

**BBS LIMITED**  
**Basel II Pillar III**  
**disclosures for the**  
**quarter ended 30**  
**June 2018**



# Contents

<b>1</b>	<b>Risk management</b>	<b>3</b>
1.1	Introduction	3
1.2	Risk management framework	3
1.3	Reporting of risk	3
1.4	Risk appetite policy	4
<b>2</b>	<b>Disclosure: Detailed quantitative and qualitative disclosures of risk types</b>	
2.1	Regulatory capital and requirements	6
2.1.1	Qualitative disclosures	6
2.1.2	Quantitative disclosure	7

# 1.Risk Management

## 1.1 Introduction

BBS Limited (BBS) manages the enterprise wide risks assumed by BBS through the Risk Department. BBS has adopted the Basel II Risk Management Framework for the management of risks it is exposed to. Adoption of this approach is also intended to enhance BBS management of its capital. BBS is currently exposed, but not limited to the following risks from its use of financial instruments:

- Capital risk
- Credit risk
- Counter party credit risk
- Operational risk
- Liquidity risk

## 1.2 Risk Management Framework

The Board of Directors has the overall responsibility for the establishment and oversight of the risk management framework. The Board is supported by various sub-committees in the execution of its fiduciary duties and oversight of risk.

The Board Sub-committees and Board convene on a quarterly basis. The Board comprises of nine non-executive directors and one executive director.

BBS has in place an enterprise-wide risk framework to ensure alignment to Basel II as well as ensuring that BBS meets best risk management practices.

The BBS risk management policies are established to identify and analyse the risks faced by BBS, to set appropriate risk limits and controls, and monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. Through its training and management procedures, BBS aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The following committees and departments assist the risk management department in fulfilling its duties:

- Operational Risk Management Committee
- Assets and Liabilities Committee
- Credit Approvals Committee (“CAC”)
- Enterprise risk management
- Compliance department
- Internal audit department (“IA”)

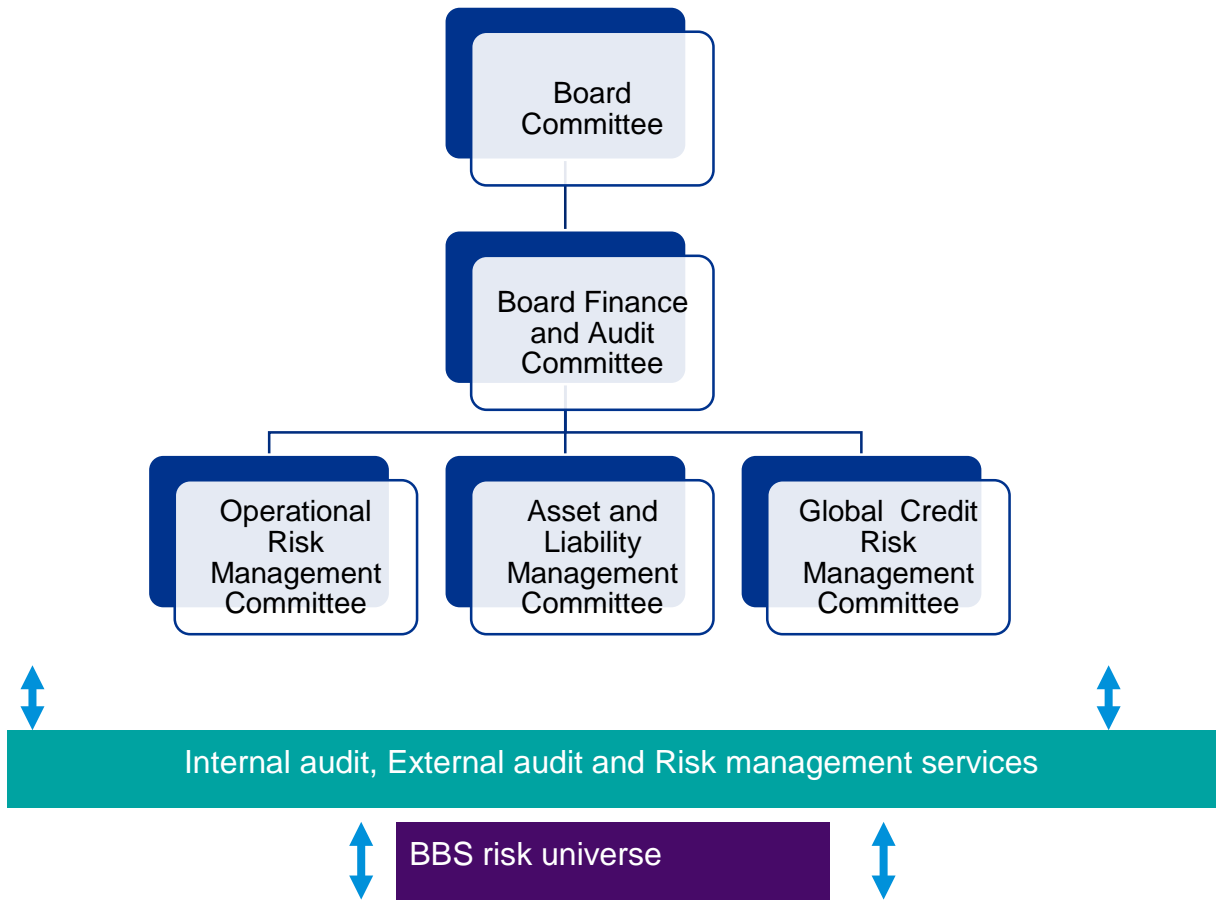
## 1.3 Reporting of risk

The Board has overall responsibility for risk management and delegates the oversight responsibility for risk management to the Finance and Audit Committee. BBS utilises and firmly applies a holistic and integrated risk management approach. Included in the risk management mechanisms is the principle of “three levels of defense”. Business units and risk management

services, together with internal and external audit, participate in the holistic approach to risk management. Each business unit is responsible for its own risk management and the reporting of its risk profile i.e. assessment, monitoring, control or mitigation and corrective action. Policies to address areas of non-compliance must be an agenda item of the Operational Risk Management Committee. In partial fulfilment of that responsibility, the Board approves the overall business strategy, which includes the overall risk policy and management of procedures.

### 1.4 Risk appetite policy

All risks faced by BBS are reviewed on an annual basis and the major groups of risks (before and after the application of mitigating controls) are set out and described below. Management of the business units and BBS board are satisfied that these risks are being managed adequately to ensure that the desired outcome is achieved. The diagram below depicts the risk universe faced by BBS, as well as the appropriate level of role and responsibility associated with the specific risk.




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Accounting and taxation	Liquidity (concentration)	Market	Business continuity	People and transformation
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Compliance	Capital	Operational	Reputational	Social and environmental
New Business	Interest rate	Information technology	Credit (counterparty)	Logistics and merchandising

Through a holistic and integrated risk management approach, BBS has included in the risk management mechanisms a principle of “three levels of defense”. Business units and risk management services, together with internal and external audit, participate in the holistic approach to risk management.



Risk appetite is an articulation and allocation of the risk capacity or quantum of risk BBS is willing to accept in pursuit of its strategy, duly set and monitored quarterly by senior management and the board. Risk appetite is integrated into the strategy, business, risk and capital management plans.

As a general rule the ‘materiality threshold’ BBS applies in its day to day business and risk management is a conservative one, aligned with International Financial Reporting Standards (IFRS) which are used by our external auditors, endorsed by our Finance and Audit Committee.

‘Materiality’ is defined in the following terms: ‘Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut-off point, rather than being a primary qualitative characteristic which information must have if it is to be useful’.

The BBS risk appetite culture is inherently conservative. We measure and express risk appetite in terms of quantitative risk metrics and qualitatively. The quantitative metrics include earnings at risk (EaR) (or earnings volatility) and related to this, the ‘chance of regulatory insolvency’, ‘chance of experiencing a loss’ and economic capital adequacy. These comprise our ‘risk appetite metrics’. In addition, a large variety of risk limits, triggers, ratios, mandates, targets and guidelines are in place for all the financial risks (e.g. Credit, Market and Asset and liability management (“ALM”) risks).

It is established with reference to the strategic objectives and business plans of BBS, including the achievement of financial targets, payment of dividends, funding of capital growth and maintenance of target capital ratios.

Qualitatively, we also express risk appetite in terms of policies, procedures, statements and controls meant to limit risks that may or may not be quantifiable.

The BBS risk appetite is defined across five broad categories as set out in our board approved Risk Appetite Framework, namely:

- Core risk appetite metrics;

- Specific risk-type target setting (clarifying across our businesses the mandate levels that are of an appropriate scale relative to the risk and reward of the underlying activities so as to minimise concentrations and other risks that could lead to unexpected losses of a disproportionate scale);
- Stakeholder targets (such as target debt rating for economic capital adequacy and dividend policy);
- Policies, procedures and controls; and
- Zero-tolerance statement

## 2. Detailed Quantitative and Qualitative Disclosures of Risk Types

### 2.1 Regulatory capital and requirements

#### 2.1.1 Qualitative disclosures

To monitor the adequacy of its capital, BBS uses ratios established by the BoB which measure capital adequacy by comparing BBS eligible capital with its reported assets and commitments at weighted amounts to reflect their relative risk. The regulator has advised all financial institutions to ensure that capital requirements are based on the Basel II framework. BBS started complying with Basel II reporting requirements in January 2016.

The table below shows a summary of the minimum regulatory capital requirements.

**Table 2: Capital Adequacy Requirements (all numbers in percent)**

	Common Equity Additional Tier I Tier1	Tier I Capital	Tier II Capital	Total Capital
Minimum	4.5	3	7.5	15

Regulatory capital is divided into three main categories, namely common equity tier 1 ("CET1"), tier 1 and tier 2 capital as follows:

- Common equity tier 1 capital comprises shareholders' equity and related eligible non-controlling interest after giving effect to deductions for disallowed items (e.g. goodwill and intangible assets) and other adjustments. CET1 Capital must be at least 4.5% of risk-weighted assets, at all times.
- Additional tier 1 capital includes qualifying capital instruments that are capable of being fully and permanently written down or converted into common equity tier 1 capital at the point of non-viability of the firm and other additional tier 1 instruments, which no longer qualify as additional tier 1 capital and are subject to grandfathering provisions and related eligible non-controlling interest. The tier I capital ratio shall be calculated as the adjusted Tier I capital, divided by the total risk-weighted assets of BBS. The Tier I capital ratio must be at least 7.5% of risk-weighted assets at all times.
- Tier 2 capital comprises qualifying subordinated debt and related eligible non-controlling interests and other tier 2 instruments, which no longer qualify as tier 2 capital and are subject to grandfathering provisions. Total capital (tier 1 capital plus tier II capital) to risk-weighted assets must be at least 15% of risk-weighted assets at all times.

For prudential supervisory purposes, Tier 1 capital consists of ordinary share capital together with the statutory and retained earnings reserves. BBS policy is to maintain a strong capital base

so as to maintain investor, creditor and market confidence and to sustain growth of the business. The objective is to strike a balance between the higher returns that might be possible with greater earnings and the advantages and security afforded by a sound capital position. BBS is required to hold certain amounts of permanent capital as a proportion of borrowings as per Section 41 of the Building Societies Act. However due to BBS structure, the capital adequacy ratio is high as a result of the requirements of the Building Societies Act (Section 41) which requires BBS to hold certain amounts of permanent capital as a proportion of borrowings.

BBS Limited successfully converted from a mutual body to a company limited by shares on 26 April 2018.

## 2.1.2 Quantitative disclosures

**Table 3: Basel II Common Equity Tier I Disclosure**

Basel III Common Equity Tier I Disclosure Template		
Common Equity Tier I capital: instruments and reserves		
1	Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus.	483,508
2	Retained earnings	18,450
3	Accumulated other comprehensive income (and other reserves)	113,437
4	Directly issued capital subject to phase out from CET1 CAPITAL (only applicable to non-joint stock companies)	-
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1 CAPITAL)	-
6	<b>Common Equity Tier I capital before regulatory adjustments</b>	<b>615,395</b>
Common Equity Tier I capital: regulatory adjustments		
7	Prudential valuation adjustments	
8	Goodwill (net of related tax liability)	
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	
11	Cash-flow hedge reserve	
12	Shortfall of provisions to expected losses	
13	Securitisation gain on sale (as set out in paragraph 562 of Basel II framework)	
14	Gains and losses due to changes in own credit risk on fair valued liabilities	
15	Defined-benefit pension fund net assets	
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	
17	Reciprocal cross-holdings in common equity	
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	
19	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	
20	Mortgage servicing rights (amount above 10% threshold)	
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	
22	Amount exceeding the 15% threshold	



23	of which: significant investments in the common stock of financials	
24	of which: mortgage servicing rights	
25	of which: deferred tax assets arising from temporary differences	
26	National specific regulatory adjustments	
27	Regulatory adjustments applied to Common Equity Tier I due to insufficient Additional Tier I and Tier II to cover deductions	(16,354)
28	Total regulatory adjustments to Common equity Tier I	(16,354)
29	<b>Common Equity Tier I capital (CET1 CAPITAL)</b>	<b>599,041</b>
Additional Tier I capital: instruments		
30	Directly issued qualifying Additional Tier I instruments plus related stock surplus	
31	of which: classified as equity under applicable accounting standards	
32	of which: classified as liabilities under applicable accounting standards	
33	Directly issued capital instruments subject to phase out from Additional Tier I	
34	Additional Tier I instruments (and CET1 CAPITAL instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	
35	of which: instruments issued by subsidiaries subject to phase out	
36	Additional Tier I capital before regulatory adjustments	
Additional Tier I capital: regulatory adjustments		
37	Investments in own Additional Tier I instruments	
38	Reciprocal cross-holdings in Additional Tier I instruments	
39	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% thresh	
40	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	
41	National specific regulatory adjustments	
42	Regulatory adjustments applied to Additional Tier I due to insufficient Tier II to cover deductions	
43	Total regulatory adjustments to Additional Tier I capital	
44	Additional Tier I capital (AT1)	
45	<b>Tier I capital (T1 = CET1 CAPITAL + AT1)</b>	<b>599,041</b>
Tier II capital: instruments and provisions		
46	Directly issued qualifying Tier II instruments plus related stock surplus	
47	Directly issued capital instruments subject to phase out from Tier II	
48	Tier II instruments (and CET1 CAPITAL and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier II)	
49	of which: instruments issued by subsidiaries subject to phase out	
50	Provisions	6,818
51	<b>Tier II capital before regulatory adjustments</b>	<b>6,818</b>
Tier II capital: regulatory adjustments		
52	Investments in own Tier II instruments	
53	Reciprocal cross-holdings in Tier II instruments	
54	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% thresh	



	Significant investments in the capital banking, financial and insurance entities that are outside the scope of	
55	regulatory consolidation (net of eligible short positions).	
56	National specific regulatory adjustments	
57	Total regulatory adjustments to Tier II capital	
58	<b>Tier II capital (T2)</b>	<b>6,818</b>
59	<b>Total capital (TC = T1 + T2)</b>	<b>605,859</b>
60	<b>Total risk-weighted assets</b>	<b>1,894,961</b>
<b>Capital ratios and buffers</b>		
61	<b>Common Equity Tier I (as a percentage of risk weighted assets)</b>	<b>31.61%</b>
62	<b>Tier I (as a percentage of risk-weighted assets)</b>	<b>31.61%</b>
63	<b>Total capital (as a percentage of risk weighted assets)</b>	<b>31.97%</b>
64	Institution specific buffer requirement (minimum CET1 CAPITAL requirement plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB buffer requirement, expressed as a percentage of risk weighted assets)	
65	of which: capital conservation buffer requirement	
66	of which: bank specific countercyclical buffer requirement	
67	of which: G-SIB buffer requirement	
	Common Equity Tier I available to meet buffers (as a percentage of risk weighted assets)	
	National Common Equity Tier I minimum ratio (if different from Basel III minimum)	
70	National Tier I minimum ratio (if different from Basel III minimum)	
71	National total capital minimum ratio (if different from Basel III minimum)	
Amounts below the thresholds for deduction (before risk-weighting)		
72	Non-significant investments in the capital of other financials	
73	Significant investments in the common stock of financials	
74	Mortgage servicing rights (net of related tax liability)	
75	Deferred tax assets arising from temporary differences (net of related tax liability)	
Applicable caps on the inclusion of provisions in Tier II		
76	Provisions eligible for inclusion in Tier II in respect of exposures subject to standardised approach (prior to application of cap)	
77	Cap on inclusion of provisions in Tier II under standardised approach	
78	Provisions eligible for inclusion in Tier II in respect of exposures subject to internal ratings-based approach (prior to application of cap)	
79	Cap for inclusion of provisions in Tier II under internal ratings-based approach	
<b>Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2015 and 1 Jan 2020)</b>		
80	Current cap on CET1 CAPITAL instruments subject to phase out arrangements	
81	Amount excluded from CET1 CAPITAL due to cap (excess over cap after redemptions and maturities)	
82	Current cap on AT1 instruments subject to phase out arrangements	
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	
84	Current cap on T2 instruments subject to phase out arrangements	
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	

