BACB

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UNLOCKING AFRICAN OPPORTUNITIES

A SPECIALIST BANK'S APPROACH TO SAFE, SUSTAINABLE TRADE

FOREWORD

Guest contribution by Giles French, CEO AFB

(Association of Foreign Banks)

Africa's trade finance gap currently stands at around US$81 billion, although some estimates put the figure as high as US$120 billion - and by all accounts it appears to be widening. The continent continues to be impacted by the residual effects of the pandemic and inflationary pressures due to the conflict in Ukraine, which serve to further limit financing options available to its traders. This is compounded by the ongoing retrenchment efforts of global banks to de-risk their portfolios and exit seemingly "high risk" markets.

The lack of accessible finance is particularly affecting Africa's SMEs, which account for around 80% of the continent's traders. Even among its domestic lenders, liquidity options are restricted. Regulatory costs and evolving ESG requirements can make participating in such transactions prohibitively expensive. But for African markets to realise their full potential, as an industry we must break down these barriers and improve the region's access to international trade finance facilities.

In this research paper, BACB shares its knowledge and experience as a specialist lender operating in Africa, outlining its approach to compliance and regulation best practice when conducting business with markets deemed high-risk by mainstream lenders.

Trade is intrinsically linked to Africa's Sustainable Development Goals (SDGs) as laid out by the UN. According to the World Bank, trade makes up 50% of Africa's real GDP and employs around 80% of the population. It makes a real, tangible impact on development and economic growth for the region by enhancing infrastructure, reducing poverty and creating more inclusive communities.

In this respect, specialist banks like BACB, headquartered in the City of London, play an invaluable role. Powered by in-depth, on-the-ground knowledge, BACB has a proven track record in facilitating high-quality trade transactions in seemingly high-risk markets like Africa. The bank's efforts to upskill and build capacity among its partners and clients in the region contributes immensely to the overall improvement of Africa's perceived risk among fellow lenders. In doing so, BACB plays its part in reducing the trade finance gap, ultimately allowing the continent and its people to grow, develop and realise its full potential on the global stage.

AFB

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KEY THEMES

These insights combine expertise from across our representative offices in Tripoli, Algiers and Abidjan, as well as our headquarters in London.

The unique challenges of trading with specialist markets

The latest regulatory developments in the region

The role of specialist banks in mitigating the risk for traders

How banks deploy effective transaction monitoring

The role of technology in enabling the development of stronger anti-money laundering and anti-financial crime controls

How robust risk management is key to promoting financial inclusion in Africa

We hope you find them of value

2. INTRODUCTION

Dr Yousef Abdullah Al Awadi Kbe
Chairman

Paul Jennings
Chief Executive Officer

Damian Austin
Chief Banking Officer

The notion of "derisking" emerged in banking circles shortly after the 2008-09 Global Financial Crisis. As regulatory pressures on banks grew in the wake of the Crisis, a series of global banks announced (or sometimes simply executed) a "rationalisation" of their commitments to "riskier" emerging markets. For Africa, this meant a marked reduction in investment and exposure from some of the best-known names in banking – a trend noted by the World Bank in 2015[1].

Post-pandemic volatility has reinforced this unfortunate trend. Yet there have also been many international traders (importers and exporters) and investors who have not been deterred by the regulatory measures that harmed investment into Africa (often as an unintended consequence). These groups are well-aware of Africa's promise and remain eager to explore the opportunities presented by its impressive projected and actual growth.

In fact, Africa's potential is matched by its resilience, with many African markets displaying a strong response to the economic shocks brought by the pandemic. Dynamic domestic markets – supported by young and growing populations – are acting as a catalyst for proliferating cross-border intra-African trade, institutionally underpinned by the African Continental Free Trade Area (AfCFTA). The AfCFTA is set to play a critical role in both continental

and global trade growth in the coming decades, although the traders seeking to profit from it need assistance.

Certainly, the struggle for financial support remains a drag on those pursuing Africa's opportunities – hindering their expansion into these promising new markets. And it's here where the role of specialist banks – not least in supporting trade between emerging markets – has become crucial. Backed by long-standing local relationships and deep expertise, Africa-focused banks such as BACB are well placed to facilitate trade flows that allow both international traders and local communities to thrive.

Of course, banks operating in Africa face many and varied obstacles. From regulatory uncertainty to reputational risk, the challenges can vary sharply from one country to the next. Yet financial institutions such as BACB are keenly aware of this and consider the best response not "derisking" but a robust approach to risk management and compliance. In this research paper, we explore why transparency and stringent compliance methodologies are crucial to conducting safe, sustainable trade in Africa – and how banks operating in the region can support their clients to meet the highest regulatory standards.

At BACB, we believe that the risks inherent in the markets can be mitigated by embracing a solid risk-management approach not only through our own activities, but also by working with local partners to promote high regulatory standards in the region. This is an approach that yields results: despite the considerable challenges for global trade in 2022, BACB handled over 1,500 letters of credit (LCs) across the continent.

"Africa's potential is matched by its resilience, with many African markets displaying a strong response to the economic shocks brought by the pandemic."

3. CONTEXT:
Challenges in trading with specialist markets

PERCEPTION *vs* REALITY

WHY IS AFRICAN TRADE CONSIDERED RISKY?

Naturally, entry into any new market brings with it both opportunities and risks – but for many international traders and investors, African trade sits at the higher end of the risk spectrum. Whilst this perception is sometimes exaggerated, Africa's unique circumstances do lend it a unique risk profile.

Many African economies have less mature regulatory frameworks in place when compared to international counterparts, not only at a government level but also with respect to individual financial institutions. Furthermore, African economies often have a relatively high proportion of informal economic activity and undocumented cross-border trade, with some remaining heavily cash based.

Certain governance issues add to Africa's risk profile – indeed, several markets face restrictions from international bodies, serving as evidence of ongoing concerns including corruption, money laundering, and the financing of terrorism. This should not necessarily serve as an obstacle to trade, but it does mean that risks must be managed carefully. Traders looking to expand into Africa will undoubtedly be aware that financial institutions often approach the continent with caution – concerned not only with financial crime risk or credit risk, but reputational risk too.

Yet, when analysing data from the International Chamber of Commerce (ICC) regarding credit risk, it is evident that the risk of defaulting remains relatively low for African markets – the same as many other established economies. If anything, the ICC data shows us that trade finance in African markets is relatively low[2].

The challenges facing Africa are by no means unique, however larger international banks, especially those solely accustomed to dealing with developed markets, may sometimes be unwilling to support traders looking to engage with these specialist markets.

THE CURRENT REGULATORY ENVIRONMENT

These risks exacerbate the already-existing trade finance gap, estimated to stand at US$2 trillion by the Asian Development Bank (ADB)[3]. Of this, US$81 billion represents the annual trade finance gap in Africa, as reported by the African Development Bank[4].

This presents a particular challenge to African economies, as international trade is – and will no doubt continue to be – the life blood of the continent's economy. Indeed, trade accounted for 53% of Africa's overall GDP in 2019 according to the International Monetary Fund, a larger proportion when compared to the U.S. (ca. 25%) and China (ca. 38%)[56]. It is hard to overstate how crucial trade is to Africa's development.

It is therefore no surprise that, in an effort to address the aforementioned concerns, facilitate global trade and attract investment, developing markets are actively looking to develop their compliance capabilities.

The current regulatory landscape is mixed, but there have been some prominent developments in recent decades. For example, in 2001, the Financial Intelligence Centre Act created councils dedicated to investigating and preventing financial crime. The act also imposed legal duties upon institutions to aid money laundering prevention, as well as penalties should they fail to do so. There have been improvements to cross-border payments as well, such as the initiative to screen payments against sanction lists to successfully reduce the funding of organised crime.

With lack of standardisation acting as a barrier to compliance, organisations such as the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) coordinate with international efforts to combat corruption. There are currently 19 members of the ESAAMLG, collaborating to effectively de-risk member countries and standardise practice. Furthermore, the organisation is externally observed by Burundi, Portugal, the UK, and the US, ensuring best practice is followed. Other internationally recognised bodies, including the introduction of the ISAE 300 Report, are becoming involved in regulation in Africa. This report, ratified by the International Federation of Accountants (IFAC) aims to reduce fraud, corruption, and other financial crime.

Sub-Saharan Africa (SSA) has been less successful in improving compliance, in part due to a high level of cash transactions. Under the Foreign Corrupt Practices Act, fines on American trade have been increasing, exposing a high level of vulnerability to financial crime. Yet, the increased American interest in SSA exports could suggest a potential future increase in trade. Nevertheless, there are significant compliance issues in SSA: 38% of businesses do not have a KYC program. Despite this, only 22% of surveyed businesses believed that corruption and money laundering posed significant risks to their organisations. This attitude may contribute to perceived risk in the region, negatively affecting investment potential.

Furthermore, the global multilateral Financial Action Task Force (FATF) regularly reviews countries and prepares mutual evaluation reports – these take a look at a country's AML frameworks, how laws are put into place and how risks are controlled. If countries fail, they are subject to increased monitoring. FATF believe this will raise the bar and bring everyone to an equivalent level in the fight against financial crime.

DIGITALISATION AND FINANCIAL CRIME

Africa is embracing digitalisation at a rapid rate. The more digitalised an economy is, the more sophisticated financial crime occurs as criminals try to hide their illicit activity. It is in these rapidly developing markets that banks need to have robust and adaptable financial crime frameworks in place to make sure that they can identify emerging risks and mitigate them effectively.

During the pandemic, for example, as more people stayed inside their houses, computer use increased and fraud became more prevalent. Cybersecurity came to the fore as a major issue. Financial institutions in particular faced issues such as payment instructions being changed, and mitigated this risk using a call-back mechanism, to ensure the payment instruction change was legitimately issued by a client. As the pandemic has receded, instances of such fraud have again reduced to pre-pandemic levels.

REGULATION AND TRADE FINANCE

Small and Medium Enterprises (SMEs) in Africa have been particularly affected by investment issues. This poses a significant threat to economic growth, as SMEs account for around 80% of employment on the continent, and thus contribute heavily to GDP. A lack of credible investment pushes SMEs to seek investment from less regulated sources that are often exploitative or criminal in nature, further compounding the problem. Indeed, between 2015 and 2019, 16% of SME applications for trade finance were declined due to a lack of KYC and Anti-Money Laundering (AML) systems. SMEs with high-quality compliance processes in place are more likely to receive adequate funding.

Another key driver of investment is a visible commitment to ESG. By showing a genuine dedication to good practice in supply chains and operations, SMEs in emerging markets can differentiate themselves from competitors in the eyes of investors. As a result, instead of regions appearing riddled with financial crime, they become attractive investment opportunities for foreign entities. This means that funding is more likely to be secured, and the trade finance gap can be reduced, ultimately resulting in growth and prosperity for developing economies.

PROSPECTS FOR STANDARDISATION

Looking ahead, there are several ways to improve compliance in emerging markets. A key drive is towards digitalisation and standardisation of regulations, headed by a number of organisations. The development of the Africa Compliance Hub (ACH) is providing African SMEs with resources to adopt and implement international standards in due diligence and compliance. As the program is backed by the University of Oxford, amongst other institutions, it will increase confidence amongst foreign investors. Similarly, the Centre for Private Enterprise (CIPE) is helping business owners to construct frameworks supporting effective governance, whilst incentivising this with access to exclusive trade and investment opportunities.

BACB training event in Tunisia

EFFECT OF THE WAR IN UKRAINE ON GLOBAL TRADE ROUTES

The Black Sea region – including Ukraine, Russia, Bulgaria, and Turkey, among others – is popular with traders and a key source of agricultural goods such as wholegrains and wheat for Africa. The war in Ukraine naturally disrupted this crucial trade route.

As the war unfolded in Ukraine, and sanctions were imposed on Russian assets, BACB engaged in extensive dialogue, both internally and externally, to determine the impact on transactions. While sanctions must be respected above all commercial concerns, BACB recognises that many of the traders carrying out these transactions were engaging in legitimate business and were affected by an ongoing conflict in which they were not directly involved. It is therefore crucial that banks maintain an open dialogue with clients to explain sanctions and ensure their application in a way that avoids unnecessary disruption. The main challenge is ensuring that – while understanding the complex circumstances for affected clients – all compliance requests such as internal and external disclosures are fulfilled to the highest possible standard.

4. SOLUTIONS:

Ensuring compliance in trade finance

HOW CAN SPECIALIST BANKS SUPPORT TRADE?

The risks inherent in Africa's specialist markets can be addressed given the right risk management strategy. The right approach to trade with these markets therefore does not only involve robust due diligence procedures and compliance checks, but also necessitates deep expertise and understanding of the local context. The role of a smaller, specialist trade bank can be to not only mitigate risks, but also to bridge the knowledge gap between cautious traders and potentially fruitful African markets.

1 PROVIDING SOLUTIONS:
MITIGATING THE RISKS FOR TRADERS

2 COMPLIANCE STANDARDS
PROMOTING HIGHER COMPLIANCE STANDARDS IN SPECIALIST MARKETS

3 COMPLIANCE TRAINING
ORGANISING COMPLIANCE TRAINING SESSIONS ON THE GROUND

4 CAPACITY BUILDING:
ORIGINATION AND DISTRIBUTION

5 FIVE PILLARS
FINANCIAL CRIME CONTROL FRAMEWORK

1 PROVIDING SOLUTIONS: MITIGATING THE RISKS FOR TRADERS

With specialist markets in Africa often categorised as high risk, international banks like BACB can play a key role in bringing credibility to the trade flows, guaranteeing and financing international transactions. One way the bank achieves this is by applying strict transaction monitoring procedures. For international banks operating outside of the region, it can often be challenging to identify their counterparties, build a profile on their operations and take a decision on deals using only the limited information that can be retrieved online.

Specialist trade finance banks, with on-the-ground knowledge, support this process by carrying out risk assessments of their customers – providing a system of checks and controls that reassures all sides of a transaction. By fostering a dialogue with customers, and actively soliciting customers' queries on how to improve processes and procedures, banks like BACB can also help inform local partners on how to improve their profiles, raising them to an international standard.

The benefits of this approach are far-reaching, as ultimately, the day-to-day monitoring of transactions supports the integrity of key trade flows.

As a starting point, a bank would conduct an annual, business-wide financial crime risk assessment. This would seek to determine whether there are any emerging risks or any new typologies of financial crime from all aspects of a bank's business:

Is there new business being conducted?

Has the bank taken on a new type of client category, new products, new jurisdictions, and have they been assessed appropriately?

Are there controls in place and are they effective at mitigating the risk presented?

At a higher level, country risk also has to be kept constantly updated. A bank would look at whether the FATF has evaluated a country, and whether they have found any deficiencies in the country's legal and regulatory framework. Further considerations with regard to country risk should take into account any sanctions regimes imposed by relevant authorities, the perceived bribery and corruption risk with that country, is it considered a tax haven etc.

Robust due diligence – the first line of defence

BACB's first line of defence (1LOD) includes the front office, trade services and banking operations. It is a collective responsibility, covering three main areas: client due diligence, behavioural monitoring and transaction due diligence.

Client due diligence relates to Know Your Customer (KYC) initiatives, and activities pertaining to background checks and identifying potential risks in the onboarding of customers. Behaviour monitoring, on the other hand, refers to the retrospective analysis of transactions. Finally, transaction due diligence entails the ongoing monitoring of day-to-day activity.

Groups such the Wolfsburg Group and in the UK specifically the Joint Money Laundering Steering Group (JMLSG) give guidance on the interpretation of financial crime legislation, serving as a benchmark for regulated FIs.

Staying ahead of the curve with technology

Banks operating in specialist markets should take advantage of the most innovative digital tools available to meet due diligence requirements and ensure compliance with international regulatory standards. BACB uses a variety of suitable systems to ensure adherence to four globally recognised sanction bodies in its operations – His Majesty's Treasury (HMT), the European Union (EU), the Office of Foreign Assets Control (OFAC) and the United Nations (UN).

Each day, transactions are screened against built-in sanctions lists, and automated systems generate alerts for any potential risks, for instance relating to dual-use goods and sanctioned vessels. In addition to external lists, the bank maintains its own internal screening lists including entities, individuals, FIs, vessels and countries. The team reviews the internal list annually to ensure it reflects the most up to date risk tolerance levels.

Healthy communication among back-office staff – including between 1LOD and IT staff – ensures systems are calibrated, screening thresholds adjusted, filters checked and that a sanction list is available to download each day.

In depth: transaction monitoring

While a technology and systems-driven approach is crucial to recognising and mitigating threats, it is however a bank's human expertise that will turn raw data into actionable insights.

Crucially, the Transaction Management's team day-to-day responsibilities involve live payment and trade finance screening. Teams are cross trained to ensure everyone is comfortable picking up and actioning any request that comes in. For instance, BACB's team must successfully complete three International Compliance Association (ICA) exams to pass their probation. These cover sanctions, trade-based money laundering red flags, and correspondent banking.

Compliance professionals must also ensure they are prepared in terms of new developments regarding regulations and any potential issues affecting their core markets. BACB strives to maintain acute awareness of current socio- and geopolitical contexts that could affect its operations on the ground, either directly or indirectly via neighbouring countries.

Background checks and other screening procedures are in place to serve the customer in the best possible way. There are, of course, cultural differences in the way business is done across markets – which banks must respect while also adhering to the highest compliance and regulatory standards.

Close communication with relationship managers

Communication is crucial – a constant flow of information and knowledge sharing between departments gives a bank the best available tools to drive compliance in specialist markets. In particular, face-to-face contact between relationship managers and the bank's transaction management team fosters transparency and helps to resolve transactions more efficiently.

A bank's relationship managers are experts in their field, with on-the-ground knowledge and experience. Issues that may cause concern at face value can be mitigated by sharing knowledge with experts who have a deep understanding of specialist markets.

BACB's 1LOD transaction monitoring team is in a constant dialogue with representative offices across Libya, Algeria and Cote d'Ivoire to get a better understanding of financial and geopolitical conditions in each market. Once relationship managers and local offices share their information, the Bank's back-office team cross-references it with reports and meetings published by the RMs, as they contain useful information that can support transactional monitoring processes.

2 COMPLIANCE STANDARDS

PROMOTING HIGHER COMPLIANCE STANDARDS IN SPECIALIST MARKETS

Raising governance standards within African markets reduces the aforementioned risks, but the building of increased compliance capabilities requires both investment and commitment from local governments. Progress in this area is being made, and many African economies are working hard to raise both regulatory and corporate standards. In many African countries, regulators have focused on upskilling – organising training courses and engaging with G7 governments and global institutions to limit financial crime risk and combat money laundering.

Financial institutions in the region are also establishing processes and building control frameworks, work which will go a long way towards addressing Africa's problem of perceived risk. International banks, operating themselves within stringent regulatory regimes, can play a crucial role to support their African partners in this process. Indeed, BACB has a proven track record of sharing its expertise with many local institutions over its 50 years operation, something it continues to do so as part of the bank's strategy of safe, sustainable growth.

The bank's financial partners in Africa often use these insights as a benchmark to develop their own frameworks. Operating from London, with representative offices in Africa, BACB benefits from the regulatory guidance provided directly by the UK Government, Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA), whilst being able to maintain a deep understanding of the needs of its counterparties based in the bank's core African markets.

Relationships between banks are fundamentally based on trust, something which is strengthened when there is a mutual understanding of institutional control frameworks and regulatory standards. The benefits from working towards regulatory equivalence with countries such as the UK for African regulators and financial institutions are enormous, and will ultimately make international trade that much easier for corporates operating in those markets.

3 COMPLIANCE TRAINING

ORGANISING COMPLIANCE TRAINING SESSIONS ON THE GROUND

Institutional resilience is a key component of BACB's growth strategy, and amongst the bank's highest operational priorities. Through the provision of extensive training to colleagues in its London headquarters as well as its representative offices in Algiers, Tripoli and Abidjan, BACB can demonstrate its commitment to upholding the highest regulatory and compliance standards across all activities.

BACB also organises specialised regulatory and compliance training workshops for our banking partners operating in African markets, with the aim of helping the continent's financial institutions strengthen their capabilities. Through helping clients adhere to the standards expected by partners across the globe and maintaining the flow of capital and strategic goods to Africa, BACB endeavours to promote inclusivity across its network.

With targeted conference and workshops providing capacity building to those working in the African financial sector, BACB contributes to the development of safer, more transparent transactions, helping to connect Africa with the global financial markets. The most recent of these training sessions took place in Tunis in July 2022, following on from a larger conference held the previous month in Tripoli. The ongoing commitment of specialist banks like BACB in aiding the continuous improvement of the governance standards of the markets they operate in, will ultimately lead to the expansion of international risk appetite for African markets, resulting in greater prospects for growth.

4 CAPACITY BUILDING:

ORIGINATION AND DISTRIBUTION

The African Development Bank estimates the annual gap between demand and supply for trade finance in Africa to be around US$81 billion. The need to bridge this gap has never been more apparent, and the role that international financiers can play to promote the financial inclusion of countries is significant. Operating a strong trade asset distribution function from one of the world's financial capitals, BACB sources capacity from international providers for quality trade assets originated in its African markets. BACB has a trusted name, deep knowledge of African markets, and experience in the origination of safe, sustainable trade assets, coupled with longstanding partnerships with global traders. This strong foundation provides BACB with the capacity to work with banks and insurers in the UK, and throughout its sister companies, leveraging its expertise, to generate larger risk appetite and greater pools of liquidity for Africa.

The work of specialist banks like BACB helps foster much needed economic development in Africa, facilitating investment and empowering local partners. The significant social impact of this work should also be noted – by supporting the bankability of development projects, financial institutions can help provide Africa with the tools to invest in its communities, helping them to achieve self-sufficiency, and resulting in a long-term positive impact for generations to come. By championing Africa as a region to do business, trusted financial partners like BACB have a crucial role to play in growing the pool of liquidity available to Africa. Achieving greater financial inclusion, and closing the trade finance gap, will require similar commitment across the international community.

5 FIVE PILLARS

FINANCIAL CRIME CONTROL FRAMEWORK

A Bank's Financial Crime control framework generally centres on 5 pillars:

1. Senior management commitment to regulatory compliance standards is crucial – direction has to come from the top. Leadership must understand that compliance does not mean a barrier to doing business, but a focus on doing the right business. Getting this right has a huge impact on setting the correct culture in the firm.

2. Proportionate policies and procedures are essential in ensuring a firm operates a risk-based approach to mitigating financial crime risk. This ensures there is focus on the higher risk areas where a firm does business

3. Risk assessment is an essential part of the framework, as this involves a deep dive into the banks business to assess the inherent financial crime risks a bank faces along with an assessment of the effectiveness of the controls in place. The assessment's aim is to identify areas of emerging risk or existing risk to ensure there are effective controls in place to mitigate those risks.

4. Training for all staff is imperative. General staff wouldn't be experts in anti-financial-crime, it is the financial crime teams whose role it is to raise awareness of the risks, advise on specific typologies that could be indicative of financial crime and why we have certain controls in place to mitigate those risks. It is important all staff understand they are all responsible for the risks in their respective area(s) in relation to financial crime.

5. Finally, monitoring and testing of the control framework is essential. The monitoring is conducted periodically on a risk-based approach, which aims to verify that controls are operating as expected and are effective at mitigating the financial crime risks. This verification exercise informs the risk assessment mentioned above.

When attempting to mitigate risks of financial crime, especially with complex transactions, as a bank you must first and foremost monitor whether transactions make sense. Are there third parties involved, and what is their involvement? Why are they there? Can everything be explained?
Are transactions particularly convoluted?

A RECOMMENDED CHECKLIST FOR TRANSACTION MONITORING IN SPECIALIST MARKETS

1. **Assess transactions against UK regulatory requirements,** such as the UK Sanctions list and the High Risk Third Countries list.
The UK Sanctions list (preceded by an EU-wide consolidated list) is a published report on sanctions. The UK High Risk Third Countries includes a number of countries that are considered to be higher risk from a money laundering perspective, and therefore UK-regulated banks such as BACB have to adhere to and carry out enhanced due diligence.

2. **Dialogue** across the first and second lines of defence. Maintaining continuous contact through the bank's operations and ensuring that personnel is up to date on changes to policies and procedures that can affect our operations.

3. For Letters of Credit, using a **risk appraisal form** can help assess the level of due diligence required on each transaction by using a risk matrix and some of the considerations around country, risk, product, amount.
The **risk matrix** enables staff to provide a score and based on the threshold of the score, the decision is made whether to carry out a standard or enhanced due diligence on the transaction.

4. **Risk triggers.** Regardless of the score on the form, an alert on certain pre-set criteria would automatically warrant enhanced due diligence. For example, this could be based on country risk. For BACB, any transactions coming from Sudan, Libya, the UAE, Russia, Ukraine would currently carry a risk trigger.

5. **Addressing risk alerts.** At BACB, all transactions are subject to a four-eye review by the TMD team. In the event of a risk alert, banks must ask themselves key questions:
Is it a true match or a false positive?
Does this risk require escalation?
Can it be discounted?
Does the product, transaction size, documents and involved parties seem plausible in the transaction?
Are there any risk mitigators available?

5. ON THE GROUND INSIGHTS FROM OUR REPRESENTATIVE OFFICES

WORKING WITH UK REGULATORS

The first thing regulators look for is whether international sanctions apply to either individuals or products involved in the trade. This includes Specially Designated Nationals, and whether they are involved in potential transactions, directly or as vessels for trade.

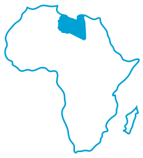
This is to prevent the funding of terrorism and other crime. Also taken into consideration is whether the goods could be defined as 'dual-use', and the proliferation risk of these goods being used as weapons, for example. Often, the origin and route of goods are tracked to ensure that they are of legitimate origin, again to decrease risk.

Other sanctions against individual products and individuals are observed, such as trade embargoes and other non-financial sanctions, as well as sanctions on particular industries and products.

Another key issue to be addressed is trade-based money laundering. Illicit funds are often used for genuine trade, meaning that businesses can often be inadvertently exposed to money laundering and proceeds of crime without their awareness. This is one way that criminals move illicit funds into a legitimate system. In a similar vein, phantom shipments can be used in a similar way, allowing criminals to 'clean' money without having to waste funds on the actual transfer of goods.

The final key concern is bribery and corruption. At a pre-trade level, the way in which contracts are awarded comes under investigation in order to ensure best practice. An example of this in action is when, in June 2022, Glencore pled guilty to 7 counts of bribery in relation to the awarding of commodity transactions.

"Often, the origin and route of goods are tracked to ensure that they are of legitimate origin, again to decrease risk."



CASE STUDY 1: Supporting African markets: spotlight on Libya

ECONOMIC RECOVERY

Libya is a natural gateway for trade with North Africa, as well as a link between Europe and Sub-Saharan emerging economies. The impact of conflict and the pandemic on the country, has left Libya reckoning with significant social and economic damage to its communities. Furthermore, the associated risks of working in Libya have meant that global banks are often reluctant to handle Libyan businesses, leaving the country with limited opportunities to access the global financial markets.

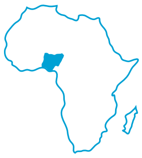
Specialist international banks operating in Libya like BACB play a strategically important role in keeping the North African country connected and trade flowing. BACB is pre-eminent in the UK as an issuer of letters of credit for corporates working in the Libyan oil sector (with the sector contributing to around 90% of the country's GDP), creating a vital link for Libya to access the global financial system. With close relationships spanning decades and a representative office in Tripoli, BACB can offer its Libyan clients a broad array of trade finance and treasury products, allowing them in turn to service their clients in the country.

Aside from handling oil exports, BACB also supports the difficult process of economic rebuilding in Libya – including the issuance of letters of credit for the importation of parts to repair damaged factories and infrastructure. Navigating such a specialist market comes with a unique set of challenges – not least the difficulties of couriering shipping documents in an out of the country. To reduce delay, Libyan banks place their trust London based BACB to receive and check shipping documents, and to make payments on their behalf, a testament to the strength of BACB's local relationships and the bank's ability to provide solutions for its clients.

BUILDING COMPLIANCE CAPABILITIES

As a core market for BACB, Libya also has a key place in the bank's strategy to promote international standards of compliance among local partners. Working with the Central Bank of Libya, BACB jointly held a high-profile banking conference in Tripoli in June 2022, focusing on upskilling top Libyan financial institutions in the areas of governance and compliance. The Libyan Banking Conference on Compliance 2022, hosted by the Central Bank of Libya, was the first major banking conference to take place in Tripoli since 2011, and included senior representatives from all commercial banks in the Libyan financial sector. Several training sessions were delivered by BACB's in-house experts to an audience of CEOs and Chairmen from Libya's top financial institutions.

Helping to build the institutional resilience of African financial systems is a key part of BACB's strategy, demonstrating the bank's steadfast commitment to its core markets. Governance and transparency play a crucial role in rekindling risk appetite towards the continent, BACBs presence on the ground makes even more effective the sharing of expertise with local partners.



CASE STUDY 2: Supporting African markets: spotlight on Nigeria

As one of the continent's largest economies, with a GDP that exceeds USD 400 billion, Nigeria has a central role to play in the expansion intra-African trade. As a major hydrocarbon exporter, the West African country plays a strategic role in the supply and distribution of goods across the continent. While it initially declined to sign the African Continental Free Trade Agreement (AfCFTA), Nigeria, is now a keen proponent of intra-African integration – it aims to retain 80% of its exports within Africa in the near future.

But the country is currently facing its fair share of headwinds. Despite its large – and growing – GDP a major wealth disparity exists in the country. According to the World Bank, 40% of Nigerians live below the national poverty line, lacking access to education, electricity, and safe drinking water. This pandemic exacerbated these problems and Nigeria is now recovering from the deepest economic recession since the 1980s.

The support of international traders and investors will be necessary if Nigeria is to overcome these challenges. This support has been forthcoming, if slowly – as the pandemic receded, international investors have expressed renewed interest and cautious optimism towards Nigeria and the economy is forecast by the IMF to grow 2.9% in 2023.

Investment in Nigeria has, however, been stymied by the persistence of the trade finance gap. As is the case with many emerging markets, Nigeria is continuing to grapple with a lack of trade financing. With a lack of willing banks capable of financing the means for goods to be exported, the chances for businesses within Nigeria to thrive and distribute their goods across the continent is limited significantly.

Specialist banks like BACB play a vital role in overcoming this challenge, bringing credibility to trade flows, guaranteeing and financing cross-border transactions. By leveraging long-standing relationships and deep expertise, BACB can reassure and encourage traders to continue to engage with the Nigerian market, helping to mitigate any unavoidable risks.

BACB, for example, facilitated a EUR51 million deal for the shipment from Nigeria, to Cote d'Ivoire, by securing a letter of credit, issued by a bank in Cote d'Ivoire, BACB was able to demonstrate its steadfast commitment to intra-African trade and support underserved development needs. The Bank's ability to handle this type of transaction is founded on its one-team approach; working across multiple departments to make business happen.

Furthermore, in May 2023, BACB partnered with a major Nigerian Bank to handle a shipment of refined petroleum from Belgium to Nigeria. Although rich in natural gas and oil reserves, Nigeria does not yet have adequate refining capabilities – making the importation of refined petroleum crucial to its economy. BACB secured the deal, confirming an USD18 million Letter of Credit, helping to facilitate this transaction together with African partners.

BACB continues to facilitate intra-African trade to and from Nigeria, partnering with local banks to allow their corporate clients the ability to leverage an international network of banking partners and representative offices, thus opening the door to opportunities that will help them seize cross-border opportunities – whether within Africa itself or further afield.

CASE STUDY 3: Supporting African markets: spotlight on Mauritania

Mauritania is a core market for BACB, where we play a significant role at every stage of the trade flow. The country is already an important part of a trade corridor linking the African continent. Supported by the World Bank, regional investment is helping to build roads connecting Mauritania, Algeria, Morocco, Senegal and Mali. This has significant implications for the region, and for Mauritania's role in intra-African trade more broadly.

Mauritania is well-equipped to become the link between North, West and Sub-Saharan Africa and is increasingly perceived as a safe gateway for African businesses seeking to trade with the rest of the continent. Indeed, Moroccan traders have long used Mauritania to access several western and eastern African economies – mostly for export of agricultural products. And since Algeria opened its borders with Mauritania in 2018, the country has been enjoying similar benefits, equalling Morocco in the local markets, and becoming the second biggest exporter to the country in the region.

Aside from physical infrastructure, African countries need trade finance and payments systems to provide security in their transactions - this is pivotal to boosting trade volumes. Among the top two specialist banks supporting financial flows in the country, BACB has operated in Mauritania for almost 20 years, and has long established relationships with local financial institutions. BACB has served as a crucial facilitator of trade between Mauritania and its trading partners, including Tunisia, Egypt, Morocco, Algeria, and Namibia. What's more, through actively promoting Mauritania as a safe place to do business, BACB has helped create greater liquidity in the international markets, to the point that some previous secondary market providers are now successfully dealing directly in the Mauritanian market themselves.

BACB training event in Mauritania

Handling trade transactions in excess of GBP500m last year alone, BACB handles a significant portion of Mauritania's total import finance. Building on a longstanding relationship spanning many years, BACB works with exporters and banks operating in the region to build capacity, using its gold-standard UK regulations to exemplify compliance and aid institutions in the country to reduce their own perceived risk and encourage greater levels of trade. BACB is able to help traders throughout the supply chain, from the commencement of transactions by handing bid bonds and performance guarantees, through to their completion by confirming and discounting Letters of Credit, thereby providing safe and secure payment mechanisms.

BACB focusses on creating and sustaining committed client relationships, our relationship managers visit the country for in person meetings several times per year. This allows the bank to maintain its high level of on-the-ground knowledge and form a deep understanding of the issues affecting the Mauritanian market. This interaction and long-term presence perpetuates positive relationships, which remain key to BACB's strategy in the region, and helps maintain Mauritania's connection to global markets.

One of the ways in which BACB builds invaluable relationships across emerging markets is by providing capacity building training and workshops. For example, in February 2023, BACB visited Mauritania to provide a series of sessions on regulation and compliance, helping Mauritanian banks level up their regulatory compliance functions in line with international standards. Held in the capital Nouakchott, the training was incredibly well-received by a mix of bank staff and regulators. It will be part of a larger programme of training sessions offered in the region to help improve Mauritania's – and North Africa's – risk profile.

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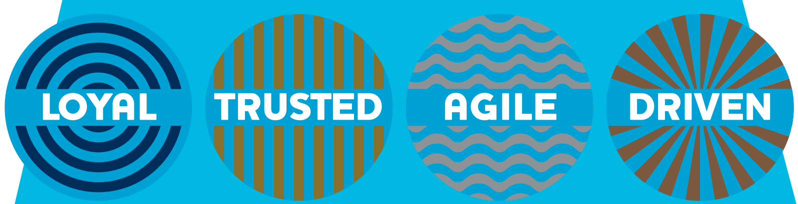
ABOUT BACB

BACB is a UK bank delivering trade finance and investment expertise to enable clients, countries and communities to prosper.

With 50 years' experience providing international trade solutions to partners trading with specialist markets, BACB leverages its position in one of the world's financial capitals to forge close links with the global banking community. The bank specialises in supporting trade flows to and from the Middle East and Africa, connecting them with the rest of the world.

The bank places great emphasis on its ability to execute transactions in highly specialist markets, enabled by longstanding and trusted relationships and broad networks. The bank is proud of its in-house talent, comprising a diverse workforce who have an abundance of market knowledge, product expertise and language skill.

With its UK headquarters, PRA and FCA regulators, BACB provides its partners with the reassurance of adherence to the highest standards, and furthermore seeks to disseminate and foster these standards through regular training programmes offered to its network of clients and partner banks in Africa.



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