should be read in conjunction with the Bank's Annual Report and Financial Statements.

The disclosures have not been, and are not required to be, subject to independent external audit and do not constitute any part of the Bank's Financial Statements.

1.3 Scope of Disclosures

The Bank is an unquoted company registered in England, authorised by the PRA and regulated by the PRA and the FCA. It is a single branch bank, whose principal function is to provide multicurrency account management, payment, foreign exchange and trade finance services to central banks, governments, supranationals, development agencies, large non-governmental organisations ("NGOs") and selective corporate organisations worldwide.

The Bank is a wholly owned subsidiary of CABIM Limited, which is owned by funds managed by Helios Investment Partners LLP. The Bank's management and ownership structures are set out in the Appendices to these disclosures.

The disclosures below are the required Pillar 3 disclosures and apply solely to the Bank. The Bank continues to develop the quality and transparency of disclosures to ensure that they are as clear and informative as possible.

1.4 Summary of Key Capital Ratios

Capital ratios are a measurement of a company's financial strength and reflect the level of protection it holds against any unexpected losses. The key capital ratios under CRD IV for the Bank are presented below.

Capital Ratios	**2018**	**2017**
Common Equity Tier 1 Capital (CET1)	24.0%	20.8%
Tier 1 Capital Ratio	24.0%	20.8%
Total Capital Ratio	24.0%	20.8%
Total Risk Weighted Assets (£m)	233,670	234,511
Leverage ratio	5.5%	6.2%

Note: the above ratios are based on regulatory capital figures which include the audited 2018 profits. The 2018 Q4 COREP returns were submitted before the audit was complete and hence the Bank's regulatory capital does not include the 2018 profits. Further details on the Bank's capital ratios, risk weighted assets and leverage ratio are presented in Section 4 of these disclosures.

2. Governance Arrangements

2.1 Risk Management

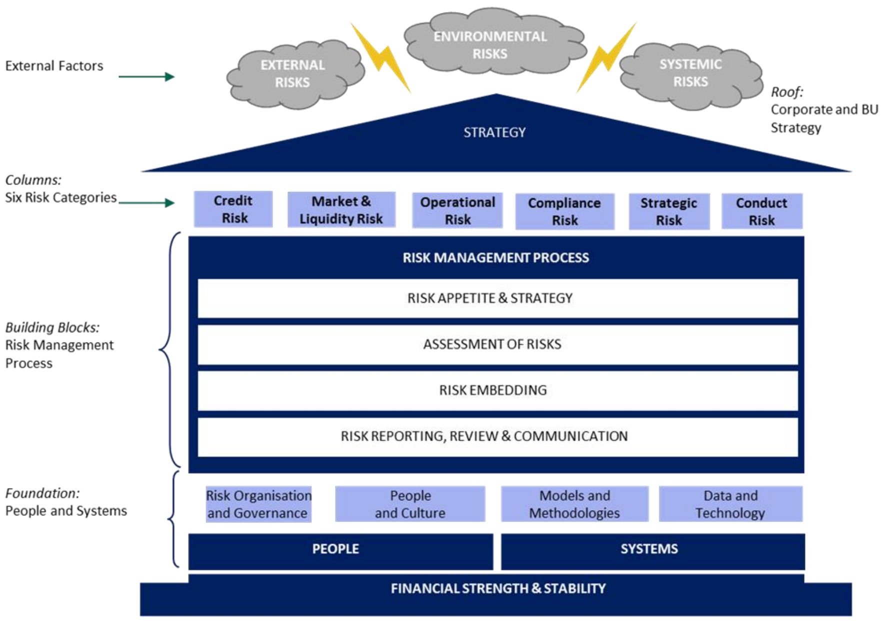
Through its normal operations the Bank is exposed to a number of risks, the most significant of which are credit, market and liquidity, operational (including reputational risk), compliance (including regulatory risk), strategic and conduct risks.

The Board of the Bank is responsible for determining the long-term strategy of the business, the markets in which it operates, and the level of risk acceptable to the Bank. The level of risk acceptable to the Bank is controlled through the Bank's Risk Appetite and Tolerances Statement ("RATS"). Risk Management has an oversight role in the maintenance of policies and procedures, evaluating and monitoring risk levels and reports through the individual committees to the Board on risk issues generally.

The Bank's Corporate Governance Manual outlines how the Bank's Board and the Executive Management team fulfil their respective risk management responsibilities through the deployment of a risk management framework. This framework covers the full spectrum of risk to which the Bank is exposed and sets out how those risks are described and the measures which apply to mitigate those risks. It is the use of this framework (or "House") which will enable the Bank to maximise value to its shareholder and its customers by aligning risk management with the business strategy; assessing the impact of emerging legislation and regulation; and developing the Bank's risk appetite accordingly.

Crown Agent's Bank Enterprise Risk Framework ("The House")

The House provides the risk framework to support our corporate and business unit strategy for the benefit of our clients, employees, and shareholders. It provides us with a methodology to identify, measure and manage both internal and external risks to our business.



Key Principles

- Forward-looking
- Enterprise-wide, consistent application across all risk categories
- Dynamic, allowing pro-active management of the risk profile and risk appetite
- Flexible and scalable to allow for changes in business and regulatory requirements
- Usable at all levels within the organisation e.g., departments, corporate, and divisional
- Embedded in business processes such as planning, and performance management

2.2 Monitoring & Control

The Bank's approach to capital management is driven by its desire to maintain a strong capital base to support the development of its business and to meet regulatory capital requirements at all times.

Each year the Bank updates its three-year strategic plan which covers both the development of the business and its impact on the capital of the Bank. The plans are underpinned by the Bank's risk appetite and ensure that the available levels of capital are appropriate to the business plans and strategy. The plans also ensure that business growth assumptions are integrated into the overall capital assessment.

The Bank undertakes a detailed Internal Capital Adequacy Assessment Process (ICAAP) to support its capital requirements. Each material risk is assessed through a series of stress testing scenarios, relevant mitigants considered and appropriate levels of capital determined. The ICAAP, which is carried out annually, is a key part of the Bank's management disciplines through its review by the Assets and Liabilities Committee (ALCO), the Audit and Risk Committee and approval by the Board. It is available for review by the PRA, when a minimum level of capital is agreed.

The Bank monitors its capital requirements on a daily basis using a traffic light system to ensure internal and external capital requirements are met. Its Regulatory Capital Policy sets out the actions to be taken when capital reaches pre-set levels. At 31st December 2018, and at all times during the year, the Bank complied with its capital requirements.

2.3 Risk Categories

The Bank recognises six broad categories of risk inherent within its operations:

- Credit risk – the risk of financial loss arising from a borrower or counterparty failing to meet their financial obligations to the Bank in accordance with agreed terms.
- Market & Liquidity risk – Market risk is the risk that the value of, or net income arising from, the Bank's assets and liabilities changes as a result of changes to market forces, in particular interest rates, exchange rates or asset prices. Liquidity risk is the risk that the Bank is not able to meet its financial obligations as they fall due or can do so only at excessive cost.
- Operational risk – is the risk of a financial or non-financial impact resulting from inadequate or failed internal processes, people and systems or from external events including financial crime.
- Regulatory / Compliance risk – is the risk to the Bank's reputation of failure to comply with regulatory requirements.
- Strategic risk – the risk which can affect the Bank's ability to achieve its corporate and strategic objectives.
- Conduct risk – the risk of detriment caused to the Bank`s customers due to the inappropriate execution of its business activities and processes.

2.4 Control Framework

2.4.1 Committees

The Bank's supervision is driven through the establishment of a number of committees which are responsible for technical governance of the business ensuring adherence to internal policies and with powers to make decisions related to the day to day running of the business.

2.4.2 Group Board

CABIM is the parent holding company of the Bank. However, the governance of the Bank is delegated by the Board of CABIM Ltd to the Board of the Bank.

2.4.3 Group Audit & Risk Committee

CABIM has an Audit and Risk Committee which monitors and manages risk issues throughout the group, including the Bank. It monitors compliance with the Bank's policies and procedures through the review of audit and other reports, and with recommendations of its Regulators, the Prudential Regulatory Authority and Financial Conduct Authority. It ensures that any reports of the external auditors are considered in full and implemented where appropriate.

The Committee consists of three independent non-executive directors of the Bank. It receives frequent reports and meets at least six times annually. It also monitors the work and considers the reports of the group's Internal Audit, Risk Management, and Compliance functions, monitoring the implementation of their recommendations where appropriate, giving due consideration to the effectiveness of internal controls and compliance checks. Updates to the Bank's Risk Register following management review are also made available to the Audit and Risk Committee.

Any issues of concern are reported to subsequent board meetings for discussion.

2.4.4 Group Remuneration and Nominations Committee

The Group Remuneration and Nominations Committee provides a framework for ensuring that the Bank complies with its regulatory requirements in respect of remuneration. It meets as required but at least twice annually. Its main functions are to:

- Determine and agree with the Board the framework or broad policy for the remuneration of the company's Chairman, Chief Executive, the executive directors, the company secretary and such other members of the executive management as it is designated to consider. The remuneration of Non-executive directors is a matter for the Chairman and the Chief Executive. No director or manager may be involved in any decisions as to their own remuneration;
- Review the ongoing appropriateness and relevance of the remuneration policy;
- Determine, within the terms of the agreed policy, the total individual remuneration package of personnel designated as Code Staff within the Bank;
- Approve the design of, and determine targets for, any performance related pay schemes operated by the Bank and approve the total annual payments made under such schemes;
- Consider succession planning;
- Oversee any major changes in employee benefits structures throughout the Bank or group.

In addition, the committee will meet on an ad hoc basis to consider nominations to the CABIM group boards, and its various committees.

2.4.5 Bank Board ("The Board")

The Bank Board is the primary governing body for the Bank and has ultimate responsibility for setting the bank strategy, corporate objectives and risk appetite. That strategy takes account of the interest of all stakeholders in the Bank.

The Risk Appetite and Tolerances Statement ("RATS"), which is approved by the Board, sets out the levels of risk which the Bank is willing to take within the confines of the group strategy. The Board is also responsible for the establishment of a control environment to manage the risks encapsulated within the RATS, which is set out in the Enterprise Risk Management Framework (ERMF)

The Board also maintains close oversight of the current and future activities through a combination of board reports (at least four times each year) and monthly financial results, including budgets, forecasts and other operational reports.

2.4.6 Credit Committee ("CC")

The role of the CC is to review the Bank's credit portfolio to ensure it remains within the Bank's credit risk appetite; to review and maintain the Bank's credit policy; and to assess the clients and counterparties with which the Bank will undertake business. It meets weekly to review client, counterparty and country exposures, as well as considering issues of a strategic (credit related) nature.

The CC reports to the Audit & Risk Committee (ARC) every two months, on matters within its terms of reference, and will make recommendations to the ARC on items within its remit where actions are required.

2.4.7 Executive Committee ("EXCO")

EXCO meets on a weekly basis and takes day to day responsibility for running the business. EXCO implements the strategy and financial plan, which is approved by the Board annually, and ensures the performance of the business is conducted in accordance with the Board's established risk appetite. It reports to each Board meeting via reports prepared by the Chief Executive Officer (CEO) and other financial and non-financial, reports.

2.4.8 Compliance & Operational Risk Committee ("CORC")

CORC meets at least six times a year, and has been established to

- Develop an operational risk framework through which operational risk is monitored, measured and managed;
- Monitor compliance with internal policies and procedures and with external regulatory and legal requirements;
- Monitor forthcoming compliance regulation and manage the Bank's response;
- Manage the Bank's Anti-Financial Crime response;
- Consider the recommendations of any regulatory related notices or instructions and present responses to the Board
- Review key operational risk documentation; and
- Monitor operational risk events.

CORC reports regularly to the Board through the Audit and Risk Committee, which will, on at least an annual basis, receive a report from the Money Laundering Reporting Officer ("MLRO").

2.4.9 Assets and Liabilities Committee ("ALCO")

ALCO monitors the liquidity and capital adequacy of the Bank on a monthly basis and ensures that the Bank adheres to the market risk, interest rate risk, capital utilisation and liquidity policies and objectives set down by the Board. It also has responsibility for ensuring that the policies that are implemented are adequate to remain within prudential and regulatory limits.

Management information on the matters noted above are generated and distributed by the Finance department daily. In addition, ALCO:

- Reviews the Individual Capital Adequacy Assessment Process ("ICAAP") and recommends it to the ARC and subsequently to the Board.
- Reviews the Individual Liquidity Adequacy Assessment Process ("ILAAP") and recommends it to the ARC and subsequently to the Board.
- Reviews the Recovery Plan and recommends it to the ARC and subsequently to the Board.
- Allocates capital and liquidity to support business activities by department and/or product in terms of risk/reward.

In addition to the recommendations outlined above, the ALCO will report to the Audit & Risk Committee every two months on matters impacting the balance sheet.

2.5 Board of Directors

The Directors who served on the Bank's Board during the year ended 31 December 2018 are as set out below. There have been no changes to the composition of the Board since the end of 2018 up to the date of publication of these Disclosures.

Name	Position	Date of Board Appointment / Cessation
Jeremy Parrish	INED, Chairman	
Nick Beecroft	Senior INED, Chair Remuneration Committee	
Raj Bhatia	INED	
Arnold Ekpe	NED	
Richard Hallett	ED, Chief Financial Officer	
Albert Maasland	ED, Group Chief Executive Officer	
Carole Machell	INED, Chair Audit & Risk Committee	
Douglas MacLennan	ED, Chief Risk Officer	
Derek McMenamin	INED	
Simon Poole	NED	
Susanne Chishti	INED	Appointed 26th June 2018

The Board of the Bank is responsible for providing governance and oversight over strategy, risk management and operations of the bank. The key responsibilities include:

- Approval of the Bank's strategic and financial plans and regular review of progress to ensure the sustainability and health of the business;
- Ensuring that processes are maintained to ensure the integrity of the financial reporting and disclosures by the company and compliance with legal and ethical responsibilities;
- Periodical review and approval of the risk strategy, policies, risk appetite and risk management framework, including approval of the Bank's ICAAP, ILAAP and Recovery Plan ("RP") on at least an annual basis;
- Ensuring that there is an appropriate system of internal audit and periodically reviewing its effectiveness;
- Delegating authority for day-to-day running of business to the Chief Executive Officer ("CEO").

As reflected in the Bank's Policies and its Authorities Manual, the Board delegates the day-to-day capital adequacy and liquidity risk management responsibilities to the CEO and the EXCO. The Management team meets weekly (as EXCO) to discuss current issues covering all aspects of the business including new business and emerging risks. It reports to the Board at each Board meeting.

In the event of a capital or liquidity crisis, a Special meeting of the Bank's ALCO, headed by the CEO, will take responsibility, ensuring that the overall strategy is approved by the Board.

3. Risk Appetite

Risk appetite is the maximum level of residual risk that the Bank is prepared to accept to deliver its business objectives. The Bank has developed a robust framework that is used to articulate risk appetite throughout the Bank and to external stakeholders.

The Board is responsible for the establishment of the Bank's Risk Appetite and Tolerances Statement. It establishes the Bank's parameters for risk appetite by:

- Providing strategic leadership and guidance;
- Reviewing and approving annual budgets and forecasts, under both normal and stressed conditions, for the Bank; and
- Regularly reviewing, anticipating and monitoring the Bank's risk performance through Board reports six times each year.

The Board delegates the management and control of risk appetite to the CC (for credit risk appetite); to the CORC for compliance (including anti-financial crime and conduct) and operational related issues; to ALCO for balance sheet related issues; and to EXCO for all other risk appetites. It ensures that risk appetite is in line with Bank strategy and the Bank's desired balance between risk and reward. Each committee is responsible for recommending to the Board the respective levels of risk appetite and risk tolerances for the Bank.

The Bank's risk appetite statements are defined by five broad metrics:

- Headline earnings
- Liquidity
- Regulatory capital
- Economic capital and
- The confidence level applied to our capital adequacy to cover any unexpected losses

These metrics are then converted into tolerance levels and limits through an analysis of the risks that impact on them. The Bank's risk assessment process is linked to its Risk Appetite and Tolerances Statement; this means that it links qualitative assessments in respect of Operational, Compliance, Strategic and Conduct risks to the overall appetite for risk used in the Risk Appetite and Tolerances Statement. In turn this enables a comparison to be made between risk appetite, and residual risk.

In respect of Credit risk, the Bank has determined quantitative appetites by reference to the probabilities of default and the expected losses across its credit portfolio, and in respect of Market and Liquidity risks to its capital, and the volatility of the currencies in which it deals.

The Bank's business model is liability-led and its exposure to money markets is restricted to highly rated counterparties. The Bank seeks to focus on benefiting from the markets in which it operates as well as ensuring it remains commercially viable in order to continue to service its clients. As a result, the Bank's over-riding approach to risk is closely controlled. It provides a market rate of return to its depositors while at the same time safeguarding assets through careful appraisal of placements made.

The Bank offers quality, ethical, banking products and services that provide clients with the assurance that their funds will be placed with highly rated governments or institutions . As a consequence, the Bank is selective about both the products and services it offers as well as its investment decisions. However, within these parameters, the Bank seeks a profitable return by optimising its return within its risk tolerances, the expansion of its client base, and through alert management of cost/income ratios.

The Bank does not run a trading book. It offers limited lending facilities and focuses money market exposures primarily to F1+ and F1 rated institutions, and to securities issued by these institutions, along with top rated sovereigns, and multinational development banks. Off balance sheet trade finance facilities are provided, a substantial part of which are cash collateralised (82%) or otherwise guaranteed.

4. Capital Adequacy

4.1 Capital Requirement

CRD IV has increased the quantity and quality of capital that firms are required to hold, through the introduction of additional and increased deductions from CET1 resources and a phased implementation of new buffers, designed to prevent firms from breaching their minimum regulatory requirement in a stressed environment.

The Total Capital Requirement ("TCR") is set by the PRA on a periodic basis, following completion of the ICAAP and Supervisory Review and Evaluation Process ("SREP"). The Bank has complied with the capital requirements set by the PRA at all times.

The minimum regulatory capital requirement is 8% of risk weighted assets. Additionally, banks are required to hold additional capital to cover future possible credit exposures and other risks in the business.

The TCR determined by the PRA for the Bank is set out below:

Total Capital Requirement As a % of RWAs:	**As At 31-Dec 2018** %	**As At 31-Dec 2017** %
Minimum Capital Requirement	8.000	8.000
Pillar 2A requirement	3.740	3.600
Total Capital Requirement	11.740	11.600
PRA Buffer	-	-
Capital Countercyclical Buffer	0.010	-
Capital Conservation Buffer	1.875	1.250
Overall Capital Requirement (OCR) ratio	**13.625**	**12.850**

4.2 Countercyclical Buffer (CCYB)

The Bank is required to consider the regulatory requirements re the CCYB. The purpose of this buffer is to counteract the effects of the economic cycle on banks' lending activities. The CCYB calculation applies %'s, which have been set by the central banks of each country (typically at least 12 months in advance), to the "Relevant Exposures"[1] to entities within those countries. The calculation applies a weighted CCYB % to total risk weighted assets (ie including credit, market and operational risk).

[1] These are effectively exposures to entities other than central banks/ governments or financial institutions. Exposures to institutions in countries which do not have regulatory equivalence are classified as Corporates under the regulations and are included with Relevant Exposures

Currently the Bank only has relevant exposures to one country, the UK[2], for which the relevant central bank (the Bank Of England) has concluded that a countercyclical buffer is appropriate. Whilst the central banks in a number of other countries[3] have concluded that such a metric is required, the Bank does not currently have exposures to these countries, nor does it expect to in the future.

The relevant disclosures,[4] are attached at Appendix 6. The outputs from the information in Appendix 6 which drive the CCYB calculation are as follows:

CCYB Metrics	
Sum of product of Relevant Exposures and relevant country CCYB rate - £	4,921
Total Relevant Exposures - £	51,590,342
Resulting weighted CCYB %	0.01%

The Bank had no CCYB requirement in 2017.

4.3 Capital Resources

The table below shows the composition of the Bank's regulatory capital position as at 31 December 2018.

The Bank's regulatory capital consists entirely of Common Equity Tier 1 capital, which is comprised of one class of issued ordinary share capital (issued at par) and accumulated reserves, subject to deductions for intangible assets and deferred tax assets (net of deferred tax liabilities). As a result:

a. the Capital Instruments[5] template has not been included as all data points are either not applicable or nil.

b. The data re the Own Funds template[6] is included below. All the other data points are either not applicable or nil.

[2] 1.00% effective 28.11.18.

[3] Notably Hong Kong (1.875% effective 1.1.18; 2.50% effective 1.1.19) and Sweden (2.00% effective 19.3.17).

[4] The detailed template is set out in European Delegated Regulation 2015/1555..

[5] European Commission Implementing Regulation 1423/2013 Annex II (Capital Instruments).

[6] European Commission Implementing Regulation 1423/2013 Annex IV (Own Funds). The Transitional Own Funds Disclosure Template (Annex VI) is not applicable as the Bank has not availed itself of any transitional provisions.

Capital Resources	Template Row	2018 £000	2017 £000
Common Equity Tier 1 Capital:			
Share Capital	1	41,200	41,200
Retained earnings	2	20,167	16,464
	6	61,367	57,664
Less deductions:			
Intangible Assets	8	(5,215)	(4,092)
Net Deferred Tax Asset	10	-	(721)
	28	(5,215)	(4,813)
Total Common Equity Tier 1 Capital	29	**56,152**	**52,851**
Total Capital Resources	59	**56,152**	**52,851**

Risk Weighted Assets - Pillar 1	Template Row	2018 £000	2017 £000
Credit Risk		220,263	249,509
Less: mitigation - collateral/guarantees		(24,768)	(15,933)
Total		**195,495**	**233,576**
Counterparty Risk		6,886	935
Total Credit Risk Weighted Assets		**202,381**	**234,511**
Market Risk		2,553	1,063
Operational Risk		28,736	18,625
Total Risk Weighted Assets	60	**233,670**	**254,199**

Capital Ratios	Template Row	2018 £000	2017 £000
Common Equity Tier 1 Capital Ratio	61	24.0%	20.8%
Total Tier 1 Capital Ratio	62	24.0%	20.8%
Total Capital Ratio	63	24.0%	20.8%
Capital conservation Buffer		1.875%	1.3%
Institution Specific Capital Countercyclical		0.010%	0.00%

Capital ratios are calculated as regulatory capital divided by risk weighted assets. The Pillar 1 calculations are based on the Standardised Approach for Credit Risk and on the Basic Indicator Approach for Operational Risk.

Based on the TCR, and including the capital requirement re the CCB and the CCYB, the Bank has a capital surplus as shown below:

Regulatory Capital Surplus	**2018** £000	**2017** £000
Total Risk Weighted Assets	233,670	254,199
Overall Capital Requirement (including Capital Conservation Buffer and Capital Countercyclical Buffer)	31,836	32,665
Total Capital Resources	56,152	52,851
Capital Surplus in Excess of Requirement	**24,316**	**20,186**

4.4 Leverage Ratio

CRD IV requires firms to calculate a non-risk based leverage ratio to supplement risk-based capital requirements. The leverage ratio measures the relationship between the capital resources of the organisation and its total assets. The purpose of monitoring and managing this metric is to enable regulators to constrain the build-up of excessive leverage. It is calculated as:

$$\frac{\text{Tier 1 capital}}{\text{Total on and off-balance sheet assets adjusted for deductions}}$$

The minimum requirement for the leverage ratio has historically been 3% but was increased to 3.25%, effectively from 1 January 2018[7]. While the leverage ratio is not a regulatory requirement for the Bank[8], the Bank chooses to monitor the metric as part of its risk management framework.

The Bank's leverage ratio is calculated daily, reviewed and monitored by ALCO monthly and included in the capital forecast and business-as-usual stress testing. The Bank's leverage ratio is included within its RATS, which documents the monitoring and escalation framework and the Bank's leverage ratio limits.

The calculation of the Leverage Ratio is as set out in the tables below which are based on the regulatory disclosure templates[9]. All template rows other than those noted in the tables are either not applicable or nil.

[7] Policy Statement | PS21/17 UK leverage ratio: treatment of claims on central banks (October 2017)
[8] The leverage ratio regime only applies to banks/ building societies with retail deposits exceeding £50 billion.
[9] The detailed disclosure templates re the Leverage Ratio are set out in the Commission Implementing Regulation (EU) 2016/200.

Leverage Ratio	Template Row	2018 £000	2017 £000
Table LR Sum - Summary Reconciliation Of Accounting assets and Leverage Ratio exposures			
Total Statutory Assets per the Balance Sheet	1	1,135,542	993,045
Derivatives - on balancesheet	4	(3,067)	(1,257)
Off balance sheet Items (including Derivatives)	6	36,405	10,950
Less: central bank exposures *	7	(141,703)	(143,042)
Amounts deducted in determining Tier 1 capital	7	(5,215)	(5,005)
Leverage ratio total exposure measure	8	1,021,963	854,691

Leverage Ratio	Template Row	2018 £000	2017 £000
Table LR Com = Leverage Ratio Common Disclosure			
On Balance Sheet exposures (excluding off-bal derivatives)			
On balance sheet items	1	990,772	848,746
Amounts deducted in determining Tier 1 capital	2	(5,215)	(5,005)
Total on balance sheeet exposures	3	985,557	843,742
Derivative Exposures			
Derivatives add-on under mark-to-market method	4	6,886	4,659
Total derivative expsures	11	6,886	4,659
Other Off Balance Sheet Exposures			
Other off balance sheet exposures	17	101,472	31,553
Adjustment for credit conversion factor	18	(71,952)	(25,263)
Total off balance sheet exposures	19	29,520	6,290
Capital And Total Exposure Measure			
Total Tier 1 Capital & Total Capital	20	56,152	52,851
Leverage Ratio Total Exposure Amount	21	1,021,963	854,691
Total Leverage Ratio	22	**5.5%**	**6.2%**

Leverage Ratio	Template Row	2018 £000	2017 £000
Table LRSpl - Split Of Balance Sheet Exposures			
Total on balance sheet exposures, of which	EU1	990,772	848,746
Trading book	EU2	0	0
Banking book exposures, of which	EU3	990,772	848,746
Exposures treated as sovereigns	EU5	579,683	280,083
Exposures to regional governments, MDB,international organisations and PSE not treated as sovereigns	EU6	0	10,084
Insitutions	EU7	344,587	485,027
Corporate	EU10	45,411	64,291
Other	EU12	7,968	9,261

* exposures to central banks subject to a maximum of deposits in the same currency.

5. Capital Management

5.1 Capital Requirements

As part of the ICAAP applicable to CRD IV firms, the Board is required to consider all material risks which the Bank faces and to determine whether additional capital is required in order to provide additional protection to depositors and borrowers and to ensure the Bank is sufficiently well capitalised to withstand a severe economic downturn.

The Board manages its internal capital levels for both current and future activities and documents its risk appetite and capital requirements during stress scenarios as part of the ICAAP.

The ICAAP represents the aggregated view on risk for the Bank and is used by the Board and management to understand the levels of capital required to be held over the near and medium term – a three year time horizon is considered - and to assess the resilience of the Bank against failure. The Bank concluded its last ICAAP in Decemberber 2018.

The Bank is required to maintain a certain level of capital to meet several requirements:

- To meet minimum regulatory capital requirements;
- To ensure the Bank can meet its objectives, including growth objectives;
- To ensure the Bank can withstand future uncertainty, such as a severe economic downturn; and
- To provide assurance to depositors, borrowers, shareholders and other third parties.

The Bank presents regular reports on the levels of capital, as well as the results of stress scenarios, to ALCO, the Audit & Risk Committee and the Board.

The key assumptions and risk drivers used to create the ICAAP are regularly monitored and reported and any material deviation from the forecast and risk profile of the Bank would mean the ICAAP would need to be reviewed.

The Bank aims to maintain sufficient capital to cover regulatory requirements, including any capital planning buffers, and to maintain an appropriate operational capital buffer.

Risk arises from the Bank’s activities and will be affected by any unexpected increase in regulatory requirements or poor financial performance, losses being higher than expected and any downturn in market conditions.

The Bank undertakes certain activities to manage and mitigate capital risk. The primary mechanism to ensure that sufficient capital is held is through regulating the volume of asset origination. In addition, capital risk management activities include capital forecasting over a period of 3 years designed to provide a forward view on capital allocation and excess regulatory capital. Furthermore, stress testing and sensitivity analysis is performed to provide information on the Bank’s capital position. Capital requirements under stressed conditions are considered as part of the ICAAP.

5.2 Minimum Capital Requirement Pillar I

The Bank's overall capital resources requirement under Pillar 1 is calculated by adding the capital resources requirements for credit risk, market risk and operational risk. The following table shows the Bank's capital resources requirement and capital resources surplus under Pillar 1:

Total Minimum Pillar 1 Capital Requirement	**2018 £000**	**2017 £000**
Capital Resources	56,152	52,851
Capital Requirement		
Credit Risk	15,640	18,686
Counterparty Risk	551	75
Market Risk	204	85
Operational Risk	2,299	1,490
Capital Requirement under Pillar 1	18,694	20,336
Capital Resources - Surplus over Pillar 1 Requirement	**37,459**	**32,515**

The overall Pillar 1 capital resources requirement for the Bank is ~ £5m higher than in 2017. The Bank's largest exposures continue to be credit risk exposures mostly relating to placements with rated financial institutions. Minimum Pillar 1 capital requirements for credit risk are considered in further detail in Section 6 of this document.

6. Credit Risk

Credit risk is the risk of financial loss arising from a borrower or counterparty failing to meet their financial obligations to the Bank in accordance with agreed terms. This risk arises principally from the Bank's placement of deposits within the money markets, discounted letters of credit, and certain off-balance sheet activities. These include trade finance and forward foreign exchange transactions. The Bank does not actively trade in financial instruments, other than for liquidity management purposes.

Risk Appetite and Tolerances Statement – Approach:

- *Credit policy, covering limits, restrictions, minimum credit ratings and concentration criteria, is set out in policy papers approved and affirmed by the Bank's board of directors.*
- *Credit risk is managed by the Credit Committee which approves all counterparty limits and is responsible for concentration risk both in terms of individual counterparties and country exposures.*
- *The committee's activities are reported and discussed at the Audit & Risk Committee; Exposures are monitored daily against the limits set.*
- *Risk appetite in respect of Credit Risk is determined by reference to the probabilities of default and the expected losses across its credit portfolio*

The Bank evaluates its level of risk through consideration of the level of exposure that it has to a range of different exposures. Exposure is defined as the maximum loss that a financial institution might suffer if a borrower, counterparty or group fails to meet their obligations or if assets and off-balance sheet positions (after offsets) have to be realised. Mark to market exposures are carefully monitored in respect of forward foreign exchange transactions.

The Bank's credit risk is closely controlled. Commercial client relationships are not founded on a willingness to offer credit exposure and credit is not used as a marketing tool. However, the Bank recognises that exposure to counterparty institutions is unavoidable if an acceptable level of profitability is to be maintained. The Bank's products are linked to the provision of international banking and payment services on a pre-funded basis. Risk is further mitigated by cash cover or multilateral agency guarantees held for significant part of its trade finance business. Uncovered trade finance deals are restricted and spread across a variety and location of entities and countries, and subject to additional review prior to acceptance, as well as higher levels of monitoring and control once in place.

The Bank's strategy includes plans for a moderate and targeted expansion of its trade finance activities and the provision of a limited amount of targeted unfunded credit lines. The Bank does not have a commercial loan book.

Credit risk is assessed in line with the Standardised Approach laid down in the CRD.

6.1 Controls & Mitigation

The Bank reviews its money market counterparty selection criteria, limiting its exposure to investment grade rated institutions. Limits are set by the Bank's Credit Committee which meets on a weekly basis. Exposures are monitored on a daily basis. Allowances are made for currency fluctuations to ensure limits are not breached. The Bank's credit policy is formalised in a policy paper which is reviewed annually by its Board.

Credit risk is principally controlled by establishing and enforcing authorisation limits, including set-off limits, by checking the creditworthiness of counterparties and defining exposure levels to those counterparties. Daily monitoring of positions ensures that prudential limits are not exceeded. The Bank continues to adopt a conservative credit policy and has suffered only a single (minor) credit exposure loss in the last 20+ years.

The capital requirement relating to credit risk underlying certain exposures is mitigated by:

a. Collateral – cash placed with the Bank by the client; or

b. Guarantees – typically from institutions with very high credit ratings (eg World Bank).

Regular stress testing considers the likelihood of the failure of a market counterparty, credit concentrations and country risk.

6.2 Minimum Capital Requirement: Credit Risk

The Bank uses the Standardised Approach in determining the appropriate level of capital to be held for regulatory purposes. Under this approach the Bank must set aside capital equal to 8% of its total risk weighted assets to cover its Pillar 1 capital requirements.

The following table shows the credit risk exposures, the risk weighted assets and the composition of the minimum capital requirements for credit risk at 31 December 2018 and 31 December 2017:

Credit Risk Requirement	Credit Risk Exposure £000	Risk Weighted Assets £000	Minimum Capital Requirement £000
31 December 2018			
Central Governments and Central Banks	735,095	195	16
Mutilateral Development Banks	-	-	-
Public Sector Enterprises	10,023	2,025	162
Institutions	354,149	132,541	10,603
Corporate	51,590	56,585	4,527
Other	11,036	11,036	883
Total	**1,161,893**	**202,381**	**16,190**
31 December 2017			
Central Governments and Central Banks	439,783	1,313	105
Mutilateral Development Banks	-	-	-
Public Sector Enterprises	10,084	2	0
Institutions	489,687	194,715	15,577
Corporate	79,186	34,224	2,738
Other	4,256	4,256	340
Total	**1,022,995**	**234,511**	**18,761**

The overall capital requirement for credit risk has decreased by 13 % between 2017 and 2018. This is largely because of lower exposures to Banks and Other Financial Institutions.

The exposures categorised within 'Other' predominantly relate to other balance sheet assets that have no associated credit risk. These comprise various non-financial assets, including fixed assets, prepayments and sundry debtors.

The Bank has no retail or equity exposure and does not securitise its exposures.

6.3 Credit Risk Exposures by Sector

The following table shows the total amount of exposures, net of any provisions, including pipeline commitments and after offsets, analysed by sector:

Credit Risk Exposure by Sector	Financial £000	Government & Public Administration £000	Other Commercial £000	Total £000
31 December 2018				
Central Governments and Central Banks	-	735,095	-	735,095
Mutilateral Development Banks	-	-	-	-
Public Sector Enterprises	-	10,023	-	10,023
Institutions	354,149			354,149
Corporates	51,590	-		51,590
Other	-	-	11,036	11,036
Total	**405,739**	**745,118**	**11,036**	**1,161,893**
31 December 2017				
Central Governments and Central Banks	-	439,783	-	439,783
Mutilateral Development Banks	-	-	-	-
Public Sector Enterprises	-	10,084	-	10,084
Institutions	489,687			489,687
Corporates	79,186	-		79,186
Other	-	-	4,256	4,256
Total	**568,872**	**449,867**	**4,256**	**1,022,995**

"Corporates" is a regulatory term and, includes exposures to banks in jurisdictions which do not have in place a financial regulatory system equivalent to that in the UK.

6.4 Geographic Distribution OF Credit Risk Exposures

The geographical spread of the Bank's credit risk exposures is set out in the table below.

Credit Risk Exposure by Geographic Location of Counterparty	UK £000	Other £000	Total £000
31 December 2018			
Central Governments and Central Banks	595,460	139,634	735,095
Mutilateral Development Banks	0	0	0
Public Sector Enterprises	0	10,023	10,023
Institutions	250,633	103,516	354,149
Corporate	492	51,098	51,590
Other	11,036	0	11,036
Total	**857,621**	**304,271**	**1,161,893**
31 December 2017			
Central Governments and Central Banks	439,783		439,783
Mutilateral Development Banks	0	0	0
Public Sector Enterprises	0	10,084	10,084
Institutions	109,307	380,380	489,687
Corporate	14,895	64,291	79,186
Other	4,256	0	4,256
Total	**568,241**	**454,754**	**1,022,995**

Credit risk exposures outside of the UK typically arise on money market placements with, and Certificates of Deposit and fixed rate bonds issued by Tier 1 banks that are held as part of the Bank's liquidity buffer, or as interest earning assets.

6.5 Residual Maturity of Credit Risk Exposures

The table below summarises the Bank's exposures, including off balance sheet items, analysed by remaining contractual maturity. The maturity of exposures is shown on a contractual basis.

Credit Risk Exposure by Residual Maturity	Within 1 Year £000	1 to 5 Years £000	No defined maturity £000	Total £000
31 December 2018				
Central Governments and Central Banks	108,811	31,292	594,992	735,095
Mutilateral Development Banks	-	-	-	-
Public Sector Enterprises	25	9,998	-	10,023
Institutions	264,298	18,105	71,746	354,149
Corporate	47,261	-	4,329	51,590
Other	-	-	11,036	11,036
Total	**420,395**	**59,394**	**682,103**	**1,161,893**
31 December 2017				
Central Governments and Central Banks	16,658	-	423,125	439,783
Mutilateral Development Banks	-	-	-	-
Public Sector Enterprises	-	10,084	-	10,084
Institutions	458,700	26,327	-	485,027
Corporate	80,120	3,725	-	83,845
Other	-	-	4,256	4,256
Total	**555,478**	**40,136**	**427,381**	**1,022,995**

6.6 Management of Credit Risk

Credit risks associated with credit exposure are managed through the use of detailed credit policies which outline the approach to credit exposure, underwriting criteria, credit mandates, concentration limits and product terms. The Bank maintains a dynamic approach to credit management. Its credit policies and performance against risk appetites are regularly reviewed. The Bank will take necessary steps if specific issues are identified or if credit performance deteriorates, or is expected to deteriorate, due to economic or sector-specific weaknesses.

The Bank also seeks to mitigate credit risk by focusing on business sectors where it has specific expertise and through limiting concentrated exposures on larger loans or certain sectors which can represent higher risk. The Bank also seeks to obtain security cover from borrowers.

External rating agency ratings for borrowers are not always available in the specialist segments in which the Bank operates. Credit risk is, however, assessed through a combination of due diligence, reviewing credit reference agency reports, reviewing financial information, and the use of experienced underwriters.

The Bank has a single Credit policy and dedicated credit risk management team which assesses credit risk, supported by a Credit Committee with significant credit experience.

6.7 Credit Risk – Rating of Exposures

Credit risk exists in relation to:

- Treasury assets where the Bank has placed deposits with, or acquired assets which are exposures on, other financial institutions. The Bank's policy is currently to place such deposits or acquire assets which are rated at least F1 by Fitch. Hence, the Bank considers that the credit risk of such assets is relatively low. As the Bank does not maintain a trading book, all such assets are placed or acquired with the intention of holding to maturity. Some of these assets are held as a part of the Bank's liquid assets buffer (see section 9 below).
- Other exposures, typically relating to trade finance exposures, a material part of which is supported by cash collateral.

The relevant capital requirement is calculated using the Standardised Approach, in accordance with the PRA's regulations. Credit ratings used in the classification of such exposures are provided by various agencies.

Exposure Value by External Rating	AAA+ to AA- £000	A+ to A- £000	BBB+ to B- £000	Unrated £000	Total £000
31 December 2018					
Cash and Balances at Central Banks	594,992	-	-	-	594,992
Loans and Advances to Banks	5,243	122,792	26,877	64,135	219,047
Fixed rate Bonds	144,052	14,136	-	-	158,188
CDs and other debt instruments	23,575	129,412	15,691	-	168,678
Derivatives	3,095	4,926	167	1,765	9,953
Other	-	-	-	11,036	11,036
Total	**770,956**	**271,265**	**42,736**	**76,936**	**1,161,893**
31 December 2017					
Cash and Balances at Central Banks	423,125	-	-	-	423,125
Loans and Advances to Banks	38,965	131,892	21,928	67,489	260,274
Fixed rate Bonds	26,730	17,168	-	-	43,898
CDs and other debt instruments	28,562	243,011	15,210	-	286,783
Derivatives	2,170	1,890	528	72	4,659
Other	-	-	-	4,256	4,256
Total	**519,552**	**393,960**	**37,667**	**71,816**	**1,022,995**

None of the Treasury assets noted above were past due[10] or impaired.

Credit ratings are based on the specific obligor to whom the Bank is exposed.

Cash placements

[10] ie the repayment of any capital or interest remains contractually outstanding for more than 90 days.

Credit risk of Bank counterparties is controlled through the Treasury Policy and the Risk Appetite and Tolerances Statement which limits the maximum exposure by entity where the Bank may place cash deposits. All institutions need a sufficiently high long term and short-term rating at inception.

Derivatives

All derivative contracts are cash collateralised. As at 31 December 2018, all such counterparties were either based in the UK or in a jurisdiction with regulatory equivalence.

6.8 Credit Risk Concentration

Concentration risk exists through having high or excessive exposures to a concentration of certain counterparties, regions or sectors. Concentration risks from credit exposure activities are managed and controlled through the adoption of concentration limits through the Risk Appetite and Tolerances Statement (RATS). Reported exposures against concentration limits are regularly monitored.

6.9 Counterparty Credit Risk

The Bank is exposed to counterparty credit risk from derivative transactions for the purposes of reducing exposures to fluctuations in interest rates and exchange rates; such derivatives are not used for proprietary trading purposes.

Counterparty credit risk is the risk that a counterparty to a derivative instrument to which the Bank has an exposure could default.

The Bank calculates counterparty credit risk exposures using the mark-to-market method. Exposure is calculated as the positive mark-to-market value of outstanding contracts plus an additional potential future credit exposure that varies according to the transaction.

Key data in respect of the Bank's derivative contracts is as follows:

	2018 £'000	**2017** £'000
Net derivative credit exposure	6,886	4,659
Notional principal	687,951	613,707
Gross positive fair value	3,067	1,257

The net derivatives credit exposure, which represents the credit exposure to forward foreign exchange contracts only, is stated after including potential future credit exposures as required in the calculation of exposure.

Counterparty credit limits are established for authorised counterparties and are updated on a periodic basis to take account of any ratings migration and the Bank's assessment of the credit risk for the institution. The maximum exposure limit is set below the 100 per cent of the Bank's regulatory capital level, although each counterparty is assessed on individual merit. Exposures to central banks; multilateral development banks; other public-sector institutions; and any other entities which carry a zero per cent risk weighting as per the Standardised Approach, have limits set at up to 100 per cent of the Bank's capital resources. The exposure limit for each institution is maintained in an Authorised

Counterparties List which is reviewed at least annually or more frequently should a change in ratings occur.

6.10 Reconciliation to Statutory Accounts

The reconciliation of the assets from the Bank's 2018 Statutory Accounts to the credit risk exposure is as follows:

Reconciliation to Statutory Accounts		**2018 £000**	**2017 £000**
Total Assets per Accounts		1,135,542	993,045
less: Assets deducted from Regulatory Capital			
	Intangible Assets	(5,215)	(4,092)
	Deferred Tax Asset	(227)	(913)
less: Derivative Assets		(3,067)	(1,257)
Other Adjustments (including non-accounting adjustments for finacial statements disclosure)		(1,546)	-
Add: Off Balance Sheet Exposures			
	Trade Finance	29,520	31,553
	Derivatives	6,886	4,659
Total Credit Risk Exposures		**1,161,893**	**1,022,995**

Further details relating to the reconciliation of other items, including Own Funds, are provided at **Appendix 3**.

7. Market Risk - Interest Rate Risk

Interest rate risk is the risk of loss through mismatched asset and liability positions sensitive to changes in interest rates.

Risk Appetite and Tolerances Statement – Approach: exposure to interest rate movements arises when there is a mismatch between interest rate sensitive assets and liabilities. This risk is managed by limiting the mismatch allowed in predetermined time bands. Risk appetite in respect of Market risk – Interest rate risk is determined by reference to the impact of a 200bp move in interest rates as a proportion of the anticipated impact on Net Interest Income over a determined time period.

7.1 Management of Interest Rate Risk

The Bank's balance sheet is liability led, in that assets are not generated unless a corresponding liability has arisen from customer deposits.

Interest rate risk primarily arises from where the maturities of assets do not match those of the liabilities.

The Bank aims to minimise interest rate risk and has a policy of placing funds with market counterparties or purchasing assets against its fixed term client deposits.

As market circumstances permit, the Bank will mismatch its book to enhance returns. This can happen when the Bank chooses to match short term client fixed deposits with overnight assets to take advantage of preferable Bank of England call account rates or when the Bank puts longer term assets against its "behaviouralised" current account balances to take advantage of better yields. In both cases interest rate risk is minimal although in the first case a cut in rates would have an effect until the deposits mature and the rates can be adjusted.

The Bank monitors its interest rate risk by calculating the economic gain/loss of a 200 bp shift in the yield curve (both up and down) and comparing it against a Board approved limit .The Bank also monitors the earnings (net interest income) gain/loss (over a twelve month period) of a similar 200 bp parallel shift. The results are as follows:

	31 Dec 18 £'000	31 Dec 17 £'000
Economic Gain/(Loss)		
200 pb upward shift	(1,023)	(1,349)
200 bp downward shift	1,058	1,397
Earnings Gain/(Loss)		
200 pb upward shift	(999)	(1,799)
200 bp downward shift	999	1,799
Pillar 2A capital add-on re IRR	933	2,096

The Bank does not fair value any of its interest bearing assets or liabilities[11]. As a result, there will be no immediate accounting gain or loss following any change in interest rates.

Both metrics are monitored on a daily basis and ultimately reported to both ALCO and the Audit & Risk Committee.

7.2 Asset-liability Gap Risk

As noted above, the Bank's balance sheet is liability led, in that assets are not generated unless a corresponding liability has arisen from customer deposits, creating a natural hedge.

All the Bank's assets and liabilities are fixed rate exposures, hence a natural hedge arises through the appropriate management of the book with respect to the maturity profile of those assets and liabilities. The Bank does not hedge the interest rate risk in any other way.

Given timing differences and the price of hedging small gaps, it is not cost effective to have an absolute match of assets and liabilities. In addition to the monitoring noted above, the risk exposure of the overall asset-liability interest rate profile is controlled by the close measurement of the quantum of "behaviouralised" deposits (i.e. current accounts which have historically been shown to be sticky) held at any time.

[11] The Bank accounts under Financial Reporting Standard 102 and has chosen to adopt Sections 11 and 12 in respect of financial instruments.

8. Market Risk - Currency Risk

Foreign Exchange Risk is the risk of loss through mismatched asset and liability currency positions which are sensitive to changes in exchange rates.

Risk Appetite and Tolerances Statement – Approach:

- *Currency risk is managed by adherence to limits for intra-day and overnight positions. Risk Management independently review positions.*
- *Currency risk on transactional currency exposures which arise from income in currencies other than Sterling, the Bank's operating (or functional) currency, is mitigated by hedging, where appropriate. Hedging is undertaken using forward FX deals to cover the anticipated net cash flows.*
- *Risk appetite in respect of Market Risk – Currency risk is determined by the quantum of capital available to the Bank and the historic volatility of currencies in which it deals.*

8.1 Management/Mitigation

As with other risks, the Bank's tolerance of its foreign exchange risk is set out in the RATS. In general, the Bank has a very low tolerance of such risks and ensures that the risk is kept within the stipulated limits via the forward sale/purchase of foreign currency in line with the maturing of the relevant assets/ liabilities.

8.2 Measurement/Control

The Treasurer and Credit team is responsible to manage and monitor the Bank's foreign exchange risk. The underlying currency mismatch is measured and reported daily for any further action by management as appropriate.

The level of that mismatch as at 31 December 2018 and 2017 was as follows:

	£'000 Equivalent					
	US $	Euro	Yen	AUD	Other	Total
2018						
On balance Sheet	(425,168)	7,676	15,532	(11,458)	(2,881)	(416,300)
Forward/Off B/S	426,560	(8,324)	(15,517)	11,512	3,987	418,219
	1,392	(648)	15	54	1,106	1,919

	£'000 Equivalent					
	US $	Euro	Yen	SA Rand	Other	Total
2017						
On balance Sheet	(376,100)	14,127	6,578	(2,087)	(15,000)	(372,482)
Forward/Off B/S	377,174	(14,259)	(6,569)	2,120	15,937	374,403
	1,074	(132)	9	33	937	1,921

9. Market Risk – Other Risks

Market risk is the risk that the value of, or net income arising from, the Bank's assets and liabilities changes as a result of changes to market forces, in particular interest rates or exchange rates both of which are considered in further detail below.

The Bank holds certain assets, notably its fixed rate bond portfolio, for which an active market exists, and which are therefore potentially subject to market risk. The portfolio (excluding accrued interest) is as follows:

Asset Type	2018 Book Value £'000	2018 Market Value £'000	2017 Book Value £'000	2017 Market Value £'000
Fixed Rate Bonds	157,573	156,990	43,763	43,394

The Bank accounts under Financial Reporting Standard 102 and records such assets at amortised cost (ie does not fair value/ mark to market such assets). Furthermore, the Bank's policy is to hold such assets to maturity thereby effectively eradicating any market related risk. As a result, the Bank would normally only be exposed to:

- the underlying credit risk of the issuer and
- any foreign exchange risk, although the Bank effectively mitigates the substantial part of any such risk (see Section 9).

Generally, the Bank has a highly restricted appetite to Market Risk; it does not operate a trading book and therefore is exposed to Market Risk primarily through its small exposures to such capital instruments, together with currency exposures arising through its daily funding, payments and trade finance activities. It should also be noted that the Bank permits only low levels of intraday and overnight exposures to market or interest rate movements.

9.1 Controls & Mitigation

The Bank maintains risk management systems to identify, measure, monitor, and control market risk including the daily distribution of spot and forward Foreign Exchange ("FX") and other positions, the resultant calculation of the relevant capital requirement against those positions and the movements in market valuations noted above. Under Pillar 1, the market risk is calculated at 8% of the Sterling equivalent open position for FX positions. The Bank does not enter into any financial derivatives contracts other than forward FX.

The ALCO meets on a monthly basis and is charged with responsibility for Market Risk. The Audit & Risk Committee and the Board set the Market Risk and Foreign Currency policies which govern the management of Market Risk.

Interest rate and currency movements are considered as part of the Bank's programme of stress testing.

9.2 Other Market Risks

The Bank's instruments are also exposed to other forms of market risk e.g. credit spread risk. Prices are monitored on a day to day basis to ensure that the Bank is aware of any material diminution in value. The Bank does not carry out proprietary trading in assets or equity which are actively traded or otherwise.

10. Liquidity Risk

Risk Appetite and Tolerances Statement – Approach:

- *A substantial proportion of customer accounts are current accounts that, although repayable on demand, have historically formed a stable deposit base.*
- *Liquidity is subject to daily monitoring against guidelines above those set by the PRA and periodic stress tests both idiosyncratic and market wide.*
- *The Risk Appetite for Liquidity Risk is set to ensure the Bank is able to meet all of its outflows as they arise*

Liquidity risk is perceived as very low, given the Bank's business model, which is deposit driven, rather than asset led. The Bank's liquid assets are:

- High Quality Liquid Assets ("HQLAs") (as defined by CRD IV) typically call deposits at the Bank of England and certain high quality bonds (eg US Treasury Bonds).
- Cash, certificates of deposit and other high quality bonds.

10.1 Controls & Mitigation

Liquidity risk is the risk that the Bank is not able to meet its financial obligations as they fall due or can do so only at excessive cost. The risk can arise because:

- The Bank has insufficient funds to pay the amounts that it owes (either to depositors or creditors);
- The Bank has sufficient funds but they are not readily accessible; or
- The Bank's credit rating, asset quality or reputation deteriorates to such an extent that it is prevented from refinancing its borrowings on maturity.

Liquidity is measured and monitored daily based on metrics and limits set out RATS. Liquidity risk is considered by ALCO and its monthly meetings. The Bank's Treasury policy sets the limit of any mismatch limits to be followed which, together with any Individual Liquidity Guidance ("ILG") set by the PRA, is monitored and measured on a daily basis.

To protect the Bank and its depositors against liquidity risks, the Bank maintains a liquidity buffer which is based on the Bank's liquidity needs under stressed conditions. The liquidity buffer is monitored on a daily basis to ensure there are sufficient liquid assets at all times to cover cash flow movements and fluctuations in funding and to enable the Bank to meet all financial obligations and to support anticipated asset growth.

Liquidity risk is specifically assessed through the ILAAP, which is approved by the Board. As part of this process, the Bank has assessed the level of liquidity necessary to prudently cover systemic and idiosyncratic risks and the ILAAP sets out the minimum level of liquidity to be held at any time, taking into account the specific nature of the deposit base.

The ILAAP requires the Bank to consider all material liquidity risks in detail and has documented the Bank's analysis of each key liquidity risk. Liquidity risks are specifically considered by ALCO each month.

Based on the business model of funding primarily through wholesale deposits, the Board has set a liquidity risk appetite which it considers to be appropriate to provide it with the assurance that the relevant liquidity risk drivers should be considered and appropriately stressed and that the Bank is able to meet liabilities beyond the targeted survival period.

The Bank's key liquidity buffer is its holding of HQLAs, which primarily consists of its reserve account held with the Bank of England, and holdings of US Treasury Bonds, as shown below:

	31-Dec-18 £'000	31-Dec-17 £'000
Bank of England reserve account	594,992	423,125
Other HQLAs – Fixed rate Bonds	10,006	10084
US Treasury Bonds	116,397	0
Total HQLAs	**721,394**	**433,209**
Total HQLA liquidity buffer as a % of funding liabilities	68.20%	46.30%

10.2 Liquidity Ratios

Banks are currently subject to two key liquidity metrics. The Liquidity Coverage Ratio ('LCR') aims to improve the resilience of banks to liquidity risks over a 30 day period. The Net Stable Funding Ratio ('NSFR') aims to ensure that banks have an acceptable amount of stable funding to support their assets over a one year period of extended stress.

10.2.1 Liquidity Coverage Ratio ("LCR")

The detailed rules for the calculation of the LCR are set out in the Liquidity Coverage Requirements Delegated Act, which have been directly applicable to the Bank since 1 October 2015, as well as PRA rules and supervisory statements on CRD IV Liquidity.

Under the rules, the LCR is calculated as:

$$\frac{\text{High Quality Liquid Assets}}{\text{Cash outflows – capped cash inflows}}$$

High Quality Liquid Assets, cash outflows and capped cash inflows are defined in the Act.

Based on these rules, the Bank's LCR as at 31 December 2018 is 211% (2017: 158%) which is significantly in excess of the minimum requirements of 100%, which was effective from 1st January 2018.

Further details underlying the calculation of the LCR together with quarterly information can be found at **Appendix 4**[12].

[12] The detailed disclosure requirements are set out in EBA/GL/2017/01

The only material foreign currency inflows and outflows involved are US$ and €, both of which are readily convertible into and out of £.

10.2.2 Net Stable Funding Ratio ("NSFR")

The NSFR is the Banks stable funding, which is typically its capital together with its deposits including various levels of discount, divided by its required stable funding, typically its exposures to third parties, again including various levels of discount. Whilst it was envisaged that the NSFR would come in to force as a regulatory requirement with effect from 1 January 2018 at a minimum requirement of 100%, the underlying regulations have yet to be finalised and, as a result, it is not currently a regulatory requirement.

The Bank's NSFR as at 31 December 2018 is 198% (2017 198%), substantially in excess of the 100% minimum requirement.

10.3 Key Liquidity Risk Drivers

This section provides an overview of the Bank's key liquidity risk drivers.

10.3.1 Deposit funding risk

The deposit funding risk is the primary liquidity risk driver for the Bank and this could occur if there was a concern by depositors over the current or future creditworthiness of the Bank. Although the Bank seeks to operate in such a way as to protect depositors, an extremely low proportion of deposits are currently protected by the government's Financial Services Compensation Scheme ("FSCS"). The FSCS currently provides £85,000 of protection to eligible depositors.

10.3.2 Wholesale funding

The Bank mainly finances its operations through wholesale deposit taking, although it does not have long term wholesale funding lines in place. The Bank does have relationship banking facilities in place which are used to hedge against currency exposures.

10.3.3 Payments systems

The Bank does not form part of the UK payment system. However, in the event there are problems with one of the payment systems, the Bank has access to other facilities with which to make payments if needed.

10.3.4 Liquidity contingency plan

As a regulated firm, the Bank is required to maintain a Liquidity Contingency Plan ("LCP"). The plan which ties in to the Bank's Recovery Plan ("RP"), involves a two-stage process, covering preventative measures and corrective measures to be invoked when there is a potential or actual risk to the Bank's liquidity or capital position. The LCP/RP provides a plan for managing a liquidity or capital situation or crisis within the Bank, caused by internal events, external events or a combination thereof. The plan outlines what actions the Bank could take to ensure it complies with the liquidity adequacy rules, maintains sufficient capital and operates within its risk appetite and limits, as set and approved by the Board.

10.4 Encumbered Assets

As at 31 December 2018, the Bank's only encumbered assets were on demand loans to other financial institutions totalling £366K (2017 - £1,713K) all of which supported derivative foreign exchange contracts with the institutions concerned. Further details can be found at **Appendix 5**.[13]

[13] the detailed regulatory disclosure requirements are set out in EBA/RTS/2017/03. Where no data is provided the response is not applicable or nil.

11. Operational Risk

Operational risk is the risk of financial and / or non-financial impact resulting from inadequate or failed internal processes, people and systems, or from external events. This risk includes IT, information security, project, outsourcing, tax, legal, fraud and compliance risks.

Risk Appetite and Tolerances Statement – Approach:

- *Business units are responsible for managing operational risk, with measurement and monitoring carried out by Risk Management.*
- *Internal controls include procedures, segregation of duties, reconciliations, exception and exposure reporting, business continuity planning and authorisation processes, and are based on management information.*
- *Risk Management provides an independent assessment of the strength of the operational risk framework to the Board.*

The markets in which the Bank operates are generally perceived to have high levels of corruption, and this increases the Bank's exposure to the possibility of internal and external fraud, and / or financial crime related risks

11.1 Controls and Mitigation

The Bank has an Operational Risk Policy which is reviewed periodically by EXCO and the Audit & Risk Committee. The Compliance and Operational Risk Committee meets regularly to discuss operational issues. It has responsibility for monitoring all the key operational risks facing the organisation, including compliance and operational risks.

Key control standards include new product/increased volume reviews; levels of authority and individual approval limits; detailed procedures; segregation of duties; regular and timely reconciliations; succession planning and business continuity. Regardless of value, all operational incidents are recorded by the business, and reviewed and investigated by Risk Management, who may recommend additional controls and procedures where appropriate.

The Basic Indicator Approach set out in the EU Capital Requirements Directive is used to assess capital requirements for operational risk. Stress testing and scenario analysis shows that the current regulatory requirement for Operational Risk is sufficient to cover the risks identified.

11.2 Management of Operational Risk

The Bank aims to maintain robust operational systems and controls and seeks to operate within a defined level of operational risk. The operational risk appetite considers risk events, the assessment of internal controls as well as holding additional capital for certain operational risks.

As part of the operational risk management process, the Bank has an Operational Risk Policy, undertakes a Risk & Control Self-Assessment process across the Bank, and has business continuity plans in place. The Bank records all operational risks and risk events.

Through the establishment of, and investment in, sound systems, controls and audit functions, the Bank aims to minimise operational failures.

The Bank has placed emphasis on ensuring that the IT infrastructure, performance, resilience, and security meet the on-going needs of the business.

The operational risk charge for the Bank under Pillar 1 is calculated using the Basic Indicator Approach, whereby a 15 per cent multiplier is applied to the average net income over a rolling three-year period. The capital requirement calculated under this approach is as follows:

Operational Risk Requirement	**31-Dec-18 £'000**	**31-Dec-17 £'000**
Average net income over preceding three years	15,326	9,932
Capital requirement at 15%	2,299	1,490

The capital Risk Weighted Assets equivalent is set out in the table in section 4.3 above.

12. Compliance (including Regulatory) Risk

Risk Appetite and Tolerances Statement – Approach:

- *The bank has a daily monitoring system where it monitors regulatory compliance such as capital adequacy and required liquidity.*
- *These daily controls feed into monthly reviews and periodic reporting to the PRA.*
- *The Bank continues to deliver staff training programmes to ensure its staff are both aware of and comply with regulations.*
- *The Bank has zero tolerance for financial crime, Regulatory Risk, and Conduct of Business Risk, but recognises that some markets for its activities are higher risk areas, which may heighten its exposure to such risks from time to time.*

The Bank seeks to comply at all times with all rules, regulations and laws to which it is exposed through all of its activities and continues to develop staff training programmes to ensure its staff are both aware of and comply with such. As a result, while it has zero tolerance for financial crime, Regulatory Risk, and Conduct of Business Risk, it recognises that some markets for its activities are higher risk areas, which may heighten its exposure to such risks from time to time.

In respect of financial crime risk, as mentioned above, the Bank makes every effort to comply with its obligations, however, cannot control the actions of its clients, counterparties and others with whom it may from time to time come into contact. However, the Bank aims to have 'best in class' Anti Financial Crime policies, in order to minimise this risk as far as possible.

12.1 Controls & Mitigation

The Bank keeps abreast of banking regulations through receipt of PRA, FCA, UK Finance and EBA bulletins. Staff regularly attend workshops to ensure that their knowledge on regulatory issues is up to date. Staff receive regular training in respect of Financial Crime risk (see 15 below) and all clients are assessed as to the level of risk they pose in respect of Money Laundering and Bribery and Corruption. The Financial Crime Policy is regularly reviewed and approved by the Board. The Bank has a compliance monitoring and testing programme in place which is regularly reviewed.

The Bank continually reviews the resources dedicated to combatting Financial Crime and throughout the year has been actively recruiting to enhance its Financial Crime staffing.

The Compliance and Operational Risk Committee meet monthly to discuss compliance issues. An in-house legal team advises on any legal issues which may arise.

13. Strategic Risk

Strategic risk is the risk which can affect the Bank's ability to achieve its corporate and strategic objectives. Strategic risk is particularly important as the Bank continues its growth strategy. The Bank seeks to mitigate strategic risk by focusing on a sustainable business model which is aligned to the Bank's business strategy.

The strategy of the Bank is established through the creation of a rolling five-year plan, agreed by the Board. Each year an Annual Operating Plan and budget, which dovetails with the overarching strategic plan is created and agreed by the Board.

The Bank and its parent are prepared to accept a risk that earnings will fluctuate to maintain risk appetites at agreed levels.

Strategic risk can arise from both internal and external factors. The Bank seeks to identify and mitigate the individual components of strategic risk through the application of the Risk Management Framework.

The Bank's strategic direction and performance is impacted by external factors (similar to those impacting other financial institutions) and internal operational factors.

13.1 External Factors

External factors include uncertainty around future interest rate movements and increased competition, especially from new entrants to the market, which may challenge product and pricing margins. The Bank closely monitors competitor activity, pricing, and customer behaviour and feedback and reflects this in pricing and marketing plans.

As a regulated business, the Bank must also comply with the complex and changing regulatory environment. Prudential and conduct regulation continues to evolve, and the Bank maintains regulatory monitoring activity to understand future requirements and how this may affect the Bank. To comply with current prudential regulatory requirements, the Bank maintains adequate capital and liquidity resources to satisfy these requirements at all times. Notwithstanding, the Bank's borrowing costs and capital requirements could be affected by future prudential regulatory developments.

There remains a keen focus on capital management to ensure that the Bank has an appropriate capital structure in place to support the Bank's growth strategy.

The Bank has a zero risk appetite for material regulatory breaches. To ensure compliance with regulatory requirements, the Bank has policies, processes and standards which provide the framework for business activities and staff to operate to which are in accordance with the laws, regulations and voluntary codes which apply to the Bank and its activities. Compliance with regulation incurs significant costs which are factored into the operational cost and are considered in relation to the specific products and services that the Bank offers.

13.2 Internal Factors

Internal factors which impact strategic risk include the adequacy of IT systems, data security, project management, supplier and outsourcing arrangements and from internal and third-party fraud and compliance failings. As the Bank grows it continues to monitor the adequacy and ability of its third-party suppliers to support the Bank, now and in the future and where necessary will seek alternative arrangements.

13.3 Controls & Mitigation

Targets are regularly reviewed as part of the Bank's strategic review process, and during discussions with its stakeholders over expected contribution levels. EXCO meets monthly to review progress against plans. Forecasts and budgets are continually updated.

14. Conduct Risk

Conduct risk is the risk of detriment caused to the Bank`s customers due to the inappropriate execution of its business activities and processes. The Bank extends the definition of 'customer' to include SME and wholesale customers (but excludes intermediaries and other third parties) across all business segments, including both regulated and non-regulated activities, thereby applying its conduct risk policies to all credit exposure and deposit-taking activities.

The Bank has a zero appetite for systemic unfair outcomes, which may result in significant detriment to the Bank's customers. Systemic unfair outcomes may arise from poor product design, poor sale processes or unacceptable operational practices which risk repeated or continual outcomes which are detrimental to customers.

However, occasional failures in operational processes may occur, for example administration and processing errors or interruptions to IT systems. These occasional events may have an impact on customers, leading to customer detriment.

The risk is that customers can suffer detriment due to actions, processes or products which originate from within the Bank. Conduct risk can arise through the design of products that do not meet customers' needs, mishandling complaints where the Bank has behaved inappropriately towards its customers, inappropriate sale processes and exhibiting behaviour that does not meet market or regulatory standards.

Customer detriment could affect the Bank's reputation, lead to loss of market share due to damage to the Bank's brand, may lead to customer redress payments and could lead to regulatory action and censure.

The Bank mitigates conduct risk by monitoring various operational metrics and by tracking activities which affect customers, monitoring customer complaints, implementing process improvements and adhering to service standards. The conduct risk metrics (which include among others, staff performance levels, training, customer feedback and complaints, product retention rates and cancellations and customer service standards) vary across the business lines and consist of individual business line conduct risk KPIs, the sum of which is measured against the risk appetite.

Conduct risk metrics and KPIs are in place to evidence fair outcomes, identify any emerging issues and document remedial actions. Each customer-facing area is responsible for implementing controls designed to manage and report on conduct risk, which includes understanding how customer detriment may occur, how it is identified and how it is prevented going forward. Conduct risk is monitored by CORC.

15. Financial Crime Risk

Financial Crime risk is the risk of losses arising from financial crime events including Money Laundering, Terrorist Financing, Fraud, Market Abuse and Bribery and Corruption due to failed internal processes, people and systems.

The Bank operates and seeks new business internationally and this can expose the Bank to a higher level of financial crime risk than many domestically operating banks. Financial crime risk is tightly controlled, and the Anti-Financial Crime department undertakes oversight and supervision of the Bank's control environment associated with the client prospective on-boarding and ongoing monitoring. The Bank endeavours to tightly control financial crime risk exposures to at least the standards of those laid down by Money Laundering regulation and the Joint Money Laundering Steering Group (JMLSG) Guidance.

The Bank does not actively seek financial crime and associated risks and as such seeks to minimise residual risk exposures, using the proportionate risk-based approach as laid down by JMLSG. All prospective clients are subject to proportionate risk based due diligence prior to taking them as clients, as well as risk-based monitoring controls thereafter.

16. Insurance Risk

The Bank has arranged its own insurance. Comprehensive insurance cover has been taken out with reputable third-party insurance companies including professional indemnity, public and employers' liability. The levels of cover, policy excesses, and the financial strength of the insurer are reviewed and discussed annually with brokers.

17. Pension Obligation Risk

Historically, certain of the Bank's staff have been members of either or both:

- the defined benefit pension scheme operated by the Bank's previous parent, Crown Agents Limited (closed to both new members and further accruals).
    - The Bank had historically paid contributions and costs to the scheme as determined by the bank's previous parent, Crown Agents Ltd.
    - While the Pensions Regulator can require the Bank to contribute towards any deficit in the scheme, the length of time over which that contribution needs to be made is not prescribed. Prior to the sale of the Bank by Crown Agents Ltd, the Bank considered it may have had a secondary pension obligation risk in respect of the defined benefit scheme. However, as part of the sale, Crown Agents Limited contractually agreed to take on responsibility for any such liability.
- the Bank's defined contribution pension scheme. The Bank has no liability regarding such a scheme.

18. Remuneration

The PRA has defined certain requirements relating to remuneration, referred to as the Remuneration Code ('the Code'). Firms that fall within the scope of the Code (which includes banks) must establish, implement and maintain remuneration policies, procedures and practices that are consistent with and promote sound and effective risk management. Policies and procedures must be comprehensive and proportionate to the nature, scale and complexity of the firm's activities.

A firm must maintain a record of its Code Staff (being those staff whose professional activities have a material impact on the firm's risk profile) and take reasonable steps to ensure Code Staff understand the implications of their status.

The disclosure requirements of Pillar 3 are defined by CRR Article 450. Data is provided for remuneration received by Code Staff for the year ended 31 December 2018.

During the year, the Bank designated a total of 29 individuals (including Non-Executive Directors) who were classed as Code Staff. Of these, 17 were categorised as Senior Management (being the Executive and Non-Executive Directors who served during the year, and members of the Executive Committee), as well as 12 individuals categorised as Other Code Staff.

18.1 Approach to Remuneration

The Bank's remuneration policies are designed to comply with the Code and the Bank is committed to adherence to its practices and guidelines in respect of Code Staff.

The key principles behind the Bank's remuneration policy are those that we believe are critical to the business and reflect our values and recognise the need to be competitive. The policy is to set remuneration levels which are aligned within the overall Bank stated risk appetite and ICAAP measures, and to ensure that the Executive Directors, Senior Management and employees are fairly and responsibly rewarded in return for high levels of individual and business performance.

The overall aim of the policy is to attract, motivate and retain Executives of high calibre who can deliver sustained performance consistent with strategic goals, appropriate risk management and to reward them for enhancing value.

The following key principles underpin these themes:

- Attract and retain high calibre individuals – employee turnover will be monitored for the proportion attributable to remuneration policy and practices; the performance management framework will be maintained to ensure it continues to reflect and support business goals; assessment of the value of roles will be through an objective measurable methodology, that ensures value is attached to tangible services and outputs of the role;
- Remuneration will not be excessive – losses associated with remuneration set in excess of market rates will be avoided through the regular application of comparisons against independent third-party data;
- Remuneration is aligned to the long-term success of the Bank – performance related components of remuneration will be aligned to risk adjusted financial measures which reflect achievement of the Bank's longer-term business plan;
- Proportion of variable pay is appropriate, predominantly cash based and may be deferred – where a significant proportion of remuneration is variable, it will be designed to reward longer term success. The ratio of fixed to variable remuneration will differ depending on the specific incentive schemes in operation across the business, however as a general rule the Bank seeks to ensure that the majority of an individual's remuneration is fixed; and

- No reward for poor performance - the performance management framework focuses on objective measurement of outputs along with behavioural measures which assess the way in which work is done.

18.2 Decision-making Process for Determining Remuneration Policy

In line with regulatory guidance, remuneration is overseen by the Remuneration Committee ('the Committee') a Board sub-committee. The Committee is responsible for:

- Reviewing the appropriateness and relevance of the remuneration policy;
- Determining and regularly reviewing the policy, terms, objectives and content of the Executive Directors' service contracts;
- Approving the design of and determining targets for any performance-related pay schemes applying to the Executive Directors;
- Determining the policy and scope of pension arrangements for the Executive Directors;
- Reviewing and approving the introduction of any new incentive arrangement across any part of the organisation;
- Overseeing any major changes to the Bank's employee benefits structures;
- Overseeing remuneration policy throughout the Bank, noting the risks posed by remuneration policies; and
- Overseeing the annual pay review budget.

18.3 Remuneration Policy for Code Staff[14]

The objective of the remuneration policy is to ensure that appropriate incentives are awarded for individual contributions to the success of the Bank and encourage enhanced performance. The policy in relation to the various elements of remuneration structures for Executive Directors and other Code Staff is set out below.

18.3.1 Basic salary

The basic salary of the Executive Directors and other members of the senior leadership team (as for all employees) is determined by taking into account the responsibilities and experience of the individual director / employee and having regard to relevant market comparisons. Progression is reflected through the annual salary and personal review processes.

18.3.2 Variable pay

The Executive Directors and other Code Staff participate in a non-pensionable performance incentive scheme, the metrics of which reflect the Bank's key objectives. These elements are all set to provide challenging objectives, giving the Executive Directors an incentive to perform at the highest level. As noted below certain Code Staff are also part of the Group's Long Term Incentive Plan.

18.3.3 Benefits

Each Executive Director is provided with benefits which comprise pension arrangements, private medical insurance, critical illness cover, life assurance and income protection insurance. Other Code Staff are entitled to similar benefits.

[14] The Remuneration Policy does not apply to non-executive directors who are paid a fixed fee which is reviewed periodically by the Remuneration Committee.

18.3.4 Link between pay and performance

Performance-based remuneration is awarded by the Remuneration Committee in a manner which promotes sound risk management (within the Bank's stated risk appetite and ICAAP measures) and does not induce excessive risk-taking.

The Bank's remuneration policy focuses on ensuring sound and effective risk management through:

- A stringent governance structure for setting goals and communicating these to employees;
- Making all variable remuneration awards at the discretion of the Remuneration Committee and subject to individual, business unit, overall Bank performance, stated risk appetite and ICAAP measures.

In practice all remuneration decisions are approved by the CEO and Human Resources before implementation and as part of this would also be reviewed from a risk perspective. The remuneration decisions of Executive Directors and Other Code Staff are reviewed and approved by the Committee.

18.3.5 Design and structure of remuneration

There are three main elements of remuneration available to Code Staff:

- Basic salary;
- Variable awards (re the performance incentive scheme); and
- Benefits (pension and insurance).

Certain Code staff are also part of the Group's Long Term Incentive Plan.

All the current Executive Directors have entered into contracts that can be terminated after the relevant notice period has been served or by the payment by the Bank of an amount equivalent to the remuneration payable during such notice period. Service contracts for Other Code Staff have notice periods which vary depending on the particular role.

Non-Executive Directors are appointed by letter for an initial term of three years and will generally be expected to serve a second three year term. Non-Executive Directors are not eligible for variable compensation.

The variable incentive scheme is operated in a manner which promotes sound risk management (within the Bank's stated risk appetite and ICAAP measures) and does not induce excessive risk-taking. This is done by ensuring:

- An appropriate balance between fixed and performance-based components;
- Awards are made by assessing both individual performance against KPIs and underlying Bank performance (using an appropriate combination of financial & non-financial metrics). Individuals performance within control functions are assessed against the achievement of objectives linked to their functions which are independent of the financial performance of the business area that the individual controls;
- The outcomes are also moderated by the extent to which personal objectives had been achieved and based on any input from the Exco with regards to any adjustments required for risk; and
- The awarding of performance-based remuneration for Executive Directors and other Code Staff is at the full discretion of the Committee.

18.4 Salary and Fees

All Code Staff, other than Non-Executive Directors, receive a basic salary that reflects the risks and responsibilities attached to each specific role. Salaries are reviewed by the Remuneration Committee on an annual basis with consideration given to external market data for similar roles in the financial services sector. Other factors considered by the Remuneration Committee include the individual’s skills, experience and performance.

Non-Executive Directors receive fees for their services. Fees are reviewed and approved by the Nomination Committee on an annual basis with consideration given to the level of fees at comparable organisations.

18.5 Variable Awards

The Bank makes only one type of variable award scheme available to Code Staff – a performance incentive scheme. In 2018, the Executive Directors and Other Code Staff participated in a non-pensionable performance incentive scheme, the metrics of which reflected the Bank's key objectives. Non-executive directors are not eligible for variable compensation.

When considering the performance of the Bank and participants the Committee will assess progress against a number of key financial and operational drivers including:

- Profit before tax;
- Return on assets / return on equity;
- Cost/income ratio;
- Stated risk appetite;
- ICAAP measures;
- Progress in the Bank’s focus areas; and
- Compliance with internal business procedures.

The performance of individuals within control functions is assessed independently of the financial performance of the business area that the individual controls.

These measures were all set to provide challenging objectives that are aligned with the Bank’s strategy, giving the Executive Directors an incentive to perform at the highest level. The financial outcomes were also moderated by the extent to which personal objectives had been achieved.

Where individual KPIs are achieved but the underlying performance of the Bank is unsatisfactory, annual performance-based payments may be reduced in part or withheld altogether at the Committee’s discretion.

Payment of performance-based remuneration will be subject to any deferral requirements as required by the Committee at their discretion.

18.6 Remuneration Paid to Code Staff

The following tables display the 2018 remuneration for the Bank's Executive Directors, Non-Executive Directors, Senior Management and staff whose professional activities have a material impact on the risk profile of the company (together, Code Staff).

Fixed and variable remuneration to Code Staff	Senior Management* £'000	Other Code Staff £'000	Total £'000
Fixed remuneration	2,025	1,001	3,026
Variable remuneration	511	359	870
Total remuneration	2,536	1,360	3,896
Number of Code Staff	17	12	29

* those designated as Senior Management under the FCA's Senior Management regime (including non-executive directors).

The fixed remuneration detailed above includes severance packages paid to two members of staff totalling £350K.

No Code Staff were paid more than €1 million.

No sign-on payments were paid to Code Staff.

The variable remuneration includes a share based benefit received by Senior Management (the Long Term Incentive Plan) totalling £22,206 and by Other Code Staff totalling £3,113. All other remuneration is paid in cash apart from sundry staff benefits (such as medical insurance and pension contributions) which is included within the fixed remuneration figures.

None of the remuneration is deferred.

APPENDIX

Appendix I

Pillar 3 Disclosures

Crown Agents Bank Ltd

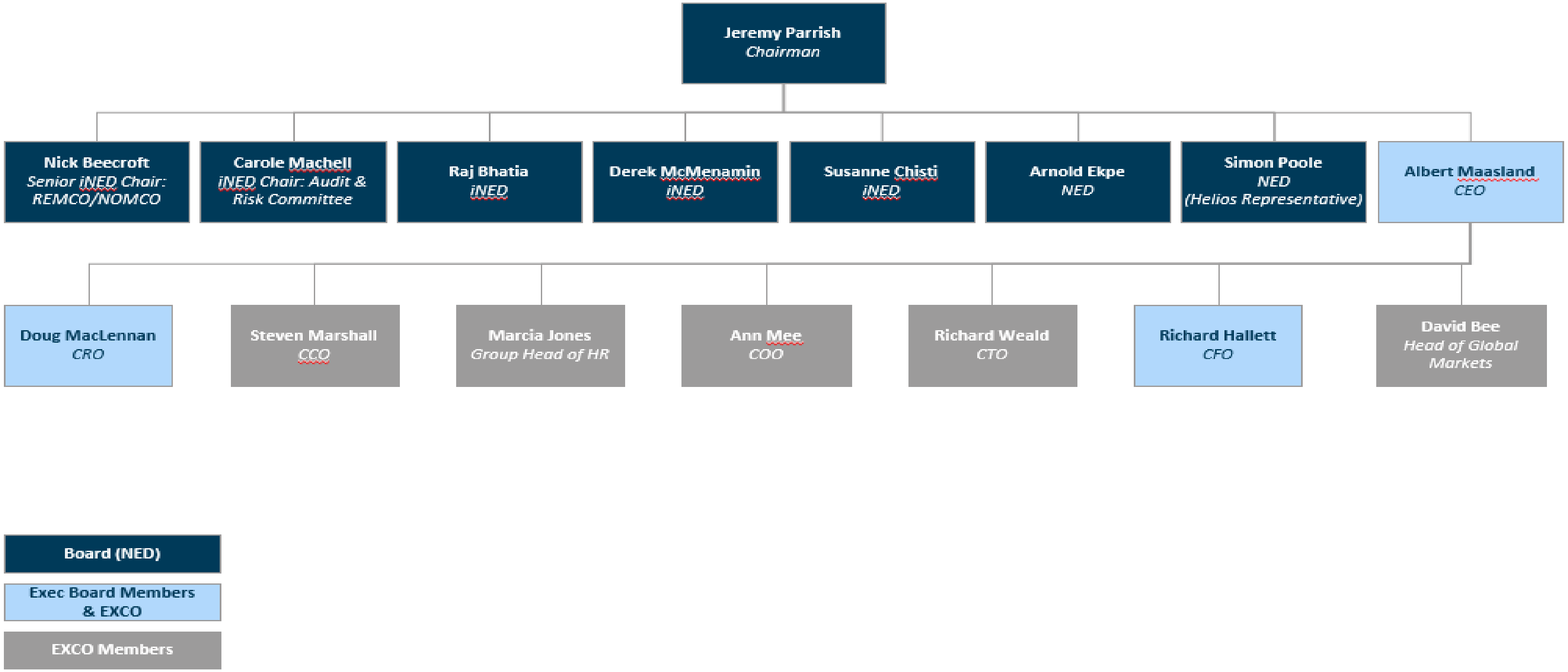
Group Structure Chart

Crown Agents Bank Limited

Pillar 3 Disclosures - Senior Management Structure – 31 December 2018

Appendix 2

CAB



Balance Sheet Reconciliation

As at 31 December 2018	Accounting Balance Sheet as per Published Financial Statements	Regulatory Adjustments (Deductions from Regulatory Own Funds)	Other Adjustments - (including non-accounting adjustments for finacial statements disclosure)	Regulatory Balance Sheet	Subject to Credit Risk	Subject to Counterparty Credit Risk	Regulatory Own Funds
	£'000s	*£'000s*		*£'000s*	*£'000s*	*£'000s*	*£'000s*
Assets							
Cash and balances at central banks	594,992	0		594,992	594,992		
Loans and advances to banks	194,373	0	(616)	193,757	193,757		
Cheques in the course of collection	-	0		-	-		
Debt securities	326,865	0		326,865	326,865		
Derivatives	3,067	0		3,067	-	3,067	
Intangible assets	5,215	(5,215)		-	-		
Tangible assets	2,753	0		2,753	2,753		
Deferred tax	227	(227)		-	-		
Other assets	6,745	0	(930)	5,815	5,815		
Prepayments and accrued income	1,305	0		1,305	1,305		
Total Assets	**1,135,542**	**(5,441)**	**(1,546)**	**1,128,555**	**1,125,487**	**3,067**	**-**
Add: Off Balance Sheet Exposures							
Trade Finance					29,520		
Derivatives					6,886		
Total Credit Risk Exposures					**1,161,893**		
Liabilities							
Customer accounts	1,056,750	0		1,056,750			
Bank overdrafts	380	0		380			
Items in course of transmission	276	0		276			
Derivatives	5,612	0		5,612			
Deferred tax liabilities*	188	(188)		-			
Other liabilities*	8,030	0		8,030			
Accruals and deferred income	2,939	0		2,939			
Called up share capital	41,200	0		41,200			41,200
Retained earnings	20,167	0		20,167			20,167
Total shareholders' funds	61,367	0		61,367			
Total Equity and Liabilities	**1,135,542**	**(188)**		**1,135,354**	**-**	**-**	**61,367**
Deductions from regulatory capital		(5,253)					(5,253)
Total Own Funds							**56,114**

* These two items combined are reported as other liabilities in the accounting (statutory) balance sheet.

The table shows the reconciliation between the accounting balance sheet prepared in accordance with FRS102 and the regulatory balance sheet.
It provides the allocation of the amounts reported to the different risk categories and the items considered for regulatory own funds.

Crown agents Bank Limited - 2018 Pillar 3 Disclosures

Appendix 4

Liquidity Coverage Ratio Metrics

		Total Unweighted Value (Average) - £'000				Total Weighted Value (Average) - £'000			
	Quarter Ending	Mar-18	Jun-18	Sep-18	Dec-18	Mar-18	Jun-18	Sep-18	Dec-18
High Quality Liquid Assets (HQLAs)									
1	Total HQLAs					316,184	350,221	386,969	721,394
Cash - Outflows									
2	Retail deposits and deposits from small business customers, of which:	24,960	25,603	20,833	14,932	2,426	2,497	2,020	1,439
3	Stable deposits	1,391	1,275	1,274	1,090	70	64	64	54
4	Less stable deposits	23,569	24,328	19,559	13,842	2,357	2,433	1,956	1,384
5	Unsecured wholesale funding	622,367	625,833	650,394	784,150	284,801	287,493	346,754	385,468
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	404,522	396,174	372,156	473,565	101,130	99,044	93,039	118,391
7	Non-operational deposits (all counterparties)	217,845	229,658	278,238	310,584	183,670	188,450	253,715	267,076
8	Unsecured debt	0	0	0		0	0	0	0
9	Secured wholesale funding					0	0	0	0
10	Additional requirements	19,157	196	10,337	12,969	19,157	196	10,337	12,969
11	Outflows related to derivative exposures and other collateral requirements	19,157	196	10,337	12,969	19,157	196	10,337	12,969
12	Outflows related to loss of funding on debt products	0	0	0	0	0	0	0	0
13	Credit and liquidity facilities	0	0	0	0	0	0	0	0
14	Other contractual funding obligations	0	0	0	0	0	0	0	0
15	Other contingent funding obligations	24,309	34,446	46,599	95,425	1,215	1,722	2,330	4,771
16	TOTAL CASH OUTFLOWS					307,600	291,908	361,440	404,647
Cash - Inflows									
17	Secured lending (e.g. reverse repos)	0	0	0	0	0	0	0	0
18	Inflows from fully performing exposures	107,408	81,497	119,979	110,170	51,494	38,438	62,298	50,302
19	Other cash inflows	49,789	9,555	105,606	12,348	49,683	9,555	105,606	12,348
EU-19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)					0	0	0	0
EU-19b	(Excess inflows from a related specialised credit institution)					0	0	0	0
20	TOTAL CASH INFLOWS	157,197	91,052	225,585	122,517	101,177	47,993	167,903	62,649
EU-20a	Fully exempt inflows								
EU-20b	Inflows subject to 90% cap					0	0	0	0
EU-20c	Inflows subject to 75% cap					101,177	47,993	167,903	62,649
TOTAL ADJUSTED VALUE									
21	LIQUIDITY BUFFER					316,184	350,221	386,969	721,394
22	TOTAL NET CASH OUTFLOWS					206,423	243,915	193,537	341,997
23	LIQUIDITY COVERAGE RATIO (%)					153%	144%	200%	211%

2018 Pillar 3 Disclosures

Appendix 5

Disclosure on Asset Encumbrance (£'000)

Template A-Assets

		Carrying amount of encumbered assets*	Fair value of encumbered assets*	Carrying amount of unencumbered assets		Fair value of unencumbered assets	
					Eligible For HQLA's		Eligible For HQLA's
		010	040	060	080	090	100
010	**Assets of the Reporting Institution (see note 1)**	487	0	915,775	372,725	0	0
020	Loans on demand	487	0	75,624	0	0	0
030	Equity instruments	0	0	0	0	0	0
040	Debt securities	0	0	335,083	10,072	333,898	10,072
080	of which issued by financial corporations	0	0	335,083	10,072	333,898	10,072
100	Loans and advances other than loans on demand	0	0	467,902	356,571	0	0
120	Other assets	0	0	44,139	0	0	0

* None of which are notionally eligible for HQLA's (columns 030 and 060)

Notes

1. As required by regulation, the disclosures above relate to the median of the quarterly medians (rather than the year end position). As per EBA/RTS/2017/03 2.3.4(a) the figures in row 010 are the medians of the sums which are not necessarily the sums of the medians.

2. The PRA have waived the requirement to disclose Template B (Supervisory Statement SS11/14 - CRD IV: Compliance With The European Banking Authority's Guidelines On The Disclosure of Encumbered And Unencumbered Assets).

3. Templates C and D are nil returns/ not applicable.

Appendix 6.1

Crown Agents Bank Limited - 2018 Pillar 3 - Countercyclical Buffer Disclosures (£'000)

Table 1 - Geographical distribution Of Credit exposures Relevant For The Calculation Of The Countercyclical Capital Buffer

Row	Country	Standardised Approach		Own Funds Requirements Weights	Countercyclical Capital Buffer Rate
		Exposure value	Own Funds Requirement		
		010	070	110	120
010	Afghanistan	23,908	709	0%	0%
	Antigua	158	13	0%	0%
	Bahrain	7,922,141	633,771	14%	0%
	Belize	150,637	0	0%	0%
	Benin	396,672	31,734	1%	0%
	Botswana	6,807	272	0%	0%
	Burkina Faso	41,437	3,315	0%	0%
	Cameroon	238,965	28,676	1%	0%
	Egypt	3,893	311	0%	0%
	Ghana	5,249,644	629,957	14%	0%
	Guyana	11,131	890	0%	0%
	Ivory Coast	36,131	4,336	0%	0%
	Jordan	24,363	1,949	0%	0%
	Kenya	6,946,284	832,045	19%	0%
	Korea, Republic of	1,815,579	29,049	1%	0%
	Liberia	15,615	1,249	0%	0%
	Madagascar	4,871	390	0%	0%
	Malawi	9,217,060	737,365	17%	0%

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Crown Agents Bank Limited - 2018 Pillar 3 - Countercyclical Buffer Disclosures (£'000) **Appendix 6.2**

Table 1 - Geographical distribution Of Credit exposures Relevant For The Calculation Of The Countercyclical Capital Buffer

Row	Country	Standardised Approach		Own Funds Requirements Weights	Countercyclical Capital Buffer Rate
		Exposure value	Own Funds Requirement		
	Morocco	1,718	137	0%	0%
	Mozambique	4,685,603	362,356	8%	0%
	Nepal	10,484	839	0%	0%
	Nigeria	11,112	1,333	0%	0%
	Papua New Guinea	9,484	759	0%	0%
	Philippines	2,512	40	0%	0%
	Qatar	9,861	394	0%	0%
	Rwanda	10,580	1,270	0%	0%
	Saint Lucia	184,270	0	0%	0%
	Sierra Leone	3,661,673	249,148	6%	0%
	Suriname	35,584	2,847	0%	0%
	Tanzania	190,470	21,009	0%	0%
	Togo	6,342,530	507,402	11%	0%
	Uganda	46,360	5,563	0%	0%
	United Arab Emirates	16,670	667	0%	0%
	United Kingdom	492,108	7,055	0%	1%
	Zambia	1,418,462	170,215	4%	0%
	Zimbabwe	2,355,564	177,312	4%	0%
020		51,590,342	4,444,378	100%	

Note: the Bank does not compute its credit risk using the IRB approach (col 020), have a trading book (columns 030, 040 or 080) nor does it have any securitisation exposure (columns 050,060 or 090).

Appendix 6.3

Crown Agents Bank Limited - 2018 Pillar 3 - Countercyclical Buffer Disclosures (£'000)

Table 2 - Amount Of Institution Specific Countercyclical Capital Buffer

		010
010	Total risk exposure amount (£'000)	233,670
020	Institution specific countercyclical buffer rate	0.010%
030	Institution specific countercyclical buffer requirement (£'000)	22