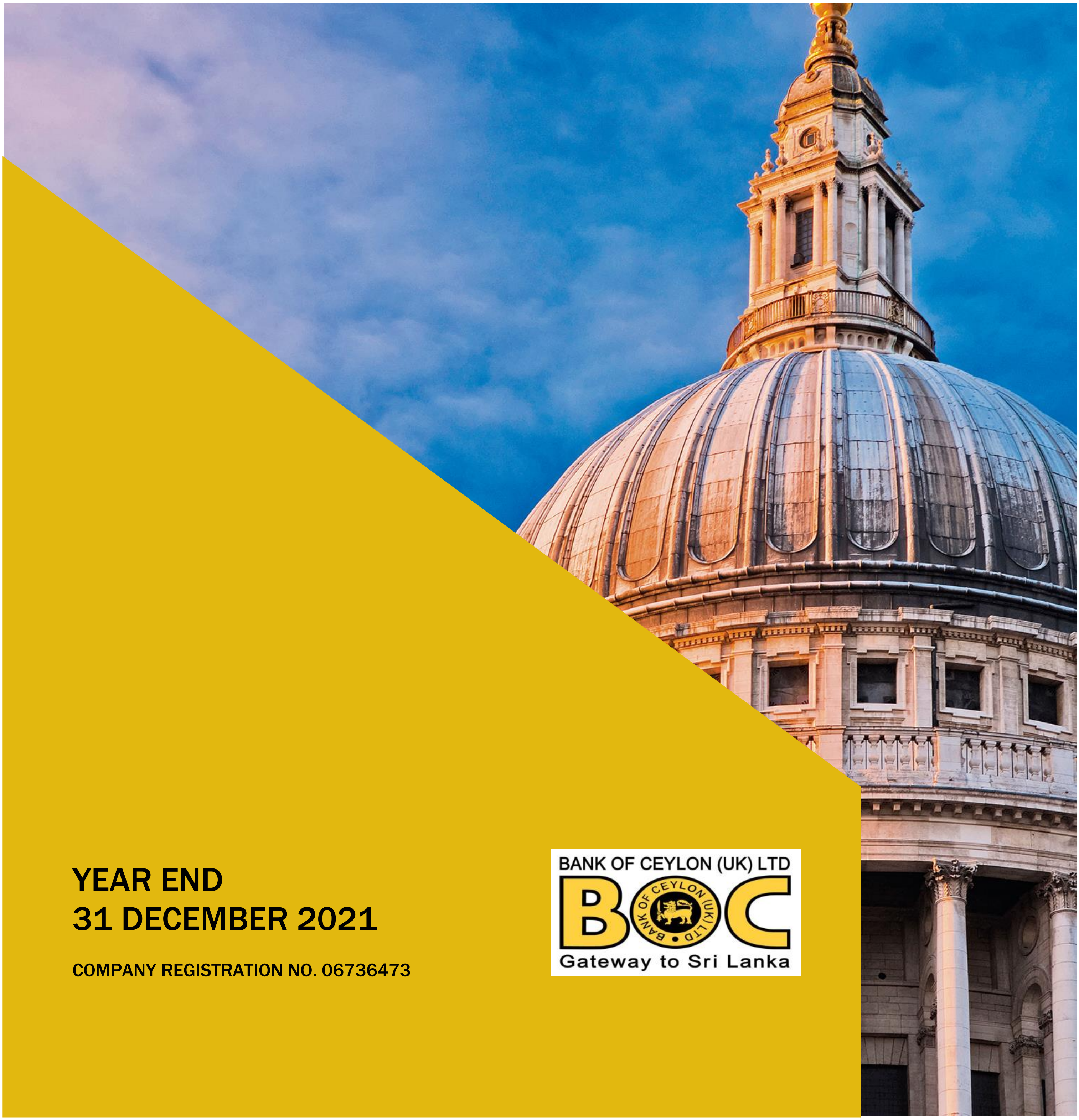
PILLAR 3



YEAR END
31 DECEMBER 2021

COMPANY REGISTRATION NO. 06736473

BANK OF CEYLON (UK) LTD
BOC
Gateway to Sri Lanka

Table of Contents

1. OVERVIEW

1.1 INTRODUCTION

This document comprises Bank of Ceylon (UK) Limited ("BOCUKL") Pillar 3 disclosures on capital and risk management as at 31Decemeber 2021. It has two principal 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, Public Disclosure section and as the PRA has otherwise directed, including the Renumeration Code disclosures, and

- To provide further useful information on the capital and risk profile of BOC (UK) Limited.

Additional relevant information may be found in the BOC (UK) Limited Annual Report and Financial Statements 2021.

KEY METRICS

£13.4 M
COMMON EQUITY TIER 1 CAPITAL

£14.3 M
REGULATORY CAPITAL

54.8%
COMMON EQUITY TIER 1 RATIO

57.8%
TOTAL CAPITAL RATIO

£24.5 M
TOTAL RISK WEIGHTED ASSETS

345%
LIQUIDITY RATIO

1.2 BACKGROUND

Under the UK law, EU capital rules that existed on the 31st of December 2020 continue to apply following the end of the transition period for the UK's withdrawal from the European Union, subject to the temporary transition powers being granted to the Prudential Regulatory Authority (PRA) which extend until 31st March 2022. The Bank continues to apply the regulatory frame work defined by the Capital Requirements Directive implemented in December 2020 (CRD V) and by those provisions of the revised Capital Requirements Regulation (CRR11) that came into force in June 2019 and December 2020.

The Basel framework comprises three "pillars" which are designated to promote market discipline, of which Pillar 3 requires the discourse of key information about exposure and risk management processes.

PILLAR 1. Sets out the minimum capital requirements firms are required to meet for credit, market and operational risk.

PILLAR 2. The supervisory review process which requires firms and supervisors to consider whether a firm should hold additional capital against risks considered under Pillar 1 that are not fully captured under the Pillar 1 process

PILLAR 3. Aims to promote market discipline by developing a set of disclosure requirements which will provide market participants with key information on a firm's capital, risk exposures, risk assessment processes and the capital adequacy of the firm.

The CRR and CRDIV, as amended by CRR II, are enforced in the UK by the Prudential Regulation Authority ("PRA"). The Pillar 3 disclosure requirements are contained in Articles 431-455 of the CRR.

Some of the CRR II amendments which were originally scheduled for June 2021 had their implementation accelerated to June 2020. These" Quick- fix "measures were enacted in the EU to lessen the impact of the Covid 19 pandemic on the bank's capital ratios. The Quick-Fix package also amended the transitional provision on the regulatory capital of IFRS9. BOCUK has elected to take advantage of the transitional regulatory capital rules, in respect of expected credit losses following the adoption of IFRS 9.

BOC(UK) applies the Standardised Approach to credit risk, and the Basic Indicator Approach ("BIA") to operational risk. The Bank does not operate a trading book and the CRDIV own funds requirement for market risks has been adopted.

1.3 BASIS & FREQUENCY OF DISCLOSURES

This document represents the Pillar 3 disclosure of BOC(UK) for the year ended December 2021 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 the risks faced by the Bank.

Unless otherwise stated, all figures are as at 31 December 2021. These disclosures, are based on the Bank's regulatory returns having applied the relevant regulatory rules. The information may differ from similar information in the Annual Report and Financial Statements which are prepared in accordance with International Financial Reporting Standards ("IFRS").

The following sets out the Bank's Disclosure Policy as applied to the Basel III Pillar 3 Disclosure including the information to be disclosed, frequency, media, location and verification.

Information to be disclosed: The Banks's policy is to meet all required Pillar 3 disclosure requirements as detailed in the Capital Requirements Regulation.

Frequency: The Bank's policy is to publish the disclosure on an annual basis and the document should be read in conjunction with the annual report.

Medium and location of publication: The Bank's Pillar 3 disclosures are published on the Bank's corporate website www.bankofceylon.co.uk.

Verification: The information provided by the Bank under Pillar 3 is subject to the same level of internal review and internal control processes, as the information provided by the Bank in its management discussions. The disclosures have been reviewed by the Bank's Audit and Risk Committee and approved by the Bank's Board of Directors. The Pillar 3 disclosures are not subject to external audit and have been produced solely for the purposes of satisfying the regulatory requirements.

1.4 SCOPE OF APPLICATION

BOC(UK) is UK registered Bank that is authorised by the PRA and regulated by the PRA and the Financial Conduct Authority ("FCA").

BOC(UK) is a wholly owned subsidiary of the Bank of Ceylon ("BOC") a state-owned bank incorporated in Sri Lanka. The Bank is a single entity and with no consolidation being required to be performed.

1.5 MANAGEMENT RESPONSE TO COVID-19

During 2021 the bank has not suffered any credit losses, although the IFRS9 charge reflects a higher provision attributed to the sovereign rating decline in Sri Lankan, following the aftermath of the Covid-19 impact on the economy. This provision particular relates to Banks investments in sovereign bonds and lending to foreign banks.

2. GOVERNANCE

2.1 THE BOARD

The composition of the Board is structured as follows: -

- Chief Executive Officer ("ED")
- Chief Operating Officer ("ED")
- Two independent non-executive directors ("INED)
- Two non-independent non-executive directors ("NINED") (nominated by the shareholder, Bank of Ceylon, Sri Lanka)

As at 31st of December 2021, the Board membership comprised of the following:

Kanchana Ratwatte	Chairman
W.D.R Swanney	INED
Aruna Kumara	CEO, ED
P L Balasuriya	COO, ED
R England	INED
K E D Sumanasiri	NINED, GM BOC

The board has responsibility for establishing and approving the Banks's strategy, the governance and the control framework of the Bank. The Board monitors and reviews overall performance and ensures that all activities are in line with the Bank's overall objectives, risk -return philosophy and regulatory rules.

The Board meets on a quarterly basis and receives reports from the Banks's senior management highlighting any changes to the Bank's risk profile.

The Board has delegated certain powers and responsibilities to the following sub-committees.

2.2 BOARD SUB-COMMITTES

<u>Audit and Risk Committee</u>

The Audit and Risk Committee (ARC) comprises of two Independent Non-Executive Directors and is responsible for overseeing the Bank's adherence to the policies set by the Board. The ARC has the authority to investigate any activity within its terms of reference and all employees are directed to cooperate as requested by members of the ARC. The ARC is authorised by the Bank's Board to obtain outside legal or other independent professional advice as necessary to assist the ARC to fulfil its remit.

Its more detailed responsibilities include the examination and approval of the manner in which executive management ensures and monitors the adequacy and effectiveness of the process for the identification, assessment, mitigation, monitoring and management of all risks including liquidity, market, credit, operational, legal and strategic risks, the review of the internal audit scope and annual programme, the review of the external audit scope and the analysis of audit reports and proposals to amend operating procedures
The ARC met five times during 2021.

Asset and Liability Committee

The Asset and Liability Committee (ALCO) recommends and oversees the strategies, controls and system support for the effective management of the assets and liabilities of BOCUK. It reviews the Bank's liquidity and funding profiles, ability to borrow and lend in the inter-bank market and defines the strategies for the deposit base. The ALCO sets limits for liquidity, funding, interest rate, foreign exchange and market risk within the Bank's overall risk appetite and reviews capital allocations to reflect business strategy and risk appetite. It recommends the Bank's liquidity policy statement, its Individual Liquidity Adequacy Assessment Process (ILAAP), its Internal Capital Adequacy Assessment Process (ICAAP), the Bank's Pillar 3 disclosures and its trading book policy statements to the Board.

Credit Committee

The Credit Committee is responsible for the effective management of all credit related risks t the Bank. It reviews all advances granted by the Bank and approves specific loans within the authority delegated to it by the Board. The Credit Committee reviews credit events and assesses their impact on the credit portfolio and where relevant, develops action plans to address those events. It is responsible for ensuring the maintenance of strong internal credit risk controls, the management of credit concentration risk and the approval of new credit products and processes.

Executive Committee

The Executive Committee deals with the day-to-day running of the business and any related issues as they arise and has been delegated authority by the Board to take whatever steps are necessary to conduct the business of the Bank within the confines of the Board approved strategy, risk appetite, policies, operating plans and budgets.

The Executive Committee monitors and assesses both the performance of all divisions of the Bank to ensure alignment with the Board's approved strategy and the likely impact of the external environment including competitor activity and performance, market trends and regulatory developments, on the achievement of that strategy. It monitors compliance issues including anti-money laundering activities and metrics demonstrating that the Bank is achieving its desired outcomes for "Treating Customers Fairly".

3. RISK MANAGEMENT OBJECTIVES & POLICIES

3.1 INTRODUCTION

The major risks BOCUK faces comprise credit risk, market risk and operational risk, but BOCUK recognises that the range of risks is broader and ever-changing and ensures that appropriate processes are in place for risks to be properly identified, assessed, treated, monitored and communicated.

The oversight of risk is exercised by the Board as a whole, supported by the Head of Risk (who also reports to the ARC). In particular, the Head of Risk is responsible for assessing the impact on BOCUK's risk appetite of any changes in circumstances (internal or external).

BOCUK's risk appetite statement sets out the level of risk that it is willing to take in pursuit of its business objectives. This document has been built-up following extensive discussions among the executive management and provides an articulation of tolerance for risk in both quantitative measures and qualitative terms. The risk appetite statement is formally reviewed on an annual basis by the Board as part of the rolling review of BOCUK's medium term strategy and is used in mapping key risks, assessing their materiality and ultimately underpinning BOCUK's overall risk management framework.

The Board also agrees the Bank's ICAAP and its ILAAP which provide a framework to have in place sufficient capital, liquidity and funding to support the business activities and risk exposures. The Bank's management formulates a business plan within the agreed risk tolerances. This plan is agreed by the Board.

The Board of the Bank adopts a prudent approach when deciding upon its appetite for risk in order to take a long-term view of value creation.

The high-level approach taken by BOCUK to measure monitor and control risk is set out below.

3.2 RISK MANAGEMENT OBJECTIVES

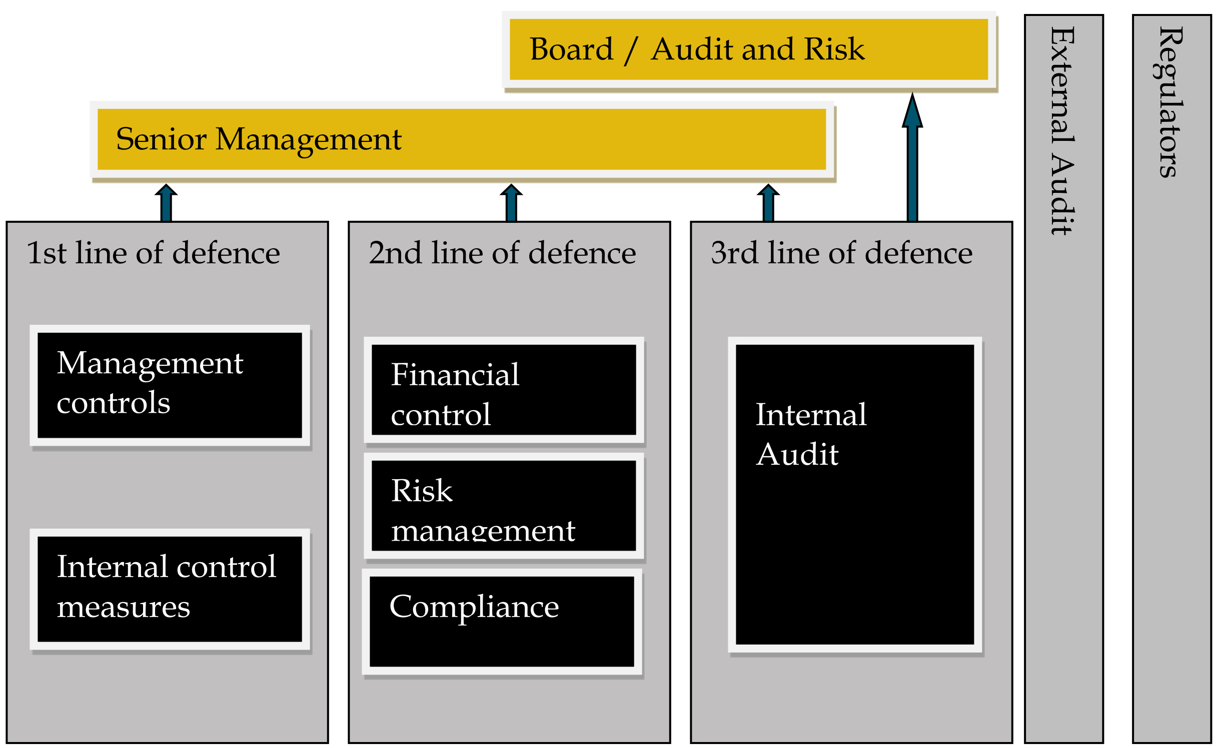
The Bank's overarching risk management objectives are to ensure that:

- There is a clearly articulated risk appetite which is calculated to the financial resources of the Bank and its budget aspiration;
- There is a risk culture, which is embedded in daily operational activity;
- Risks are identified and accepted within the risk appetite, or approved as exceptions where not;
- Risks are monitored to ensure they remain within, or come back within, risk appetite in agreed time scales and action is taken promptly and effectively if that is not the case; and
- There is timely, complete, accurate and relevant risk reporting within the Bank and to the Board.
- Complying with the letter and the spirit of the laws and regulations that govern the Bank;

- Working with the regulators to ensure compliance
- Setting high standards for control and compliance activities;
- Ensuring that there are adequate processes and controls in the first and second lines of defence to ensure controls are working effectively.

3.3 RISK MANAGEMENT FRAMEWORK

BOCUK has chosen to adopt the three lines of defence model as its risk framework. Primary responsibility for the identification, control, monitoring and mitigation of risk lies with the operational areas (first line of defence). Oversight and governance are provided through risk, financial control and compliance functions and dedicated internal risk committees (second line of defence). Finally, assurance is provided by Internal Audit and overseen by the ARC (third line of defence). A summary of the framework is provided in the sections below.



First line of defence – organization

Front office and client facing staff of BOCUK are primarily responsible for identifying and managing the risks that occur in the course of their daily roles in their business areas. Front office staff are required to contribute to developing policies, guidance and procedures that are necessary to manage risks and communicate these effectively to team members and other parties.

Second line of defence – management

The second line of defence is made up by the risk oversight functions and committees.

Treasury Back Office - the back-office team will, as part of their role, identify potential risks resulting from the front office activities, alert front office to these risks and take action to mitigate them.

Head of Finance and Treasury – The Head of Finance and Treasury will monitor BOCUK's liquidity position and market risk position and will produce reports for senior management on the Bank's liquidity, funding and market risk management.

Head of Risk – the Head of Risk is responsible for developing, implementing and embedding the risk management procedures used by the Bank to identify, assess, monitor, control and mitigate the risks in BOCUK. The Head of Risk is also required to provide risk advice to senior management and the Board as required.
Head of Compliance – the Head of Compliance is required to develop, implement and encourage high compliance standards, policies and procedures, and ensure that these are adhered to through effective monitoring. The Head of Compliance is also required to provide compliance advice to senior management and the Board as required.

ALCO – the Bank's ALCO is responsible for monitoring and overseeing capital management, liquidity management (for both assets and liabilities) and the market risks faced by BOCUK. The ALCO is charged with approving and recommending the policy statements developed in these areas, establishing strategies for effective asset and liability management, setting capital, liquidity and market risk limits and monitoring exposures.

Credit Committee – the Bank's Credit Committee has responsibility for overseeing management of any credit risk assumed by any part of BOCUK's business. The Committee agrees and recommends the credit and concentration risk policies to the Board for approval and also approves customer and counterparty credit limits and facilities within the amounts delegated to it by the Board. The Credit Committee also monitors credit risk reports and arrears. The Committee has responsibility to review credit events, assess their impact and provide recommendations for further action.

Third line of defence – assurance

The Board looks to the Internal Audit function to provide independent assurance in respect of the operations of BOCUK. The ARC is also in place as a reporting line for Internal Audit, reviewing the function and its findings on a periodic basis.
Internal Audit is an independent, objective assurance activity that brings a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance. This involves ensuring that controls are in place and in accordance with the Bank's policies and procedures and that the Bank's records and reports are accurate and reliable.

In addition, the external auditors provide comfort to the shareholder, the regulators and other third parties in respect of the statutory financial statements.

4. OWN FUNDS

Own funds are 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 CRIV which sets out the characteristics and condition for own funds.

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

As at 31 December 2021, BOCUK had a Tier 1 Capital Ratio of 54.8 % and a Total Capital Adequacy ratio of 57.8%.

4.1 TOTAL AVAILABLE CAPITAL

The Bank's regulatory capital base and capital adequacy ratios as at 31 December 2021.

	2021 **£'000s**	**2020** **£'000s**
Common Equity Tier 1 Capital		
Ordinary share capital	15,000	15,000
Cumulative revenue losses	(1,843)	(1,955)
Adjustments to Common Equity Tier 1	13,157	13,045
Less Intangible Assets	(22)	(34)
Add: IFRS(transition adjustment	289	327
Total Common Equity Tier 1 Capital	13,424	13,338
Tier 2 Capital		
Revaluation reserves	745	904
Total Tier 2 Capital	745	904
Total Own Funds	14,169	14,242
Risk Weighted Assets	24,509	38,848
Common Equity Tier 1 Ratio	54.8%	34.3%
Capital Adquacy Ratio (total capital)	57.8%	36.7%

The cumulative losses above, is after including the profit for the year 2021. The revaluation reserve included under Tier2 capital, relates to the head office building. BOCUK does not have any form of additional Tier 1 capital. The Risk Weighted Assets include both the total value of the Bank's on and off balance-sheet exposures weighted in accordance with the relevant regulatory rules. The total for Risk Weighted Assets is the amount reported in the Bank's regulatory returns as at the reporting date.

4.2 COMMON EQUITY TIER 1 CAPITAL

Common equity Tier 1 capital comprises of ordinary share capital plus reserves. Adjustments are made in respect of intangible assets and other adjustments in accordance with the PRA regulatory rules.

Reconciliation between equity and common Tier 1 capital

	2021 £'000s	2020 £'000s
Equity as per the Annual Financial Statement	13,902	13,949
Regulatory adjustments from equity		
Transitional adjustment for IFRS9	289	327
Intangible assets	(22)	(34)
Revaluation reserves	(745)	(904)
Common equity Tier 1	13,424	13,338

The Banks shareholder equity in the table above is adjusted to give effect to the transitional relief for IFRS9, deduction of intangible assets and revaluation reserves in arriving at the Tier 1 capital base.

5. CAPITAL MANAGEMENT & CAPITAL ADEQUACY ASSESMENT

5.1 OVERVIEW

BOCUK manages its capital structure to ensure it continues to exceed the minimum regulatory requirements, as well as meeting the expectations of key stakeholders. As part of the risk appetite framework, capital ratios relative to regulatory requirements are targeted. These ratios are developed as a part of the annual three-year business plan.

The Key controls in achieving this objective are:

- monitoring the level of regulatory capital against overall capital requirements on a monthly basis, which is included in the monthly management report.
- Submitting regulatory capital reports to the PRA and
- Assessing the appropriateness of the overall capital as part of the ICAAP.

5.2 INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS

BOCUK has documented a forward-looking business plan and financial projections as part of the rolling three-year planning process approved by the Board. BOCUK uses these projections, together with historic results, in the development and periodic review of the Internal Capital Adequacy Assessment Process (ICAAP) document, to consider the level of capital it requires and to identify the sources of additional capital if necessary. This internal assessment makes use of the regulatory capital calculator and an internal evaluation of all other material risks that do not require the provision of regulatory capital. The ICAAP is performed annually or more frequently should the need arise. The outcome of the ICAAP covers all material risks identified by the Bank to determine the capital requirement over a three-year horizon, and includes stressed scenarios.

BOCUK has calculated the capital that it believes is necessary to hold in respect of the risks it faces. This comprises:

- Capital held in respect of Pillar 1 risks;
- Capital held in respect of Pillar 2A and 2B risks; and
- If required, additional capital held in respect of potential risks highlighted by stress tests.

These are recalculated at each review of the ICAAP. Where capital is deemed as not being an appropriate mitigant for a particular risk, alternative management actions are developed.

The ICAAP is presented to the Executive Committee, the ARC and then to the Board (with whom ultimate responsibility lies) for challenge and approval. The PRA periodically undertakes a supervisory review of the Bank's overall financial adequacy and sets Individual Capital Guidance (ICG) for the Bank.

Regulatory and internal capital adequacy is monitored and reported to the Board and Executive Committee. An assessment of the impact on internal and regulatory capital adequacy is made before launching any new products or undertaking new activities.

As part of the ICAAP process the Board has identified a number of other risks faced by the Bank which do not attract capital under the Pillar 1 rules. The Bank has allocated additional capital requirement for these additional risks referred to as Pillar 2A. The Bank is also exposed to risks to which it may become exposed over a forward-looking planning horizon (e.g., due to changes in the economic environment) referred to as Pillar 2B. The total capital requirement of the Bank is the sum of the Pillar 1 and the Pillar 2 capital requirements. In the view of the Bank the excess of capital resources over and above its Pillar 1 and Pillar 2 capital requirements was sufficient to meet its capital needs.

5.3 PILLAR 1 CAPITAL REQUIRMENT

BOCUK overall minimum capital requirement under Pillar 1 is calculated by adding the credit risk capital requirement (standardised approach) to that required for market risk and operational risk element (basic indicator approach).

Own Funds Requirement (£000)	31st December 2021	31st December 2020
Credit risk (Standardised approach)	1,961	2,757
Market risk (Standardised approach)	24	15
Operational risk (basic indicator approach)	339	335
Total Pillar 1 Requirement	2,324	3,107

Credit Risk

Credit risk is the risk arising from an event that causes an asset (including off-balance sheet transactions) to lose value or become worthless resulting from an obligor's failure to meet the terms of a contract with BOCUK or its failure to perform as agreed. BOCUK is exposed to credit risk through some of its banking activities, in particular, through its trade finance activities, money market activities and lending businesses. BOCUK uses the Standardised Approach to calculate its credit risk regulatory capital component. The risk weights applicable to each business vary according to the credit rating of each exposure.

BOCUK has a detailed Credit Policy setting out strict controls over credit risk related activities and an operating model with information on how the credit risk management processes are embedded in the business and are overseen within the Bank.

Counterparty risk relates to a firm's trading book and is the risk that the counterparty to the transaction could default before settlement. BOCUK does not have a trading book but may incur counterparty risk to the extent that it enters into spot or forward foreign exchange transactions with firms.

At 31 December 2020 the Bank's minimum capital requirement for credit risk under the standardised approach (being 8% of the risk weighted exposure amounts for each of the applicable credit risk exposure classes) comprised:

5.4 OWN FUNDS REQUIREMENT

	Gross Assets £'000	RWA exposure £'000	Capital Requirements 2021 £'000	Capital Requirements 2020 £'000
Credit and Counterparty Credit Risk				
Central Governments & Central Banks	19,553	2,079	166	424
Institutions	3,521	704	56	37
Corporates-SME	4,523	4,523	362	498
Financial corporates	5,309	6,556	524	1,027
Mortages	14,313	6,426	514	370
Retail	529	529	42	136
Other	3,742	3,692	296	265
	51,490	24,509	1,961	2,757
Market Risk		302	24	
Operational Risk Basic Indicator Approach		4,241	339	
Total Pillar 1 Requirement		29,052	2,324	
Own funds			13,424	
Excess of capital over minimum requirements			11,100	

The total Pillar 1 capital requirements shown above are the amounts reported in the regulatory returns as at 31st December 2021. The Countercyclical Buffer for the UK was set at 0% by the Financial Policy Committee during 2020.

The following table shows the geographical distribution of credit exposures by counterparty.

	United Kingdom £'000	Other EU £'000	Asia £'000	USA £'000	Total
Credit and Counterparty Risk					
Central Governments & Central Banks	-	-	2,079	-	2,079
Institutions	189	46	-	469	704
Corporates- SME	4,523	-	-	-	4,523
Financial corporates	-	-	6,556	-	6,556
Mortages	6,426				6,426
Retail	529	-	0	-	529
Other	3,692	-	-	-	3,692
Total	15,359	46	8,635	469	24,509

6. IMPAIRMENT PROVISIONS

6.1 SUMMARY OF ACCOUNTING POLICY

The Bank's accounting policy for the determination of impairment of expected credit losses is set out in Note 10 of the 2021 Annual Report and Financial Statements. A summary of the main provisions of the policy is set out below.

The Bank recognises impairment allowances for ECL on the following financial instruments that are not measured at FVTPL:

- All lending exposures including Trade Finance exposures;
- Debt instruments held as part of the Banks investment portfolio;
- Money market deposits and placements are classified at amortised cost; and
- Confirmation of Letters of credit and guarantees offered by the Bank.

12-month ECL is the proportion of ECL that results from default events on the financial instruments that are possible within 12 months after the date of reporting. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1 financial instruments.

Life time ECL is the ECL that results from all expected default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit impaired are referred to as 'Stage 2 financial instruments.

The ECL is measured on either 12 months or lifetime depending on whether a significant increase in credit risk has taken place since its original recognition. When determining if there has been a significant increase in the credit risk, the Bank will supportable information that is relevant and available without undue cost or effort.

The Bank uses the following criteria for determining whether there has been a significant increase in credit risk:

1. Movement in the probability of default
2. Qualitative indicators
3. 30 days past due backstop

All assets are assessed for individual impairment using a range of risk criteria. When impairments are calculated, each exposure is assigned a PD, LGD and EAD based on that exposure's individual credit grading. In assessing the exposure, the Bank uses externally sourced probabilities and expected loss rates.

6.2 SUMMARY OF IMPAIRMENT PROVISIONS AS AT 31st DECEMBER 2021

7

Total ECL provision	Stgae 1	Stage 2	Stage 3	Total
Balance as at 1st January 2021	(14)	(312)	-	(326)
Transfers	(206)	206	-	-
Net re-meassurement of loss allowance	8	(67)	-	(59)
Balance at 31st December 2021	(212)	(173)	-	(385)

7. LEVERAGE

The ratio is calculated as Tier 1 Capital divided by gross on and off balance-sheet exposures.

The ratio is monitored on an ongoing basis to ensure the Bank has sufficient levels of capital for current and future activities. The ratio forms part of the monthly management information pack issued to the EXCO and the ARC.

The leverage information reported in the tables below, are the same information reported in the regulators returns as at the end of 31 December 2021.

The Financial Policy Committee (FPC) recommended to the PRA in 2017 the following when setting the leverage ratio:

- exclude from the calculation of the total exposure measure those assets constituting claims on central banks, where they are matched by deposits accepted by the firm that are denominated in the same currency and of the identical or longer maturity; and
- require a minimum leverage ratio of 3.25%

Reconciliation of accounting assets and leverage ratio

Leverage ratio	**2021 £'000s**	**2020 £'000s**
Total assets as per Financial statement	48,630	143,850
Intangibles	(22)	(34)
Off Balance sheet	1,876	217
Deduction of funds placed with the BOE	(17,849)	(106,225)
Deduction of fixed assets	(3,563)	(3,679)
	29,072	34,129

	2021 £'000s	**2020 £'000s**
Tier 1 capital	13,424	13,338
Leverage ratio total exposures meassures	29,072	34,129
Leverage ratio	46.2	39.1

8. REMUNERATION

8.1 REMUNERATION POLICY

The Board has overall responsibility for BOCUK's renumeration strategy. The Executive Committee is responsible for the implementation of the renumeration policy and will recommend to the Board any changes to the policy.

8.2 BONUS SCHEME

BOCUK currently operates a discretionary bonus scheme subject to business and staff performance which is designed to link reward with long term success of the Bank.

8.3 REMUNERATION 2021

Renumeration	Number of Staff	Aggregate
Directors	4	£251,000
Other members of staff	20	£834,000