BFC Bank

Connecting Business Worldwide

Pillar 3 Disclosures

31 December 2017

Contents

Notes

Throughout this document, reference to “BFC Bank”, “the Bank” or “BFC” is deemed to refer to BFC Bank Limited.

1. Overview

1.1. Introduction

Purpose

This document comprises BFC Bank's Pillar 3 Disclosures on capital and risk management at 31 December 2017. It has two main purposes:

- To meet the regulatory disclosure requirements under CRD IV, Part 8 – Disclosure by Institutions and the rules of the United Kingdom ("UK") Prudential Regulation Authority ("PRA") set out in the PRA Rulebook, Part PB – Public Disclosure and as the PRA has otherwise directed, and including Remuneration Code disclosures.

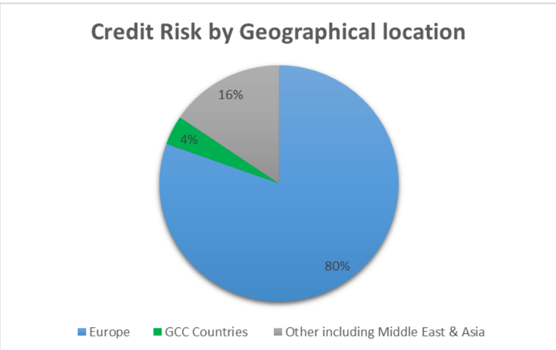
- To provide further useful information on the capital and risk management of BFC Bank.

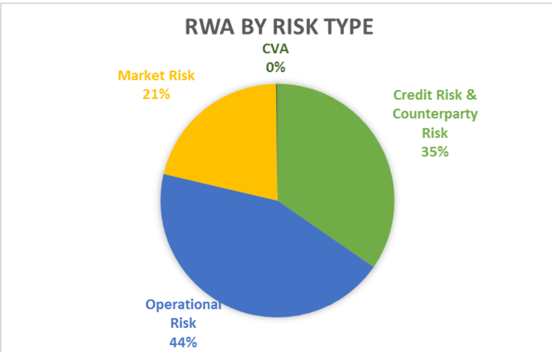
Additional relevant information may be found in the Bank's Annual Report 2017.

Key Metrics

At 31 December 2017

Common Equity Tier 1	Common Equity 1 ratio
£12.4m	**32.6%**
Liquidity Coverage Ratio	**Leverage Ratio**
414.3%	**34.2%**





1.2. Background

The European Union (EU) Capital Requirements Directive 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. The directive was superseded on 1 January 2014 by the fourth Capital Requirements Directive ("CRD IV") and the Capital Requirements Regulation ("CRR").

The Basel framework comprises of three "Pillars" which are designed to promote market discipline, of which Pillar 3 requires the disclosure of key information about risk exposures and risk management processes.

Pillar 1
Defines the minimum capital requirements that banks are required to hold for credit, market and operational risk.

Pillar 2
Builds on Pillar 1 and incorporates the Bank's own assessment of additional capital resources needed in order to cover specific risks faced by the Bank that are not covered by the minimum regulatory capital resources requirement set out under Pillar 1. The amount of any additional capital requirement is also assessed by the PRA during its Supervisory Review and Evaluation Process ("SREP") and is used to determine the overall capital resources required by the Bank.

Pillar 3
Requires the Bank to publish information on its principal risks, capital structure and risk management.

The CRR and CRD IV are enforced in the UK by the Prudential Regulation Authority ("PRA"). The Pillar 3 Disclosure requirements are contained in Articles 431 – 463 of the CRR.

BFC Bank applies the Standardised Approach to credit risk and market risk and the Basic Indicator Approach ("BIA") to operational risk.

1.3. Disclosure Policy

This document represents the Pillar 3 Disclosures of BFC Bank for the year ended 31 December 2017 in accordance with the requirements of Pillar 3 as set out in the CRR. The aim of the disclosures is to provide information on the basis of calculating Basel III capital requirements and the management of risks faced by the Bank.

Unless otherwise stated all figures are as at 31 December 2017, the Bank's financial year end.

The Bank's policy is to publish the disclosures on an annual basis and in conjunction with the date of publication of the Annual Report and Financial Statements, which should be read jointly with this document.

The Board of Directors (the "Board"), after due consideration of the size and complexity of the Bank, do not feel it is necessary to produce Pillar 3 Disclosures any more frequently than annually unless there is a material change in the business plan or permissions from the Regulator.

The Board believes that the separate publication of these disclosures on the Bank's website is more appropriate than including them in the Bank's Annual Report and Financial Statements and considers the dynamics between the two reports to be different due to the differing requirements.

The disclosures will therefore be made annually on BFC Bank's website http://www.bfcbank.co.uk/ as soon as practical after the approval of the Annual Report and Financial Statements of the Bank.

1.4. Scope

BFC is a UK registered Bank that is authorised by the Prudential Regulatory Authority ("PRA"), and regulated by the PRA and the Financial Conduct Authority ("FCA")

BFC Bank trades as a single entity and has no subsidiaries or associates. It is not part of a UK consolidation sub-group and as such the Pillar 3 Disclosures as at 31 December 2017 have been prepared on an individual basis.

1.5. Approval

These disclosures have been subject to internal review and validation prior to being submitted to the Board for approval. The following levels of review took place prior to the approval by the Board:

(i) At the Executive level by the Asset and Liability Committee and by the Executive Committee;

(ii) At Board level by the Audit Risk and Compliance Committee

2. Governance

2.1. Framework of Governance

BFC Bank's Board of Directors is responsible for the overall governance of the Bank. Good corporate governance underpins the integrity of the business and the wider stakeholders and communities in which it operates. The key objectives of the Board are to build and maintain a business that is profitable, sustainable, well capitalized and with sufficient liquidity to meet its obligations, which operates within an established framework of internal control, risk management and compliance, in accordance with regulatory requirements.

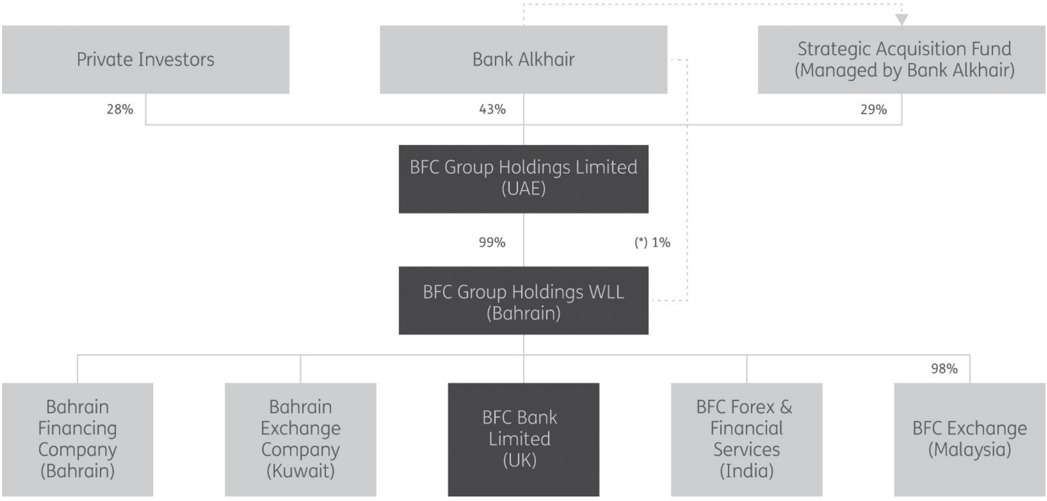
The primary responsibilities of the Board include:

- Setting the Bank's strategy taking into account the interests of its stakeholders;
- Ensuring that the business has an effective system of internal control and management of business risks and is conducted in accordance with the FCA's Principles for Business and the PRA's Fundamental Rules;
- Monitoring financial information and reviewing the overall financial condition of the Bank and its position as a going concern;
- Reviewing major developments in business lines and support units;
- Reviewing the priorities for allocating capital and operating resources;
- Monitoring of compliance and reputational issues;
- Reviewing the market, credit and liquidity risks and exposures with additional oversight and control over credit risk management;
- Reviewing the application of stress tests and appropriateness of the Bank's stress testing policy.

2.2. Shareholding

BFC Bank is 100% owned by BFC Group Holdings WLL, incorporated in Bahrain, which in turn is held 99% by BFC Group Holdings Ltd incorporated in the United Arab Emirates (UAE) and 1% directly by Bank Alkhair as a nominee.

The Group structure and holding is as shown in the diagram below:



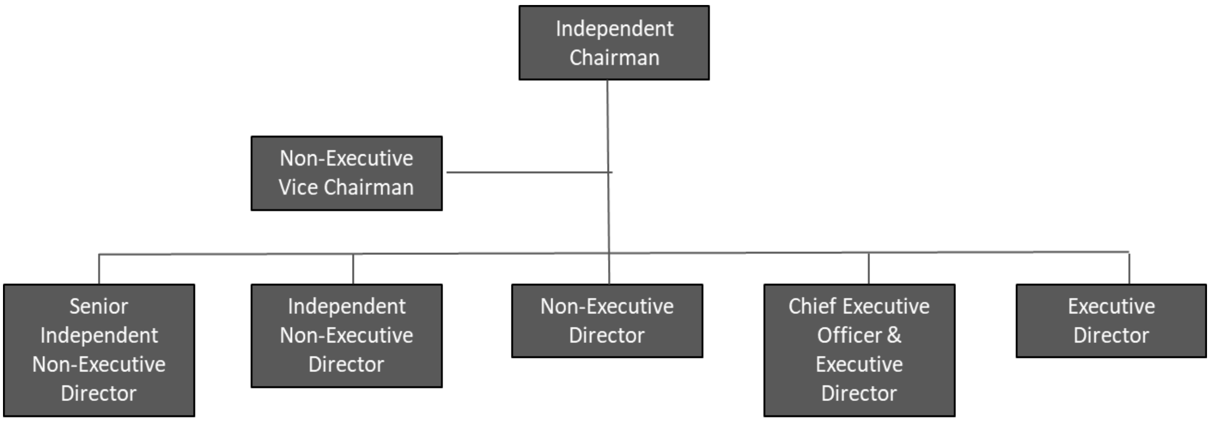
(*) Bank Alkhair holds 1% of BFC Group Holding Ltd

BFC Group Holdings Limited is owned by the shareholders listed below:

Bank Alkhair	43.35%
The Strategic Acquisition Fund	28.51%
Ebrahim Ezra Nonoo (Group Managing Director & CEO)	20.27%
Other Nonoo family members	3.83%
Masar Capital Partners	3.35%
BFC Group Holding Limited UAE	0.43%
BFC Senior Management	0.26%

2.3. Board Composition and oversight

The board of BFC Bank comprises an Independent Chairman, a Non-Executive Vice-Chairman, three Non-Executive Directors (NEDs) - of whom two are independent (INEDs) - and two Executive Directors.



To assist the Board in discharging and overseeing their responsibilities, it has delegated certain responsibilities to Senior Management and Board-appointed committees, for which Terms of Reference are in place. These arrangements are set out below.

Each member of the Bank's directorship contributes to the mix of relevant skills, shoulders specific individual duties and, as a component part of the group, collectively shares responsibility for control and governance of the Bank. The Executive Directors are responsible not only for the day-to-day management of the Bank, but also their individual portfolios.

The Board delegates specific powers and authorities to the various management committees for the main day-to-day decision-making authority of the Bank and to the CEO personally.

The directors who served the Bank at the date of approval of the financial statements were as follows:

Peter Stuart Hinson	Chairman
Ebrahim Ezra Nonoo	Vice Chairman
Alfred Barrington Meeks	Independent Non-Executive Director
Christopher David Taylor	Senior Independent Non-Executive Director
David Robert Price	Chief Executive Officer
Gerald Keith Watts	Executive Director
Maurice Benedict Horan	Non-Executive Director

2.4. The Executive Management Team

The CEO is responsible for establishing a clear and appropriate apportionment and allocation of significant responsibilities amongst the officers and managers, and for establishing and maintaining appropriate systems and controls such that the business can be adequately monitored and controlled by the directors, managers and the governing body. The core responsibilities of the Senior Management Team are as follows:

Chief Executive Officer (CEO)
Overall responsibility for leadership of the Bank, including defining the Strategic Direction and Vision.

Chief Finance Officer (CFO)
Responsible for Finance and Treasury functions including Business Planning, Reporting and Forecasting; hedging of foreign exchange & interest rate risks and oversight of the regulatory reporting function.

Chief Risk Officer & Compliance Officer (CRCO)
Responsible for defining the Bank's Risk Management Framework, developing the Statement of Risk Appetite the ongoing efficient and effective governance of significant risks. Additionally, providing oversight to the Compliance Officer and Money Laundering Reporting Officer (CO & MLRO) who is responsible for BFC Bank meeting regulatory requirements, monitoring of money laundering and day-to-day interaction with the regulator.

Chief Operating Officer (COO)
Responsible for all Operations, IT, back office and administrative functions including HR and Project Management.

General Manager, Wholesale
Responsible for new business development and relationship management of Wholesale banknote suppliers and customers.

General Manager, Corporate
Responsible for new business development and relationship management of SMEs and PSPs.

General Manager, Consumer
Responsible for new business development and relationship management of Retail customers and for development of on-line and app-based distribution channels. This role was created in 2017 in order to bring together the UK Retail and EzRemit Global businesses together under a single reporting line though, for now, remains vacant. Currently, this Division operates along geographic lines under the direction of a Head of Consumer: UK & Europe and a Head of Consumer, Middle East & Africa.

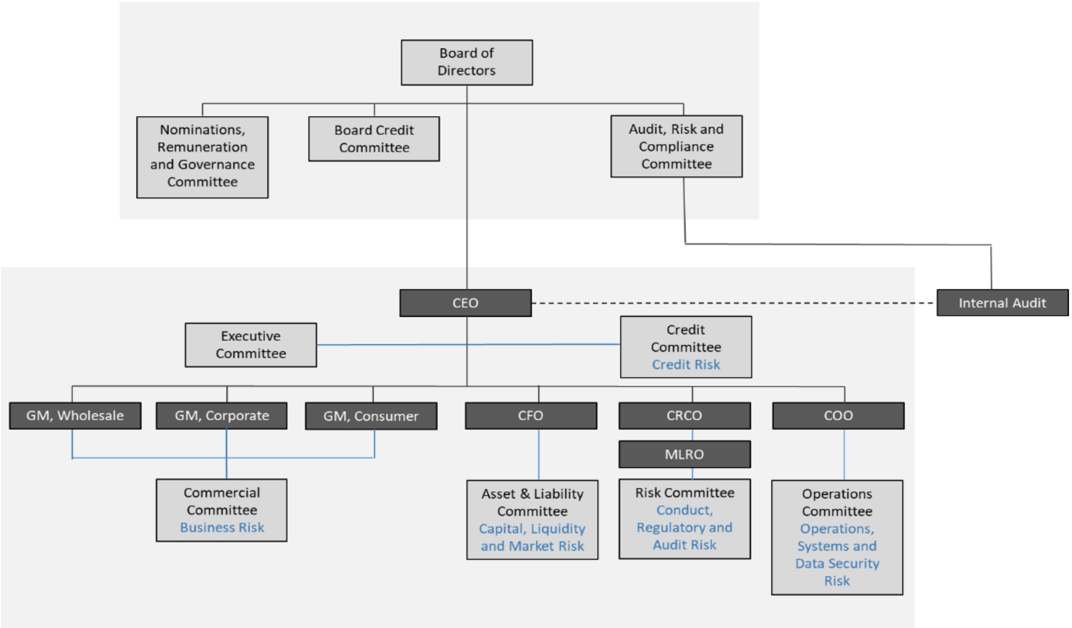
In addition, the Bank also has an 'Internal Auditor', appointed by the Board on recommendation of the Board's Audit Risk and Compliance Committee (ARCC). The internal audit function provides a 'Third Line' of Defence and, in 2017, was outsourced to the independent advisory firm.

These arrangements ensure that roles and responsibilities are clearly defined and segregated. No individual in the UK Bank has unfettered decision-making authority and operating procedures and delegated authorities require appropriate recommendations and concurrences.

To avoid conflict of interests, the Corporate Governance structure provides separation of powers, checks and balances between the Board and Senior Management as explained in the Board composition and Management team sections. BFC Bank's Corporate Governance framework clearly defines the roles, responsibilities and composition of the Board-approved persons and Senior Management through job descriptions, Terms of Reference and documented operating procedures. In selecting and appointing Directors, the Bank pays particular attention to the specific value they bring to the Board, based on skills, experience, behaviour and knowledge of the UK business and regulatory environment.

2.5. The Committee Structure

BFC Bank operates 3 Board level committees and 5 Management level committees as shown in the chart below.



The Nominations, Remuneration and Governance Committee (NORICO), the Board Credit Committee (BODCC) and the Audit, Risk and Compliance Committee (ARCC) are all sub-committees of the Board. The Board, in turn, delegates responsibility for the day-to-day management of the business to the Executive Committee (EXCO). Internal Audit is a separate function that reports independently to ARCC and its Chairman who, in turn, will discuss issues arising directly with the CEO.

The Commercial Committee, the Asset and Liability Committee (ALCO), the Credit Committee, the Risk Committee and the Operations Committee are all sub-committees of EXCO, chaired by members of the Senior Management Team, with each committee responsible for specific risks faced by the bank.

3. Risk Management

3.1. Introduction

The Bank faces a number of risks including credit, market and operational risks, although it recognises that the range of risks that it faces are broader and ever changing.

The Bank ensures that appropriate processes are in place to ensure that risks are properly identified, assessed, mitigated, monitored and communicated.

Decision-making responsibility for risk management lies with the Board of Directors. This is cascaded down through the organisation by delegation of responsibility to the main committees and through individuals' documented responsibilities.

3.2. Approach to Risk Management

Risk appetite

The Bank's risk appetite is approved by the Board of Directors and defines the types and amounts of risk that the Bank is willing to take in pursuit of its business strategy. This is reviewed regularly and provides qualitative statements and quantitative measures to assist with the monitoring of risk appetite.

The Bank's risks are managed taking into account the following *:

- a strong ethical and risk culture is maintained so that risk awareness is embedded into all activities.
- there is independent and effective risk oversight;
- the process is underpinned by comprehensive, transparent and objective disclosure of risk exposures to senior management, the Board of Directors, regulators and other stakeholders;
- capital, liquidity and profitability are protected by effective controlling of the risk exposures across all material risk types and businesses; and

* Note: Sec 3.5 covers description of risks and how these are mitigated

The nature of the Bank's business means that it is exposed to an inherently high level of currency (market), credit and financial crime risk and, as such, the Board expects management to implement robust controls to mitigate these and all other risks to an acceptable level and to only accepts risks within agreed limits.

To achieve this the Bank has developed a Statement of Risk Appetite that specifies the level of risk that the Board is prepared to accept. For each of the key Risk Pillars, the Board has defined limits that the Bank must operate within, and adherence to these limits is monitored and reported on an on-going basis by the various Management / Board sub-Committees operating under the authorities that have been delegated to them. Thus, for example, Credit Risk appetite is approved by the Bank's Credit Committee; Capital, Liquidity and Market Risk appetite are approved by the Bank's Asset and Liability Committee (ALCO) and Financial Crime Risk is approved by the Risk Committee. In addition to the Board-approved limits, the Bank sets Early Warning Indicators (EWIs) to act as an alert of any trends.

Risk management framework

The Bank's risk management activities are managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities.

The Board determines BFC Bank's strategy and its risk appetite. It sets the Bank's values and standards and ensures that its fiduciary duties to shareholders and other stakeholders are appropriately discharged.

To assist the Board in discharging and overseeing their responsibilities it has delegated responsibilities to sub committees of the Board as follows:

- Audit, Risk & Compliance Committee
- Nominations, Remuneration & Governance Committee
- Board Credit Committee

The Board also delegates responsibility for the day-to-day management of the business to the Executive Committee (EXCO). Internal Audit is a separate function and reports to the Audit, Risk & Compliance Committee and its Chairman.

BFC Bank faces a number of risks grouped into categories which are overseen by relevant Committees, as follows:

- Capital, Liquidity and Market Risk – overseen by Asset and Liability Committee (chaired by the CFO)
- Business Risk – overseen by Commercial Committee (chaired by the CEO)
- Operations, Systems / Data Security Risk – overseen by Operations Committee (chaired by the COO)
- Conduct & Regulatory Risk –overseen by Conduct, Regulatory and Audit Committee (chaired by CRCO)
- Credit Risk – overseen by the Credit Committee (chaired by the CEO)

The Bank ensures that appropriate policies and processes are in place to ensure that all risks are properly identified, assessed, mitigated, monitored and reported.

3.3. Three Lines of Defence

The bank's risk management practices are organised according to the principles of the "Three Lines of defence model". This segregates duties between;

(1) Business lines, Operations and Support functions (HR, Finance, IT) that either enter directly into transactions with customers or otherwise expose the bank to risk (first line).
(2) The Risk and Compliance function in charge of risk oversight and control (second line), and
(3) The Internal Audit function (third line).

First Line of Defence

The front office employees of each business line / support function are responsible for identifying and managing risks in their respective areas and for executing the policies, processes and procedures required to manage those risks. All policies are approved by the Board or appropriate sub-committees before being implemented; processes and procedures, including the bank's Compliance Manual, are developed in accordance with the UK regulatory environment.

Second Line of Defence

The second line of defence comprises the Risk and Compliance departments. The primary function of the Risk department is to facilitate the development of a risk-based culture across the organisation i.e. the values, beliefs, knowledge and attitudes towards risk by which the business operates. It assists the Board in defining the bank's Statement of Risk Appetite, develops limits within which the bank operates and monitors /oversees all risk exposures.

The Risk department is also specifically responsible for overseeing the Credit Risk function, and for advising both the Board of Directors and the Board Credit Committee in respect of approving credit exposures.

The Compliance function is primarily responsible for ensuring that the bank continues to operate in accordance with UK regulation and that all departments comply with agreed standards. Its main roles are to assist in the development of policies and procedures; to provide both compliance and legal advice to the business lines and support functions, and to monitor compliance by the business with applicable laws and regulations.

Third Line of Defence

The Board obtains independent third party assurance on the operations of BFC Bank. This function is outsourced to a local audit firm to carry out a periodic internal audit, and after discussing and obtaining management response the team will submit reports directly to ARCC.

3.4. Control Environment

To ensure that the Board has effective assurance that the operations of BFC Bank are managed within risk appetite and to ensure that risks are appropriately monitored and mitigated, the following systems and controls are in place to supplement the overarching Governance arrangements:

Compliance & Anti-Money Laundering (AML)

The compliance function, led by the Head of Compliance & MLRO, is responsible for ensuring that the Bank remains, at all times, in compliance with the PRA's and FCA's requirements and that any changes to the regulatory environment are considered both in the context of ongoing compliance but also relative to the Bank's strategic goals. Practically, this involves the establishment and maintenance of effective systems and controls for compliance (e.g. Risk Register for tracking issues through to resolution). Compliance is also responsible for producing and maintaining the compliance manual, the compliance monitoring program, training and the procedures in place to counter financial crime as detailed in the AML manual. BFC Bank has a Compliance Officer who assists Senior Management in achieving this control function.

Internal Audit

The Audit, Risk & Compliance Committee consists of two Independent Non-Executive Directors and one Non-Executive Director, assisted by a third-party supplier of appropriately skilled and experienced internal auditors (RSM UK). During 2017 they implemented a comprehensive programme of internal audits covering Risk Management, Key Financial Controls, ISO27001, AML, Management Information, Single Customer View, Corporate On-boarding, Cash Management, Reconciliations and Treasury.

At the ARCC and Board meetings in November 2017 it was resolved that, having successfully secured its fully unrestricted banking license, the Bank would go out to market for new Internal Auditors effective from Q2 2018.

The Internal Audit Strategy for 2018 – 2020 will adopt a risk-based approach that is designed to enhance the control environment whilst taking account of the nature and size of BFC Bank and the level of resources available to it. Specific attention will focus on emerging risks and those areas where, given the nature of the bank's client base, it is considered most prudent e.g. Corporate Governance, Operational Risk, Compliance, Regulatory Reporting, the Financial Crime Framework (Anti-Money Laundering, Anti-Bribery and Corruption and Fraud), Cyber Security, Data Protection, Capital and Liquidity Risk (ICAAP and ILAAP)

Business Continuity

The Bank has prepared a Business Continuity Plan (BCP) that is fully consistent with the regulatory requirements and industry standards. This is designed to ensure that, in the event of any interruption to its systems and procedures, any losses that the Bank may incur are limited, essential data and functions are preserved and regulated activities maintained. Where that is not possible, there is timely recovery of such data and functions, and the timely resumption of regulated activities.

3.5. Principle Risks

BFC Bank faces a number of risks that it has grouped into ten categories, as follows:

- Capital
- Liquidity
- Market
- Credit
- Operational
- Financial Crime
- Conduct
- Business

- Regulatory
- Systems & Information Security

Below is brief description of each risk and how these are mitigated

Capital Risk

The primary objective of capital management is to ensure the Bank complies with both external and internal requirements and it maintains healthy capital ratios in order to support its business and maximise shareholders value.

The Bank maintains an actively managed capital base to cover risks inherent in the business and is meeting the capital adequacy requirements of the banking supervisor.

The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision (BIS rules/ratios) and adopted by the Bank of England and the PRA in supervising the Bank.

The Bank also manages its capital structure and makes adjustments in the light of changes in economic conditions, risk characteristics of its activities and regulatory requirements.

Liquidity Risk

Liquidity risk is defined as the risk that the Bank will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Liquidity risk arises because of the possibility that the Bank might be unable to meet its payment obligations when they fall due as a result of mismatches in the timing of the cash flows under both normal and stress circumstances. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value.

The ultimate responsibility for liquidity risk management and for setting the Bank's Liquidity Risk Appetite rests with the Board of Directors, with the ALCO having responsibility to build an appropriate liquidity risk management framework for the management of the Bank's short, medium and long-term funding and liquidity management requirements on a day-to-day basis. The Bank manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring actual, forecast and cash flows and matching the maturity profiles of financial assets and liabilities.

The Bank's Internal Liquidity Adequacy Assessment Process (ILAAP) document sets out the details of its approach to measuring, monitoring and controlling liquidity risk. Liquidity management is carried out by ALCO, within the parameters set out in the Bank's ILAAP document.

To guard against the liquidity risk, management has diversified funding sources and assets are managed with liquidity in mind, maintaining a healthy balance of cash and cash equivalents.

The Bank maintains a portfolio of highly marketable and diverse assets that can easily be liquidated in the event of an unforeseen interruption in cash flow. In addition, the Bank holds and maintains highly liquid assets in form of cash in vaults that can be accessed immediately. The liquidity facility of the Bank is also supported by its parent company.

Market Risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices.

The Bank's activities expose it primarily to the financial risks of changes in foreign currency exchange rates. Most of the Bank's activities fall into one of three currencies: GBP, EUR and USD. However, the Bank has business interests in a number of different geographic regions and thus additional foreign currency positions are held. The Bank identifies foreign exchange rate risk as the risk to future cash-flows from adverse foreign exchange movements. This can have an impact on both the earnings and economic value of the Bank and as a consequence the Board seeks to manage these risks to ensure the achievement of its business objectives.

The Board has set limits on positions by currency including foreign exchange positions and hedges. In accordance with the Bank's policy, positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within established limits.

Risks are managed by ALCO through monitoring of limits and restricting product exposures. Management Information Systems are in place to measure foreign exchange risk, which is measured as the estimate of the exposures/liabilities accepted in non GBP currencies which are not offset by a corresponding position or derivative transaction.

Credit Risk

Credit risk is the risk of financial loss to the Bank if its customers or counterparties fail to discharge their contractual obligations. It arises principally on its bank balances, trade and other receivables.

The Bank limits its credit risk with regard to bank balances by dealing with reputable banks with high credit ratings as obtained from Moody's. Given these credit ratings, management does not expect any counterparty to fail to meet its obligations.

The Bank also manages credit risk by adopting a policy of dealing with credit worthy corporate and other counter parties as a mean of mitigating the risk of financial loss for defaults. Credit worthiness is assessed on an individual account basis. There are credit limits and ratings of such parties where available in place.

Table 1: BFC Bank's credit risk under the standardised approach for each of the risk exposure classes at 31 December 2017 as reported in the Regulatory Returns summarised by region of origin of the borrower

31 December 2017	Europe £'000	GCC Countries £'000	Other including Middle East & Asia £'000	Total £'000
Central Banks	4,161		717	4,878
Institutions	9,959		3,588	13,547
Corporates	772	1,445	1,290	3,507
Other items	14,061			14,061
Total	**28,953**	**1,445**	**5,595**	**35,993**

Under the Standardised approach BFC Bank uses Moodys Ratings as an approved External Credit Assessment Institution (ECAI) for all its portfolios.

Table 2: Residual maturity of the Bank's exposures

31 December 2017	Up to 1 month £'000	1-3 months £'000	3-12 months £'000	1-5 years £'000	Over 5 years £'000	Undated £'000	Total £'000
Central Banks	4,878						4,878
Institutions	13,522		25				13,547
Corporates	3,507						3,507
Other items	12,546		817			698	14,061
Total	**34,453**	**-**	**842**	**-**	**-**	**698**	**35,993**

Table 3: BFC Bank's Exposures broken by Moodys credit rating

31 December 2017	Aaa to Aa3 £'000	A1 to A3 £'000	B1 to Ca £'000	Unrated £'000	Total £'000
Central Banks	4,161		717		4,878
Institutions		751	4,365	8,431	13,547
Corporates				3,507	3,507
Other items				14,061	14,061
Total	**4,161**	**751**	**5,082**	**25,999**	**35,993**

Table 4: BFC Bank's Counterparty credit risk

31 December 2017	Gross positive fair values of contracts £'000	Potential credit exposure £'000	Total derivative credit exposure £'000
Foreign Exchange contracts	37	240	277
Total	**37**	**240**	**277**

Operational Risk

Operational risk is the risk of loss arising from human error, fraud, and control or system failure. When controls fail to operate effectively, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but it endeavours to manage these risks through a control framework and by monitoring and responding to potential risks.

The Bank has implemented a corporate governance and control mechanism to prevent potential operational risks. It actively manages operational risk in accordance with regulation and guidance from the FCA and the PRA, as well as guidelines stipulated by other regulatory bodies.

Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, such as the use of internal audit.

BFC Bank uses the basic indicator approach to calculates its operational risk for Pillar 1.

Risks are managed by ALCO through monitoring of limits and restricting product exposures. Management Information Systems are in place to measure foreign exchange risk, which is measured as the estimate of the exposures/liabilities accepted in non GBP currencies which are not offset by a corresponding position or derivative transaction.

Financial Crime Risk

Financial Crime Risk is the risk of failing to identify and prevent fraud or dishonesty, misconduct, misuse of information relating to financial markets, or handling the proceeds of crime and failure or inability to fully comply with the laws and regulations related to money laundering, terrorist financing and economic sanctions.

This risk is monitored by the MLRO on a daily basis and monthly through the Compliance Committee. The Bank has in place strong KYC controls with regular visits to its clients which creates good understanding of their transactional behavioural patterns. Quarterly the Board through the ARCC receives information relating to financial crime risk and increased risks are discussed and addressed.

Conduct Risk

Conduct Risk is the risk arising from any action or behaviour which leads to customer detriment or negatively impacts market stability and/or market conduct.

This risk is mitigated through the establishment of a strong conduct culture and training. Conduct culture emanates from the Board and is implemented via ExCo and senior managers through all levels of the organisation. Conduct training is a key element of disseminating the Bank's values which include strong customer focus and market responsibility.

Business Risk

The risk is the possibility that the bank will have lower than anticipated profits or experience a loss rather than making a profit. Business risk is influenced by numerous factors including inability to implement the strategic plan, lower than anticipated margins or volumes, competition and the overall economic climate and regulation.

The risk is monitored by the Commercial Committee which meets at least on monthly basis and reviews the results of each business unit, margins, volumes, costs etc against budgets, forecasts and market conditions. It takes appropriate remedial actions where required. Remedial actions include but are not limited to evaluation of new business opportunities, diversification of product range, exploration of new markets and pricing strategy etc.

Regulatory Risk

Regulatory Risk is the risk that arises from failure to comply with the law and regulations that apply to the jurisdictions where the Bank operates.

This risk is monitored by the Compliance Officer on a daily basis which ensures all new regulations are adequately reflected in the Banks policies/procedures and are embedded. Through the compliance monitoring plan any breaches are identified and remediated. The compliance monitoring plan findings are managed through the compliance committee and reported to the Board via ARCC.

Systems and Information Security Risk

Systems and Information Security is the risk arising from unauthorised access or misuse of Bank's information, resulting in loss or compromise in data quality

The Bank is accredited with the ISO27001 certification. Compliance with ISO27001 standards is audited on an annual basis by our internal auditors and by BSI, the certification body. Information Security incidents are monitored on a daily basis by our Group Information Security Department and on a monthly basis by the Operational Risk Committee.

4. Leverage

The Bank has established a leverage limit, calculated in accordance with the Basel leverage ratio of 15%, with a trigger at 10%, which are above the regulatory minimum ratio of 3%. This is broadly calculated as Tier 1 Capital divided by gross balance sheet exposures and derivative exposures.

5. Asset Encumbrance

An asset is treated as encumbered if it has been pledged or if it 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.

BFC Bank has no assets pledged which are subject to restrictions.

6. Own funds

Own funds (also referred to as capital resources) is the type and level of regulatory capital which must be held to enable the Bank to absorb losses. The Bank is required to hold own funds in sufficient quantity and quality in accordance with CRD IV which sets out the characteristics and conditions for own funds.

Under the CRD IV framework three tiers of capital are recognised, being Common Equity Tier 1, Tier 1 and Tier 2 Capital with the sum of Tier 1 and Tier 2 Capital constituting "own funds".

CRD IV requires a bank to have minimum levels of capital calculated by reference to its risk weighted assets (RWAs):

Total capital of at least 8% of RWAs;
Tier 1 capital of at least 6% of RWAs;
Common Equity Tier 1 ("CET1") capital of at least 4.5% of RWAs.

In compliance with the requirements under Article 437 CRR, detailed below is the regulatory capital position as at 31 December 2017 which shows the Bank's **Tier 1 Capital Ratio of 32.6%**.

31 December 2017	**£'000**
Common Equity Tier 1 Capital	
Ordinary Share Capital	30,000
Retained Earnings	(11,319)
Total Common Equity 1 Capital	18,681
Deductions from Common Equity Tier 1 Capital	
Intangible Assets	(6,284)
Total Own funds	**12,397**
Risk Weighted Assets	38,024
Capital Ratio	32.60%

This is the first year of BFC's banking operations since getting the full, unrestricted banking licence on 16 October 2017, hence there are no comparatives for previous year.

During the year 2017 the shareholder invested £19.5m Core Equity Tier 1 (CET1) capital in the Bank, increasing the total equity to £30m. The shareholders and the Board approved a further capital injection of £5m which will be executed in 2018. Of this £4.5m will be in the form of a Perpetual Contingent Convertible Instrument. The matter, at time of writing, resides with the Authorisation and Policy Department at the Prudential Regulation Authority (PRA).

7. Capital Adequacy

7.1. Overview

The PRA in its capacity as supervisor set targets for, and monitors, the capital adequacy of the Bank. Capital adequacy returns are submitted quarterly to the Regulator. As at 31 December 2017 the Bank's capital in place exceeded its minimum regulatory requirement. The Bank does not anticipate breaching these requirements during 2018.

7.2. ICAAP

The Board has ultimate responsibility for the Bank's capital management and capital allocation. The Finance, Risk and Treasury functions are responsible for the financial governance of the Bank and compliance with statutory, regulatory and disclosure requirements. Ongoing monitoring of compliance with its regulatory requirements takes place via the ALCO which considers the adequacy of the Bank's capital position.

In addition, the Bank undertakes a comprehensive formal evaluation of its capital adequacy as required by the Internal Capital Adequacy Assessment Process ("ICAAP") rules of the PRA on a regular basis and usually every twelve months. The preparation of the ICAAP is the responsibility of the Chief Financial Officer.

The ICAAP is an assessment by the Bank, approved by the Board, of the level of capital that it believes is required in respect of the principal risks to which it is exposed in the execution of its business plan. The Bank uses a range of modelling, scenario analysis and stress testing techniques which it considers appropriate to the scale and nature of the Bank's activities in order to identify the capital levels required and compares these to the Pillar 1 minimum amounts plus the Bank's Individual Capital Guidance requirements. These techniques include an evaluation over the medium term planning horizon of the adequacy of the Bank's capital position even under a range of relevant extreme but plausible stressed conditions.

The ICAAP is subject to rigorous review and challenge by both the ALCO and EXCO and the Board, through its ARCC Sub-Committee. The report is submitted to the PRA, which periodically revisits the Individual Capital Guidance requirements for the Bank in the light of the most recent ICAAP and the regulator's own supervisory processes.

7.3. Pillar 1 capital requirement

In compliance with the requirements under Article 438 CRR detailed below is the regulatory capital position as at 31 December 2017. The bank's overall capital resources requirement under Pillar 1 is calculated by adding the Capital Resources Requirements for credit risk, counterparty risk, market risk, CVA and operational risk.

31 December 2017	**£'000**	**£'000**
Capital Resources		12,397
Capital Resources Requirement - Pillar 1		
Credit Risk & Counterparty Risk	1,054	
Operational Risk	1,340	
Market Risk	643	
CVA	6	
Capital Resources Requirement under Pillar 1		(3,043)
Capital Resources above Pillar 1 requirement		**9,354**

8. Remuneration Code Disclosures

BFC Bank has reviewed and acknowledged requirements from the FCA guidance issued in 2015 on staff remuneration within the banking sector, in addition to the PRA Rulebook, the FCA code and the Capital Requirements Regulations (Article 450).

The Bank falls within FCA proportionality Level 3 and as such this disclosure is made in line with the requirements for a Level 3 Firm. The average number of employees and the aggregate remuneration of all staff of the Bank (as disclosed in the Annual Report 2017) was as follows:

Average monthly number of employees (including Directors)	**31 December 2017 No**	**31 December 2016 No**
Executive	10	12
Business	110	107
Operations	12	5
Finance, Risk and Compliance	13	4
Information Technology	2	1
	147	129

The aggregate remuneration comprised:	**31 December 2017 £' 000**	**31 December 2016 £' 000**
Wages and salaries	4,653	3,299
Social security costs	481	299
Pension costs – defined contribution scheme	77	13
Other pension costs	27	31
	5,238	3,642

The Board of Directors and the senior managers who have the authority and responsibility for planning, directing and controlling the activities of the Bank are considered to be Code Staff as defined by the FCA. The total gross compensation paid to Code Staff during the year (as disclosed in the the Annual Report 2017) was as follows:

Code Staff compensation (including Board of Directors)	**31 December 2017 £'000**	**31 December 2016 £'000**
Salaries and social security costs	1,768	505
Pension costs – defined contribution scheme	24	4
Other benefits	78	-
	1,870	509

Directors emoluments	**31 December 2017 £'000**	**31 December 2016 £'000**
Salaries and social security costs	996	505
Pension costs – defined contribution scheme	13	4
Other benefits	19	-
	1,028	509

The Nominations, Remuneration and Governance Committee (NORICO)

Meeting a minimum of four times a year, the minimum composition of the NORICO is two members drawn from the independent non-executive directors and non-executive director.

Responsibilities of the NORICO include appointments of directors and senior managers, composition, skills and experience of the board, remuneration policy and compensation package, recommendations on rewards and remuneration, oversight of the senior management performance appraisal process and advice on succession planning.

Performance Awards

The FCA, through CRDIV requires firms to disclose information on their remuneration policies and pay outs on an annual basis under the Pillar 3 Disclosures. The Board is of the opinion that the Bank follows remuneration policies and procedures that are consistent with the requirement of the Remuneration Code (‘Code’) and which do not promote or encourage undue risk taking.

The rules of the Code are contained in the FCA's Remuneration Code in the SYSC Sourcebook of the FCA's Handbook. The Code covers an individual's total remuneration, fixed and variable. The Bank incentivises staff through a combination of the two. The Bank’s policy is designed to ensure that it complies with the Code and that its compensation arrangements:

- are consistent with and promote sound and effective risk management;
- do not encourage excessive risk taking;
- include measures to avoid conflicts of interest; and
- are in line with the Bank's business strategy, objectives, values and long-term interests.

The bank has a performance award scheme for the benefit of its employees, which is classified as variable remuneration as defined by the Code.

This is a discretionary scheme and awards are made based on individual and collective performance and based on the Bank’s performance against its business plan as approved by the Board.