BACB

year ended 31 December 2022

PILLAR 3 DISCLOSURES

BACB

your banking partner for
SPECIALIST MARKETS

A UK BANK DELIVERING
TRADE FINANCE
& INVESTMENT EXPERTISE

to enable clients,
countries & communities
to prosper

contents

1. OVERVIEW

1.1. INTRODUCTION

Purpose

This document comprises British Arab Commercial Bank plc's ("BACB" or "the Bank") Pillar 3 disclosures as at 31 December 2022. It has two principal purposes:

- To meet the regulatory disclosure requirements set out by Prudential Regulation Authority ("PRA") applicable from 1 January 2022 under the Disclosure (CRR) part of the PRA Rulebook, and the Supervisory Statement on Remuneration (SS2/17), and
- To provide further useful information on the capital and risk profile of BACB.

Additional relevant information may be found in the *Annual Report and Financial Statements 2022*, published on the Bank's corporate website (http://www.bacb.co.uk/).

Financial KPIs

COMMON EQUITY TIER 1 CAPITAL	TOTAL REGULATORY CAPITAL	COMMON EQUITY TIER 1 RATIO	TOTAL CAPITAL RATIO
£198m *2021: £200m*	£268m *2021: £270m*	16.0% *2021: 18.4%*	21.7% *2021: 24.9%*

TOTAL RWAs	LEVERAGE RATIO	AVERAGE LIQUIDITY COVERAGE RATIO	AVERAGE NET STABLE FUNDING RATIO
£1,231m *2021: £1,085m*	5.7% *2021: 6.7%*	254% *2021: 276%*	130%

1.2. BACKGROUND

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 Disclosure (CRR) Part of the PRA Rulebook specifies disclosure requirements. Under these requirements, the Bank meets the definition of a non-listed "Other Institution" and complies with the requirements in accordance with Article 433c of them.

BACB applies the Standardised Approach to credit risk, the Basic Indicator Approach ("BIA") to operational risk and the Original Exposure Method ("OEM") rules for counterparty credit risk. Additionally, there were no specific methodologies granted by PRA.

1.3. DISCLOSURE POLICY: BASIS AND FREQUENCY OF DISCLOSURES

This document represents the Pillar 3 disclosures of BACB for the year ended December 2022 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 2022, 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") in conformity with the requirements of the Companies Act 2006 .

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 PRA rulebook. Also, tables provided in the disclosures below are based on the PRA's disclosures templates and instructions.

b) Frequency: The Bank's policy in line with Article 433c of the Disclosure (CRR) Part of the PRA Rulebook, is to publish the disclosures on an annual basis 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**[1]: 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.

d) **Non-material, proprietary or confidential information**: This document has been prepared to meet the Pillar 3 disclosure requirements set out as per Article 433c of Disclosure (CRR) part of the PRA Rulebook. The Bank does not seek any exemption from disclosure on the basis of materiality, but the Bank has taken advantage of the reduced disclosure under paragraph 5.3 of the Remuneration part of the PRA rulebook.

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 Financial Conduct Authority ("FCA") and the PRA.

BACB trades as a single entity; it has no subsidiaries or associates. As at 31 December 2022 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.

[1] 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.

1.6. KEY METRICS

UK KM1 - Key metrics template

		31/12/2022 £000s	31/12/2021 £000s
	Available own funds (amounts) [1]		
1	Common Equity Tier 1 (CET1) capital	197,516	199,873
2	Tier 1 capital	197,516	199,873
3	Total capital	267,579	270,130
	Risk-weighted exposure amounts [1]		
4	Total risk-weighted exposure amount	1,231,445	1,085,219
	Capital ratios (as a percentage of risk-weighted exposure amount) [1]		
5	Common Equity Tier 1 ratio (%)	16.0%	18.4%
6	Tier 1 ratio (%)	16.0%	18.4%
7	Total capital ratio (%)	21.7%	24.9%
	Additional own funds requirements based on SREP (as a percentage of risk-weighted exposure amount)		
UK 7a	Additional CET1 SREP requirements (%)	1.9%	1.9%
UK 7b	Additional AT1 SREP requirements (%)	0.6%	0.6%
UK 7c	Additional T2 SREP requirements (%)	0.8%	0.8%
UK 7d	Total SREP own funds requirements (%)	11.4%	11.4%
	Combined buffer requirement (as a percentage of risk-weighted exposure amount)		
8	Capital conservation buffer (%)	2.5%	2.5%
9	Institution specific countercyclical capital buffer (%)	0.3%	0.0%
11	Combined buffer requirement (%)	2.8%	2.5%
UK 11a	Overall capital requirements (%)	14.2%	13.9%
12	CET1 available after meeting the total SREP own funds requirements (%)	9.6%	12.0%
	Leverage ratio		
13	Leverage ratio total exposure measure	3,450,485	2,981,975
14	Leverage ratio	5.7%	6.7%
	Liquidity Coverage Ratio [2]		
15	Total high-quality liquid assets (HQLA) (Weighted value -average)	1,301,435	1,012,861
UK 16a	Cash outflows - Total weighted value	918,619	904,235
UK 16b	Cash inflows - Total weighted value	379,546	478,805
16	Total net cash outflows (adjusted value)	539,073	425,620
17	Liquidity coverage ratio (%)	254%	276%
	Net Stable Funding Ratio [2,3]		
18	Total available stable funding	933,833	N/A
19	Total required stable funding	723,950	N/A
20	NSFR ratio (%)	130%	N/A

NOTES:

1. The Bank has adopted the regulatory transitional arrangements for IFRS 9 as set out in Article 473a of the UK CRR. Capital and ratios presented above are under these arrangements.
2. LCR and NSFR ratios presented in this table are based on average values. The LCR is the average value of the preceding 12 months and the NSFR is the average value of 4 preceding quarters.
3. These disclosures are based on the PRA's disclosure templates and instructions which came into force on 1 January 2022. "N/A" in prior periods indicate that the disclosure is new or changed and no comparatives are available.

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 2022 are listed below:

Libyan Foreign Bank	86.92%
Banque Exterieure d'Algerie	6.54%
Banque Centrale Populaire	6.54%

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 matters to be decided by the Board or reserved for approval by the 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 operates under clearly articulated governance principles and risk management objectives. The Executive considers and reports on the principal areas of risk for the Bank and the associated controls framework, including risk appetite parameters.

2.2. THE BOARD OF DIRECTORS ("THE BOARD")

At 31 December 2022, there were nine members of the Board, including eight Non-Executive Directors ("NEDs"). The Board had three independent NEDs, 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, Dr Yousef Al-Awadi KBE;
- Mr Nigel Boothroyd;
- Mr Sundeep Bhandari.

The remaining five NEDs 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 2022.

2.3. BOARD OVERVIEW (AS AT 31 DECEMBER 2022)

The table below summarises the following for each Director: (i) Board Sub-Committee, (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
Dr Yousef Al-Awadi KBE (Chairman) 1	AC / NRC	I-NED	3
Mr Sundeep Bhandari	AC/RCC	I-NED	6
Mr Nigel Boothroyd	RCC / NRC	I-NED	4
Mr Aiman Laswad	RCC/BCC	NED	2
Mr Lazhar Latreche	AC/BCC	NED	6
Mr Edward Norton 6		ED	7
Dr Ahmed Mihoob 2	AC/NRC	NED	4
Mr Faisal Othman	AC/RCC/BCC	NED	6
Mr Mohamed Zine	RCC/BCC	NED	7
Mr Michael Stevenson 3	AC/NRC	I-NED	1
Mr Mohamed Shokri 4	AC/NRC	NED	2
Mr Jehangir Jawanmardi 5	AC/RCC	I-NED	1

Note 1: Dr Al-Awadi was appointed to the Board on 20 May 2022
Note 2: Dr Mihoob was appointed to the Board on 20 May 2022
Note 3: Mr Stevenson resigned from the Board on 20 May 2022
Note 4: Mr Shokri resigned from the Board on 20 May 2022
Note 5: Mr Jawanmardi resigned from the Board on 31 July 2022
Note 6: Mr Edward Norton resigned from the Board on 11 April 2023
Note 7: Mr. Paul Jennings was appointed to the Board on 11 April 2023
Note 8: Ms Maura Sullivan was appointed to the Board on 6 April 2023

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.

An independent third party was commissioned by the Board to review the Board's effectiveness in 2021. While there were no material deficiencies identified the Board took the opportunity to implement initiatives to improve its effectiveness in certain areas and to move closer to best-in-class benchmarks. This work has seen improvement over the course of 2022 and will be ongoing in 2023.

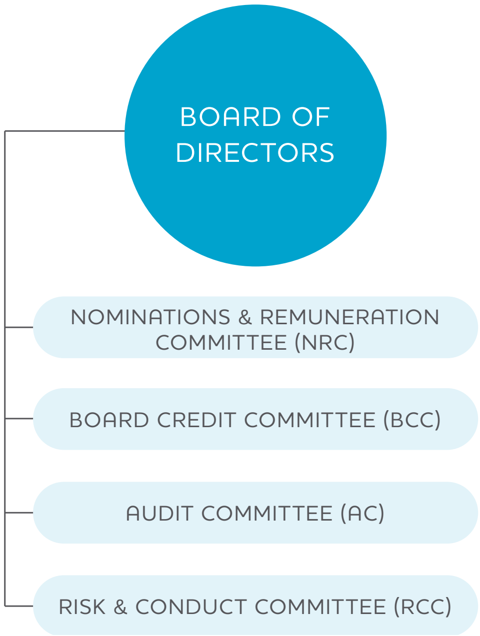
2.5. BOARD DIVERSITY POLICY

The Bank benefits from the 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. BOARD SUB-COMMITTEES

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



Further information on Governance framework is set out in *Annual Report and Financial Statements 2022*.

3. RISK MANAGEMENT OBJECTIVES AND POLICIES

3.1. GOVERNANCE PRINCIPLES

BACB defines a **risk** as the combination of the probability of an event and its consequence. Consequences can range from positive to negative.

Risk management enables the Bank to capitalise on opportunities and achieve its strategy through serving customers and growing the business in line with risk appetite, maintaining the balance between risk and opportunity.

The CEO implemented a **transitional strategy** with four core pillars to stabilise and refocus the Bank:

- Safe, sustainable growth
- De-risking the legacy
- Improving efficiency and resilience
- Culture and conduct

While simultaneously strengthening our risk appetite framework.

BACB's Risk Management framework is in the process of being refreshed. The Board approved the initial stages of this in September 2022, with a revised Risk Taxonomy (Primary and Secondary risk categories), Risk Appetite Statement, and refresh of Principal Risks (BACB's "Top Individual Risks").

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, evidencing risk informed decision making.

3.3. APPROACH TO RISK MANAGEMENT

BACB takes a holistic approach to risk management and is in the process of enhancing its risk management processes to ensure the range of risks the Bank is exposed to are well articulated and evidenced, to support risk informed decision making and areas of Executive and Board focus.

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

The CRO is responsible for implementing and overseeing the firm's Risk Management Framework. Individual areas of risk management are assigned to specialist areas and overseen by their respective heads i.e. Regulatory Compliance and Financial Crime.

BACB operates a Three Lines of Defence model as summarised below:

1LoD	2LoD	3LoD
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 second line of defence establishes the policies and tools, as required by the Bank's Risk Management Framework (RMF) , to provide the framework for managing each Primary 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	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;

- 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 CFO (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.

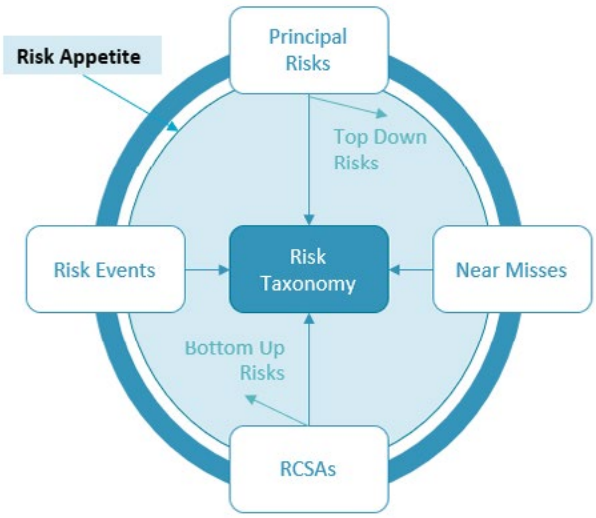
assists risk owners in defining the target risk exposure and reporting adequate risk related information throughout the organisation;

- The Regulatory Compliance Risk Management Function is responsible for effective oversight and challenge of the identified regulatory compliance risks within the Bank;
- The Anti-Financial Crime team headed by the Money Laundering Reporting Officer ("MLRO") oversees the Bank framework for managing financial crime risk.

The CRO is responsible for implementing and overseeing the firm's Risk Management Framework. Individual areas of risk management are assigned to specialist areas and overseen by their respective heads i.e. Regulatory Compliance and Financial Crime.

- 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.

BACB's risk universe comprises the following:



Principal Risks are top-down risks identified by the Executive or Board that individually or in combination can affect the performance, future prospects or reputation of the Bank

Risk and control self-assessments (RCSAs) are built from the bottom up through individual business units identifying risks that they face. These are then collated and analysed for patterns

Risk events are risks that have crystalised, and **Near Misses** are risks that have nearly crystalised. Plans are put into place to address the causes.

The Risk management team is structured to manage the primary risks to BACB, taking a holistic Enterprise Risk approach.

Responsibility will primarily sit within one of the functional areas

This function will co-ordinate or draw on the expertise and experience of the relevant functions within the risk team to support risk informed decision making

Example: ESG
Primary responsibility sits within the Governance function, but will work with Analytics & Modelling team

The Risk Team also works with the Financial Crime & Regulatory Compliance teams in the same way to ensure an enterprise wide approach to risk across the bank

The Bank also has a Chief Compliance Officer who is responsible for Compliance and Regulatory Conduct Risk, he is also the Bank's Money Laundering Reporting Officer with responsibility 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 ("RAS") which has been developed by the Executive Management of BACB and approved by the Board. It articulates on a top-down basis, the risk appetite for each of the Primary Risk Types that the Bank faces, as defined in BACBs Risk Taxonomy ("TAX").

This reflects the amount of risk that the Bank is willing to accept in pursuit its strategic objectives and 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 2022, the Bank is comfortable its risk management arrangements are adequate.

3.5. RISK TAXONOMY AND APPETITE STATEMENT

The Risk Taxonomy is common language which covers the range of risks the Bank may face. By having this comprehensive set of risk categories "Primary Risks" this:

- allows us to recognise patterns and link similar risks;
- supports business function leaders and risk owners in considering the types of risks that could affect the successful delivery of the Bank's objectives;
- provides a structure to manage risks at a business area level and the ability to aggregate those risks at varying management nodes; and

- facilitates trend analysis of risk events and the capture of emerging risks for all reporting levels across the Bank

The Risk Taxonomy has been set at Primary and Secondary level, with Risk Appetite set at Primary risk level. The Primary Risks are aligned to the Bank's strategy and business plan. They are sufficiently broad to enable mapping of business function detailed risks which will continue to evolve over time. BACB has a formally documented Risk Taxonomy, which captures the population of risks implied in pursuing the activities set out in the Bank's business plan. The Risk Taxonomy is approved by the Board on an annual basis. It was last approved in September 2022.

BACB Risk Taxonomy

Primary Risk	Description	Appetite
Economic Risk	relates to the likelihood that macroeconomic conditions (conditions in the whole economy) may affect an investment or the Bank's prospects domestically or abroad.	High
Financial Risk	relates to the organisation's finance and ability to obtain sufficient funding, funds being appropriately used, financial performance being managed according to expectations or results being appropriately disclosed or reported. This includes the firm's ability to comply with its Prudential Regulatory obligations	Medium
Strategy & Planning Risk	relates to high level goals, aligned with and supporting the organisations mission, vision and mandate.	Medium
Governance Risk	relates to organisational decisions or the implementation of these decisions.	Low
Reputational risk	relates to the threat or danger to the good name and / or standing of the business.	Medium
Operational Risk & Resiliency	relates to effective and efficient use of the organisation's resources. Operational risk is the risk of losses caused by flawed or failed processes, policies, systems, people or events that disrupt business operations.	Low
Financial Crime Risk	relates to either a breach of firm's Financial Crime systems and controls (e.g. policies) by insiders or associated persons (third parties), or the Risk that BACB's financial crime systems and controls are deemed to be inadequate by the Regulator, resulting in potential criminal investigation, regulatory sanction and/or reputational risk.	Medium
Regulatory Compliance Risk	relates to a failure to identify and comply with UK regulatory requirements.	Low

Approved in September 2022

The Bank categorises its Risk Appetite in the following way:

	Low Appetite	Medium Appetite	High Appetite
Approach	Avoidance of risk where possible	Willing to accept an expected level of risk to take advantage of an opportunity where appropriate controls can be put in place.	Willingness to accept high levels of risk
In relation to strategic objectives	In exchange for safe delivery options that have a low degree of risk and may only have limited potential for reward	In exchange for a steady stream of low volatility earnings	In exchange for enhanced levels of reward
Residual Risk	Controls are in place with an aim to fully mitigate the level of residual risk	Controls are in place to limit the level of risk, balanced against legal and regulatory considerations, in addition to resources required to deliver the controls	Controls are designed to balance the residual risk against the expected level of reward

It is relevant to draw the distinction between Primary Risks – a categorisation applied to individual risks, and Principal Risks – those "top individual risks" which have been identified as those with the biggest potential to impact BACB's strategic objectives.

3.6. PRINCIPAL RISKS APPROACH TO RISK MANAGEMENT, FINANCIAL RISKS

3.6.1 Credit & Country Risk

Credit risk [Primary Risk Category Financial Risk] is the possibility of a loss resulting from a borrower's failure to repay a loan or meet contractual obligations in a timely manner. This includes long term risks associated with Environmental or Climate Change factors. 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 residential and commercial, real estate.

Country Risk [Primary Risk Category Financial Risk] refers to the uncertainty associated with investing in a particular country, and more specifically the degree to which that uncertainty could lead to economic losses. For the Bank, country risk largely arises as a result of the Bank taking credit risk on borrowers or counterparties outside the UK.

The Bank's risk management of credit and country risk is aligned and largely managed jointly. The Bank's appetite for credit and country risks is set in response to its business plans and overall risk appetite noting that overall Risk Appetite for Financial Risk is medium and for Economic Risk is High, noting the markets in which we operate and the products we provide.

The CRO and their 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 CFO 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 Risk Committee (RiskCo), noting that in 2022 this was the Credit Risk Oversight Committee, which reviews and makes recommendations via the Executive Committee, (Exco), to the Risk and Conduct Committee (RCC) 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 RCC from time to time. Significant credit decisions are escalated to the Board Credit Committee (BCC).

The Bank's strategic focus means that a significant portion of its credit and country risks are towards the higher risk 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 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 where appropriate. Other mitigants include distribution via sale of back-to-back commitments to 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 risk appetite recovered gradually post-pandemic, low-rated emerging markets, which are predominantly the focus of our business strategy, have been disproportionately impacted by the very challenging backdrop of front-loaded tightening by the Fed, fallout from the Russia-Ukraine conflict and longer-term impacts of the pandemic. The Bank continuously re-assessed appetite throughout 2022 and managed its risk exposures through the following actions:

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

3.6.2 Market Risk

Market Risk [Primary Risk Category Financial Risk] is the risk of a decline in the Bank's capital or profitability due to a change in market prices.

Risk Management:

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

The CRO 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 10% of its revenue to be earned from principal position trading exposures to bonds, interest rates or foreign exchange, and profits should be driven where feasible by customer flows. Derivative contracts may be used to modify market risk exposures. In the banking book, derivative contracts are used to hedge market risk exposure arising from banking book positions. The Bank does not deal in complex derivative transactions.

3.6.3 Liquidity Risk

Liquidity Risk [Primary Risk Category Financial 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.

The Bank's liquidity risk management framework 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 and funding indicators including net cash flows over 14 days plus HQLA; the Liquidity Coverage Ratio (LCR); net cash flows over 91 days plus HQLA; and the Net Stable Funding Ratio (NSFR). The Bank's risk appetite is to be able to survive idiosyncratic or market-wide stressed conditions for at least three months, and to comply with all regulatory requirements. 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.

Overall responsibility for funding and liquidity risk lies with the CFO, with day-to-day responsibility delegated to the Treasurer. Treasury operates effective procedures and controls to ensure that the Bank complies with its liquidity metrics, in accordance with risk appetite. In addition, active balance sheet management ensures that the Bank's liability profile is appropriate and adequate funding is available for the Bank's business areas.

Further information on Credit, Market and Liquidity Risks is set out in *Annual Report and Financial Statements 2022*.

3.7. PRINCIPAL RISKS APPROACH TO RISK MANAGEMENT, NON- FINANCIAL RISKS

3.7.1 Operational Risk & Resilience

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

Risk Management:

The Bank's appetite for operational risk is set in response to its business plans and overall risk appetite. The Head of Operational & Enterprise Risk is responsible for:

- Development and oversight of the operational risk management framework;
- Developing operational risk policies, tools and frameworks across the business, including incident reporting, root cause analysis and recording and remedial action tracking;
- Managing effective Risk and Control Self-Assessment (RCSA) processes to identify and evaluate the Bank's exposures;
- Oversight of operational risk management activities undertaken by the first line; and
- Reporting and performance monitoring.

Operational risk management was overseen in 2022 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.

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 important or critical processes and potential points of failure, and ensuring that adequate controls are in place;
- Identifying and testing of key controls;
- Identification, assessment and management of risk and controls under the RCSA;
- Information Security is a regular topic at the Board's Risk and Conduct Committee;
- Self-assessment of the BACB Cyber risk management process against the NIST (National Institute of Standards and Technology) 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, and perform root cause analysis 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.

3.7.2 Reputational Risk

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 recognises that 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 CEO 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.

3.7.3 Financial Crime Risk

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

Risk Management:

The Chief Compliance Officer and MLRO reports to the Chief Executive Officer and 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 terrorist are identified and reported to the relevant authorities;
- Maintaining effective policies, systems and controls to combat and identify financial crime;
- Monitoring to ensure 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, for 2022 was 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 are investigated if triggered;
- 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.

3.7.4 Regulatory Compliance Risk

Compliance Risk is defined as the risk of regulatory enforcement, material financial loss, or loss to reputation that the Bank may suffer as a result of a failure to comply with applicable 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 Regulatory Conduct Risk, Market Abuse and Fair Treatment of Customers.

The Bank's principal sources of Compliance Risk are:

- Enterprise-wide compliance risks including supervision and oversight, regulatory reporting and notifications, material outsourcing and / or failure to adequately implement existing and new regulatory requirements; and
- Business related compliance risks 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 Chief Compliance Officer & MLRO.

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 for 2022 was 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

3.7.5 Strategy and Planning Risk

Strategy and Planning Risk is the failure to align strategy and planning to achieve business objectives.

BACB has historically focussed on the banking and financial services needs of customers located in or trading with Africa, the Middle East and Asia, principally providing trade solutions, alongside treasury and banking services, in addition to UK real estate lending. The Bank has been successful over the course of 2021 in de-risking from higher risk activities and is now able to focus also on revenue generation and the deployment of capital in the core business areas. As a result, there has been a return to revenue growth in 2022 in our key Trade Finance business, reinforced by improved capital management modelling, and supported by strong FX revenues from Treasury and a stable Real Estate business. This will form the basis for controlled but safe levels of growth as the Bank moves forward into 2023. The Bank's 3-year Strategic Plan is formulated on the Bank's risk appetite and aims to deliver a safe level of growth in terms of revenue and quality assets, while extending the Bank's core network with controlled levels of expansion in areas outside of the Bank's four key markets, aimed at reducing concentration risk. Management acknowledges that the delivery of the Strategic Plan depends on successful embedding of changes in process, people and system improvements which commenced during 2022, as well as efficient Risk Appetite management.

Management is also conscious of the economic uncertainty facing global markets in 2023. In these challenging conditions central banks are increasingly focused on controlling inflation with the higher interest rate environment expected to prevail throughout 2023. Geopolitical tensions will remain with the ongoing Russia-Ukraine conflict at the heart of this causing volatility in markets and disrupting supply chains. As a niche provider, with both geographic and product expertise, BACB remains focused on its core markets and continues to carefully monitor economic and political developments which have the potential to impact upon the Bank's strategy. It is the opinion of the management that these challenging market conditions will also create opportunities for those customers and financial institutions that have a long-term commitment to such markets.

Throughout 2022, BACB has experienced stability in its core markets, including shareholder countries. Furthermore, the Bank's ability to structure transactions to mitigate risk in frontier markets gives additional comfort as well as the Bank's strong trade distribution channels which allows BACB to be more relevant to its customers and markets.

Risk Management:

The Bank's principal sources of risk are transversal in nature and can be attributed to:

- Failure to manage change effectively within BACB and
- The failure to identify and react to external changes

Risk Mitigation:

Day-to-day the Bank seeks to mitigate its risks in the following way:

- Principal Risk Identification, assessment, control, and reporting. The Bank's "Top Risks" as identified by the Executive and approved by Board. This process is managed by the operational risk team.
- Central Project Management Office("PMO") assess business projects and where these could impact business strategy these are managed within the PMO Policy.
- Horizon scanning and the identification of emerging risks, which are shared and reported to provide a holistic view of risk across BACB.

3.7.6 Governance Risk

Governance Risk The failure to define an organisational structure that supports the taking and implementation of decisions. The Bank's principal sources of risk are transversal in nature and can be attributed to lack of adequate oversight. Day-to-day, the Bank seeks to mitigate its risks in the following way:

- Committee Structure with clear terms of reference which outline the scope of the committee and the reporting required to support a risk-informed decision making across the bank, and
- Board Training on key and technical areas to ensure that members have the knowledge and skills to provide adequate and independent oversight.

Further information in relation to Non-Financial Risks is set out in *Annual Report and Financial Statements 2022*.

4. CAPITAL ADEQUACY

4.1. OVERVIEW

The responsibility for capital adequacy sits with the CFO. 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 2022, and throughout the reporting period, the Bank's capital in place, "Own Funds", comfortably exceeded its minimum regulatory requirement. During 2022, the Bank has put in strengthened its approach to capital management having established a formal limits framework. In addition, a detailed capital plan is in place to support the banks 3-year strategic plan.

4.2. RISK WEIGHTED ASSETS

UK OV1 – Overview of risk weighted exposure amounts

		Risk weighted exposure amounts (RWEAs) (£000s)		Total own funds requirements (£000s)
		31/12/2022	**31/12/2021**	**31/12/2022**
1	Credit risk (excluding CCR)	1,147,518	976,627	91,801
2	Of which the standardised approach	1,147,518	976,627	91,801
6	Counterparty credit risk - CCR	2,127	1,986	170
UK 8b	Of which credit valuation adjustment - CVA	-	476	-
9	Of which other CCR	2,127	1,510	170
20	Position, foreign exchange and commodities risks (Market risk)	3,163	13,550	253
21	Of which the standardised approach	3,163	13,550	253
23	Operational risk	78,637	93,056	6,291
UK 23a	Of which basic indicator approach	78,637	93,056	6,291
24	Amounts below the thresholds for deduction (subject to 250% risk weight) (For information)	2,681	-	214
29	**Total**	**1,231,445**	**1,085,219**	**98,515**

4.3. OWN FUNDS

Own funds (also referred to as capital resources) are the types and levels 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 the PRA's Rulebook which sets out the characteristics and conditions for own funds.

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

The Bank is required 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.

UK CC1 - Composition of regulatory own funds		31/12/2022 £000s	31/12/2021 £000s	Reference
	Common Equity Tier 1 (CET1) capital: instruments and reserves			
1	Capital instruments and the related share premium accounts	105,592	104,357	a
2	Retained earnings	100,793	99,252	b
3	Accumulated other comprehensive income (and other reserves)	881	6,677	b
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**207,266**	**210,286**	
	Common Equity Tier 1 (CET1) capital: regulatory adjustments			
7	Additional value adjustments (negative amount)	-1,697	-1,458	
8	Intangible assets (net of related tax liability) (negative amount)	-6,222	-7,582	c
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) CRR are met) (negative amount)	-2,163	-436	d
15	Defined-benefit pension fund assets (negative amount)	-2,219	-4,437	e
27a	Other regulatory adjustments to CET1 capital *(including IFRS 9 transitional adjustments when relevant)*	2,551	3,501	
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	-9,750	-10,412	
29	**Common Equity Tier 1 (CET1) capital**	**197,516**	**199,874**	
	Additional Tier 1 (AT1) capital: instruments			
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**	**0**	**0**	
	Additional Tier 1 (AT1) capital: regulatory adjustments			
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	0	0	
44	**Additional Tier 1 (AT1) capital**	0	0	
45	**Tier 1 capital (T1 = CET1 + AT1)**	**197,516**	**199,874**	
	Tier 2 (T2) capital: instruments			
46	Capital instruments and the related share premium accounts	70,063	70,256	f
51	**Tier 2 (T2) capital before regulatory adjustments**	**70,063**	**70,256**	
	Tier 2 (T2) capital: regulatory adjustments			
57	**Total regulatory adjustments to Tier 2 (T2) capital**	**0**	**0**	
58	**Tier 2 (T2) capital**	**70,063**	**70,256**	
59	**Total capital (TC = T1 + T2)**	**267,579**	**270,130**	
60	**Total Risk exposure amount**	**1,231,445**	**1,085,219**	
	Capital ratios and buffers			
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	16.0%	18.4%	
62	Tier 1 (as a percentage of total risk exposure amount)	16.0%	18.4%	
63	Total capital (as a percentage of total risk exposure amount)	21.7%	24.9%	
64	Institution CET1 overall capital requirement (CET1 requirement in accordance with Article 92 (1) CRR, plus additional CET1 requirement which the institution is required to hold in accordance with point (a) of Article 104(1) CRD, plus combined buffer requirement in accordance with Article 128(6) CRD) expressed as a percentage of risk exposure amount)	7.3%	7.0%	
65	of which: capital conservation buffer requirement	2.5%	2.5%	
66	of which: countercyclical buffer requirement	0.3%	0.0%	
68	**Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)**	11.5%	13.9%	
	Amounts below the thresholds for deduction (before risk weighting)			
72	Direct and indirect holdings of own funds and eligible liabilities 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)	2,067	2,849	
75	Deferred tax assets arising from temporary differences (amount below 17,65% threshold, net of related tax liability where the conditions in Article 38 (3) CRR are met)	1,072	0	

NOTES:

- Subordinated debt included in Tier 2 capital excludes accrued interest. The figure quoted on the Statement of Financial Position in the 2022 Annual Report and Financial Statements includes accrued interest.
- The subordinated debt is in its last 5 years prior to maturity and as a result the amount which is eligible for inclusion in tier 2 capital is subject to amortisation and therefore less than the balance sheet amount.
- Retained Earnings above include retained profits for the year of 2022.
- 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.
- BACB does not have any form of additional Tier 1 capital.
- Only the element of deferred tax assets relating to unused tax losses carried forward are deducted from capital.

4.4. RECONCILIATION TO AUDITED FINANCIAL STATEMENTS

UK CC2 - reconciliation of regulatory own funds to balance sheet in the audited financial statements

	Audited balance sheet (£000s)	Audited balance sheet (£000s)	Reference
	31/12/2022	**31/12/2021**	
Assets			
Assets			
Cash, notes and coins	-	218	
Derivatives	1,344	616	
Reverse Repurchase agreements	236,927	215,824	
Loans and advances to banks	755,184	588,843	
Loans and advances to customers	463,780	484,536	
Financial investments	1,695,000	1,456,288	
Corporation tax receivable	223	-	
Property, plant and equipment	27,271	19,719	
Intangible assets	6,222	7,582	c
Deferred tax assets	3,561	504	d
Prepayments, accrued income and other debtors	3,014	3,437	
Net pension asset	2,219	4,437	e
Total assets	**3,194,745**	**2,782,004**	
Liabilities			
Deposits from banks	2,144,470	1,876,756	
Other deposits	737,763	604,750	
Derivatives	507	1,268	
Other liabilities, accruals and deferred income	27,080	17,530	
Corporation tax payable	-	900	
Deferred tax liabilities	-	-	
Subordinated liabilities	77,659	70,514	f
Total liabilities	**2,987,479**	**2,571,718**	
Equity			
Called up share capital	105,592	104,357	a
Capital redemption reserve	4,104	4,104	b
Other reserves	97,570	101,825	b
Total equity shareholders' funds	**207,266**	**210,286**	
Total liabilities and equity	**3,194,745**	**2,782,004**	

NOTES:

- The regulatory balance sheet is the same as the balance sheet in the Annual Report and Financial Statements 2022.
- Subordinated debt included in Tier 2 capital excludes accrued interest. The figure quoted in the Statement of Financial Position in the 2022 Annual Report and Financial Statements includes accrued interest.
- The subordinated debt is in its last 5 years prior to maturity and as a result the amount which is eligible for inclusion in tier 2 capital is subject to amortisation and therefore less than the balance sheet amount.
- Retained Earnings above include retained profits for the year of 2022.
- 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.
- Only the element of deferred tax assets relating to unused tax losses carried forward are deducted from capital.

4.5. INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS

The Board has ultimate responsibility for the Bank's capital management and allocation. Day to day responsibility for capital monitoring is delegated to the CFO. The Finance, Risk Management and Treasury functions are responsible for the financial governance of the Bank and the CFO and Finance are responsible for compliance with statutory, regulatory and disclosure requirements. Ongoing monitoring of compliance with its regulatory requirements takes place via the Asset and Liability Committee (ALCO), which considers the adequacy of the Bank's capital position.

The preparation of the ICAAP is the responsibility of the CFO with support provided by the CRO, particularly in relation to Pillar 2a assessments. The ICAAP is subject to review and challenge by both the Executive management team and the Board, through the ALCO and the Executive Committee.

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. 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.

5.1. 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 2022, 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. Six meetings were held in 2022.

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 CRO 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. The Bank's policies were reviewed by external legal counsel in July 2022 to ensure compliance with current regulation and employment law.

5.2. VARIABLE REMUNERATION

The Bank has in place a discretionary performance award scheme for the benefit of its employees, which classify as 'variable remuneration' as defined in the Code. Based on 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 appropriate distribution of profits between shareholders and employees via the performance award pool, taking into consideration the needs of the Bank as determined by senior management, the NRC and the Board;
- 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).

As part of the 2022 review of discretionary variable pay awards, a) the RCC and AC reviewed an Affordability Report from the CFO and CRO which considered 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 £100,000; amounts deferred are paid in three equal instalments over a 3-year period.

5.3. 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 regulators.

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 2022, 25 members of staff were identified as MRTs (2021: 23 staff).

During the year ended 31 December 2022, fixed remuneration for MRTs was £3,969,188 (2021: £3,671,200) and variable remuneration was £845,750 (2021: £270,885). Of this variable remuneration, £210,000 (2021: £nil) was deferred.

BACB

London

BACB HEAD OFFICE

and registered office

BACB
British Arab Commercial Bank plc
8-10 Mansion House Place
London
EC4N 8BJ
United Kingdom
T. +44 (0)20 4532 5000
www.bacb.co.uk

ALGIERS
Representative Office

British Arab Commercial Bank plc
Tour Algeria Business Center
12eme Etage
Pins Maritimes, El Mohammadia
16212 Algiers, Algeria
T. +213 (21) 89 1434

ABIDJAN
Representative Office

British Arab Commercial Bank plc
Cocody – Riviera Golf 4
Boulevard Arsène Usher Assouan
Lot 319 – Ilot 15, Villa No.3
Abidjan, Côte D'Ivoire
T. +225 27 22 59 97 11

TRIPOLI
Representative Office

British Arab Commercial Bank plc
Tripoli Tower
Floor 11, Office No. 111
PO Box 91051
Tripoli, Libya
T. +218 (21) 335 1731