2017

PILLAR III DISCLOSURES

BMCE BANK INTERNATIONAL

Company Registration N°5321714 (England and Wales)

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1. Executive summary

1.1. Overview

BMCE Bank International plc ("BBI" or "the Bank") is a United Kingdom (UK) bank authorised by the Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority (FCA) and the PRA. BBI was established in 2007 and is a wholly owned subsidiary of BMCE International Holdings (BIH) which in turn is a wholly owned subsidiary of the ultimate parent group, Banque Marocaine du Commerce Exterieur S.A (Morocco) otherwise referred to as 'BMCE Group' or 'BMCE' in this document. BBI has one branch in France and two representations offices (Switzerland, Dubai).

The Bank's principal activities are Corporate and Investment Banking (CIB), focusing on trade, structured and project finance and corporate lending for target customers based in Africa or with an interest in the region and Treasury and Capital Markets (TCM), focusing on spot and forward currency exchange and bond trading.

BBI operates and acts as an interface between African corporates, financial institutions (FI), public and semi-public entities and their European trading or investment partners and the international financial markets.

1.2. Purpose

This document comprises BBI's Pillar 3 disclosures on capital and risk management as at 31 December 2017. The principal purposes being:

– To meet the regulatory disclosure requirements under Capital Requirement Regulations (CRR) & Directive, Part 8 – Disclosure by Institutions;

– To meet the rules the PRA set out in the PRA Rulebook for leverage, Part PB – Public Disclosure and as the PRA has otherwise directed, including Remuneration Code disclosures; and

– To provide further useful information on the capital and risk profile of BBI.

1.3. Background

The European Union (EU) Capital Requirements Directive ("the Directive" or "CRD") came into effect on 1 January 2007. It introduced consistent capital adequacy standards and an associated supervisory framework in the EU based on the Basel II Accord. On 1 January 2014, the regulatory disclosure requirements of the CRR and the CRD Basel III regulations, commonly known as CRD IV, revised the definition of capital resources and included additional capital and disclosure requirements.

The aim of the capital adequacy regime is to promote safety and soundness in the financial system, structured around three 'pillars'. The 'Capital Requirement Framework' which firms are required to apply is described below.

The Basel framework comprises of three "pillars" which are designed to promote market discipline through the disclosure of key information about risk exposures and risk management processes.

• **Pillar 1 on minimum capital requirements -** Pillar 1 sets out the minimum capital requirements that firms are required to meet for credit, market and operational risk.

• **Pillar 2 on the supervisory review process** - The supervisory review process requires firms and supervisors to take a view on whether a firm should hold additional capital against those factors not taken into account by the Pillar 1 process (e.g. interest rate risk in the banking book, concentration, business and strategic risk); and factors external to the firm (e.g. business cycle effects). To comply, institutions are required to develop adequate arrangements, strategies, processes and mechanisms, to maintain sound management and coverage of their risks, including maintenance of the prescribed capital requirements.

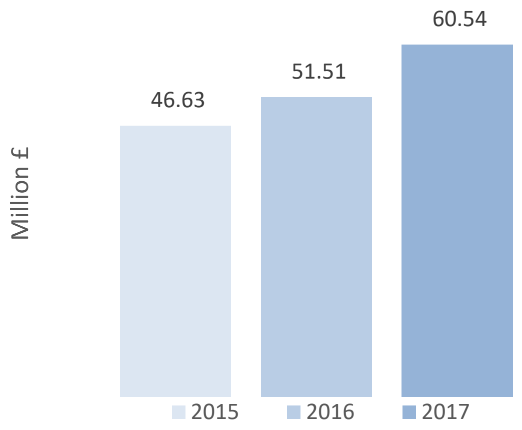
• **Pillar 3 on market discipline** - Pillar 3 aims to promote market discipline by requiring firms to publish a set of disclosures which provide market participants key information to assess the firm's capital, risk exposures, risk assessment process and the capital adequacy of the firm.

The disclosures contained in this document cover both the qualitative and quantitative disclosure requirements of Pillar 3, as set out in the CRR, and based on data as at 31 December 2017 with comparative figures for 31 December 2016 where relevant.

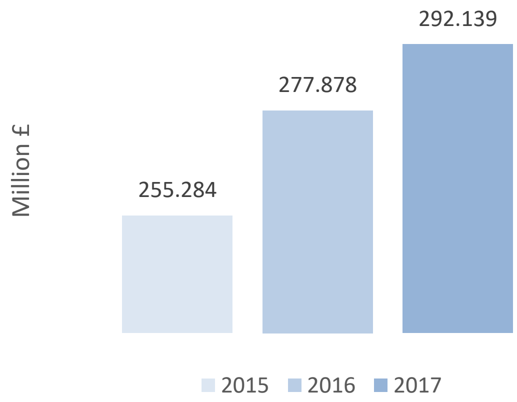
1. Executive summary (continued)

1.4. key metrics

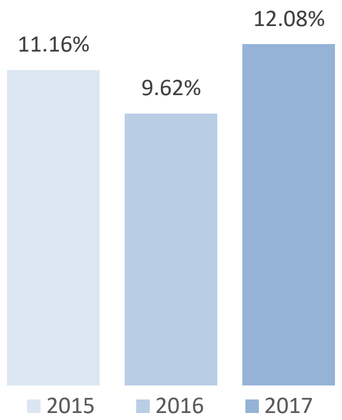
- **Tiers 1**



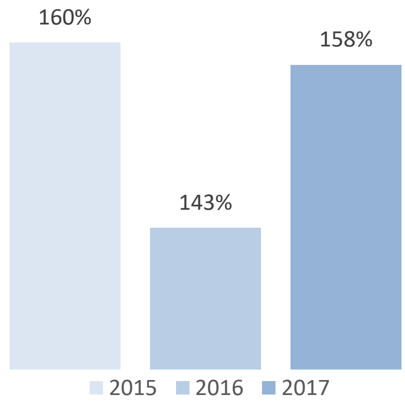
- **Credit RWA**



- **Leverage**



- **LCR ratio**



1. Executive summary (continued)

1.5. Disclosures policy

This document represents the Pillar 3 disclosures of BBI at 31 December 2017. These disclosures have been prepared purely for the purpose of explaining the basis on which the Bank has prepared and disclosed the capital requirements; providing information about the management of risks relating to those requirements.

This report has not been prepared for any other purpose. Therefore, it does not constitute any form of financial statement of the Bank nor does it constitute a forward-looking projection of the Bank. The Bank does not seek any exemption from disclosure on the basis of materiality or on the basis of proprietary or confidential information. In accordance with the requirements of the CRR, the disclosures contained in this document cover both the qualitative (e.g. processes and procedures) and quantitative (e.g. actual numbers) requirements. In addition, the disclosures should be read in conjunction with BBI's most recent Annual Report

- **Location -** This report is published on the BBI corporate website at http://www.bmce-intl.co.uk/assets/0/BMCE___Pillar_3_disclosures____2017.pdf

- **Verification** - The Bank's Pillar 3 disclosures have been primarily prepared to explain the capital requirements as well as the management's strategies on risks. This is not a financial statement and hence, has not been audited. In accordance with the requirements of the CRR, the disclosures are both qualitative and quantitative. These disclosures have been subject to internal review and validation prior to being submitted to the Board of Directors of BBI (the Board) for approval. This includes approval by BBI's Risk Committee (RC); members of which include the Chairman of the Board and the Head of Risk Management (HRM);

- **Frequency** - These disclosures are updated annually and in line with the publication of the financial statements, unless there are significant changes in the risk profile or governance structure of the Bank that need to be disclosed; and

- **Principal Activities -** The principal activities of BBI are to provide conventional and Wholesale Banking (namely Project Finance, Commodity & Structured Finance and Trade Finance), Treasury & Capital Markets and transaction services to individuals, corporates, financial institutions, public & semi public entities of all sizes.

1.6. Scope of Application

BBI is a UK registered Bank that is authorised by the PRA, and regulated by the PRA and the Financial Conduct Authority ("FCA"). BBI is a wholly-owned subsidiary of the ultimate parent company Banque Marocaine du Commerce Exterieur S.A (BMCE).

As at 31 December 2017 BBI operated as a single entity however is expected in 2018 to open two representative offices, Zurich and Dubai in order to conduct marketing and client relationship activities. All decision making take place in London and all transactions are booked in the London entity. BBI has not applied for any Internal Ratings Based ("IRB") waivers and consequently, no Pillar 3 IRB disclosures are included in this document.

1.7. Prudential Consolidation

The Bank is a single entity and as such, no consolidation is performed.

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2. Risk management framework

BBI plc adopts the risk management model known as the 'three lines of defence' governance model. This is the model of risk management that allows the Board to implement and control the decisions on strategy, risk and capital that are taken by the Board.

This model allows BBI plc to implement effective risk management and a risk culture.

The Board of Directors has ultimate accountability for risk management. Together, with various committees within BBI plc and risk policies , they are an integral part of BBI plc's Risk management framework.

BBI plc is committed to ensure that its risk management framework is robust, up to date and in line with best practice.

BBI plc periodically reviews its risk appetite and ensures that it is in line with the current environment, the strategy of BBI plc and budgets. This is provided in both business as usual and stressed conditions.

2.1. Credit risk

Credit risk is the current or prospective risk to earnings or capital arising from an obligor's failure to meet the terms of a contract with BBI plc or its failure to perform as agreed.

The credit risk includes counterparty risk, settlement risk and concentration risk.

BBI plc faces credit risk on its exposure to sovereigns and corporates from its capital markets, corporate banking and project finance businesses, and from its exposure to financial institutions and corporates from its trade finance and treasury activities.

BBI plc has a detailed credit policy and procedures manual providing an operating model and information on how the credit risk management processes are embedded in the business and overseen at the highest level within BBI plc.

BBI plc continues to act on the financial market, providing solutions, products and services accordingly with the defined risk appetite and within the governance in place for approving any credit risk.

Credit risk is the main risk in BBI plc.

The lending portfolio of BBI plc increased significantly during the last four years, whilst the non performing-loans has managed to stay at a reasonable level.

In 2017, BBI plc have recorded £1.5 million provision related to three exposures.

BBI plc do not have significant open positions on derivative products. The results coming from these products are mainly due to commercial transactions. BBI do only FX swaps or interest rate swaps. The Capital requirement related to counterparty exposure for these products is calculated based on the standard approach and is not material.

2.2. Market risk

Market risk covers the risks that arise from fluctuations in the values of, or income from tradable assets, in particular arising from changes in interest rates, foreign currency exchange rates, and the market prices of equities and commodities.

BBI is exposed to specific and general interest rate risk on its holdings of treasury and corporate bonds in the AFS book and the risk from trading foreign exchange.

The financial instruments (bond) portfolio is treated as an AFS book position for capital calculations.

The fixed income portfolio represents 25% of the total balance-sheet.

40% is High Quality Liqud Assets and rated above AA-.

Only minimal currency risk will arise from BBI plc's fixed income activity as the purchase of most securities denominated in foreign currency will be funded on a matched basis.

Currency risk will arise, however, from BBI plc's trading in foreign exchange (mainly spot, forwards and at a later stage options). BBI plc manages an open position accordingly with its risk appetite.

Market risk in the banking book may arise from corporate banking activities; all market risk arising from this business will be passed to the trading book for active management and will therefore attract the additional capital requirements for interest rate and foreign exchange risk set out above.

2.3. Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.

BBI plc currently uses the Basic Indicator Approach(BIA) to calculate it's Operational Risk requirements. Following the Basel III Committee recommendations, BBI will replace the BIA calculation with the new 'Standardised Measurement Approach' as soon as this revised calculation method is finalised and implemented by the regulator.

BBI plc continue to have a sound reputation and to steer its operational risk carefully and according to best practices.

BBI plc is fully dedicated to the management of operational risks. The framework aims to:

- Master losses generated by operational risk;
- Improve control of operations where necessary;
- Put in place adequate performance measurement and early warning signals; and
- Enhance operational risk awareness and culture.

2. Risk management framework (continued)

2.4. Liquidity risk

Liquidity risk is the risk that a firm, although solvent, either does not have available sufficient financial resources to enable it to meet its obligations as they fall due, or can secure such resources only at excessive cost. The liquidity ratio of BBI plc has continued to be well above the regulatory requirement and also well above the internal constraint, showing a comfortable liquidity position.

BBI plc monitors its liquidity very closely and within the Risk Tolerance approved by the Board.

These internal limits are benchmarked against the Individual Liquidity Guidance to ensure they are at least as stringent.

2.5. Risk appetite

The Board of BBI sets an overall risk appetite, which guides the strategy and business plan, in terms of the type of businesses which BBI will enter into, the type of customers which they will target and the type of products and services that BBI will use and provide. The risk appetite defines, at a detailed level, the limits and targets that the bank will implement and at a higher level the aspirations of BBI's strategic aims along with the general risk culture of the business.

The risk appetite also helps to define the internal management, systems and controls arrangements that will be in place at BBI.

As a bank, the acceptance of risk is fundamental to the business of BBI. The Board's consideration of risk appetite is governed by the strategic direction that the Bank has decided to take over the forthcoming period and its associated capital plan.

In order that this can be done, the Board has distinguished between three types of risk for which it has risk appetite:

- Business Risks (Credit Risk and to a lesser degree Market Risk);
- Consequential Risks (mainly Operational and Legal risks); and
- Liquidity Risks.

BBI's overall risk appetite is reviewed by the Board on at least an annual basis as part of the annual review of the ICAAP & ILAAP or more frequently as and when circumstances change such as new business is being considered. The appetite is discussed by the Board on an integrated and bank-wide basis, in addition to any individual discussions about specific risk limits or processes.

The Board agree not only the specific ways in which risks can be mitigated (e.g. through holding capital, implementing controls or by defining management actions or behaviours) but the appetite for the overall risk of the bank. In other words, the Board of BBI has defined the amount of risk exposure, or potential adverse impact from external or internal events, that BBI is willing to accept.

3. Risk governance structure

The ultimate governing body of BBI is the Board of Directors ('the Board'), who have responsibility for strategic direction and overall control of the bank including the overall governance and risk management of the Bank. BBI is a wholly owned subsidiary, hence the strategy of the bank is agreed with its parent, BMCE.

3.1. Board of Directors

The Board consists of 6 Non-Executive Directors (NEDs) of which 3 are Independent NEDs and the CEO. Directors are appointed by the board and selected according to their knowledge and experience and the needs of the Bank.

BBI has a diversity policy and the Board complies with the policy when recruiting new directors. Board members are selected based on their knowledge, skills and expertise.

The board of Directors retains the ultimate responsibility for setting the firm's risk appetite (see above), including the credit risk appetite, and for ensuring the establishment and adherence to sound principles for risk identification, measurement, monitoring and control. It will also be responsible for approving credits which fall within its authority – e.g. credits above the delegated authority of the Credit Committee –, delegates' authorities to approve financing facilities at various organizational levels which will be documented and specify clearly the limits and conditions for each level, in the Credit Policy.

3.2. Committees

The Board has established the following committees for reviewing the adequacy of the BBI's risk management framework

- **Risk Committee (RC)**

The Risk Committee consists of independent non-executive directors (including the Chairman of the Risk Committee) meeting quarterly, or as frequently as is required to carry out properly its functions.

The Risk Committee's responsibility is one of oversight and review. It does not provide expert advice nor exercise any executive role.

3. Risk governance structure (continued)

3.2. Committees

- **Risk Committee (RC)**

The RC assists the Board in monitoring:

– the adequacy and effectiveness of the Bank's risk management policies and processes;

– the full range of risks, financial and non-financial, on balance sheet and contingent, to which the Bank is exposed, including credit, market, liquidity, funding, capital, operational, regulatory and reputational risks;

– review of risk management processes;

– the qualifications and the performance of the Bank's risk management function ;

– review other categories of risk linked to market risk (country risk, counterparty risk) ; and

– any other relevant issue

- **Board Remuneration Committee**

The Remuneration Committee consists of non-executive directors (including the Chairman of the Remuneration Committee) and independent non-executive directors meeting at least annually, or as frequently as is required to assists the Board primarily in establish the compensation and benefits policy

- **Board Audit Committee**

The Audit Committee consists of independent non-executive directors (including the Chairman of the Audit Committee) meeting quarterly, or as frequently as is required. Its responsibility is one of oversight and review. It does not provide expert advice nor exercise any executive role.

The Audit Committee assists the Board in monitoring:

– the integrity of the financial statements of the Bank

– the adequacy and effectiveness of the systems of internal controls of the Bank; and

– the qualifications and independence of the Bank's external auditors and the performance of the Bank's internal and external auditors ; and

– any other relevant issue.

- **Credit Committee**

The Credit Committee consist of no fewer than three members and meets on an ad-hoc basis meeting generally on a weekly basis, depending on workflow.

Its responsibilities are as follows:

– to approve, conditionally approve or decline credit limit request and reviews up the Committee's delegated authority;

– to review counterparty / customer internal credit risk ratings ;

– to manage the credit risk exposure of the bank per country, industry sectors, etc; and

– to review and manage any other relevant credit issue

- **Asset and Liability Committee (ALCO)**

The role of ALCO is to assist the executives in fulfilling their responsibilities relating to the oversight of BBI's market and liquidity risk management policies, strategies and processes that have the potential to impact significantly on the bank's earnings performance and capital.

The ALCO meets monthly, or as frequently as is required to carry out properly its responsibilities that include:

– review of the bank's exposure to market risk and its hedging strategy;

– review and management of the bank's liquidity;

– regularly review regulatory developments and their impact on the prices of marketable assets;

– approve the list of instruments to be traded;

– approve the methodology for the valuation of market assets and the measurement of market risk; and

– review and propose market risk limits.

4. The Three Lines of Defence (3LoD) Model

BBI adopts the risk management model known as the 'three lines of defence' governance model. This is the model of risk management that sits below the Board to implement and control the decisions on strategy, risk and capital that are taken by the Board. This model allows BBI to implement effective risk management and a risk culture. A summary is provided below for each of line of defence.

4.1. First Line of Defence - The Business

Business units operate as the first Line of Defence (LoD) by conducting its business in a way that meets the firm's strategic objectives whilst being consistent with the Board's approved risk appetite. The business, as the first LoD, is responsible for identifying and managing risks directly and executes its business in line with implemented limits, policies and procedures as determined by Risk, the second LoD.

The first LoD responsibilities are predominantly to:

Prevent the firm, through forward looking risk identification, from taking risks which are inconsistent with its risk appetite;

Performing proactive risk management and reporting new and emerging risks as they arise in order to mitigate identified risks;

Own the risks and be responsible for the primary monitoring of controls.

4. The Three Lines of Defence (3LoD) Model (continued)

4.2. Second Line of Defence: Risk Functions

The second LoD is independent from the first LoD. The second LoD provides oversight, monitoring, approval, challenge and advice to the first LoD in their risk management activities.

The second LoD comprises all Risk Management departments covering credit, market, operational and liquidity risks along with Compliance, Operations, Legal and Finance departments.

The second LoD acts as full oversight of the first LoD's risk management. The second LoD also acts as guardian of the risk profile by ensuring the first LoD's acceptance of risk is consistent with all applicable laws, regulations and internal policy requirements.

The second LoD responsibilities are mainly to:

Design and implement an appropriate and effective risk management framework, supported by policies and procedures;

Ensure the first LoD has implemented the risk management framework;

Implement effective controls to ensure compliance with the Board's risk appetite;

Report and escalate key risk information and breaches or exceptions in a timely manner; and

Monitor compliance with all applicable laws and regulations.

The management of limit utilisation, both in terms of amount and tenor, is essential to the prevention of limit excesses. As a matter of policy, transactions will only occur with prior formal approval. BBI's monitoring procedures in this regard differentiate between two levels:

• **Intraday Monitoring** - Whenever a deal creates a potential excess, the Front Office unit originating the transaction has to apply for approval of the excess in accordance with temporary excess procedures before the transaction is confirmed to the counterparty. All intraday temporary approvals must be approved by at least two members of the Credit Committee. Intraday monitoring is a function of the KGR (Kondor Global Risk) system, which is a risk system used by Risk Management for monitoring and managing TCM customer limits. Excess management, including the approval of excesses, temporary increases etc. are supported by this system.

• **End of Day Monitoring** - The following reports will be used for End of Day Monitoring:

BBI Exposure report consolidates all the bank exposure, by country, sector, group, counterparty and rating;

Standard Limit report provides an overview of the bank end day MM lending position;

Bond Portfolio report limits monitoring;

BMCE Risk Indicators report the bank end day liquidity position.

The Compliance function is responsible for the development, maintenance and implementation of the Compliance Function Operating Model. In accordance with this model, the Compliance function monitors regulatory developments, updates Compliance policies and procedures as well as providing advice and monitoring compliance with legal requirements, regulatory rules, regulatory guidance and codes of practice. The Compliance department promotes a robust and healthy challenge to management through the strict enforcement of legal obligations and compliance monitoring activities.

The Compliance Officer reports to the Chief Executive Officer and compliance reports are prepared for the Board, highlighting potential issues and recommended actions.

The Risk Committee, which is a sub-committee of the Board, has full oversight and ownership of the Credit Committee, Large Exposures Committee, Operational Risk Committee and Classification and Provisioning Committee. The operation of these committees, all of which are chaired by the Head of Risk is summarised below.

4. The Three Lines of Defence (3LoD) Model (continued)

4.3. Third Line of Defence: Internal Audit

The third LoD provides an independent and objective assurance of the effectiveness of internal controls established by the first and second lines of defence. This is provided by the Internal Audit function, reporting to the Audit Committee.

The team conducts unsolicited, periodic audits and spot checks to examine, evaluate and report on the adequacy of systems of internal controls and the effectiveness of risk management and governance processes. Audit regularly reviews the implementation status of any weaknesses identified and recommendations issued.

Authority is granted for full, free and unrestricted access to any and all the organisation's records, personnel and physical properties of BMCE Bank International plc deemed necessary to accomplish its audit activities. All records and information given to Internal Audit during review will be handled prudently, according to the appropriate professional codes of conduct.

The Internal Audit department promotes a robust and healthy challenge to management through its independent reviews and monitoring of compliance & other recommendations. The Head of Internal Audit reports independently to the Audit Committee, with a dotted reporting line to the CEO for day to day matters, particularly status updates as to whether the appropriate remedial measures have been taken in respect of any deficiencies identified. Audit reports are prepared for Management, Audit Committee & the Board, highlighting potential issues and recommended actions.

5. Own Funds

At 31 December 2017 and throughout the financial year, BBI has complied with the capital requirements that were set out by regulators. BBI continues to use the standardised approach to credit and market risk and the Basic Indicator approach for operational risk to calculate its Pillar 1 capital requirements.

5.1. Capital Resources

• **Tier 1 Capital -** This is comprised entirely of Common Equity Tier 1 capital (CET1); made up of the permanent paid up capital instruments (ordinary share capital), retained earnings, reserves and other comprehensive income (OCI) after adjustments for deductions for goodwill and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes (eg AFS Reserve). This is the core capital of the Bank and acts as a buffer to absorb losses to protect depositors and other creditors of the Bank.

• **Tier 2 Capital -** This comprises of a Subordinated Loan amortised over the life of the loan. The Subordinated debt represents loans of €17.700k granted by the parent company on 31st May 2010 with original redemption date of 2020, which was extended (in 2015) to 31st May 2023.

5.2. Leverage ratio

The Leverage Ratio was introduced under the Basel III reforms as a simple, transparent, non-risk based ratio intended to restrict the build-up of leverage in the banking sector to avoid a distressed deleveraging process that could damage the broader financial system. It is defined as the ratio of Tier 1 Capital to Total Exposures (pre-Credit Risk Mitigation and Risk Weighting of exposures).

Monitoring and requiring firms to manage this metric allows regulators to limit the accumulation of excessive leverage, which is widely considered to have precipitated the banking crisis. The PRA has proposed that a minimum leverage ratio requirement of 3% will apply to all banks in the UK from 1st January 2018.

As at 31 December 2017 BBI had a leverage ratio of 12.08 (9.26% at 31/12/2016), very comfortably in excess of the PRA minimum (see table below for details). Given BBI's overall balance sheet size, relatively limited range of banking products and clients, it is considered that the risk of a material unexpected movement in the leverage ratio is very limited. Therefore, the risk of excessive leverage is minimal. BBI regularly monitors its Capital Adequacy Ratio, this provides an effective early indication of potential changes in the leverage ratio.

The risk of excessive leverage is also managed through the Recovery & Resolution Plan. If the leverage ratio were to fall below a defined level, BBI may take actions to restore its capital position, which may include actions to increase capital resources or to reduce the size of the balance sheet based on a time scale deemed appropriate to the situation.

5. Own Funds (continued)

Share capital and reserves

£'000	2017	2016
Share capital		
Authorised 150,000,000 ordinary shares of £1 each		
Issued, called up and fully paid 102,173,000 shares ordinary shares of £1 each	102,173	102,173
Share capital as at 31 December	**102,173**	**102,173**
All shares rank equally with one vote per share. There is no entitlement to fixed income		
Reserves		
Available for sale investment reserve	297	(602)
Foreign currency translation	(167)	(90)
Accumulated losses	(24,414)	(29,924)
Reserves as at 31 December	(24,284)	(30,616)
Share capital and reserves	**77,889**	**71,557**

Subordinated debt

£'000	2017	2016
Principal	15,695	15,140
Accrued Interest	377	363
Subordinated debt	**16,072**	**15,503**

Own funds - Reconciliation between Financial statements and Regulatory Reporting

£'000 - 2017	Financial statements	Adjustments	Regulatory Own funds
Share capital	102,173	-	102,173
Other reserves	130	(5,510)	130
Accumulated losses (i)	-24,414	(8,917)	-29,924
Goodwill (ii)	-	(2,453)	-8,917
Other intangibles (iii)	-	(473)	-2,453
Deferred tax assets (iv)	-	-	-473
Tier 1 Capital	77,889	(17,353)	60,536
Subordinated liabilities (v)	16,072	(377)	15,695
Tier 2 Capital	16,072	(377)	15,695
Total Capital Resources	**93,961**	**(17,730)**	**76,231**

5. Own Funds (continued)

Own funds - Reconciliation between Financial statements and Regulatory Reporting

£'000 - 2016	Financial statements	Adjustments	Regulatory Own funds
Share capital	102,173	-	102,173
Other reserves	-692	-	(692)
Accumulated losses (i)	-29,924	(8,584)	(38,508)
Goodwill (ii)	-	(8,591)	(8,591)
Other intangibles (iii)	-	(1,719)	(1,719)
Deferred tax assets (iv)	-	(1,151)	(1,151)
Tier 1 Capital	71,557	(20,045)	51,512
Subordinated liabilities (v)	15,503	-363	15,140
Tier 2 Capital	15,503	(363)	15,140
Total Capital Resources	**87,060**	**(20,408)**	**66,652**

(i) Current year net profit not audited at 31/12/2017, therefore have been excluded from the regulatory calculation. The net profit for the year
(ii) 2017 have been included in the regulatory calculation from 31/03/2018.
(iii) Intangible assets have been excluded from regulatory calculation
(iv) Portion of DTA that access 10% of Tier 1 Capital
(v) Accrued interest excluded from the regulatory calculation

Solvency ratio

£'000	2017	2016
Tier 1 Capital	60,536	51,512
Tier 2 capital	15,695	15,140
Own funds	**76,231**	**66,652**
Risk Weighted Assets	401,388	395,244
Tier 1 Capital Ratio	15.1%	13.0%
Solvency Ratio	**19.0%**	**16.9%**

5. Own Funds (continued)

Leverage Ratio exposure:

£'000	2017
Total Consolidated assets as per published financial statements	**490,960**
Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	
Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	
Adjustments for derivative financial instruments	(47)
Adjustment for securities financing transactions (ie repos and similar secured lending)	
Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	40,726
Other adjustments	(30,462)
Leverage ratio exposure measure	**501,177**

£'000	2017	2016
On-balance sheet exposures		
On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	471,200	495,464
Intangibles Asset amounts deducted in determining Basel III Tier 1 capital	11,843	11,462
Total on-balance sheet exposures	**459,357**	**484,002**
Derivative exposures		
Replacement cost associated with all derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting	54	229
Add-on amounts for PFE associated with all derivatives transactions	1,039	748
Total derivative exposures	**1,094**	**977**
Off-balance sheet exposures		
Off-balance sheet exposure at gross notional amount	40,726	50,701
Total off-balance sheet exposures	**40,726**	**50,701**
Total exposures	**501,177**	**535,680**
Leverage ratio	12.08%	9.62%

6. Capital Adequacy and Management

The primary objective of capital management is to ensure that BBI complies with its regulatory capital requirements and maintains healthy capital ratios in order to support its current and future activities and maximise shareholder's value.

BBI maintains an actively managed capital base to cover risks inherent in the business. The Bank manages its capital structure and makes adjustments to it in light of changes in economic conditions, regulatory requirements and the risk characteristics of its activities.

The capital framework which firms are required to apply is described below:

- **Pillar 1** – it sets out the minimum capital requirements that firms are required to meet for credit, market and operational risk;

- **Pillar 2A Individual Capital Guidance ("ICG")** – it sets out the requirements on firms with regard to their ICAAP, internal procedures and control mechanisms. The PRA expect that firms should meet Pillar 2A with at least 56% of CET1 capital;

- **The Institution Specific Countercyclical Buffer ("CCyB")** – it requires the firm to build up capital when aggregate growth in credit is judged to be associated with the buildup of system wide risk, and can be drawn down to absorb losses during periods of stress;

- **Capital conservation buffer ("CCoB")** - it is designed to enable firms to absorb losses in stressed periods.

BBI maintains an actively managed capital base to cover risks inherent in the business. The Bank manages its capital structure and makes adjustments to it in light of changes in economic conditions, regulatory requirements and the risk characteristics of its activities. An Internal Capital Adequacy Assessment Process (ICAAP) of capital needs is undertaken at least annually and is presented to the various BBI governance committees for review, challenge and approval. The ICAAP governance process ensures the Board is engaged in the process, i.e. reviews and approves the ICAAP. The ICAAP describes how risks are assessed, controlled, monitored, mitigated and reported and helps the management determine what might be required to maintain BBI's solvency assuming certain stressed conditions.

The minimum amount of regulatory capital required is determined in accordance with the relevant rules and the ICG received from the PRA. At 31 December 2017, and throughout the year, BBI's capital in place exceeded the minimum ICG requirement.

In addition to the capital required in respect of Pillar 1 risks, BBI allocates additional capital in respect of other risks not addressed under the Pillar 1 minimum capital requirements in its ICAAP. BBI has identified the following as additional risks under Pillar 2:

- **Concentration Risk** - this represents the capital that EAB estimates is necessary to adequately reflect the particular risk attaching to concentrations of credit risk in industries and/or regions;

- **Interest rate risk in the banking book** - this represents the capital that EAB estimates is necessary to adequately reflect the interest rate risk attaching to positions held in the non-trading book i.e. the banking book;

- **Operational Risk** – it is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events;

- **Other Pillar 2 risks** - these include all other amounts that EAB considers appropriate to adequately reflect its exposure to Pillar 2 risks not set out above.

BBI engages in thorough stress testing, scenario analysis and contingency planning in order to better understand and prepare for low economic cycles, high impact events (such as the 2007/2008 financial crisis). The stress testing in BBI includes multi- risk scenarios based on both macroeconomic scenarios (systemic scenarios) and BBI specific scenarios (idiosyncratic scenarios) as well as combinations of both. BBI Stress tests are set out in the ICAAP, Recovery Plan and ILAAP.

BBI's assessment during 2017 is that it had more than adequate capital resources to withstand the effects of a severe economic downturn. Separately, as at 31 December 2017, and throughout the year, BBI's capital in place (see own capital section) exceeded the minimum ICG requirement. The table below provides a breakdown of BBI's Pillar 1 capital requirements at 8% under the standardised approach.

6. Capital Adequacy and Management (continued)

Risk Weighed Assets and Minimum Capital Required under Pillar 1

£'000	2017 RWA	2017 Min. Cap. Req	2016 RWA	2016 Min. Cap. Req
Credit risk (excluding counterparty credit risk) (CCR)	292,139	23,371	277,878	22,230
Of which standardised approach (SA)	292,139	23,371	277,878	22,230
Of which internal rating-based (IRB) approach				
Counterparty credit risk	225	18	226	18
Of which standardised approach for counterparty credit risk				
Of which internal model method (IMM)				
Of which CVA	225	18	226	18
Equity in banking book under market-based approach				
Equity investments in funds – look-through approach				
Equity investments in funds – mandate-based approach				
Equity investments in funds – fall-back approach				
Settlement risk				
Securitisation exposures in banking book				
Of which IRB ratings-based approach (RBA)				
Of which IRB Supervisory Formula Approach (SFA)				
Of which SA/simplified supervisory formula approach				
Market risk	77,898	6,232	90,900	7,272
Of which standardised approach (SA)	77,898	6,232	90,900	7,272
Of which internal model approaches (IMM)				
Operational risk	31,126	2,490	26,239	2,099
Of which Basic Indicator Approach	31,126	2,490	26,239	2,099
Of which Standardised Approach				
Of which Advanced Measurement Approach				
Amounts below the thresholds for deduction (subject to 250% risk weight)				
Floor adjustment				
Total	**401,388**	**32,111**	**395,244**	**31,619**

7. Risk Measurement, Mitigation and Reporting

7.1. Credit Risk

This is the potential risk that arises from customers failing to meet their obligations as they fall due. Credit risk includes counterparty risk, settlement risk and concentration risk. BBI faces credit risk on its exposure to sovereigns and corporates from its capital markets, corporate banking, project finance and commodity trade finance businesses, and from its exposure to financial institutions and corporates from its trade finance and treasury activities.

BBI has a detailed credit policy and procedures manual providing operating model and information on how the credit risk management processes are embedded in the business and overseen at the highest level within the bank.

BBI undertakes business (providing solutions, products and services accordingly) within the defined risk appetite and within the governance in place for approving any credit risk.

The Board of Directors(BoD) is the ultimate authority responsible for credit risk. On a business as usual the BoD delegate the Credit Risk responsibility to the Credit Committee. More specifically the Credit Committee, it oversees the management of the credit risk structure, reviews and approves credit applications within its delegated authority and take decisions on credit issues that are beyond the authorities granted to management. Exposures are monitored daily, and appropriate action taken should a credit limit be breached.

The tables below provide a breakdown of the Bank exposure and RWA at 31 December 2017 and December 2016. The Bank uses Moodys, S&P and Fitch credit ratings in order to arrive at the risk weights necessary to calculate the risk-weighted values for its exposures to rated institutions. Where an institution is not externally rated, BBI uses its internal assessment to rate the institution (see ECAIS section).

Credit Risk Exposures and RWA per asset class

£'000 - 2017	Exposures before CCF and CRM		Exposures post-CCF and CRM		RWA and RWA density	
Asset class	**On balance sheet**	**Off balance sheet**	**On balance sheet**	**Off balance sheet**	**RWA**	**RWA density**
Sovereigns and their central banks	92,789	-	56,125	-	38,636	69%
Non-central government public sector entities	10,067	-	1,200	-	1,200	100%
Multilateral development banks	-	-	5,570	2,656	1,645	20%
Banks	53,130	-	61,705		16,549	27%
Corporates	160,273	59,038	185,636	30,671	164,839	76%
Regulatory retail portfolios	87	29	87	29	40	34%
Claims on institutions and corporate with a short-term credit assessment	21,194	14,680	27,935	7,370	41,086	116%
Exposures in default	7,044	-	6,327	-	9,492	150%
Other assets	9,059	-	9,059	-	18,211	201%
Total	**353,643**	**73,747**	**353,644**	**40,726**	**292,138**	**74%**

7. Risk Measurement, Mitigation and Reporting (continued)

Credit Risk Exposures and RWA per asset class

£'000 - 2016	Exposures before CCF and CRM		Exposures post-CCF and CRM		RWA and RWA density	
Asset class	On balance sheet	Off balance sheet	On balance sheet	Off balance sheet	RWA	RWA density
Sovereigns and their central banks	93,661	7,980	67,004	290	49,878	74%
Non-central government public sector entities	-	-	-	-	-	-
Multilateral development banks	-	-	12,537	1,317	-	0%
Banks	37,339	888	49,772	998	13,338	26%
Corporates	164,196	56,496	166,494	37,163	145,000	71%
Regulatory retail portfolios	210	111	210	111	195	61%
Claims on institutions and corporate with a short-term credit assessment	42,801	18,914	42,613	10,822	45,729	86%
Exposures in default	5,922	-	5,500	-	8,251	150%
Other assets	7,071	-	7,071	-	14,970	212%
Total	**351,201**	**84,389**	**351,201**	**50,701**	**277,361**	**69%**

Exposures post-CCF and CRM per asset class

£'000 - 2017 Asset class / Risk weight	0%	20%	50%	75%	100%	150%	Others	Tot. credit exp.
Central gov. or central banks	17,489				38,636			56,125
Non-central government public sector entities (PSEs)					1,200			1,200
Multilateral development banks		8,226						8,226
Banks		48,143	14,026					62,170
Securities firms								-
Corporates	8,805	18,488	55,744		133,475			216,513
Regulatory retail portfolios	63			54				116
Past-due loans						6,328		6,328
Higher-risk categories								-
Claims on institutions and corporate with a short-term credit assessment		8,722	1,025			25,981		35,728
Other assets					2,958		6,101	9,059
Total	**26,357**	**83,580**	**70,795**	**54**	**176,269**	**32,309**	**6,101**	**395,465**

7. Risk Measurement, Mitigation and Reporting (continued)

Exposures post-CCF and CRM per asset class

£'000 - 2016 Asset class / Risk weight	0%	20%	50%	75%	100%	150%	Others	Tot. credit exp.
Central gov. or central banks	13,339		8,152		45,802			67,294
Non-central government public sector entities (PSEs)								
Multilateral development banks	13,854							13,854
Banks		42,071	9,807		111			51,988
Securities firms								
Corporates	15,426	27,450	41,010		119,334			203,220
Regulatory retail portfolios	60			261				321
Past-due loans						5,500		5,500
Higher-risk categories								
Claims on institutions and corporate with a short-term credit assessment		10,907	20,441			22,284		53,632
Other assets					1,804		5,266	7,071
Total	**42,680**	**80,427**	**79,410**	**261**	**167,051**	**27,784**	**5,266**	**402,878**

7.2. Counterparty credit risk

This is the risk that a counterparty in a foreign exchange, interest rate, commodity, equity or credit derivative contract defaults prior to maturity date or before the final settlement of the contract/transaction cashflows. BBI trades vanilla products and only uses derivatives to hedge FX risk. The Capital Requirement related to counterparty exposure for these products is calculated based on the mark to market method and is not material for BBI

i. Internal capital and credit limits

Treasury is authorised only to execute trades with approved counterparties. The counterparties, their credit ratings and counterparty limits are proposed by TCM, reviewed by Risk Management and approved by the CC (and the Board). This approval is updated at least once a year.

Any adverse event affecting the credit standing of any names in the approved counterparty list is advised immediately to Risk Management, ALCO and the CC for appropriate action. TCM will act accordingly upon any notice received.

ii. Collateral management

The Bank also seeks to negotiate with counterparties on a case by case basis, where collateral is deemed a necessary or desirable mitigation to the exposure. The terms of a Credit Support Annex (CSA) are specific to each legal document and determined by the Credit Committee approval for the counterparty. The nature of the collateral is specified in the legal document and is typically cash or highly liquid securities.

7.3. Use of Credit Risk Mitigation Techniques

BBI only use either cash or credit risk insurance from insurance providers rated A- or higher as collateral. BBI does not assign any value or take any risk mitigation benefits from other forms of security obtained/held and therefore does not make use of balance sheet netting.

7. Risk Measurement, Mitigation and Reporting (continued)

Credit Risk mitigation

£'000 - 2017	Exposures unsecured: carrying amount	Exposures secured by collateral	Exposures secured by collateral, of which: secured amount	Exposures secured by financial guarantees	Exposures secured by financial guarantees, of which: secured amount	Exposures secured by credit derivatives	Exposures secured by credit derivatives, of which: secured amount
Loans and advances	225,538	15,817	4,454	103,229	95,093	-	-
Debt securities	-	-	-	-	-	-	-
Total	225,538	15,817	4,454	103,229	95,093	-	-
Of which defaulted	-	8,324	716	-	-	-	-

7.4. Impairments

The Bank assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter Bankruptcy or other financial reorganisation and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Impairment of financial assets – Problem loans and advances, including financial investments which are held to maturity and debt securities classified as available for sale investments, are reviewed at each reporting date to assess whether an allowance for impairment should be recorded in the statement of profit and loss. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

BBI has established a robust credit risk framework to ensure that the Bank undertakes acceptable credit business; manages its credit portfolio effectively and is able to deal with negative events as they may arise from time to time. To this end, BBI has produced an internal Credit Risk Provisioning Policy. This policy aims to clearly set out the procedure that BBI will follow when making provisions. Noting BBI is required by regulators and in line with best practice to at all times to assesses and monitors all problem (both potential and actual) accounts on a regular basis and have an adequate level of provisions for all bad and doubtful debts.

BBI takes a provision on a specific client/transaction basis and not a general or collective provision on a portfolio basis. The aggregate amount of specific provisions (including interest in suspense and expenses) would be adequate to absorb the estimated credit losses for individually identified credit exposures.

Goodwill is tested at each reporting date for impairment and the evaluation requires significant management judgement in estimating the present value of future estimated cash flows expected to be derived from the cash generating units (CGU) to which goodwill has been allocated. Goodwill arising from business combination is allocated to CGU or group of CGU's that are expected to benefit from the synergies of the combination. Assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that is largely independent of the cash inflows of other assets or CGUs.

Impairment of other intangible assets are reviewed for any indication of impairment at each reporting date. Where there is such an indication, judgement is required in the estimation of the present value of the future cash flows expected to be derived from the asset or the cash generating unit to which it is allocated.

7. Risk Measurement, Mitigation and Reporting (continued)

Carrying amount per asset

£'000 - 2017	Gross carrying amount		Impairments	Net amount
	Defaulted exposures	Non-defaulted exposures		
Loans	8,324	337,541	1,280	344,585
Debt/Securities	-	-	-	-
OBS exposures	-	40,726	-	40,726
Total	**8,324**	**378,267**	**1,280**	**385,312**

£'000 - 2016	Gross carrying amount		Impairments	Net amount
	Defaulted exposures	Non-defaulted exposures		
Loans	7,259	321,890	1,864	327,284
Debt/Securities	-	16,846	-	16,846
OBS exposures	-	50,701		50,701
Total	7,259	**389,435**	**1,864**	**394,831**

Carrying amount of impaired loans and advances

£'000	2017	2016
As at 1 January – Gross amount	5,250	1,829
Impaired in year	17,246	15,246
Reclassified to performing	-	(12,011)
Loan Recovery	(671)	-
Exchange rate movement	16	186
As at 31 December – Gross amount	**21,840**	**5,250**
As at 31 December – Impairment	**3,023**	**1,581**
As at 31 December – Carrying amount	**18,818**	**3,669**

7. Risk Measurement, Mitigation and Reporting (continued)

7.5. Market risk

Market Risk is the risk that the Bank's earnings or capital, or its ability to meet business objectives, will be adversely affected by changes in the level or volatility of market rates or prices such as interest rates, credit spreads, commodity prices and foreign exchange rates. This incorporates a range of risks, however for BBI the principal elements are interest rate and currency exchange rate risk. BBI has some appetite for trading securities and other debt instruments, mainly in relation to the management of overall liquidity requirements, which expose it to financial risk of changes in bond prices. Risks are managed individually through the use of limits and restricting product exposures.

The management and measurement of market risk is continuous and undertaken by both the TCM department and Risk Management Unit. Daily reports are prepared and assessed. All market risks are monitored and regularly considered by the ALCO, RC and the Board.

Market risk in the banking book may arise from corporate banking activities; all market risk arising from this business will be passed to the trading book for active management and will therefore attract the additional capital requirements for interest rate and foreign exchange risk set out above. Only minimal currency risk arise from BBI's fixed income activity as the purchase of most securities denominated in foreign currency would be funded on a matched basis. Currency risk will arise, however, from BBI's trading in foreign exchange, mainly spot and forwards (not options).

Market risks are included under Pillar 1 following the requirements of the standardised approach for specific risk capital charge and the interest rate maturity method for general market risk.

RWA by type of market risks

£'000	2017	2016
Interest rate risk (general and specific)	70,208	75,575
Foreign exchange risk	7,690	15,325
Total	**77,898**	**90,900**

7.6. Interest Rate Risk Not in Trading Book

We define Interest Rate Risk in the Banking Book (IRRBB) as the risk on BBI's capital and earnings arising from adverse movements in interest rates that might affect the banking book positions. We acknowledge the regulatory perspective to include the IRRBB in Pillar 2B, considering the limited level of standardisation across the banking industry.

BBI's main interest rate risk (IRR) is the risk arising from the funding of loans and the bond portfolios. Noting the relatively simple vanilla products offered by BBI, there is very limited potential for impact from typical "optionality risk" (as would be embedded in more complex products offered by other banks).

We have calculated the IRRBB considering six interest rate scenarios as prescribed by the International Bank of Settlement (BIS) in "Interest rate risk in the banking book guidance published in 2016 and PRA guidance in the "Statement of Policy (SoP) PS8/18". We have established the potential IRR based on the maximum movement of between the base case and the following interest rate shock scenarios (200bp - Parallel Up/Down, Steepener, Flattener, Short rate up, Short rate down).

We have calculated but not considered the impact of a 2% negative shift in interest rates as we do not hold any short bond positions and therefore not exposed to a fall in interest rates. There is no impact from BBI's equity, hence no calculation is undertaken or included in the IRRBB for equity.

If there is any change in our strategy to incorporate fixed rate lending in the banking book we will hedge by transferring the risk to the trading book.

7. Risk Measurement, Mitigation and Reporting (continued)

7.7. Foreign Exchange Risk

Foreign exchange risk is the risk that the value of a financial instrument denominated in foreign currency will fluctuate in domestic currency terms due to changes in exchange rates.

The bank policy's is to monitor market exposures by the risk team on a daily basis.

Risk classification per severity

Risk/ Severity	None	Low	Medium	High
Gap Risk		√		
Yield Curve Risk		√		
Basis Risk		√		
Pipeline Risk	√			
Prepayment Risk	√			
Cap - Floor Risk	√			

7.8. Securitisation

BBI does not undertake securitisation, hence no disclosure is provided or required.

7.9. Operational risk

Operation Risk is the risk of loss arising from failed or inadequate internal processes or systems, human error or other external factors. This risk is managed by individual business areas that have responsibility for putting in place appropriate controls for their business. The Head of Operational Risk reports to the HRM to ensure close co-ordination in control and risk assessments on a regular basis.

BBI's adopts the standardised approach for calculating Basic Indicator Approach and consequently embarks on rigorous risk identification exercises to establish any Pillar 2 requirement for Operational Risk.

BBI's Operational Risk framework aims to:

- Control (potential) losses generated by operational risk;
- Improve control of operations where necessary;
- Put in place adequate performance measurement and early warning signals; and
- Enhance operational risk awareness and culture.

In order to ensure the Bank has sufficient capital to cover these operational risks the Bank also maintains a range of insurance policies to cover eventualities such as business interruption, loss of computer systems and financial crime.

7.10. Liquidity Risk

Liquidity Risk is the risk of the Bank, although solvent, being unable to meet its payment obligations as they fall due. This may be caused by the Bank's inability to liquidate assets or to obtain funding to meet its liquidity needs, or by contractual mismatches between the contractual timings on cash inflows and outflows.

Liquidity risk is assessed annually through the Internal Liquidity Adequacy Assessment Process ("ILAAP") carried out under the rules of the PRA. The Bank manages its exposure to liquidity risk by ensuring that it holds a buffer of High Quality Liquid Assets that will enable it to meet its obligations as they fall due under normal and a range of stressed conditions. In addition, the Bank monitors the ratio of its longer dated assets to capital and longer-term funding to mitigate the risks deriving from maturity transformation.

The Board is of the opinion that it has taken appropriate steps to provide reasonable assurance that the liquidity risk of the Bank is and will continue to be managed in a prudent manner.

The Bank monitors its LCR to ensure that at all times it is operating within this requirement. The Bank's LCR has consistently remained above 100% the regulatory requirement (including the regulatory buffer). The Bank Liquidity risk appetite is higher than the current min regulatory requirement 100%.

Funding Risk is a subset of Liquidity Risk relating to its longer-term funding requirements and is the risk that the Bank does not have stable sources of funding in the medium and long-term to meet its financial obligations as they fall due

7. Risk Measurement, Mitigation and Reporting (continued)

Liquidity coverage ratio

£'000	Total unweighted value (AVG) £'000	Total weighted value (AVG) £'000
High-quality liquid assets		
High-quality liquid assets	63,007	63,007
Total high-quality liquid assets	**63,007**	**63,007**
Cash outflows		
Retail deposits and deposits from small business customers		
Stable deposits	2,545	127
Less stable deposits	3,784	695
Total Retail deposits and deposits from small business customers	**6,329**	**822**
Unsecured wholesale funding		
Operational deposits (all counterparties) and deposits in networks of cooperative banks	19,145	4,786
Non-operational deposits (all counterparties)	96,387	70,608
Total unsecured wholesale funding	**115,532**	**75,394**
Additional requirements		
Outflows related to derivative exposures and other collateral requirements	13,884	13,884
Total additional requirements	**13,884**	**13,884**
Other contingent funding obligation	**60,508**	**3,434**
Total cash outflows	**196,253**	**93,534**
Total cash inflows		
Inflows from fully performing exposures	67,058	61,002
Total cash inflows	**67,058**	**61,002**
Total net cash outflows		**32,532**
Liquidity Coverage Ratio (%)		**194%**

Part II

IFRS 9 - **26**

Unencumbered assets - **26**

External Credit Assessment Institutions (ECAI) - **26**

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8. IFRS 9

In November 2016, the EU endorsed the IFRS 9 accounting standard on financial instruments - classification and measurement, published in July 2014 by the IASB. It will replace the existing guidance in IAS 39 Financial instruments for annual periods beginning on or after 1 January 2018.

BBI's assessment of the impact of IFRS 9 will be disclosed in the Annual Report 2018. In particular: IFRS 9 will also fundamentally change the loan loss impairment methodology. The standard will replace IAS 39's incurred loss approach with a forward - looking expected credit loss (ECL) approach. BBI will be required to record an allowance for expected losses for all loans and other debt financial assets not held at Fair Value through Profit and Loss ("FVTPL"), together with loan commitments and financial guarantee contracts. The allowance is based on the ECL associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case, the allowance is based on the probability of default over the life of the asset.

To calculate ECL, BBI estimate the risk of a default occurring on the financial instrument during its expected life (and classification stage). ECLs are estimated based on the Probability of Default (PD), Loss Given Default (LGD) and Exposure to Default (EAD). BBI expects the impairment charge under IFRS 9 to be more volatile than under IAS 39.

9. Unencumbered assets

An asset is treated as encumbered if it has been pledged or is subject to any form of arrangement to secure, collateralise or credit-enhance any on-balance-sheet or off-balance-sheet transaction from which it cannot be freely withdrawn. Assets pledged that are subject to any restrictions in withdrawal, such as assets that require prior approval before withdrawal or replacement by other assets, are considered encumbered. No encumbered assets were recorded in 2017 and 2016.

10. External Credit Assessment Institutions (ECAI)

BBI makes use of external credit assessments provided by Fitch and S$P which is recognised by the regulator as an eligible external credit assessment institution (ECAI) for the purpose of calculating credit risk requirements under the standardised approach.

External credit assessments are used in relation to the following asset classes:

- Central Governments and Central Banks;
- Financial Institutions;
- Corporates;
- Insurance companies and Insurance Syndicates.

RWA per credit quality step

£'000 - 2017	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to BB-	B+ to B	CCC+ and Below	Unrated	Total
Asset class / Risk weight								
Central Gov./Central Banks					38,636			38,636
Public Sector Entities				1,200				1,200
Development banks	1,646							1,646
Institutions	9,629	7,013						16,642
Corporates	3,697	27,872		133,475				165,044
Exposures in default						9,492		9,492
Institutions/corporate with a short-term credit	1,744	512		38,972				41,228
Other items				2,958			15,292	18,250
Total	**16,716**	**35,397**	**-**	**176,605**	**38,636**	**9,492**	**15,292**	**292,138**

10. External Credit Assessment Institutions (ECAI) (continued)

RWA per credit quality step

£'000 - 2016	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to BB-	B+ to B	CCC+ and Below	Unrated	Total
Asset class / Risk weight								
Central Gov./Central Banks	-	-	-	-	38,636	-	-	38,636
Public Sector Entities	-	-	-	1,200	-	-	-	1,200
Development banks	1,646	-	-	-	-	-	-	1,646
Institutions	9,629	7,013	-	-	-	-	-	16,642
Corporates	3,697	27,872	-	133,475	-	-	-	165,044
Exposures in default	-	-	-	-	-	9,492	-	9,492
Institutions/corporate with a short-term credit	1,744	512	-	38,972	-	-	-	41,228
Other items	-	-	-	2,958	-	-	15,292	18,250
Total	**16,716**	**35,397**	**-**	**176,605**	**38,636**	**9,492**	**15,292**	**292,138**

11. Remuneration policy and details for code staff

The PRA has defined certain requirements relating to 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 2016 and 31 December 2017.

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.

£'000	2017	2016
Wages and Salaries	4,439	4,202
Social Security Costs	952	794
Pension costs - Defined Contributions Plans	469	321
Other benefits - including Bonus	303	666
Personal expenses	**6,163**	**5,983**

11. Remuneration policy and details for code staff (continued)

Compensation and transactions with key management personnel of the Bank

£'000	2017	2016
Compensation of key management personnel (including Directors)	**1,071**	**1,265**
- Short-term employee benefits	1,071	1,232
- Post-employment pension (defined contribution)	-	33
Compensation of Directors	**645**	**542**
- Short-term employee benefits	645	542
Aggregate emoluments and benefits of Highest paid Director	**404**	**348**
- Highest paid Director	404	**348**

Average monthly number of employees

	2017	2016
Number of employees	**57**	**61**
Board	4	3
Corporate and Investment Banking	12	**16**
Treasury and Capital Markets	4	**3**
Operations and Support	37	39

Due to the small number of staff a breakdown of business area is not disclosed

No Code Staff were paid more than £1 million. No sign-on payments were paid to Code Staff. All remuneration is paid in cash although the fixed remuneration figures above include sundry staff benefits (such as medical insurance and pension contributions). In particular no Code Staff received remuneration via shares or share-linked instruments.

11.1. Decision making process

BMCE Bank International Plc has an established Nomination & Remuneration Committee ("the Committee") which comprises the Chairman of the Remuneration Committee, who is a Non-Executive Director, the Chairman of the Board, (an Independent Non-Executive Director) The Chief Executive Officer and the Head of Human Capital and Communication – Facilities as invitee. The Committee meets twice a year (or as and when required), and is responsible for ensuring that BMCE Bank International Plc has an adequate remuneration policy in place which is sufficient to attract and retain qualified individuals.

The Committee is informed of and advised on any proposed major changes in employee benefit structures throughout BMCE Bank International Plc.

The Committee reviews BMCE Bank International Plc's Remuneration and Nomination Policy annually, taking into consideration input from Line 2 and Line 3 Risk control functions (Compliance, Risk and Internal Audit, together "Risk Management functions"). Any proposed amendment to the Remuneration Policy is submitted by the Committee to the Board for review and approval.

The Committee reviews BMCE Bank International Plc Remuneration and Nomination Policy Statement annually, in order to record BMCE Bank International Plc's self-assessment of compliance with the FCA Remuneration Code. Any amendment to the Remuneration and Nomination Policy Statement requires the approval of the Committee.

The Bank's remuneration and nomination 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 and nomination policy are those that we believe are critical to the business and reflect our values and recognize the need to be competitive.

11. Remuneration policy and details for code staff (continued)

11.1. Decision making process (continued)

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 high caliber staff and executives who can deliver sustained performance consistent with strategic goals, appropriate risk management and to reward them for enhancing value.

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The Committee's primary responsibilities are to:

- consider and recommend candidates for appointment to the Board of Directors and Board Committees; Appoint the Executive Committee;
- regularly review succession planning;
- set the remuneration packages of the Executive Committee members and Code Staff and review their performance assessments taking into consideration input from risk management functions; and
- recommend the terms of the Company's Remuneration Policy and undertake the annual review of the Remuneration and Nomination Policy Statement in line with the FCA Remuneration Code requirements.

The performance related element of remuneration is a significant component in this regard, that shall be aligned with the best interests of shareholder. The Committee will take into account its Performance Measurement Duties set out in its Terms of Reference and BMCE Bank International Plc Remuneration Policy when setting remuneration packages or evaluating bonuses.

11.2. Link between pay and performance

BMCE Bank International Plc has no pre-agreed numerical formula for performance awards. Awards are determined firstly on BMCE Bank International Plc's overall performance, then on the individual's performance, contribution and value, including assessment of their behavioural competencies. Performance related element of employee remuneration is aligned with the best interests of all BMCE Bank International Plc stakeholders and is not based on the financial (sales) performance of any individual.

Individual objectives are set for each staff member, including Code Staff members, relevant to their specific role and include a wide range of performance measures designed to encourage adherence to BMCE Bank International Plc's Compliance and Risk Management policies, as well as desired behaviors.

The variable remuneration of staff is based on the firm's operating profit as this is reflective of the firm's performance. This bonus pool is based on BMCE Bank International Plc's performance and ability to pay for that year. The Nominations and Remuneration Committee liaises with Finance, Risk Management, Credit and other functions as necessary, to ensure that the remuneration scheme does not adversely affect BMCE Bank International Plc's Capital Adequacy Ratio.

11.3. Benefits

Each Executive Director is provided with benefits which comprise a pension arrangement, private medical insurance, life assurance and income protection insurance. The Executive Directors are invited to participate in the Bank's pension plan. Other Code Staff are entitled to similar benefits.

11.4. Ratio of Fixed to Variable remuneration

The variable remuneration represents a percentage of salary and is not a multiple. The fixed component therefore will represent a sufficiently high proportion of the total remuneration to enable flexibility on any variable remuneration component, including the possibility that there will be no variable component payable.

11.5. Design characteristics of remuneration system

The BMCE Bank International Plc remuneration system is designed to support BMCE Bank International Plc's business strategy, objectives, values and long-term interests, in accordance with the FCA principles and regulations, and is applied in what BMCE Bank International Plc considers to be the most appropriate manner. It is intended to achieve the following:

- promote a sound risk management culture within BMCE Bank International Plc.
- encourage desired behaviours consistent with BMCE Bank International Plc's culture, values and principles of good governance.
- attract and retain individuals with the appropriate experience, competence, knowledge and skills to deliver BMCE Bank International Plc's strategy.
- be affordable and appropriate in line with employment market practices and conditions and peer organisations remuneration structures.
- be consistent with BMCE Bank International Plc's performance and ability to pay
- all incentive award arrangements are short-term, paid annually and are totally discretionary

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.

Glossary

Average Risk Weight (RW	Risk weighted assets divided by capital exposure
Basic Indicator Approach	The basic indicator approach, calculated using proxy percentages of 15% of the average of the previous 3-year bank's positive net interest income and net non - interest income to calculate a charge for operational risk.
Basis risk	Basis risk is the financial risk that offsetting investments in a hedging strategy will not experience price changes in entirely opposite directions from each other.
Cap-Floor Risk	Agreement between two parties providing the purchaser an interest rate ceiling or 'cap' on interest payments on floating rate debts.
Capital Conservation Buffer	To ensure that banks build up capital buffers outside periods of stress which can (CcoB) be drawn down as losses are incurred
Common Equity Tier 1 (CET1)	The highest quality regulatory capital resources, comprising retained earnings less regulatory adjustments, as defined under CRD IV. Equivalent to Core Tier1 defined under previous CRD legislation
Common Equity Tier 1 capital	The ratio of Common Equity Tier 1 Capital to Risk Weighted Assets
Countercyclical Capital Buffer	This buffer is intended to protect the banking sector against losses that could be caused by cyclical systemic risks
Counterparty Credit Risk	Counterparty credit risk is the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows
Credit Quality Steps (CQS)	A credit quality assessment scale as set out in CRD IV
CRD IV	A package of legislation incorporating a Regulation (CRR) and a Directive (CRD) that implements the Basel Ill framework in Europe
Credit risk	Risk of financial loss arising from a failure of a customer or counterparty to settle their financial and contractual obligations as they fall due
Credit risk mitigation	Techniques to reduce the potential loss in the event that a customer (borrower or counterparty) becomes unable to meet its obligations. This may include the taking of financial or physical security, the assignment of receivables or the use of credit derivatives, guarantees, credit insurance, set off or netting
External Credit Assessment	An ECAI (e.g. Moody's, Standard and Poor's, Fitch) is an institution that
Internal (ECAI)	assigns credit ratings to issuers of certain types of debt obligations as well as the debt instruments themselves
Gap risk	Gap risk refers to the risk that the price of a particular investment security can change significantly without any market trading taking place
Guarantee	An agreement by a third party to cover the potential loss to a credit institution should a specified counterparty default on their obligations
Internal Capital Adequacy	The Bank's internal assessment of the levels of capital that need to be held by
Assessment Process (ICAAP)	the Bank to meet its regulatory capital requirements
Individual Capital Guidance	The minimum amount of cap. the group should as set by (ICG) PRA under Pillar 2
Individual Liquidity Adequacy Assessment (ILAA)	The Bank's internal assessment of the levels of liquidity that need to be held by the Bank to meet its regulatory liquidity requirements
Interest rate risk	Interest rate risk is the exposure of a firm's financial condition to adverse movements in interest rates
Maturity	The remaining time in years that a borrower is permitted to take to fully discharge their contractual obligation (principal, interest and fees) under the terms of a loan agreement
Minimum Capital Requirement	The minimum amount of regulatory capital that a financial institution must hold to meet the Pillar 1 requirements for credit, operational and market risk

Glossary (continued)

Pillar 3	The part of the Basel III Framework which sets out the disclosure requirements for firms to publish details of their risks, capital and risk management. The aims are greater transparency and strengthening market discipline
Pipeline risk	The lender's risk that, between the time a lock commitment is given to the borrower and the time the loan is closed interest rates will rise and the lender will take a loss on selling the loan.
Prepayment risk	Prepayment risk is the risk involved with the premature return of principal on a fixed-income security.
Provisions	Amounts set aside to cover incurred losses associated with credit risk
Prudential Regulation	The UK prudential regulator, which is a part of the Bank of England
Authority (PRA)	alongside the FCA has responsibility for the oversight of building societies, banks and insurers. The PRA’s objective is to promote the safety and soundness of regulated firms
Risk Weighted Assets (RWA)	A regulatory measure that adjusts the value of assets to reflect their level of risk when calculating capital requirements
Stress testing	Various techniques that are used to gauge the potential vulnerability to exceptional but plausible events
Subordinated debt	Tier 2 capital that is subordinated to the claims of all depositors, creditors and members holding shares in the Group
The Standardized Approach	The standardized approach to credit risk, calculated by applying varying RWA percentages to credit exposures, depending on the underlying risk
Tier 1 (T1) capital	The sum of Common Equity Tier 1 and Additional Tier 1
Tier 1 (T1) capital ratio	The ratio of Tier 1 capital to Risk Weighted Assets
Tier 2 (T2) capital	A measure of regulatory capital that includes subordinated liabilities and provisions for collective impairment, less regulatory adjustments
TCR	Total Capital Requirements
Total capital ratio	The Ratio of Total Capital to Risk Weighted Assets
Total Capital Requirement	The Total Pillar 1 requirements and Pillar 2A requirements (TCR)
Yield Curve risk	The yield curve risk is the risk of experiencing an adverse shift in market interest rates associated with investing in a fixed income instrument.

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