BACB

British Arab Commercial Bank plc

Pillar 3
and
Remuneration Code
Disclosures

For Year Ended 31 December 2019

Registered Number 1047302

'....your banking partner for specialist markets.....'

CONTENTS

1 OVERVIEW

1.1. Introduction

Purpose

This document comprises British Arab Commercial Bank plc's ("BACB" or "the Bank") Pillar 3 disclosures on capital and risk management at 31 December 2019. It has two principal purposes:

- To meet the regulatory disclosure requirements under CRD IV, Part 8 – Disclosure by Institutions and the rules of the United Kingdom ("UK") Prudential Regulation Authority ("PRA") set out in the PRA Rulebook, Public Disclosure section and as the PRA has otherwise directed, including Remuneration Code disclosures, and
- To provide further useful information on the capital and risk profile of BACB.

Additional relevant information may be found in the BACB plc *Annual Report and Financial Statements 2019.*

Key Metrics

Common equity tier 1 capital

£171m

2018: £161m

Total regulatory capital

£236m

2018: £233m

Common equity tier 1 ratio

14.1%

2018: 9.9%

Total capital ratio

19.6%

2018: 14.3%

Total RWAs

£1,207m

2018: £1,636m

Leverage Ratio

5.7%

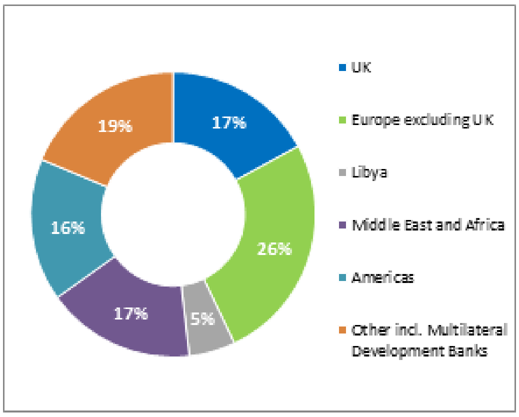
2018: 3.8%

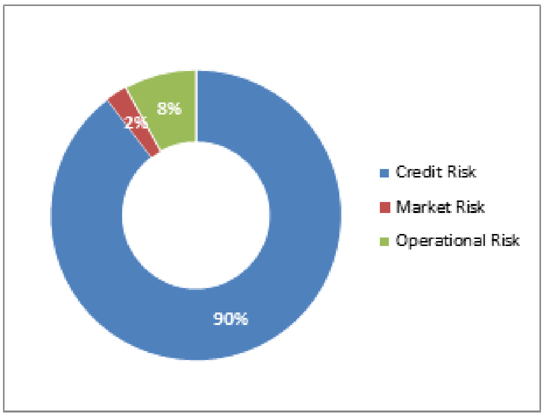
Liquidity Coverage Ratio

222%

2018: 232%

Credit Risk Exposure by Geography RWAs by Risk Type





1.2. Background

The European Union (EU) Capital Requirements Directive came into effect on 1 January 2007. It introduced consistent capital adequacy standards and an associated supervisory framework in the EU based on the Basel II Accord. The directive was superseded on 1 January 2014 by the fourth Capital Requirements Directive ("CRD IV") and the Capital Requirements Regulation ("CRR").

The Basel framework comprises three "pillars" which are designed to promote market discipline, of which Pillar 3 requires the disclosure of key information about risk exposures and risk management processes.

PILLAR 1	Sets out the minimum capital requirements firms are required to meet for credit, market and operational risk.
PILLAR 2	The supervisory review process which requires firms and supervisors to consider whether a firm should hold additional capital against risks considered under Pillar 1 that are not fully captured under the Pillar 1 process (e.g. credit concentration risk); factors not covered under the Pillar 1 process (e.g. business and strategic risk); and matters external to the firm (e.g. business cycle effects).
PILLAR 3	Aims to promote market discipline by developing a set of disclosure requirements which will provide market participants with key information on a firm's capital, risk exposures, risk assessment processes and the capital adequacy of the firm.

The CRR and CRD IV are enforced in the UK by the Prudential Regulation Authority ("PRA"). The Pillar 3 disclosure requirements are contained in Articles 431 – 463 of the CRR.

BACB applies the Standardised Approach to credit risk, the Basic Indicator Approach ("BIA") to operational risk and the Position Risk Requirement ("PRR") rules for market risk.

1.3. Disclosure policy: basis and frequency of disclosures

This document represents the Pillar 3 disclosures of BACB for the year ended December 2019 in accordance with the requirements of Pillar 3 as set out in the CRR. The aim of the disclosures is to provide information on the basis of calculating Basel III capital requirements and the management of risks faced by the Bank.

Unless otherwise stated, all figures are as at 31 December 2019, the Bank's financial year-end. These disclosures, which are based on the Bank's regulatory returns having applied the relevant regulatory rules, may differ from similar information in the Annual Report and Financial Statements which are prepared in accordance with International Financial Reporting Standards ("IFRS").

The main differences for BACB are as summarised below:

- Pillar 3 exposure values are derived from Balance Sheet values, net of provisions where appropriate, with off-balance-sheet exposures assigned Credit Conversion Factors based on prescribed regulatory values;
- Regulatory reporting rules require that the Bank make certain adjustments to Own Funds, the most material relate to Intangible Assets and dated Tier 2 Capital Instruments; and
- Immaterial year-end adjustments made post submission of returns.

The following sets out the Bank's **Disclosure Policy** as applied to the Basel III Pillar 3 Disclosures including the information to be disclosed, frequency, media, location and verification.

BACB Disclosure Policy for Basel III Pillar 3 Disclosures

Information to be disclosed: The Bank's policy is to meet all required Pillar 3 disclosure requirements as detailed in the Capital Requirements Regulations.

Frequency: The Bank's policy is to publish the disclosures on an annual basis and within a reasonable period of time of publication of the Annual Report and Financial Statements, which should be read jointly with this document.

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

Medium and location of publication: The Bank's Pillar 3 disclosures are published on the Bank's corporate website http://www.bacb.co.uk.

Verification: These disclosures have been subject to internal review and validation prior to being submitted to the Board for approval. The following levels of review took place prior to the granting of Board approval:

(i) At the Executive level by the Asset and Liability Committee and by the Executive Committee;
(ii) At Board level by the Audit, Risk and Conduct Committee and the Remuneration disclosures detailed in Section 10 of this document were reviewed by the Nominations and Remuneration Committee of the Board.

The disclosures are not subject to external audit except where they are equivalent to those prepared under accounting requirements for inclusion in the Bank's Annual Report and Financial Statements.

Non-material, proprietary or confidential information: This document has been prepared to meet the Pillar 3 disclosure requirements set out in the CRR. The Bank does not seek any exemption from disclosure on the basis of materiality. The Bank does seek exemption on the basis of confidential information in the Remuneration Code disclosures, where disclosure of Material Risk Taker remuneration by business area could result in identification of individual compensation levels.

Throughout this document, some tables may not add exactly due to immaterial rounding differences.

1.4. Scope of application

BACB is a UK registered Bank that is authorised by the PRA, and regulated by the PRA and the Financial Conduct Authority ("FCA").

BACB trades as a single entity; it has no subsidiaries or associates. As at 31 December 2019 BACB operated five representative offices, in Algiers, Tripoli, Abidjan, Dubai (closing mid-2020) and Munich (which opened in 2018), in order to conduct marketing and client relationship activity. All decision making takes place in London and all transactions are booked in the London entity.

1.5. Prudential consolidation

The Bank is a single entity and no consolidation is performed.

1.6. Management response to COVID-19

As a result of the COVID-19 pandemic and associated market turbulence overlaid by the impact on the oil price of the breakdown of OPEC production agreements, the Bank's management has carefully assessed the Bank's near term strategy under two possible scenarios in terms of duration and severity and, while this is a hugely challenging period, it believes the Bank's fundamentals demonstrate adequate resilience. The immediate priority is the wellbeing of staff, clients and other stakeholders. For detailed information please refer to the Strategic Report in the Annual Report and Financial Statements 2019.

2 GOVERNANCE

2.1 Shareholders

The principal shareholder of the Bank is the Libyan Foreign Bank, which is wholly owned by the Central Bank of Libya. The Bank's shareholders as at 31 December 2019 are listed below:

Libyan Foreign Bank	87.650%
Banque Exterieure d'Algerie	6.175%
Banque Centrale Populaire	6.175%

The shareholders have entered into a formal Shareholders' Agreement which, together with the Articles of Association ("Articles"), mandates the governance arrangements which are followed by the Board.

These Agreements provide that certain shareholders of the Bank may appoint directors in accordance with their shareholdings. They also provide for the appointment of the Chairman and the Chief Executive, and for the formation of certain committees to oversee the day-to-day running of the Bank. A Schedule of Reserved Matters specifies matters which must be decided by the Board (rather than by Executive Management), with a separate schedule detailing matters reserved for approval and decision by shareholders. The Shareholders' Agreement sets out the arrangements for changes in shareholding.

2.2 The Board of Directors ('the Board')

As at 31 December 2019, there were seven members of the Board, comprising six Non-Executive Directors ("NEDs") and one Executive Director.

As at 31 December 2019, four Non-Executive Directors were classified as Independent (INEDs): (i) the Chairman, Mr Michael Stevenson, (ii) Mr Jehangir Jawanmardi, (iii) Mr Mohamed Zine and (iv) Dr Khaled Kagigi. The remaining two Non-Executive Directors were appointed by shareholders pursuant to their shareholding and are not deemed "independent".

The Executive Director is the Chief Executive Officer, Ms Susannah Aliker, who was approved as CEO by PRA on 6 August 2018.

The Board has ultimate responsibility for the Bank and, in accordance with the delegated authority from shareholders. The Board is responsible for establishing and approving the Bank's strategy and for establishing the governance and control framework of the Bank. It approves plans and performance targets for the Bank, the appointment of senior executives and the delegation of authorities. The Board satisfies itself that financial controls and systems of risk management are effective and robust; it approves the Bank's risk appetite statement and Governance Standards[1] and receives reports from the its sub-committees and from Executive Management on execution and compliance.

During 2019, the Board met seven times. In addition, the Board conducted an annual Strategy Meeting and received training on a number of key topics during the year. An externally facilitated Board effectiveness review was conducted in 2019.

[1] The Board directly approves the Overarching Governance Standard and has delegated authority to the Audit, Risk and Conduct Committee to approve Standards and Policies related to each Principal Risk Type. See Section 3.

2.3 Board recruitment policy

Recruitment onto the Board combines an assessment of both technical capability and competency skills. Board recruitment is managed by the Nominations and Remuneration Committee, with subsequent ratification by the Board. All members of the Board are experienced in the banking industry and collectively bring experience of the Bank's markets and products along with risk, compliance and other specialist expertise.

2.4 Board diversity policy

The Bank is committed to promoting a diverse and inclusive workplace at all levels, reflective of the communities in which it does business.

It is recognised that a truly diverse Board, one that leverages a range of cultural, ethnic, gender and industry experience, can add significant value to its overall effectiveness. We continue to work with the Bank's shareholders in striving to achieve an optimal Board composition. A significant proportion of the Board comprises shareholder representatives.

The Nominations and Remuneration Committee is responsible for assessing Board composition on behalf of the Board and reviews and recommends the appointment of new directors.

2.5 Board overview (as at 31 December 2019)

The table below summarises the following for each Director: (i) Board Sub-Committee membership (see 2.7 for Sub-Committee overview), (ii) the status of Directors (see definitions below), and (iii) the number of directorships held.

Board Member	Board Sub-Committee Membership	Status	Number of Directorships including BACB plc
Mr Michael Stevenson, CHAIRMAN	ARCC / NRC	I-NED	3
Mr Mohamed Shokri, VICE-CHAIRMAN	ARCC / NRC	NED	2
Mr Ahmed Aburkhis	ARCC / NRC	NED	1
Mrs Susannah Aliker		ED	3
Mr Jehangir Jawanmardi	ARCC / BCC	I-NED	2
Dr Khaled Kagigi[1]	ARCC / BCC	I-NED	1
Mr Abdullah Naama[2]	ARCC / BCC	NED	1
Mr Faisal Othman[3]	ARCC / BCC	NED	2
Mr Brahim Semid[4]	BCC	NED	6
Mr Mohamed Zine	ARCC / BCC	I-NED	7

Note 1: The appointment of Dr Khaled Kagigi as Senior I-NED and Chair of the Risk and Conduct Committee is subject to regulatory approval.

Note 2: Mr Abdullah Naama resigned from the Board on 1st May 2019

Note 3: Mr Faesal Othman resigned from the Board on 24th July 2019.

Note 4: Mr Brahim Semid resigned from the Board on 24th December 2019.

Note 5: Status abbreviations (i) NED – Non executive Director, (ii) I-NED - Independent NED, (iii) ED – Executive Director

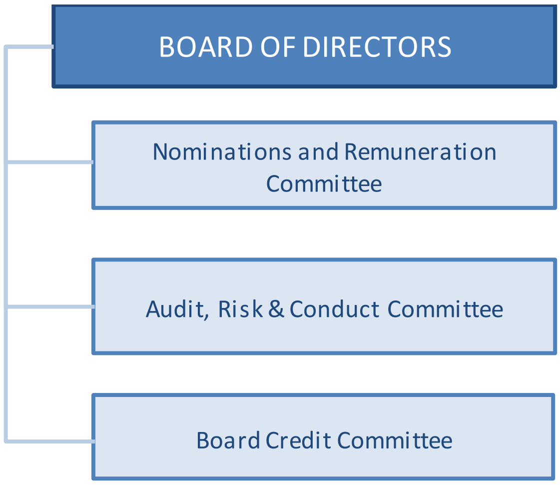
2.6 Overview of governance committee structure

The governance arrangements followed by the Board are mandated in the Shareholders' Agreement and in its Articles of Association. These agreements provide for the formation of certain committees to oversee the day-to-day running of the Bank. A Schedule of Reserved Matters specify various issues which must be decided by the Board (as opposed to Executive Management) and those other matters reserved for approval and decision by Shareholders.

The Board has ultimate responsibility for establishing, approving and periodically reviewing the strategy of the Bank and its governance framework. The Board oversees senior management to ensure that they manage the Bank's activities in a manner which is consistent with the strategy and governance framework. The Board governance arrangements are complemented by an executive governance structure which has been strengthened significantly in recent years. The executive governance structure benefits from clearly articulated governance principles and risk management objectives, underpinned by an articulation of the principal risk types incurred by the Bank and associated minimum controls for the management and reporting of these risks in accordance with the Bank's overall risk appetite.

2.7 Board sub-committees

The Board has established a number of Sub-Committees in order to enhance and streamline its decision making, as outlined below.



2.7.1 Nominations and Remuneration Committee ("NRC")

Non-Executive Directors are eligible to sit on the NRC, a sub-committee of the Board with the following remit:

- reviews all matters affecting the composition and qualifications of the Board and sanctions the appointment of Directors, Non-Executive Directors and experts to the Board and its Committees;
- reviews the Bank's appointment policies, including the appointment of the Chief Executive and all other Executive Committee members and other senior employees;
- ensures that staff, management, executive and Board remuneration is appropriately aligned to business and individual performance, and is consistent with shareholder interests; and
- takes responsibility for executive succession planning.

The NRC performs these duties within a framework that takes account of prevailing market conditions, market practice and regulatory compensation guidelines (e.g. Remuneration Code).

The NRC met five times during 2019.

2.7.2 Audit, Risk & Conduct Committee ("ARCC")

Non-Executive Directors are eligible to sit on the ARCC, which is a sub-committee of the Board. The committee considers the Bank's financial reporting, the nature and scope of audit reviews, and the effectiveness of the systems of internal control, conduct, compliance and risk management. The Bank's external auditors and outsourced internal auditors, together with the senior financial, risk and compliance executives, attend meetings of the ARCC, which met six times during 2019.

The Chairman of the ARCC provides an update on key matters at the next meeting of the Board.

The ARCC is responsible for taking decisions and for providing guidance and advice and making recommendations to the Board on:

- the Bank's principal risk categories with a view to reinforcing a culture that encourages both good stewardship of risk and of regulatory awareness;
- risk levels in consideration of the Bank's overall risk appetite, market conditions and business strategy;
- consideration at each meeting of an 'Enterprise Risk Assessment', which identifies, monitors and reports to the Board on key franchise risks which, if they materialised, could have a detrimental impact on the Bank's 'business as usual' operations;
- the Bank's required submissions under the Internal Capital Adequacy Assessment Process ("ICAAP"), Individual Liquidity Adequacy Assessment Process ("ILAAP"), Recovery Plan and Resolution regimes;
- an assessment of the adequacy of stress testing, risk policy and regulatory developments;
- an assessment of the Bank's internal control systems and processes via feedback from the Bank's outsourced internal audit function;
- periodic reviews of the qualifications, performance and role of the Bank's outsourced internal audit function;
- the qualifications, performance and role of the Bank's external auditor;
- consideration of matters regarding the finances of the Bank including providing guidance and recommendations to the Board on all matters affecting the accuracy and appropriateness of the Bank's financial statements; and
- reporting from Compliance, in order to promote a culture of regulatory awareness and good conduct. It ensures that all regulatory risks are properly monitored, managed and reported.

2.7.3 Board Credit Committee ("BCC")

The Board has delegated authority to approve the granting of credit applications to executive management subject to certain limits. Applications above those limits must be referred to the Board Credit Committee for consideration and approval. The Committee considers applications as they arise. The Board Credit Committee met seven times during 2019.

2.8 Executive committee and sub-committees

Led by the Chief Executive, the Executive Committee ('ExCo') has a business and prudential remit and is responsible for:

- formulating and endorsing the Bank's strategy and annual operating plan for approval by the Board;
- ensuring the Bank is managed in accordance with the strategy;
- ensuring the Bank is managed in a sound, prudent and ethical manner and in accordance with all relevant laws, regulation and guidance;
- managing the Bank's interface to its principal stakeholders including the Board, regulators and auditors.

The ExCo membership as at 31 December 2019 comprised:

- Chief Executive Officer
- Chief Financial Officer
- Chief Risk Officer
- Chief Operations and Control Officer
- Human Resources Director
- Head of Corporate and Institutional Banking
- General Counsel and Chief Compliance Officer

The Executive Committee, which meets monthly, has established six sub-committees. Reports from each sub-committee Chair are tabled at ExCo in order to ensure appropriate escalation of key matters.

Following review and recommendation by the ExCo, the Board approved the establishment of a Management Committee, effective April 2019, to complement the Governance Framework.

The mandate of each of the executive committees is summarised below:

2.8.1 Management Committee

The Management Committee provides a greater level of engagement with and understanding of Bank-wide governance across a wider group of SMF and Certified staff. Its primary responsibilities are:

- to provide oversight and monitor progress on the People Strategy;
- to provide oversight and monitor conduct and culture initiatives and risk metrics within BACB and actively promote the appropriate 'tone at the top' across the Bank;
- regular review of operational and financial performance of the business and the Bank-wide control environment; and
- to enhance inter-departmental communication and collaboration.

2.8.2 Business Development Committee (“BDC”)

The BDC has primary responsibility for driving the Bank’s business development initiatives and for ensuring there is robust and effective business enabling capability across the Bank, developing client relationships and ensuring provision of appropriate and effective customer service. It ensures the Bank’s approved business model is properly implemented and operational, and that agreed business origination plans are effectively executed and delivered.

2.8.3 Credit Risk Committee (“CRC”)

The primary role of the CRC is to ensure that there is robust and effective oversight and management of the Bank’s exposures to credit and country risk arising from the pursuit of the Bank’s strategy and business plans.

This Committee is responsible for the approval of policies and limits; and monitoring of credit exposures and concentrations both on an individual and a portfolio basis, including review of individual obligor risks using the Board approved delegated mandates. It oversees country and sector risks and undertakes periodic reviews and assessments of portfolios, collateral, residual value and concentration risks.

Credit approval decisions take place in accordance with the approvals framework outlined in the Credit Authorities, which are reviewed on at least an annual basis by the ARCC. This includes the authorities of the Executive Credit Committee and the Board Credit Committee.

2.8.4 Governance and Control Committee (“GCC”)

The GCC has primary responsibility for ensuring the adequacy of the Bank’s day-to-day governance, internal control and compliance framework and its effective execution.

Compliance, financial crime and operational risks are overseen by the GCC, which also reviews the findings from Internal and External Audit, agrees the adequacy of management’s responses and action plans, and monitors the effective and timely closure of action items. GCC is also the control point for approval and oversight of the Bank’s policies.

2.8.5 Operating Committee (“OpCo”)

The primary roles of the OpCo are to: (i) provide oversight of the running and management of the Bank on an operational and day-to-day basis in accordance with all relevant laws, regulations and guidance; (ii) to ensure that first-line operational functions have appropriate resources, systems, processes, controls and policies to support the business and the business strategy; and (iii) to ensure that the resources, systems, processes and controls are effective, efficient and aligned with the business and its policies.

2.8.6 Asset and Liability Committee (“ALCO”)

The ALCO has primary responsibility for allocation of financial resources across businesses and optimising the management of the risks inherent in the Bank’s balance sheet which result from the Bank’s business plan and operating model, with particular focus on capital, funding and liquidity. It applies a forward-looking focus in order to manage emerging risks and optimise performance.

It also ensures adherence to regulatory and internal limits, overseeing measurement and monitoring of liquidity and market risks.

3 RISK MANAGEMENT OBJECTIVES AND POLICIES

3.1 Introduction

The Executive Management team have embedded a comprehensive review of the Bank's strategy, supported by clearly articulated risk appetite, medium term business plans, business operating model and risk management framework.

These initiatives are supported by a human resources strategy designed to promote a robust, compliant risk culture and the conduct and behaviours expected of a high performance organisation.

At the heart of this initiative is the Board approved governance framework that is based on a clearly articulated risk appetite and Governance Standards which state the Board's minimum control and reporting requirements for each of the principal risk types faced by the Bank.

Governance principles

Shareholder value based: The objectives of the Bank's business is to protect and enhance shareholder value. The risks to these business objectives should drive the systems of internal control.

Embedded: The culture of the Bank should reflect its appetite for risk. This requires a suitable organisational structure, policies and procedures, and appropriate staff training in risk management, which enables risk to be managed at all levels of the business.

Supported and Assured: The system of governance and internal control should provide management with the assurance it needs that risks are identified and are being managed appropriately. The Board, or an appropriate sub-committee, must regularly receive and review reports on internal control from the governance and control process.

Reviewed: The Board must undertake, at least on an annual basis, a specific review of the effectiveness of the systems of internal control and risk management processes.

3.2 Risk management objectives

The Bank's overarching risk management objectives are to ensure that:

- there is a clearly articulated risk appetite statement which is calibrated to the financial resources of the Bank and its budget aspirations;
- there is a risk culture, which is embedded in daily operational activity;
- risks are identified and accepted within risk appetite, or approved as exceptions where not;
- risks are monitored to ensure they remain within, or come back within, risk appetite in agreed timescales and action is taken promptly and effectively if that is not the case; and
- there is timely, complete, accurate and relevant risk reporting within the Bank and to the Board.

The Bank is committed to employing fit-for-purpose controls and compliance, specifically:

- complying with the letter and the spirit of the laws and regulations that govern the Bank;
- setting high standards for control and compliance activities;
- viewing 'excellence' in compliance as a key leadership responsibility;
- working with regulators to ensure compliance and to support the development of proportionate capabilities;
- being open both internally and with external stakeholders about the Bank's standards and opportunities for improvement;
- ensuring that there are adequate processes and controls in first and second lines of defence (described below) to ensure controls are working effectively.

3.3 Approach to risk management

The Bank has adopted a "three lines of defence" model of risk management and control.

1ST LINE	2ND LINE	3RD LINE
Each business area and function within the Bank is responsible for identifying, understanding and managing their risks and maintaining effective internal controls. This includes: ▪ The identification, assessment, acceptance, control and mitigation of risks; ▪ Execution of risk and control procedures on a day-to-day basis; and ▪ The implementation of corrective actions to address process and control deficiencies. There should be adequate managerial and supervisory controls in place to ensure compliance and highlight control breakdown, inadequate processes, and unexpected events. Hence the first line of defence should be able to assure effective risk management without reliance on the second line of defence. The Bank's Chief Operations and Control Officer forms part of the first-line of defence and is responsible for ensuring the overall adequacy and effectiveness of the first line controls. The Head of Corporate and Institutional Banking is responsible for pursuing the Bank's strategic objectives in accordance with risk appetite approved by the Board from time to time.	The second line of defence establishes the policies and tools, as required by the Bank's Governance Standards, to provide the framework for managing each Principal Risk Type and provides oversight and monitoring over the first line risks and controls. This comprises: ▪ The Risk Management function that facilitates and monitors the implementation of effective risk management practices by operational management and assists risk owners in defining the target risk exposure and reporting adequate risk related information throughout the organisation; ▪ The Compliance function that monitors compliance with applicable laws and regulations; ▪ The Anti-Financial Crime team headed by the Money Laundering Reporting Officer (MLRO) oversees the bank framework for managing financial crime risk. The Chief Risk Officer is responsible for ensuring the adequacy of the second line of defence.	The third line of defence, comprising Internal Audit, provides independent assurance on the effectiveness of governance, risk management and internal controls, including the manner in which the first and second lines of defence achieve risk management and control objectives. The Internal Audit function is responsible for assessing: ▪ Management's processes for ensuring compliance with controls, through periodic reviews of businesses; ▪ Management's remediation plans in respect of control breaches; and ▪ The effectiveness of the Bank's control and assurance processes. The Internal Audit function is outsourced to Deloitte (2019: PwC). The Head of Internal Audit reports to the Chair of the Audit, Risk and Conduct Committee and has a dotted line to the CEO.

In addition to the above, the Chief Executive submits to each meeting of the Audit, Risk and Conduct Committee an "Enterprise Risk Assessment" that identifies the most material risks, including those which may present a franchise risk to the Bank.

For each of the material enterprise risks, the assessment includes details of:

Enterprise Risk Assessment		
▪ The nature of the risk	▪ Risk profile evaluation	▪ Ability to influence the risk
▪ Direction of the risk tendency	▪ Principal risk types impacted	▪ Action plan to address the risk

3.4 Risk declaration - Adequacy of the risk management arrangements

The Board is ultimately responsible for BACB's risk management framework. The risk management framework is the totality of systems, structures, policies, processes and people within the Bank that identify, assess, mitigate and monitor all internal and external sources of risk that could have a material impact on the Bank's operations.

The Bank experienced unacceptable levels of credit losses and provisions during the year ended 31st December 2018. These were predominantly related to commodity based financing activity. During 2019, the risk appetite and Strategy for this activity was rigorously reviewed and repositioned. As part of this process, the Bank managed down certain exposures. There remains some residual risk, although it is the Bank's view that provision levels are appropriate. Further, the Bank has carried out, and continues to carry out, a comprehensive internal review to enhance the risk management and control framework across all business activities.

As a result, the Board is of the opinion that it has taken appropriate steps to provide reasonable assurance that the activities of the Bank continue to be managed in a prudent manner underpinned by this enhanced governance and risk management framework.

As a result of the COVID-19 pandemic the Bank's management has carefully assessed the Bank's near term strategy and it believes the Bank's fundamentals demonstrate adequate resilience. For detailed information please refer to the Strategic Report in the Annual Report and Financial Statements 2019.

3.5 Risk appetite statement

The Bank's risk appetite statement is approved by the Board and describes the Bank's risk appetite and how it links to the overall strategy appetite. The risk appetite is regularly monitored, with formal reviews by the Board of the Bank's risk measures in conjunction with the strategic planning process.

The Bank's strategy is to be pursued within a defined Board approved risk appetite which combines a top-down view of its capacity to take risk with a bottom-up view of the business risk profile associated with the business's medium term plans. Taken as a whole, the risk appetite framework provides a basis for the allocation of risk capacity within the Bank.

The top-down financial volatility measure seeks to ensure that transactions entered into and risk exposures acquired in pursuit of the agreed strategy will permit the Bank to remain profitable even under severe market or economic stress conditions. The second element to the setting of risk appetite in BACB is an extensive system of Scope and Scale measures, which is a risk management approach that seeks to formally review and control business activities to ensure that they are within BACB's approved mandate (i.e. aligned to the expectations of the shareholders and any other relevant external stakeholders), and are of an appropriate scale (relative to the risk and reward of the underlying activities). In other words, it is a measure of the willingness of the Bank to accept certain types of risk. BACB will achieve this by using limits and triggers to avoid concentrations which would be out of line with external expectations, and which may lead to unexpected losses of a scale that would be detrimental to the stability of the Bank. The Bank expresses these Scope and Scale measures through a number of key measures which define the level of risk acceptable across the Principal Risk Types set out below. These measures are integrated into decision making, monitoring and reporting processes, with early warning trigger levels set to drive any required corrective action before overall tolerance levels are reached.

At the time of preparation of this Pillar 3 statement the global economy is being significantly impacted by the COVID-19 Pandemic. As a result both the Bank's strategy and risk appetite are being managed tactically under Board oversight, and the full annual review and approval by the Board as described above has been deferred until the economic outlook is clearer.

Appendix II sets out a number of the key measures that are used to monitor the Bank's risk profile.

3.6 Principal risks

The Bank's principal risks and uncertainties as at the 31st December 2019 are set out in the Strategic Report on pages 17 to 22 of the of Annual Report and Financial Statements 2019 and these risks are each subject to ongoing active review by management and the Board.

The Bank has identified nine Principal Risk Types across three overarching risk categories which might adversely impact its ability to achieve its strategic objectives, and defines its risk appetite through a range of scope and scale measures across these risk types that define the level of acceptable risk.

The summary below outlines the risk categories currently adopted by the Bank:

Risk Category	Principal Risk Type
Reputational	Reputational Culture and Conduct
Financial	Credit Country Market Liquidity
Operational	Operational Compliance Financial Crime

A description of each of the Principal Risk Types and the framework for managing them is set out below.

I. REPUTATIONAL RISKS

REPUTATIONAL RISK

Definition:
Reputational Risk is the current and prospective impact on earnings and enterprise value arising from negative stakeholder opinion. Reputational Risk is a threat or danger to the good name or standing of the Bank. It can occur through a number of ways: directly as the result of the actions of the company itself; indirectly due to the actions of an employee or employees; or tangentially through other peripheral parties, such as joint venture partners or suppliers or false rumours. In addition to having good governance practices and transparency, companies also need to be socially responsible and environmentally conscious to avoid Reputational Risk.

BACB has a very limited appetite for Reputational Risk, however it is recognised Reputational Risk cannot be eradicated completely and such risk is inherent within the banking environment and, in particular, in some of the higher risk countries with which BACB does business. It is recognised that Reputational Risk can arise from a wide variety of sources, some controllable, some less so.

Risk Management:
The Chief Executive Officer has primary responsibility for managing Reputational Risk. The Bank recognises that some of the countries in which its counterparties operate results in an enhanced exposure to Reputational Risk. As a result its principal defence against Reputational Risk is through adherence to its objectives of operating at all times in conformity with all applicable laws and regulations including sanctions and anti-money laundering requirements. Governance and risk management frameworks are intended to safeguard the Bank from reputational damage that might arise from trading related losses.

Risk Mitigation:
The Bank has implemented a range of initiatives to mitigate its exposure to Reputational Risks. These include:

- strategic alignment including Board oversight, integration of risk management into strategy setting and effective communications and brand building;
- cultural alignment built on corporate values, supported by appropriate performance incentives and a positive culture regarding compliance with laws and regulations;
- quality commitment including a focus on stakeholder interactions and open, transparent and quality public reporting;
- focusing on mainly non-complex products and a wholesale customer base, supported by a new product review and approval process;
- an operational focus on a strong control environment and appropriate organisational resilience;
- a proactive corporate communications strategy designed to safeguard the reputation of the Bank.

CULTURE AND CONDUCT RISK

Definition:
Conduct is 'what the Bank does'; and Culture is 'how the Bank does it'.

Conduct Risk is the risk that detriment is caused to the Bank, its customers, clients or counterparties because of the inappropriate execution of its business activities. Conduct Risk comprises a wide variety of activities and types of behaviour which fall outside the other main categories of risk, such as market, credit, liquidity and operational risk. In essence it refers to risks attached to the way in which the Bank and its employees conduct themselves. Although there is no official definition, it is generally agreed to incorporate matters such as how customers are treated, remuneration of employees and how the Bank deals with conflicts of interest.

The Bank's **culture** refers to the shared values, attitudes, standards, and beliefs of the Bank's employees. BACB's culture is rooted in our goals, strategies, structure, and approaches to employee engagement, customers, investors, and the greater community. As such, it is an essential component in any business's ultimate success or failure.

Risk Management:
The Chief Executive Officer has primary responsibility for managing Culture and Conduct Risk. The Bank has established a set of values and behaviours which it expects all staff to display in their interactions with clients, competitors and each other, such behaviours being designed to drive a client-centric business model characterised by the levels of teamwork required to operate as a high performance organisation. These expectations are encapsulated in the Bank's code of conduct, "The BACB Way". On an annual basis, all staff attest to being aware of, and in compliance with the Bank's code of conduct, in addition to all relevant policies and procedures.

The overall framework for management of this risk is set out in the Culture and Conduct Risk Standard and Policy. Compliance with this Policy is overseen by the Executive Committee of the Bank, with regular (at least bi-annual) reporting to the Board.

Risk Mitigation:

- the Bank conducted a culture survey, the results of which became the basis for 'The BACB Way', our code of conduct;
- the Bank's staff performance appraisal system requires that all staff appraisals include consideration of behaviours and compliance with the Bank's Code of Conduct, which informs in part levels of fixed and variable compensation;
- the Chief Executive Officer carries out a regular risk assessment, which is considered by the Executive Committee and by the Audit, Risk and Conduct Committee of the Board. Culture and Conduct Risk is a standing agenda item for the Executive Committee;

- Culture and Conduct MI has been developed, which continues to evolve and draws inter alia on Operational Risk, Compliance and HR Metrics; and
- the Nominations and Remuneration Committee of the Board has regard to compliance with the Bank's values and behaviours when assessing the levels of individual compensation for executive management.

II. FINANCIAL RISKS

CREDIT AND COUNTRY RISKS

Definitions:
Credit Risk is the risk of the Bank suffering financial loss if any of its customers, clients or market counterparties fails to fulfil their contractual obligations to the Bank. The Bank's principal sources of credit risk are:

- exposures to banks, multilateral institutions and sovereigns in respect of foreign exchange and money market activities and the management of the Bank's liquidity portfolios;
- on and off-balance sheet exposures to bank and corporate counterparties in respect of obligations under trade finance transactions including letters of credit, guarantees and bonds; and
- loans and overdrafts to corporates, partnerships and private individuals arising from the Bank's commercial, real estate and commodity finance lending activities.

Country Risk is the risk that obligors may not be able to meet their obligations in a country for a variety of non-obligor specific reasons, including political or economic changes or other actions by a government.

Risk Management:
For the Bank, country risk largely arises as a result of the Bank taking credit risk on borrowers or counterparties outside the UK. Consequently, the Bank's risk management of these two risk types is aligned and largely managed alongside and together with each other.

The Bank's appetite for credit and country risks is set in response to its business plans and overall risk appetite. The Chief Risk Officer and his direct report, the Head of Credit, are responsible for:

- development and oversight of the credit and country risk management frameworks;
- developing credit and country risk policies, tools and frameworks across the business, including credit grading systems;
- managing effective credit and country risk assessment strategies and independent challenge of requests from the first line for new, increased or extended limits;
- oversight of credit and country risk activities undertaken by the first line;
- credit reporting and performance monitoring, including stress testing and portfolio modelling; and
- monitoring and managing the Bank's impaired exposures, and making recommendations jointly with the Chief Financial Officer on required levels of individual and collective impairment provisions and write-offs.

Credit and country risk management is overseen at an executive level by the Credit Risk Committee which reviews and makes recommendations via the Executive Committee to the Audit, Risk and Conduct Committee at least annually on the Bank's credit and country risk appetite and policies, or approves proposals within delegated authority, having regard to the Bank's business plans and Credit and Country Risk standards as approved by the Board from time to time. Significant credit decisions are escalated to the Board Credit Committee.

Risk Mitigation:
The Bank's strategic focus means that a significant portion of its credit and country risks are towards the lower end of its grading systems. In order to mitigate its credit and country risks the Bank employs a number of risk mitigants:

- a framework of concentration limits and guidelines which diversify the risk of excessive exposure to individual countries, regions or sectors and to individual counterparties within those concentrations;
- limits are established for individual countries and counterparties based on their grading;

- these limits govern quantum, nature and tenor of exposure. Typically the Bank will no longer enter into transactions in excess of one year other than in its real estate activity or for strategic customers or counterparties of appropriate credit quality;
- the Bank takes cash collateral for a significant portion of its exposures and employs other risk mitigants to the extent possible. Other mitigants include back-to-back commitments from financial institutions of acceptable quality, or security;
- liquidity buffers are only used to purchase the securities of OECD governments and multilateral development bank fixed and floating rate securities which qualify as High Quality Liquid Assets under the PRA's Liquidity Coverage Ratio regime; and
- other surplus liquidity is primarily placed with or invested in the bonds of highly rated financial institutions.

Credit risk quantitative disclosures

Various analyses of BACB's credit risk profile are detailed below:

Table 1: BACB's credit risk exposures under the standardised approach for each of the risk exposure classes at 31 December 2019 as reported in the regulatory returns summarised by region of origin of the borrower

31 December 2019	United Kingdom £'000s	Europe excluding UK £'000s	Middle East and Africa £'000s	Other Incl. Intl. Orgs. £'000s	Total £'000s	Average exposure in 2019 £'000
Central Governments/Central Banks	54,871	342,951	40,387	237,282	675,492	1,037,074
Public Sector Entities	-	23,920	-	-	23,920	5,980
Multilateral Development Banks	-	-	-	362,886	362,886	310,689
International organisations	-	-	-	-	-	-
Institutions	27,728	462,088	108,113	100,411	698,339	633,129
Corporates	52,258	25,359	526,275	17,837	621,729	651,215
Financial	-	-	337,085	17,664	354,749	363,974
Non-Financial	52,258	25,359	189,190	173	266,980	287,240
Covered bonds	64,394	-	-	19,955	84,349	85,775
Secured by mortgages on immovable property	208,298	84,066	4,756	123,917	421,037	443,168
Exposures in default	22,056	527	19,982	3,132	45,697	80,499
Equity exposures	-	-	2,374	-	2,374	2,097
Items associated with particularly high risk	21,815	-	4,161	-	25,976	21,664
Other items	24,619	-	-	-	24,619	28,865
Total on and off-balance-sheet exposures	476,039	938,911	706,048	865,421	2,986,419	3,300,153
31 December 2018 Total	733,492	755,519	835,891	1,881,786	4,206,688	3,684,696

The exposure values in the table above have been adjusted by credit conversion factors ("CCF") for off-balance-sheet exposures in accordance with the PRA regulatory rules. The values are before applying risk weightings and include off-balance-sheet commitments. The average exposure value is calculated using the quarterly regulatory returns for the year.

Under the Standardised approach BACB uses Fitch Ratings and, from November 2019, AM Best as approved External Credit Assessment Institutions (ECAIs) for all its portfolios. The ratings are mapped to the counterparties using the Fitch ID and the AM Best ID and are converted to credit quality steps ("CQS") for risk weighting calculations, refer to Table 5. Where a counterparty is rated by both Fitch Ratings and AM Best, the Bank applies whichever CQS leads to the higher risk weight.

Credit Risk Mitigation ("CRM") includes cash collateral placed with the Bank by way of security, reverse repo transactions and eligible guarantees, risk participations and credit risk insurance. Under reverse repo transactions, only Level 1 High Quality Liquid Assets (HQLA) are accepted as collateral.

Table 2: CRM techniques – Overview

31 December 2019	Exposures unsecured Carrying-amount £'000s	Exposures secured - Carrying amount £'000s	Of which: Exposures secured by collateral £'000s	Of which: Exposures covered by financial guarantees £'000s
Total Loans	994,292	818,409	771,150	47,260
Total debt securities	870,634	-	-	-
Total loan and debt security exposures	1,864,926	818,409	771,150	47,260
Of which defaulted	38,131	10,694	5,970	4,724

The table above includes loan and debt securities covered by eligible CRM and mortgage loans. It does not include off-balance-sheet exposures.

Table 3: Regional concentrations of CRM

31 December 2019	United Kingdom £'000s	Other European Union £'000s	Middle East and Africa £'000s	Other Incl. Intl. Orgs. £'000s	Total £'000s
Central Governments/Central Banks	-	-	3,320	-	3,320
Institutions	-	267,275	25,021	-	292,296
Corporates	-	6,657	237,238	-	251,452
Exposures in default	-	-	8,972	-	8,972
Total exposures subject to eligible CRM	-	273,931	274,551	-	556,039
31 December 2018	*191,908*	*161,757*	*280,978*	-	*643,955*

The table above includes on- and off-balance-sheet exposures covered by eligible CRM, which does not include mortgages.

Table 4: Standardised approach credit risk exposure and CRM effects at 31 December 2019

	Exposures before CCF and CRM		Exposures post CCF and CRM		RWAs and RWA density	
	On-balance-sheet amount	Off-balance-sheet amount	On-balance-sheet amount	Off-balance-sheet amount	RWAs	RWA Density
31 December 2019	£'000s	£'000s	£'000s	£'000s	£'000s	£'000
Central Governments/Central Banks	663,785	23,415	663,785	10,048	38,727	6%
Public Sector Entities	23,920	-	23,920	-	-	0%
Multilateral Development Banks	362,886	-	366,665	-	-	0%
International organisations	-	-	-	-	-	0%
Institutions	393,792	128,199	387,568	31,432	124,758	30%
Corporates	443,636	350,579	398,666	95,616	799,425	162%
Covered bonds	84,349	-	84,349	-	8,435	10%
Secured by mortgages on immovable property	421,037	-	421,037	-	-	0%
Exposures in default	43,791	6,543	34,819	1,906	38,647	105%
Equity exposures	2,374	-	2,374	-	2,374	100%
Items associated with particularly high risk	25,976	-	25,976	-	38,964	150%
Other exposures	24,619	-	81,005	85,246	28,371	17%
Total on and off-balance-sheet exposures	2,490,164	508,736	2,490,164	224,248	1,079,702	40%
31 December 2018 Total	3,883,119	675,386	3,431,465	260,780	1,486,913	40%

The table above does not include derivative instruments and repurchase transactions.

Table 5: BACB's exposures after application of CCF and pre and post CRM risk transfers by Credit Quality Step at 31 December 2019 as reported to the PRA (and post impairment provisions)

Credit quality step analysis pre CRM

Credit Quality Step	1	2	3	4	5	Unrated	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Central governments/central banks	635,105	-	-	-	10,790	29,598	675,492
Public Sector Entities	23,920	-	-	-	-	-	23,920
Multilateral development banks	253,830	-	-	-	-	109,056	362,886
International Organisations	-	-	-	-	-	-	-
Institutions	53,028	514,385	83,939	13,504	6,950	26,532	698,339
Corporates	7,675	5,640	9,656	6,103	96,058	496,598	621,729
Covered bonds	84,349	-	-	-	-	-	84,349
Secured by mortgages on immovable property	-	-	-	-	-	421,037	421,037
Exposures in default	-	-	-	-	-	45,697	45,697
Equity exposures	-	-	-	-	-	2,374	2,374
Items associated with particularly high risk	-	-	-	-	-	25,976	25,976
Other exposures	-	-	-	-	-	24,619	24,619
Grand Total	1,057,907	520,025	93,595	19,607	113,798	1,181,487	2,986,419

Credit quality step analysis post CRM

Credit Quality Step	1 £'000	2 £'000	3 £'000	4 £'000	5 £'000	Unrated £'000	Total £'000
Central governments/central banks	901,357	-	-	-	10,790	27,938	940,085
Public Sector Entities	23,920	-	-	-	-	-	23,920
Multilateral development banks	253,830	-	-	-	-	112,834	366,665
International Organisations	-	-	-	-	-	-	-
Institutions	53,028	244,077	76,943	13,504	3,875	32,707	424,133
Corporates	19,147	33,412	9,656	6,103	86,612	339,975	494,904
Covered bonds	84,349	-	-	-	-	-	84,349
Secured by mortgages on immovable property	-	-	-	-	-	421,037	421,037
Exposures in default	-	-	-	-	-	36,725	36,725
Equity exposures	-	-	-	-	-	2,374	2,374
Items associated with particularly high risk	-	-	-	-	-	25,976	25,976
Other exposures	-	-	-	-	-	166,251	166,251
Grand Total	1,335,631	277,489	86,599	19,607	101,276	1,165,817	2,986,419

The exposure is shown before, and then after, taking into account the effects of credit risk mitigation. In both cases they are reported net of appropriate impairment provisions. Off-balance-sheet exposures are converted using regulatory credit conversion factors.

The table above does not include intangible assets of £10,491,000 which are deducted from capital (see Table 11).

BACB adopts the financial collateral simple method. Therefore cash collateral does not reduce the exposure, only the risk weighting.

BACB applies the MTM method for the assessment of counterparty credit risk.

The Bank does not apply collateral or netting in the assessment of counterparty credit exposure for derivatives.

Table 6: Residual maturity of the Bank's exposures

31 December 2019	Up to 1 month £'000	1-3 months £'000	3-12 months £'000	1-5 years £'000	Over 5 years £'000	Undated £'000	Total £'000
Central Governments/Central Banks	347,945	191,261	114,803	10,694	10,790	-	675,492
Public Sector Entities	-	-	-	23,920	-	-	23,920
Multilateral Development Banks	3,034	37,198	41,603	281,050	-	-	362,886
International organisations	-	-	-	-	-	-	0
Institutions	478,857	37,080	77,727	100,630	4,044	-	698,339
Corporates	135,331	110,137	281,818	89,132	5,312	-	621,729
Covered bonds	-	-	-	84,349	-	-	84,349
Secured by mortgages on immovable property	-	6,760	87,243	327,033	-	-	421,037
Exposures in default	32,437	4,818	1,323	7,053	66	-	45,697
Equity exposures	-	-	-	-	-	2,374	2,374
Items associated with particularly high risk	4,706	10,106	4,161	7,003	-	-	25,976
Other items	16,753	-	-	141	134	7,590	24,619
Total	1,019,064	397,360	608,679	931,006	20,345	9,964	2,986,419
31 December 2018	*1,494,465*	*1,016,758*	*478,178*	*1,156,225*	*52,684*	*8,378*	*4,206,688*

Equity exposure relates to an investment in equity shares as explained in Note 15 of the Annual Report and Financial Statements. Investments in limited partnership investment funds are included as items associated with particularly high risk.

Table 7: Counterparty credit risk

31 December 2019	Gross positive fair values of contracts £'000	Potential credit exposure £'000	Total derivative credit exposure £'000
Foreign Exchange contracts	751	3,501	4,252
Interest rate futures/options	-	453	453
Total	**751**	**3,954**	**4,705**
31 December 2018			
Foreign Exchange contracts	*1,070*	*5,336*	*6,406*
Interest rate swaps	*121*	*20*	*141*
Foreign Exchange options	*38*	*585*	*623*
Interest rate futures/options	*20*	*1,456*	*1,476*
Total	***1,249***	***7,396***	***8,646***

MARKET AND LIQUIDITY RISKS

Definitions:

Market Risk is the risk that the Bank's earnings or capital, or its ability to meet business objectives, will be adversely affected by changes in the level or volatility of market rates or prices such as interest rates, credit spreads, commodity prices and foreign exchange rates.

Liquidity Risk is the risk of the Bank, although solvent, being unable to meet its payment obligations as they fall due. This may be caused by the Bank's inability to liquidate assets or to obtain funding to meet its liquidity needs, or by contractual mismatches between the contractual timings on cash inflows and outflows.

Funding Risk is a subset of Liquidity Risk relating to its longer-term funding requirements and is the risk that the Bank does not have stable sources of funding in the medium and long-term to meet its financial obligations as they fall due.

Risk Management:

The Bank's appetite for market and liquidity risks is set in response to its business plans and overall risk appetite.

The Chief Risk Officer and his direct report, the Market Risk Manager, are responsible for:

- development and oversight of the market and liquidity risk management frameworks;
- developing market and liquidity risk policies, tools and frameworks across the business;
- managing effective market and liquidity risk assessment strategies and independent challenge of requests from the first line for new, increased or extended limits;
- oversight of market and liquidity risk activities undertaken by the first line, including daily monitoring and reporting of compliance with limits designed to ensure adherence with the Bank's risk appetite in respect of market and liquidity risks; and
- market and liquidity risk reporting and performance monitoring, including stress testing.

Market and liquidity risk management is overseen at an executive level by the Asset and Liability Committee which reviews and makes recommendations via the Executive Committee to the Audit, Risk and Conduct Committee at least annually on the Bank's market and liquidity risk appetite and policies, or approves where within delegated authority, having regard to the Bank's business plans and market and liquidity risk policies as approved by the Board from time to time.

Risk Mitigation:
The Bank's Treasury function has day-to-day responsibility for managing its market and liquidity exposures. The Bank does not budget for more than 10% of its revenue to be earned from principal position trading exposures to bonds, interest rates or foreign exchange, and profits should be driven where feasible by customer flows. Derivative contracts are used in both the banking and trading books to modify market risk exposures in the light of perceptions about future movements in those markets. In the banking book, in particular, derivative contracts are used to hedge market risk exposure (interest rate risk) arising from banking book positions, which in the absence of those contracts, would result in unwanted exposures, or excesses to market risk limits. The Bank does not deal in complex derivative transactions.

Exchange rate risk
The Bank manages its exposures to foreign exchange risk by way of limits on the size of permitted positions. Overnight trading positions should be protected by stop-loss orders placed with reputable correspondent banks. The size of the position limits is consistent with the amount of profit that the Bank is prepared to place at risk in the foreign exchange markets. With the exception of the revenues deriving from its real estate activity the Bank earns the majority of its revenues in currencies other than Sterling, but incurs the majority of its operating costs in Sterling. This mismatch is hedged at the discretion of the Bank's Asset and Liability Committee.

The Bank's overall net short position (on foreign exchange open positions and cash arising on settled trades) at 31 December 2019 (being the Sterling equivalent value of all the currencies where the currency obligations were higher than currency receivables) was £2,157,000 *(2018: £829,000)*. Were these currencies to strengthen by 5% against the remaining currencies, then the Bank would lose £108,000 *(2018: £41,000)*.

Overall net short positions as calculated on a daily basis were as follows:

	2019	*2018*
	£'000	*£'000*
Maximum	7,571	*2,227*
Minimum	23	*6*
Average	1,170	*650*

As at the reporting date, there was no significant exposure to any one currency representing more than 10% of the Bank's equity.

Interest rate risk
The Bank is exposed to changes in interest rates in various currencies arising from gaps in the future dates of repricing of assets, liabilities and derivative instruments. The Bank manages that risk by calculating sensitivity of changes in the present value of committed future cash flows to a 0.01% change in interest rates using the Price Value of a Basis Point ("PVBP") methodology. Limits are placed on the overall amount of calculated PVBP with sub-limits for the overall banking book and for the Bank's trading books. The Bank considers the impact of changes in future interest rates on its future income streams by reference to these interest rate gaps.

As at 31 December 2019, PVBP amounted to £29,996 *(2018: £42,534)*. PVBP (calculated on a daily basis) was as follows:

	2019	2018
Maximum	44	*50*
Minimum	15	*16*
Average	31	*35*

As at 31 December 2019, PVBP for IRRBB split by currency was as follows:

	2019	2018
	£'000	*£'000*
EUR	2,682	*7,928*
GBP	5,082	*2,243*
USD	32,946	*23,739*
Other currencies	79	*155*
Other adjustment	(10,794)	*8,469*
Total	**29,996**	*42,534*

Hedges

Derivative contracts are used in both the banking and trading books to modify market risk exposures in the light of perceptions about future movements in those markets. In the banking book, in particular, derivative contracts are used to reduce market risk exposure arising from banking book interest rate. Derivatives in respect of the banking book as at 31 December 2018 and 2019 include interest rate swaps whose purpose is to reduce economic exposure to interest rate risk. These swaps are used to ensure that longer dated interest rate re-pricings, such as typically arise from fixed rate loans or deposits, are converted into shorter periods that can be accommodated within the gap limits.

Non-interest bearing items comprise share capital, accumulated impairments, tangible and intangible assets and other sundry debtors and creditors not subject to interest.

Derivatives include interest rate futures and swaps whose purpose is to reduce economic exposure to interest rate risk. Futures are used to manage the overall quantum of interest rate risk whereas swaps are taken as hedges against specific transactions. Swaps are used to ensure that longer dated interest rate re-pricings, such as typically arise from fixed rate loans or deposits, are converted into shorter periods that can be accommodated within the gap limits.

Trading book

The Bank's trading book activities are limited to transactions in financial instruments mainly comprising the trading of foreign exchange, interest rate futures and debt securities. As well as PVBP limits to manage the interest rate risk in those books, risk is mitigated through:

- limits as to the size of particular books and individual positions within those books; and
- stop loss limits to prevent the accumulation of losses from the Bank's principal position trading activities.

Liquidity risk

Liquidity risk is assessed annually through the Internal Liquidity Adequacy Assessment Process ("ILAAP") carried out under the rules of the Bank's regulator. The Bank manages its exposure to liquidity risk by ensuring that it holds a buffer of High Quality Liquid Assets that will enable it to meet its obligations as they fall due under normal and a range of stressed conditions. In addition, the Bank monitors the ratio of its longer dated assets to capital and longer-term funding to mitigate the funding risk deriving from maturity transformation.

The Bank monitors three liquidity indicators: net cash flows over 14 days plus HQLA; the Liquidity Coverage Ratio (LCR – see below); and net cash flows over 91 days plus HQLA. The Bank aims to be able to survive a 91-day period assuming no non-contractual rollover of Group funding.

Business and Operations Heads ensure that the requirements for managing liquidity risk are incorporated in departmental operating procedures, to the extent required.

The Board is of the opinion that it has taken appropriate steps to provide reasonable assurance that the liquidity risk of the Bank is and will continue to be managed in a prudent manner.

The Bank's appetite for liquidity risk is low. This is evidenced by the Bank's LCR which shows that the surplus of HQLA is greatly in excess of the minimum amount the PRA requires the Bank to hold.

The table below analyses the Bank's assets and liabilities into relevant maturity buckets based on the remaining period from the balance sheet date to the contractual maturity date. The table has not been adjusted to reflect any behavioural characteristics that may have been observed by the Bank. Examples include the Bank's portfolio of trading securities that are purchased with the intention of trading before their contractual maturity, and the Bank's ability to liquidate banking book securities in the event of an unforeseen liquidity event.

Table 8: The net liquidity gaps of the Bank (being the difference in contractual cash inflows from maturing assets, and outflows from maturing liabilities)

Net liquidity gap (Outflow)/inflow	**Up to 1 month £'000**	**1-3 months £'000**	**3-12 months £'000**	**1-5 years £'000**	**Over 5 years £'000**	**Undated £'000**
31 December 2019	(148,404)	(255,561)	(14,555)	593,415	(33,957)	(140,938)
31 December 2018	*(662,553)*	*461,904*	*(389,312)*	*736,488*	*(5,862)*	*(140,665)*

Table 9: BACB's Liquidity coverage ratio (simple averages of month-end observations over the twelve months up to the end of each quarter)

31 December 2019	**31 Dec 2019 £'000**	**30 Sep 2019 £'000**	**30 Jun 2019 £'000**	**31 Mar 2019 £'000**
Liquidity Buffer	1,692,211	1,825,689	1,600,916	1,418,009
Total net cash outflows	800,201	962,201	856,644	764,017
Liquidity coverage ratio (%)	***222%***	***196%***	***202%***	***204%***

The minimum LCR ensures that banks hold an adequate stock of unencumbered high quality liquid assets (HQLA) that can be converted into cash to meet the net cash outflow over a defined 30 calendar day stress scenario as calculated using regulatory weightings. The minimum required ratio has been 100% since 1 January 2018.

III. OPERATIONAL RISKS

OPERATIONAL RISK

Definition:
Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

Risk Management:
The Bank's appetite for operational risk is set in response to its business plans and overall risk appetite. The Chief Risk Officer and his direct report, the Head of Operational Risk and Compliance, are responsible for:

- development and oversight of the operational risk management frameworks;

- developing operational risk policies, tools and frameworks across the business, including operational risk incident reporting, root cause analysis and recording and remedial action tracking;
- managing effective Risk and Control Self-Assessment processes to identify and evaluate the Bank's exposures to operational risks;
- oversight of operational risk management activities undertaken by the first line; and
- reporting and performance monitoring.

The Bank's Chief Operations and Control Officer is in the 1st Line of Defence (see Note 4b of the Annual Report and Financial Statements – Approach to Risk Management) and reports to the Chief Executive Officer. The Chief Operations and Control Officer has day to day responsibility for assuring the completeness and performance of the Bank's operational risk control processes.

Operational risk management is overseen at an executive level by the Governance and Control Committee, which reviews and makes recommendations via the Executive Committee to the Audit, Risk and Conduct Committee at least annually on the Bank's operational risk appetite and policies, or approves where within delegated authority, having regard to the Bank's business plans and Operational Risk Standards as approved by the Audit, Risk and Conduct Committee.

Operational risk losses in the year to 31 December 2019 amounted to £417,000 *(2018: £198,000)*.

Risk Mitigation:
The Bank seeks to mitigate its operational risks using accepted operational risk management concepts and strategies including but not limited to:

- identification of mission critical processes and potential points of failure, and ensuring that adequate controls are in place;
- IT technical standards and change control procedures;
- HR policies, processes and controls;
- project management policies and procedures;
- implementing an information security management system framework consistent with the ISO 27000 family of standards;
- operational resilience / business continuity planning;
- escalation and reporting of operational incidents to ensure that timely actions are taken to resolve the incident and root cause analysis performed to mitigate the likelihood of recurrence; and
- insurance policies to cover relevant risk exposures. Insurance is viewed as complementary to and not a replacement for a robust control environment.

COMPLIANCE RISK

Definition:
Compliance Risk is defined as the risk of legal and / or regulatory sanctions, material financial loss, or loss to reputation that the Bank may suffer as a result of a failure to comply with laws, regulations, internal policies, codes of conduct and standards, responsibility for which has been allocated to the Compliance Department. In the context of BACB, this encompasses primarily regulatory requirements in respect of Conduct Risk, Market Abuse and Fair Treatment of Customers.

The Bank's principal sources of Compliance Risk are:

- Enterprise-wide compliance risks including supervision and oversight, regulatory reporting and notifications, material outsourcing and / or failure to adequately implement existing and new regulatory requirements;
- Business related including the risk that the Bank fails to conduct its activities appropriately, which may include consumer treatment, conflicts of interest, and / or complaints handling, as well as managing client money and assets;

Risk Management:
Effective September 2019, the Head of Operational Risk and Compliance reports into the newly created position of General Counsel and Chief Compliance Officer, who now holds SMF 16 responsibility. The Bank's objective is to comply with the letter and spirit of all applicable regulations and laws, and to embed a robust risk and compliance culture throughout the organisation.

The Compliance Department is responsible for:

- developing applicable principles, standards and guidelines for compliance, communicating them and verifying adherence;
- providing advice to individual business units on applicable laws, directives, standards, and regulations as well as providing compliance support;
- providing regular training and education for staff on applicable regulations, rules and internal standards;
- regulatory scanning to ensure that any relevant developments or emerging risks are identified and appropriately addressed; and
- communicating with regulators.

Compliance Risk is overseen by the Audit, Risk and Conduct Committee, to whom the Head of Operational Risk and Compliance provides periodic reports. At an executive level, Compliance risk, including mitigation controls along with action and remediation plans, is overseen by the Governance and Control Committee.

Risk Mitigation:
The Bank seeks to minimise the risk of compliance failure by seeking to:

- ensure an up-to-date understanding of regulatory requirements which need to be complied with;
- ensure that procedures and controls are in place and designed to minimise the risk of breaching those requirements;
- provide training for staff throughout the organisation aimed at promoting a good understanding of compliance; and
- undertaking a risk-based monitoring programme aimed at detecting shortcomings in, or failures of, compliance controls or processes.

FINANCIAL CRIME

Definition:
Financial Crime Risk is the risk that the Bank may be used to further financial crime activity by breaching financial sanctions, laundering the proceeds of crime, terrorist financing, tax evasion, offering or accepting bribes or being used to channel funds from corrupt practices.

Risk Management:
Effective September 2019, the Money Laundering Reporting Officer (MLRO) and Head of Financial Crime, who holds SMF 17 responsibility, reports into the newly created position of General Counsel and Chief Compliance Officer, who now holds SMF 16 responsibility.

The Anti Financial Crime department is responsible for:

- Implementing an anti-financial crime risk management framework designed to mitigate the risk of the Bank being used as a vehicle to facilitate financial crime and breaches of sanctions applicable to the Bank.
- ensuring that any occurrences which give reason to suspect money laundering or the financing of terrorism are identified and reported to the relevant authorities;
- maintaining effective policies, systems and controls to combat and identify financial crime;
- monitoring that those policies and controls are being adhered to;
- providing regular and mandatory training on both a Bank-wide and targeted basis;
- horizon scanning to identify and prepare for forthcoming regulatory change;

- providing management information and reporting to management on the effectiveness of the Bank's anti-financial crime controls; and
- maintaining an independent second line function.

Financial Crime Risk is overseen by the Audit, Risk and Conduct Committee, to whom the MLRO provides periodic reports. At an executive level, Compliance risk, including mitigation controls along with action and remediation plans, is overseen by the Governance and Control Committee.

Risk Mitigation:

- the Bank has invested heavily in enhancing both the quantity and calibre of resources in the first line who are responsible for ensuring compliance, subject to oversight, and in the case of higher risk cases, additional due diligence by the second line compliance team;
- the Bank employs a range of tools and processes, including technology solutions, to monitor new and existing customers and to monitor transactions for risk indicators, which will be investigated if triggered;
- the Bank has established a High Risk Advisory Committee, which consists of a senior members of executive management, to which the MLRO brings higher risk issues which in his opinion should be escalated for information or for discussion, in order to help the ultimate decision makers arrive at their decisions;
- the Bank has developed a Financial Crime risk appetite statement to assist with decision making; and
- the Anti-Financial Crime team operates a risk based monitoring programme to ensure controls are effective.

Note 33 in the Annual Report and Financial Statements provides details of the agreed settlement with the U.S. Office of Foreign Assets Control in relation to sanctions.

4 OWN FUNDS

Own funds (also referred to as capital resources) is the type and level of regulatory capital which must be held to enable the Bank to absorb losses. The Bank is required to hold own funds in sufficient quantity and quality in accordance with CRD IV which sets out the characteristics and conditions for own funds.

Under the CRD IV framework three tiers of capital are recognised, being Common Equity Tier 1, Additional Tier 1 and Tier 2 Capital with the sum of Tier 1 and Tier 2 Capital constituting "own funds".

CRD IV requires a bank to have minimum levels of capital calculated by reference to its risk weighted assets (RWAs):

- Total capital of at least 8% of RWAs;
- Tier 1 capital of at least 6% of RWAs; and
- Common equity Tier 1 ("CET1") capital of at least 4.5% of RWAs.

As at 31 December 2019, BACB had a **Tier 1 Capital Ratio of 14.1%** and a **Total Capital Adequacy ratio of 19.6%.**

4.1 Total available capital

Table 10: The Bank's regulatory capital base and capital adequacy ratios at 31 December 2019

	2019 £'000s	*2018* *£'000s*
Common Equity Tier 1 Capital		
Ordinary share capital	104,357	*104,357*
Retained earnings	69,069	*62,796*
Fair value reserve	364	*(3,079)*
Other reserves	4,104	*4,104*
Deductions from Common Equity Tier 1:		
Regulatory adjustments	(7,070)	*(6,960)*
Total Common Equity Tier 1 Capital	**170,824**	***161,218***
Tier 2 Capital		
Term issued subordinated debt	65,226	*72,264*
Total Tier 2 Capital	**65,226**	***72,264***
Total Own Funds	**236,050**	***233,482***
Risk Weighted Assets	**1,207,405**	***1,635,966***
Common Equity Tier 1 Ratio	14.1%	*9.9%*
Capital Adequacy Ratio	19.6%	*14.3%*

Subordinated debt included in Tier 2 capital excludes accrued interest and amounts which are ineligible due to amortisation. The figure quoted on the Statement of Financial Position (SFP) in the 2019 Annual Report and Financial Statements includes accrued interest. Retained Earnings above include retained profits for the year of 2019.

Risk Weighted Assets are the total value of the Bank's on- and off-balance-sheet exposures, weighted in accordance with the relevant regulatory rules. The total for Risk Weighted Assets is the amount reported in the Bank's regulatory returns as at the reporting date.

Tier 2 capital comprises term subordinated debt due 2023-2025, issued in US Dollars and Euros and on terms which qualify for inclusion in capital resources.

BACB does not have any form of hybrid, innovative, or additional Tier 1 capital.

4.2 Common equity Tier 1 capital

Common equity Tier 1 capital comprises ordinary share capital plus reserves. Adjustments are made in respect of intangible assets and certain valuation and other adjustments in accordance with the PRA regulatory rules.

Table 11: Reconciliation between equity and common equity Tier 1 capital

	2019 £'000s	*2018 £'000s*
Equity per Annual Financial Statements	177,893	*168,178*
Regulatory deductions from Equity:		
Transitional adjustment for IFRS9	5,044	*5,771*
Intangible assets	(10,491)	*(10,954)*
Deferred tax	(727)	
Additional value adjustments	(896)	*(1,777)*
Common Equity Tier 1 Capital	**170,824**	***161,218***

A reconciliation of regulatory capital to the Statement of Financial Position is shown in Appendix III.

5 CAPITAL ADEQUACY

5.1 Overview

Since their implementation on 1 January 2015, the Bank has complied with the revised rules for determining capital requirements as promulgated by the EU in accordance with CRD IV. Under CRD IV the Bank applies the Standardised Approach to credit risk, the Basic Indicator Approach (“BIA”) to operational risk and the Position Risk Requirement (“PRR”) rules for market risk.

The PRA in its capacity as supervisor set targets for, and monitors, the capital adequacy of the Bank. Capital adequacy returns are submitted quarterly to the Regulator.

As at 31 December 2019, and throughout the reporting period, the Bank’s capital in place, “Own Funds”, comfortably exceeded its minimum regulatory requirement. The Bank does not anticipate breaching these requirements during 2020.

At 31 December 2018 the Bank’s overall capital requirement, including pillar 2 requirements and regulatory stress buffers, exceeded capital in place (both Tier 1 and Total capital) due to the level of credit provisions recognised during that year, requiring partial utilisation of regulatory stress buffers. During 2019, capital headroom recovered quickly. This was achieved substantially through careful management of risk weighted assets (including restricting new business take-on and sale of some positions) as well as, later in the year, an interim profits review which allowed the 2019 half year profit to be added to capital.

5.2 Internal capital adequacy assessment process

The Board has ultimate responsibility for the Bank’s capital management and capital allocation. The Finance, Risk Management and Treasury functions are responsible for the financial governance of the Bank and compliance with statutory, regulatory and disclosure requirements. Ongoing monitoring of compliance with its regulatory requirements takes place via the ALCO, which considers the adequacy of the Bank’s capital position.

In addition, the Bank undertakes a comprehensive formal evaluation of its capital adequacy as required by the Internal Capital Adequacy Assessment Process (“ICAAP”) rules of the PRA on a regular basis and usually every twelve months. The preparation of the ICAAP is the responsibility of the Chief Risk Officer with oversight provided by the Chief Financial Officer.

The ICAAP is an assessment by the Bank, approved by the Board, of the level of capital that it believes is required in respect of the principal risks to which it is exposed in the execution of its business plan. The Bank uses a range of modelling, scenario analysis and stress testing techniques which it considers appropriate to the scale and nature of the Bank’s activities in order to identify the capital levels required and compares these to the Pillar 1 minimum amounts plus the Bank’s Total Capital Requirement (“TCR”). These techniques include an evaluation over the medium term planning horizon of the adequacy of the Bank’s capital position even under a range of relevant extreme but plausible stressed conditions.

The ICAAP is subject to review and challenge by both the executive management team (ALCO and ExCo) and the Board, through its Audit, Risk and Conduct Sub-Committee. The report is submitted to the PRA, which periodically revisits the Total Capital Requirement for the Bank in the light of the most recent ICAAP and the regulator’s own supervisory processes (C-SREP).

In late 2019 the Bank prepared an Internal Capital Adequacy Assessment Process (ICAAP) assessment as at 30 June 2019 to evaluate its core risks and mitigation arrangements and their impact on capital adequacy and management. This was subject to the PRA’s C-SREP in February 2020. The ICAAP considered a number of stress scenarios on the Bank’s capital adequacy including a reduction in commodity prices, political instability impacting major markets, global economic downturn and additional credit provisions. This analysis evidences that the Bank’s business model would enable it to withstand a number of stress scenarios whilst remaining within its current minimum regulatory capital requirements. In line with the Strategy, the Board continues to work with the shareholders to strengthen the capital base of the Bank to support future business growth.

5.3 Pillar 1 capital requirement

BACB's overall minimum capital requirement under Pillar 1 is calculated by adding the credit risk capital requirement to that required for operational risk, as well as other immaterial risk categories including market risk.

Table 12 Overview of RWAs and the Bank's minimum capital requirement and capital adequacy position under Pillar 1

	2019 Risk Weighted Assets ("RWAs") £'000	2019 Capital Requirement £'000	*2018* *Capital Requirement* *£'000*
Credit and Counterparty Credit Risk			
Central governments/central banks	38,728	3,098	*5,160*
Multilateral Development Banks	-	-	-
Institutions	125,785	10,063	*14,846*
Corporates	509,680	40,774	*57,190*
Covered bonds	8,435	675	*848*
Secured by mortgages on immovable property	290,316	23,225	*25,345*
Exposures in default	38,647	3,092	*10,429*
Equity exposures	2,374	190	*157*
Items associated with particularly high risk	38,964	3,117	*2,386*
Other items	28,371	2,270	*2,591*
	1,081,300	**86,504**	***118,953***
Market Risk			
Interest Rate PRR	20,283	1,623	*650*
Foreign Exchange PRR	8,500	680	*4,365*
Operational Risk Basic Indicator Approach	96,637	7,731	*6,821*
Credit Valuation Adjustment	684	55	*87*
Total Pillar 1	**1,207,405**	**96,592**	***130,877***
Own Funds		**236,050**	***233,482***
Excess of capital in place over minimum requirement under Pillar 1		**139,458**	***102,605***

Total Pillar 1 capital requirements shown above are the amounts reported in the regulatory returns as at 31 December 2019.

The Bank has a capital requirement of £3,855,000 in respect of the Countercyclical Capital Buffer as set out in the table below. The Countercyclical Capital Buffer for the UK set by the Financial Policy Committee as of 31 December 2019 was 1.0%. The Bank only had relevant exposures to counterparties in states which have implemented Countercyclical Capital Buffers in respect of the UK, France and Hong Kong.

The following table shows the geographical distribution of credit exposures relevant to the calculation of the Countercyclical Capital Buffer and the amount of institution specific Countercyclical Capital Buffer, calculated in accordance with the prescribed regulatory formula.

Table 13: Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer and the amount of institution specific countercyclical capital buffer having applied the prescribed regulatory formula at 31 December 2019

			Own funds requirement				
Country	General credit exposure value for SA £'000	Trading book exposure for SA £'000	General credit exposure £'000	Trading book exposure £'000	Total	Own funds requirement weights %	Countercyclical capital buffer rate %
Countries with an existing countercyclical capital buffer rate							
United Kingdom	393,440	-	23,169	-	23,169	31.17%	1.00%
France	3,203	-	256	-	256	0.34%	0.25%
Hong Kong	3,132	-	251	-	251	0.34%	2.00%
Countries with own funds requirements weight of 1% or above							
Nigeria	111,303	4,569	11,801	548	12,349	16.61%	0.00%
Virgin Islands, British	123,917	-	5,701	-	5,701	7.67%	0.00%
Mauritania	52,544	-	4,089	-	4,089	5.50%	0.00%
United Arab Emirates	36,700	756	2,453	12	2,466	3.32%	0.00%
Guernsey	29,198	-	2,336	-	2,336	3.14%	0.00%
Libya	97,642	-	1,779	-	1,779	2.39%	0.00%
Egypt	20,611	-	1,693	-	1,693	2.28%	0.00%
Mali	20,476	-	1,638	-	1,638	2.20%	0.00%
Jersey	25,198	-	1,577	-	1,577	2.12%	0.00%
Luxembourg	16,201	-	1,296	-	1,296	1.74%	0.00%
Monaco	15,412	-	1,233	-	1,233	1.66%	0.00%
Lebanon	65,933	-	1,209	-	1,209	1.63%	0.00%
Burkina Faso	14,961	-	1,197	-	1,197	1.61%	0.00%
Cote d'Ivoire	20,021	-	1,167	-	1,167	1.57%	0.00%
Chad	14,068	-	1,125	-	1,125	1.51%	0.00%
Turkey	16,953	-	1,066	-	1,066	1.43%	0.00%
Algeria	12,100	-	968	-	968	1.30%	0.00%
Guinea	12,049	-	892	-	892	1.20%	0.00%
Bangladesh	13,017	-	890	-	890	1.20%	0.00%
Rest of the world, less than 1% own funds requirements weight							
Total	113,539	4,523	5,557	436	5,993	8.06%	0.00%
Grand Total	**1,231,617**	**9,847**	**73,343**	**996**	**74,339**	**100.00%**	

Amount of institution-specific countercyclical capital buffer

Total risk exposure amount	929,238
Institution specific countercyclical buffer rate	0.32%
Institution specific countercyclical buffer requirement	3,855

6 NON-TRADING BOOK EXPOSURES IN EQUITIES

The Bank has exposure to equities by way of long-term investments. These comprise a strategic investment in a financial company in Egypt (accounted for as an equity exposure) and two investments in venture capital equity investment funds managed by specialist fund managers whose objective is to invest in growing companies (treated as items associated with particularly high risk).

The Bank's objective in holding the strategic equity investment is to seek long term investment growth. The Bank had representation on the Board of the company throughout 2019.

The investments in the venture capital funds were entered into in order to achieve long term capital growth by way of participation in growing companies in the Middle East and North Africa region.

The investments are held on the Bank's balance sheet as Available for Sale assets. In the case of the direct investment the Bank has estimated the fair value based on the audited net assets of the company involved. In the case of the investment funds the valuation is based on reports provided by the fund managers, including latest audited financial statements.

At 31 December 2019 the carrying value and movements of those investments on the Bank's Statement of Financial Position (which is the same as estimated fair value) was as disclosed in Note 15 'Financial investments' of the 2019 Annual Report and Financial Statements.

Total unrealised gains on equity investments as at 31 December 2019 was £0.5m.

7 IMPAIRMENT PROVISIONS

7.1 Summary of accounting policy

The Bank's accounting policy for the determination of impairments is set out in Note 3 of the 2019 Annual Report and Financial Statements. A summary of the main provisions of the policy is set out below.

The Bank recognises impairment allowances for ECL on the following financial instruments that are not measured at FVTPL:

- lending exposures including funded Trade Finance exposures and reportable undrawn commitments;
- debt instruments held for liquidity purposes;
- money market deposits and placements classified as loans and advances at amortised cost; and
- letters of credit and guarantees offered by the Bank.

No impairment loss is recognised on equity investments, debt securities held for trading and derivatives held at FVTPL.

12 month ECL is the portion of ECL that results from default events on financial instruments that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as '**Stage 1 financial instruments**'.

Lifetime ECL is the ECL that results from all expected default events over the expected life of financial instruments. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as '**Stage 2 financial instruments**'.

Financial assets can be transferred between the different stages depending on their relative increase in credit risk since initial recognition. The ECL is measured on either 12 month or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition. When determining whether there has been a significant increase in credit risk, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis based on the Bank's historical experience and expert credit assessment and including forward-looking information.

Financial assets within Lifetime ECL (stage 2), are transferred back to 12-month ECL (stage 1) when they are no longer considered to have experienced a significant increase in credit risk.

Measurement of ECL

ECL is a probability weighted estimate of credit losses. It is measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls, i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive over the shorter of 12 months or the period to maturity;
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the bank expects to receive over the shorter of 12 months or the period to maturity; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Bank expects to recover over the shorter of 12 months or the period to maturity.

Cash flows are discounted to their present value using their original effective interest rate (EIR) or an approximation thereof.

The recognition and measurement of ECL is highly complex and involves the use of significant judgement and estimation, which include the formulation and incorporation of forward looking probability weighted scenarios into the calculation of ECL.

The Bank formulates three economic scenarios which represent the most likely outcome, referred to as the 'BAU scenario', and two less likely scenarios, referred to as 'optimistic' and 'downturn' scenarios. These scenarios are formally reassessed periodically, and at least quarterly, for continued appropriateness and to ensure the scenarios are unbiased and meet the requirements of IFRS 9. The 'BAU scenario' is aligned with information used by the Bank for other purposes such as strategic planning. External information considered to formulate the "downturn scenario" includes market intelligence, economic data and forecasts published in respect of the countries where the Bank operates such as the Economist Intelligence Unit ("EIU") Top 10 Global Risks. The probability weighting for each scenario is adjusted for each of the principal geographic areas to which BACB is sensitive in accordance with the prevailing trends and near-term outlook for these respective markets in line with the tenor of the assets held by the Bank. Whilst most countries are grouped under wider geographical regions, certain countries are assigned separate scenario weightings, due to their specific features, as well as noting strategic importance, size of the market and the Bank's exposure; these include: Libya, Nigeria, Turkey, Sudan and the UK Real Estate.

The probability weightings are determined by management using where available external, independent forecasts and information. Under normal economic circumstances it is expected that the substantial majority of the probability weightings will be in the BAU category, with much smaller weightings applied to the optimistic and downside scenarios. However greater weighting may be given to the downturn scenario in periods of economic stress. The conditions which exist under the BAU scenario are based on current economic forecasts, with the downside scenario based on a projected period of Global economic recession and the upside based on a period of Global economic growth, with each of the scenarios updated for specific events or factors which would impact the Bank's credit exposures.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL is measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset; and
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit impaired (referred to as '**Stage 3 financial assets**'). A financial asset is 'credit impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the client on terms that the Bank would not consider otherwise;

- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for a security because of financial difficulties; or
- the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

A loan that has been renegotiated due to deterioration in the borrower's condition is usually considered to be credit impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

For financial assets that are credit-impaired, a transfer to Lifetime ECL (stage 2) or 12-month ECL (stage 1) is only permitted where the instrument is no longer considered to be credit-impaired on a non-temporary basis. This is determined by management giving due regard to both quantitative and qualitative information on a case-by-case basis for each credit-impaired exposure.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- *financial assets measured at amortised cost*: as a deduction from the gross carrying amount of the assets;
- *loan commitments and financial guarantee contracts*: generally, as a provision;
- *where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component*: the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- *debt instruments measured at FVOCI:* no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Write-offs

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in 'Allowance for credit losses' in the statement of profit or loss and OCI.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

7.2 Past due amounts

The Bank’s normal policy is to assume that payments which are due to be paid on a particular date will be settled. However, the Bank closely monitors and actively manages receivables which are not paid on their due date (past due amounts), and expects to identify such amounts either on the day it was due for large sum amounts (using real time settlement enquiry systems), or else on the morning of the next working day following completion of correspondent account (nostro) reconciliations.

There are many reasons why an amount may not be settled on the due date, the most common being delays in the settlement process which arise in the normal course of business. In such cases settlement normally takes place within a very short period of the contractual date, and interest or “good value” claims will arise to ensure that the Bank is protected.

Delays may also be indicative of other difficulties being experienced by the payment obligor and the Bank will contact the counterparty with a view to establishing the reason for the delay.

Overdue amounts are reported to appropriate levels of management to ensure that necessary actions are being taken. If the reasons for the delay are indicative of difficulty being experienced by the counterparty, then all of the balances due from that counterparty will be classified as being on "watchlist", resulting in increased management scrutiny and action.

Forbearance. The Bank may renegotiate loans to customers in financial difficulties (referred to as 'forbearance' activities) to maximise collection opportunities and minimise the risk of default. Loan forbearance may be granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms. The revised terms may include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants.

Watchlist items are so designated where there may have been some deterioration in the financial strength of the counterparty. The Bank may have granted forbearance in such cases, or may simply be monitoring the position more closely with no element of forbearance granted.

7.3 Summary of impairment provisions as at 31 December 2019

The impairment provision as at 31 December 2019 was £81,659,000 *(2018: £92,210,000),* details are provided in Note 13 of the 2019 Annual Report and Financial Statements. The 2019 impairment provisions included in the credit risk exposure calculations comprise £73,770,000 *(2018: £83,548,000)* relating to credit impaired exposures and £7,888,000 *(2018: £8,662,000)* relating to exposures which were not credit impaired. The year-on-year movements in impairment provisions are shown in Note 13 of the 2019 Annual Report and Financial Statements.

At 31 December 2019, 13 facilities comprising amounts due to the Bank of £100,818,000 were determined to be impaired *(2018: sixteen facilities comprising amounts due to the Bank of £219,533,000 due to the Bank)*. Collateral was held by the Bank in respect of four *(2018: seven)* of these facilities, details are provided in Note 13 of the 2018 Annual Report and Financial Statements.

At 31 December 2019 exposures to unimpaired past due loans amounted to £18,500 *(31 December 2018: £419,116)*.

An analysis of credit exposures by counterparty type is shown in Table 1 of this report, which details exposures net of the impairments shown below.

Table 14: Counterparty analysis of individual gross impaired loans and associated impairments

31 December 2019	Gross exposure £'000	Specific Impairments £'000	Net exposure £'000
Institutions	0	0	0
Corporates:	112,188	(73,129)	39,059
Financial	27,429	(12,951)	14,478
Non-Financial	84,759	(60,178)	24,581
Total	*112,188*	*(73,129)*	*39,059*

Table 15: Regional analysis of individual gross impaired loans and associated impairments

31 December 2019	Gross exposure £'000	Specific Impairments £'000	Net exposure £'000
United Kingdom	48,828	(29,585)	19,243
Europe excluding UK	8,484	(8,484)	
Other Middle East and Africa	49,312	(32,467)	16,845
Total	*112,188*	*(73,129)*	*39,059*

Note, the tables above only report those loans which are credit impaired. They do not include off-balance-sheet exposures, and no impairment is raised to the extent that an exposure has credit risk mitigation; therefore the net exposure values noted above are different from the "Exposures in default" reported on Table 16. Gross exposures include any accrued interest.

Table 16: Credit quality of exposures by exposure class

31 December 2019	Gross Carrying value of Defaulted Exposures £'000s	Gross Carrying value of Non-defaulted exposures £'000s	Specific credit risk adjustment £'000s	Net Values £'000	Credit risk adjustment charges of the period £'000
Central Governments/Central Banks	-	687,701	(535)	687,166	-
Public Sector Entities	-	23,920	-	23,920	-
Multilateral Development Banks	-	362,886	-	362,886	-
International organisations	-	-	-	-	-
Institutions	2,440	794,185	(1,484)	795,140	-
Corporates	109,393	799,800	(76,451)	832,741	(18,557)
Covered bonds	-	84,349	-	84,349	-
Secured by mortgages on immovable property	7,500	421,940	(2,973)	426,467	-
Equity exposures	-	2,374	-	2,374	-
Items associated with particularly high risk	-	26,006	(32)	25,974	-
Other items	-	24,624	(6)	24,619	-
Total	119,332	3,227,785	(81,480)	3,265,637	(18,557)
31 December 2018 Total	*219,533*	*4,425,718*	*(86,063)*	*4,559,188*	*(59,043)*

The contractual amount outstanding on financial assets that were written off during the reporting period and are still subject to enforcement activity was £28,483,000 *(2018: £26,108,000)*.

8 ASSET ENCUMBRANCE

An asset is treated as encumbered if it has been pledged or if it is subject to any form of arrangement to secure, collateralise or credit enhance any on-balance-sheet or off-balance-sheet transaction from which it cannot be freely withdrawn.

The Bank operates with very low levels of asset encumbrance. The primary sources of encumbrance are USD cash deposits pledged to market counterparties to facilitate Trade Finance and Foreign Exchange settlement arrangements.

The Asset Encumbrance data disclosed in the following tables are the median carrying values as per the Bank's IFRS financial statements, based on the four quarter-end values up to the reporting date. Collateral received is reported at fair value, except in the case of real estate, which is reported at its most recent valuation.

Table 17: Encumbered and unencumbered assets using median values of the Bank at 31 December 2019

31 December 2019	Encumbered assets £'000	Unencumbered assets £'000	Fair value of unencumbered assets £'000
Loans on demand		492,395	
Equity instruments		6,582	6,582
Debt securities		1,220,532	1,220,532
of which: covered bonds		82,326	82,326
of which: issued by general governments		658,419	658,419
of which: issued by financial corporations		533,735	533,735
of which: issued by non-financial corporations		2,676	2,676
Loans and advances other than loans on demand	7,657	1,385,635	
of which: mortgage loans		469,668	
Other assets		36,089	
Total Assets	**7,657**	**3,136,185**	

Of the non-encumbered assets reported above, less than 1% is deemed not to be available for encumbrance in the normal course of business.

Table 18: Collateral received

31 December 2019	Collateral received - encumbered £'000	Collateral received - unencumbered £'000	Collateral received - not available for encumbrance £'000
Collateral received by the reporting institution		614,334	955,004
Debt securities		284,555	
of which: issued by general governments		284,555	
Other collateral received		333,018	955,004
Total Collateral received	**7,657**	**614,334**	**955,004**

This table captures information about the collateral received by the Bank. The calculated median of four quarter ends for the total of encumbered collateral received plus our own encumbered assets was £7,657,000 in 2019.

Assets received as collateral are not available for encumbrance when the Bank is not permitted to sell or re-pledge the collateral, except in the case of a default by the owner of the collateral (e.g. immovable property securing a loan). Where the Bank is permitted to sell or re-pledge the collateral (e.g. securities received under a reverse repo) they are classed as available for encumbrance.

Table 19: Sources of encumbrance

31 December 2019	Matching liabilities £'000	Encumbered Assets £'000
Carrying amount of selected financial liabilities		
Derivatives	600	1,055
of which: Over-The-Counter	600	1,055
Nominal of loan commitments received	-	6,897
Total sources of encumbrance	**600**	**7,657**

This table captures information about the transactions that lead to the encumbrance of assets. It covers the different sources of encumbrance for the Bank, including those with no associated funding such as loans commitments or financial guarantees received and securities lending with non-cash collateral.

Balances are categorised across the line items by reference to the nature of the liability/contingent/commitment secured. The encumbered assets are reported on the same line as the associated secured liability/contingent/commitment.

Cash deposits pledged to market counterparties to facilitate Trade Finance and Foreign Exchange settlement arrangements have no associated liabilities.

9 LEVERAGE

This ratio is broadly calculated as Tier 1 Capital divided by gross on- and off-balance-sheet exposures, with a regulatory minimum ratio of 3%.

The Bank's Treasury area has primary responsibility for ensuring compliance with the regulatory requirement and internal limits and triggers. This is independently monitored and reported on by the Bank's risk management function.

The leverage exposure amounts reported in the following tables are those reported in the Bank's regulatory returns as at the reporting date.

Table 20: Summary of reconciliation of accounting assets and leverage ratio exposures

	2019 £'000	*2018* *£'000*
Total assets as per Financial statements	2,779,318	*3,893,852*
Adjustments for derivative financial instruments	3,954	*7,396*
Adjustments for off balance sheet items	224,768	*315,703*
Other adjustments	(6,372)	*(6,260)*
Leverage ratio total exposure measure	3,001,669	*4,210,691*

Table 21: On-balance-sheet exposures excluding derivatives and securities financing transactions ("SFT")

	2019 £'000	*2018* *£'000*
On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	2,515,230	*3,568,342*
Asset amounts deducted in determining Tier 1 capital	(11,387)	*(8,737)*
Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)	2,503,843	*3,559,605*

NOTE: Securities Financing Transactions ("SFTs") include repos, reverse repos and stock borrowing/lending. All reported SFTs are reverse repos.

Table 22: Derivative exposures

	2019 £'000	*2018* *£'000*
Replacement cost associated with all derivatives transactions	751	*1,249*
Add-on amounts for Potential Future Exposures ("PFE") associated with all derivative transactions	3,954	*7,396*
Total derivative exposures	4,705	*8,646*

Table 23: Securities financing transactions (“SFT”) Exposures

	2019 £'000	*2018* *£'000*
Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	267,302	*326,695*
Counterparty credit risk exposure for SFT assets	1,050	*43*
Total securities financing transaction exposures	268,352	*326,737*

Table 24: Other off-balance-sheet exposures

	2019 £'000	*2018* *£'000*
Off balance sheet exposure at gross notional amount	509,987	*678,577*
Adjustments for conversion to credit equivalent amounts	(285,218)	*(362,874)*
Other off-balance sheet exposures	224,768	*315,703*

Table 25: Capital and total exposure measure

	2019 £'000	*2018* *£'000*
Tier 1 capital	170,824	*161,218*
Leverage ratio total exposure measure	3,001,669	*4,210,691*
Leverage ratio	5.69%	*3.83%*

The total Leverage exposure figure is consistent with the Bank’s regulatory returns as at the reporting date and is on a transitional basis. A disclosure on comparison of the bank leverage ratio with and without transitional arrangements for IFRS 9 is presented in Appendix VI.

10 REMUNERATION CODE DISCLOSURES

BACB has reviewed and acknowledged requirements from the FCA guidance issued in 2015 on staff remuneration within the banking sector, in addition to the PRA Rulebook, the FCA code ('the Code') and the Capital Requirements Regulations (Article 450).

This statement sets out the disclosures required under the requirements as they apply to the Bank. The Bank is classified as a Level 3 Bank under the Remuneration Guidelines.

The Bank employed 233 members of staff at 31 December 2019 (*2018: 223 staff*). The total staff costs of the Bank (as disclosed in the Note 12 of the 2018 Annual Report and Financial Statements) were as follows:

Table 26: Staff costs of the Bank

	2019 £'000	*2018 £'000*
Staff costs:		
Salaries and other emoluments	16,861	*16,431*
Social security costs	2,043	*1,966*
Other pension costs:		
- Defined benefit scheme	283	*317*
- Defined contribution scheme	2,005	*1,723*
Total fixed staff employment costs	**21,192**	***20,437***
Variable staff costs: performance awards	0	*(153)*
Total staff employment costs	**21,192**	***20,284***
Reorganisation costs (excluding pension augmentations)	382	*314*
Other employment related costs	3,333	*3,730*
Total staff costs	**24,907**	***24,328***
Of which: Material Risk Takers/Code Staff	**5,272**	***5,659***

Due to the small number of staff, a breakdown by business area is not disclosed.

Nominations and remuneration committee

Governance of all matters related to remuneration within the Bank lies with the Nominations and Remuneration Committee (NRC), a Sub-Committee of the Board. The Committee is composed of the Chairman and two other Non-Executive Board members who possess the necessary skills to exercise the appropriate judgement with regards to remuneration matters.

The NRC has reviewed the Bank's remuneration policies to ensure compliance with the requirements outlined above. In addition, the Bank's risk management and compliance functions have input into remuneration policy and practice, this input takes place via an annual report from the Chief Risk Officer, which is subject to review by the Audit, Risk and Conduct Committee. This includes reviewing the overall level of staff remuneration (including performance awards) in the context of the longer term business performance of the Bank, including its capital adequacy, in order to ensure that staff costs are appropriate in light of the Bank's current and prospective capital adequacy, and ensuring that the Bank's remuneration policies do not give rise to conduct risks in the execution of the Bank's strategy.

Performance award scheme

The Bank has in place a performance award scheme for the benefit of its employees, which classify as 'variable remuneration' as defined in the Code. This is a discretionary scheme adopting both a top-down funding approach, and individual allocations considered with reference to individual performance and contribution assessment. The overall quantum and allocations are based on a combination of:

- An appropriate distribution of profits between shareholders and employees via the bonus pool, and the needs of the Bank as determined by the NRC, the Board and senior management;
- The Bank's performance against the business plan prepared before the start of the year to which it relates;
- An individual's behaviours (as assessed against the Bank's values);
- An individual's contribution towards the achievement of their objectives (derived from their Performance Management Process score, a five point assessment scale).

As part of the 2019 review of discretionary performance awards, the NRC considered a report from the Chief Risk Officer which considered individual conduct and risk behaviours.

The variable remuneration for a small number of key executives is based on an evaluation by the NRC.

Performance awards are normally payable in April following the year to which the award relates. A deferral system is in place for bonuses above £50,000. Amounts deferred are paid in 3 equal instalments over a 3-year period.

No performance awards were paid related to 2019 financial performance.

Material risk takers (MRTs)

BACB has taken steps to assess the MRT population with reference to a number of sources including (i) a cross check to the Senior Management (SMF) and Certified Persons under the Senior Managers and Certification Regime, under both the PRA and the FCA Regimes, and (ii) an assessment against the MRT Qualitative and Quantitative criteria set out in the final regulatory technical standard (RTS) published in the Official Journal of the European Union on 4 March 2014.

The process includes a management assessment of the potentially in-scope population prior to confirming the MRT population.

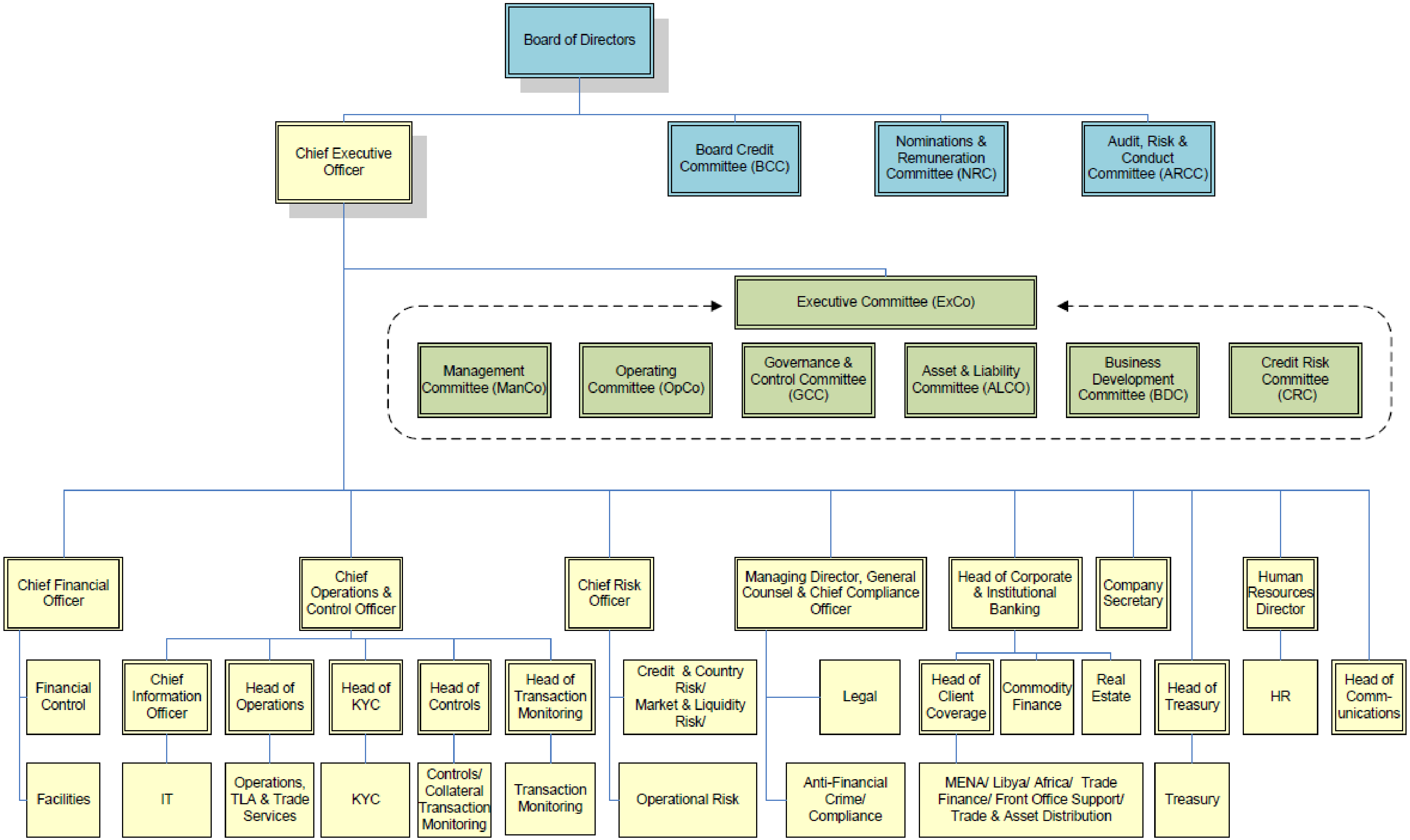
The population of MRTs is reviewed by senior management and then the Board for final validation.

As at 31 December 2019, 28 staff were identified as MRTs *(2018: 32 staff).*

During the year ended 31 December 2019, fixed remuneration for MRTs was £5,272,154 *(2018: £5,659,000)* and variable remuneration was £nil *(2018: £nil),* of this variable remuneration £nil *(2018: £nil)* was deferred.

The Bank applies an exemption on the basis of confidential information in the remuneration code disclosures, where disclosure of Material Risk Taker remuneration by business area would result in the individuals' ready identification.

Appendix I: Organisation Chart at 31 December 2019



Appendix II: Key Risk Measurements

The following table sets out a number of the key measures that are used to monitor the Bank's risk profile.

	Risk Area	Metric	Comment	Measure at 31 December 2019
REPUTATIONAL	Reputational		The Bank recognises the importance of its reputation and major reputational damage is one of the scenarios that the Bank monitors actively. It has developed contingency plans and monitors a range of formal early warning signals and plan activation indicators, as well as taking into consideration other information that comes to the attention of the Board in the normal course of business, for example through communications with the financial community at large, regulators or other stakeholders. Oversight: EXCO	
REPUTATIONAL	Culture and Conduct		BACB has established a framework of Values and Behaviours that underpin the effective identification, management or escalation of Conduct Risk, which is the responsibility of all staff within the Bank. BACB monitors and evaluates how its people work together and individually. The Bank is committed to fostering a culture of behaviours that drive its vision for sustainable growth, from the top to the bottom of the organisation. BACB insists that all its stakeholders act firmly within the parameters of the regulatory landscape. Oversight: MANCO	
FINANCIAL	Capital and Leverage	Total Capital Ratio	The Bank targets a minimum buffer above the Individual Capital Guidance required by the PRA and a leverage cap based on the CRR leverage ratio. While it has operated within its minimum capital and leverage requirements throughout the year, the Bank was required to use its buffers following the passing of year-end provisions. This was swiftly rectified through the Bank's capital management processes. Our medium term business plans evidence that we will continue to operate within our total capital requirement for the foreseeable future. Oversight: ALCO	19.6%
FINANCIAL	Liquidity	Stress testing	Liquidity risk appetite has been set by the Board at a level which would allow the Bank to survive for 90 days following the start of a range of Board approved liquidity stress scenarios. In addition it has to comply with the Individual Liquidity Guidance which is set and adjusted periodically by the PRA. The Bank has held material surplus liquidity over and above the risk appetite level throughout the year. Oversight: ALCO	Compliant
FINANCIAL	Credit and Country Risk	Non-performing loans / Loans and advances	The Bank's focus means that a significant portion of its non-treasury related credit and country risks are towards the lower end of or below investment grade. This implies a relatively high probability of default, which the Bank mitigates through the application of concentration and tenor limits or the use of credit mitigants, in order to ensure that net credit losses are within tolerance. The Bank suffered a historically high level of impairments in 2018, and has taken a range of actions to return its credit profile to within risk appetite. Oversight: CRC	5%
FINANCIAL	Market Risk	Stop loss limits PVBP limits	The Bank undertakes only limited proprietary trading activity in foreign exchange (including the management of foreign exchange risk resulting from banking book activities), interest rates and debt securities for which a range of limits have been set. Financial volatility is managed through a range of stop loss limits which require actions which are proportionate to the severity of any losses. Interest rate risk in the banking book is managed using a range of interest rate products with the Bank's net position subject to limits using the Price Value of a Basis Point ("PVBP") methodology. Oversight: ALCO	Compliant Compliant
OPERATIONAL	Operational		The bank has an embedded operational risk framework, which assists the risk owners to identify, assess and manage the operational risks arising in their day to day business activity, overseen by a second line Operational Risk function. This includes regular Risk and Control Self Assessments; monitoring of Key Risk Indicators which are reported monthly to the Operating Committee; and tracking of all operational risk incidents. The cause and quantum of operational risk incidents are reported monthly to the Governance and Control Committee, with significant issues escalated to EXCO and to the Audit, Risk and Conduct Committee. Following a significant operational risk incident in December 2018 which contributed to a credit impairment charge, a bank-wide operational risk and control review is being undertaken. Oversight: GCC	
OPERATIONAL	Compliance		The Compliance function analyses the rules and requirements governing our regulatory activities, and implements relevant policies and procedures to be adhered to by departments across the Bank. Compliance perform on-going monitoring, testing, advisory, training, and oversight of the main regulatory requirements. Relevant regulatory developments are also monitored. Compliance functions help to ensure that the Bank does not commit any material regulatory breaches or receive any adverse regulatory actions. Oversight: GCC	
OPERATIONAL	Financial Crime		The bank recognises Financial Crime as a key risk, and has established a dedicated Anti Financial Crime Department, headed by the MLRO. The MLRO is responsible for setting the policy and minimum standards with which the rest of the bank is required to comply. The AFC function carries out regular 2nd line of defence testing to ensure that operational areas are correctly implementing the Bank's policies with regards to AML regulations and sanctioned entities. The bank has also established dedicated KYC and Transaction Monitoring teams in the first line to operate underlying processes and controls to support the business in their management of financial crime risks. The Bank employs a range of tools and processes, including technology solutions, to monitor new and existing customers and to monitor transactions for risk indicators, which will be investigated if triggered. Financial Crime is overseen by the Governance and Control Committee and periodic reports are also provided by the MLRO to the Audit, Risk and Conduct Committee. The bank has also established a High Risk Advisory Committee which consists of senior members of executive management. Oversight: GCC	

Appendix III: Regulatory Capital Balance Sheet Reconciliation

Institutions are required to provide information on the reconciliation between balance sheet items used to calculate own funds and regulatory own funds.

	Balance sheet extract £'000s	Eligible capital components £'000s
Assets		
Intangible assets	10,491	
of which: deduction from common equity tier 1 capital		10,491
Total Assets	2,779,318	10,491
Liabilities		
Subordinated loan capital	71,870	
of which: accrued interest	379	
of which: ineligible due to amortisation	6,265	
of which: Tier 2 capital	65,226	65,226
Total liabilities	2,601,424	65,226
Equity		
Called up share capital	104,357	104,357
Retained earnings	69,069	69,069
Fair value reserve	364	364
Other reserves	4,104	4,104
Total equity	177,894	177,894
Total liabilities and equity	2,779,318	243,120

Appendix IV: Main features of regulatory capital instruments

Capital instruments' main features template		COMMON EQUITY TIER 1	ADDITIONAL TIER 1	TIER 2
1	Issuer	British Arab Commercial Bank plc	N/A	British Arab Commercial Bank plc
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement	Private placement		Private placement
3	Governing law(s) of the instrument	English Law		English Law
	Regulatory treatment:			
4	Transitional CRR rules	CET1		Tier 2
5	Post-transitional CRR rules	CET1		Tier 2
6	Eligible at solo/(sub-)consolidated/solo & (sub-)consolidated	Solo		Solo
7	Instrument type (types to be specified by each jurisdiction)	Common Equity		Term issued subordinated debt
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	£32m $115.564m		$52.9m €34.2m
9	Nominal amount of instrument	£1 and $1		$56.2m and €34.2m
9a	Issue price	£1 and $1		$56.2m and €34.2m
9b	Redemption price	N/A		N/A
10	Accounting classification	Called up share capital		Subordinated liabilities
11	Original date of issuance	<u>Ordinary shares of £1 each, paid up capital:</u> £2m 23 March 1972 £3m 29 June 1973 £5m 1 Dec 1976 £3m 30 Mar 1979 £3m 29 Jun 1979 £5m 30 Jun 1981 £5m 30 Jun 1982 £5m 30 Jun 1983 £5m 30 Jun 1984 £5m 30 Jun 1985 (£9m) 20 May 1993 <u>Ordinary shares of $1 each, paid up capital:</u> $93m 31 Mar 1988 ($12m) 20 May 1993 ($4m) 17 Jun 2008 $38.3m 17 Jun 2015 $0.264m 31 Dec 2018 <u>Ordinary shares of $0.15 each, paid up capital:</u> $80m 15 May 1990 ($80m) 20 May 1993		**USD subordinated debt** $94.4m 29 Oct 2010 ($38.3m) 17 June 2015 **EURO subordinated debt** €34.2m 17 June 2015
12	Perpetual or dated	Perpetual		Dated
13	Original maturity date	N/A		$31.5m 29 Oct 2025 $24.7m 29 Apr 2023 €34.2m 17 Jun 2025
14	Issuer call subject to prior supervisory approval	N/A		N/A
15	Optional call date, contingent call dates, and redemption amount	N/A		N/A
16	Subsequent call dates, if applicable	N/A		N/A
	Coupons / dividends			
17	Fixed or floating dividend/coupon	Floating		Floating
18	Coupon rate and any related index	N/A		3 month USD/EUR Libor plus 2.9% per annum
19	Existence of a dividend stopper	N/A		N/A

Capital instruments' main features template		COMMON EQUITY TIER 1	ADDITIONAL TIER 1	TIER 2
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing	Fully discretionary		Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary		Mandatory
21	Existence of step up or other incentive to redeem	No		No
22	Noncumulative or cumulative	Non-cumulative		Non-cumulative
23	Convertible or non-convertible	Non-convertible		Non-convertible
24	If convertible, conversion trigger (s)	N/A		N/A
25	If convertible, fully or partially	N/A		N/A
26	If convertible, conversion rate	N/A		N/A
27	If convertible, mandatory or optional conversion	N/A		N/A
28	If convertible, specify instrument type convertible into	N/A		N/A
29	If convertible, specify issuer of instrument it converts into	N/A		N/A
30	Write-down features	No		No
31	If write-down, write-down trigger (s)	N/A		N/A
32	If write-down, full or partial	N/A		N/A
33	If write-down, permanent or temporary	N/A		N/A
34	If temporary write-down, description of write-up mechanism	N/A		N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Term issued subordinated debt		All liabilities deemed by the liquidator to have priority except the subordinated liabilities
36	Non-compliant transitioned features	No		No
37	If yes, specify non-compliant features	N/A		N/A

Appendix V: Disclosure of Own funds during Transitional period

Common Equity Tier 1 capital: instruments and reserves		2019 £'000
1	Capital instruments and the related share premium accounts	104,357
	of which: Ordinary shares	
2	Retained earnings (excluding current year retained profit/loss not audited by the reporting date)	69,069
3	Accumulated other comprehensive income (and any other reserves)	9,512
3a	Funds for general banking risk	
4	Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1	
	Public sector capital injections grandfathered until 1 January 2018	
5	Minority interests (amount allowed in consolidated CET1)	
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**182,938**
Common Equity Tier 1 (CET1) capital: regulatory adjustments		
7	Additional value adjustments (negative amount)	(896)
8	Intangible assets (net of related tax liability) (negative amount)	(10,491)
9	Empty set in the EU	
10	Deferred tax assets that rely on future profitability excluding those arising from temporary difference (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	(727)
11	Fair value reserves related to gains or losses on cash flow hedges	
12	Negative amounts resulting from the calculation of expected loss amounts	
13	Any increase in equity that results from securitised assets (negative amount)	
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	
15	Defined-benefit pension fund assets (negative amount)	
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	
17	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	
18	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	
19	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	
20	Empty set in the EU	
20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	
20b	of which: qualifying holdings outside the financial sector (negative amount)	
20c	of which: securitisation positions (negative amount)	
20d	of which: free deliveries (negative amount)	
21	Deferred tax assets arising from temporary difference (amount above 10 % threshold , net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	
22	Amount exceeding the 15% threshold (negative amount)	
23	of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	
24	Empty set in the EU	
25	of which: deferred tax assets arising from temporary difference	
25a	Losses for the current financial year (negative amount)	
25b	Foreseeable tax charges relating to CET1 items (negative amount)	
26	Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment	
26a	Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468	
26b	Amount to be deducted from or added to Common Equity Tier 1 capital with regard to additional filters and deductions required pre CRR	
27	Qualifying AT1 deductions that exceeds the AT1 capital of the institution (negative amount)	
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**(12,114)**
29	**Common Equity Tier 1 (CET1) capital**	**170,824**

Common Equity Tier 1 capital: instruments and reserves		2019 £'000
Additional Tier 1 (AT1) capital: instruments		
30	Capital instruments and the related share premium accounts	
31	of which: classified as equity under applicable accounting standards	
32	of which: classified as liabilities under applicable accounting standards	
33	Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1	
	Public sector capital injections grandfathered until 1 January 2018	
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interest not included in row 5) issued by subsidiaries and held by third parties	
35	of which: instruments issued by subsidiaries subject to phase-out	
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**	
Additional Tier 1 (AT1) capital: regulatory adjustments		
37	Direct and indirect holdings by an institution of own AT1 instruments (negative amount)	
38	Holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	
39	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	
40	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	
41	Regulatory adjustments applied to Additional Tier 1 capital in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase-out as prescribed in Regulation (EU) No 585/2013 (ie. CRR residual amounts)	
41a	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013	
41b	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Tier 2 capital during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013	
41c	Amounts to be deducted from added to Additional Tier 1 capital with regard to additional filters and deductions required pre- CRR	
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)	
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	
44	**Additional Tier 1 (AT1) capital**	
45	**Tier 1 capital (T1 = CET1 + AT1)**	**170,824**
Tier 2 (T2) capital: instruments and provisions		
46	Capital instruments and the related share premium accounts	65,226
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2	
	Public sector capital injections grandfathered until 1 January 2018	
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interest and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third party	
49	of which: instruments issued by subsidiaries subject to phase-out	
50	Credit risk adjustments	
51	**Tier 2 (T2) capital before regulatory adjustment**	**65,226**
Tier 2 (T2) capital: regulatory adjustments		
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	
53	Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institutions designed to inflate artificially the own funds of the institution (negative amount)	
54	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10 % threshold and net of eligible short positions) (negative amount)	
54a	Of which new holdings not subject to transitional arrangements	
54b	Of which holdings existing before 1 January 2013 and subject to transitional arrangements	
55	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amounts)	
56	Regulatory adjustments applied to tier 2 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)	
56a	Residual amounts deducted from Tier 2 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013	
56b	Residual amounts deducted from Tier 2 capital with regard to deduction from Additional Tier 1 capital during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013	
56c	Amounts to be deducted from or added to Tier 2 capital with regard to additional filters and deductions required pre-CRR	
57	Total regulatory adjustments to Tier 2 (T2) capital	
58	**Tier 2 (T2) capital**	**65,226**
59	**Total capital (TC = T1 + T2)**	**236,050**

Common Equity Tier 1 capital: instruments and reserves ([1])		2019 £'000
59a	Risk weighted assets in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amount)	1,207,405
	Of which:… items not deducted from CET1 (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Deferred tax assets that rely on future profitability net of related tax liability, indirect holdings of own CET1, etc)	
	Of which:…items not deducted from AT1 items (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Reciprocal cross holdings in T2 instruments, direct holdings of non-significant investments in the capital of other financial sector entities, etc.)	
	Items not deducted from T2 items (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Indirect holdings of own T2 instruments, indirect holdings of non-significant investments in the capital of other financial sector entities, indirect holdings of significant investments in the capital of other financial sector entities etc)	
60	**Total risk-weighted assets**	**1,207,405**
Capital ratios and buffers		
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	14.1%
62	Tier 1 (as a percentage of total risk exposure amount)	14.1%
63	Total capital (as a percentage of total risk exposure amount)	19.6%
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements plus a systemic risk buffer, plus systemically important institution buffer expressed as a percentage of total risk exposure amount)	2.82%
65	of which: capital conservation buffer requirement	2.5%
66	of which: countercyclical buffer requirement	0.32%
67	of which: systemic risk buffer requirement	
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	14.1%
69	[non-relevant in EU regulation]	
70	[non-relevant in EU regulation]	
71	[non-relevant in EU regulation]	
Amounts below the thresholds for deduction (before risk-weighting)		
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions	2,374
73	Direct and indirect holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions	
74	Empty set in the EU	
75	Deferred tax assets arising from temporary difference (amount below 10 % threshold , net of related tax liability where the conditions in Article 38 (3) are met)	1,193
Applicable caps on the inclusion of provisions in Tier 2		
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	
78	Credit risk adjustments included in T2 in respect of exposures subject to internal rating-based approach (prior to the application of the cap)	
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)		
80	- Current cap on CET1 instruments subject to phase-out arrangements	
81	- Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	
82	- Current cap on AT1 instruments subject to phase-out arrangements	
83	- Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	
84	- Current cap on T2 instruments subject to phase-out arrangements	
85	- Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	

The references identify the lines prescribed in the European Banking Authority (‘EBA’) template.

Appendix VI: Disclosure on comparison of BACB own funds and capital and leverage ratios with and without the application of transitional arrangements for IFRS 9 and Pillar 2 and Buffer Requirements

	Available capital	2019 £'000
1	Common Equity Tier 1 (CET1) capital	170,824
2	Common Equity Tier 1 (CET1) capital as if IFRS 9 or analogous ECLs transitional arrangements had not been	165,779
3	Tier 1 capital	170,824
4	Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	165,779
5	Total capital	236,050
6	Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	231,005
Risk-weighted assets		
7	Total risk-weighted assets	1,207,405
8	Total risk-weighted assets as if IFRS 9 transitional arrangements had not been applied	1,202,418
Capital ratios		
9	Common Equity Tier 1	14.1%
10	Common Equity Tier 1 as if IFRS 9 transitional arrangements had not been applied	13.8%
11	Tier 1	14.1%
12	Tier 1 as if IFRS 9 transitional arrangements had not been applied	13.8%
13	Total capital	19.6%
14	Total capital as if IFRS 9 transitional arrangements had not been applied	19.2%
Additional CET1 buffer requirements as a percentage of RWA (%)		
	Capital conservation buffer requirement	2.5%
	Countercyclical buffer requirement	0.32%
	Total of bank-specific CET1 buffer requirements	2.82%
	CET1 available after meeting the bank's minimum capital requirements	14.09%
	Total capital requirement (%)	10.93%
Leverage ratio		
15	Leverage ratio total exposure measure	3,001,669
16	Leverage ratio (%)	5.69%
17	Leverage ratio as if IFRS 9 transitional arrangements had not been applied (%)	5.52%

BACB's Pillar 2A capital requirement was 2.93% of RWAs plus £8.9m, 56% of which must be held as CET1 capital.

Appendix VII: List of tables in this document