BFC Bank

Pillar 3 Disclosures

31 December 2020

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Notes

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

1. Executive Summary

1.1. Introduction

Purpose

This document comprises the Bank's Pillar 3 Disclosures on capital and risk management at 31 December 2020. 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 the Bank.

Some disclosures are included in the Bank's Annual Report 2020 and are not presented in the Pillar 3 Disclosures.

Key Metrics

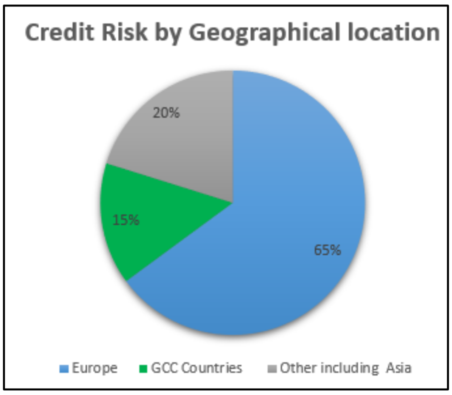
Key risk metrics at 31 December 2020 for the Bank were as follows

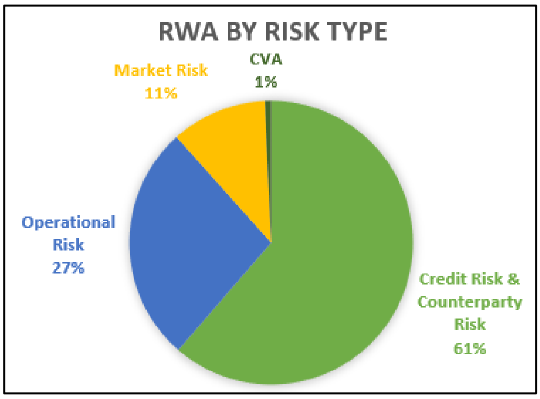
Common Equity Tier 1
£11.0m

Common Equity 1 ratio
20%

Liquidity Coverage Ratio
854%

Leverage Ratio
20%





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 The directive was superseded on 1 January 2014 by the fourth Capital Requirements Directive ("CRD IV") and the Capital Requirements Regulation ("CRR").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 disclosure of key information about risk exposures and risk management processes.

Pillar 1
Pillar 1 capital is the Bank's minimum regulatory capital requirement relating to credit, market and operational risk. The Bank applies the Standardised Approach for credit risk and market risk and the Basic Indicator Approach ("BIA") for operational risk.

Pillar 2
To calculate Pillar 2 capital requirements the Bank has performed detailed assessment of the risks facing the Bank and 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 under Pillar 1. The amount of any additional capital requirement is 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
Pillar 3 complements Pillar 1 and Pillar 2 and sets out the disclosures that banks are required to make in order to promote market discipline through the external disclosure of its governance, capital resources, risk management objectives, remuneration and risk exposures. The Bank is required to publish its Pillar 3 report annually.

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

1.3. Disclosure Policy

This document presents the Pillar 3 Disclosures of the Bank for the year ended 31 December 2020 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 2020, the Bank's financial year end.

It is the Bank's policy 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 are made annually on the 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

The Bank 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 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 publication of Pillar 3 Disclosures:

(i) At the management level by the Asset and Liability Committee.

(ii) Executive level by the Bank's Executive Committee.

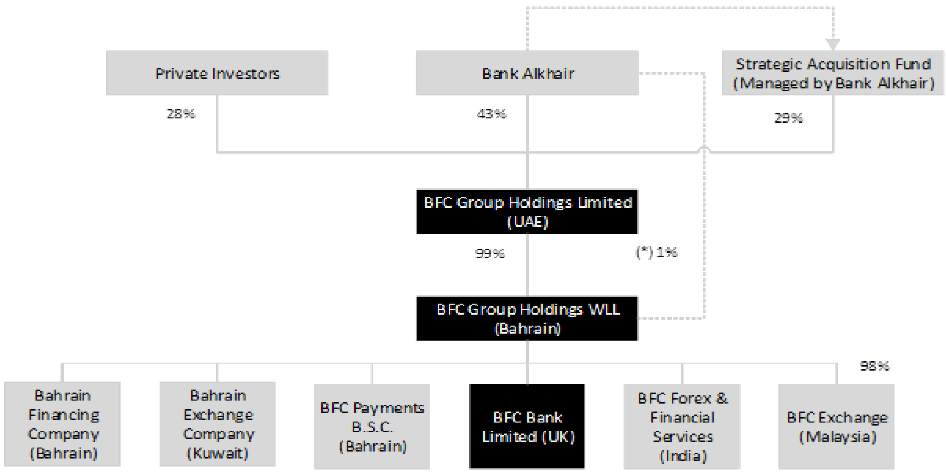
(iii) Board of Directors.

2. Governance

2.1. Shareholding

BFC Bank is 100% owned by BFC Group Holdings WLL, incorporated in the Kingdom of 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.

The Group structure and shareholding is shown below:



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

The Shareholders of BFC Malaysia appointed the statutory liquidator pursuant to a General Meeting Resolution on 16 December 2020 and expect the liquidation to complete by December 2021.

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

Bank Alkhair	43.36%
The Strategic Acquisition Fund	28.51%
Ebrahim Ezra Nonoo (Group Managing Director & CEO)	20.28%
Masar Capital Partners	3.35%
Laila Naji Haroun Cohen	2.13%
Huda Ezra Ebrahim Nonoo	1.70%
BFC Group Holding Limited (UAE)	0.43%
Titus Didacose Enamakel	0.26%

2.2. Framework of Governance

The Board is responsible for the overall governance of the Bank. The key objectives of the Board are to build and maintain a business that is; profitable, sustainable, well capitalised and has sufficient liquidity to meet its obligations, operates within an established framework of internal control and compliant 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 Principles for Business set by the FCA and Fundamental Rules set by the PRA;

- 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;

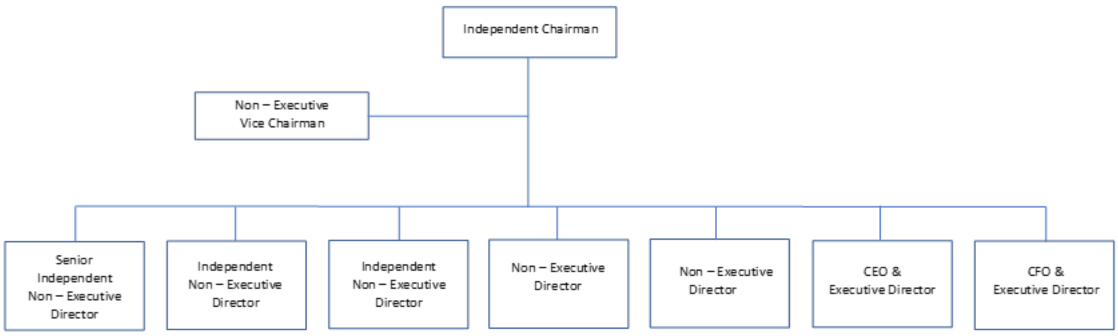
- Monitoring of compliance and reputational issues;

- 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.

2.3. Board Composition and oversight

The board of BFC Bank comprises an Independent Chairman, a Non-Executive Vice-Chairman, five Non-Executive Directors (NEDs) - of whom three 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.

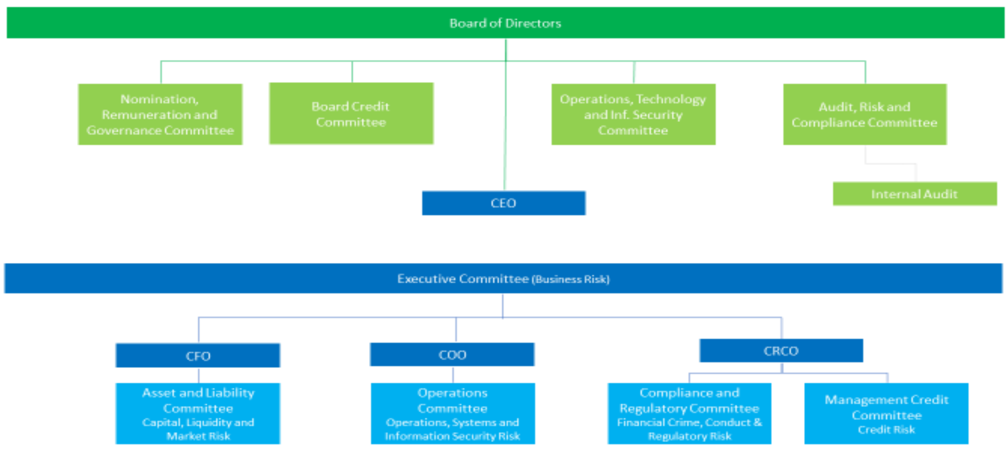
The Board delegates specific powers and authorities to the various management committees for the main day-to-day decision-making authority of the Bank and to the CEO.

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

Peter Stuart Hinson	Chairman
Ebrahim Ezra Nonoo	Vice Chairman
Alfred Barrington Meeks	Senior Independent Non-Executive Director
Anthony Wagerman	Independent Non-Executive Director
David Robert Price	Chief Executive Officer – Resigned 22.05.2020
Derek O'Herlihy	Independent Non-Executive Director
Kubra Ali Mirza	Non-Executive Director - Resigned 24.02.2021
Maurice Benedict Horan	Non-Executive Director
Mujahid Asghar Malik	Chief Financial Officer and Chief Executive Officer (Acting)

2.4. The Committee Structure

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



The Nominations, Remuneration and Governance Committee (NORICO), the Board Credit Committee (BCC), the Board Operations, Technology and Information Security Committee (OPTIS) 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 discusses the issues arising directly with the CEO.

The Asset and Liability Committee (ALCO), the Management Credit Committee, the Compliance and Regulatory Committee and the Operations Committee are all sub-committees of the Executive

Committee (EXCO), chaired by members of the Senior Management Team, with each committee responsible for specific risks faced by the Bank.

2.5. The Executive Management Team

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.

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. The core responsibilities of the Senior Management Team are as follows:

Chief Executive Officer (CEO)
Overall responsibility for leadership of the Bank, including implementing the Board agreed strategy.

Chief Financial Officer (CFO)
Responsible for Finance functions including management of Financial Resources, Planning, Reporting and Forecasting, Capital and Liquidity management and oversight of the Treasury function.

Chief Commercial Officer (CCO)

Responsible for developing and delivering the strategic plan to ensure revenue targets are met in each of the business divisions.

Chief Risk Officer & Compliance Officer (CRCO)
Responsible for defining the Bank's Risk Management Framework for effective governance of significant risks and providing oversight to the Money Laundering Reporting Officer (MLRO).

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

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.

3. Risk Management

3.1. Introduction

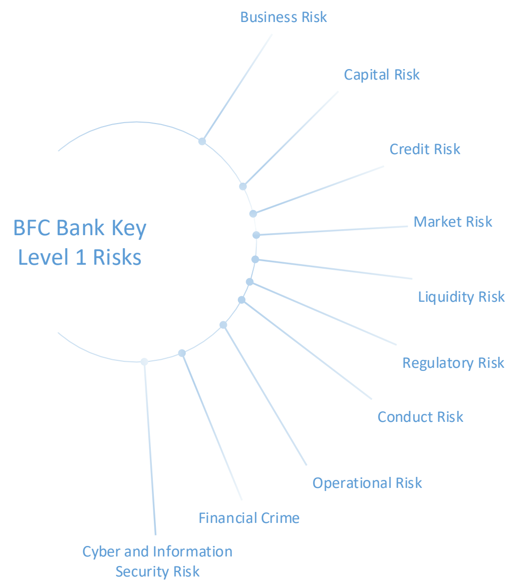
The Bank faces a number of risks including credit, market and operational risks, although it recognises that the range of risks that it faces are broader and ever changing.

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. Risk Management Framework

BFC manages its risk through a comprehensive framework of systems and internal controls, which are designed to identify, manage, monitor and report on risks that the Bank is exposed to. Through careful and regular review, this provides reasonable assurance against the risk of material events or losses.



The effectiveness of the internal controls is regularly reviewed by the Audit, Risk and Compliance Committee. This involves receiving reports from management including reports from Finance, Risk, Compliance, Internal Audit and the business lines. The Audit, Risk and Compliance Committee also receives reports on internal controls from the Bank's external auditor. Where recommendations are identified for improvements to controls, these are monitored by Internal Audit who report the progress made in implementing them to the Audit Risk and Compliance Committee.

Our Risk Management Framework (RMF) defines the Bank's overall approach to strategy execution and risk management across all functions within the organisation. The RMF is the Bank's overarching performance document, to which all subsidiary risk policies and frameworks must align. The RMF is subject to Board approval, at least annually. The RMF describes the integration between strategy execution and risk management and ensures that the Bank continually executes strategy within it risk appetite.

The following principles guide the Bank's overall approach to risk management:

- The Board sets risk appetite and an appropriate "tone from the top" and leads by example with regard to risk management.
- Risk management is structured around the Bank's principal risk categories, which are updated at least annually as part of the RMF.

- The Bank maintains a robust Risk Appetite Framework, manages to a consistent appetite using an approved set of metrics, and reports to senior management at least monthly.
- The Bank regularly undertakes stress tests to ensure that it remains resilient to shocks and sustainable as a bank, including during plausible but severely adverse economic and/ or idiosyncratic conditions.
- The approach to remuneration ensures that fair customer outcomes and prudent decision-making within risk appetite are incentivised.

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

The principal risks faced by the Bank along with their definitions and KRIs are summarised below:

Key Risks	Definition and Key Risk Indicators (KRIs)
Business Risk	Ensure that the Bank meets its budgetary targets and financial projections approved by the Board. The risk is influenced by numerous factors including inability to implement the strategic plan, lower than anticipated margins or volumes, competition and the overall market and economic conditions.
Capital	Ensure that Bank maintains sufficient regulatory capital levels at all times to support its business and maximise shareholders value while adhering to both external and internal capital requirements.
Liquidity	The Bank must maintain the liquid asset buffer of HQLAs to meet both its short-term liquidity requirements as well as long term structural funding needs, ensuring it meets its payment obligations when they fall due as a result of mismatches in the timing of the cash flows under both normal and stress conditions.
Market Risk	Ensure that safeguarding measures are taken for any fluctuations in fair value or future cash flows of financial instruments due to changes in market variables such as interest rates, foreign exchange rates and equity prices.
Credit	Take appropriate steps to avert the possibility of financial loss to the Bank if its customers or counterparties fail to discharge their contractual obligations. The risk arises principally from its short term nostro balances, trade and agents receivables.
Financial Crime Risk	The bank does not tolerate systemic weaknesses in its financial crime systems and controls or any breach of the legislative and regulatory framework.
Conduct Risk	The bank has no appetite for deliberate or negligent actions that result in poor customer outcomes, resulting in reputational damage and/or financial loss. The bank has no appetite for any conduct rule breaches.
Regulatory Risk	The bank has no appetite for non compliance with applicable laws, rules, regulations, standards and codes of conduct, leading to breaches of regulatory requirements, resulting in regulatory sanctions, material financial loss and or reputational damage.
Operations	The Bank will ensure adequate systems and controls are in place to maintain an appropriate level of operational resilience and sufficient capacity across People, Processes and Technology to be able to deliver business services and allow the business to grow
Information security	The Bank will operate its IT systems and data in a controlled and well managed environment with no appetite for data loss

The risk framework provides an integrated strategy and risk management approach, which places risks and specifically risk appetite, at the core of strategy execution.

Although risk appetite is the central pivot of the framework and methodology, the approach is essentially a strategic management methodology, not a risk management solution. The methodology begins with formulation of strategy, and in execution enables us to align risk-taking into our strategy to drive sustainable strategic execution.

3.3. Approach to Risk Management

Risk appetite

The Statement of Risk Appetite (SRA) is a key component of the RMF and sets the approach the Bank takes to the risks it faces as a result of its strategy. It defines the risks and the limits at the highest level of aggregation and applies to the overall firm.

The SRA defines the path that the Bank will take in pursuit of its strategic goals. Each identified risk has a defined appetite in terms of level of risk the Bank can and is prepared to accept in pursuit of its strategy. The appetite is multifaceted in terms of business exposure and translated through a set of key business drivers. It is the emphasis on risk appetite that makes this particularly appropriate for managing the resources as it aims to accelerate growth. Bringing strategy and risk closer together is fundamentally important, but it is working with the parameters of appetite – the amount and type of risk that we are willing to take in pursuit of our strategic objectives – that will enable us to both operate the controls and inculcate the agility that are required as we grow.

Business Drivers

The most important component of our risk appetite is that of the business drivers. These are the vital few factors that are the key determinants of our success. When setting the risk appetite, the Board in conjunction with the executive team identify the drivers that are most vital to the organisation. These represent the fundamental drivers of value and are used as the base for establishing the risk appetite. BFC has defined the following as the key business drivers for the Bank:

- Capital
- Income
- Reputation
- Information Security
- Customer protection (antonym to detriment)
- Regulatory compliance

As part of the strategy formulation process, subjective statements are translated into tangible values based on the identified business drivers. This enables a common understanding of risk to emerge at the Board and executive level. With a common definition of potential levels of risk-taking, the Board is then in a position to set the boundaries within which it expects the Bank to operate while we go about the business of strategy execution.

Our strategy formulation and strategy management is about developing a clear sense of direction as to where we are going, how much risk we are willing or required to accept to get there and what the key opportunities and threats are along the way.

Managing Risk

Risk management is about understanding the risks the Bank faces in pursuit of its objectives and the continuous monitoring and management of those risks. It is also about understanding that risks can present opportunities as well as threats.

As with objectives, a broad set of risks are identified as part of the strategy. These are then the basis for the executive team to define a set of key risks, which are monitored and managed to increase the probability that our objectives will be achieved.

The set of risks is continually reviewed with a level of challenge to ensure that they accurately reflect the 'key' risks. Additionally, as the strategy is executed other risks emerge which also need to be monitored and managed.

Aligning Risk with Strategy

A key component of operating within appetite is appetite alignment, the process of continually aligning current risk exposure to the defined appetite. This is about understanding if our current risk taking is aligned to our chosen business strategy, that is, are we operating within appetite. We use an appetite alignment matrix to do this.

3.4. 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 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 and the support functions 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.

Second Line of Defence

The second line of defence comprises the Risk, Compliance and Financial Crime functions. The primary function of the second line of defence is to provide independent advice to the first line and 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 function is also 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 and any other prevailing regulation or standards and that all departments comply with agreed standards.

Third Line of Defence

The third line of defence is made up of the Internal Audit function. Key responsibilities are as follows:

- Provide independent assurance to the Board that first and second line functions are properly discharging their risk management responsibilities.
- Validate the appropriateness of risk management controls and governance.
- Track audit actions to completion.

Internal audit function is outsourced to Grant Thornton, who submit their reports to ARCC.

3.5. Control Environment

To ensure that the Board has effective assurance that the operations of the 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

The compliance function is responsible for ensuring that the Bank remains, at all times, in compliance with the PRA's and FCA's requirements and other relevant regulations to the operations of the Bank. This includes ensuring monitoring of any changes to the regulatory environment both in the context of ongoing compliance but also relative to the Bank's strategic goals. This involves establishment and maintenance of effective systems and controls for compliance. The framework covers Conduct and Regulatory risks and includes ensuring the Bank's policies and procedures are fit for purpose, compliance training for all staff and designing and executing on the compliance monitoring program.

Financial Crime

The financial crime function is responsible for ensuring that the Bank has effective, well-executed systems and controls in place to prevent money laundering, terrorist financing, bribery, corruption and fraud. A key focus of this area is effective due diligence of customers during the on-boarding phase, ongoing due diligence so that the Bank can assure adherence to agreed operating procedures and robust transaction monitoring.

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.

The Internal Audit Strategy uses a risk-based approach that is designed to enhance the control environment whilst taking account of the nature and size of the Bank and the level of resources available to it. Specific attention is given to emerging risks and those areas where, given the nature of the bank's client base, it is considered most prudent.

Business Continuity and Disaster Recovery

The Bank has prepared a Business Continuity Plan (BCP) and a Disaster Recover (DR) plan that are fully consistent with the regulatory requirements and industry standards. These are designed to ensure that the bank is resilient to disruptive events and is able to absorb shocks, rather than contributing to them. We focus our business continuity drivers on operational resilience with the emphasis on maintaining customer and third-party services, with minimum disruption while the event is recovered from.

3.6. Principal Risks

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

- Business
- Management & Governance
- Capital
- Liquidity
- Market
- Credit
- Financial Crime
- Conduct
- Regulatory
- Operational
- Systems & Information Security

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

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 EXCO 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.

Management & Governance

The risk is the possibility that the Bank's governance procedures fail or are not adequately implemented or followed resulting in poor monitoring and decision making. Ultimately the development and continuance of a positive risk-aware culture depends on good management and governance.

This risk is monitored by both the Compliance and Regulatory Committee and the Operations Committee and includes information on the status of key governance documents such as Senior Management Function application details, policies and procedures and staff related information such as gender diversity, employee satisfaction and key roles succession plans.

Capital Risk

The primary objective of capital management is to ensure the Bank complies with both external and internal capital 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.

On a monthly basis, both the Bank's capital adequacy position and a rolling 12-month forecast are reviewed. Furthermore, risk metrics and early warning indicators are monitored in order to highlight any potential future issues and prompt remedial action. The Bank regularly undertakes stress testing to ensure it has sufficient capital to operate in times of stress.

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.

The Bank's appetite for liquidity risk is low. This is evidenced by the Bank's LCR which shows that the surplus of HQLA is greatly in excess of the minimum amount the PRA requires the Bank to hold.

The table summarises the Bank's liquidity coverage ratio position.

	31 December 2020 £'000s	31 December 2019 £'000s
Liquidity Buffer	25,726	65,672
Total net cash outflows	3,012	10,614
Liquidity coverage ratio (%)	854%	619%

The reduction in Liquidity Buffer is due to overall reduction in the size of balance sheet as the Bank took the decision to withdraw Corporate banking services and off board all related customers.

The minimum LCR ensures that banks hold an adequate stock of unencumbered high quality liquid assets (HQLA) that can be converted into cash to meet the net cash outflow over a 30 calendar day stress scenario as calculated using regulatory weighting. The minimum required ratio is 100%.

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. 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.

The Bank has limited appetite for Interest rate risk in the banking book (IRRBB) arising from mismatch between its asset and liability positions and pricing. Interest rate risk is monitored on an ongoing basis.

Market Risk is 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 where possible. Given these, the 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 counterparties 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 counterparties where available in place.

Geographical Analysis

BFC Bank's credit risk under the standardised approach for each of the risk exposure classes as reported in the regulatory returns summarised by region of origin of the counterparty is shown in table below:

31 December 2020	Europe £'000s	GCC Countries £'000s	Other including Asia & Africa £'000s	Total £'000s
Central Banks	12,063		806	12,869
Institutions	16,187	8,145	11,763	36,095
Corporates	121	3,310	2,915	6,346
Other items	21,449			21,449
Total	**49,820**	**11,455**	**15,484**	**76,760**

31 December 2019	Europe £'000s	GCC Countries £'000s	Other including Asia & Africa £'000s	Total £'000s
Central Banks	30,047		1,157	31,204
Institutions	18,105	3,685	9,288	31,078
Corporates	1,054	2,664	1,552	5,270
Other items	42,895			42,895
Total	**92,101**	**6,349**	**11,997**	**110,447**

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

Residual maturity

The maturity profile of the Bank's exposures is summarised in the table below:

31 December 2020	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	12,869						12,869
Institutions	36,096						36,096
Corporates	6,346						6,346
Other items	18,044		672	2,733			21,449
Total	**73,355**	-	**672**	**2,733**	-	-	**76,760**

31 December 2019	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	31,204						31,204
Institutions	31,078						31,078
Corporates	5,270						5,270
Other items	38,748		975	3,172			42,895
Total	**106,300**	-	**975**	**3,172**	-	-	**110,447**

Credit Rating

The Bank's exposures broken by Moody's credit rating is shown in the table below

31 December 2020	Aaa to Aa3 £'000	A1 to Baa3 £'000	Ba1 to Ca £'000	Unrated £'000	Total £'000
Central Banks	12,063		806		12,869
Institutions		16,980	6,539	12,577	36,096
Corporates				6,346	6,346
Other items				21,449	21,449
Total	**12,063**	**16,980**	**7,345**	**40,372**	**76,760**

31 December 2019	Aaa to Aa3 £'000	A1 to Baa3 £'000	Ba1 to Ca £'000	Unrated £'000	Total £'000
Central Banks	30,047		1,157		31,204
Institutions		6,075	5,051	19,952	31,078
Corporates				5,270	5,270
Other items				42,895	42,895
Total	**30,047**	**6,075**	**6,208**	**68,117**	**110,447**

Other items within unrated include fixed assets, intangible assets, prepayments etc

Counterparty credit risk

The Bank's counterparty credit risk is summarised in the table below:

31 December 2020	Gross positive fair values of contracts £'000	Potential credit exposure £'000	Total derivative credit exposure £'000
Foreign Exchange contracts	721	674	1,395
Total	**721**	**674**	**1,395**

31 December 2019	Gross positive fair values of contracts £'000	Potential credit exposure £'000	Total derivative credit exposure £'000
Foreign Exchange contracts	431	770	1201
Total	**431**	**770**	**1,201**

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 and Regulatory Committee. The Bank has in place 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.

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 embedded and reflected in the Banks policies/procedures. 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 the ARCC.

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 calculate its operational risk for Pillar 1.

Systems and Information Security Risk

Systems and Information Security is the risk arising from unauthorised access or misuse of Bank 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 the Information Security Officer 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 7%, with a trigger at 5%, which are above the regulatory minimum ratio of 3%. The purpose of monitoring and managing this metric is to limit the build-up of excessive leverage, which was considered to be one of the drivers of the banking crisis.

The table below provides more detail on the components of the exposure measure used to calculate the Bank's leverage ratio in accordance with the templates prescribed by the EBA.

Leverage Ratio Common Disclosure

	31 December 2020 £'000	31 December 2019 £'000
Tier 1 Capital	15,477	16,325
Total Assets*	76,710	111,457
Finacial Derivatives	1,395	1,201
Leverage ratio total exposure measure	**78,105**	**112,658**
Regulatory Leverage Ratio	20%	14%

*less asset amounts deducted in determining Tier 1 capital

5. Asset Encumbrance

An asset is treated as encumbered if it is 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. The Bank operates with low levels of asset encumbrance. The primary sources of encumbrance are the deposits placed to access the Autobahn Fx platform and holding a reserve collateral account with the Bank of England as member of the Faster Payment Scheme.

At 31 December 2020, the Bank held £5.8m (31 December 2019: £4m) of encumbered assets, and £75.5m (31st December 2019: £111.4m) of unencumbered assets.

The Pillar 3 asset encumbrance disclosure template, shown below, is compiled in accordance with PRA and EBA regulatory reporting requirements, specifically the PRA's supervisory statement SS11/14 (CRD IV: Compliance with the EBA's Guidelines on the disclosure of the encumbered and unencumbered assets).

Encumbered and unencumbered assets

31 December 2020	Carrying Amount of Encumbered Assets £'000s	Fair Value of Encumbered Assets £'000s	Unencumbered Assets £'000s	Fair Value of Unencumbered Assets £'000s
Loans on demand	5,766		22,142	
Equity Instruments				
Debt Securities				
Loans and advances other than loans on demand			27,266	
Other Assets			26,090	
Total Assets	**5,766**	**-**	**75,498**	**-**

31 December 2019	Carrying Amount of Encumbered Assets £'000s	Fair Value of Encumbered Assets £'000s	Unencumbered Assets £'000s	Fair Value of Unencumbered Assets £'000s
Loans on demand	4,012		42,883	
Equity Instruments				
Debt Securities				
Loans and advances other than loans on demand			20,473	
Other Assets			48,076	
Total Assets	**4,012**	**-**	**111,432**	**-**

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 2020 which shows the Bank's Tier 1 Capital Ratio of 35%.

	31 December 2020 £'000	31 December 2019 £'000
Common Equity Tier 1 Capital		
Ordinary Share capital	40,200	37,700
Retained Earnings	(24,669)	(20,685)
Deductions from Common Equity Tier 1:		
Regulatory Adjustment	(4,554)	(5,190)
Total Common Equity Tier 1 Capital	**10,977**	**11,825**
Additional Tier 1 Capital		
Contingent Capital Note	4,500	4,500
Total Additional Tier 1 Capital	**4,500**	**4,500**
Total Own funds	**15,477**	**16,325**
Risk Weighted Assets	55,696	46,066
Common Equity Tier 1 Ratio	20%	26%
Capital Adequacy Ratio	28%	35%

During the year 2020 the shareholders invested £2.5m Core Equity Tier 1 (CET1) capital in the Bank, increasing the total equity to £40.2m.

In addition, on 25 April 2018 the Bank issued £4.5 million Fixed Rate Perpetual Additional Tier 1 Contingent Capital Note (the "Note"). Net proceeds arising from the issuance, after deducting issuance costs were £4.5 million.

6. Capital Adequacy

6.1. 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. At 31 December 2020 the Bank's capital in place exceeded its minimum regulatory requirement. The Bank does not anticipate breaching these requirements during 2021.

6.2. 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 at 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 on a regular basis and at least every twelve months.

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 Total Capital Requirements (TCR). 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 review and challenge by ALCO, 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.

6.3. Pillar 1 capital requirement

In compliance with the requirements under Article 438 CRR detailed below is the regulatory capital position as at 31 December 2020. 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 2020 £'000	31 December 2019 £'000
Capital Resources	15,477	16,325
Capital Resources Requirement - Pillar 1		
Credit Risk & Counterparty Risk	2,734	2,549
Operational Risk	1,204	756
Market Risk	486	352
CVA	32	28
Capital Resources Requirement under Pillar 1	4,456	3,685
Capital Resources above Pillar 1 requirement	**11,021**	**12,640**

6.4. Pillar 2 capital requirement

The Bank sets aside additional Pillar 2 capital to provide for additional risks. The PRA provides Total Capital Requirement (TCR) to the Bank detailing the additional capital required. As part of the Pillar 2 approach to capital adequacy, the Board considers all material risks which the Bank faces and to determine whether additional capital is required in order to provide additional protection to depositors and counterparties, and to ensure the Bank is sufficiently capitalised to withstand a severe economic downturn. These assessments are documented in the Bank's ICAAP and reviewed by the PRA as part of the SREP. The PRA then sets the capital planning buffer that the Bank should hold, but which is available for use should adverse circumstances materialise that are outside its normal and direct control.

6.5. Capital Buffers

In addition to the minimum capital requirements, CRD IV requires institutions to hold capital buffers that can be utilised to absorb losses in stressed conditions.

Under Pillar 2B the PRA has set a PRA Buffer defining a minimum level of capital buffer over and above the minimum regulatory requirement that should be maintained in non-stressed conditions as a mitigation against future possible stress periods. This buffer is Bank specific, and the PRA requires that the level of this buffer is not publicly disclosed. The PRA Buffer is assessed alongside other capital buffers, as described below. All buffers must be met with CET1 resources.

Capital conservation buffer
The capital conservation buffer is designed to ensure that institutions build up capital buffers outside of times of stress that can be drawn upon if required. As of 31 December 2020, the capital conservation buffer was 2.5% of RWAs.

Countercyclical capital buffer (CCyB)
The CCyB requires financial institutions to hold additional capital to reduce the build-up of systemic risk in a credit boom by providing additional loss absorbing capacity and acting as an incentive to limit further credit growth. The Financial Policy Committee (FPC) is responsible for setting the UK CCyB rate for credit exposures located in the UK. As of March 2020, the UK CCyB was set to 0% and based on latest announcement this will remain until at least March 2022.

7. 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 2020) was as follows:

	31 December 2020 No	31 December 2019 No
Average monthly number of employees (including Directors)		
Executive	13	13
Business	59	64
Operations	22	25
Finance, Risk and Compliance	15	18
Information Technology	9	8
	118	128

	31 December 2020 £'000	31 December 2019 £'000
The aggregate remuneration comprised:		
Wages and salaries	5,805	6,048
Social security costs	602	651
Pension costs – defined contribution scheme	163	183
Other pension costs	82	37
	6,652	6,919

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 Annual Report 2020) was as follows:

	31 December 2020 £'000	31 December 2019 £'000
Code Staff compensation (including Board of Directors)		
Salaries	1,836	1,661
Pension costs – defined contribution scheme	28	42
Other benefits	46	12
	1,910	1,715

Directors emoluments	31 December 2020 £'000	31 December 2019 £'000
Salaries	887	853
Compensation	324	-
Pension costs – defined contribution scheme	13	23
Other benefits	4	4
	1,229	880

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, 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.