BACB

year ended 31 December 2021

PILLAR 3 & REMUNERATION CODE DISCLOSURES

BACB

your banking partner for

SPECIALIST MARKETS

50 years

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 2021. 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 2021, published on the Bank's corporate website (http://www.bacb.co.uk/).

Key Metrics 2021

COMMON EQUITY TIER 1 CAPITAL
£199.9m
2020: £192m

TOTAL REGULATORY CAPITAL
£270m
2020: £264m

COMMON EQUITY TIER 1 RATIO
18.4%
2020: 17.4%

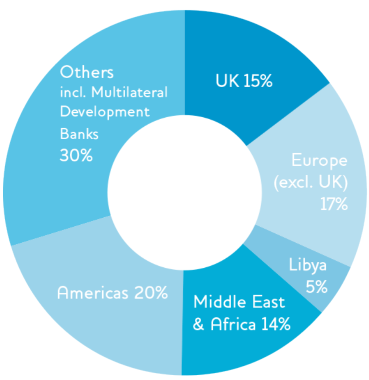
TOTAL CAPITAL RATIO
24.9%
2020: 24.0%

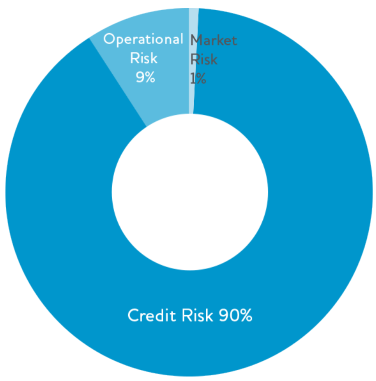
TOTAL RWAs
£1,085m
2020: £1,101m

LEVERAGE RATIO
6.7%
2020: 7.1%

AVERAGE LIQUIDITY COVERAGE RATIO
276%
2020: 215%

Credit Risk Exposure by Geography and RWAs by Risk Type





1.2. BACKGROUND

Any references in this document to EU regulations/directives should be read as the onshored UK law equivalent of those regulations/directives[1].

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 The directive was superseded on 1 January 2014 by the fourth Capital Requirements Directive ("CRD IV") and the Capital Requirements Regulation ("CRR").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, as amended by CRR II, are enforced in the UK by the Prudential Regulation Authority ("PRA"). The Pillar 3 disclosure requirements are contained in Articles 431 – 455 of the CRR.

Some of the CRR II amendments which were originally scheduled for June 2021 had their implementation accelerated to June 2021. These "Quick Fix" measures were enacted in the EU to lessen the impact of the Covid-19 pandemic on banks' capital ratios. The Quick Fix package also amended the transitional provision on the regulatory capital treatment of IFRS 9.

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 2021 in accordance with the requirements of Pillar 3 as set out in the regulations outlined above. 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 2021, 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"). Throughout this document, some tables may not add exactly due to immaterial rounding differences.

For BACB, the main differences between the financial statements and the regulatory returns are as summarised below:

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[1] Following the end of the transition period after the UK's withdrawal from the EU, reference made in this document to EU regulations should be read as references to the UK's version of that regulation, as onshored into UK law. As at 31 December 2021, the UK and EU frameworks remain largely consistent.

- 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

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

b) **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.

c) **Verification[2]:** 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 Committee, and the Remuneration disclosures detailed in Section 10 of this document were reviewed by the Nominations and Remuneration Committee of the Board.

d) **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.

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

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 2021 BACB operated three representative offices, in Algiers, Tripoli and Abidjan, 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.

[2] 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.

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 2021 are listed below:

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

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.

2.2 THE BOARD OF DIRECTORS ("THE BOARD")

As at 31 December 2021, there were 10 members of the Board, including nine Non-Executive Directors ("NEDs").

At the 31st of December 2021, the Board had four independent non-executive directors, including the Chair of the Board, Chair of the Audit Committee, Chair of the Risk and Conduct Committee and Chair of the Nominations and Remuneration Committee.

- The Chairman, Mr Michael Stevenson;
- Mr Jehangir Jawanmardi;
- Mr Nigel Boothroyd;
- Mr Sundeep Bhandari;

The remaining five Non-Executive Directors were appointed by shareholders pursuant to their shareholding and are not deemed "independent".

The Board has ultimate responsibility for the Bank in accordance with the delegated authority from shareholders. The Board is responsible for establishing, approving and periodically reviewing the strategy of the Bank and its governance framework. 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 and receives reports from its sub-committees and from Executive Management on execution and compliance.

The Board met formally on eight occasions during 2021.

2.3 BOARD OVERVIEW (AS AT 31 DECEMBER 2021)

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	AC / NRC	I-NED	1
Mr Mohamed Shokri, VICE-CHAIRMAN	AC / NRC	NED	2
Mr Ahmed Aburkhis[1]	RCC / NRC	NED	1
Mr Jehangir Jawanmardi	AC / RCC	I-NED	1
Dr Khaled Kagigi[2]	RCC / BCC	NED	5
Mr Sundeep Bhandari	AC / RCC	I-NED	7
Mr Nigel Boothroyd	RCC / NRC	I-NED	4
Mr Lazhar Latreche	AC / BCC	NED	6
Mr Mohamed Zine	RCC / BCC	NED	7
Mr Edward Norton[3]		ED	2
Mr Faisal Othman[4]	AC /NRC / RCC / BCC	NED	1
Mr Paul Jennings[5]	AC / RCC	I-NED	5
Mr Aiman Laswad[6]	RCC / BCC	NED	1

Note 1: Mr Ahmed Aburkhis resigned from the Board on 10th May 2021
Note 2: Dr Khaled Kagigi resigned from the Board on 10th May 2021
Note 3: Mr Edward Norton was appointed to the Board on 5th February 2021
Note 4: Mr Faisal Othman was appointed to the Board on 5th February 2021
Note 5: Mr Paul Jennings was appointed to the Board on 13th July 2021 and resigned on 19th November 2021 to become Deputy CEO
Note 6: Mr Aiman Laswad was appointed to the Board on 10th September 2021

2.4 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.

The Chairman conducts an annual Board member evaluation as part of each individual member's annual Fit and Proper assessment, supported by the Compliance Department and overseen by the Nominations and Remuneration Committee. The findings of the evaluation process are reported annually to the Board and any relevant matters addressed.

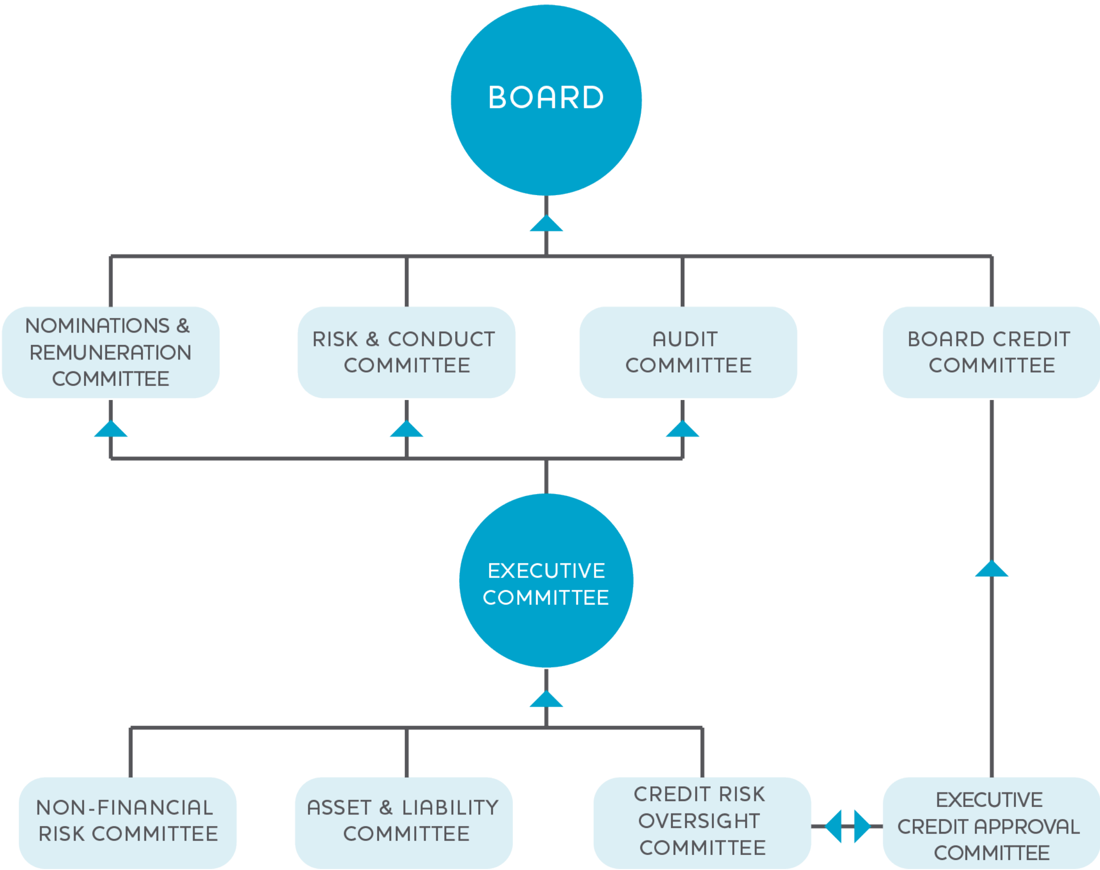
During 2021 the Chairman commissioned an independent third party to undertake a Board Effectiveness Review. There were no material deficiencies identified although the Board have taken the opportunity to put in place initiatives to improve its effectiveness in certain areas. This work has commenced and will develop throughout 2022.

2.5 BOARD DIVERSITY POLICY

The Bank benefits from the diverse skills and experience of its Board members. Shareholder representatives bring experience of BACB markets. Board diversity in terms of experience and background ensure the optimal composition of the Board and its sub-committees.

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.

2.6 OVERVIEW OF GOVERNANCE ARRANGEMENTS



Board sub-committees

The Board has established several Sub-Committees to enhance and streamline its decision making, as outlined below. All Sub-Committees, with the exception of the Board Credit Committee, are Chaired by an Independent Non-Executive Director.

2.6.1 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 meets formally six times a year with ad hoc meetings held as and when required.

2.6.2 AUDIT COMMITTEE ("AC")

The AC considers the Bank's financial reporting, the nature and scope of audit reviews, and the effectiveness of the internal systems and controls.

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

- 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; and
- 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.

The AC met six times during 2021.

2.6.3 RISK & CONDUCT COMMITTEE ("RCC")

The RCC considers the Bank's risk management across all Principal Risks (see Section 3.6).

The RCC 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; 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.

The CEO, CRO and CFO attend each meeting of the AC and RCC, along with the Bank's external auditor, its outsourced internal auditors, and other Executives as required.

The RCC met nine times during 2021.

2.6.4 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 nine times during 2021.

2.7 EXECUTIVE COMMITTEE AND SUB-COMMITTEES

The Executive Committee ("ExCo") derives its mandate and operates under delegated authority from the Board. The Board reviews and approves the Terms of Reference for ExCo, on an annual basis. Led by the Chief Executive, ExCo has a business and prudential remit and is responsible for:

- Ensuring the Bank is operating within the risk appetite approved by the Board;
- Ensuring the Risk Management Framework is implemented and embedded bank-wide;
- 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;
- Agreement of the Bank's Purpose Statement;
- Managing the Bank's interface to its principal stakeholders including the Board, regulators, customers and auditor.

The ExCo membership as at 31 December 2021 comprised:

- Chief Executive Officer (CEO)
- Deputy Chief Executive Officer (Deputy CEO)
- Chief Financial Officer (CFO)
- Chief Risk Officer (CRO)
- Chief Operations and Controls Officer (COCO)
- Chief People Officer (CPO)
- General Counsel and Chief Compliance Officer (GCO, CCO)
- Chief Information Officer (CIO)
- Treasurer

ExCo has established several sub-committees to cover risk management, governance, regulatory compliance, anti-financial crime, operational resilience, and information security.

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

2.7.1 EXECUTIVE CREDIT APPROVAL COMMITTEE ("ECAC")

ECAC is chaired by the Chief Risk Officer and is responsible for oversight and approval of individual transactions and performing portfolio reviews. It is responsible for the Credit Risk and Country Risk Principal Risks and Standards and the Lending Authorities for committees and individuals. All proposals tabled at ECAC must cover material issues relating to Financial Crime and Reputational risk, alongside all other enterprise risks.

ECAC is also the primary Executive Committee providing oversight of individual Watch List and Impaired exposures.

2.7.2 CREDIT RISK OVERSIGHT COMMITTEE ("CROC")

The primary role of the CROC, which is chaired by the Chief Risk Officer, is to ensure that there is a robust and effective credit and country risk management framework in place. It has oversight responsibility to ensure that the Bank's risk appetite in respect of credit and country risks is appropriate, understood, and respected, and it considers reputational and other risks that may be associated with the activities giving rise to those risks. In addition, it has oversight responsibility for the Bank's identification and management of problem exposures, including recovery strategies, assessing provisioning levels and compliance with IFRS9.

2.7.3 NON-FINANCIAL RISK COMMITTEE ("NFRC")

The NFRC, which is chaired by the Bank's General Counsel and Chief Compliance Officer, has primary responsibility for the oversight of the Bank's non-financial risks and associated systems and for the internal control framework in respect of (i) operational risk (including operational resilience framework and cyber security), (ii) financial crime risk and (iii) compliance risk.

2.7.4 ASSET AND LIABILITY COMMITTEE ("ALCO")

The ALCO, which is chaired by the Chief Financial Officer, has primary responsibility for optimising the management of the risks inherent in the Bank's balance sheet which result from the Bank's business plan and operating model.

Its responsibilities include an element of monitoring compliance with limits and policies, but its focus is forward-looking in order to manage emerging risks and optimise performance.

3 RISK MANAGEMENT OBJECTIVES AND POLICIES

3.1 GOVERNANCE PRINCIPLES

The Governance principles of the Risk Management Framework are set out below:

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 which is calibrated to the financial resources of the Bank and its Board approved business plan;
- There is a risk culture, which is embedded in daily operational activity;
- Risks are identified and accepted within risk appetite, or approved as exceptions through the appropriate governance forum 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.

3.3 APPROACH TO RISK MANAGEMENT

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

The Bank's risk management function is led by the Chief Risk Officer, who reports into the Chief Executive Officer.

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 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 overall responsibility for the adequacy and effectiveness of the first line of defence and management of its day to day operation is divided between the Business Heads (responsible for Front Office controls); the Chief Operations and Control Officer (responsible for Operational controls) and the Chief Financial Officer (responsible for Financial Controls). The Business Heads are 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 and reports to the Chair of the Board Audit Committee.

The risk management function covers:

- Credit Risk
- Operational Risk
- Market and Liquidity Risk
- Country Risk

The Bank also has a Chief Compliance Officer who is responsible for Compliance and Conduct Risk, and a Money Laundering Reporting Officer who is responsible for Financial Crime 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.

A key component of this is the Risk Appetite Statement. The Risk Appetite Statement ("RAS") has been developed by the Executive Management of BACB and approved by the Board. It articulates on a top-down basis, for each of the Principal Risk Types that the bank faces, the amount of risk that the Bank is willing to accept in pursuit its strategic objectives. It reflects the management philosophy of Executive Management and drives our risk culture, risk behaviours and risk decisions and informs the organisation, resources, processes and systems, including limits and triggers and Key Risk Indicator ("KRI") reporting deployed to monitor and manage our risk profile and risk tendency.

Based on the level of impairments, recoveries, incidents and other risk data monitored throughout 2021, the Bank is comfortable its risk management arrangements are adequate.

3.5 RISK APPETITE STATEMENT

A reassessment of the principal risks has been carried out and this will be incorporated in a revision of the risk appetite, risk framework and associated risk limits for each country, market and sector in which the Bank operates. This will build on existing work, such as the scope and scale limits, and will be accompanied by a review of the associated governance arrangements by which authority is delegated by the Board and through which performance will be monitored.

At the time of preparation of this Pillar 3 statement, the global economy, while still suffering from the after-effects of the Covid-19 pandemic, is being significantly impacted by the Russian invasion of the Ukraine. Given the markets the Bank serves, it is necessary and appropriate for the Bank's strategy and risk tolerances to be adapted regularly and managed closely by the Board and Executive as new factors emerge and crystallise.

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 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 followed by the Bank during 2021.

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

The Bank categorises its Risk Appetite tolerance according to the following framework

- Low – Avoidance of risk and uncertainty is key objective
- Medium-Low - Preference for safe delivery options that have a low degree of risk and may only have limited potential for reward
- Medium-High - Willing to accept an expected level of risk in exchange for a steady stream of low volatile earnings
- High - Willing to accept high levels of risk and volatility of earnings in exchange for enhanced levels of reward

A brief 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 parties, such as joint venture partners, shareholders, clients, suppliers or trade press. In addition to having good governance practices and transparency, firms 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 and integration of risk management into strategy setting, effective communications and brand building;
- Cultural alignment built on corporate values, supported by appropriate performance management and a positive culture regarding compliance with laws and regulations;
- Positive, open and transparent stakeholder interactions and 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 and media screening to identify issues and risks early; and
- An evolving approach to the environmental challenges faced by the financial services sector which recognises the needs of our shareholder and target markets.

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, Conduct Risk includes matters such as how customers are treated and how employees treat each other and work together.

The Bank's culture refers to the shared values, norms, customs, attitudes, and beliefs of the Bank's employees. BACB's culture is rooted in our goals, strategies, structure, and approaches to employee engagement, our 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'

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 annual reporting to the Board.

Risk Mitigation:

- On an annual basis, all staff attest to being aware of, and in compliance with the Bank's code of conduct;
- the Bank's employee performance management system requires that all staff performance reviews include consideration of behaviours and compliance with the Bank's Code of Conduct, which informs in part levels of variable compensation;

- The Chief People Officer carries out a regular risk assessment, which is considered by the Executive Committee and by the, Risk and Conduct Committee of the Board.
- 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 for a variety of non-obligor specific reasons, including political or economic changes in their country of risk or other actions by a government that may prevent the conversion of local currency and/or the transfer of funds outside that country.

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 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 Risk and Conduct Committee 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 distribution via sale of back-to-back commitments from financial institutions including banks or insurance companies of acceptable quality, or security;
- Liquidity buffers are only used to purchase fixed and floating securities issued by of OECD governments and multilateral development bank 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.

Whilst Covid-19 had limited direct impact on the Bank, in response to the uncertainty and economic disruption caused by the pandemic the Bank managed its risk appetite through the following actions.

- In its Trade Finance business by reducing obligor and country limits and the tenor of transactions, focussing on trading in strategic goods; and
- In its Real Estate business reducing its risk appetite across all sectors including margins of advance and loan amount, with no new business written in some sectors.

Credit risk quantitative disclosures

Credit risk is assessed below using various analyses of the following balances disclosed in this document:

Table 1: BACB's credit risk exposures (pre-Credit Risk Mitigation) under the standardised approach for each of the risk exposure classes at 31 December 2021 as reported in the regulatory returns summarised by region of origin of the borrower

31 December 2021	United Kingdom £'000s	Europe excluding UK £'000s	Middle East and Africa £'000s	Other Incl. Intl. Orgs. £'000s	Total £'000s	Average exposure in 2021 £'000
Central Governments/Central Banks	44,999	39,142	11,428	369,320	464,890	254,951
Public Sector Entities	0	52,604	0	0	52,604	32,686
Regional governments/local authorities	0	0	0	0	0	183
Multilateral Development Banks	-	-	-	596,546	596,546	562,655
International organisations	-	-	-	-	-	-
Institutions	34,928	326,387	103,899	298,916	764,130	832,154
Corporates	36,589	10,330	491,868	67,015	605,801	590,072
Financial	-	-	415,603	61,531	477,133	401,615
Non-Financial	36,589	10,330	76,265	5,484	128,668	188,457
Covered bonds	23,625	-	-	17,054	40,679	40,707
Secured by mortgages on immovable property	230,638	42,286	1,954	129,346	404,224	411,955
Exposures in default	133	845	1,612	2,499	5,089	5,162
Equity exposures	-	-	2,849	-	2,849	2,587
Items associated with particularly high risk	7,182	-	3,326	3,720	14,228	18,953
Other items	22,273	-		-	22,273	31,475
Total on and off-balance-sheet exposures	400,368	471,593	616,936	1,484,416	2,973,314	2,783,540
31 December 2020 Total	478,410	527,720	466,034	1,220,791	2,692,955	2,977,487

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 2021	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	539,909	752,908	698,284	54,624
Total debt securities	1,441,449	-	-	-
Total loan and debt security exposures	1,981,357	752,908	698,284	54,624
Of which defaulted	2,027	2,499	2,499	-

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 2021	United Kingdom £'000s	Other European Union £'000s	Middle East and Africa £'000s	Other Incl. Intl. Orgs. £'000s	Total £'000s
Central Governments/Central Banks	-	-	159	-	159
Institutions	-	215,519	7,761	-	223,280
Corporates	-	1,481	287,571	-	313,344
Total exposures subject to eligible CRM	-	216,999	295,490	-	536,782
31 December 2020	-	*181,308*	*194,129*	-	*375,437*

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 2021

31 December 2021	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
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000
Central Governments/Central Banks	463,587	2,607	463,587	1,224	11,349	2%
Public Sector Entities	52,604	-	52,604	-	-	0%
Regional governments/local authorities	-	-	-	-	-	0%
Multilateral Development Banks	596,546	-	596,546	-	-	0%
International organisations	-	-	-	-	-	0%
Institutions	520,147	89,875	528,613	24,919	169,912	31%
Corporates	425,733	377,438	351,615	87,755	440,331	100%
Covered bonds	40,679	-	40,679	-	4,068	10%
Secured by mortgages on immovable property	404,224	-	404,224	-	296,135	73%
Exposures in default	4,526	1,126	4,526	563	5,089	100%
Equity exposures	2,849	-	2,849	-	2,849	100%
Items associated with particularly high risk	14,228	-	14,228	-	21,342	150%
Other exposures	22,273	-	87,926	91,789	25,551	14%
Total on and off-balance-sheet exposures	2,547,396	471,046	2,547,396	206,250	976,627	35%
31 December 2020 Total	2,343,781	388,931	2,343,781	165,733	962,280	38%

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 2021 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	453,462	-	-	-	10,125	1,303	464,890
Public Sector Entities	52,604	-	-	-	-	-	52,604
authorities	-	-	-	-	-	-	-
Multilateral development banks	555,979	-	-	-	-	40,568	596,546
International Organisations	-	-	-	-	-	-	-
Institutions	196,263	421,660	106,398	4,555	29,263	5,992	764,130
Corporates	791	18,193	384	24,877	123,476	438,080	605,801
Covered bonds	40,679	-	-	-	-	-	40,679
Secured by mortgages on immovable property	-	-	-	-	-	404,224	404,224
Exposures in default	-	-	-	-	-	5,089	5,089
Equity exposures	-	-	-	-	-	2,849	2,849
Items associated with particularly high risk	-	-	-	-	-	14,228	14,228
Other exposures	-	-	-	-	-	22,273	22,273
Grand Total	1,299,776	439,853	106,782	29,432	162,864	934,607	2,973,314

Credit quality step analysis post CRM

Credit Quality Step	1	2	3	4	5	Unrated	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Central governments/central banks	668,578	-	-	-	10,125	1,224	679,927
Public Sector Entities	52,604	-	-	-	-	-	52,604
authorities	-	-	-	-	-	-	-
Multilateral development banks	555,979	-	-	-	-	40,568	596,546
International Organisations	-	-	-	-	-	-	-
Institutions	196,263	206,544	104,551	5,663	26,354	17,725	557,099
Corporates	32,992	39,450	384	24,877	93,786	248,864	440,354
Covered bonds	40,679	-	-	-	-	-	40,679
Secured by mortgages on immovable property	-	-	-	-	-	404,224	404,224
Exposures in default	-	-	-	-	-	5,089	5,089
Equity exposures	-	-	-	-	-	2,849	2,849
Items associated with particularly high risk	-	-	-	-	-	14,228	14,228
Other exposures	-	-	-	-	-	179,714	179,714
Grand Total	1,547,094	245,994	104,935	30,540	130,266	914,485	2,973,314

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 £7,582,000 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 2021	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	56,935	380,688	1,303	25,964	-	-	464,890
Public Sector Entities	-	-	-	52,604	-	-	52,604
Regional governments/local authorities	-	-	-	-	-	-	0
Multilateral Development Banks	601	10,002	139,794	318,536	127,614	-	596,546
International organisations	-	-	-	-	-	-	0
Institutions	373,225	70,802	61,111	217,494	41,497	-	764,130
Corporates	166,959	168,478	224,673	37,857	7,834	-	605,801
Covered bonds	-	-	10,019	30,660	-	-	40,679
Secured by mortgages on immovable property	2,015	5,090	143,909	253,209	-	-	404,224
Exposures in default	843	-	4,169	77	-	-	5,089
Equity exposures	-	-	-	-	-	2,849	2,849
Items associated with particularly high risk	-	10,792	3,436	-	-	-	14,228
Other items	14,921	-	7	2	-	7,343	22,273
Total	615,498	645,852	588,422	936,404	176,945	10,192	2,973,314
31 December 2020	*434,118*	*588,003*	*637,940*	*974,186*	*48,583*	*10,126*	*2,692,956*

Equity exposure relates to an investment in equity shares as explained in Note 19 of the Annual Report and Financial Statements. Investments in limited partnership investment funds are included as items associated with particularly high risk.

The Bank's exposures in the table above include £1.1bn of HQLA which can be liquidated at any time.

Table 7: Counterparty credit risk

31 December 2021	Gross positive fair values of contracts £'000	Potential credit exposure £'000	Total derivative credit exposure £'000
Foreign Exchange contracts	540	2,665	3,205
Interest rate futures/options	76	565	640
Total	**615**	**3,229**	**3,845**
31 December 2020			
Foreign Exchange contracts	*1,081*	*3,147*	*4,228*
Interest rate futures/options	*-*	*146*	*146*
Total	***1,081***	***3,293***	***4,374***

MARKET RISK

Definition:

Market Risk is the risk that the Bank's capital base or GBP denominated profit and loss decline and remain below acceptable and/or planned levels.

Risk Management:

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

The Chief Risk Officer and their direct report, the Director, Market Risk, are responsible for:

- Development and oversight of the market risk management framework;
- Developing the market risk policy, tools and framework across the business;
- Managing effective market risk assessment strategies and independent challenge of requests from the first line for new, increased or extended limits;
- Oversight of market 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 reporting and performance monitoring.

Market 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 Risk and Conduct Committee at least annually on the Bank's market risk appetite and policy, or approves where within delegated authority, having regard to the Bank's business plans and market risk policy as approved by the Risk and Conduct Committee 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 15% 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 to modify market risk exposures in the light of perceptions about future movements in those markets. In the banking book, derivative contracts are used to hedge market risk exposure 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 traded 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. The Bank also accepts a degree of structural FX risk in its balance sheet as the majority of its risk weighted assets are denominated in US dollars or Euros whilst its share capital is denominated in Sterling, which is its reporting currency. With the exception of 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.

The Bank's overall net open position (on foreign exchange open positions and cash arising on settled trades) at 31 December 2021 (being the Sterling equivalent value of all the currencies where the currency obligations were higher than currency receivables) was £1,304,000 (2020: £1,629,000). Were these currencies to strengthen by 5% against the remaining currencies, then the Bank would lose £65,000 (2020 (loss): £81,000).

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

	2021	*2020*
Maximum	2,966	*5,021*
Minimum	206	*385*
Average	1,090	*1,070*

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 measures 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 (this is a common method of measuring the price sensitivity of a bond by measuring the absolute value of the change in the price of a bond for a one basis point change in yield). Limits are placed on the overall amount of calculated PVBP for the banking book, with separate limits 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 2021, PVBP amounted to £29,654 (2020: £38,319). PVBP (calculated on a daily basis) was as follows:

	2021	*2020*
	£'000	*£'000*
Maximum	40	*54*
Minimum	10	*29*
Average	27	*39*

As at 31 December 2021, PVBP for IRRBB split by currency was as follows:

	2021	*2020*
	£	*£*
EUR	2,563	*5,349*
GBP	8,912	*9,682*
USD	17,850	*22,912*
Other currencies	317	*374*
Other adjustment	12	*2*
Total	**29,654**	*38,319*

Economic Hedges
Derivative contracts are used in the banking books to modify market risk exposures in the light of perceptions about future movements in those markets. Derivative contracts are used to reduce market risk exposure arising from interest rates. Derivatives in respect of the banking book as at 31 December 2021 include interest rate futures whose purpose is to reduce economic exposure to interest rate risk. Futures are used to manage the overall quantum of interest rate risk, with swaps having been used in the past as hedges against specific transactions.

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

Liquidity Risk is the risk that funding is unavailable or is available only on terms which are inconsistent with the strategic goals, regulatory requirements, or reporting obligations of the Bank.

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 (HQLA) that will enable it to meet its obligations as they fall due under both 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 a range of liquidity indicators including: net cash flows over 14 days plus HQLA; the Liquidity Coverage Ratio (LCR); and net cash flows over 91 days plus HQLA. The Bank's risk appetite is to be able to survive a 91-day period assuming no non-contractual rollover of Group funding.

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 2021	(602,453)	43,041	111,840	528,387	109,570	(190,385)
31 December 2020	*(672,836)*	*14,638*	*171,979*	*696,335*	*(31,785)*	*(178,331)*

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 2021	**31 Dec 2021 £'000**	**30 Sep 2021 £'000**	**30 Jun 2021 £'000**	**31 Mar 2021 £'000**
Liquidity Buffer	985,344	995,182	1,110,359	1,248,782
Total net cash outflows	414,539	470,629	519,756	606,737
Liquidity coverage ratio (%)	***276%***	***225%***	***220%***	***210%***
31 December 2020	*215%*	*229%*	*224%*	*227%*

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 is 100%.

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. The Bank's appetite for Operational Risk is MEDIUM-LOW.

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 framework;
- 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 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 and control processes.
Operational risk management is overseen at an executive level by the Non-Financial Risk Committee, which reviews and makes recommendations via the Executive Committee to the 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 Risk and Conduct Committee.

Operational risk losses in the year to 31 December 2021 amounted to £167,000 (2020: £133,000).

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;
- Identifying and testing of key controls
- IT technical standards and change control procedures follow the ITIL standard with a weekly IT Change Board populated by business users;
- Up-to-date IT security controls, software and processes as well as externally driven vulnerability testing;
- Information Security is a regular topic at the Board's Risk and Conduct Committee
- HR policies, processes and controls;
- Project management policies and procedures;
- Implemented an information security management framework consistent based on the NIST recommendation standards
- Operational resilience / business continuity planning including DR failover testing
- Escalation and reporting of operational incidents to ensure that timely actions are taken to resolve the incident address the failure; root cause analysis is performed to mitigate the likelihood of recurrence; and

- insurance policies are in place 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 tolerance for Compliance Risk is LOW.

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; and
- 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:
Day-to-day responsibility for the management of Compliance Risk rests with the Head of Compliance who reports into the General Counsel and Chief Compliance Officer, who 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 Risk and Conduct Committee, to which the Head of Compliance provides periodic reports. At an executive level, Compliance risk, including mitigation controls along with action and remediation plans, is overseen by the Non-Financial Risk 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. The Bank's tolerance for Financial Crime Risk is LOW.

Risk Management:

The Money Laundering Reporting Officer ("MLRO") and Head of Financial Crime, who holds SMF 17 responsibility, reports into the General Counsel and Chief Compliance Officer, who holds SMF 16 responsibility.

The Financial Crime Risk 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 Risk and Conduct Committee, to whom the MLRO provides periodic reports. At an executive level, the risk, including mitigation controls along with action and remediation plans, is overseen by the Non-Financial Risk 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 32 of the 2021 Annual Report and Financial Statements provides details of the agreed settlement with the U.S. Office of Foreign Assets Control in relation to sanctions.

3.7 PRINCIPAL RISK REFRESH

In July 2021, the Executive completed a ground-up review of the risks the Bank faces. The first step in this exercise was to create a taxonomy of over 50 risk types across five overall headings which was shared with the sub-group. During 2022, further work will be carried out to create (i) the KRIs which will underpin each of the Top Risk and (ii) the secondary risks which will sit under each of the Top Risks.

The exercise resulted in the following 11 Top Risks being agreed. These were presented to ExCo for discussion and approval. The risks are listed with the associated risk definition and are not presented in rank order.

- **Product/Transaction Design & Approval ("Credit")** The risk that we fail to understand the markets, products, or counterparties we serve, or that we don't understand emerging portfolio management and control trends.
- **Liquidity/Funding** The risk that group funding is unavailable or is available only on terms which are inconsistent with the strategy, regulatory, or reporting obligations of the Bank.
- **Market/Banking** The risk that the Bank's capital base or GBP denominated P&L decline and remain below acceptable and/or planned levels.
- **Fraud** The risk that we are exposed to actual or potential loss as a result of the behaviours, acts, or omissions of our employees or third parties.
- **Organisational** The risk that the Bank's people, processes, systems, or environment, fail, are deficient, or are projected not to withstand plausible adverse scenarios.
- **Third Party** The risk that critical outsourced services fail to perform as expected as a result of events within those relationships, or that third parties elect not to deal with the bank.
- **Cyber** The risk that we are attacked and/or held to ransom and are unable to provide adequate services or are unaware that our core processes have been compromised.
- **Stakeholder** The risk that key stakeholders become unwilling or unable to provide their ongoing consent or support to the bank's current and proposed operations.
- **Business Model** The risk that available returns decline and/or the costs of safely delivering those returns increase to the point medium-term earnings do not sustain the business.
- **Financial Crime** The risk that we inadvertently or knowingly facilitate any form of Money Laundering, Tax Evasion, Sanctions Evasion, or Bribery & Corruption.
- **Geo-Politics** The risk that countries we do business with are subject to additional or more severe sanctions, or are considered unethical by key stakeholder groups.

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 2021, BACB had a **Tier 1 Capital Ratio of 18.4%** and a **Total Capital Adequacy ratio of 24.9%.**

4.1 TOTAL AVAILABLE CAPITAL

Table 10: The Bank's regulatory capital base and capital adequacy ratios at 31 December 2021

	2021 £'000s	***2020 £'000s***
Common Equity Tier 1 Capital		
Ordinary share capital	104,357	*104,357*
Retained earnings	99,405	*83,753*
Fair value reserve	2,420	*4,993*
Other reserves	4,104	*4,104*
Adjustments to Common Equity Tier 1:		
Less Intangible Assets	(7,582)	*(8,980)*
Less: Adjustments as required by regulations	(6,330)	*(2,325)*
Add: IFRS9 transition adjustment	3,500	*6,139*
Total Common Equity Tier 1 Capital	**199,874**	***192,041***
Tier 2 Capital		
Term issued subordinated debt	70,256	*71,785*
Total Tier 2 Capital	**70,256**	***71,785***
Total Own Funds	**270,130**	***263,826***
Risk Weighted Assets	**1,085,220**	***1,101,165***
Common Equity Tier 1 Ratio	18.4%	*17.4%*
Capital Adequacy Ratio	24.9%	*24.0%*

Subordinated debt included in Tier 2 capital excludes accrued interest. The figure quoted on the Statement of Financial Position in the 2021 Annual Report and Financial Statements includes accrued interest. Retained Earnings above include retained profits for the year of 2021.

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 2027, 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

	2021 £'000s	*2020 £'000s*
Equity per Annual Financial Statements	210,286	*197,207*
Regulatory deductions from Equity:		
Transitional adjustment for IFRS9	3,500	*6,139*
Intangible assets	(7,582)	*(8,980)*
Deferred tax asset	(265)	*(400)*
Net pension asset, net of deferred tax	(4,608)	*(612)*
PVA deduction	(1,457)	*(1,313)*
Common Equity Tier 1 Capital	**199,874**	***192,041***

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 2021, 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 2022.

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 and the Board, through the relevant committees. 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).

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

	2021 Risk Weighted Assets ("RWAs") £'000	2021 Capital Requirement £'000	*2020* *Capital Requirement* *£'000*
Credit and Counterparty Credit Risk			
Central governments/central banks	11,349	908	*1,612*
Regional governments/local authorities	-	-	*12*
Institutions	170,626	13,650	*14,071*
Corporates	441,128	35,290	*31,177*
Covered bonds	4,068	325	*325*
Secured by mortgages on immovable property	296,135	23,691	*23,964*
Exposures in default	5,089	407	*1,032*
Equity exposures	2,849	228	*209*
Items associated with particularly high risk	21,342	1,707	*2,475*
Other items	25,551	2,044	*2,236*
	978,138	**78,251**	***77,114***
Market Risk			
Interest Rate PRR	10,043	803	*1,698*
Foreign Exchange PRR	3,507	281	*664*
Operational Risk Basic Indicator Approach	93,056	7,444	*8,573*
Credit Valuation Adjustment	476	38	*44*
Total Pillar 1	**1,085,220**	**86,818**	***88,093***
Own Funds		**270,130**	***263,826***
Excess of capital in place over minimum requirement under Pillar 1		**183,312**	***175,733***

Total Pillar 1 capital requirements shown above are the amounts reported in the regulatory returns as at 31 December 2021.

The Bank has a capital requirement of £116,043 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 at 31 December 2021 was 0%. The Bank only had relevant exposure to counterparties in states which have implemented Countercyclical Capital Buffers in respect of Luxembourg.

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 2021

Country	General credit exposure value for SA £'000	Trading book exposure for SA £'000	Own funds requirement: General credit exposure £'000	Own funds requirement: Trading book exposure £'000	Own funds requirement: Total	Own funds requirement weights %	Countercyclical capital buffer rate %
Countries with an existing countercyclical capital buffer rate							
Luxembourg	17,175	-	1,374	-	1,374	2.14%	0.50%
Countries with own funds requirements weight of 1% or above							
United Kingdom	320,441	-	20,135	-	20,135	31.34%	0.00%
Nigeria	72,479	4,634	8,261	556	8,817	13.72%	0.00%
Virgin Islands, British	136,943	-	6,759	-	6,759	10.52%	0.00%
Mauritania	85,282	-	4,915	-	4,915	7.65%	0.00%
Bangladesh	58,997	-	3,919	-	3,919	6.10%	0.00%
Egypt	91,171	-	3,231	-	3,231	5.03%	0.00%
United Arab Emirates	23,971	-	1,572	-	1,572	2.45%	0.00%
Sudan	17,680	-	1,414	-	1,414	2.20%	0.00%
Bahrain	15,597	-	1,279	-	1,279	1.99%	0.00%
Jersey	15,278	-	1,222	-	1,222	1.90%	0.00%
Morocco	12,885	-	1,031	-	1,031	1.60%	0.00%
Tanzania, United Republic of	11,814	-	945	-	945	1.47%	0.00%
Burkina Faso	11,128	-	810	-	810	1.26%	0.00%
Chad	9,422	-	754	-	754	1.17%	0.00%
Switzerland	9,393	-	751	-	751	1.17%	0.00%
Rest of the world, less than 1% own funds requirements weight							
Total	177,481	-	5,321	-	5,321	8.28%	0.00%
Grand Total	**1,087,138**	**4,634**	**63,693**	**556**	**64,249**	**100.00%**	

Amount of institution-specific countercyclical capital buffer

Total risk exposure amount	803,114
Institution specific countercyclical buffer rate	0.01%
Institution specific countercyclical buffer requirement	116

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 2021.

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 2021 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 19 'Financial investments' of the 2021 Annual Report and Financial Statements.

Total unrealised profit net of deferred tax on equity investments as at 31 December 2021 was £1.1m.

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 2021 Annual Report and Financial Statements. A summary of the main provisions of the policy is set out below.

The Bank recognises impairment allowances for expected credit losses (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 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.

The Bank uses three criteria for determining whether there has been a significant increase in credit risk:

- a quantitative test based on movement in probability of default;
- qualitative indicators; and
- a backstop of 30 days past due.

The Bank allocates each exposure to a credit risk grade based on a variety of data that is determined to be predicative of the probability of default. To ensure that credit grades are at all times a reasonable representation of the probability of default of each exposure each credit grade is reviewed at least annually or when new information is received.

In the normal course of business, days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. In 2020, for exposures subject to moratoria due to the Covid-19 pandemic the Bank followed guidance issued by regulators and did not automatically classify these moratoria as stage 2 nor considered them forbearance measures. In view of the Bank's portfolio and size expert judgment was applied on each client that requested a payment holiday and the implications on the client's long term credit worthiness was assessed. If other indicators (excluding the deferral request) of significant increase in credit risk were present and / or there was evidence that the client was facing long-term financial difficulties over the life of the exposure the ECL on such exposure was measured on a lifetime basis. During 2021 following the removal of the Covid-19 restrictions the business-as-usual process for determining business days past due was re-established for all exposures.

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 for a consecutive period of 12 months.

Where significant increase in credit risk was determined, using quantitative measures the instruments will automatically transfer back where the residual lifetime probability of default reverts to at least residual lifetime PD which is not significantly different from the origination PD for the same time period. Where the significant increase in credit risk was determined due to qualitative factors, the issues that led to the reclassification must be cured before the instruments can be reclassified in such instances management must determine that the cure is non-temporary through its review of the client's circumstances before the exposure is reclassified.

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;

- Debt investment securities which have credit risk rating equivalent to the globally understood definition of "investment grade" are considered to have low credit risk and are measured at 12-month ECL. The Bank does not apply the low credit risk exemption to any other financial instrument;

- Financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of all 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 country risk analysis and 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 by rating agencies, economic forecast and information providers and the financial press. 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, which is typically less than 12 months apart from the Bank's Real Estate portfolio. 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 sector.

The probability weightings are determined by management using where available external, independent forecasts and information. Under normal economic circumstances, it is expected that the 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.

The probability weighting of each scenario is based on the geographical area of the underlying exposure and, depending on the specific geography of the exposure, falls within the following ranges for each of the scenarios (excluding Libya, which is discussed separately below):

	2021			*2020*		
Scenario Probability Weighting	Optimistic	BAU	Downturn	*Optimistic*	*BAU*	*Downturn*
	10-20%	50-65%	15-40%	10-20%	50-60%	20-40%

Given the importance of the Libyan market for the Bank's business and due to the different political uncertainties facing the Libyan market the probability weightings have been considered separately, the BAU scenario is 50%, the downturn scenario is 40% and optimistic scenario 10% (2020: optimistic and downturn each 30%, BAU 40%). The weightings applied represent management's best estimate taking into account a range of factors and reflect the recent developments in Libya, giving scope for upside albeit still exposed to downside risk following the postponement of the Presential elections in December 2021.

During 2021, we adjusted the scenarios for a number of current economic impacts. These included: Covid-19, political and economic developments in North Africa, the Middle East and Turkey; and potential conflicts between the United States and its trade partners. Although the potential impact of the Russian-Ukrainian conflict was considered by management as part of the going concern assessment, the event was deemed as a 2022 event in terms of the IFRS 9 scenario weightings.

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. Note 13 shows sensitivity of the ECL provision to possible alternative economic scenarios and different assumptions.

Post model adjustments

The Covid-19 crisis has resulted in the unprecedented movement in economic and market drivers, changes in business behaviours and a dramatic increase in government support programmes for businesses and consumers. All these factors dramatically impact the performance of financial models including ECL models. This has required the use of compensating controls such as overlays and overrides on top of model compensating controls such as overlays and overrides on top of model outputs would ensure the ECL charge is true and fair. During 2020, management applied judgement to reflect the higher probability of default in respect of performing exposures and it was deemed appropriate to apply a higher sectorial probability of default as a management overlay since the circumstances relating to Covid-19 were difficult to predict. The Bank also applied additional haircuts to arrive at the estimated recovery amount of exposures which have property held as collateral.

During 2021 management continued to review the performance of the Bank's exposures and its ECL models and determined that substantially modelling uncertainty resulting from the Covid-19 pandemic had been captured in the Bank's ECL model. As a result, the overlay was removed. The property valuation stress test also demonstrated that the additional haircuts to applied to the value of property held as collateral were no longer required. However, the Bank retained an overlay to reflect the relatively higher risk sectors within Real Estate, where the Bank holds external valuations predating the start of the Covid-19 pandemic. At the reporting date, the asset quality of such exposures remains sound and there is no evidence of significant increase in the credit risk of these exposures.

The Bank's Credit Risk Oversight Committee oversees and reviews management's assessment regarding the origination, measurement, and release of the ECL overlay.

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 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 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 exposure is 90 days past due;
- 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: as a provision within “other liabilities, accruals and deferred income”;
- 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 comprehensive income.

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. as part of its banking and trade services business 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.

With respect to real estate loans, in accordance with statutory Covid-19 guidance, the Bank has designed and implemented a Covid-19 forbearance policy.

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 2021

The impairment provision for loans at 31 December 2021 was £14,322,000 (2020: £60,845,000) and for off-balance sheet positions was £2,930,000 (2020: £4,479,000), details are provided in Note 13 of the 2021 Annual Report and Financial Statements. The 2021 impairment provision included in the credit risk exposure calculations comprise 2021: £8,171,000 (2020: £52,114,000) relating to credit impaired loans and £2,455,000 (2020: 3,787,000) relating to credit impaired off-balance sheet positions. The impairment provision for loans which were not credit impaired was £6,151,000 (2020: £8,731,000) and for off-balance-sheet positions which were not credit impaired was £475,000 (2020: 692,000). The year-on-year movements in impairment provisions are shown in Note 13 of the 2021 Annual Report and Financial Statements.

At 31 December 2021, 8 facilities comprising amounts due to the Bank of £14,120,000 were determined to be impaired (2020: 13 facilities comprising amounts due to the Bank of £63,970,000 due to the Bank). Collateral was held by the Bank in respect of five (2020: five) of these facilities, details are provided in Note 13 of the 2021 Annual Report and Financial Statements.

At 31 December 2021 exposures to unimpaired past due loans was £5,824,213 (31 December 2020: £nil).

The contractual amount outstanding on financial assets that were written off during the reporting period and are still subject to enforcement activity was £5,644,000 (2020: £7,396,000).

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 2021	Gross exposure £'000	Specific Impairments £'000	Net exposure £'000
Corporates:	11,038	(8,171)	2,867
Financial	0	0	0
Non-Financial	11,038	(8,171)	2,867
Total	*11,038*	*(8,171)*	*2,867*

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

31 December 2021	Gross exposure £'000	Specific Impairments £'000	Net exposure £'000
Europe excluding UK	840	(356)	484
Other Middle East and Africa	7,244	(7,244)	0
Other Countries	2,954	(571)	2,383
Total	*11,038*	*(8,171)*	*2,867*

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. The impairments and net exposures do not take account of the scaling factor arising from the IFRS9 transitional arrangements.

Table 16: Credit quality of exposures by exposure class

31 December 2021	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	-	466,284	(91)	466,193	-
Public Sector Entities	-	52,604	-	52,604	-
Multilateral Development Banks	-	596,546	-	596,546	-
Institutions	1,386	826,588	(1,450)	826,524	-
Corporates	9,779	807,400	(10,918)	806,261	11,743
Covered bonds	-	40,679	-	40,679	-
Secured by mortgages on immovable property	2,954	405,039	(1,270)	406,723	-
Equity exposures	-	2,849	-	2,849	-
Items associated with particularly high risk	-	14,233	(5)	14,228	-
Other items	-	22,273	-	22,273	-
Total	14,120	3,234,495	(13,735)	3,234,880	11,743
31 December 2020 Total	*64,610*	*2,910,723*	*(59,181)*	*2,916,153*	*8,145*

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 during 2021

	Encumbered assets	Unencumbered assets	Fair value of unencumbered assets
31 December 2021	**£'000**	**£'000**	**£'000**
Loans on demand		101,525	
Equity instruments		6,128	6,128
Debt securities		1,204,715	1,204,715
of which: covered bonds		40,710	40,710
of which: issued by general governments		247,248	247,248
of which: issued by financial corporations		950,456	950,456
of which: issued by non-financial corporations		6,638	6,638
Loans and advances other than loans on demand	3,101	1,176,915	
of which: mortgage loans		427,833	
Other assets		34,968	
Total Assets	**3,101**	**2,664,411**	

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

	Collateral received and own assets which are encumbered	Collateral received which is unencumbered	Collateral received which is not available for encumbrance
31 December 2021	**£'000**	**£'000**	**£'000**
Collateral received by the reporting institution		486,544	844,134
Debt securities		193,280	
of which: issued by general governments		193,280	
Other collateral received		290,912	844,134
Own assets which are encumbered	3,101		
Total	**3,101**	**486,544**	**844,134**

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 £3,101,000 in 2021.

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

Sources of Encumbrance

31 December 2021	Matching liabilities £'000	Encumbered Assets £'000
Carrying amount of selected financial liabilities		
Derivatives	250	244
of which: Over-The-Counter	250	244
No liability	-	2,732
Total sources of encumbrance	**250**	**3,101**

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. Due to its size, BACB is not subject to a formal minimum leverage requirement.

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

	2021 £'000	*2020* *£'000*
Total assets as per Financial statements	2,782,543	*2,542,898*
Adjustments for derivative financial instruments	3,229	*3,293*
Adjustments for off balance sheet items	207,374	*167,665*
Other adjustments	(11,171)	*(5,929)*
Leverage ratio total exposure measure	2,981,975	*2,707,927*

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

	2021 £'000	*2020* *£'000*
On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	2,568,139	*2,367,114*
Asset amounts deducted in determining Tier 1 capital	(13,912)	*(10,293)*
Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)	2,554,227	*2,356,821*

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

Table 22: Derivative exposures

	2021 £'000	*2020* *£'000*
Replacement cost associated with all derivatives transactions	615	*1,081*
Add-on amounts for Potential Future Exposures ("PFE") associated with all derivative transactions	3,229	*3,293*
Total derivative exposures	3,845	*4,374*

Table 23: Securities financing transactions ("SFT") Exposures

	2021 £'000	2020 £'000
Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	215,823	*179,067*
Counterparty credit risk exposure for SFT assets	707	*0*
Total securities financing transaction exposures	216,530	*179,067*

Table 24: Other off-balance-sheet exposures

	2021 £'000	2020 £'000
Off balance sheet exposure at gross notional amount	473,371	*392,983*
Adjustments for conversion to credit equivalent amounts	(265,997)	*(225,318)*
Other off-balance sheet exposures	207,374	*167,665*

Table 25: Capital and total exposure measure

	2021 £'000	2020 £'000
Tier 1 capital	199,874	*192,041*
Leverage ratio total exposure measure	2,981,975	*2,707,927*
Leverage ratio	6.70%	*7.09%*

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 acknowledges the 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 193 members of staff at 31 December 2021 (2020: 213 staff). The total staff costs of the Bank (as disclosed in the Note 12 of the 2021 Annual Report and Financial Statements) were as follows:

Table 26: Staff costs of the Bank

	2021 £'000	***2020 £'000***
Staff costs:		
Salaries and other emoluments	17,308	*18,208*
Social security costs	2,355	*2,149*
Other pension costs:		
-Pension Running costs for both schemes	252	*359*
- Defined contribution scheme	1,799	*1,848*
Total fixed staff employment costs	**21,714**	***22,564***
Variable staff costs: performance awards	1,077	*-*
Total staff employment costs	**22,791**	***22,564***
Reorganisation costs (excluding pension augmentations)	792	*994*
Other employment related costs	1,401	*1,921*
Total staff costs	**24,984**	***25,479***
Of which: Material Risk Takers/Core Staff	**3,942**	***4,405***

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. As at 31 December 2021, the Committee was composed of the Chairman and three 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 decisions with regard to remuneration; this input takes place via (a) an annual report from the Chief Risk Officer to the Risk and Conduct Committee ("RCC") with regard to risk, capital, liquidity and timing of earnings and b) an annual report from the CRO to the NRC with regard to concerns or issues related to risk behaviours and conduct of specific individuals. Consideration of these two reports ensures that staff costs are appropriate taking into consideration the Bank's current and prospective capital adequacy and the Bank's remuneration policies do not give rise to conduct risks in the execution of the Bank's strategy.

Variable remuneration

The Bank has in place a discretionary variable pay award scheme for the benefit of its employees, which classify as ‘variable remuneration’ as defined in the Code. On the basis of adequate profitability being achieved for the period, the NRC considers and makes recommendations to the Board on a variable pay pool.

The overall quantum and allocation of variable pay are based on a combination of:

- The Bank’s profitability against the business plan for the period;
- An individual’s performance and contribution to the Bank (derived from their performance rating, on a five point assessment scale); and
- An individual’s behaviours (as assessed against the Bank’s Values and Behaviours).

The Bank is reviewing its arrangements for variable pay, with the aim of putting in place a more formulaic approach to determining a variable pay pool that rewards, motivates and retains staff for financial and non-financial performance.

As part of the 2021 review of discretionary variable pay awards, a) the RCC considered a report from the CRO with regard to risk, capital, liquidity and timing of earnings and b) the NRC considered a report from the CRO which considered individual risk behaviours and conduct.

The NRC’s remit over remuneration matters encompasses Executive Directors, Executive Committee members and Material Risk Takers. Variable pay awards are normally payable in the April following the year to which the award relates. A deferral system is in place for variable pay awards above £50,000; amounts deferred are paid in three equal instalments over a 3-year period.

Material risk takers (“MRTs”)

BACB has identified MRTs as individuals who can, by their professional activities, create material risks for the Bank. BACB has identified MRTs with reference to applicable sources including: (a) The Senior Managers and Certification Regime and (b) the qualitative and quantitative assessment criteria as set out in regulatory technical standard (“RTS”) published by the European Union.

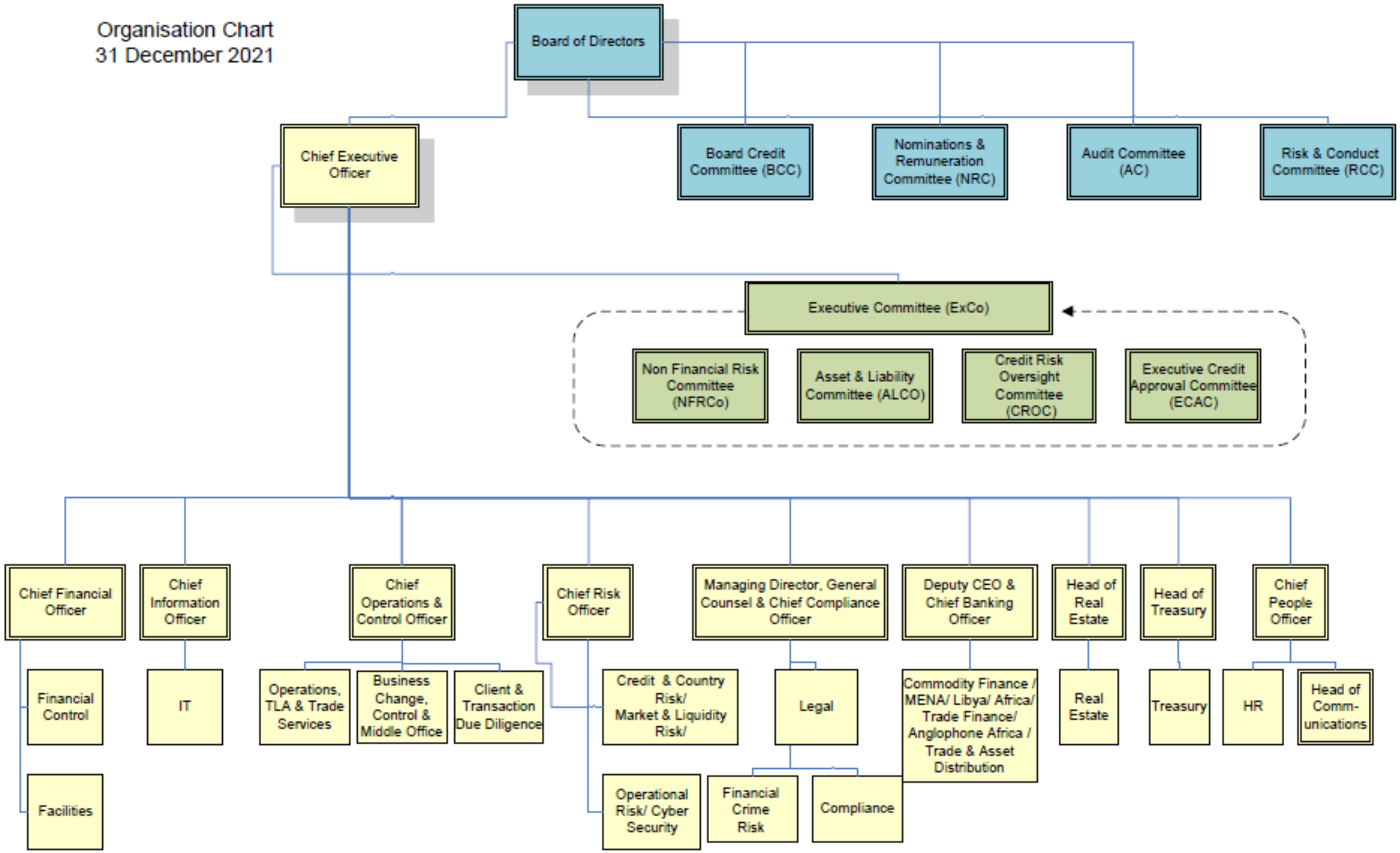
This process includes a management assessment of the potentially in-scope population prior to confirming the MRT population.

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

As at 31 December 2021, 23 members of staff were identified as MRTs (2020: 20 staff).

During the year ended 31 December 2021, fixed remuneration for MRTs was £3,671,200 (2020: £4,404,667) and variable remuneration was £270,885 (2020: £nil), of this variable remuneration £nil (2020: £nil) was deferred. The Bank applies an exemption in the Remuneration Code disclosures on the basis of confidential information; Material Risk Taker remuneration by business area is not disclosed as to do so would result in the identification of individuals’ remuneration.

APPENDIX I: ORGANISATION CHART AT 31 DECEMBER 2021



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.

Principal Risk(s)	Exec Lead/Forum	Metric	Comment	Status/ Measure @ 31 December 2021
Reputational	CEO/ExCo		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.	
Culture & Conduct	CEO/ExCo		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.	
Capital & Leverage	CRO/ALCO	Total Capital Ratio	The Bank targets a minimum buffer above its total capital requirement, including buffers, and a leverage cap based on the regulatory minimum leverage ratio. It has operated within its minimum capital and leverage requirements throughout the year. Our medium term business plans evidence that we will continue to operate within our total capital requirement for the foreseeable future.	24.9%
Liquidity	CRO/ALCO	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.	Compliant
Credit & Country	CRO/CROC	Non-performing loans / Loans and advances	The Bank's focus means that outside the UK Real Estate portfolio, 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 responded to the challenges posed by Covid-19 by actively managing its risk limits and business development approach across its business lines during 2020 and 2021.	1%
Market	CRO/ALCO	Stop loss 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.	Compliant
		PVBP limits	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.	Compliant
Operational	CRO/NFRC		The Bank has an Operational Risk framework which now incorporates Operational Resilience components. The Operational Risk framework assists 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 Risk and Control Self Assessments conducted on a semi-annual basis; regular meetings with the Control team for which control metrics are being opined on. Operational risk incidents are being reported through the GRC (Xactium) and mitigating actions are being instituted to ensure that such errors do not recur. Summary of RCSAs and incidents are being reported regularly to relevant committees (NFRCO, EXCO and the Board Risk and Conduct Committee).	
Compliance	GC&CCO/NFRC		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.	
Financial Crime	GC&CCO/NFRC		The Bank recognises Financial Crime as a key risk, and has established a dedicated Financial Crime Risk (FCR) 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 FCR 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 reporting is provided to the appropriate Executive forum and the Board Risk and Conduct Committee.	

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	7,582	
of which: deduction from common equity tier 1 capital		7,582
Total Assets	2,782,543	7,582
Liabilities		
Subordinated loan capital	70,514	
of which: accrued interest	258	
of which: Tier 2 capital	70,256	70,256
Total liabilities	2,572,257	70,256
Equity		
Called up share capital	104,357	104,357
Retained earnings	99,405	99,405
Fair value reserve	2,420	2,420
Other reserves	4,104	4,104
Total equity	210,286	210,286
Total liabilities and equity	2,782,543	280,542

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)	£30.4m $115.5m (representing GBP74.0m)		$56.2m €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	Ordinary shares of £1 each, paid up capital: £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 Ordinary shares of $1 each, paid up capital: $93m 31 Mar 1988 ($12m) 20 May 1993 ($4m) 17 Jun 2008 $38.3m 17 Jun 2015 $0.264m 31 Dec 2018 Ordinary shares of $0.15 each, paid up capital: $80m 15 May 1990 ($80m) 20 May 1993		**USD subordinated debt** $56.2m 29 Oct 2010 **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, extended to 27 Oct 2027 $24.7m 29 Apr 2023, extended to 29 Apr 2027 €34.2m 17 Jun 2025, extended to 17 Jun 2027
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 ([1])		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		2021 £'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)	99,405
3	Accumulated other comprehensive income (and any other reserves)	6,524
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**	**210,286**
Common Equity Tier 1 (CET1) capital: regulatory adjustments		
7	Additional value adjustments (negative amount)	(1,457)
8	Intangible assets (net of related tax liability) (negative amount)	(7,582)
9	Add back to CET1 capital under IFRS 9 transitional arrangements	3,500
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)	(265)
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)	(4,608)
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)**	**(10,412)**
29	**Common Equity Tier 1 (CET1) capital**	**199,874**

Common Equity Tier 1 capital: instruments and reserves		2021 £'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	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)**	**199,874**
Tier 2 (T2) capital: instruments and provisions		
46	Capital instruments and the related share premium accounts	70,256
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**	**70,256**
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**	**70,256**
59	**Total capital (TC = T1 + T2)**	**270,130**

Common Equity Tier 1 capital: instruments and reserves		2021 £'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)	1,085,220
	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**	**1,085,220**
Capital ratios and buffers		
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	**18.4%**
62	Tier 1 (as a percentage of total risk exposure amount)	**18.4%**
63	Total capital (as a percentage of total risk exposure amount)	**24.9%**
64	Institution specific buffer requirement	**2.51%**
65	of which: capital conservation buffer requirement	**2.50%**
66	of which: countercyclical buffer requirement	**0.01%**
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)	**12.0%**
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	2,849
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)	1,109
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	**2021 £'000**
1	Common Equity Tier 1 (CET1) capital	199,874
2	Common Equity Tier 1 (CET1) capital as if IFRS 9 or analogous ECLs transitional arrangements had not been	196,374
3	Tier 1 capital	199,874
4	Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	196,374
5	Total capital	270,130
6	Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	266,630
	Risk-weighted assets	
7	Total risk-weighted assets	1,085,220
8	Total risk-weighted assets as if IFRS 9 transitional arrangements had not been applied	1,083,661
	Capital ratios	
9	Common Equity Tier 1	18.4%
10	Common Equity Tier 1 as if IFRS 9 transitional arrangements had not been applied	18.1%
11	Tier 1	18.4%
12	Tier 1 as if IFRS 9 transitional arrangements had not been applied	18.1%
13	Total capital	24.9%
14	Total capital as if IFRS 9 transitional arrangements had not been applied	24.6%
	Additional CET1 buffer requirements as a percentage of RWA (%)	
	Capital conservation buffer requirement	2.50%
	Countercyclical buffer requirement	0.01%
	Total of bank-specific CET1 buffer requirements	2.51%
	Total capital requirement (%)	11.38%
	CET1 available after meeting the bank's minimum capital requirements	12.0%
	Leverage ratio	
15	Leverage ratio total exposure measure	2,977,633
16	Leverage ratio (%)	6.71%
17	Leverage ratio as if IFRS 9 transitional arrangements had not been applied (%)	6.59%

BACB's Pillar 2A capital requirement was 3.38% of RWAs plus £9.15m, 56.25% of which must be held as CET1 capital.

APPENDIX VII: LIST OF TABLES IN THIS DOCUMENT

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