



## Pillar 3 Disclosures

Tungsten Bank Plc financial year ending 30 April 2015

Tungsten Bank plc is authorised by the Prudential Regulation Authority ('PRA'), regulated by the Financial Conduct Authority ('FCA') and the Prudential Regulation Authority and is registered under the Financial Services Compensation Scheme. Tungsten Bank plc is a registered company in England and Wales Number 1536428 with a registered office at Pountney Hill House, 6 Lawrence Pountney Lane, London, EC4R 0BL. The Banks FRN is 139209.

## Tungsten Bank plc Pillar 3 Disclosures 30 April 2015

### Change History

Version	Date Issued	Issued by	Reason for Change
2016 v1.0	15 Mar 16	CFO & CCO	Annual Review for financial year ending 30 April 2015
2016 v1.1	17 Mar16	CFO & CCO	BEC review
2016 v1.2	18 Mar 16	CFO & CCO	Final BEC review
2016 v1.3	22 Mar 16	CFO & COO	Board review

### Governance and Approval

This Pillar 3 Disclosures report was approved by the Board of Directors on 22 Mar 2016.

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## **Tungsten Bank plc Pillar 3 Disclosures 30 April 2015**

### **1 Overview**

#### **1.1. Introduction**

Tungsten Bank Plc (the Bank”) is a UK Bank specialising in providing receivables financing for small and medium sized businesses. The Bank was acquired by Tungsten Corporation Plc in June 2014. The Bank is 100% owned by Tungsten Corporation plc, a company Registered in England, Company No. 07934335.

#### **1.2. Purpose**

The document describes the Bank’s approach to risk management and the maintenance of its capital resources. As such, it includes details of:

- Approach to risk management, its policies and objectives
- Governance structure of the Bank, including the Board and Committees
- Asset information and capital resources disclosures

#### **1.3. Published Information**

These disclosures should be read in conjunction with published financial information for Tungsten Bank plc (‘the Bank’) which can be found at [www.tungsten-bank.com](http://www.tungsten-bank.com). Results for the year to 30 April 2015 were released on 23 August 2015.

#### **1.4. Pillar 3 Disclosure Policy**

The Bank acknowledges the importance of the role of Pillar 3 disclosures, to promote market discipline through disclosure, as a complement to supervisory efforts, to encourage banks to assess risk, maintain capital and develop and maintain sound risk management systems and practices. In this respect, the Bank will publish Pillar 3 disclosures in relation to Article 431 (3) of the CRR in the following areas:

- Risk Management Objectives and Policies (Article 435 CRR)
- Risk Categories and Control inclusive of Market Risk (Article 445 and Article 455 CRR)
- Own Funds (Article 437 CRR)
- Capital Requirements (Article 438 CRR)
- Remuneration (Article 450 CRR)

In addressing the disclosure requirements under CRR, the bank has considered the best practice guidance set out in the EBA Report ‘On Bank’s Transparency in their Pillar 3 Reports’.

The other disclosure requirements under Pillar 3 are not reviewed in detail for the following reasons;

- Indicators of global systemic importance (Article 441 CRR) – with external exposures on the balance sheet of £5.9m as at 30 April 2015, the Bank is not considered to meet the criteria for global significance and so no further consideration is given to this element.
- Credit risk under the IRB approach (Article 452 CRR) – the Bank utilises the standardised approach to its calculation of Pillar 1 capital requirement for credit risk so no detailed analysis of the IRB approach is required.
- Unencumbered assets (Article 443 CRR) –as of 30 April 2015 all assets within the balance sheet are unencumbered so no further analysis is required.

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### 1.5. Verification

The information contained in this Pillar 3 disclosure document has not been audited by external auditors, nor does it constitute any form of financial statement. The document has been prepared so as to comply with certain Pillar 3 disclosures relating to capital requirements and risk.

### 1.6. Coverage and Basis of Disclosure

The disclosures are made on behalf of the Bank, which has no subsidiaries and is the sole regulated company within the Tungsten Corporation plc group. The shares of Tungsten Corporation plc are traded on the Alternative Investment Market (“AIM”) of the London Stock Exchange.

## 2. Risk Management Objectives and Policies

The Board is ultimately responsible for risks taken by the Bank. The Bank’s risk appetite is the amount of risk the Board is willing to accept in pursuit of value. The Board (in the absence of a Risk Committee) therefore establishes the tone for risk management and internal control and put in place appropriate systems to enable it to meet its responsibilities effectively.

This section sets out the Risk Appetite Statement (‘RAS’) for the Bank along with providing a governance and monitoring framework for its effective implementation of risk management within the Bank.

The Risk Management Framework (RMF) sets out how the Bank manages risk and how that framework will be maintained. It identifies processes, ownership, responsibilities and the risk oversight required to support effective implementation across the Bank. The framework governs the approach to management of all risks including but not limited to risks arising from financial, economic, operational and behavioral factors.

The business manages risk in day to day operations across the Bank with the risk and compliance function providing oversight and challenge. The Bank Board articulates the Risk Vision and Strategy and approves the Risk Appetite and the risk management framework, setting the tolerance and approach to risk taking activities.

The risk management framework supports the “three lines of defence” model and reinforces the need for first line management of risk with second line oversight.

### 2.1. High level governance framework

The Bank has a governance arrangement consistent and compliant with the UK Combined Code. The Board is the senior management body of the Bank with ultimate responsibility for the performance and oversight of the business. The Board elects from amongst its directors a Chairman and appoints a separate Chief Executive Office (‘CEO’) and other executive leadership to support the CEO. The Board, in turn, establishes certain committees and appoints individuals to specific roles. Set out in 2.3 is a diagram to represent the position showing the broad structure of the governance framework. In this section we have set out details of the components.

### 2.2. The Board of Directors

The Board operates as an independent Board separated and segregated from its shareholders. The

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shareholders have the capacity to question the individual directors' discharge of their duties and hold the Board to account under the Companies Act regulations and the Articles. The Bank's shareholders have the capacity and authority to remove, confirm appointments or make new appointments at shareholder meetings. The Chairman, CEO and other directors from time to time meet the shareholders informally to provide briefing and updates on performance and strategic initiatives.

The Board operates within defined operational arrangements and establishes operational systems for effective management. The Board conducts its business within established Board terms of reference which are designed to manage and control the Board's oversight and management of the Bank. The Board has set out further details of the governance arrangements in a corporate governance policy. The Board has established standing meeting, agendas and governance arrangements. The Board's corporate governance arrangements are aimed to deliver:-

- Setting of the business strategy and risk appetite;
- Act as the ultimate decision making body to debate, challenge and make key management decisions;
- Establishment of appropriate policies to manage the strategy and risk appetite;
- Assurance that the systems and controls are appropriate to manage the risks of the business;
- Safeguarding the Bank's assets;
- Maintain sound systems of financial control; and
- Maintain accountability for all decisions of the Board and Executive Committees.

The Board's compositional arrangements are set out in the corporate governance policies. The Board maintains a suitable balance between the NED's and executive members. The Board has established a policy for appointments to control and manage the appointments to the Board. At the time of approval of the Pillar 3 document the Board is composed of four Non-Executive directors, led by a chairman appointed from the NED members, and two Executive Directors. The Board makes all appointments and removals at the senior management level.

The Board establishes for each of the Board and Board's committees terms of reference setting out the primary responsibilities, along with governance arrangements, control of affairs, standing agenda items, specific monitoring and the composition. The Board is the forum where all key management decisions are tabled and ratified and appoints the members to all Board committees along with the chairperson from amongst its members. The chairperson of each committee is charged with reporting back to the Board on updates, findings and recommendations.

The Chairman has been appointed to run the Board and to both support and challenge the CEO to discharge his responsibilities in overseeing the running of the day to day business and lead the Board in its capacity to deliver the Bank's strategy. The Board have ruled that the Chairman shall not be a member of the executive management and shall not be the CEO, in accordance with CRD IV Art 88(1) (e). The Board oversees the CEO's establishment of a robust organisation composed of resources, people and systems to perform his/her assigned tasks.

The Board, led by the Chairman, continuously reviews its composition to ensure that there is the right balance of competency to allow effective governance of the bank. The Board has elected to appoint NED independent of the business to fulfil key functions for the oversight of compliance with remuneration code, senior manager nominations and audit functions and the Board's policies.

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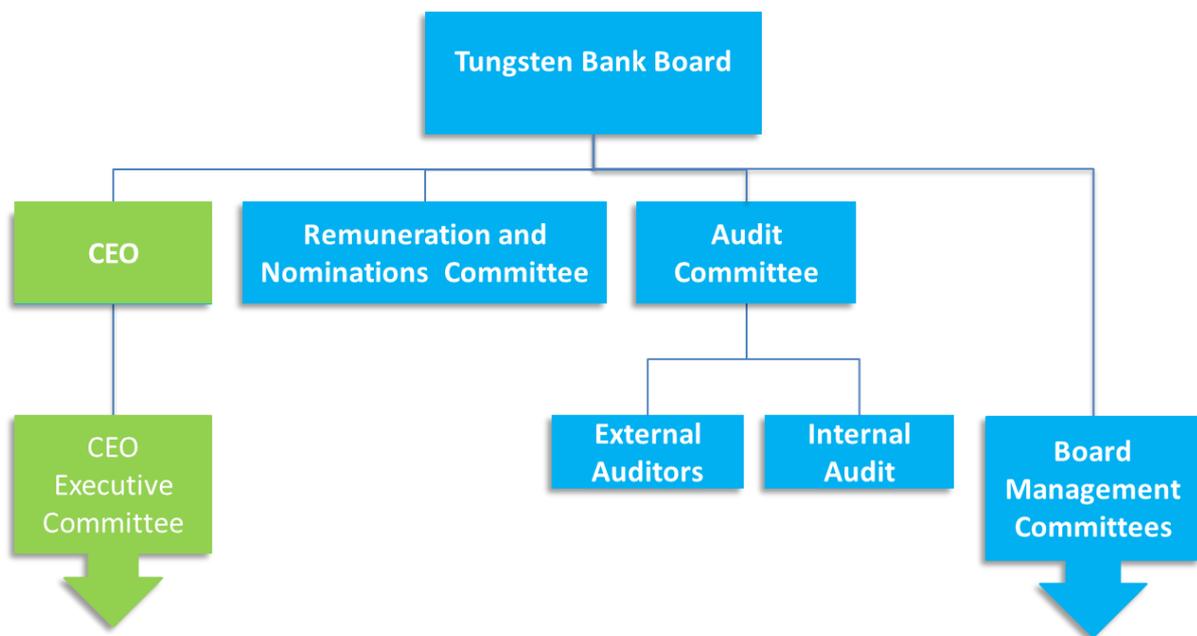
The number of directorships held by directors are compliant with the regulatory obligations setting out limitations on the number of directorships held.

**2.3. The Board Committees**

The Board has reviewed its requirements to manage the Bank and notes it does not have to form an audit committee, risk committee, remuneration or nominations committee.

The Board has elected to form two of the above committees composed of NED's independent of the business executives to strengthen and robustly exercise its governance arrangements for the Bank. The Board's election, as part of the overall corporate governance arrangements, is to form an Audit Committee and an integrated Remuneration and Nominations Committee.

**Figure 1: The Board and all Committees**



**2.3.1. The Board and the two NED committees**

Described below are high-level extracts from the Board and its Non-Executive Director committees' responsibilities which describe the composition, arrangements and responsibilities of the Board and the Non-executive Director committees.

**Figure 2: Board Responsibilities**

Board of Directors
<p>The ultimate responsibility for the governance of the Bank.</p> <ul style="list-style-type: none"> <li>• Set the Bank’s strategic aims and provide leadership to put them into effect. (CRD IV Art 88 (1) (a))</li> <li>• Establish and oversee the frameworks of governance, systems and control. (CRD IV Art 88(1)(b)0</li> <li>• Supervise the management of the business. (CRD IV Art 88(1)(d))</li> <li>• Report to the Bank’s stakeholders on their stewardship. (CRD IV Art 88(1)(c))</li> <li>• Meet the prevailing laws and regulations.</li> <li>• Acknowledge the authority and constitutional contract with shareholders set out in the Articles of Association.</li> </ul>

## 2.4. The Boards’ Management Risk Committee Structure

The Board undertakes risk management oversight within its own primary responsibilities at its regular meetings per year. The Board considers that the regularity of its scheduled Board meetings meets the appropriate frequency to address risk management and governance controls matters.

The CRO is responsible to lead the risk management framework, policies and processes. To assist the CRO to perform his duties the Board maintains, as part of the Second Line Defence, three permanent Board sanctioned Management Risk Committees, with defined responsibilities to manage and monitor the risk appetite and developments. The Boards’ Management Risk Committees are composed of executive management, meet monthly to scrutinise, debate, monitor and assess the development of business risks. Set out below are the high-level descriptions of the Boards’ Management Risk Committees.

### 2.4.1. Asset & Liability Committee

The Asset & Liability Committee: (‘ALCO’) is a key management committee that reviews and manages tasks related to the management of risks arising from financial exposures of the Bank, including assessment of counterparty exposures and potential impact on liquidity and capital. The ALCO reviews, provides oversight and inputs that are central to the development of appropriate risk measurement, monitoring and management processes.

### 2.4.2. Credit Committee

The Credit Committee approves credit proposals and reviews arrears management and provisioning policy as well as portfolio management reports to ensure the performance and quality of credit portfolios across the business remains within agreed risk appetite limits. Credit Committee examines the systems and controls for credit management.

### 2.4.3. Operational Risk Committee

The Operational Risk Committee (‘ORC’) is a key management committee that performs tasks related to the management of operational risks arising from activities impacting on the business systems, process, operations and people, including assessments of the conduct, financial crime, project and legal risks and the potential impact on the business delivery, customer experience, business performance and operational loss exposure to the Bank’s capital.

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ORC reviews, oversights and inputs are central to the development of appropriate operational risk measurement, monitoring and management processes as well as deploying appropriate operational management approaches that are consistent with robust business delivery and operational performance. The ORC also reviews and assesses risks to the business from external events impacting operational targets, including legislative and regulatory developments, Acts of God, fraud, loss of assets, resources and environmental impacts.

The ORC also acts to review and oversight the Bank's culture and conduct in the performance and delivery of the business products and services.

The Bank has a low appetite for regulatory breaches and the ORC ensures appropriate and proportionate systems, controls and resources are in place to provide a robust level of risk mitigants, process and controls for the management and delivery of the business.

### **2.5. Bank Executive Committee**

The Board appoints a CEO to manage the execution and delivery of the Board's strategy, along with day-to-day management of the Bank. The CEO maintains a Bank Executive Committee ('BEC'), to allocate responsibilities, liaise and co-ordinate the leadership team, projects and delivery of the business strategy. The CEO is empowered to form and appoint members to any other such committee as required to deliver the business strategy and meet operational day to day requirement. The CEO has informed the Board of the mandate and governance arrangement for the BEC.

### **2.6. Risk Management Framework ("RMF")**

The Board is ultimately responsible for risks taken by the Bank. The Bank's risk appetite is the amount of risk on a broad level, the Board is willing to accept in pursuit of value. As the Bank pursues various objectives to add value, it should understand the risk it is willing to undertake in doing so, communicate and monitor this to its staff and indeed update the risk appetite to reflect such changes as and when it occurs.

The RMF sets out how the Bank manages risk and how that framework will be maintained. It identifies processes, ownership, responsibilities and the risk oversight required to support effective implementation across the Bank. The framework governs the approach to management of all risks including but not limited to risks arising from financial, economic, operational and behavioral factors.

The business manages risk in day to day operations across the Bank with the risk and compliance functions providing oversight and challenge. The Bank's Board articulates the Risk Vision and Strategy and approves the Risk Appetite and the risk management framework, setting the tolerance and approach to risk taking activities.

The risk management framework supports the 'three lines of defence model' and reinforces the need for first line management of risk with second line oversight.

#### **2.6.1. Overview of the Three Lines of Defence**

The Bank adopts the 'three lines of defence' risk management model, each line playing a distinct role in the cumulative risk governance policy. The three lines of defence is contingent upon the integration of the Bank's strategy with business practice and governance functions along with accurate reporting

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to the Board and various risk committees. The Board, along with senior management, have responsibility and accountability for setting the Bank's key objectives and the tolerance and approach to manage the risks in accomplishing those objectives.

The 'three lines of defence' model provides a simple approach to ensure the key principles, elements and processes of risk management are ingrained at all levels and functional areas and is an integral part of the day to day operations. It provides the settings for embedding appropriate risk culture and behaviors aligned with the Bank's strategic vision, appetite for risk and accounting for customers' interests. It also outlines to staff in effectively managing risk with delegated authorities and risk limits and provide management with appropriate decision making support information.

### **3. Risk Categories and Controls**

#### **3.1. Strategic Business Risk**

The risk of the Bank not being able to achieve its strategic and commercial objectives principally driven by the Bank's desire to grow assets. Such risks may include the selection of the wrong strategy, the external changes in the business environment, changing competitive dynamics in the market and poor business practice culminating in reputational issues. The impact of these risks, can have a material impact to the capital position of the Bank, particularly in the early years where the Bank is ramping up and has a cost base that while covered by the shareholder could impede the capital position.

The strategic business risk appetite is measured in terms of the deviation against key performance indicators which form part of the bank's business plan and budget. Performance against the strategic risk appetite is measured and reported to the Board.

##### **3.1.1. Mitigation**

The appropriate risk appetite has been approved by the Board in conjunction with the executive management ensuring an open communication path between the two thereby providing visibility and transparency in managing this risk. The Board, through the ICAAP provides stress testing that assesses the impact of such a risk occurring, the impact on capital in this scenario and trigger points where action is taken i.e. additional capital or cost cutting.

#### **3.2. Credit Risk**

Credit risk is the risk of financial loss resulting from a borrower or counterparty failing to meet its financial obligation to the Bank. For the types of business the Bank is seeking to undertake this typically means taking payment risk on a counterparty in the receivables financing, typically investment grade or of good quality and well established.

Additionally, the Bank may take counterparty risk in that funds processed, ultimately due to the Bank as repayment of financing provided on receivables, is disputed between the parties. In these events, the obligor typically acts on the bank's behalf as Agent as is a common approach to the industry. In many respects, the tenor ultimately becomes one of the strongest risk mitigants as the Bank's financing is typically short term in nature, self-liquidating and well documented.

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### 3.2.1. Mitigation

The Bank in its recent experience has seen no defaults.

The Board therefore feels the establishment of the Bank's credit policy prescribes the controls necessary to manage credit risks. The key elements of the lending policies are as follows:

- Tailored approach to underwriting analysed by experienced risk professionals.
- Verification of supplied information from the applicant.
- Payment risk assessment to confirm the Buyer is expected to have the financial resources necessary to pay the supplier.
- Regular assessments of portfolio assets.

Senior management and Credit Committee will regularly review and challenge portfolio credit practices and results. They may act in various ways to limit the impact of credit risk events on the Bank including:

- Reducing the levels of new lending in a stress environment to preserve capital.
- Managing the realisation of proceeds and collateral to reduce the level of loss.

All other approvals outside of the Board's risk acceptance criteria are subject to Board Approval.

#### 3.2.1.1. Credit Risk Disclosures

All associated Credit Risk disclosures are shown as of the financial year end date of 30 April '15.

**Figure 3: Exposure by class**

Standardised Exposure Class	£ 000's
Central Government and Central Banks	999
Regional governments or local authorities	-
Administrative bodies and non-commercial	-
Multilateral development banks	-
International Organisations	-
Institutions (banks and investment firms)	-
Corporate Lending	5,899
Other Items (inc Nostros)	18,843
<b>Total</b>	<b>25,741</b>

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**Figure 4: Exposure by geographic area and material exposure class**

Standardised Exposure Class £ 000's	UK	Channel Islands	Other	Total
Central Government and Central Banks	999	-	-	999
Regional governments or local authorities	-	-	-	-
Administrative bodies and non-commercial	-	-	-	-
Multilateral development banks	-	-	-	-
International Organisations	-	-	-	-
Institutions (banks and investment firms)	-	-	-	-
Corporate Lending	5,899	-	-	5,899
Other Items (inc Nostros)	4,754	-	14,089	18,843
<b>Total</b>	<b>11,652</b>	<b>-</b>	<b>14,089</b>	<b>25,741</b>

**Figure 5: Exposure by significant counterparty and exposure class**

Standardised Exposure Class £ 000's	Wholesale	Retail	Other	Total
Central Government and Central Banks	999	-	-	999
Regional governments or local authorities	-	-	-	-
Administrative bodies and non-commercial	-	-	-	-
Multilateral development banks	-	-	-	-
International Organisations	-	-	-	-
Institutions (banks and investment firms)	-	-	-	-
Corporate Lending	5,899	-	-	5,899
Other Items (inc Nostros)	18,843	-	-	18,843
<b>Total</b>	<b>25,741</b>	<b>-</b>	<b>-</b>	<b>25,741</b>

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**Figure 6: Exposure by residual maturity breakdown**

Standardised Exposure Class £ 000's	<3m	3m-1yr	1-5yrs	>5yrs	Total
Central Government and Central Banks	999	-	-	-	999
Regional governments or local authorities	-	-	-	-	-
Administrative bodies and non-commercial	-	-	-	-	-
Multilateral development banks	-	-	-	-	-
International Organisations	-	-	-	-	-
Institutions (banks and investment firms)	-	-	-	-	-
Corporate Lending	5,899	-	-	-	5,899
Other Items (inc Nostros)	18,843	-	-	-	18,843
<b>Total</b>	<b>25,741</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>25,741</b>

**3.2.2. Non-Performing Loans**

The Bank provisions across its activities either through portfolio or specific provisioning. Portfolio provisioning reflects the estimated amount of losses incurred on a collective basis, but have yet to be individually identified. Specific provisions are raised against non-performing or defaulted agreements.

While the Bank has a no history of losses to the reporting date, the Bank credit department assess the overdue days compared to the assessed payment due date and commences chasing the arrears based on certain triggers and giving consideration to the overall credit viewpoint. The Credit Committee receive a standing return of all arrears, non-performing and overdue transactions. These are supported with a documented history and steps to be considered to strengthen the lending criteria and operational processes.

As at 30 April 2015 the Bank had no non-performing loans on its balance sheet.

**3.2.3. Counterparty Credit Risk**

Counterparty credit risk arises from the wholesale investments made by the Bank's Treasury function in order to meet its liquidity requirements. The Treasury and Credit functions are responsible for managing the credit risk in line with the Board approved risk appetite and credit policies. Wholesale counterparty limits are reviewed by the Credit Committee based on the analyses of counterparties financial performance, credit ratings and other market information to ensure that limits remain within the defined RAS.

**3.2.4. Concentration Risk**

Concentration risk is the risk arising from having exposures concentrated in one sector, asset class, product, buyer, or geographical region or from a large individual exposure or a number of exposures to the Bank of related borrowers or counterparties and that in the event of a stress which affect that concentration higher levels of credit losses will be experienced. Concentration risk can also arise from concentrations in funding and liquidity mix and sources.

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The Bank historically identified a potential concentration risk in the limits provided to Buyers (the level of payment risk the Bank is prepared to take on one counterparty) and although could seek to maintain limits at the 25% threshold, has opted to be conservative in its approach of the Bank's capital base. While the Bank remains in its infancy the risk will remain high until such time as diversification is achieved.

The Bank is also concentrated in the number of lines of business it provides in the lending portfolio in that it is deeply reliant upon one asset class.

Target limits and tolerance levels have been set in the RAS to identify and monitor concentration exposures with regard to a particular customer (based on ratings/grades), product, industry or geographic location.

The credit function actively monitor the portfolio and report, via the Credit Committee, the assessment and any elevated thresholds in respect of the concentration limits set.

### **3.3. Market Risk**

Market risk is the risk that changes in market prices, particularly interest rates, will affect the Bank's income and/or the value of financial instruments it holds.

The Bank currently undertakes immaterial foreign currency activity in the period to 30 April 2015.

Most of the asset base discounts receivables at a fixed discount rate to the receivable repayment date. With the exception of <£0.1m legacy deposits, the Bank did not have any retail deposits at the 30 April 2015.

The current forecast is that there will be low market risk attaching to the asset and liability portfolios in the trading book. On the asset side the longest dated transaction has a maturity less than one year. The corresponding Liquidity Asset Buffer ('LAB') is held in sovereign T-Bills, with short term maturities. On the liability side, the risk is managed across products, with capped limits per product to ensure the Bank does not become overweight on any one maturity bucket, and a managed approach to the maturity ladder. Accordingly, the market risk exposure to short term rates volatility is curtailed.

As at 30 April 2015 and based on the FSA017 submission template the capital that would otherwise be provided for under market risk would have been zero given the absence of any trading exposures in the balance sheet.

#### **3.3.1. Market Risk Appetite**

Other than for liquidity management purposes, the Bank does not have a trading book or engage in any trading purposes. It therefore has only a limited appetite for market risk. The Bank's Finance and Treasury functions manage and controls interest rate risk and the Bank's hedging policy. Reports dealing with interest rate exposure are monitored and reported to the ALCO. The Bank's strategy is to minimise interest rate risk by taking advantage of economic hedging opportunities by running a matched book as far as possible.

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### 3.3.2. Mitigation FX Rate Risk

In the period to 30 April 2015 the Bank only had GBP assets.

The Bank monitors its open FX position, producing a report of currency balance sheets.

The Bank has established limits for open position risks. Any exposures exceeding these amounts are closed out by the Treasurer as they arise. In practice the open positions are smaller than the approved limits.

The Bank may obtain funding in one currency and use it to purchase invoices in currency via a spot FX transaction matched with an offsetting forward FX (an FX swap). The FX position is monitored within the Banks overall interest rate position limits set out in this section.

### 3.3.3. Mitigation Interest Rate Risk

All of the Banks assets and liabilities, together with maturity and interest reset dates, are held within the banking system. The system produces a report which breaks down each asset and liability category into time buckets based upon maturity dates for fixed rate assets and liabilities, or interest rate reset dates for floating rate assets/liabilities. The report totals to a summary of interest rate reset gaps across all asset and liability categories.

## 3.4. Liquidity Risk

Liquidity risk is the risk that the Bank will have insufficient liquid resources to meet current and future financial commitments as they become due.

The Bank's liquidity risk appetite is set by the Board and documented in the Bank's Treasury Policy, which is reviewed at least annually. The Bank has developed funding and liquidity policies to ensure that it maintains sufficient liquid assets to meet current and future financial commitments during an extended period of stress.

The Bank's strategic objective is to have stable and efficient access to appropriately diversified funding and liquidity in to defined strategic metrics. The liquidity risk appetite provides a vital link between business strategies and the amount and quality of liquidity required to be resilient to liquidity stress events.

The Bank's funding today is provided solely by shareholder capital.

### 3.4.1. Mitigation

The Bank assesses all material liquidity risks in detail. It sets a liquidity risk appetite with respect to each key liquidity risk driver, based on the Bank's analysis of each driver, which is considered, together with liquidity risks generally, by the ALCO. Through the assessment process, the Bank seeks to assess the level of liquidity necessary to prudently cover systemic and idiosyncratic risks. The assessment process determines the appropriate liquidity buffer taking into account the specific nature of the deposit base.

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Based on the future strategy, the liquidity risk appetite will always seek to provide assurances to the Board that the relevant liquidity risk drivers have been considered and appropriately stressed and that the Bank is able to meet liabilities beyond the targeted survival date. Furthermore, the assets the Bank includes within its liquidity buffer are rated A or higher quality and in this regard does not expect to incur any material credit risk on these.

To protect the Bank and its depositors against liquidity risk, the Bank maintains a liquidity buffer, which is based on its liquidity needs under stressed conditions. The liquidity buffer is monitored on a daily basis to ensure the Bank has sufficient liquid assets at all times to cover cash flow movements and fluctuations in future funding and for the Bank to meet all of its financial obligations. Liquidity requirements under stressed conditions are considered as part of the liquidity assessment process.

### **3.5. Operational Risk**

Operational risk is the risk of loss arising from inadequate or failed internal processes, people and systems or from external events. The Bank aims to maintain robust operational systems and controls and seeks to operate within the defined level of operational risk. The Bank's operational risk management function reviews risk events and assesses internal control as well as potential additional capital requirements stemming from certain operational risks.

Operational risks can arise in many ways, including from business interruption, associated with IT or other systems failures, delivery failures on the part of third party suppliers, reputational damage, regulatory censures or fines, frauds perpetrated against the Bank or the loss of people pivotal to the delivery of the Bank's business plan.

In addition, the Bank's cyber security measures may not detect or prevent all attempts to compromise its systems including viruses, malicious software, break-ins, phishing attacks, security breaches and similar disruptions that may jeopardise the security information stored in and transmitted by the bank's systems.

#### **3.5.1. Operational Risk Appetite**

The Bank used the Basic Indicator approach for Operational Risk for its Pillar 1 capital requirement and has set operational risk appetite tolerances in single event and aggregate accumulations.

#### **3.5.2. Mitigation**

The Bank's Operations, IT and Finance functions are designed to ensure appropriate strategies and policies are in place to manage, control and mitigate the risks that could impact the ability of the Bank to meet its business objectives while protecting its reputation and operating within the Board approved operational risk appetite.

All staff across the Bank are responsible for the identification and management of potential operational risks and receive training for this purpose, and the Bank has employed the necessary skills set and experiences to support the business. In addition, the Bank has a specific function responsible for regularly reviewing and updating the Bank's business continuity framework and arrangements to protect the Bank in the event of disruption, including a minimum annual test of the plan.

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The Bank specifically monitors operational risk, assessing and measuring the potential impact of operational risks and monitoring the implementation of the corrective actions.

### **3.6. Conduct, Compliance and Regulatory Risk**

Conduct risk is the risk of detriment caused to the Bank's customers due to inappropriate execution of its business activities and processes. Conduct risks may arise in many ways, through the mis-selling of products and the failure to Treat Customers Fairly ('TCF'), poor product design and insufficient or from the provision of misleading advice to the Bank's customers. Poor conduct, which contravenes regulations, or which threatens the safety of the financial system (non-exhaustive list), may result in regulatory censure and/or fines. The Bank aims to maintain effective procedures to mitigate conduct risk and seeks to operate with a minimum level of conduct risk.

The Bank's RMF includes a compliance policy within which the Board has set a low risk appetite (that is full compliance is required) in relation to legal and regulatory risk and the standards within which the business is expected to operate. The framework also includes the governance and policy controls to enable identification of key legal and regulatory risks and trends. These impacts are assessed within the Compliance function and represent the second line of defence.

#### **3.6.1. Mitigation**

The Bank relies on its 'three lines of defence' model to ensure there is an adequate safeguard against conduct risk, compliance and regulatory breaches. The first line of defence is responsible for day to day implementation of the conduct risk strategy and compliance policies, while the second line of defence monitors the Bank's management of this risk and ensures the Bank's risk aware culture is firmly embedded in all employees through mandatory training and awareness programs.

## **4. Own Funds**

In compliance with the requirements under Article 437 CRR detailed below is the regulatory capital position as of 30 April 2015. No deductions have been required to be made, and no prudential filters are required to be applied, for the purpose of these calculations.

An abbreviated Template A has been utilised in the presentation of these metrics due the highly simplified nature of the Bank's capital position which would otherwise show nil value across most of the template criteria.

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**Figure 7: Abbreviated Template A Own Funds**

Abbreviated Template A	£ 000's
Common equity tier 1 (CET1) capital: instruments and reserves	
Capital instruments	27,520
Share Premium	-
Retained Reserves	(2,115)
Total regulatory adjustments to Common equity tier 1 (CET1)	-
Common equity tier 1 (CET1) capital	25,405
Additional Tier 1 / Tier 2	-
Total capital (TC = T1 + T2)	25,405
Total Risk Weighted Assets (RWA)	9,031
Capital ratios and buffers	
Common equity Tier 1	281.3%
Tier 1	281.3%

## 5. Capital Requirements

In compliance with the requirements under Article 438 CRR detailed below is the regulatory capital position as of 30 April 2015. The Bank's overall capital resources requirement under Pillar 1 is calculated by adding the capital resources requirements for credit risk and operational risk.

The following table shows the Group's capital resources requirement and capital resources surplus under Pillar 1 as at 30 April 2015.

**Figure 8: Capital Resources Requirements**

Capital Resources Requirement - Pillar 1	£ 000's
Credit Risk	722
Operational Risk	219
Capital resources requirements under Pillar 1	941
Capital Resources (per Section 4)	25,405
Capital resources surplus over Pillar 1 requirement	24,464

## 6. Remuneration

Article 450 of the CRR requires the Bank to disclose information regarding its Remuneration Policy and remuneration pay and awards. The Bank adopts a set of policies and procedures regarding remuneration that is comprehensive and proportionate to the nature, scale and complexity of the Bank's activities and take into account all binding regulation and legislation to ensure effective risk management.

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### 6.1. Remuneration Policy

Remuneration decisions are aligned with effective risk management and are comprehensive and proportionate to the nature, scale and complexity of the Bank's activities.

The Bank complies with the PRA Remuneration Code. The Bank's methodology for compliance is a framework where the responsibility for and implementation of the remuneration code is overseen by the Remuneration and Nominations Committee in conjunction with the CEO. The Board sanctions the material components of the compensation arrangements. The Bank provides employee compensation in the form of fixed and variable remuneration. The compensation arrangements are regularly reviewed by the Remuneration and Nominations Committee, and when deemed necessary benchmarked to market.

Fixed remuneration of all employees takes into account several factors including the nature, scope and complexity of the role, level of responsibility and professional track record.

The approach and methodologies for determining the variable component are composed of financial and non-financial elements including performance assessments incorporating the balance of the risk and rewards of the Bank and consistently applied across all senior managers and other employees. The Board gives due consideration to the balance in composition between fixed and variable remuneration and the upper cap of 100%. The shareholders' considerations and input is brought into consideration of determination of the non-financial element of variable remuneration. Any deferred compensation arrangements or planned schemes are structured to meet the Remuneration Code.

Remuneration and Nominations Committee is responsible for reviewing the benefits structure applicable to all employees within the Bank. The Board approves all changes to the Benefits structure.

All senior executives, including directors, senior management functions and material risk takers have contracts setting out their respective remuneration packages, entitlements and economic rewards. All remuneration components of senior executives are approved by the Board.

Non-executive Directors, including the Chairman are paid fixed remuneration.

Analysis of the composition and components of the remuneration incurred in the financial year to 30 April 2015 are set out in the financial statements dated 30 April 2015 and can be located <http://www.tungsten-network.com/bank/uk/investor-information/>.