

Crown Agents

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Bank

# Pillar 3 Disclosures

31 December 2019



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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	Common Reporting Framework
CRD	Capital Requirements Directive
CRR	Capital Requirements Regulation
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	Internal Capital Adequacy Assessment Process
ILAAP	Internal 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

## I. Introduction

### I.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:

<b>Pillar 1</b>	<b>Minimum capital requirements:</b> 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.
<b>Pillar 2</b>	<b>Supervisory review process:</b> 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.
<b>Pillar 3</b>	<b>Market discipline:</b> 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.

### I.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 31<sup>st</sup> December 2019 (with comparatives) unless otherwise stated. The Disclosures include the impact of the 2019 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.

### I.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 ultimately 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.

<b>Capital Ratios</b>	<b>2019</b>	<b>2018</b>
Common Equity Tier 1 Capital (CET1)	20.7%	24.0%
Tier 1 Capital Ratio	20.7%	24.0%
Total Capital Ratio	20.7%	24.0%
Total Risk Weighted Assets (£m)	253,347	233,670
Leverage ratio	5%	5.5%

Note: the above ratios are based on regulatory capital figures which include the audited 2019 profits. The 2019 Q4 COREP returns were submitted before the audit was complete and hence the Bank’s regulatory capital does not include the 2019 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.

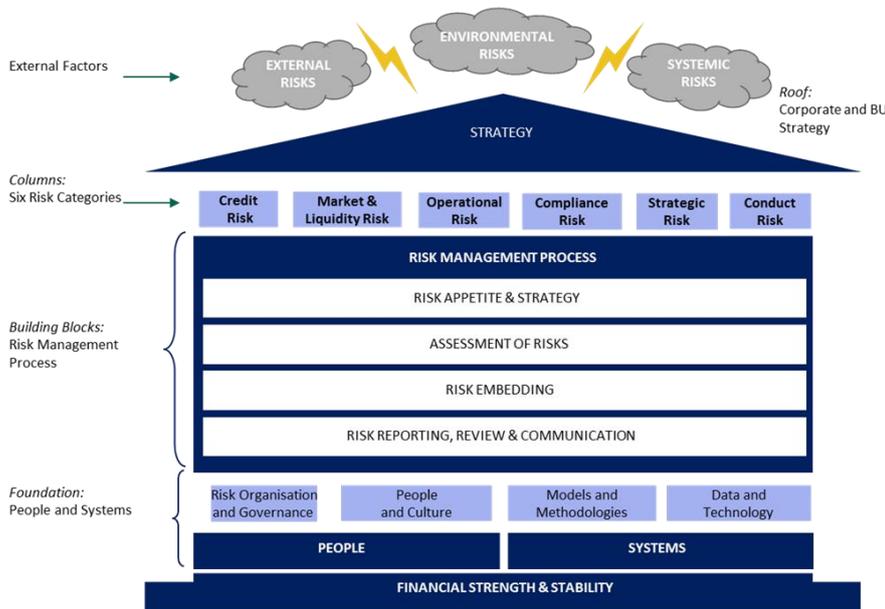
The Board of the Bank is responsible for determining the long-term strategy of the business, the markets in which it operates, and the level of risk acceptable to the Bank. The level of risk acceptable to the Bank is controlled through the Bank’s Risk Appetite and Tolerances Statement (“RATS”). Risk 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.

The Enterprise Risk Management Framework (ERMF) 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

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## 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 31<sup>st</sup> December 2019, and at all times during the year, the Bank complied with its capital requirements.

## 2.3 Risk Categories

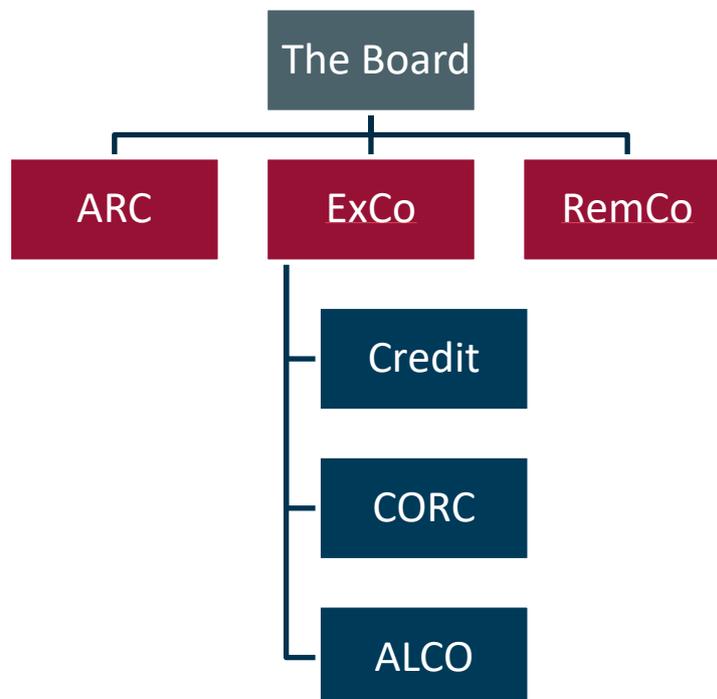
The Bank recognises six broad categories of risk inherent within its operations:

- 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 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 ERMF.

The Directors who served on the Bank's Board during the year ended 31 December 2019 are as set out below.

Name	Position
Jeremy Parrish	INED, Chairman
Nick Beecroft (resigned on 1 Apr '20)	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 (resigned on 28 Feb '20)	ED, Chief Risk Officer
Derek McMenamain	INED
Simon Poole	NED
Susanne Chishti	INED

The Board 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.

### 2.4.3 Audit & Risk Committee (ARC)

The ARC monitors and manages risk issues for the Bank. It monitors compliance with policies and procedures through the review of internal and external 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.

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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 Remuneration and Nomination Committee**

The 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 board and its 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

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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 Internal Capital Adequacy Assessment Process (“ICAAP”) and recommends it to the ARC and subsequently to the Board.
- Reviews the Internal 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.

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In addition to the recommendations outlined above, the ALCO will report to the Audit & Risk Committee at least 6 times per year on matters impacting the balance sheet.

### 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 ExCo which has established the following risk management committees:

- the CC (for credit risk appetite);
- the CORC for compliance (including anti-financial crime and conduct) and operational related issues;
- the ALCO for balance sheet related issues;

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 primarily 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, where Fitch short-term ratings are available, 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:

<b>Total Capital Requirement</b>	<b>As At 31-Dec 2019</b>	<b>As At 31-Dec 2018</b>
As a % of RWAs:	%	%
Minimum Capital Requirement	8.00	8.00
Pillar 2A requirement	4.98	3.74
<b>Total Capital Requirement</b>	<b>12.98</b>	<b>11.74</b>
PRA Buffer	-	-
Capital Countercyclical Buffer	0.27	0.01
Capital Conservation Buffer	2.50	1.875
<b>Overall Capital Requirement (OCR) ratio</b>	<b>15.75</b>	<b>13.625</b>

### 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”<sup>1</sup> to entities within those countries. The calculation applies a weighted CCYB % to total risk weighted assets (i.e. including credit, market and operational risk).

<sup>1</sup> 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

The Bank has got relevant exposures to a few countries but other than UK<sup>2</sup> for which the relevant central bank (the Bank of England) has concluded that a countercyclical buffer is appropriate, rest all are at 0% currently.

To combat the economic disruption from COVID-19 to UK business and consumers, Bank of England (BoE) has reduced the CCYB rate to 0% from 11th March 2020. The BoE expects the 0% rate to remain in place for at least 12 months, meaning that subsequent increases would now not take effect until March 2022 at the earliest.

The relevant disclosures,<sup>3</sup> are attached at Appendix 6. The outputs from the information in Appendix 6 which drive the CCYB calculation are as follows:

	£
Sum of product of Relevant Exposures and relevant country CCYB rate	211,335
Total Relevant Exposures	79,319,137
Resulting weighted CCYB %	0.27%

### 4.3 Capital Resources

The table below shows the composition of the Bank's regulatory capital position as at 31 December 2019.

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<sup>4</sup> template has not been included as all data points are either not applicable or nil.
- b. The data re the Own Funds template<sup>5</sup> is included below. All the other data points are either not applicable or nil.

<sup>2</sup>1.00% effective 28.11.18.

<sup>3</sup> The detailed template is set out in European Delegated Regulation 2015/1555..

<sup>4</sup> European Commission Implementing Regulation 1423/2013 Annex II (Capital Instruments).

<sup>5</sup> 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.

<b>Capital Resources</b>	Template Row	<b>2019</b> £000	<b>2018</b> £000
Common Equity Tier 1 Capital:			
Share Capital	1	41,200	41,200
Retained earnings	2	24,363	20,167
	6	<u>65,563</u>	<u>61,367</u>
Less deductions:			
Intangible Assets	8	(10,425)	(5,215)
Net Deferred Tax Asset	10	-	-
	28	<u>(10,425)</u>	<u>(5,215)</u>
<b>Total Common Equity Tier 1 Capital</b>	29	<b>55,138</b>	<b>56,152</b>
<b>Total Capital Resources</b>	59	<b>55,138</b>	<b>56,152</b>

<b>Risk Weighted Assets - Pillar 1</b>	Template Row	<b>2019</b> £000	<b>2018</b> £000
Credit Risk		249,003	220,263
Less: mitigation - collateral/guarantees		(56,127)	(24,768)
<b>Total</b>		<b>192,877</b>	<b>195,495</b>
Counterparty Risk		6,480	6,886
<b>Total Credit Risk Weighted Assets</b>		<b>199,357</b>	<b>202,381</b>
Settlement Risk and Credit Value Adjustment (CVA)		21,271	-
Market Risk		3,984	2,553
Operational Risk		41,744	28,736
<b>Total Risk Weighted Assets</b>	60	<b>266,356</b>	<b>233,670</b>

<b>Capital Ratios</b>	Template Row	<b>2019</b> £000	<b>2018</b> £000
Common Equity Tier 1 Capital Ratio	61	20.7%	24.0%
Total Tier 1 Capital Ratio	62	20.7%	24.0%
Total Capital Ratio	63	20.7%	24.0%
Capital conservation Buffer		2.50%	1.88%
Institution Specific Capital Countercyclical		0.27%	0.01%

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, the Bank has a capital surplus as shown below:

Regulatory Capital Surplus	2019 £000	2018 £000
Total Risk Weighted Assets	266,356	233,670
Total Capital Requirement ("TCR")	34,573	27,433
Total Capital Resources	55,138	56,152
<b>Capital Surplus in Excess of TCR</b>	<b>20,565</b>	<b>28,720</b>

#### 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<sup>6</sup>. While the leverage ratio is not a regulatory requirement for the Bank<sup>7</sup>, the Bank chooses to monitor the metric as part of its risk management framework.

The calculation of the Leverage Ratio is as set out in the tables below which are based on the regulatory disclosure templates<sup>8</sup>. All template rows other than those noted in the tables are either not applicable or nil.

<sup>6</sup> Policy Statement | PS21/17 UK leverage ratio: treatment of claims on central banks (October 2017)

<sup>7</sup> The leverage ratio regime only applies to banks/ building societies with retail deposits exceeding £50 billion.

<sup>8</sup> The detailed disclosure templates re the Leverage Ratio are set out in the Commission Implementing Regulation (EU) 2016/200.

Leverage Ratio	Template Row	2019 £000	2018 £000
<b>Table LR Sum - Summary Reconciliation Of Accounting assets and Leverage Ratio exposures</b>			
Total Statutory Assets per the Balance Sheet	1	1,209,509	1,135,542
Derivatives - on balancesheet	4	(1,959)	(3,067)
Off balance sheet Items (including Derivatives)	6	13,047	36,405
Less: central bank exposures *	7	(131,144)	(141,703)
Amounts deducted in determining Tier 1 capital	7	(10,425)	(5,215)
Leverage ratio total exposure measure	8	1,079,028	1,021,963

Leverage Ratio	Template Row	2019 £000	2018 £000
<b>Table LR Com = Leverage Ratio Common Disclosure</b>			
On Balance Sheet exposures (excluding off-bal derivatives)			
On balance sheet items	1	1,076,406	990,772
Amounts deducted in determining Tier 1 capital	2	(10,425)	(5,215)
Total on balance sheet exposures	3	1,065,981	985,557
Derivative Exposures			
Derivatives add-on under mark-to-market method	4	6,480	6,886
Total derivative exposures	11	6,480	6,886
Other Off Balance Sheet Exposures			
Other off balance sheet exposures	17	81,396	101,472
Adjustment for credit conversion factor	18	(63,604)	(71,952)
Total off balance sheet exposures	19	17,793	29,520
Capital And Total Exposure Measure			
Total Tier 1 Capital & Total Capital	20	55,138	56,152
Leverage Ratio Total Exposure Amount	21	1,090,254	1,021,963
<b>Total Leverage Ratio</b>	22	<b>5.1%</b>	<b>5.5%</b>

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

Leverage Ratio	Template Row	2019 £000	2018 £000
<b>Table LRSpl - Split Of Balance Sheet Exposures</b>			
Total on balance sheet exposures, of which	EU1	1,076,406	990,772
Trading book	EU2	0	0
Banking book exposures, of which	EU3	1,076,406	990,772
Exposures treated as sovereigns	EU5	402,912	579,683
Exposures to regional governments, MDB,international organisations and PSE not treated as sovereigns	EU6	0	0
Insitutions	EU7	402,330	344,587
Corporate	EU10	51,070	45,411
Other	EU12	71,035	7,968

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## Qualitative information on risk of excessive leverage and factors impacting the leverage ratio

### **1: Description of the processes used to manage the risk of excessive leverage**

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 Risk Appetite and Tolerance Statement ("RATS"), which documents the monitoring and escalation framework and the Bank's leverage ratio limits.

### **2: Description of the factors that had an impact on the leverage Ratio during the period to which the disclosed leverage Ratio refers**

The Bank's leverage ratio has marginally decreased to 5.1% (2018: 5.5%). The decrease in CET1 is attributable to the acquisition of Segovia group by the Bank. Albeit the level of retained earnings has increased due to the 2018 profit and the movement in consolidated reserves following the purchase of Segovia, the major part of Segovia's fair valued net assets are now a material deduction off regulatory capital as intangible assets. Further, the recent purchase of the Crown Agents brand/name has been capitalised and, as an intangible asset, is a further deduction off regulatory capital.

Total leverage ratio exposure has increased due to increase in loans and advances to Banks.

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## 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 December 2019.

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 1

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:

<b>Total Minimum Pillar 1 Capital Requirement</b>	<b>2019</b>	<b>2018</b>
	<b>£000</b>	<b>£000</b>
Capital Resources	55,138	56,152
Capital Requirement		
Credit Risk	15,430	15,640
Counterparty Risk	518	551
Settlement Risk and Credit Value Adjustment (CVA)	1,702	
Market Risk	319	204
Operational Risk	3,340	2,299
Capital Requirement under Pillar 1	21,308	18,694
<b>Capital Resources - Surplus over Pillar 1 Requirement</b>	<b>33,830</b>	<b>37,459</b>

The overall Pillar 1 capital resources requirement for the Bank is ~ £3.6m lower than in 2018. 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 2019 and 31 December 2018:

Credit Risk Requirement	Credit Risk Exposure £000	Risk Weighted Assets £000	Minimum Capital Requirement £000
<b>31 December 2019</b>			
Central Governments and Central Banks	648,316	814	65
Multilateral Development Banks	-	-	-
Public Sector Enterprises	17,702	0	0
Institutions	411,268	112,175	8,974
Corporate	56,320	60,908	4,873
CIU	62,493	14,957	1,197
Other	10,502	10,502	840
<b>Total</b>	<b>1,206,600</b>	<b>199,357</b>	<b>15,949</b>
<b>31 December 2018</b>			
Central Governments and Central Banks	735,095	195	16
Multilateral 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
<b>Total</b>	<b>1,161,893</b>	<b>202,381</b>	<b>16,190</b>

The overall capital requirement for credit risk has remained largely the same between 2018 and 2019.

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
<b>31 December 2019</b>				
Central Governments and Central Banks	-	648,316	-	648,316
Multilateral Development Banks	-	-	-	-
Public Sector Enterprises	-	17,702	-	17,702
Institutions	411,268			411,268
Corporates	56,320			56,320
CIU	62,493			62,493
Other			10,502	10,502
<b>Total</b>	<b>530,080</b>	<b>666,018</b>	<b>10,502</b>	<b>1,206,600</b>
<b>31 December 2018</b>				
Central Governments and Central Banks	-	735,095	-	735,095
Multilateral Development Banks	-	-	-	-
Public Sector Enterprises	-	10,023	-	10,023
Institutions	354,149			354,149
Corporates	51,590			51,590
Other	-	-	11,036	11,036
<b>Total</b>	<b>405,739</b>	<b>745,118</b>	<b>11,036</b>	<b>1,161,893</b>

“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
<b>31 December 2019</b>			
Central Governments and Central Banks	579,244	69,072	648,316
Multilateral Development Banks	0	0	0
Public Sector Enterprises	0	17,702	17,702
Institutions	212,900	198,368	411,268
Corporate	25	56,294	56,320
CIU	53,030	9,462	62,493
Other	10,502	0	10,502
<b>Total</b>	<b>855,702</b>	<b>350,898</b>	<b>1,206,600</b>
<b>31 December 2018</b>			
Central Governments and Central Banks	595,460	139,634	735,095
Multilateral 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
<b>Total</b>	<b>857,621</b>	<b>304,271</b>	<b>1,161,893</b>

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
<b>31 December 2019</b>				
Central Governments and Central Banks	69,069	0	579,247	648,316
Multilateral Development Banks	-	-	-	-
Public Sector Enterprises	7,701	10,001	-	17,702
Institutions	273,575	13,702	123,991	411,268
Corporate	47,729	287	8,304	56,320
CIU	-	-	62,493	62,493
Other	-	-	10,502	10,502
<b>Total</b>	<b>398,075</b>	<b>23,989</b>	<b>784,536</b>	<b>1,206,600</b>
<b>31 December 2018</b>				
Central Governments and Central Banks	108,811	31,292	594,992	735,095
Multilateral 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
<b>Total</b>	<b>420,395</b>	<b>59,394</b>	<b>682,103</b>	<b>1,161,893</b>

## 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
<b>31 December 2019</b>					
Cash and Balances at Central Banks	579,244	-	-	-	579,244
Loans and Advances to Banks	47,094	263,421	33,584	46,701	390,799
Fixed rate Bonds	97,390	6,099	-	-	103,489
CDs and other debt instruments	-	30,371	21,263	-	51,635
Derivatives	1,784	4,169	28	2,458	8,439
CIU	15,144	45,458	-	1,891	62,493
Other	-	-	-	10,502	10,502
<b>Total</b>	<b>740,656</b>	<b>349,518</b>	<b>54,875</b>	<b>61,552</b>	<b>1,206,600</b>
<b>31 December 2018</b>					
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
<b>Total</b>	<b>770,956</b>	<b>271,265</b>	<b>42,736</b>	<b>76,936</b>	<b>1,161,893</b>

None of the Treasury assets noted above were past due<sup>9</sup> or impaired.

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

### Cash placements

<sup>9</sup> i.e. 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 2019, 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:

	2019	2018
	£'000	£'000
Net derivative credit exposure	6,480	6,886
Notional principal	703,634	687,951
Gross positive fair value	1,959	3,067

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 2019 Statutory Accounts to the credit risk exposure is as follows:

<b>Reconciliation to Statutory Accounts</b>	<b>2019</b>	<b>2018</b>
	<b>£000</b>	<b>£000</b>
Total Assets per Accounts	1,209,509	1,135,542
less: Assets deducted from Regulatory Capital		
Intangible Assets	(10,425)	(5,215)
Deferred Tax Asset	-	(227)
less: Derivative Assets	(1,959)	(3,067)
Other Adjustments (including non-accounting adjustments for financial statements disclosure)	(3,572)	(1,546)
Add: Off Balance Sheet Exposures		
Trade Finance	6,567	29,520
Derivatives	6,480	6,886
<b>Total Credit Risk Exposures</b>	<b>1,206,600</b>	<b>1,161,893</b>

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 19	31 Dec 18
	£'000	£'000
<b>Economic Gain/(Loss)</b>		
200 pb upward shift	(263)	(1,023)
200 bp downward shift	268	1,058
<b>Earnings Gain/(Loss)</b>		
200 pb upward shift	(288)	(999)
200 bp downward shift	288	999
Pillar 2A capital add-on re IRR	839	933

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The Bank does not face interest rate risks due to basis risk (because none of its term assets/liabilities are contractually tied to external base rates (eg LIBOR or SONIA)) or option risk (because its product offering does not give the counterparty the option of when the underlying cash flows are made).

The Bank does not fair value any of its interest bearing assets or liabilities<sup>10</sup>. 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.

Majority of 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.

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<sup>10</sup> 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 2019 and 2018 was as follows:

	Functional currency (£'000 equivalent)					Total
	US \$	Euro	Yen	AU \$	Other	
<b>2019</b>						
Assets/(liabilities)	-420,845	-920	22,386	-8,204	-4,682	-412,265
Net forward purchases/(sales)	422,333	286	-22,382	8,248	5,650	414,135
	<u>1,488</u>	<u>-634</u>	<u>4</u>	<u>44</u>	<u>968</u>	<u>1,870</u>
<b>2018</b>						
Assets/(liabilities)	-425,168	7,676	15,532	-11,458	-2,881	-416,300
Net forward purchases/(sales)	426,560	-8,324	-15,517	11,512	3,987	418,219
	<u>1,392</u>	<u>-648,066</u>	<u>14,69132</u>	<u>54</u>	<u>1106</u>	<u>1,919</u>

## 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	2019	2019	2018	2018
	Book Value £'000	Market Value £'000	Book Value £'000	Market Value £'000
Fixed Rate Bonds	103,489	103,125	157,573	156,990

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-19 £'000	31-Dec-18 £'000
Bank of England reserve account	578,990	594,992
Other HQLAs – Fixed rate Bonds	17,702	10,006
US Treasury Bonds	60,641	116,397
<b>Total HQLAs</b>	<b>657,332</b>	<b>721,394</b>
Total HQLA liquidity buffer as a % of funding liabilities	58.82%	68.20%

## 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 2019 is 197% (2018: 211%) which is significantly in excess of the minimum requirements of 100%.

Further details underlying the calculation of the LCR together with quarterly information can be found at **Appendix 4**<sup>11</sup>.

<sup>11</sup> The detailed disclosure requirements are set out in EBA/GL/2017/01

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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 Bank’s 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. The NSFR will come into force as a regulatory requirement with effect from 27 June 2021 at a minimum requirement of 100%.

The Bank’s NSFR as at 31 December 2019 is 182% (2018 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 2019, the Bank’s only encumbered assets were on demand loans to other financial institutions totalling £1,786K (2018 - £366K) all of which supported derivative foreign exchange contracts with the institutions concerned. Further details can be found at **Appendix 5**.<sup>12</sup>

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<sup>12</sup> 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.

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## II. 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

### II.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-19 £'000	31-Dec-18 £'000
Average net income over preceding three years	22,264	15,326
Capital requirement at 15%	3,340	2,299

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

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## 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.

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## 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.

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## 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.

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## 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 2019.

During the year, the Bank designated a total of 30 individuals (including Non-Executive Directors) who were classed as Code Staff. Of these, 21 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 9 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<sup>13</sup>

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 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 reflected 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

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<sup>13</sup> The Remuneration Policy does not apply to non-executive directors who are paid a fixed fee which is reviewed periodically by the Remuneration Committee.

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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.

#### **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 2019 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).

<b>2019</b>	<b>Senior</b>	<b>Other Code</b>	<b>Total</b>
<b>Fixed and variable remuneration to Code Staff</b>	<b>Management*</b>	<b>Staff</b>	
	<b>£</b>	<b>£</b>	<b>£</b>
Fixed remuneration	2,538,276	1,003,397	3,541,673
Variable remuneration	692,754	197,874	890,628
<b>Total remuneration</b>	<b>3,231,030</b>	<b>1,201,271</b>	<b>4,432,301</b>
Number of Code Staff	21	9	30

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

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 taxable benefit received by Senior Management (the Long Term Incentive Plan) totalling £17,732 and by Other Code Staff totalling £513. 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.

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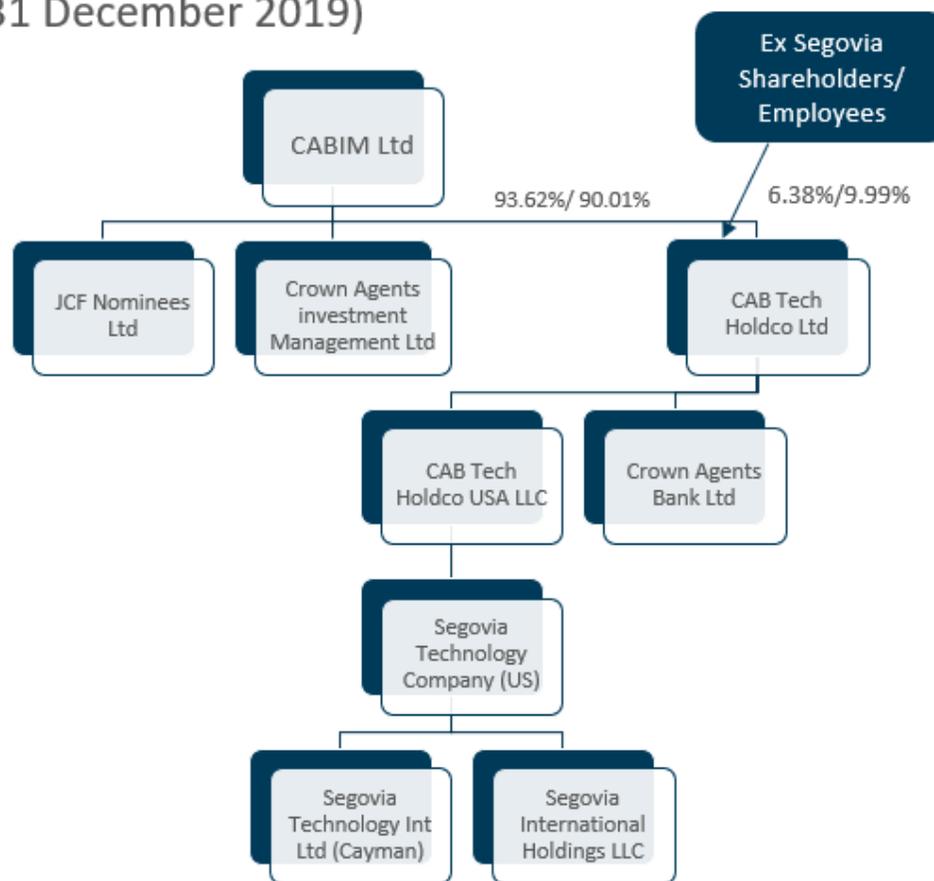
**APPENDIX**

- Appendix 1      Group Structure**
- Appendix 2      Senior Management Structure**
- Appendix 3      Balance Sheet Reconciliation**
- Appendix 4      Liquidity Coverage Ratio Metrics**
- Appendix 5      Asset Encumbrance**
- Appendix 6      Countercyclical buffer information**

# Crown Agents Bank Limited – Pillar 3 Disclosure 2019

Appendix I

Group Structure Chart (31 December 2019)

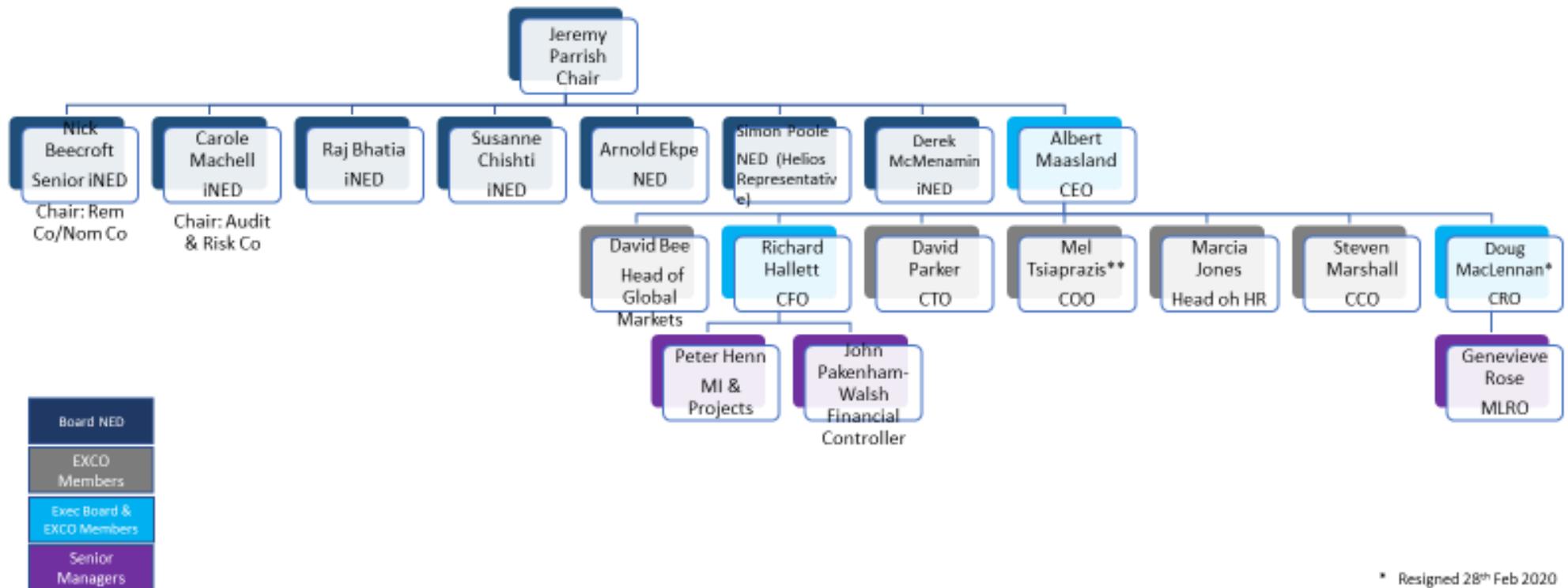


Notes

1. The holding of ex Segovia shareholders/ employees in CAB Tech Holdco Ltd increases over time up to a maximum of 9.99% depending on the exercise of share options and the vesting of restricted share and restricted share units.
2. On completion of the Segovia purchase, a “merger” company ((CAB Tech Merger Sub Inc) was temporarily created as a wholly owned subsidiary of CAB Tech Holdco USA LLC.
3. A further 18 overseas legal entities are owned by the group typically with the Caymans holding company as the parent with a 100% holding.

## Group Structure Chart (31<sup>st</sup> December 2019)

Appendix 2



\* Resigned 28<sup>th</sup> Feb 2020  
 \*\* Resigned 31<sup>st</sup> Mar 2020

Crown Agents Bank Limited 2019 Pillar 3 Disclosures

Appendix 3

Balance Sheet Reconciliation

As at 31 December 2019	Accounting Balance Sheet as per Published Financial Statements	Regulatory Adjustments (Deductions from Regulatory Own Funds)	Other Adjustments - (including non- accounting adjustments for financial statements disclosure)	Regulatory Balance Sheet	Subject to Credit Risk	Subject to Counterparty Credit Risk	Regulatory Own Funds
	£'000s	£'000s		£'000s	£'000s	£'000s	£'000s
<b>Assets</b>							
Cash and balances at central banks	579,088	0		579,088	579,088		
Loans and advances to banks & customers	381,790	0	0	381,790	381,790		
Money Market Funds & Other Investments	62,707			62,707	62,707		
Cheques in the course of collection	(0)	0		(0)	(0)		
Debt securities	155,046	0		155,046	155,046		
Derivatives	1,959	0		1,959		1,959	
Intangible assets	10,425	(10,425)		-	-		
Tangible assets	2,500	0		2,500	2,500		
Deferred tax	-	0		-	-		
Other assets	13,674	0	(3,572)	10,102	10,102		
Prepayments and accrued income	2,320	0		2,320	2,320		
<b>Total Assets</b>	<b>1,209,509</b>	<b>(10,425)</b>	<b>(3,572)</b>	<b>1,195,512</b>	<b>1,193,553</b>	<b>1,959</b>	<b>-</b>
<b>Add: Off Balance Sheet Exposures</b>							
Trade Finance					6,567		
Derivatives					6,480		
<b>Total Credit Risk Exposures</b>					<b>1,206,600</b>		
<b>Liabilities</b>							
Customer accounts	1,126,560	0		1,126,560			
Bank overdrafts	70	0		70			
Items in course of transmission	339	0		339			
Derivatives	5,996	0		5,996			
Deferred tax liabilities*	426	0		426			
Other liabilities*	7,053	0		7,053			
Accruals and deferred income	3,502	0		3,502			
Called up share capital	41,200	0		41,200			41,200
Retained earnings	24,363	0		24,363			24,363
Total shareholders' funds	65,563	0		65,563			
<b>Total Equity and Liabilities</b>	<b>1,209,509</b>	<b>0</b>		<b>1,209,509</b>	<b>0</b>	<b>0</b>	<b>65,563</b>
Deductions from regulatory capital		(10,425)					(10,425)
<b>Total Own Funds</b>							<b>55,138</b>

\* 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 - 2019 Pillar 3 Disclosures

Appendix 4

Liquidity Coverage Ratio Metrics

	Total Unweighted Value (Average) - £'000				Total Weighted Value (Average) - £'000			
Quarter Ending	Mar-19	Jun-19	Sep-19	Dec-19	Mar-19	Jun-19	Sep-19	Dec-19
<b>High Quality Liquid Assets (HQLAs)</b>								
1 Total HQLAs					676,630	817,406	649,412	657,332
<b>Cash - Outflows</b>								
2 Retail deposits and deposits from small business customers, of which:	11,465	10,414	1,770	2,319	1,103	989	228	298
3 Stable deposits	869	1,058	496	427	43	53	200	236
4 Less stable deposits	10,596	9,357	1,274	1,892	1,060	936	28	63
5 Unsecured wholesale funding	874,025	847,558	892,791	945,261	465,788	449,126	485,978	437,617
6 Operational deposits (all counterparties) and deposits in networks of cooperative banks	463,325	446,788	448,931	569,965	115,831	111,697	112,233	142,491
7 Non-operational deposits (all counterparties)	410,700	400,770	443,860	375,296	349,957	337,429	373,746	295,126
8 Unsecured debt	0	0	0	0	0	0	0	0
9 Secured wholesale funding					0	0	0	0
10 Additional requirements	10,805	11,145	14,859	20,873	10,805	11,145	10,450	17,215
11 Outflows related to derivative exposures and other collateral requirements	10,805	11,145	14,859	20,873	10,805	11,145	10,450	17,215
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	99,050	87,603	88,754	7,083	4,953	4,380	4,438	354
16 TOTAL CASH OUTFLOWS					482,649	465,640	501,094	455,485
<b>Cash - Inflows</b>								
17 Secured lending (e.g. reverse repos)	0	0	0	0	0	0	0	0
18 Inflows from fully performing exposures	133,662	139,758	156,235	191,196	67,165	55,207	74,332	92,083
19 Other cash inflows	48,570	38,978	35,405	37,341	48,570	38,978	35,405	37,341
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	182,232	178,736	191,640	228,537	115,735	94,185	109,736	129,424
EU-20a Fully exempt inflows								
EU-20b Inflows subject to 90% cap					0	0	0	0
EU-20c Inflows subject to 75% cap					115,735	94,185	109,736	129,424
<b>TOTAL ADJUSTED VALUE</b>								
21 LIQUIDITY BUFFER					676,630	817,406	649,412	657,332
22 TOTAL NET CASH OUTFLOWS					366,914	371,455	391,357	326,061
23 LIQUIDITY COVERAGE RATIO (%)					184%	220%	166%	202%

2019 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
<b>010</b> Assets of the Reporting Institution (see note 1)	1,786		1,189,185	695,201		
020 Loans on demand	1,786		82,121	0		
030 Equity instruments	0	0	0		0	0
040 Debt securities	0	0	216,673	10,037	202,179	10,037
080 of which issued by financial corporations	0	0	216,673	10,037	202,179	10,037
100 Loans and advances other than loans on demand	0		795,506	562,107		
120 Other assets	0		51,523	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 EBA Guideline allows competent authorities to waive the requirement to disclose Template B – Collateral received, and in Supervisory Statement SS6/17 on compliance with the EBA Guidelines on Disclosure, the PRA waived the Template B requirements subject to a firm meeting certain criteria.

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

## Appendix 6.1

### Crown Agents Bank Limited - 2019 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 * CCyB rate
		Exposure value	Own Funds Requirement			
		010	070	110	120	
010	Afghanistan	26,844	2,148	0%	0%	0
	Bahrain	9,188,942	735,115	11%	0%	0
	Bangladesh	51,291	4,398	0%	0%	0
	Barbados	25,731	2,058	0%	0%	0
	Belize	155,614	12,449	0%	0%	0
	Benin	2,283,672	182,694	3%	0%	0
	Botswana	41,684	3,335	0%	0%	0
	Burkina Faso	5,762	461	0%	0%	0
	Cambodia	2,245	180	0%	0%	0
	Cameroon	241,776	28,589	0%	0%	0
	Egypt	3,832	307	0%	0%	0
	Ethiopia	199	16	0%	0%	0
	Ghana	5,217,150	425,682	6%	0%	0
	Haiti	5,234	419	0%	0%	0
	Indonesia	1,459,550	116,764	2%	0%	0
	Iraq	358,055	28,644	0%	0%	0
	Ivory Coast	146,342	11,707	0%	0%	0
	Jordan	12,363	989	0%	0%	0
	Kenya	12,335,912	1,009,561	15%	0%	0
	Kuwait	171,443	6,858	0%	0%	0
	Lesotho	12,379	990	0%	0%	0
	Madagascar	37,801	3,024	0%	0%	0
	Malawi	5,483,890	438,711	7%	0%	0
	Mauritania	82,354	6,588	0%	0%	0

Appendix 6.2

**Crown Agents Bank Limited - 2019 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	Countercyclical Capital Buffer Rate	
		Exposure value	Own Funds			
	Mauritius	1,898,648	151,892	2%	0%	0
	Morocco	35,939	2,875	0%	0%	0
	Mozambique	6,236,395	748,367	11%	0%	0
	Namibia	51,317	4,105	0%	0%	0
	Nepal	5,598	448	0%	0%	0
	Nicaragua	658	53	0%	0%	0
	Nigeria	52,760	6,331	0%	0%	0
	Papua New Guinea	42,844	3,428	0%	0%	0
	Philippines	3,600	58	0%	0%	0
	Qatar	780	31	0%	0%	0
	Rwanda	64,736	5,179	0%	0%	0
	Saint Lucia	11,888	951	0%	0%	0
	Senegal	2,015,627	161,250	2%	0%	0
	Sierra Leone	412,650	33,012	0%	0%	0
	Suriname	688,286	55,063	1%	0%	0
	Tanzania	2,089,098	250,406	4%	0%	0
	Thailand	562,431	44,995	1%	0%	0
	Togo	430,079	34,406	1%	0%	0
	Turks and Caicos Islands	108	9	0%	0%	0
	Uganda	232,701	18,616	0%	0%	0
	United Arab Emirates	30,320	1,213	0%	0%	0
	United kingdom	21,133,533	1,690,683	25%	1%	211,335
	Zambia	3,004,449	240,356	4%	0%	0
	Zimbabwe	2,964,627	237,170	4%	0%	0
020		79,319,137	6,712,584	100%		211,335
					CCyB Bank Specific Rate ->	0.27%

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 - 2019 Pillar 3 - Countercyclical Buffer Disclosures (£'000)**

**Table 2 - Amount Of Institution Specific Countercyclical Capital Buffer**

		010
010	Total risk exposure amount (£'000)	266,356
020	Institution specific countercyclical buffer rate	0.27%
030	Institution specific countercyclical buffer requirement (£'000)	710