Bank Mandiri (Europe) Limited

Pillar 3 Disclosures as at 31st December 2016

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1. OVERVIEW

1.1 Introduction

The EU produced CRD IV, a legislative package of prudential rules for banks, to implement Basle III with effect from January 2014. It consists of a Directive (CRD) and a Regulation (CRR). Part Eight of the CRR concerns disclosures by institutions (Basle Pillar 3 framework).

The Basel III Framework is structured around three pillars:

- Pillar 1: defines the minimum capital requirements that firms are required to hold for credit, market and operational risks.

- Pillar 2: builds on Pillar I and incorporated the Bank's own assessment of additional capital resources needed in order to cover specific risks faced by the institution that are not covered by the minimum regulatory capital resources requirement a prescribed in Pillar 1.

  The amount of any additional capital requirement is also assessed by the regulator during its Supervisory Review and Evaluation Process (SREP) and is used to determine the overall capital resources required by the Bank.

- Pillar 3: is designed to promote market discipline by requiring firms to publish key information on their principal risks, capital structure, risk management processes, remuneration code and aims to complement the minimum capital requirements described under Pillar 1 and the supervisory review process of Pillar 2.

1.2 Background

Bank Mandiri (Europe) Limited ("BMEL") is a wholly-owned subsidiary of PT Bank Mandiri (Persero), Jakarta, Indonesia ("Bank Mandiri") which, in turn, is majority owned by the Government Republic of Indonesia (60%), with 30% by International investors and a further 10% by domestic Indonesian investors. Bank Mandiri was established in October 1998 and on 2nd August 1999 acquired the business activities of four Indonesian State-owned banks, namely, PT Bank Ekspor Impor Indonesia (Persero), PT Bank Bumi Daya (Persero), PT Bank Dagang Negara (Persero) and PT Bank Pembangunan Indonesia (Persero).

BMEL was established in London on 2nd August 1999. BMEL was established to undertake the business activities of PT Bank Ekspor Impor Indonesia (Persero), London Branch operating since the early 1980's.

BMEL is incorporated in the UK (company registration number 3793679) as a registered UK Bank which is authorised by the Prudential Regulation Authority ("the PRA") and regulated by the Financial Conduct Authority ("FCA") and the Prudential Regulation Authority. The Bank does not have any subsidiaries or branches and its operations are conducted from an office registered and located at:

4 Thomas More Square, Thomas More Street, London, E1W 1YW

The Bank's business is comprised principally of the following activities:

- Discounting Inter-group UPAS (Usance Payable At Sight) bills;
- Fixed Income Portfolio;

- Import Letters of Credit, import loans and collection services;
- Export letters of credit (advising, confirmation, negotiation, etc);
- Forfaiting/bills discounting (EUBD/ Export Usance Bills Discounting);
- Contract bonding/guarantee facilities/risk participation;
- Selective Lending to UK & Europe corporate with Indonesian related businesses;
- Participation in secondary market commercial lending and trade finance instruments;
- Money market & Foreign Exchange with third-party banks, including for trading and hedging purposes;
- Foreign Exchange opportunities with corporate customers (Forwards, NDF, Call Spread, etc);
- Multi-Currency Payment Services to the Bank Mandiri Group and corporate customers, especially IDR and GBP deliverable;
- Current/Deposit Accounts for Corporate customers;
- Reimbursement and remittance services to account holders;
- Property financing to Government of Indonesia overseas offices; and
- Provide business development opportunities to UK/Indonesian trading companies, including SMEs.

BMEL adopted the Pillar 1 Standardised Approach for Credit Risk, the standard Position Risk Requirement ("PRR") rules for Market Risk and the Basic Indicator Approach ("BIA") for Operational Risk since 1st January 2008.

1.3 Basis, Frequency and Verification of Disclosures

This disclosure document has been prepared by BMEL in accordance with CRD IV and unless otherwise stated, all figures are an extract from the bank's Annual Report & Accounts as at 31st December 2016.

Disclosures are available on an annual basis and published following review by the bank's Audit & Risk Management Committee and the Board of Directors at the earliest opportunity after the publication of BMEL's financial statements.

1.4 Scope

BMEL operates solely without subsidiaries or affiliate companies included in its financial statements and, accordingly, these Pillar 3 disclosures apply entirely to BMEL.

The Pillar 3 disclosures have been prepared solely for explaining the basis upon which the Bank has prepared and disclosed certain capital requirements and information about management of certain risks and for no other purpose. This document does not constitute any form of financial statements and must not be relied upon in making any judgement about the Bank.

1.5 Media & Location

These disclosures have been subject to verification and approval by the Audit & Risk Management Committee before approval by the Board. The Annual Report and Accounts as of 31st December 2016 have been prepared in accordance with UK Accounting Standards and (United Kingdom Generally Accepted Accounting Practice), including FRS 101 "Reduced Disclosure Framework". BMEL's Pillar 3 disclosures are available to view on the Bank's website (www.bankmandiri.co.uk).

2 GOVERNANCE AND ORGANISATION STRUCTURE

2.1 Governance

BMEL will operate on a daily basis under the guidance of the Board of Directors delegating day-to-day responsibility to the Chief Executive, assisted by Heads of the Business and Support Units. The composition of members to all Committees will ensure the decision making is compliant with the 'four-eyes' principle.

The Chief Executive will report to the Board of Directors of BMEL and will supervise the day-to-day management through delegation, the policies and strategies of the Bank. The Chief Executive will have the responsibility for the direction and control of BMEL in accordance with the prevailing Business Strategy, Budget and Policies and Procedures as approved by the Board, ensuring that all the Bank's legal obligations are properly discharged.

The Chief Executive will maintain close and effective relationship with the UK regulatory bodies; namely the Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA) and also Bank Indonesia, ensuring adherence to all regulatory compliance and statutory requirements, including but not limited to maintenance of asset quality, funding, profitability; and liquidity and capital ratios. Liaison with the Shareholder will be maintained at all times.

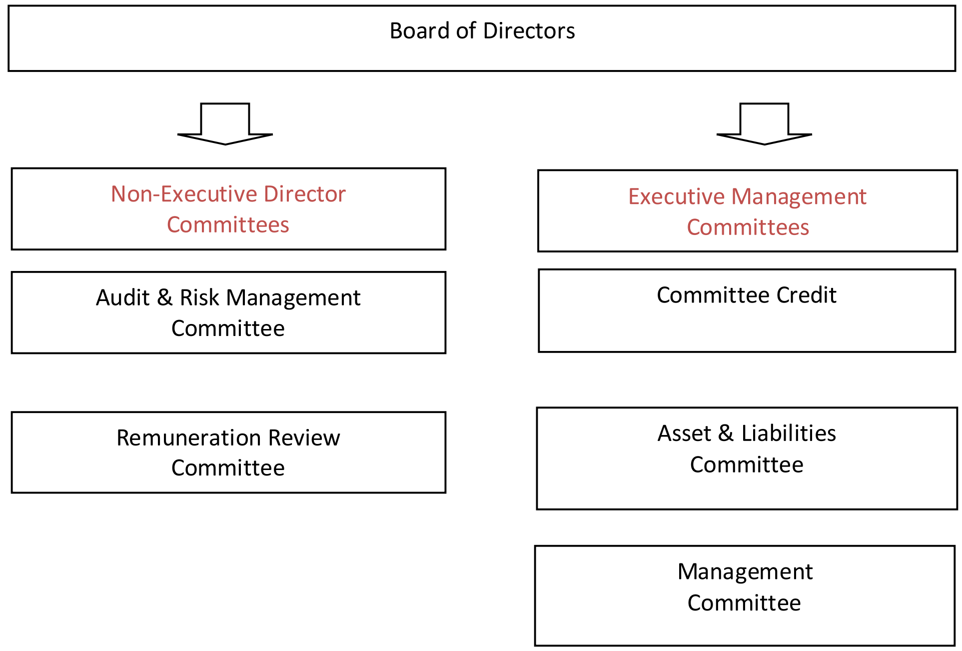
The Chief Executive will have responsibility for the management of the whole operation of BMEL to ensure compliance with the UK regulatory requirements and UK legislation. To manage and monitor the on-going performance of BMEL, ensuring the strategic aims and policy of the Board of Directors are carried out. The Chief Executive will Chair the following committees –Credit Committee; Assets & Liabilities Committee; and Management Committee appropriately supported by Head of Treasury, Head of MIS & Accounting and Head - Internal Control, Compliance, MLRO, & Operations, as required. This senior management structure is presently deemed sufficient to manage the Bank smoothly during the current period and will be strengthened should the requirement arise.

2.2 Board of Directors

The Board consists of both executive and non-executive directors and is supplied through the offices of the Head of MIS & Accounting / Company Secretary and Head - Internal Control, Compliance, MLRO, & Operations, with any information required to allow it to discharge its responsibilities.

The Board is ultimately responsible for setting the Bank's risk appetite statement and must ensure that this is accurately reflected in the Bank's business plan, their ICAAP, ILAA and RRP.

The Board is responsible for defining risk policy. The Board of Directors receive quarterly management reports on all major risk areas from the Management committee for review.



2.3 Audit & Risk Management Committee "ARMC"

The ARMC is responsible for oversight of the content and implementation of relevant risk policy statements set by the Audit & Risk Management Committee.

The ARMC is also responsible for ensuring that risk policies are reviewed and updated regularly in line with changes to the operating and risk environment, and for reviewing for any errors or deliberate exceptions to policy.

The ARMC is responsible to the Board for the implementation and effective application of risk management policies and procedures, and is designed to capture all the risk issues of the Bank. Its key responsibilities are noted below:

- Promoting and sustaining a culture of good governance and risk management discipline, anticipation, compliance and escalating any significant issues to the Board.
- Set risk strategy
- Reviewing and validating the adequacy of risk management systems & controls and metrics for monitoring risk management performance and ensuring that proposals for consideration by the Board are consistent with risk appetite.
- Reviewing and challenging the ICAAP approach and the Pillar 2 capital adequacy assessment and the quantification of capital required by risk type, and oversight and challenge of the design and execution of stress testing scenario.
- Reviewing and challenging the ILAA approach and the Pillar 2 capital adequacy assessment and the quantification of capital required by risk type, and oversight and challenge of the design and execution of stress testing scenario.
- Ensuring that all relevant regulatory consultation papers are reviewed for their implications as the affect BMEL and those effective plans are developed.
- Reviewing all proposed new products and services, ensuring they comply with the regulations.

The ARMC acts as the umbrella for the various management committees responsible for specific areas of risk, as follows:-

Committee	Risk Responsibilities
Assets & Liabilities Committee "ALCO"	Market Risk Liquidity Capital adequacy
Credit Committee "CredCo"	Credit Portfolio risk Concentration risk Credit approval
Management Committee "ManCo"	Operational Risk Administration Business continuity Human Resources Information Technology

The identification, measurement and containment of risk are integral to the management of our business. Our risk policies and procedures are regularly updated to meet changing business requirements. Our parent company, PT Bank Mandiri (Persero) Tbk, via its internal audit function, conducts an in-depth review at least once a year of our asset portfolio and also conducts a review of our internal controls/procedures. Our Audit & Risk Management Committee is apprised of these and other developments throughout the year to ensure adequate controls are in place to meet our changing business requirements.

The Bank is committed to the management of risk, recognising that sound internal risk management is essential to its prudent operation, particularly with the growing complexity, diversity and volatility of markets, facilitated by rapid advances in technology and communications. Risk management is given priority throughout the Bank.

Responsibility for risk management policies, limits, and the level of risk assumed, lies with the Board of Directors. The Board charges Senior Management with developing, presenting and implementing these policies and limits. The structure is designed to provide a reasonable degree of assurance that no single event, or contribution of events, will materially affect the wellbeing of the Bank.

An Audit & Risk Management Committee comprised of three Non-Executive Directors plays a key role in the identification, evaluation and management of all risks. Credit and other new product decisions require direct Executive Management & Audit & Risk Management Committee approval.

The Bank has controls and procedures in place for the monitoring of the financial instruments employed in its business. Before any new financial instrument is employed by the Bank approval must be sought from the Bank's.

Management Committee and as part of this approval process the Management Committee ensures that the Bank has the relevant expertise, adequate controls and operating procedures in place before the new financial instrument is initiated. Where it is deemed necessary product or sector limits are established and monitored such that concentration risk is minimised.

The Bank's Board of Directors, Asset and Liability Committee and Audit and Risk Management Committee, assist in appraising market trends, economic and political developments and providing strategic direction for all aspects of risk management.

The Bank has in place a number of limit controls and management information systems to facilitate effective management oversight. Limits are approved by the Board of Directors and are reviewed at least annually. Limit breaches, if any, are reported to the Chief Executive and Senior Management on a daily basis.

The following basic elements of risk management are applied to all financial risk instruments, including derivatives.

These include where appropriate:

- review by the Board of Directors and Senior Management;
- risk management processes with integral product risk limits;
- measurement procedures and information systems;
- risk monitoring and frequent management reporting; and
- segregation of duties, internal controls and audit procedures.

The Management's risk appetite is explained fully in section 4 below.

3 RISK MANAGEMENT - GOVERNANCE

3.1 Introduction

The Bank has an established risk management culture, long-standing policies and procedures, and follows a documented framework, the maintenance of which falls within the general responsibility of the Bank's Audit & Risk Management Committee, a sub-committee of the Board of Directors ("the Board").

The Board has overall responsibility for the determination of the risk appetite of the Bank. In so doing, they determine the high level risk framework, monitor the utilisation of limits and the operation of the control processes. BMEL maintains a cautious approach to risk management and overall risk appetite is regarded by the Board as being conservative. Risks are measured, controlled and limited through clear governance structures, supported by written policies and procedures.

In a Banking environment risks can never be fully removed but they can be mitigated by the installation of a systematic and controlled management approach. BMEL's approach to risk management starts with high-level controls established at Board level, as mentioned above, and through delegation and division of responsibilities to the Senior Management under the supervision of the Chief Executive.

The identification, measurement and containment of risk are integral to the management of the bank's business. BMEL's risk policies and procedures are regularly updated to meet changing business requirements, and to comply with best practice. Our Audit & Risk Management Committee is apprised of these and other developments throughout the year to ensure adequate controls are in place to meet our changing business requirements.

The Bank is committed to the management of risk, recognising that sound internal risk management is essential to its prudent operation, particularly with the growing complexity, diversity and volatility of markets, facilitated by rapid advances in technology and communications. Risk management is given priority throughout the Bank.

Responsibility for risk management policies, limits, and the level of risk assumed, lies with the Board of Directors. The Board charges Senior Management with developing, presenting and implementing these policies and limits. The structure is designed to provide a reasonable degree of assurance that no single event, or contribution of events, will materially affect the wellbeing of the Bank.

An Audit & Risk Management Committee comprised of Non-Executive Directors and Executive Management plays a key role in the identification, evaluation and management of all risks. Credit and other new product decisions require direct Executive Management & Audit & Risk Management Committee approval.

The Bank has controls and procedures in place for the monitoring of the financial instruments employed in its business. Before any new financial instrument is employed by the Bank approval must be sought from the Bank's Management Committee and as part of this approval process the Management Committee ensures that the Bank has the relevant expertise, adequate controls and operating procedures in place before the new financial instrument is initiated. Where it is deemed necessary product or sector limits are established and monitored such that concentration risk is minimised.

The Bank's Board of Directors, Asset and Liability Committee and Audit and Risk Management Committee, assist in appraising market trends, economic and political developments and providing strategic direction for all aspects of risk management.

The Bank has in place a number of limit controls and management information systems to facilitate effective management oversight. Limits are approved by the Board of Directors and are reviewed at least annually. Limit breaches, if any, are reported to the Chief Executive and Senior Management on a daily basis.

The following basic elements of risk management are applied to all financial risk instruments, including derivatives.

These include where appropriate:

- review by the Board of Directors and Senior Management;
- risk management processes with integral product risk limits;
- measurement procedures and information systems;
- risk monitoring and frequent management reporting; and
- segregation of duties, internal controls and audit procedures.

In the opinion of the Directors, the period end numerical disclosures provided in this report are not materially unrepresentative of the Bank's position during the period or its agreed objectives, policies and strategies. In addition, the Directors have no plans, at the current time, to make any significant changes either to the product base or to the methods employed in the management and control of the above-mentioned risks.

3.2 Risk Management

Governance -

The Bank has an established risk management culture, with long standing written policies and procedures, and is firmly committed to the management of risk, recognising that sound internal risk management is essential to its prudent operation, particularly with the growing complexity, diversity and volatility of markets, facilitated by rapid advances in technology and communications. Risk management is given high priority throughout the Bank.

The Board has ultimate responsibility for the determination of the risk appetite of the Bank. As mentioned above, they determine the high level risk framework, monitor the utilisation of limits and the operation of the control processes. The Bank generally maintains both the approach to risk management and overall risk appetite conservatively. The Board, effectively charges Senior Management with developing, presenting and implementing such policies and limits. Risks are measured, controlled and limited through clear governance structures, supported by written policies and procedures. The structure is designed to provide a reasonable degree of assurance that no single event, or contribution of events, will materially affect the wellbeing of the Bank.

The Audit & Risk Management Committee, supported by Senior Management, plays a key role in the identification, evaluation and management of all risks. All new credit and other product considerations require direct Senior Management & Audit & Risk Management Committee approval, before introduction. Management is supported by a comprehensive structure of independent controls, analysis and reporting processes.

The Bank employs strict controls and detailed procedures for the monitoring of the financial instruments employed in its business. Before any new financial instrument is employed by the Bank approval must be sought from the Bank's Senior Management Committee and as part of this approval process the Senior Management Committee ensures that the Bank has the relevant expertise, adequate controls and operating procedures in place before the new financial instrument is initiated. Where it is deemed necessary product or sector limits are established and monitored such that excessive concentration risk is minimised, outside of Bank Mandiri Group.

The Bank's Board of Directors, Asset and Liability Committee and Audit & Risk Management Committee, assist in appraising market trends, economic and political developments, and providing strategic direction for all aspects of risk management.

The Bank has in place an extensive number of limit controls and management information systems to facilitate effective management overview. Limit breaches, if any, are reported to the Chief Executive and Senior Management on a daily basis.

3.2.1 High Level Controls

Four reporting pillars have been established within the Bank, being:

- Financial Management being Accounting Compliance and Systems including IT and Systems.
- Front Office activities being Business Development, Treasury and Debt Trading.
- Credit/Risk Review, Treasury Support and Loan/Trade Finance Administration,
- Office Services, Premises and Personnel Management.

These activities are controlled and monitored by regular meetings of the following committees:

- Audit & Risk Management Committee ("ARMC")
- Asset & Liabilities Committee ("ALCO")
- Credit Committee ("CredCo")
- Management Committee ("ManCo"), including Disaster Recovery Committee

The effectiveness of these high level controls is monitored by regular meetings of the Audit & Risk Management Committee and Remuneration Review Committee, comprised of appointees of BMEL's Board, Executive Management and the Internal Auditors (as appropriate). The performance and activities of BMEL and the findings of the Audit & Risk Management Committee are reported at regular Board Meetings.

3.2.2 Policy Statements

To support these high level controls BMEL has established policies, approved by it's Board, and, where appropriate, the UK regulators. These policies identify the risks which BMEL faces in its day to day operations and the controls which should be put in place to mitigate these risks.

3.2.3 Detailed Operating Procedures

Actual implementation of Bank Policy is effected by detailed departmental procedures that cover allocation of duties, operating and processing practices.

4 Risk Appetite and Capital Adequacy

The identification, measurement and containment of risk are integral to the management of our business. Our risk policies and procedures are regularly updated to meet changing business requirements. Our parent company, PT Bank Mandiri (Persero) Tbk, via its internal audit function, conducts an in-depth review at least once a year of our asset portfolio and also conducts a review of our internal controls/procedures. Our Audit & Risk Management Committee is apprised of these and other developments throughout the year to ensure adequate controls are in place to meet our changing business requirements.

4.1. Risk Appetite

Overall Risk Appetite

The Bank's risk appetite is ultimately set by the Board and within these parameters management is charged with ensuring that adequate checks and balances (including policies and procedures) are in place to control and monitor the risks in line with the Bank's risk appetite for the different aspects of its business. Under Business as usual scenario; the Board is of the view to meet the Internal Capital Guidance " ICG" preset by the PRA.

Generally speaking, the Bank takes a conservative and risk adverse approach to its business and its appetite for risk is low.

Where possible, BMEL establish limits or bounds as an expression of the risk appetite but in some instances this was not possible and the risk appetite is expressed only in qualitative terms. Where quantitative limits have been set it is intended that they will be periodically reset by the Audit & Risk Management Committee in line with growth in the Bank's capital (as indicated in our Business Plan to 2017 - 2021 or changes in business direction or activities; except for those parameters where specific Board approval is required.

Considering the nature, scale and complexity of business in BMEL and limited scope of its activities; we did not define our risk appetite by reference to a statistical analysis of historical data, as there is insufficient data to build a reliable model.

The risk profile of the Bank is reviewed and monitored at regular Audit & Risk Management Committee meetings. In setting the Bank's risk appetite, each of the risk categories identified was reviewed and the risk appetite agreed by the Bank's Audit & Risk Management Committee. Section 4.2 (below) provides an analysis of each of the risk categories identified (including a statement of the risk appetite) and the capital allocation required covering each risk.

For the sake of clarity an overview of the Bank's risk appetite for each of the principal risk categories is articulated at the beginning of each sub-heading in Section 4.2.

Risk weighted assets:	Dec-16
	U$'000's
Risk weighted assets for credit risk	57,663
Risk exposure for operational risk	6,579
Risk exposure for market risk	-
Total Risk Exposure	64,242
Pillar 1	
4.2.1 Credit risk (including supporting factor)	4,613
4.2.2 Operational risk	526
4.2.3 Market risk	-
Total Pillar 1	**5,139**
Pillar 2 Capital as per Internal Assessment	
4.2.1. Credit risk	-
4.2.2 Operational risk	50
4.2.3 Market risk	190
4.2.4 Liquidity Risk	-
4.2.5 Insurance Risk	-
4.2.6 Concentration Risk	-
4.2.7 Residual Risk	-
4.2.8 Securitisation Risk	-
4.2.9 Business Risk	-
4.2.10 Interest Rate Risk in the banking book	-
4.2.11 Pension Obligation Risk	-
4.2.12 Conduct Risk	-
4.2.13 Other Risk	-
4.2.14 Group Risk	-
4.2.15 Capital Adequacy Risk	-
Total Pillar 2	**240**
Total Pillar 1 plus internal assesment	**5,379**

Measurement against ICG ratio:	Dec-16
	U$'000's
Total Pillar 1 plus internal assessment	5,379
Pillar 2A ICG requirement	8,396
Pillar 2A Capital conservation buffer	402
Pillar 2A - Countercyclical buffer	-
Pillar 2B PRA Buffer	11,352
Total Capital Requirement	**25,529**
Headroom against Capital Requirement	**23,634**
Total Eligible Capital	**49,163**

Measurement against trigger ratio:	Dec-16
	U$'000's
Total Pillar 1 plus internal assessment	5,379
Pillar 2A ICG requirement	10,921
Pillar 2A Capital conservation buffer	402
Pillar 2A - Countercyclical buffer	-
Pillar 2B PRA Buffer	11,352
Total Capital Requirement	**28,053**
Headroom against Capital Requirement	**21,110**
Total Eligible Capital	**49,163**

4.2. Capital Adequacy - Risk analysed

The appraisal process identified that, given the limited scope of the Bank's activities, the principal risks to the bank's business arise from:

- The Credit Risks that attach to lending activities and Financial Institutions;
- Operational Risk;
- Market Risks arising from treasury and banking book activities;
- Concentration Risk in respect of our Indonesian trade related lending portfolio, and;
- Interest Rate Risk assessed in respect of the gap between the assets and the funding liability;
- The Liquidity Risk posed by a threat to our liquidity from another Asian crisis or some other market event that may result in withdrawal of our major borrowing from Intergroup. To mitigate this to some extent, in the next two years we expect to borrow up to US$50 million in long term funds from the market.

A statement of BMEL's risk appetite, the methodology for assessment of these risks and the estimation of the additional level of capital, if any, that may be required to support these risks is addressed below.

4.2.1 Credit Risk

Risk Appetite:

Broadly speaking, the Bank has a low appetite for Credit Risk, although it is still higher than for risks arising from other aspects of its business. By this statement we mean that the Bank's primary business is lending and that it actively seeks Credit Risk exposures, whereas, the other risks that the Bank faces in its business, such as Market Risk, Operational Risk, etc are risks that the Bank accepts it will be exposed to by virtue of its lending activities but does not actively seek (i.e. it has a very low appetite for these risks).

In conducting its business the Bank accrues different types of credit exposures from its different activities, which, for the sake of convenience, we have grouped into the following types, as follows:

- Corporate lending;
- Credit risks arising from our Liquidity Management;
- Bill Discounting (Bank Risk), and
- Marketable securities.

The Bank has different business reasons for entering into each of type of credit risk. The nature, the capital usage and the return generated from each type of credit risk are very different. In view of the foregoing, the Bank's risk appetite for each of the different types of credit risk is different. In the following analysis, we have considered each type of credit risk and, where appropriate (or feasible), established guidance limits for each type of exposure.

In the absence of a sophisticated model, and in consideration of the fact that the Bank's balance sheet is relatively small, Audit & Risk Management Committee decided that a subjective basis for assessment of the various expressions of appetite for credit risk is still acceptable. In setting these parameters, attention was also paid to the potential concentration risks arising from the Bank's credit exposures; *Note: assessment of Concentration Risk is addressed in more detail in Section below.*

As part of this process, a review of the relevant approval and control procedures for entering into and managing credit risks was also undertaken and we are satisfied that our procedures are sufficient.

The Bank's appetite for each of the credit risk types is addressed below, as follows:

Risk Appetite for Corporate Lending

Corporate Lending is key to the Bank's income generating capacity, and for fuelling growth in our capital base, and is at the higher end of the spectrum of the Bank's credit risk profile. With the exception of secondary market loans, our corporate lending is usually transaction based, with security taken against the underlying assets being financed; the borrowers are normally unrated and carry risk-weightings of 100%. The high risk-weighting is compensated by higher returns than in other types of credit risk. In view of the higher return, and the Bank's relatively low gearing, the Bank has a greater risk appetite for risk in respect of corporate lending than for other types of credit risk.

For the purposes of this analysis, Corporate Lending is subdivided into two sub-types; there were previously five sub-types but we now due to our recent past we have substantial reduced the exposure to other areas due to consolidation period. We recommend that each sub-type has its own maximum guidance limit by way of an expression of our risk appetite; in setting these limits we have paid due attention to concentration risk, as follows:

Loan Type	2016 U$'000's
Trade Finance- UPAS	81,467
Commercial syndicated Loans	11,773
Total Corporate lending	93,240

The UPAS trade receivable loans related to Indonesian market arranged via our group companies attract no credit risk as they are all undertaken with recourse to the parent bank and in addition we have a set-off agreement against deposits placed by our group companies.

Commercial loans are mainly to large state-owned companies; hence the default possibilities are vastly reduced.

Risk Appetite for Credit Risks arising from our Liquidity Management

The Bank is exposed to credit risks arising from the management of its liquidity either by the placement of funds with banks in the interbank market or through the purchase of marketable securities. The Bank has a low appetite for credit risks arising from this aspect of its business and our appetite is restricted to investment grade banks and corporates.

These credit risks arise from the need to satisfy regulatory liquidity guidelines and to place our surplus funds in the market at minimum risk to the Bank and these requirements can vary considerably over time. Because of this, and the low risk profile of this business, we do not believe that it is practical to set a quantitative risk appetite for this type of credit risk. Although we have a low risk appetite for this business, in practice, our risk exposure will be bound by our available liquidity at any given time, which normally falls well within a maximum range of US$47 million. Within this framework we would normally expect the proportion of marketable securities to be a maximum of US$35 million and the balance to be comprised of short-term placements with banks.

Whilst a quantitative limit has not been set for our risk appetite for this type of exposure, in qualitative terms our potential exposure is bounded by the requirement to place/invest only with investment grade banks within the parameters of clearly established country limits and individual limits for each of those banks for whom we place/invest our liquidity.

Risk Appetite for Bill Discounting (Bank Risk)

This business is not core to the Bank's business but is an ancillary product that arises from confirming and/or negotiating export letters of credit on behalf of our trade finance clients. The yields are fairly low compared to that of our corporate lending but serve as a useful outlet for our excess liquidity. (The Bank has been conducting this business since 1992 (originally as BankExim) and has not experienced a loss on this business).

The risks on this business are usually short-term and our counterparts are the principal banks in Indonesia and any international banks with investment grade credit ratings. The business is conducted under the auspices of individually established bank and country limits.

Given our past experience, and the nature of the institutions with whom we transact business, we consider this business to be low risk, however, due to the relatively moderate returns and the fact that we do not wish to divert too large a proportion of our funding resources to this business our risk appetite for bill discounting is relatively low.

Marketable Securities

These are normally comprised of medium term fixed rate securities, issued by recognised governments. These are held for our liquidity management. Although it is not key to our commercial business , in this interim consolidation period we will look to investment funds for returns and as a result we have a low-medium risk appetite for this business and propose that <u>we to limit our Risk Appetite to US$35-40 million for Investment Securities.</u>

Assessment of Capital Allocation for Credit Risk:

Basel 2 introduced differing Credit Risk assessment processes for wholesale and retail banking that relate to the complexity and sophistication of banks and which, at their most sophisticated, would allow banks to set their own position.

The available options are the use of a Standardised Approach or one of two Internal Ratings Based ("IRB") approaches (the options being Foundation or Advanced). The Bank does <u>not</u> currently employ an internal credit rating system and, therefore, <u>**the Bank uses the Standardised Approach**</u>, which requires that a risk-weight be applied to each exposure based on External Credit Agency (ECA) sovereign risk scores and ratings from the main rating age.

The Standardised Approach is a mechanistic calculation which can be used to determine the amount of capital required at any given time to support the Bank's exposure to credit risks, however, the outcome of this calculation does not, in isolation, serve as an expression of the Bank's risk appetite. It is, however, a function of the sum of the Bank's appetite for the different types of credit risk that we accrue in the fulfilment of our Business Plan.

The calculation of the capital required to support our credit risk under the Standardised Approach as at 31st December 2016 (including both on and off balance sheet items) identified <u>**a maximum capital requirement for Credit Risk of US$12.150 million as per table below.**</u>

Credit Risk	**Dec-16** **U$'000's**
Risk weighted assets	57,663
ICG Requirement	12,150

4.2.2 Operational Risk

Operational Risk is the risk that deficiencies in information systems or internal controls result in unexpected business, financial and operating losses. Operational Risk is ultimately managed by the Board of Directors and is given the highest priority. Senior Management is charged with applying stringent procedures to mitigate risk of error, fraud, money laundering, and other irregularities. In addition, strong disaster recovery procedures have been formulated and are tested on at least a yearly basis. Internal Audit reviews the risk mitigation processes to ensure that these meet the organisation's current needs and are being properly implemented and controlled.

Risk Appetite:

As articulated by the Operational Risk Appetite Expert Group in April 2007, there is still debate between banks as to whether it is appropriate for a bank to have an appetite for operational risks, such as fraud or systems failure, etc, or whether it is more appropriate to express a Bank's assessment of operational risk in terms of risk tolerance. For a larger and more complex bank, it is possible that levels of "risk tolerance" can be established based upon statistical models and measured against the cost of installing mitigate controls.

For a small bank, such as BMEL, which has a simple business model and has accrued little or no significant operational loss data, in our opinion, it is very difficult to set quantitative limits for Operational Risk appetite or tolerance.

The Bank does not have an appetite as such, for operational risks, however, we accept that we are exposed to operational risks in the conduct of our day-to-day business. In view of the foregoing, in accordance with the best principles of corporate governance, it is incumbent on the Management and Board to make a detailed assessment of the operational risks to which the Bank is exposed in the implementation of its business plan and to put in place such controls and mitigants as may be necessary to minimise the occurrence and impact of possible loss events.

In assessment of the operational risks faced by the Bank we prepared a detailed risk map and, compared against these risks, the procedures that we have in place to mitigate each risk. Based on this assessment we are satisfied that the Bank has adequate policies and procedures (controls) in place to mitigate the operational risks faced by the Bank.

In assessment of the operational risks faced by the Bank we prepared a detailed risk map and, compared against these risks, the procedures that we have in place to mitigate each risk. Based on this assessment we are satisfied that the Bank has adequate policies and procedures (controls) in place to mitigate the operational risks faced by the Bank.

It is the Bank's policy to monitor operational risks through the assessment of losses or near losses and the review of new products and procedures and reporting to the Audit & Risk Management Committee. As and when new potential sources of operational risk are identified they are added to the risk map and reported to Audit & Risk Management Committee and new procedures/controls installed.

The Bank has had no material losses reported through this procedure since implementation of this procedure in 2006 whilst process failures identified by near losses have been addressed.

Assessment of Capital Allocation for Operational Risk:

Operational risk is broadly defined as any risk which is not Credit Risk or Market Risk and further defined as "The risk of loss resulting from inadequate or failed processes, people and systems or from external events".

In common with many small banks, and given the simple nature of BMEL's operations, it was decided that the Bank will adopt the Basic Indicator Approach to establish the level of capital necessary to meet potential losses arising from Operational Risk. We understand that the Basic Indicator Approach has no direct relationship with Operational Risk but, in the absence of

significant operational loss data from which a more complex model can be formulated, we consider this approach to be acceptable.
The Basic Indicator Approach is calculated as 15% of the average of the last three years annual Gross Operating Income and, therefore, **the 15% capital allocation for Operational Risk is calculated at US$526,000**. As per table below.

Operational Risk	Dec-16 U$'000's
Ops Risk exposure	6,579
Basic Indicator 8%	526

4.2.3 Market Risk

Market risk refers to the uncertainty of future earnings, resulting from changes in interest rates, foreign exchange rates, market prices and volatility thereof.

Risk Appetite:

Market risk is the risk of any impact on the Bank's financial position as a result of movements in interest rates, prices etc.

The Bank has very little appetite for market risk and takes a very conservative and low risk approach to market risk. This lack of appetite for market risk is reflected in the business strategy, i.e. the Bank does not run a trading book of any sort and, therefore, does not run the risk of significant trading losses. The bank also does not have any exposure to the equity market.
Notwithstanding the fact that the Bank does not have trading book activities, management are aware that positions may arise from timing differences on commercial transactions and that interest rate and foreign exchange risks may arise from its banking book activities. Foreign exchange risks arising from our banking book activities are addressed in this section and the associated interest rate risks are addressed in *Section* 4.2.10 - *Interest Rate Risk*.

In view of the above, **the Bank has adopted the Standardised Approach for its market Risk based on a capital allocation of 8%** of such market positions that we may hold at any given time. As at 31 December 2016 this calculation identified a capital requirement for **Market Risk of US$10K** as per below table.

FX OPEN POSITION	(US$ 000)
Total open position	131
Capital requirement -8%	10

4.2.4 Liquidity Risk

Liquidity risk arises from mismatches in inflows and outflows in cash. The liquidity risk management process ensures that the Bank is able to honour all of its financial commitments as they fall due. Liquidity is monitored daily through reports provided to Senior Management against appropriate limits set by the Board of Directors and with reference to regulatory requirements. In addition the Asset and Liability Committee and the Audit and Risk Management Committee review the liquidity position periodically.

Risk Appetite:

The Bank is aware that one of the principal risks that it faces in its day-to-day business is a threat to its liquidity. The Bank's management has significant experience of managing liquidity under unfavourable conditions and has put in place procedures for constant monitoring of its position. Management reviews investment policy through scheduled monthly and ad hoc meetings of the Assets and Liabilities Committee, so that actions match the prevailing conditions and the Bank maintains the appropriate degree of liquidity.

The Bank has only a small appetite for liquidity risk, and, in any event, is bound by its regulatory guidelines. In order to prevent a breach in these guidelines we forecast our mismatch ratios forward for six month, based on our best estimation of the Bank's likely inflows and outflows, and, if we identify a possible future breach, our Assets and Liabilities Committee is empowered to take such preventative measures as may be necessary.

The Bank's assets are arranged to include a sizeable portfolio of highly liquid assets in order to meet any unanticipated cash outflows so as to ensure compliance with these limits.

The management recognise that BMEL is a small wholesale bank with historically only a small base of customer depositors and that it is to a large extent reliant on interbank/intergroup funding.

Given this past experience, and the Bank's reliance on interbank funding to finance its business, the Bank's management recognise that the Bank's liquidity could be compromised if there was another crisis of confidence in the Indonesian banking system (or some other market event that led to withdrawal of funding lines – as has been the case with the "credit crunch" in August 2007) and, therefore, take a very a conservative stance with regards to the conservation of the Bank's liquidity. At as 31st December 2016 the borrowing from interbank was US$10 million and the remainder US$95 million were from intergroup companies.

The Bank benefits from a stable core of deposits from our parent, Bank Mandiri Indonesia. This core of deposits is, in practice, unaffected by normal cyclical factors. However, in theory, these balances may be adversely impacted by a fall in the currency reserves of the Indonesian government.

As at 31st December 2016 the Bank held US$$79.8 million of liquid assets, which was equivalent to 46% of the balance sheet of US$172.44 million. The composition of the liquid assets was US$30.6 million of call bank deposits and US$9.9 million of marketable securities. In addition, the Bank also held a portfolio of US$39.3 million of investment grade securities issued by corporate owned by the Indonesian government although these bills are not eligible under PRA guidelines as liquid assets, nor do they qualify as HQLA under the LCR in practice, under normal market conditions, they are readily saleable in the market to raise liquidity if required.

In assessment of the Bank's liquidity it is also worthy of note that the trade finance loan portfolio and Trade receivable of US$81.4 million comprised of uncommitted short-term loan facilities, and were fully matched by cash collateral.

4.2.5 Insurance Risk

Risk Appetite:

The Bank has little appetite for insurance risk and is not involved in the provision of insurance products and does not use credit insurance as means of mitigating credit risk for the purposes of capital allocation.

The Bank does incur insurance risks in respect of insurance policies taken out to protect the Bank from disruption to its business due to a disaster recovery event or misfeasance. These risks are subsets of our operational risk and the potential impact is included in our capital allocation for Operational Risk.

The Bank also has assignments of insurances taken out by our customers to protect our security in respect of loans made to our shipping and trade finance companies. These insurances are not used to offset the capital allocation for credit risk in calculation of the risk-weighted assets used to calculate our capital allocation for credit risk. In view of the foregoing, we do not feel it is necessary to make a capital allocation for these secondary insurance risks as an allocation has been made under our capital allocation for the primary credit risk of the related loans.

Given the above, and the fact that all insurance policies are placed with insurance providers approved by the Bank's Credit Committee or Management Committee (as appropriate), we do not believe that the Bank accrues any significant insurance risks and **do not consider it necessary to make an Allocation of Capital for Insurance Risks.**

4.2.6 Concentration Risk

Risk Appetite:

Concentration risk arises when a number of counter-parties are engaged in similar activities or similar geographic locations so that they have economic characteristics that would cause their ability to meet their obligations to be similarly affected by changes in economic or other circumstances.

Due to the recent intention of the shareholders to place BMEL into Members Voluntary Liquidation during 2013, all of the Banks operations were wound down in preparation for the MVL; leaving Cash at Bank against Capital funds. However, the shareholder re-evaluated its decision and in July 2013 elected to continue business operations in London. As a result, the Bank continued activities in minimal operations mode during 2013 – 2016, and continues to be currently, heavily reliant on the trade finance business introduced by the parent bank which is mainly to corporates in Indonesia. Similarly the funding for this lending is also provided by the parent bank.

Due to the limitations above the Bank has a high country exposure to Indonesia. The Table below summarises the Bank's position as at 31st December 2016.

COUNTRY	GROSS EXPOSURE	RWA EXPOSURE	CAPITAL REQUIREMENT	% of Total Exp	% of Capital
Belgium	802	160	13	0.5%	0.026%
Germany	1,006	201	16	0.6%	0.033%
Hong Kong	9,417	9,417	753	5.4%	1.532%
Indonesia	123,392	41,507	3,321	70.9%	6.754%
United Kingdom	11,054	2,695	216	6.4%	0.439%
United States	28,348	3,682	295	16.3%	0.599%
Total Exposure	**174,018**	**57,663**	**4,613**	**100%**	**9%**

The next exposure to Indonesia after offsetting of cash collateral of US$81,912,497 is US$41,507,000 and hence the percentage of Total Exposure and Capital Resources is reduced to 70.9% and 6.75% respectively.

The limits for Financial Institutions and corporate are monitored against the approved limits set by the credit committee. As at the ICAAP date, all exposure to UPAS business is covered by cash collateral, however, we continue to monitor that the net exposure do not exceed 25% of our capital base.

The exposures are monitored daily and are within the individual country limits approved by the Credit Committee.

By reference to the Large Exposures set by CRR and the PRA, we do consider that BMEL has concentration risk as at the balance sheet as at 31st December 2016.

4.2.7 Residual Risk (U$ nil)

Risk Appetite:

Residual risk is the risk that credit risk mitigation techniques used by the Bank prove less effective than expected so that the offset arrangements reflected in the assessment of credit risk do not provide the protection expected. With the exception of cash collateral the Bank currently has no appetite for credit risk mitigation techniques that may result in residual risk exposures.

Assessment of Capital Allocation:

The only mitigant that the Bank included in the calculation of its credit risk allocation was cash collateral and all other forms of security have been ignored. The cash collateral arrangements are formally documented in accordance with English law; where such exposures are in excess of our LECB, we have ensured compliance with the guidelines contained in guidelines. In view of the foregoing, **we do not consider that an Allocation of Capital for Residual Risk is necessary**.

4.2.8 Securitisation Risk (U$ nil)

The Bank has no appetite for Securitisation Risk and does not securitise any elements of its portfolio so there is no policy in place; should this change at any time the Bank's Audit & Risk Management Committee will establish the necessary policy and procedures to provide the necessary controls and risk mitigation at that time. In view of the foregoing, **it is not necessary to make an Allocation of Capital for Securitisation Risk.**

4.2.9 Business Risk (U$ nil)

Risk Appetite:

Business risk is the risk to the Bank arising from changes in its business, including the risk that it may not be able to carry out its business plan and its desired strategy.

The Bank currently has a modest appetite for Business Risk, as evidenced by the Bank's business plan and strategy to 2017 - 2021 which allows for only modest growth in its existing currently successful operations (excluding credit & liquidity risk mitigants attached to the trade receivables – UPAS).

The most significant risks to the Bank's business levels comprise the level of economic activity in key markets and the Bank's ability to access that activity. Given that the Bank has an unsophisticated product base and an operational model that it has operated since 1999 and, for the seven years prior to that as a branch of Bank-Exim, we believe that it is highly unlikely that the Bank will be unable to carry out its business plan.

Assessment of Capital Allocation:

In view of the above, **we do not believe it is necessary for the Bank to make an Allocation of Capital to cover Business Risk.**

4.2.10 Interest Rate Risk

Interest rate risk arises when there is a mis-match between assets and liabilities which are subject to interest rate risk within a specific period. In the Bank's funding/lending activities, fluctuations in interest rates are reflected in interest margins and earnings. Our interest rate risk profile is short term and liquid and the Directors therefore feel that risks have been minimised. Hedging techniques can be applied on a limited basis should the need arise.

Risk Appetite:

The Bank has little appetite for interest rate risk and does not take strategic positions with a view to making a profit from movements in interest rates or trade in instruments that are designed to generate profit from movements in interest rates.

BMEL is aware that interest rate risk is likely to be relevant to every firm but is of specific concern where it is not fully captured in the market risk capital requirement because a firm has exposure to interest rate risk in its non-trading book, i.e. it has interest rate risk from its banking book activities.

In view of the above and, in line with best banking practice, we monitor the interest rate risk inherent in our banking book activities on an on-going basis through an interest rate sensitivity report. This report is reviewed at monthly ALCO meetings or more frequently if market circumstances dictate, and any action that may be required is decided upon and implemented by the committee.

Assessment of Capital Allocation for Interest Rate Risk:

As required by FCA GENPRU 1.2.30 R and GENPRU 1.2.36 R and Article 84 of the CRD IV the Management have carried out an evaluation of its exposure to the interest rate risk arising from into non-trading activities.

To ascertain the level of interest rate risk the bank reviewed the balance sheet as at 31st December 2016 and applied a the principles of FSA 017. The calculation demonstrates a shift in interest rate of 2% per would result in a loss of U$0.736 million calculated on a cumulative gap basis due to excess liquidity; as per table below and hence have recommended additional capital of U$0.736 million.

Period		Max cumulative (US$ 000)
>3 mths	-	19,976
>6 mths		11,339
>12 mths		10,000
>2 Yrs		9,414
>4 Yrs		3,000
>5 Yrs		1,000
>6 Yrs		-
>7 Yrs		14,000
>8 Yrs		5,000
>9 Yrs		3,000
>10 Yrs		-
Total Max cumulative		**36,777**
Financial impact if the interest rate exposure is at its maximum and there is a 2% straight line shift in the yield curve		736

4.2.11 Pension Obligation Risk

Risk Appetite:

The Bank has no appetite for pension risk and BMEL provides its staff with a pension benefit by way of money purchase non-contributory contributions and, therefore, does not accrue pension obligation risks due to its staff.

In view of the above we **do not recommend an Allocation of Capital for Pension Obligation Risk**.

4.2.12 Conduct Risk (U$ nil)

Our current operations do not expose the Bank to material conduct risk due to majority of our business is introduced inter-group. However, we are mindful of our obligation to counterparties and the relevant regulator and we continue to monitor and develop of process to control and mitigate conduct risk in line with our future growth and exposure to new business.

Assessment of Capital Allocation:
No additional allocation of capital is required.

4.2.13 Other Risks (U$ nil)

The risks confronted by the Bank for which capital is considered to be an appropriate mitigation have been addressed through the categories above.

In formulating the ICAAP the bank considered that the immediate repercussions of Reputational Risk, Legal Risk and Regulatory Risk were unlikely to be material to a Bank of BMEL's size and operations and that the constraint on future activity that may be incurred would not incur loss and did not require capital backing.

Assessment of Capital Allocation:
No additional allocation of capital is required.

4.2.14 Group Risks (U$ nil)

Group risk is the risk that the Bank's financial position may be affected by its relationships with other companies in the same group or the risk which may affect the financial position of the whole group.

The Bank acknowledges that in view of the present situation it is exposed to a material group risk with limited mitigation. As the current business model is heavily dependent on the parent bank, it is difficult to differentiate different risk such as credit/counterparty risk, settlement/delivery risk, inter-concentration risk, market risk, Interest Rate Risk in Banking Book "IRRBB" and operational risk due to group exposure. However this will be undertaken in our future ICAAP as our business diversifies. All Group exposure are cash collateralised hence the net exposure is very minimal representing our nostro balance in IDR which is less than US$10k.

Assessment of Capital Allocation:
No additional allocation of capital is required.

4.2.15 Capital Adequacy Risk (U$ nil)

Controls are in place to constantly monitor the level of capital to ensure the Bank is able to meet its regulatory obligation on a daily basis. In doing so the Board of directors believe that the interest of all stakeholders including customers and shareholders are fully protected. Account is taken of all potential events that could have an impact on capital. For regulatory purposes, the capital is made up of share capital, capital reserve and accumulated losses.

Assessment of Capital Allocation:
No additional allocation of capital is required.

5 Risk Management: Exposures and Approach

The principal risks to which the Bank is exposed and the approach to such risks is articulated below.

5.1 Credit Risk

The Bank uses a formal credit process to quantify and evaluate the risk of proposed credits, and to ensure appropriate returns for assuming risks. Treasury and Financial Institution Division in conjunction with Credit Committee will aim to undertake a financial review of each client at least annually, so that the Bank remains aware of counterparties' risk profiles. This analysis includes a review of previous historical financial data, future projections, industry reviews, broker reports and credit analysis techniques.

Securities, Letters of Credit, Guarantees and Off-Balance Sheet instruments are managed by the same process. Settlement and any other credit risks are restricted through product limits and counterparty netting agreements.

From time to time the Bank takes collateral to mitigate credit or transactional risks. The taking of collateral as security is governed by detailed policies and procedures and where necessary the security is registered and perfected in the relevant jurisdictions using legal counsel. Other credit mitigates that the Bank is considering when assessing a credit facility are personal and corporate guarantees, fixed and floating charges over the assets of the borrower and mortgages on real estate properties. These credit mitigates were not assigned a value as at the year end as this value cannot be measured reliably.

The table below shows the maximum exposure to credit risk for the components of the balance sheet, including derivatives. The maximum exposure is shown gross, before the effect of mitigation through use of master netting agreements and collateral agreements.

	Gross maximum exposure		Net maximum exposure	
	2016 US$'000	2015 US$'000	2016 US$'000	2015 US$'000
Cash and money at call and deposits with central banks	33,677	33,140	30,677	33,140
Loans and advances to banks *	-	40,000	-	19,000
Loans and advances to customers *	93,240	74,148	11,318	4,477
Debt securities	49,172	36,240	49,172	36,240
Other assets prepayments and accrued income	539	524	539	524
Total	173,628	184,052	91,706	93,381

*Loans and advances to customers includes US$81,922,000 (2015: US$69,671,000) of UPAS transactions and Loans and advances to banks includes US$NIL (2015: US$21,000,000) of money market placements with customers of fellow group companies and fellow group companies respectively. These transactions are funded by inter group cash deposits and a set-off agreement against the cash deposit is in place which can be utilised in the event of default. The net maximum exposure for loans and advances to customers in the table above is presented after the netting of inter group deposits against these transactions.

Related parties

The banking transactions with related parties are executed on the same terms, including interest rates (deposit/advances) as those prevailing at the time for comparable transactions with unrelated parties. The details of the transactions are as listed below.

Usance payable at sight ("UPAS") transactions with the parent company

Usance Payable at Sight "UPAS" transactions are advances given to customers against letters of credit issued by other banking institutions. At the year-end the outstanding balance of these transactions was US$81.9 million (2015: US$69.7 million) all of which had full recourse against our parent company and for which a set-off agreement is in place.

5.2 Market Risk

Market risk refers to the uncertainty of future earnings, resulting from changes in interest rates, foreign exchange rates, market prices and volatility thereof. The Bank has little appetite for market risk and takes a very conservative and low risk approach to market risk. This is reflected in our strategy not to run a trading book of any sort and therefore the Bank does not run the risk of significant trading losses.

The Bank does not actively trade in the foreign exchange markets on its own account, and foreign exchange swaps and forward foreign exchange contracts are committed for management of the Bank's expenses and the Bank's assets and liabilities.

Where possible the Bank matches its currency transactions. The majority of the asset and liability positions are denominated in US Dollars and therefore, the level of currency risk is considered to be minimal.

5.3 Operational Risk

Operational Risk is the risk that deficiencies in information systems or internal controls result in unexpected business, financial and operating losses. Operational Risk is ultimately managed by the Board of Directors and is given the highest priority. Senior Management are charged with applying stringent procedures to mitigate risk of error, fraud, money laundering, and other irregularities. In addition, strong disaster recovery procedures have been formulated and are tested on at least a yearly basis. Internal Audit reviews the risk mitigation processes to ensure that these meet the organisation's current needs and are being properly implemented and controlled.

5.4 Liquidity Risk

Liquidity risk arises from mismatches in inflows and outflows in cash. The liquidity risk management process ensures that the Bank is able to honour all of its financial commitments as they fall due. Liquidity is monitored daily through reports provided to Senior Management against appropriate limits set by the Board of Directors and with reference to regulatory requirements. In addition the Asset and Liability Committee and the Audit and Risk Management Committee review the liquidity position periodically. The Bank has access to a variety of funding sources including bank deposits, loan facilities, customer deposits and corporate trade finance deposits. Regular reviews are conducted, via meetings of the Asset and Liability Committee, of these sources and requirements for perusal by Senior Management. In practice, the Bank operates well within its prescribed liquidity levels.

Analysis of financial liabilities by remaining contractual maturities:-

The table below summarises the maturity profile of the Bank's financial liabilities as at 31 December 2016 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date particularly as the majority of the total financial liabilities of US$124,988 below are payable to fellow group undertakings. Therefore the table below does not reflect the expected cash flows indicated by the Bank's deposit retention history.

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
As at 31 December 2016						
Due to banks	14,537	10,019	95,126	-	-	119,682
Customer accounts	4,325	-	-	-	-	4,325
Other financial liabilities	867	-	-	-	-	867
Total financial liabilities	19,729	10,019	95,126	-	-	124,874

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
As at 31 December 2015						
Due to banks	25,428	10,000	99,549	-	-	134,977
Customer accounts	1,901	-	-	-	-	1,901
Other financial liabilities	571	-	-	-	-	571
Total financial liabilities	27,900	10,000	99,549	-	-	137,449

5.5 Concentration Risk

Concentration risk is the additional risk that arises where there are large exposures or concentrations in the credit portfolio to certain countries, sectors or industries. Concentration of risk is managed by client/counterparty, by geographical region and industry sector. So as to manage and monitor its concentration risks, in addition to individual obligor and group assessments the Bank has set concentration limits in respect of:

- Country Risk
- Exposures by Sector/Industry
- Large Exposures

As per the guidelines contained in the Bank's Large Exposures Policy Statement, no credit limit or extension of credit to an individual counterparty or a group of related counterparties is allowed to exceed 25% of BMEL's Large Exposures Capital Base ("LECB") unless the Bank has taken collateral in accordance with the eligibility requirements in FCA BIPRU 5 "Credit risk mitigation" and also qualifies for recognition as an exempt exposure under EBA article 395 "Limits to large exposures".

Risk concentrations of the maximum exposure to credit risk

Concentration of risk is managed by client/counterparty by geographical region and industry sector. The maximum credit exposure to any non-bank client during the year has been within the prescribed Large Exposure limit set by the PRA before taking into account of collateral.

The Bank's financial assets, before taking into account any collateral held, other credit enhancements or impairment allowances can be analysed by the following geographical regions based on the location of the customer:

	2016 US$'000	2015 US$'000
United Kingdom	10,988	11,190
Europe	1,811	20,135
Asia	132,494	121,635
North America	28,335	31,092
Total	173,628	184,052

An industry sector analysis of the Bank's financial assets, before taking into account collateral held, other credit enhancements or impairment allowances is as follows:

	2016 US$'000	2015 US$'000
Bank	112,599	142,811
Sovereign	19,979	9,765
Corporate finance	1,901	4,472
Energy	14,403	26,475
Shipping	10,000	-
Metal	9,417	-
Transportation & Port Authorities	4,790	-
Other	539	529
Total	173,628	184,052

Credit quality per class of financial assets:

31 December 2016	Neither past due nor impaired US$'000	Impaired US$'000	Total US$'000
Due from banks			
Investment grade (rated Baa3- or above by Moody's)	30,677	-	30,677
Sub-investment grade (rated BBB- or above by Moody's)	-	-	-
Debt securities			
Investment grade (rated Baa3- or above by Moody's)	39,172	-	39,172
Sub-investment grade (rated BBB- or above by Moody's)	10,000	-	10,000
Loans and advances to customers			
Sub-investment grade (rated Baa3- or above by Moody's)	-	-	-
Unrated	93,240	-	93,240
Other assets			
Unrated	539	-	539
Total	173,628	-	173,628

31 December 2015	Neither past due nor impaired Current US$'000	Impaired US$'000	Total US$'000
Due from banks			
Investment grade (rated BBB- or above by Standard & Poor's)	73,140	-	73,140
Sub-investment grade (rated BBB- or above by Standard & Poor's)	-	-	-
Debt securities			
Investment grade (rated BBB- or above by Standard & Poor's)	36,240	-	36,240
Loans and advances to customers			
Sub-investment grade (rated BBB- or above by Standard & Poor's)	-	-	-
Unrated	74,148	-	74,148
Other assets			
Unrated	524	-	524
Total	184,052	-	184,052

5.6 Currency risk

Currency risk arises due to exposure of the Bank to currencies other than its primary currency in the normal course of business.

The Bank does not actively trade in the foreign exchange markets on its own account, and foreign exchange swaps and forward foreign exchange contracts are entered into to manage the Bank's expenses and the Bank's assets and liabilities.

Where possible the Bank matches its currency transactions. The majority of the asset and liability positions are denominated in US Dollars and therefore, in the opinion of the Directors, the level of currency risk is considered to be minimal.

The currency exposure at the year end was economically hedged using forward exchange contracts.

5.7 Interest Rate Risk

Interest rate risk arises when there is a mismatch between positions which are subject to interest rate adjustments within a specific period. In the Bank's funding/lending activities, fluctuations in interest rates are reflected in interest margins and earnings. In order to minimise risks our interest rate risk profile is maintained short term and liquid.

An interest rate gap is a common measure of interest rate sensitivity. A liability gap occurs when more liabilities than assets are subject to rate changes during a prescribed future time period. Interest rate gaps are monitored by Senior Management & Asset & Liability Committee regularly.

Non trading book interest rate risk

The Bank does not have a trading book. However, interest rate exposure exists within its non-trading book. Instruments have been allocated to time bands by reference to the earlier of their next contractual interest rate re-pricing date and their maturity date.

As at 31 December 2016, interest rate risk comprised:

Category of asset/liability	**Less than 3 months US$'000**	**3 months to 6 months US$'000**	**6 months to 1 year US$'000**	**1 year to 5 years US$'000**	**More than 5 years US$'000**	**Non-int. bearing US$'000**	**Total US$'000**
Cash and money at call ɿd deposits with central banks	-	-	-	-	-	30,677	30,677
Loans and advances to banks	-	-	-	-	-	-	-
Loans and advances to Customers	54,646	27,841	1,339	9,414	-	-	93,240
Debt securities	3,027	-	10,000	13,066	23,079	-	49,172
Other assets	-	-	-	-	-	539	539
Total assets	57,673	27,841	11,339	22,480	23,079	31,216	173,628
Deposits by banks	25,145	80,000		-	-	14,537	119,682
Customer accounts	-	-	-	-	-	4,325	4,325
Shareholders' funds	-	-	-	-	-	49,030	49,030
Other liabilities	-	-	-	-	-	867	867
Total liabilities & shareholders' funds	25,145	80,000	-	-	-	68,892	174,037
Gap	32,528	(52,159)	11,339	22,480	23,079		
Cumulative gap	32,528	(19,631)	(8,292)	14,188	32,267		

The above figures do not provide the exposure of the Bank to particular interest rates as they have been consolidated across all currencies. The majority of the Bank's balance sheet is denominated in US Dollars, with only a minor element of currencies regarded as volatile. The Directors therefore consider that a further currency analysis of interest rate risk is not required. Given the current outlook for interest rates, management considers that the interest rate gap shown above is manageable in view of the fact that the assets and liabilities are of short term nature and the interest rates are in principally based upon floating rates.

As at 31 December 2015, interest rate risk comprises:

Category of asset/liability	Less than 3 months US$'000	3 months to 6 months US$'000	6 months to 1 year US$'000	1 year to 5 years US$'000	More than 5 years US$'000	Non-int. bearing US$'000	Total US$'000
Cash and money at call and deposits with central banks	-	-	-	-	-	33,140	33,140
Loans and advances to banks	40,000	-	-	-	-	-	40,000
Loans and advances to customers	38,762	30,891	4,495	-	-	-	74,148
Debt securities	-	-	-	9,765	26,475	-	36,240
Other assets	-	-	-	-	-	524	524
Total assets	78,762	30,891	4,495	9,765	26,475	33,664	184,052
Deposits by banks	80,477	54,500		-		-	134,977
Customer accounts	1,901	-	-	-	-	-	1,901
Shareholders' funds	-	-	-	-	-	47,029	47,029
Other liabilities	-	-	-	-	-	571	571
Total liabilities & shareholders' funds	82,377	54,500	-	-	-	49,240	184,478
Gap	(3,616)	(23,609)	4,495	9,765	26,475		
Cumulative gap	(3,616)	(27,225)	(22,730)	(12,965)	13,510		

6 REMUNERATION CODE

The Remuneration Policy of Bank Mandiri (Europe) Limited (BMEL) is determined by its Executive Management and approved by the Remuneration Committee which comprises the UK non-executive directors. The policy provides a framework to attract, retain and reward employees to achieve the strategic and business objectives of BMEL within its risk appetite and risk management framework.

Remuneration typically comprises a salary with benefits including pension scheme, life assurance, private medical insurance and permanent health insurance together with a discretionary bonus scheme based on the performance and results of the bank each year. Salaries are set in the context of market data and the knowledge and skills required for the particular role. The remuneration of senior management is reviewed annually by the Remuneration Committee.

The balance between fixed and variable remuneration both for Remuneration Code staff and for other staff is focused on ensuring that there remains an appropriate link between overall remuneration and performance. The Remuneration Committee bases decisions on the performance both by BMEL and the employee while remaining in line with external market data and advice on current best practice on remuneration policies and arrangements.

BMEL falls into Tier 3 under the Remuneration Code of the FSA and has 6 Remuneration Code staff, performing an executive Senior Manager Function within the Bank.

Total aggregate remuneration for BMEL for the year ended 31 December 2016 was US$2,821,000-00 with the average number of nine employees during the year. Those employees associated to the Senior Managers Regime under the Remuneration Code were allocated an aggregate US$659,866.53, which was fixed and non variable.