بنك بيروت
Bank of Beirut (UK) Ltd

Pillar 3 Disclosures

2016

(Approved by the Board)

Contents

Glossary

3LOD	Three lines of defence
ARCC	Board Audit, Risk & Compliance Committee
BCC	Board Credit Committee
BIPRU	Prudential section of the FCA and PRA Handbooks covering entities including banks
BRNC	Board Remuneration & Nominations Committee
CEO	Chief Executive Officer
CPB	Capital Planning Buffer
CRD	Capital Requirements Directives
CRR	Capital Requirements Regulations
FCA	Financial Conduct Authority
GENPRU	General prudential section of the FCA and PRA Handbooks covering entities including banks
GFIC	Global Financial Institutions Committee
HRC	Head of Risk & Compliance
ICAAP	Internal Capital Adequacy Assessment Process
ICG	Individual Capital Guidance
ILAAP	Individual Liquidity Adequacy Assessment Process
ILG	Individual Liquidity Guidance
LAB	Liquid Assets Buffer
LMM	Liquidity Metric Monitor model
LRP	Liquidity Risk Profile
LTV	Loan to Value
MANCO	Management Committee
MENA	Middle East and North Africa
Pillar One	Formulaic calculation of the capital requirements for a bank based upon balance sheet
Pillar Two	Risk based calculation of the capital requirements for a bank based upon activities
PRA	Prudential Regulation Authority
BoB (UK) Board	Bank of Beirut (UK) Ltd Board of Directors
BoB (UK) Ltd	Bank of Beirut (UK) Ltd
RWA	Risk weighted assets
The Bank/The Firm	Bank of Beirut (UK) Ltd
Tier 1 capital	Permanent capital, typically ordinary share capital
Tier 2 capital	Less permanent capital, including perpetual (Upper Tier 2) and repayable (Lower Tier 2) subordinated debt

1. OVERVIEW

1.1 Basis of Disclosure

The Capital Requirements Directive ("CRD") of the European Union establishes a revised regulatory capital framework across Europe governing the amount and nature of capital credit institutions and investment firms must maintain. In the United Kingdom, the Directive has been implemented by the Financial Conduct Authority ("FCA"). To 31st December 2013 the guidelines contained in the Sourcebook for Banks, Building Societies and Investment Firms ("BIPRU") regulated these activities. From 1st January 2014, with the implementation of the Capital Requirement Directive IV ("CRD IV") regulations under BIPRU have been strengthened with the inclusion of The Capital Requirements Regulation ("CRR"). The framework however, continues to consist of three "pillars" which are defined in Section 1.5.

1.2 Scope of Disclosures

The disclosures included herein relate to Bank of Beirut (UK) Ltd and its branch in Frankfurt.

1.3 Frequency of Disclosures

These disclosures will be published at least once a year and as soon as practicable following material updates to the Firm's internal capital adequacy assessments. Given its size and complexity, the Firm assesses that this annual publication meets its disclosure requirements.

1.4 Means of Disclosures

These disclosures have been prepared solely for the purpose of fulfilling the Firm's Pillar 3 disclosure requirements and are not used by management for any other purpose. They have not been audited nor do they constitute any form of audited financial statement.

The BoB (UK) Ltd Board is ultimately responsible for the Bank's systems and controls and for reviewing the effectiveness of those arrangements. However, such arrangements are designed to mitigate, not eliminate, risk and therefore can provide only reasonable, but not absolute, assurance against material losses or financial misstatements.

These disclosures have been reviewed and approved by the BoB (UK) Ltd Board.
These disclosures will be published on the Bank's public website.
(http://www.bankofbeirut.co.uk/)

1.5 Bank of Beirut (UK) Ltd

BoB (UK) Ltd ("Bank of Beirut (UK) Ltd" or the "Bank") is a BIPRU firm categorised as a bank which was formed under the laws of England and Wales on 7th October, 2002 and commenced regulated activities upon receipt of its authorisation from the then regulator the Financial Services Authority ("FSA") on 29th November, 2002.

It is a wholly owned subsidiary of Bank of Beirut SAL, a Lebanese Bank. BoB (UK) Ltd's main activities are the provision of trade finance, correspondent banking, commercial and retail lending services. Its focus is to offer a comprehensive trade finance service for its clients and correspondent banks alike, covering the full range of mainly short term (less than 180 days) trade finance products.
The Bank's policy is towards financing of trade products which are primarily short dated in nature and where the counterparties on both sides of the transaction are known to the bank. This is the Bank's

core business. Additionally and selectively, the Bank also provides traditional commercial lending and related services to its retail and corporate clients. The Bank operates in the UK and has one branch in Frankfurt, Germany which provides a similar range of services to the UK Bank but with limited exposure to non-bank risk.

1.6 Regulatory status

BoB (UK) Ltd is a limited company formed in the UK and since 1 April 2013 has been authorised by the Prudential Regulation Authority ("PRA") and regulated by the Financial Conduct Authority ("FCA") and the PRA. The Bank was formerly authorised and regulated by the FSA from 29th November, 2002 to 31 March 2013.

Bank of Beirut (UK) Ltd's permissions are as follows:

a) Accepting Deposits;
b) Agreeing to carry on a regulated activity;
c) Dealing in investments as principal;

Bank of Beirut (UK) Ltd's permissions and activities give it a categorisation as a BIPRU firm and it is a bank. The Bank's capital resources are calculated in accordance with regulatory requirement for a bank.

1.7 Group

The Bank is a wholly-owned subsidiary of Bank of Beirut SAL, Beirut, Lebanon ("BOBSAL"). In addition to its UK and Frankfurt presence via BoB (UK), the group has international business operating in Australia, Oman and Cyprus, and representative offices in Nigeria, Ghana and the UAE.

Whilst BoB (UK) remains an independent and separately regulated entity, it benefits from close ties with BOBSAL by way of capital and funding, business introductions, the active participation of non-executive board members and IT and other operational support.

1.8 Country-by-Country Reporting

All institutions (as defined in Article 4(1) (3) of the CRR) should publish annually, on a consolidated basis, by country where they have an establishment:

a) their name, nature of activities and geographic location;
b) number of employees; and
c) their turnover (*as at 31/12/2016*)

Country	Name	Activities	Employees	Turnover (GBP)	
				2016	2015
Frankfurt, Germany	Bank of Beirut (UK Ltd	Wholesale Banking, Cash Management Services & Trade Finance	9	1,563,615	1,063,681

1.9 Regulatory Requirements

1.9.1 Pillar One

Sets out minimum capital requirements firms are required to meet for credit, market and operational risk.
BoB (UK) Ltd has adopted the following approach to its Pillar One calculation:

- Credit risk – standardised approach in accordance with article 112 of CRR;
- Market risk –standardised approach in accordance with article 92 of CRR; and
- Operational risk – basic indicator approach in accordance with article 315 of CRR.

1.9.2 **Pillar Two**

Before October 2015 the Bank was required to hold additional Pillar 2 capital equating to 196% of the calculated Pillar 1 figure (Individual Capital Guidance – "ICG") plus a regulatory imposed Capital Planning Buffer ("CPB") of £19.1m.

Today, there are two Pillar 2 buffers. The ICG remains (Pillar 2A) made up of additional charges for credit, concentration and other risks as a percentage set by the PRA of BoB (UK)'s Total Risk Exposure Amount. The CPB has been renamed as the PRA Buffer (Pillar 2b) which now varies in relation to Total Risk Exposure Amount.

1.9.3 **Pillar Three**

Requires firms to publicly disclose certain details of their risks, capital and risk management arrangements. The Pillar 3 disclosure requirements are contained in Articles 431-455 of the Capital Requirements Regulation (CRR).

1.10 **Results of ICAAP**

The Bank ensures that it maintains adequate capital for its size, nature and complexity of business.
ICAAP is a continuous process and this document is a snapshot in time representing the Bank's position as at 30 June 2016. The risk management framework is continually reviewed and updated.
The ICAAP analysis findings are that BoB (UK) Ltd has:

a) Determined that Pillar Two risk based 'going concern' capital is required in addition to its Pillar 1 capital resources requirement to ensure that the Bank has adequate capital resources at all times to meet its liabilities as they fall due;

b) A conservative appetite for risk, reflected in:

   I. maintaining the established strategic direction;
   II. a clear and robust Statement of Risk Appetite; and
   III. a comprehensive register listing the risks to which the Bank is exposed (the "Risk Register");and
   IV. The embedding of the three lines of defence ("3LOD") structure.

c) Sufficient resources over the next three years to take into account the impact of the crystallisation of potential risks identified, both internal risks based upon the actual business model and loan book plus potential external market stress, in the UK and especially in the MENA region, being the location of the parent entity and the majority of the client base;

d) Undertaken scenario and stress testing showing that BoB (UK) Ltd is able to withstand significant turmoil in the market and reduction in income. The scenario and stress testing also demonstrate that BoB (UK) Ltd.'s sustained profitability continues to increase the Bank's retained earnings and act as a buffer against projected stresses during the period of the ICAAP.

Below is the Bank's capital requirement summary as at 30 June 2016 in GBP (000):

Pillar1 Credit Risk (£000)	*Category*	*Gross Exposure*	*Risk Weighted*	*Pillar 1 Charges at 8.0%*
	On Balance Sheet	*409,758*	*216,884*	**17,351**
	Off Balance Sheet	*150,022*	*66,986*	**5,359**
	Derivatives		*290*	**23**
Other Pillar 1 Risks (£000)	*Category*	*% Charge*	*Risk Exposure Amt*	*Pillar 1 Charges at stated %*
	Operational Risk	*8.0%*	*24,537*	**1,963**
	CVA	*8.0%*	*224*	**18**
	Market Risk	*12.5%*	*0.687*	**0.1**
TOTAL RISK EXPOSURE AMOUNT [TREA] UNDER PILLAR 1			*308,921*	*24,714*
Capital Resources (£000)	*Capital & Reserves*	*Sub-Debt*	*less: Intangibles*	*Capital Resoures*
	85,759	*12,658*	*(752)*	**97,666**
CAPITAL SURPLUS BEFORE PILLAR 2 ADD-ONS				**72,952**
Pillar 2a Add-ons				17,052
Pillar 2b (PRA Buffer)				16,218
TOTAL PILLAR 2 ADJUSTMENTS				**33,271**
CAPITAL CONSERVATION BUFFER				1,931
COUNTER-CYCLICAL BUFFER			*Not a current requirement for BoB(UK)*	-
MREL BAIL-IN BUFFER REQUIREMENT			*Not a current requirement for BoB(UK)*	-
OVERALL CAPITAL SURPLUS 31.06.2016				**37,750**

2. RISK MANAGEMENT FRAMEWORK

BoB (UK) Ltd seeks to mitigate risk by implementing sound systems and controls, and through thorough corporate governance arrangements. The major components of BoB (UK)'s risk management framework include:

a) Committee / governance structure;
b) Delegated approval limits for credit exposures;
c) Delegated approval limits for trading and investment purposes;
d) Three lines of defence model;
e) Risk appetite statement;
f) Risk and Compliance functions;
g) Risk Dashboard;
h) Risk Control Self-Assessments;
i) Risk Register;
j) Risk indicator framework;
k) Risk policies and procedures; and
l) Internal Audit

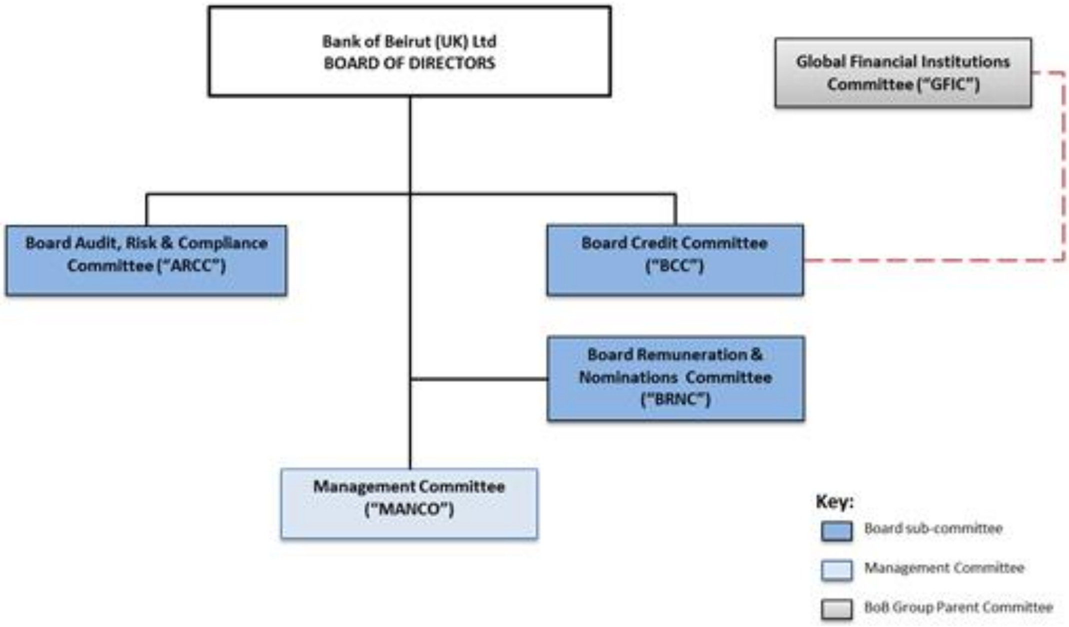
2.1 Corporate Governance

2.1.1 Preparation, Challenge and Approval of the ICAAP

As a CRR firm, the Bank is required to maintain adequate financial resources, both as to amount and quality, to ensure that there is no significant risk that it is unable to meet its expected losses in both normal and stressed conditions, before and after management actions. These requirements are set out in the PRA Handbook and the Capital Adequacy Directive.

BOB (UK)'s ICAAP is prepared by the Risk Management department with input from ManCo concerning likely stress scenarios and the Board for financial projections. A final draft is recommended to the Board via ManCo and the Board Audit Risk & Compliance Committee.

The high-level committees' framework of BoB (UK) is given below:



<u>Note</u>: *Country and Sectoral lending limits plus counterpart limits exceeding delegated credit authorities are subject to Board approval and non-objection by GFIC in respect of any overarching group policy and exposure management constraints. For the avoidance of doubt, "mind and management" on credit resides with the UK Board.*

2.1.2 **The Board and its Committees**

The Bank's corporate governance framework is driven by the Board which comprises two Executive Directors, three Non-Executive Directors representing the shareholder and three independent Non-Executive Directors (INEDs). The independent Non-Executive Directors have considerable commercial banking and regulatory experience gained at senior level from a cross section of internationally recognised financial institutions.

The Board has the collective responsibility of promoting the long-term success of the Bank. While the Executive Directors have the direct responsibility for business operations, the Non-Executive Directors are responsible for bringing independent judgement and scrutiny to decisions taken by the Board.

Responsibility for overseeing the risk framework of the Bank is devolved to the following Committees:

- Board Audit, Risk & Compliance Committee
- Management Committee
- Board Credit Committee
- Board Remuneration and Nomination Committee

The Board is responsible for ensuring the adequacy of the risk management systems of the Bank and for setting a clear statement of risk appetite. It is assisted in this by a framework of committees, functions and control function managers. The Board has ultimate responsibility for setting the risk appetite of the Bank. Risk Appetite refers to the level of risk deemed acceptable to the Board in each of the principal risk categories i.e. Market Risk, Credit risk and Operational Risk.

The role and responsibilities of the various risk management committees are set out below.

Audit, Risk & Compliance Committee	The Board Audit, Risk & Compliance Committee ("ARCC") is responsible to the Board for the quality and effectiveness of the risk, compliance and audit functions of the Bank and ensures that the key risks to which the Bank is exposed and the adequacy and effectiveness of the controls to manage these risks are kept under review. It ensures that adequate resources are made available at all times in order to meet the Bank's regulatory and statutory obligations and that the executive management has established and maintains an effective system of internal controls on behalf of the Board.
Management Committee	The ("ManCo") is responsible for the efficient and controlled operation of the business. It is authorised to take all steps necessary to conduct the business of the Bank within the confines of the Board's approved strategy, budgets and mandates. It is accountable to the Board for designing, implementing and monitoring the process of risk management and implementing it into the day-to-day business activities of the Bank.
Credit Committee	The Board Credit Committee ("BCC") reviews all requests for lending in excess of the designated authority of the Management Committee and ensures compliance with relevant lending policies. It is also responsible for reviewing annually the Committees Terms of Reference, the Bank's Credit and Large Exposure Policies and any Country limits as recommended by Management Committee.
Remuneration and Nominations Committee	The Board Remuneration and Nominations Committee ("BRNC") combines two functions. For Remuneration it sets the over-arching principles and parameters of remuneration policy, determines the annual staff bonus pool and considers and approves the remuneration arrangements of the executive directors, and other senior managers. The role of the Nominations function is to support and advise the Board in ensuring it is comprised of individuals who are best able to discharge the duties and responsibilities of Directors ensuring that composition and succession are regularly assessed.

2.1.3 **Risk Governance**

The Bank engages a dedicated Risk Manager reporting to the Head of Risk & Compliance. Risk management within the Bank is a strategically important role ensuring the development and maintenance of the Bank's risk framework, its risk matrix and its risk appetite. The risk appetite defines the strategic approach of the Bank and its business plans ensuring that its business strategy falls within the overall risk appetite and that the Bank incurs a level of risk that is individually and in aggregate acceptable to the Board.

The Bank follows the industry standard approach of "3 Lines of Defence" comprising:

- Operational controls as set out in functional and departmental procedures manuals (Level 1);
- Oversight, monitoring and periodic reporting by the Bank's control functions (Level 2); and
- Internal and external audit (Level 3).

2.1.4 **Senior Managers Certification Regime (“SMCR”) Considerations**

The following table summarises the specific management responsibilities allocated to individuals at the firm:

Function/Responsibility	SMCR REF	Responsible
Ensure regular reviews and updates of the Bank’s risk policies and statements are carried out	SMF 4	Head of Risk & Compliance
Managing the Bank’s internal stress-tests and ensuring the accuracy and timeliness of information provided to the PRA and other regulatory bodies for the purposes of stress testing	Designated responsibility	Head of Risk & Compliance
Develop and periodically review and update risk management documentation for approval by the Board and Senior Management including but not limited to the Bank’s RRP, ICAAP, ILAAP and Pillar III disclosure documents	Under the Certification regime	Risk Manager
Understand, challenge , approve and thereafter use the ICAAP to inform the Bank’s strategy and promote financial prudence in line with the Threshold Conditions, Fundamental Rules and Principles for Business set out by the UK regulators	General requirement	All members of the Board of Directors and other Certified Managers who are members of ManCo

2.1.5 **ICAAP Assessment**

BoB (UK) Ltd must adhere to defined regulatory requirements in regard to the form and quantum of capital that it holds.

The Bank is required to undertake two separate capital assessments:

<u>Pillar One</u>
The Pillar One assessment is driven by the risk weightings applied to the activities that the Bank undertakes using the formulas prescribed by the PRA in GENPRU 2.1.40. For BoB (UK) it is the higher of:

a) The Bank’s base capital requirement of €5,000,000 (one of the threshold conditions for business); or
b) The Bank’s variable capital requirement, which in turn is the sum of:

    i. The Bank’s credit risk capital requirement:
    ii. The Bank’s market risk capital requirement; and
    iii. The Bank’s Operational risk requirement.

<u>Pillar 2</u>
The original purpose of the ICAAP was to assist in the regulatory review process that determined Pillar 2 add-ons based on the risk characteristics of particular firms (Individual Capital Guidance “ICG” – Pillar 2A). For example, BoB (UK) would expect a significant Pillar 2 add-on for concentration risk. It was also used to determine a Bank’s future capital needs over a three year time horizon – the Capital Planning Buffer – Pillar 2B.

Today, the Pillar 2 add-ons are more regulatorily defined and the Pillar 2B add-on is directly linked to risk-weighted assets.

2.1.6 **Going concern**

BoB (UK) Ltd has addressed those risk categories in the overall Pillar 2 rule (GENPRU 1.2.30) that are material to its business. Of these, liquidity risk is considered in greater depth in the Individual Liquidity Adequacy Assessment Process ("ILAAP") document.

For its going concern assessment, BoB (UK) Ltd has assessed whether or not Pillar Two capital is required for each material risk that it faces, taking into account its mitigation of those risks.

Additionally, the Bank has identified several scenarios for business risk which might have a detrimental impact on its business, and has subjected them to scenario analysis and stress testing. BoB (UK) Ltd.'s management draws on the results to prepare capital planning forecasts and associated management actions sufficient to ensure that it has adequate regulatory capital.

2.1.7 **Parental Support**

BOBSAL has provided structural funding to the Bank via a $20m floating rate subordinated debt issue maturing in 2027 which qualifies as Tier 2 capital.

In January 2013, as part of BoB (UK) Ltd.'s Recovery and Resolution Plan, Bank of Beirut SAL issued an undertaking stating that if called upon, it would provide up to £15m of additional capital either in the form of Tier 1 equity or further long term subordinated loan support.

In the same undertaking, Bank of Beirut SAL also stated it would "extend all existing term deposits placed with BoB (UK) Ltd up to a value of £15m with a maturity date of less than 3 months to a period greater than 6 months".

2.1.8 **Predicted Resolution Strategy and MREL Requirement**

- the preferred resolution strategy for BOB (UK) is the Bank insolvency procedure (BIP) set out in the Banking Act 2009;
- for 2016/17 BOB (UK) does not need to hold additional capital to facilitate any BIP since it has sufficient financial resources such that its failure could be managed in an orderly way

For the purposes of the 2016 ICAAP the Bank has assessed that it is likely to continue to meet MREL requirements in both 2017/8 and 2018/9 and no additional bail-in capital buffer requirement is expected to arise.

2.2 **Risk appetite statement**

The BoB (UK) Ltd Board has approved a risk appetite statement as discussed in Section 3 below. This statement sets out the Bank's approach to risk and is the foundation upon which the risk management framework is established, including the risk indicator framework and the risk limits.

2.3 **Risk and Compliance functions**

2.3.1 **Risk function**

The Risk function is led by the Head of Risk & Compliance and is responsible for the management and oversight of risk in regard to all activities undertaken by the Bank. The HRC reports to the Board Audit, Risk & Compliance Committee and is also a member of the ManCo in respect of the Banks Risk and Regulatory matters.

The primary objectives of the Risk function are to:

a) establish an integrated management framework for risk across the Bank;
b) ensure clear and regular reporting on the status of risks in a concise and consistent manner;
c) ensure that the risk limits are communicated and enforced and any breaches are quickly resolved;
d) report to executive management and the BoB (UK) Ltd Board;
e) develop appropriate and measured policies for the management of risk within the Bank; and
f) provide comfort to management and the BoB (UK) Ltd Board in regard to the adoption of policies, plans, rules and procedures to minimise the risk of unexpected loss or damage to the Bank's financial position.

The HRC is supported in the Risk function by the Risk Manager.

2.3.2 **Compliance function**

The Compliance function is also led by the Head of Risk & Compliance and is responsible for ensuring that the Bank has compliant policies and procedures in all activities and for periodic monitoring of activities in line with these policies and procedures in addition to performing an ad hoc advisory role as required. The HRC also performs the role of Money Laundering Reporting Officer ("MLRO") and has responsibility for the management of the Bank's controls in regard to financial crime and money laundering. The HRC has oversight of a team of compliance and AML officers ensuring adequate resource in meeting the Bank's regulatory compliance obligations and Risk Register.

BoB (UK) Ltd has developed a comprehensive Risk Register identifying all potential and actual risks to the Bank. The Risk Register was developed following a thorough risk identification exercise across the business lines conducted primarily by the Risk and Compliance function.

The Risk Register is owned and managed by the Risk & Compliance function but is reviewed periodically by the ManCo, the ARCC and the BoB (UK) Ltd Board.

The Risk Register applies a scoring methodology to identified risks, assessing them at an inherent level for their potential impact and likelihood and again at a residual level to reflect the application of the Bank's mitigation and controls.

The BoB (UK) Ltd Board has approved the scoring methodology employed within the assessment of risks in the Risk Register and is satisfied that this is aligned with the risk appetite, thereby ensuring that the risk appetite is at the forefront of the assessment of and reaction to each risk. Through the Risk Register therefore, there is a bottom up embedding of the risk appetite in all activities of the Bank.

All material risks are documented and scored and risk mitigation plans have been included where necessary.

The Risk Register is an integral part of the Pillar Two capital assessment as discussed later in this document.

2.4 Risk indicators

A risk indicator framework comprising early warning indictors and triggers provides on-going reporting and management information as to the status of the risks faced by the Bank. These risk indicators are calibrated in accordance with the Bank's risk appetite and the risk scoring methodology and are designed to provide early warning indicators where risks are crystallising or when increased management attention may be required.

The risk indicators are orientated around the risks identified in the Risk Register and enable the Risk function and the ManCo to monitor the status of the risks, providing an early warning system for any alterations in the status of these risks. They are closely aligned with separate liquidity and recovery and resolution planning work undertaken by the bank.

The risk indicators are reviewed by ManCo monthly or more frequently as required.

2.5 Risk Control Self-Assessments (RCSAs)

RCSAs are undertaken for key business areas to determine the amount of residual risk that the Bank is willing to bear which are being monitored using KRIs.

Currently, RCSAs have been undertaken for:

a) Treasury
b) Trade Finance
c) Operations

Additional controls are implemented where residual risks are not accepted by the Board.

2.6 Risk policies and procedures

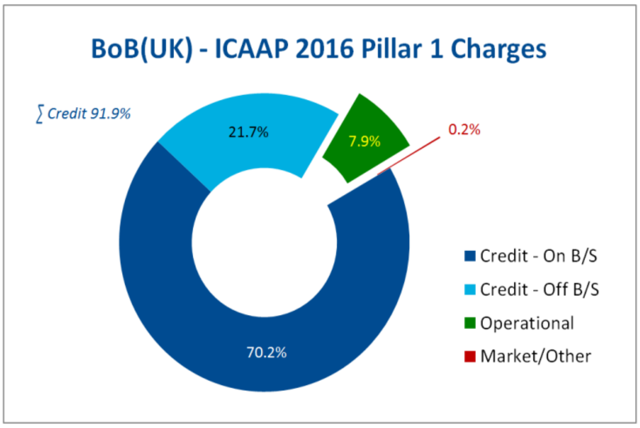
Risks to which BoB (UK) Ltd is exposed are managed and/or mitigated through a combination of tools, including:

a) Controls/procedures designed to address specific risks, e.g. accounting controls;
b) Specific policies to address risk areas, e.g. Market Risk and Operational Risk policies;
c) Appropriate segregation of duties; and
d) Operating / procedures for each department/business line.

In accordance with the overall Pillar 2 rule in GENPRU 1.2.30, BoB (UK)'s risk management framework has been developed to take into consideration every applicable source of risk, including the categories listed in GENPRU 1.2.30 (2) as described in Section 5 below. These risks are monitored by the Risk & Compliance Department and reported through the Risk Dashboard which is distributed to the ManCo, ARCC and BOB UK Board.

2.7 Risk Profiling

Risks calculated under Pillar 1 (May be subject to Pillar 2 addition following supervisory review)



- The base case (30.06.2016) position shows credit as the largest Pillar 1 risk
- This is logical for a bank that focuses on wholesale business
- Off balance sheet contingent risks are a significant element and this is aligned with a strategic focus on short-term trade related business transacted on behalf of many clients that are 150% risk-weighted institutions
- Market/Other risks not significant – no markets trading activity at BoB (UK)

2.7.1 Credit Risk

The risk of reduction in earnings and/or value, as a result of the failure of the party with whom the Bank has contracted to meet obligations (both on and off balance sheet) as they fall due.

2.7.2 Market Risk Relevant to BoB (UK)

Foreign Exchange

The risk that changes in foreign exchange rates will affect the Bank's income or the value of its holdings of financial instruments.

The Bank does not take trading positions in any FX products and the deemed risk in the base case at 30.06.2016 is less than £1,000.00.

Interest Rate

The risk that changes in interest rates that will affect the Bank's income or the value of its holdings of financial instruments. For the Bank, exposure to interest rate movements arise where there is an imbalance between floating and fixed rate and non-rate sensitive assets and liabilities.

There is no specific Pillar 1 charge for Interest rate risk as at 30.06.2016. Fixed rate instruments are restricted to LAB holdings which are zero risk weighted, marked-to-market daily, funded from free capital and currently yielding < 0.5%, with absent G-7 sovereign credit default, and have limited ability in practice to undermine the capital position of the Bank. A Pillar 2 (a) capital add-on has been deemed necessary in addition to Pillar 1 requirements. This is based on the economic impact of a 200-basis point shift in interest rates which is the standard regulatory interest rate risk stress applied on quarterly returns. The financial impact is approximately £1.2m as at 30.06.16.

2.7.3 Operational Risk

The risk of material adverse impact resulting from inadequate or failed internal processes, systems and personnel or from events external to the Bank. It includes potential losses caused by a breakdown in information or transaction processing and settlement systems and procedures, human errors, non-compliance with internal policies and procedures, including the possibility of unauthorised transactions by employees. Key personnel are an important risk within a small organisation.

Several Pillar 2 (a) capital add-ons have been deemed necessary in addition to Pillar 1 requirements due to the inherent nature of the Bank's operating processes and systems. Any risk identified within the risk register, which is beyond the risk appetite threshold is reviewed for the requirement of capital add-ons. Register items that are assessed at above “Medium Low” grade will be considered for a Pillar 2a add-on with the amount linked to the matrix defined in section 4.1 of this document.

2.8 **Other Risks** (Only captured under Pillar 2)

2.8.1 Liquidity Risk

The risk that Bank does not have sufficient financial resources to meet its commitments when they fall due (or can secure them only at excessive cost), or that the Bank does not have sufficient stable and diverse sources of funding, or that the funding structure is inefficient.

An ILAAP is updated annually by Risk and Finance. The ILAAP is reviewed by Internal Audit and the ManCo and approved annually by the ARCC and the BoB (UK) Ltd Board.

2.8.2 Concentration Risk

The risk that the Bank suffers from lack of diversification, becoming exposed too heavily in one counterparty, industry or geographic segment.

Concentration by Risk Weighting

Credit quality step	Fitch’s assessment	Gross Exposure as at 30th June 2016 (£M)	As a % of Total Gross Exposure	Net Exposure as at 30th June 2016 (£M)	As a % of Total Net Exposure
1	AAA to AA-	44.56	8%	44.56	9%
2	A+ to A-	149.12	27%	149.12	32%
3	BBB+ to BBB-	54.07	10%	53.27	11%
4	BB+ to BB-	2.93	1%	1.98	0%
5	B+ to B-	192.10	34%	134.34	29%
6	CCC+ and below	88.20	16%	69.03	15%
7	Unrated	30.51	5%	16.88	4%
TOTALS		***561.47***	***100%***	***469.17***	***100%***

The higher quality risk weightings apply to low earning liquidity placings whereas the lower assessed credit quality exposures arise from better priced trade-related lending to niche market companies and banks.

Concentration by Geography

Notwithstanding the mitigating effects of regulatory single obligor and connected counterparty rules, BoB (UK) has a marked concentration of exposures to clients in MENA and Sub-Saharan Africa.

The position as at 30th June 2016 is set out below.

Geographic Region	Gross Exposure as at 30th June 2016 (£M)	As a % of Total Gross Exposure	Net Exposure as at 30th June 2016 (£M)	As a % of Total Net Exposure
United Kingdom	208.55	37%	206.16	44%
North America	1.51	0%	1.51	0%
South/Latin America	0.00	0%	0.00	0%
Western Europe	64.09	11%	60.89	13%
Eastern Europe & Central Asia	0.00	0%	0.00	0%
East Asia & Pacific	0.02	0%	0.02	0%
South Asia & Pacific	0.00	0%	0.00	0%
Middle East & North Africa	67.41	12%	41.30	9%
Sub-Saharan Africa	219.90	39%	159.30	34%
TOTALS	***561.47***	***100%***	***469.17***	***100%***

Impact of Regulatory changes since the 2015 ICAAP

Article 107(3) CRR came into effect from 1 January 2016 which removed an exemption that permitted BoB (UK) to treat exposures to its niche market banks as credit institutions typically weighted 50% with exposures up to 100% of Capital Resources. Under this ICAAP, these exposures are typically weighted 150% and exposures of only 25% of capital resources are permitted.

Although this rule change has had the effect of mitigating the impact of concentration risk, it remains a significant feature of the Bank's business model which the strategic plan that underpins the projections in this ICAAP seeks to address. The 2016 ICAAP modeled concentration risk at 4.4% of RWAs using the PRA's prescribed HHI Index mapping, which is broken down by sector, geography and single-name concentration. This is by far the largest factor in determining the Bank's Pillar 2a add-on amounting at 31.12.2019 to £15.86m.

2.8.3 Insurance risk

The risk that an insurance contract is not available to cover a risk that is not otherwise accepted by the Bank or that an insurer reneges in part or in full on their obligation.

The Bank is not involved in writing insurance cover for third parties and as such its exposure is limited to the payment of excesses under banker's blanket bond and other insurances or loss of cover because of a lack of available markets. The Bank does not take credit insurance over any part of its loan book.

2.8.4 Pension Fund Risk

The risk that the pension promises made to employees under a defined benefits pension scheme will require higher levels of contribution by the firm than originally envisaged.

Pension obligation risk is not applicable to BoB (UK) Ltd which offers a defined contribution benefit to its staff.

2.8.5 Securitisation Risk

The risk that in securitising and selling on a portfolio of pooled assets to investors, there remains recourse to the seller for risks that were not adequately identified and passed on at the point of sale.

Securitisation risk is not applicable to BoB (UK) Ltd as the Bank does not securitise its assets.

2.8.6 Residual Risk

The risk that remains after all efforts have been made to mitigate or eliminate risks associated with a business process or investment. After a risk assessment, a residual risk may be known but not completely controllable, or, it may not be known. In either case, the residual risk is assumed by whoever owns the investment or the business process.

The Bank has considered credit risk mitigants in calculating its minimum Pillar 1 capital requirements. However, for exposures which have been appropriately reduced by the value of collateral held whilst applying risk weights, there remains a residual risk that the full value of collateral as determined by the Bank may not be realised.

Inherent and Residual Risks are further identified through the Risk Register which is maintained by Risk & Compliance and reviewed monthly by ManCo and Quarterly by ARCC.

2.8.7 Business Risk / Strategy Risk

The risk that the Bank's viability is undermined by a fatal flaw in strategy.

BoB (UK)'s Board uses a combination of annual budgeting and strategic planning to reassess its business direction at regular intervals. The core products are tried and tested and remain in demand in the markets served by the Bank and also aligned with the parent and shareholder.

2.8.8 Group Risk

The risk that BoB (UK) is connected with the wider BOB Group in such a way that the financial soundness of any one member may affect the financial soundness of the other(s), or the same factors may affect the financial soundness of both or all of them.

BOB (UK) deals with this risk via separate capitalisation and regulation in London and the appointment of a separate Board with independent non-Executive Directors part of whose role is to seek to ensure that mind and management remains in London. There is also a finite limit of 25% of capital resources in respect of unsecured credit granted by BoB (UK) to all other members of the BOBSAL Group in aggregate.

As a standalone entity, the Bank has sufficient capital and liquidity to be able to self-determine its fate in the unlikely event of a failure of the wider group. These issues are more closely reviewed within the Bank's Recovery and Resolution Plan (RRP).

BOBSAL manages this risk by using its international experience to provide policy guidance and technical support and ensuring that risks are monitored on a Group basis. In particular, the Group Financial Credit Committee is required to give its non-objection to any exposure proposed by BoB (UK) that exceeds credit authorities delegated to management by the Board.

2.8.9 Legal, Regulatory and Compliance risk

The risk that changes in the regulatory environment impact the Bank's strategic objectives or business activities or that it fails to meet expected regulatory standards.

The Bank has a number of policies in relation to legal, regulatory and compliance risk and a dedicated compliance department. In accordance with the three lines of defence, compliance is the responsibility of all members of staff. A Compliance monitoring plan and compliance training programmes are in place in order to provide on-going monitoring and targeted reviews of the Banks key business areas and to identify and minimise this risk. The key metrics and outputs of these work streams are periodically reported to the ManCo, ARCC and BoB (UK) Ltd Board.

During the period covered by the ICAAP, the UK will take forward its plans to leave the EU. Brexit is not generally considered to be of great significance to smaller US$ centric trade banks such as BoB (UK) that finance insignificant amounts of EU-UK trade. Given a branch presence in Frankfurt it is an issue that will be kept under close review by the Board with a view to maximising any long-term opportunities.

2.8.10 Reputational Risk

The risk of loss of potential business because the character or quality of an entity has been called into question.

BoB (UK) Ltd relies upon a reputation for integrity in order to maintain its existing business and to pursue its strategies for growth and new business. BoB (UK) and the wider Group have no appetite for reputational risk.

2.8.11 Money Laundering and Terrorist Financing Risk

The risk that the Bank could be used as a vehicle to launder the proceeds of financial crime or to finance terrorism.

Maintaining robust AML/CTF defences is a key priority for the Bank. The nature of the Bank's client base is such that a majority of clients are located in high risk jurisdictions where the involvement of Politically Exposed Persons (PEPs) is typically higher. This gives rise to the need for enhanced due diligence in managing relationships and transaction processing.

BoB (UK) has an Anti-Money Laundering Policy which is managed by the Head of Risk & Compliance ("HRC") (who is also the MLRO) and reviewed and approved by the Board. The HRC provides periodic reports to the ManCo, ARCC and the BoB (UK) Ltd Board on matters in relation to money laundering risk. Compliance uses a system in order to screen transactions for sanctions. All bank staff receive annual training on Anti-Money Laundering and financial crime and the controls to detect and prevent criminal activity are embedded in the organisation throughout the three lines of defence.

2.9 Risk reporting

A fundamental facet of the risk management framework is the reporting and management information that is produced. The communication of risk and in particular any changes in existing risk profile to senior management is critical in allowing them to understand where the risk to the business is and to be comfortable that the Bank is operating within its risk appetite and agreed limit structure.

Currently, the Risk/ALCO dashboard alongside daily exposure reports are submitted to the ManCo for review; Minutes and where required the papers of the ManCo are submitted to the Board.

There is reporting to the ManCo by exception in relation to any limit breaches.

2.10 Internal Audit

The day-to-day business of the Bank is subject to a system of internal controls which incorporate financial, operational and compliance controls and risk management systems. The effectiveness of the internal control system is reviewed regularly by the independent Internal Audit function. Internal Audit reports to the ARCC and provides assurance to the BoB (UK) Board that the system of internal controls achieves its objectives and highlights gaps and areas for improvement.

A full time auditor follows a risk-based testing plan that is approved annually by the ARCC. Internal Audit provides independent assurance that the risks facing the organisation are being managed appropriately and that approved policies and procedures are being adhered to.

The ManCo reviews all Internal Audit reports and examines any findings for indications of previously unidentified risks or failings in controls. The HRC as a permanent invitee of the ARCC may also request that the committee commissions Internal Audit to perform reviews on specific areas of risk within the Bank. This arrangement does not impact on the impartiality of Internal Audit which retains the autonomy to select any additional areas to be reviewed.

3. RISK APPETITE STATEMENT

3.1 Alignment with Business Objectives

The key business objective of the Bank is to provide the clients of the wider BOB Group with access to a key financial centre, to key markets and to a multitude of exporters, industrialists and other businesses. As part of this process it will intermediate in the trade supply chain between predominantly Lebanese related businesses and their trading clients worldwide.

Within this overall objective the Bank seeks to:

- achieve Business Growth in the designated target areas
- achieve enhanced Profitability and Earnings
- maintain Capital Adequacy
- ensure sufficient Liquidity to meet its liabilities as they fall due
- Comply with both the spirit and letter of regulatory requirements in relation to governance and risk management

Risk Appetite is the level of risk the Bank chooses to take in pursuit of its strategic objectives. It differentiates clearly between "Inherent Risk" and "Residual Risk". This appetite is embedded in the risk register, which encapsulates BoB (UK)'s approach to identified risks through the assessment and subsequent response of the Bank to those risks. Aligned to the Risk Register is the risk indicator framework which is calibrated in accordance with the risk appetite and through which the businesses and support functions report to the ManCo and provide on-going commentary as to the status of risks. This allows the ManCo to track any trends or deterioration in individual risks.

The risk appetite also drives the new product approval process, which ensures that any changes to the risk profile must first go through several governance and oversight stages.

3.2 Inherent Risk

The inherent risk of the Bank's markets and clients is predominantly high given the geographic concentration of activities in emerging markets that are classified as high risk by internal compliance benchmarks.

The inherent product risk is low from a credit perspective (historically very small probability of default for confirming export letter of credit transactions in respect of essential goods on behalf of established counterparties) and insignificant in relation to market risk given the absence of a treasury trading book.

As a wholesale-oriented institution involved in transactional banking, operational risk is significant, but mitigated by a substantial majority of business being conducted with institutional clients.

3.3 Mitigation

In recognition of the relatively high risk from financial crime and money laundering and the political/economic risk prevalent in its niche markets, BoB (UK)'s Board and senior management mirror the parent's risk averse strategy. As a result, it ensures that the pricing of its products and the tangible or liquid collateral required take full recognition of the risk. Pricing is adjusted where appropriate to recognise the inherent risk characteristics of particular products and clients, and the availability of security. This is particularly relevant with respect to the provision of Correspondent Banking Services and commercial lending where pricing is generally on a case by case basis. The recruitment and retention of suitably qualified staff are also critical to the success of the business model.

Operational risk is mitigated via regular review and update of operational procedures, the analysis of operational losses and near miss incidents, and rigorous enforcement of four-eye principles. In the case of payment or negotiation of documents under letters of credit, up to three levels of control are carried out. The Bank also has robust and regularly tested business resilience arrangements, including off-site disaster recovery and a suite of insurances that cover losses arising from employee fraud.

All new products and material outsourcing arrangements are subject to detailed review and sign-off by stakeholders in the first two lines of defence and notified to internal audit.

The amount of risk that can be taken is also function of the availability of market counterparties and correspondents to process the Bank's business, and which are in both cases limited by the relatively small absolute financial capacity of the Bank.

3.4 **Residual Risk Linked to ICAAP**

The Bank's risk appetite is considered to be compatible with its desire to support business growth, maintain capital ratio targets and achieve desired profitability as well as satisfying regulatory requirements in all respects.

The Bank holds capital to protect its shareholder against excess volatility of returns as well as business failure. This can be defined as its Economic Capital which can be looked upon as the "true" capital required for running the Bank. The Bank's Risk Appetite is the level of risk that the BoB (UK) Ltd Board are willing to take in pursuit of its business objectives whilst accepting a limit to volatility and maintaining a cushion against failure.

The Bank's ICAAP is the equivalent of this and has been based on its risk appetite and projected growth.

4. RISK IDENTIFICATION AND ASSESSMENT

4.1 Definition of a material risk

BoB (UK) Ltd defines a material risk as a risk that falls beyond the Risk Appetite Frontier, which is defined as the boundary between a risk rated ML and MH, at the inherent level. A risk with this rating could not, without pre-defined management action and or capital allocation, be easily absorbed by the Bank. The majority of risks will be brought within the Risk Appetite Frontier at the residual level through the Bank's systems and controls.

Score	Impact	Description	Fine / Loss (GBP)
1	Low	Some impact, little management oversight needed	1 - 100,000
2	Medium	Significant impact, management concerned and review of procedures needed	100,001 - 2,000,000
3	High	Major impact, strategy impeded, in depth analysis of issues and overhaul of procedures needed	2,000,001 - 5,000,000
4	Very High	Immense impact, introduction of extraordinary controls – management and parental oversight of all activity	5,000,001 - 10,000,000
5	Critical	Severe impact, possible business cessation / immediate wind down	10,000,001+

Score	Probability	Description
1	Unlikely	0-15% chance of happening in the next 12 months
2	Low	15-35% chance of happening in the next 12 months
3	Possible	35-55% chance of happening in the next 12 months
4	Probable	55-75% chance of happening in the next 12 months
5	High	Over 75% chance of happening in the next 12 months

		Impact				
		1	2	3	4	5
Probability	1	L	L	L	L	ML
	2	L	L	ML	ML	MH
	3	L	ML	MH	MH	H
	4	L	ML	MH	H	H
	5	ML	MH	H	H	H

4.2 Risk identification

The Bank uses the following tools to identify potential risks:

a) Analysis of historic events / management information;
b) External Auditors;
c) Internal Audit;
d) Risk Register;
e) Risk indicators
f) Risk reviews;
g) Risk Dashboard
h) ARCC; and
i) Three lines of defence.

The HRC is responsible to the ARCC and ultimately to the BoB (UK) Ltd Board for ensuring that risks are measured, identified, managed and/or mitigated. Bank of Beirut (UK) Ltd.'s risk management framework is in place to ensure that the ManCo remains in control of the risks faced by the Bank and takes appropriate action where necessary on behalf of the BoB (UK) Ltd Board.

The ManCo is responsible for ensuring that the tools used to identify, assess, monitor and escalate risk events are proportionate and effectively implemented.

All Bank staff has a responsibility for communicating risks identified to the HRC, for inclusion in the Risk Register in accordance with the Risk Identification Policy. Any adverse findings by Internal Audit that may be of concern to BoB (UK) Ltd will be considered by the ARCC for inclusion in the event log and the Risk Register.

4.3 **Risk monitoring**

The ARCC monitors and assesses the risks once a quarter, or more frequently if required, via a review of the Risk Register. This review includes consideration of the continued appropriateness of the scores attributed to each risk in the Risk Register and determines mitigating action where required. Any actions identified are captured in the Risk Register's action log, and individuals are allocated responsibility for reporting back to the committee on progress against dates and anticipated deliverables as agreed by the ARCC.

The quarterly ARCC Risk Register assessment includes consideration of potential risks, as well as consideration of those risks already recorded in the Risk Register, and the extent to which previous mitigating action has been successful.

The risk indicators that relate to the Risk Register are reviewed on a more frequent basis, usually at the ManCo's monthly meetings.

5. REMUNERATION

5.1 **Overview**

In accordance with the Capital Requirements Regulation remuneration disclosure requirements, as further elaborated in the FCA's General guidance on Proportionality: The Remuneration Code (SYSC 19A) & Pillar 3 disclosures on Remuneration (Article 450 of the CRR), the Firm falls within proportionality level 3 and is required to provide the following disclosures regarding its remuneration policy and practices for those categories of staff whose professional activities have a material impact on its risk profile.

BoB (UK) Ltd has an established remuneration policy which is reviewed and upheld by the ManCo in accordance with the FCA's Remuneration Code. The ManCo is responsible for establishing, implementing and maintaining remuneration policies, procedures and practices that are consistent with and promote sound and effective risk management. In particular, ManCo is responsible for ensuring the Firm's compliance with the UK FCA's Remuneration Code, as well as compliance with other applicable laws and regulations and reports its findings and recommendations to the BoB (UK) Ltd Board.

5.2 **Information on pay & performance link**

As per CRR Article 450(b) BoB (UK) Ltd uses a combination of fixed and variable compensation where the fixed component is considered to be a sufficient proportion of the overall remuneration package as to allow the firm to operate a fully flexible bonus policy. BoB (UK) Ltd currently sets the variable component in a manner which takes into account the individual performance, performance of the individual's business unit and the overall results of the firm. Staff performance is formally evaluated and documented at least once annually. Such assessments also consider the staff's contributions in promoting sound and effective risk management where appropriate.

5.3 **Remuneration of key management personnel**

The remuneration of the directors, who are the key management personnel of the Bank, is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures.

	2016	2015
	£	£
Short-term employee benefits	609,736	675,060
Post-employment benefits	40,550	54,010
	650,286	729,070

6. Asset Encumbrance

6.1 Overview

Asset encumbrance occurs when assets are used to secure creditors' claims so that they are no longer available to unsecured creditors in the event of a firm's failure. The PRA considers that this is the case where assets is, either explicitly or implicitly, pledged or subject to an arrangement to secure, collateralise or credit enhances a transaction.

On May 2014, the Prudential Regulation Authority (PRA) introduced changes to the Liquidity Standards outline in BIPRU 12.3 and 12.4 listing further requirements and guidance for the risk management of asset encumbrance.

BoB (UK) Ltd is aware of the regulatory requirements and has established the necessary reporting framework to facilitate continuous monitoring of the encumbrance position. The first quarterly reporting occurred in 3rd quarter of 2014, well in advance the required official reporting submission date of July 30th 2015.

Due to the nature of BoB (UK) Ltd's Asset profile, only GBP 34.255 million of contingent liability (FI - Guarantees) was categorised as a source of encumbrance as of 31/12/2016 out of GBP 483.997 million total assets.