PILLAR 3

31 December 2024

BANK OF CEYLON (UK) LTD

BOC

Gateway to Sri Lanka

COMPANY REGISTRATION NO. 06736473

Contents

1. Introduction

This document comprises Bank of Ceylon (UK) Limited "BOCUK" Pillar 3 disclosures on capital and risk management as of 31st December 2024. It has two principal purposes:

• To provide useful information on the capital and risk profile of the Bank; and
• To meet the regulatory disclosure requirements set out by the Prudential Regulation Authority ("PRA") in the Disclosure section of the PRA Rulebook.

With effect from 1 January 2022, the PRA introduced a single source of disclosure requirements under the PRA Capital Requirements Regulation. The Bank meets the definition of a non-listed "Other Institution" and complies with the requirements in accordance with Article 433c of the Disclosure (CRR) Part of the PRA Rulebook.

In October 2021, the PRA published its Policy Statement on the UK leverage ratio framework confirming that the CRR leverage ratio will not apply to UK banks. The Bank does not meet the criteria set out in the PRA rulebook for a binding minimum leverage ratio; however, the Bank has disclosed the ratio in accordance with the PRA's requirements.

Additional relevant information may be found in the 2024 BOCUK Annual Report and Accounts (hereafter referred to as the "ARA"), which includes a description of the Banks strategy and business model. The disclosures contained in this document should be read in conjunction with the ARA. The Pillar 3 disclosures and the ARA are published on the Banks website: www.bankofceylon.co.uk

1.1 Key Metrics

	31 December 2024	31 December 2023
Available capital		
Common Equity Tier 1 (CET1) Capital	13,940	13,685
Total Capital	15,076	14,789
Risk-weighted Assets (RWA) £		
Total RWA	61,344	32,187
Capital ratios (as a percentage of RWA) (%)		
Common Equity Tier 1 ratio	22.7	42.5
Total capital ratio	24.6	45.9
Capital conservation buffer	2.5	2.5
Countercyclical buffer	1.58	1.88
Combined buffer requirements	4.08	4.38
Overall capital requirements	12.08	12.38
CET1 available	13,940	13,685
Total exposure	75,247	47,579
Leverage ratio	18.5	28.8
Liquidity Coverage Ratio (LCR)		
Total high quality liquid assets (HQLA)	99,206	108,880
Cash outflow	74,760	96,218
Cash inflow	8,411	9,362
Total Net cash outflows	66,349	86,856
Liquidity coverage ratio (%)	149	125
NSFR		
Total required stable funds	64,648	35,141
Total available stable funds	91,457	49,594
NSFR Ratio	141	141

1.2 Background

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.

1.3 Basis & Frequency of Disclosures

Disclosure policy

The following sets out a summary of the Banks Pillar 3 disclosure policy.

Basis of preparation

This document has been prepared to comply with the Disclosure (CRR) Part of the PRA Rulebook which was incorporated into the PRA Rulebook from 1 January 2022. No material disclosures have been omitted and nor have any disclosures been omitted from this document for confidentiality purposes.

The disclosures provide information as of 31st December 2024, with comparative information as of 31st December 2023, unless otherwise stated.

BOC UK follows proportional disclosure requirements as outlined in Article 433c of the Disclosure (CRR) part of the PRA Rulebook. These primarily cover key metrics (capital, liquidity and leverage), own funds composition and movement, exposures and risk-weighted asset classifications, capital requirements and capital instruments main features.

Frequency, media and location

The Bank policy is to publish the Pillar 3 disclosures on an annual basis. The information is published in conjunction with the ARA. The Pillar 3 disclosures are published on the Bank's website: www.bankofceylon.co.uk.

The frequency of disclosure will be reviewed should there be a material change in any approach used for the calculation of capital, business structure or regulatory requirements.

Verification

The Banks Pillar 3 disclosures have been and approved by the Board. The disclosures are not subject to audit.

1.4 Scope of Application

BOCUK is a UK registered Bank that is authorised by the PRA and regulated by the PRA and the FCA.

BOCUK is a wholly owned subsidiary of the Bank of Ceylon ("BOC") a state-owned bank incorporated in Sri Lanka but is managed and governed independently of its parent bank.

1.5 Board Responsibility for Disclosures

The responsibility for identifying and managing the principal risks rests with the BOCUK Board of Directors, who are also independently responsible for setting the Bank's strategy, risk appetite and control framework.

The BOCUK Board considers that, as at 31st of December 2024, it had in place adequate systems and controls regarding its risk profile and strategy. Furthermore, the Board can confirm that the Bank remained within defined limits for risk exposure throughout the year for all principal risks and operated in line with its internal capital targets.

The Directors have considered the adequacy of the Pillar 3 disclosures and are satisfied that they convey the risk profile of the Bank.

2. Governance

2.1 The BOCUK 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 of 31st of March 2025, the Board membership comprised of the following:

Mr. Kavinda de Zoysa	Chairman
Mr. Madhawa Dissanayake	CEO, ED
Mr. Sanjeewa Samarakoon	COO, ED
Mr. Carey Leonard	INED
Mr. Christopher Fitzgibbon	INED
Mr. W. P. Russel Fonseka	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 and Board Sub-Committees meet on a quarterly basis and receive reports from the Banks's Senior Management (SMF functions) highlighting any changes to the Bank's risk profile.

SMF representation is present on all Sub-Committees, and the Board has delegated certain powers and responsibilities to each as follows:

2.2 The Board Sub-Committees

Board Audit and Compliance Committee

The Board Audit and Compliance Committee (BACC) supports the Board to ensure effective governance of the Bank's financial reporting, including monitoring the integrity, clarity and completeness of financial disclosures, reporting on significant financial reporting issues and judgements. The BACC reviews and approves changes to the Bank's accounting policies and supports the Board in reviewing the adequacy of the Company's whistleblowing arrangements, ensuring that the arrangements allow proportionate and independent investigation and appropriate follow-up action. The Chair of the BACC is the Whistleblowing Champion for the Bank. The BACC also oversees the implementation and effectiveness of the internal and external audit functions (including their programs of work) through an independent assurance lens. The BACC's report and further information on key duties and responsibilities are disclosed in the Bank's 2024 annual accounts.

Board Risk Committee

The Board Risk Committee has delegated authority from the Board to ensure the effective operation of risk management and the internal control systems. The Board Risk Committee (BRC) ensures that the Bank operates within the overall Risk Appetite Statement approved of by the Board, and to achieve its strategic objectives. The Board Risk Committee oversees the implementation and maintenance of the Bank's Enterprise Risk Management Framework and is the primary Board level committee to receive and review risk-related information and to review stress testing, the ICAAP and the ILAAP. It receives reports from the Executive Committee (EXCO), the Asset and Liability Committee (ALCO) and operational and control issues from internal audits. Further information on key duties and responsibilities is disclosed in the Bank's 2024 Annual Report.

Asset and Liability Committee

The Asset and Liability Committee (ALCO) oversee 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. It recommends the Bank’s liquidity policy statement, its Internal Liquidity Adequacy Assessment Process (ILAAP), its Internal Capital Adequacy Assessment Process (ICAAP), 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 at 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 (EXCO) 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.

IT Steering Committee

The IT Steering Committee (ITSCO) reports to the Bank’s Executive Committee and is responsible for managing strategic IT matters including business alignment, technology strategy, sourcing strategy and operational resilience. It is also responsible for reviewing and recommending project solution designs and the IT budget.

The Committee is authorised to report to the Executive Committee on the following matters:
- Oversee the implementation of the Bank's IT strategy.

The detailed responsibilities of ITSCO are to:
- Establish, implement and review the Bank's IT strategy in line with the Board's direction.

Draft and review the following policies:
- Application Change Control Policy
- IT Security Policy
- Operational Resilience Framework and Policy
- Oversee and manage IT operational matters on a day-to-day basis, including change and project delivery, infrastructure system administration, IT budgets and vendor management.
- Oversee the IT technical security architecture, design and implementation.
- Recommend IT and other operational budgets and projects in line with product development strategies.
- Receive and consider IT management information (MI).
- Report on the findings of Penetration testing.
- Report on the findings of IT security and Operational Resilience Audits.
- Review and report on the findings of DR tests.
- Review and report on the findings of Important Business Services resilience testing.

The Consumer Duty Steering Committee (CDSC)

The Consumer Duty Steering Committee reports management information (MI) to the Board Audit and Compliance Committee (BACC) and is responsible for the oversight of Consumer Duty activities and forms a key element in the overall governance and oversight framework of BOCUK, ensuring that BOCUK always keeps the Consumer at the heart of everything it does. Meeting the requirements of the Consumer Duty influences all aspects of the Banks strategy, operations, and training programs. The Bank's risk appetite statement reflects the importance the Bank attaches to Consumer Duty and the Steering Group provides the means to identify the accepted tolerance limits which if breached are escalated for remediation and the limits beyond which the appetite exceeds acceptable levels and require both escalation and robust actions to mitigate the harm or potential harm caused to retail customers.

The Consumer Duty Steering Committee aims to ensure that BOCUK always

- Acts in good faith towards retail customers
- Avoids causing foreseeable harm to retail customers.
- Enables and supports retail customers to pursue their financial objectives.

Whilst at the same time

- The bank offers quality products and services
- The bank sells products and services that represent fair price and value.
- Consumers understand the products and services they are being sold and
- Consumers receive the support they need during the product lifecycle.

3. Risk Management Objectives & Policies

3.1 Introduction

The major risks BOCUK faces comprise credit risk, market risk and operational risk, but BOCUK recognizes 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 Board is responsible for risk, with oversight from the Board Risk Committee and supported by the Head of Risk and Compliance.

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 drawn 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 underpin BOCUK's overall risk management framework.

The Board approves the Bank's ICAAP and ILAAP which provides the 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 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 risk capacity.
- There is a risk culture, which is embedded in daily operational activity.
- Risks are identified and accepted within the risk appetite.
- 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 to the Board Risk Committee 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 uses 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). While the second line of defence is provided through risk and compliance functions. Finally, further assurance is provided by Internal Audit (third line of defence).

The Risk Management Framework:

Risk Management Framework

1. Purpose

Key objective of the RMF: To manage the Bank's risk profile.

2. Risk Principles and Culture

Overarching statement of principles that guide the Bank's RMF
Risk culture embodies the values and attitudes that inform risk taking decisions
Supported by a robust tone from the top to define and influence behaviour

3. Risk Strategy and Appetite

Articulated statement of risk intent in context of strategic and business objectives
Structured through a range of quantitative and qualitative metrics
Cascading through the Bank through defined triggers, limits and controls
Reviewed and approved at appropriate management committees and Board

4. Risk Assessment and Control

Identification, assessment and management of the Banks risks and relevance to the Banks business model
Risk Analytics
Stress testing and scenario development

Key Risks which affect the Bank

Strategic	Regulatory
Prudential	Conduct
Credit	Financial Crime
Liquidity	Consumer Duty
Market	Data Protection
Operational	ESG
Technology	Emerging
Information Security	

5. Risk Data and IT

Supporting risk data and IT infrastructure for risk management

6. Risk MI and Reporting

Documented frameworks, policies and procedures

7. Risk Governance and Responsibilities

The 3 Lines of Defence approach

First line of defence – organisation

The front office staff of BOCUK are primarily responsible for identifying and managing the risks that occur during their daily tasks 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.

Treasury Back Office - the back-office team will, as part of their role, identify potential risks resulting from the front office activities, alert the 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.

Second line of defence – management
The second line of defence is made up of the risk and compliance functions.

Head of Risk and Compliance –Acts on behalf of the Board Risk Committee to implement and embed the risk management framework used by the Bank to identify, assess, monitor, control and mitigate the risks in BOCUK and is also required to provide risk and compliance advice to senior management and the Board as required. The Head of Risk and Compliance also develops, implements and promotes high compliance standards, policies and procedures, on behalf of the BACC and ensures that these are adhered to across the bank.

Third line of defence – assurance
The Board Audit Committee is responsible for oversight of the Internal Audit function, which provides the third line of defence.

Internal Audit is an independent, objective assurance activity that brings a systematic, disciplined approach to evaluating and improving 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.

Risk Culture
Risk culture is the set of norms and behaviours that determine the way in which individuals and groups identify, understand, discuss, and act on the risks that the Bank faces and takes. It is an overarching element of the Framework and is essential to the roll out of the Framework across the Bank. A sound risk culture not only encourages responsible risk-taking but also ensures that current or emerging risks are recognised and addressed in a timely manner.

The objective of the Bank is to maintain and develop a strong, proactive, and transparent approach to risk identification, assessment, and management of risk. Promoting Bank-wide behaviours are key to ensure the RMF is embedded within the organisation, and that the framework is operating effectively. These are more fully described in the Code of Conduct.

3.4 Risk Management Principles

The following risk management principles guide the RMF:

- The Bank seeks to create good customer outcomes and will plan and deliver on commitments to all stakeholders. Good customer outcomes are a critical business value that cannot be put at risk.
- The Bank seeks to excel in regulatory compliance and to adhere to current regulations and to adopt future regulatory requirements as they become effective.
- Ensure risk management capabilities are proactive and support the Banks strategy and ensuring that it operates within the Board approved boundaries.
- The segregation of duties, oversight and assurance responsibilities are organised in line with the three lines of defence approach.
- BOCUK businesses are client based and focused on establishing long-term relationships based

on trust, rather than making short-term opportunistic profits.

The Bank is aware that developing and maintaining a sound risk culture is an on-going activity and requires time, and commitment. Following the Financial Stability Board ("FSB") guidelines, the Bank focuses on:

- Tone from the top and in the middle
- Accountability
- Risk awareness training
- Communications
- Effective challenge
- Incentives
- Stress Testing

Tone from the Top and Middle

The Board and senior management forge the Bank's risk culture, promoting appropriate risk-taking behaviors and demonstrating adherence to sound risk management. It is the overarching responsibility of the Board and senior management to set the tone at the top by:

- articulating clearly the values underlying the desired risk culture and behaviours; and
- recognising, promoting, and rewarding behaviour that reflects the stated risk culture and its core values.
- BOCUKs Board includes an independent non-executive director and chair of the Board Risk Committee with prescribed responsibility for risk, takes ownership for key risk matters and ensures appropriate Board-level review and challenge of risk issues.

- Senior members of risk and compliance are represented on senior committees to ensure that risk perspective is represented in key strategic business, and operational discussions.
- Risk management is involved in strategic planning.
- The Banks Code of Conduct documents a set of ethical considerations which are applicable to all BOCUK staff, setting out clear expectations for integrity and ethical values and acceptable business practices.
- The Bank has established a whistleblowing policy which provides for employees who raise concerns in good faith and provides an escalation process with a named champion to ensure material risks are communicated through the Bank.

The Board and senior management have important roles in proactively monitoring and assessing the actual culture, addressing behavioural issues, and assessing whether they are clearly and effectively articulating and monitoring behaviours toward risk against its core values.

Officers and managers are expected to promote the Bank's risk culture and the adherence to the policies, processes and procedures set by the Board at its level and down to the staff.

The following helps to ensure that the tone from the top is cascaded into day-to-day activities through the following approach:

- Establishing the risk culture within the code of conduct, terms of reference for committees, policies, procedures, and risk appetite.
- Identification, management and mitigation of negative cultures and behaviours; and
- Alignment of remuneration policies with risk principles.

Accountability - SMCR

The responsibilities of each Board member and department head, include specific obligations in relation to risk management, are formally documented and approved by the EXCO and Board of Directors. Documented responsibilities comply with the SMCR and reinforce the three lines of defence approach used by the Bank.

The Board and senior management have established policies that define the ownership of risk and the expected behaviours towards risk-taking and risk-facing. The policies in place not only define the terms of reference but also describe the escalation process to be followed in case of emerging risk-related issues.

Employees at all levels are required to understand the core values of the Bank's risk culture and its approach to risk, be capable of performing their prescribed roles, and be aware that they are held accountable for non-compliance with risk policies and escalation procedures.

Risk awareness training

Risk management is included in the induction program and enhanced risk awareness is embedded within the Bank through additional training modules. Further, specific training is used on an ad hoc basis when new processes must be understood.

Communications

The communication of policies, processes, risk limits, and other updates across the Bank are an important aspect of ensuring awareness of risk and is an important part of embedding a strong risk culture.

Effective Challenge

The Bank encourages transparency and open dialogue between management, the Board, and staff, on all levels and at all points in the process of development, marketing, implementation and maintaining of a product, service, or transaction, to promote the identification and escalation of risk issues. Alternate views or questions from individuals and groups are encouraged, valued, and respected and occur in practice, in testing of current policies, procedures, and practices.

Senior management must ensure that alternate views can be expressed in practice and request regular assessments of the openness to dissent at all layers of management involved in the decision-making process.

Incentives

The power of a positive culture in risk management lies in its ability to motivate employees to want to control risks because prudent risk taking is valued and enforced.

Stress testing

Stress testing is an important risk management tool, with oversight from the Board Risk Committee, with specific approaches documented in the Bank's key annual assessments including the ICAAP (Internal Capital Adequacy Assessment Process), the ILAAP (Internal Liquidity Adequacy Assessment Process), the Recovery Plan and Reverse Stress Testing.

The Board Risk Committee reviews the ICAAP, ILAAP and Recovery Plan, ensuring the processes are in accordance with regulatory rules and makes a recommendation to the Board for approval.

3.5 Principal Risks: **The table below provides an executive summary of the key risks and corresponding mitigation strategy.**

Risk Category	Definition	Identification	Monitoring	Control
Strategic Risk	Strategic risk is the risk arising from an inadequate business strategy or from an adverse shift in the assumptions, parameters, goals, and other features that underpin a strategy. It is therefore a function of the Bank's business goal; the business strategies developed to achieve these goals; the resources deployed in pursuit of these goals; the quality of implementation of these resources; and external events affecting the Bank achieving its goals or the lack of responsiveness to changes in the banking industry and operating environment.	Evaluate business strategy alignment with external trends, competitor actions, and economic conditions.	Review strategic objectives, industry benchmarks, and financial performance indicators.	Establish a dynamic risk governance framework, ensure adaptability in strategy, and conduct scenario planning.
Prudential Risk	Prudential risk is the risk that a financial institution has insufficient financial resources to continue to meet its regulatory requirements without deviating from its business plan.	Assess capital adequacy and regulatory requirements compliance. Identify funding gaps.	Monitor capital adequacy ratios, risk-weighted assets, and stress testing results.	Maintain strong capital reserves, ensure compliance with prudential regulations, and diversify funding sources.

Credit Risk	Credit risk is the loss arising from a customer, client or counterparty who fails to fulfil its financial obligations to the Bank as they become due.	Assess loan defaults, counterparty failures, and stress testing results. Analyze concentration risk.	Use credit exposure limits, overdue accounts monitoring, and stress testing models. Monitor credit rating changes.	Implement strict lending policies, credit approval frameworks, and diversification of portfolios. Maintain adequate capital buffers.
Liquidity Risk	Liquidity risk is the risk of suffering losses or inability to settle obligations as they fall due. When the Bank is subject to higher funding costs because of an abrupt change in market conditions or worsening of the Bank's terms of financing. When confidence in the Bank falls and customers withdraw deposits more than the Bank's funding requirements. When counterparty's fail and assets become illiquid and cannot be used to settle short term obligations in the expected timeframe.	Assess funding stability, cash flow forecasts, and potential shortfalls.	Monitor liquidity coverage ratios (LCR), net stable funding ratios (NSFR), and stress test liquidity scenarios.	Maintain strong liquidity buffers, diversify funding sources, and establish emergency funding plans.
Market Risk	Market risk is the risk of loss arising from adverse changes in market prices, changes in interest rates, foreign exchange rates, equity prices, commodity prices, property prices and other assets, financial or non-financial.	Evaluate exposure to interest rate fluctuations, FX rate volatility, and equity/commodity price changes.	Track market movements, conduct value-at-risk (VaR) analysis, and stress testing. Use key risk indicators (KRIs).	Apply hedging strategies, enforce risk limits, and maintain diversified investments.
Regulatory Risk	Regulatory risk is the risk of damage to the firm by failing to comply with financial services legislation, regulations, guidelines, industry codes of conduct, organisational	Review regulatory requirements, legal obligations, and	Conduct regular compliance audits, regulatory horizon	Implement automated regulatory reporting, enhance compliance

	standards, professional ethics, board and senior management guidelines and other codes of conduct applicable to its business activities.	changes in financial regulations.	scanning, and track regulatory breaches.	training, and engage proactively with regulators.
Conduct Risk	Conduct risk is the risk of damage to customer benefit and market integrity due to the inappropriate execution of the firm's business activities through failure to comply with laws and regulations, breach of a social norm, improper business or market practice or lack of understanding of clients' interests.	Analyze customer complaints, market practices, and ethical standards adherence.	Track customer satisfaction metrics, compliance breach reports, and internal training records.	Strengthen corporate ethics, reinforce customer protection measures, and conduct regular staff training.
Financial Crime	Financial crime risk is the risk of financial loss or reputational damage to the firm arising from money laundering, terrorist financing, proliferation financing, sanctions violations, fraud, tax evasion and bribery and corruption.	Identify money laundering, fraud, sanctions violations, and bribery risks.	Use transaction monitoring systems, KYC reviews, and suspicious activity reporting (SAR).	Strengthen anti-money laundering (AML) controls, enforce KYC policies, and conduct fraud awareness training.
Consumer Duty	The risk of not living up to financial services regulators expectations and not putting the firm's customers' interests first. The risk of financial loss and regulatory sanction if the outcomes for consumers do not match industry's best practice.	Identify product suitability issues, customer treatment fairness, and regulatory expectations.	Monitor customer feedback, complaint resolution metrics, and regulatory reviews.	Ensure transparency in financial products, prioritize customer well-being, and align practices with industry best standards.
Data Protection	Data protection risk is the risk of not being compliant with GDPR legislation resulting in financial loss or reputational damage to the firm arising from failing to protect customers data privacy, using customer data	Identify GDPR compliance risks, unauthorized data access, and data usage	Monitor access controls, data protection policies, and regulatory	Implement strong data encryption, conduct audits, and enhance employee data privacy

	inappropriately.	inconsistencies.	compliance reports.	training.
Operational Risk	Operational risk is the risk of loss resulting from inadequate or failed processes, human error, systems or from external events and risk associated with providing operational resilience.	Identify system failures, human errors, and process inefficiencies. Conduct risk assessments.	Track incident reports, operational loss data, and KRIs. Conduct risk and control self-assessments (RCSA).	Strengthen internal controls, automate processes, and enhance employee training programs.
Technology Risk	Technology risk is any potential for technology failures to disrupt business, such as outages, impacting confidentiality, availability or integrity of data or services.	Assess IT infrastructure, cybersecurity threats, and system resilience.	Monitor system performance, downtime incidents, and penetration testing results.	Implement IT governance frameworks, perform regular system updates, and enhance cybersecurity measures.
Information Security Risk	Information Security risk is the risk of internal or external actors who compromise, damage or cause fraud against the Banks or its customers. This can be widely described as "Cyber" crime but specifically involves unauthorized access to the computer systems of the Bank to commit theft or disruption leading to financial loss, harm to customers or reputational damage.	Identify potential cyber threats, unauthorized access risks, and data breaches.	Track cybersecurity incidents, access logs, and vulnerability assessments. Conduct regular penetration testing.	Enforce multi-layered security, enhance user access controls, and implement strong encryption measures.

ESG	ESG Risk (Environmental, Social, and Governance Risk) refers to the potential financial, reputational, and operational impact a bank faces due to environmental harm, social responsibility failures, or weak governance practices. Environmental risks include climate change, resource depletion, and regulatory pressures on sustainability. Social risks arise from poor labor practices, human rights violations, and failing to meet customer and community expectations. Governance risks involve unethical business conduct, lack of transparency, and weak risk management. Failure to address ESG risks can lead to financial losses, regulatory penalties, reputational damage, and diminished investor confidence.	Assess environmental, social, and governance factors in business activities.	Track ESG performance metrics, stakeholder feedback, and sustainability reports.	Integrate ESG considerations into decision-making, promote responsible banking, and enhance governance structures.

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 CRD IV which sets out the characteristics and condition for own funds.

Under the CRD IV framework three tiers of capital are recognized, 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 of 31 December 2024, BOCUK had a Tier 1 Capital Ratio of 22.7% and a Total Capital Adequacy ratio of 24.6%.

4.1 Total Available Capital

The Bank’s regulatory capital base and capital adequacy ratios as of 31 December 2024.

	2024 £'000s	2023 £'000s
Common Equity Tier 1 Capital		
Ordinary share capital	15,000	15,000
Cumulative revenue losses	(966)	(1,293)
Adjustments to Common Equity Tier 1	14,034	13,707
Less Intangible Assets	(94)	(22)
Total Common Equity Tier 1 Capital	13,940	13,685
Tier 2 Capital		
Revaluation reserves	1,136	1,104
Total Tier 2 Capital	1,136	1,104
Total Own Funds	15,076	14,789
Total Risk Weighted Assets	61,344	32,187
Common Equity Tier 1 Ratio	22.7%	42.5%
Capital Adequacy Ratio	24.6%	45.9%

The cumulative losses above are after including the profit for the year ended 2024. 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

	2024 £'000s	2023 £'000s
Equity as per the Annual Financial Statement	15,170	14,811
Regulatory adjustments from equity		
Intangible assets	- 94	- 22
Revaluation reserves	- 1,136	- 1,104
Common equity Tier 1	13,940	13,685

5. Capital Management & Capital Adequacy Assessment

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 monthly, 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 is 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 Board Risk Committee 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 several 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 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 Requirement

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

Risk Weighted Asset Requirement:

Own Funds Requirement (£000)	31st December 2024	31st December 2023
Credit risk (Standardised approach)	**56,022**	**26,888**
Market risk (Standardised approach)	**557**	**1,151**
Operational risk (basic indicator approach)	**4,765**	**4,148**
Total Risk Weighted Asset Requirement	**61,344**	**32,187**

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 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 spot or forward foreign exchange transactions with firms.

On 31 December 2024 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

The total Pillar 1 capital requirements shown above are the amounts reported in the regulatory returns as of 31st December 2024. The Countercyclical Buffer for the UK was set at 2% by the Financial Policy Committee.

Capital Requirements:

	Gross Assets £'000	RWA exposure £'000	Capital Requirements 2024 £'000	Capital Requirements 2023 £'000
Credit and Counterparty Credit Risk				
Central Governments & Central Banks	99,884	795	64	40
Institutions	4,571	2,787	223	138
Corporates-SME	8,525	8,525	682	318
Financial corporates	7,137	10,706	856	60
Mortgage	48,434	27,968	2,237	1,279
Retail	848	848	68	26
Other	4,452	4,393	351	290
	173,851	56,022	4,482	2,151
Market Risk		557	45	92
Operational Risk Basic Indicator Approach		4,765	381	332
Total Pillar 1 Requirement		61,344	4,908	2,575
Own funds (Tier 01)			13,940	13,685
Excess of capital over minimum requirements			9,032	11,110

The following table shows the geographical distribution of credit exposures by counterparts:

	United Kingdom £'000	Other EU £'000	Asia £'000	USA £'000	Total
Credit and Counterparty Risk					
Central Governments & Central Banks			795		795
Institutions	115	2,353		319	2,787
Corporates- SME	8,525				8,525
Financial corporates			10,706		10,706
Mortages	27,968				27,968
Retail	848				848
Other	4,393				4,393
Total	41,849	2,353	11,501	319	56,022

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 11 of the 2024 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 includes Trade Finance lending exposures.
- Debt instruments include investments held as part of the Banks investment and liquidity 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.

Lifetime 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 of 31st December 2024

ECL Provisioning:

Total ECL provision	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance at 1st January 2024	(27)	-	(471)	(498)
Transfers	-	-	-	-
Net re-measurement of loss allowance	(38)	(2)	471	431
Balance at 31st December 2024	(65)	(2)	-	(67)

ECL provision at the end of 2024 declined significantly following the declassification of the International Sovereign Bond (ISB) issued by the GOSL following its restructuring at the end of December 2024. This bond is now classified as FVTP&L and is held for sale.

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.

The leverage information reported in the tables below are the same information reported in the regulators returns as at the end of 31 December 2024.

The Financial Policy Committee (FPC) recommended the following to the PRA in 2017 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	2024 £'000s	2023 £'000s
Total assets as per Financial statement	172,860	156,353
Off Balance sheet	-	-
Deduction of funds placed with the BOE	(97,613)	(108,774)
	75,247	47,579

	2024 £'000s	2023 £'000s
Tier 1 capital	13,940	13,685
Leverage ratio total exposures meassures	75,247	47,579
Leverage ratio	18.5%	28.8%

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. These disclosures are made in accordance with Article 450 of the Capital Requirements Regulation (CRR) and should be read in conjunction with the 2024 Annual Report and Financial Statements.

The approach taken by BOCUK in respect of remuneration stems from a combination of regulatory guidance, the dual-regulated firm's Remuneration Code, as appropriate for level 3 firms, the rules published by the PRA and FCA, and the Bank's own judgement regarding the design of attractive awards and incentive packages which are effective in recruiting and retaining staff, whilst also meeting the banks long term interests and it's risk appetite.

In addition, BOCUK, due to its size and maturity, applies the proportionality principle (SYSC 19D.3.3R (2)) to ensure the practices and processes are appropriate for our size, the internal organisation and the nature and scope and the complexity of our activities.

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. The bonus pool is accrued annually at a level proposed by the CEO, after consulting with the EXCO team members and subsequently approved by the Board.

The bank does not operate an employee shareholder or share option plan.

8.3 Remuneration 2024

Remuneration:

Renumeration	Number of Staff	Aggregate
Directors	5	£324,000
Other members of staff	25	£1,135,000