Bank of Beirut (UK) Ltd

Pillar 3 Disclosures
2020

Document Governance

Version		Date	Notes
3.1	Sérgio Lima	06 August 2020	Updating of regulatory requirements and minor amendments from previous year.
3.2	MANCO	28 August 2020	MANCO review, challenge and Recommendation
3.3	ARCC/Board	07 September 2020	Review and approval
4.1	Sérgio Lima	08 June 2021	Updating of regulatory requirements and further expansion of Climate Change Risk section.
4.2	MANCO	22 June 2021	MANCO review, challenge and Recommendation
4.3	ARCC/Board	05 July 2021	Review and approval

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
BoB (UK)	Bank of Beirut (UK) Ltd, UK
BoB (SAL)	Bank of Beirut SAL, Lebanon - parent bank
CEO	Chief Executive Officer
CPB	Capital Planning Buffer
FCA	Financial Conduct Authority
FSA	Financial Services Authority (ceased to exist 31 March 2013)
GENPRU	General prudential section of the FCA and PRA Handbooks covering entities including banks
G-SIB	Global Systemically Important Bank
GFIC	Global Financial Institutions Committee
HNWI	High Net Worth Individual
HQLAB	High Quality Liquid Assets Buffer
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
KRI/EWI	Key Risk Indicator/Early Warning Indictor
LCR	Liquidity Coverage Ratio
LRP	Liquidity Risk Profile
LTV	Loan to Value
ManCo	Management Committee
MENA	Middle East and North Africa
NSFR	Net Stable Funding Ratio
Pillar One	Formulaic calculation of the capital requirements for a bank under Basel Accords
Pillar Two	Supervisory review of Pillar One add-ons
PRA	Prudential Regulation Authority
RWA	Risk weighted assets
SSHA	Sub-Saharan Africa
SICR	Significant Increase in Credit Risk
Tier 1 capital	Permanent capital, typically ordinary share capital, revenue reserves and published profits
Tier 2 capital	Less permanent capital, including perpetual (Upper Tier 2) and repayable (Lower Tier 2) subordinated debt.
TREA	Total Risk Exposure Amount
RC(S)A	Risk and Control (Self) Assessments
PDO	Past Due Obligations

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.

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 ICAAP. 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) 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) Board and will be published on the Bank's public website. (http://www.bankofbeirut.co.uk/)

1.5 Bank of Beirut (UK) Ltd

BoB (UK) ("Bank of Beirut (UK) Ltd" or the "Bank" or "BOBUK") is a UK registered and authorised banking subsidiary of Bank of Beirut SAL, a Lebanese Bank. BoB (UK)'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 with its head office located in the City London of London but also maintains a client liaison office in the West End.

1.6 Regulatory status

BoB (UK) is a private 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)'s permissions are as follows:

a) Accepting Deposits;
b) Agreeing to carry on a regulated activity;
c) Dealing in investments as principal;
d) Undertaking Regulated Mortgage Contracts (restricted to non-residents)

Bank of Beirut (UK)'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 BOBUK Activities

These are summarised as follows:

Trade Finance

Products: Advising and confirmation of Export Letters of Credit; Guarantees; Correspondent banking; Associated financing and treasury facilities

Channels: Corporate client base, Correspondent banks; Own and wider BOBSAL Group branches, subsidiaries and representative offices

Commercial and Corporate Banking Services

Products:	*Short-term loans and overdrafts; Secured term loans, including Regulated Mortgage Contracts; issuance of Import Letters of Credit; Guarantees*
Channels:	*Single branch*

Retail banking

Products:	*Current & savings accounts with eligible deposits covered by the UK Deposit Protection Scheme which is overseen by the Financial Services Compensation Scheme (FSCS).*[1]
Channels:	*Single branch in London; online banking (view only – no access to payment services).*

Treasury

Products:	*Money Market & FX*
Channels:	*via customer base and professional market counterparties*

1.8 BOBUK Business Orientation

BoB (UK) is primarily a trade finance house, with a correspondent banking network reaching all major export geographies. The bank specialises in all aspects of Export Trade Finance with an established coverage of Financial Institutions within predominantly MENA, Francophone and sub-Saharan African countries.

[1] Currently set at £85,000 per depositor being the countervalue of EUR 100,000.

The Bank's business is closely linked with members of the Lebanese diaspora who set up businesses around the world - notably in the Americas and West Africa - during the second half of the 20th Century. These businesses grew to become significant concerns that choose to bank with BoB (UK) for reasons of cultural affinity. As a result of supporting these clients, BoB (UK) built trade and correspondent banking relationships with their local bankers and thereby extended its trade finance franchise to other opportunities.

1.9 BOBUK Strategy

The Bank is well suited to serve the import financing needs of banks serving a large Lebanese business diaspora in the MENA and sub-Saharan African regions and supporting the export financing needs of UK and other EU exporters dealing in these regions.

These needs have increased in recent years as many larger banks have de-risked their business activities. By focussing on short-term "self-liquidating" trade finance activity the branch and wider BOBSAL Group have been able and willing to maintain support in these markets over several business cycles.

The major competitors in trade finance as well as in clearing services are multinational banks such as JP Morgan or Standard Chartered with a large correspondent banking network. In recent years, these banks have been reducing their correspondent banking networks to the detriment of UK and European suppliers who seek secure terms in several of the markets served by the Bank.

The management philosophy is to stick to tried and tested products to support markets with strong growth potential that are in some cases at an intermediate stage of development requiring the import of higher value consumer and manufactured goods of the type exported by the UK.

The Bank will continue to leverage long-standing relationships and presences maintained by the wider BOBSAL Group in its core niche markets. The Bank does not, however, engage in securities or other markets activities and has no mass retail offering.

BoB (UK) will remain focussed on wholesale trade finance business for banks and corporate customers dealing with markets in Africa and the Middle East. The risk assumed is that of the banks in these markets; the Bank underwrites or confirms risk on behalf of corporate customers who are letter of credit beneficiaries and also has a small number of direct corporate relationships linked to trade flows. In keeping with the trade cycle for commodities and other essential imported goods, the book is short-term.

1.10 Main Geographies Served

a) Domestic

United Kingdom

The Bank supports companies to win orders in markets that may not be fully served by other local banks.

b) EEA

The Bank supports exporters in the wider EEA region who are also active in BoB (UK)'s niche markets. Counterparties include internationally active manufacturers and commodity traders that are accustomed to dealing with many banks in different centres to manage their cross-border payment risk.

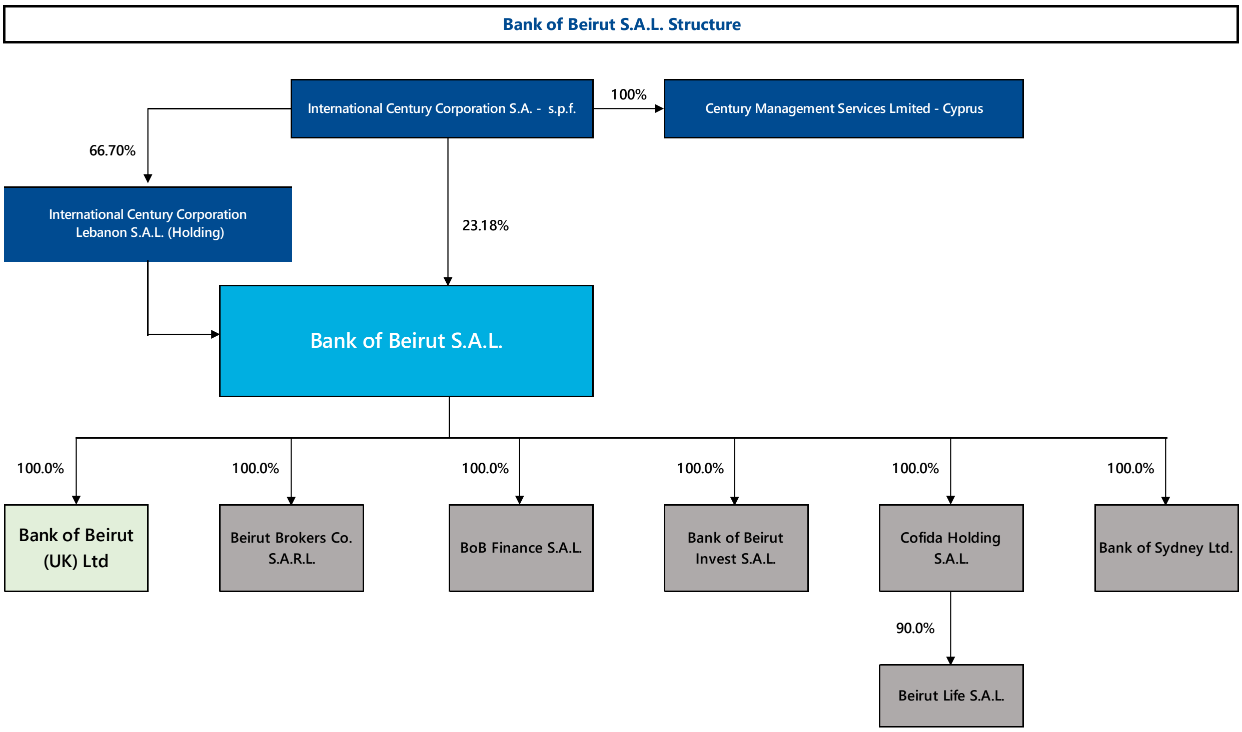
c) Non-EEA

Lebanon as the home market for BoB (UK)'s parent has been a logical business source throughout the life of the Bank both for trade finance and deposits. The significant impact of an economic crisis which crystallised in Q4 2019 has been a reduction in direct exposure to domestic Lebanese counterparties. The wider BOB Group has local representation in Nigeria and Ghana which have long been significant markets for the bank supporting UK exporters and Lebanese diaspora businesses established there in the 20th century which have since grown to become significant domestic manufacturers and traders.

In all cases the focus is on trade finance with limited corporate lending usually linked to trade receivables and /or supported by cash, property, or bank and personal guarantees. The average life of the loan book is less than 2 years.

For those markets making up a cohort of 80% or more of the Bank's risk appetite by limit allocation, additional monitoring is undertaken via KRIs designed to provide lead indicators for economic deterioration in order that the Bank's trade finance business may be adjusted if necessary. This is made possible by the short-term nature of the book and supported by various de-leveraging episodes in recent years including the closure of the Frankfurt branch and crisis in Lebanon in H2 2019; in both cases the trade book ran off quickly in line with the underlying maturity of the instruments being financed.

1.11 Bank of Beirut Group



The Bank is a wholly-owned subsidiary of Bank of Beirut SAL, Beirut, Lebanon ("BOBSAL"). BOBSAL is one of five publicly listed banks operating in Lebanon. In addition to its UK presence via BoB (UK), the group has international business operating in Australia, Oman and Cyprus, and representative offices in Nigeria 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 business introductions, the active participation of non-executive board members and IT and other operational support.

1.12 Regulatory Requirements

1.12.1 Pillar One

Sets out minimum capital requirements firms are required to meet for credit, market and operational risk.

BoB (UK) 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.

1.12.2 Pillar Two

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.

1.12.3 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).

1.13 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 31 December 2020. The risk management framework is continually reviewed and updated.

The ICAAP analysis findings are that BoB (UK) 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 to fulfl loss absorbing capacity requirements;

b) A conservative appetite for risk, reflected in:

    I. maintaining the established strategic direction;
    II. a clear and robust Statement of Risk Appetite;
    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 all of the Bank's niche markets;

d) Undertaken scenario and stress testing showing that BoB (UK) is able to withstand significant turmoil in the market and reduction in income. The scenario and stress testing also demonstrate that BoB (UK)'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.

1.13.1 **Financial Projections used for capital adequacy stress testing:**

The figures below are based on the year end audited financials at 31st December 2020 and revised projections for 2020-2023 from a three-year strategic plan as summarised below:

- *The bank continues to expand on a going concern basis*
- *Capital grows by retention of all earnings*
- *Post-tax ROE rises modestly*
- *CAR decreases modestly*

£Millions	2020	2021	2022	2023
Gross Assets/Liabilities & Equity	420.88	514.53	540.81	567.45
Off Balance Sheet	125.88	131.23	132.63	135.17
RWAs	297.61	374.93	393.12	411.90
Capital Adequacy ratio	*44.79%*	*36.15%*	*35.06%*	*34.13%*
Capital resources held	133.31	135.53	137.82	140.59
Operating Profit	3.69	4.33	4.81	6.85
Profit before tax	*1.07*	*3.36*	3.81	5.82
Profit after tax	*0.96*	*2.48*	2.84	4.47
Return on Equity	*0.7%*	*1.8%*	*2.1%*	*3.2%*

The following factors have been considered for the 2020 ICAAP:

a) IFRS 9, came into effect on 1st January 2018, which introduced fundamental changes to credit risk measurement and financial reporting that include:

- a forward-looking impairment model based on expected credit losses and the allocation of loans to impairment stages based on increases in credit risk;
- different requirements for classification and measurement depending on how assets are managed and their contractual cash flow characteristics; and
- changes intended to simplify the general hedge accounting requirements and to create closer links with risk management.

IFRS 9 and its requirements have been fully integrated within the Bank's infrastructure, both in terms of systems and processes.

The following IFRS 9 impairment calculation, which is additional to regulatory capital requirements under CRDIV, has been subject to external audit and was calculated on 31st December, 2020 which has formed the basis forecast IFRS 9 charges to the projected years of the stress tests in this ICAAP document:

IFRS 9 Summary - 31st December 2020		
STAGE 1	STAGE 2	STAGE 3
845,236	286,441	9,411,924

	Projected IFRS 9 - Stress Tests		
	STAGE 1	STAGE 2	STAGE 3
2021	853,277	289,166	9,501,461
2022	890,912	301,920	9,920,536
2023	930,770	315,427	10,364,363

The relatively low level of Stage 1 and 2 IFRS 9 impairments reflects the Bank's focus on short-dated trade-related business and the fact that the majority of FI counterparties' ratings are capped at country level and/or already attract the highest counterparty risk weightings for both regulatory and IFRS9 calculation purposes.

Whilst IFRS 9 is not a regulatory charge, the PRA is naturally interested in the level of reserves calculated, particularly where this risks impacting regulatory capital. When announcing the increase in CCB from 1% to around 2% (since deferred) the PRA made clear that it was minded to ensure that banks on the Standardised approach to credit risk were not unduly penalised with PRA Pillar 2 adjustments likely to take account of IFRS 9 charges such that the burden on smaller less complicated banks was muted or neutral.

In relation to Covid-19, the PRA has advised that when making IFRS-9 and CR reporting assessments, firms regulated by it should consider the significant support measures provided by UK and International Governments plus their own initiatives to assist companies and individuals impacted by Covid-19. In a Dear CEO letter published in March 2020, the PRA set out a rationale to support its view that firms should not automatically treat payment holidays granted as forbearance, or temporary covenant breaches and arrears, as denoting a SICR and triggering a staging event under IFRS9 or reporting arrears for regulatory return purposes. The letter further noted:

- the economic assistance being provided;
- care to be exercised in making broad or uninformed assumptions or co-mingling Covid 19 with other existing uncertainties - e.g. EU withdrawal;
- the shock may be severe but is expected to be of limited duration and in many cases lifetime PDs will not be affected;
- there would likely be increased reliance on post-model adjustments in IFRS9;
- for firms with Basel regulatory capital requirements, including BOBUK, there is already an ability to 'claw-back' regulatory capital impact via a 70% haircut available under IFRS9 transitional implementation rules.

The ECB had issued similar guidance on 1st April 2020. Meanwhile the whole implementation of Basel IV has been pushed back by 12 months.

For these reasons, the Bank believes that the impact of IFRS-9 on the ICAAP is unlikely to undermine the capital adequacy position of the Bank.

b) The closure of the Bank’s passported Frankfurt branch in 2019 led to a partial withdrawal of working balances by banks that used the branch to undertake TARGET 2 euroclearing with the majority of surplus amounts placed with the BundesBank and thereby qualifying as HQLAB. In preparation for closure, the Bank opened a Reserves Account with the Bank of England which was funded using surplus capital placed over many years in the London interbank market such that liquidity ratios were not impacted.

   The capital impact of the closure was not material for the Bank as confirmed in additional stress testing undertaken in Q4 2019. Given further de-risking in 2020 leading to a higher capital surplus at the date of this ICAAP, additional stress testing has not been repeated for the current iteration.

c) In Lebanon, country rating downgrades took place during 2019 resulting in a higher carrying cost of Lebanese risk for regulatory capital purposes (move to 150% counterparty weighting) and higher IFRS9 charges.

   All unsecured FI exposure has since been repaid with the exception of a reduced level of inter Group business. A portfolio of Lebanese Government bonds which had been written down to c. 28% of face value in 2020 since been disposed of at a profit to book value.

The capital impact of the events in outturn was not material for the Bank as confirmed in additional stress testing undertaken in Q4 2019. Given the level of repayment and sale of the bond portfolio, additional stress testing has not been repeated for the current iteration.

1.14 Scenario and Stress Testing

1.14.1 **Overview**

BoB (UK)'s Pillar 1 capital figure has been calculated using the prescribed methodology in accordance with regulatory requirements. The Bank has also assessed whether or not Pillar Two capital is required in addition to the Pillar One value for each risk identified in the Risk Register, taking into account any mitigation.

Several of the risks identified have been assessed by modelling their effect on the capital planning forecasts and setting out actions to ensure the Bank continues to hold adequate regulatory capital. This includes scenario analysis and stress testing of more than one parameter to explore the sensitivities in the business plan and how capital needs change over time.

Scenario analysis typically refers to a wider range of parameters being varied at the same time. Scenario analyses often examine the impact of adverse events on the Bank's financial position, for example, simultaneous movements in a number of risk categories affecting the Bank's business operations, such as business volumes, investment values and interest rate movements.

Stress testing typically refers to shifting the values of individual parameters that affect the financial position of the Bank and determining the effect on the Bank's financial position.

Stress testing has been carried out for three scenarios, a Firm specific scenario, a Market wide scenario, and a Combined scenario (which here, in view of the relative simplicity of the Bank's business, has been assumed merely to be a combination of these).

In the Firm specific scenario, the Bank considers the impact of protracted deterioration of its core West African markets requiring impairment charges for past due obligations and increased regulatory counterparty weightings.

In the Market wide scenario, the Bank considers a socio-economic crisis affecting all of West Africa, where the impact causes a default, an increase in provisions and a reduction in revenues. Meanwhile, a number of EU countries face downgrades and the overall weighting of the Bank's liquidity placings increase.

In the Combined Stress an amalgamation of factors of both the Firm and Market Wide scenarios is applied and the impact is more severe.

Assumptions made regarding the three Scenario stress tests:

- The core customer deposits held by the Bank will continue to be stable.
- Asset book growth will remain unchanged from Base Case projections.

Finally, a reverse stress test is performed that breaks the bank through extreme scenarios and the mitigating actions available to the Bank's management to mitigate/avoid the particular elements of the stress.

1.14.2 **Results of Stress Testing**

As can be seen below, the results of scenario analysis and stress testing demonstrate that BoB (UK) is relatively insensitive to a reduction in projected revenues compared with any severe deterioration of counterparties within the markets selected for stress-testing. In all bar the reverse stress test, at no point during the three scenarios is the ICG breached, due predominantly to the absorption of any provisioning or default by retained earnings resulting in accretion of capital.

Under the combined scenario, the Bank is exposed to impairments that are considerably beyond any historic losses and is able to meet these through reduction of costs and reduction of the asset book.

GBP (000)	31.12.2020		31.12.2021		31.12.2022		31.12.2023	
	Total Capital	Low Surplus	Total Capital	Low Surplus	Total Capital	Low Surplus	Total Capital	Low Surplus
Base Case	**133,305**	**75,676**	**135,525**	**75,218.28**	**137,816**	**72,787**	**140,589**	**73,682**
Firm Specific	N/A		135,451	72,386	133,254	62,782	126,457	57,782
Market Wide			135,451	66,871	130,732	51,514	116,863	42,535
Combined			135,451	58,597	128,273	34,285	111,721	28,612

Due to a reduction of £62 million in the Bank's TREA in 2020, the P2B Surplus is positive in all projected stress scenarios.

The Bank's ICAAP confirms that BoB (UK) has sufficient capital resources to withstand all of the Firm specific, Market-wide, and Combined stress scenarios.

Below is the Bank's capital requirement summary as at 31 December 2020 in GBP (000):

Pillar1 Credit Risk (£000)	*Category*	*Gross Exposure*	*Risk Weighted*	*Pillar 1 Charges at 8.0%*
	On Balance Sheet	*420,959*	*249,814*	**19,985.09**
	Off Balance Sheet	*55,352*	*47,800*	**3,823.99**
	Derivatives		-	-
Other Pillar 1 Risks (£000)	*Category*	*% Charge*	*Risk Exposure Amt*	*Pillar 1 Charges at stated %*
	Operational Risk	*8.0%*	*32,263*	**2,581**
	CVA	*8.0%*	-	-
	Market Risk	*12.5%*	-	-
TOTAL RISK EXPOSURE AMOUNT [TREA] UNDER PILLAR 1			*329,877*	*26,390.1*
Capital Resources (£000)	*Capital & Reserves*	*Sub-Debt*	*less: Intangibles*	*Capital Resources*
	102,961	*30,652*	*(308)*	**133,305**
CAPITAL SURPLUS BEFORE PILLAR 2 ADD-ONS				**106,915**
Pillar 2a Add-ons	*A advised Individual Capital Guidance (ICG) = TREA x 4.98%*			16,428
Pillar 2b (PRA Buffer)	*1.99% x TREA*			6,565
TOTAL PILLAR 2 ADJUSTMENTS				**22,992**
CAPITAL CONSERVATION BUFFER	*Set by regulator = TREA x 2.5% w.e.f.1.JAN.2019*			8,247
COUNTER-CYCLICAL BUFFER	*Set by regulator = TREA x 0% (Due to COVID19)*			-
MREL BAIL-IN BUFFER REQUIREMENT	*Not a current requirement for BoB(UK)*			-
OVERALL CAPITAL SURPLUS 31.12.2020				**75,676**

In early 2020 a planned increase in the Counter-Cyclical Buffer (CCyB) requirement from in the region of 1% to in the region of 2% was postponed until 2022 and the existing CCyB requirement of 1% was withdrawn in response to Covid-19. The impact of this decision has been reflected in the figures modelled for this ICAAP.

Against these requirements totalling £57.62m, the bank had capital resources of £133.3m at 31st December 2020 – a base case surplus of £75.67m.

2. Risk Management Framework and Governance

BoB (UK) 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) 3 LOD 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

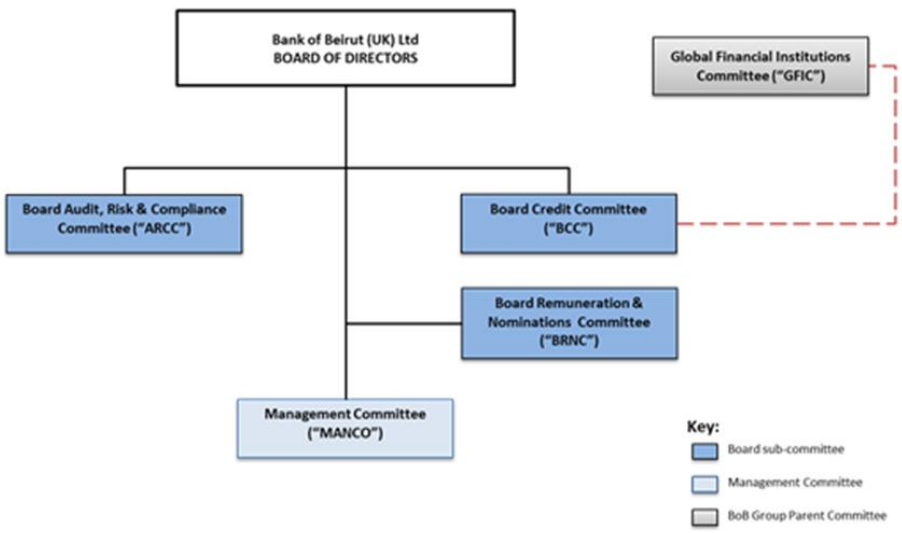
2.1 Corporate Governance

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 the Risk Appetite Statement and the 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:



***Note**: 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
- Board Credit Committee
- Board Remuneration and Nomination Committee
- Management 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 principal risk categories, including liquidity 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.
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 the Bank's Credit and Large Exposure Policies and any Country limits as recommended by Management Committee and recommending changes to the Board.
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.

Management Committee	The ("ManCo") and its two sub-committees (ALCO & Operational Resilience) 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.

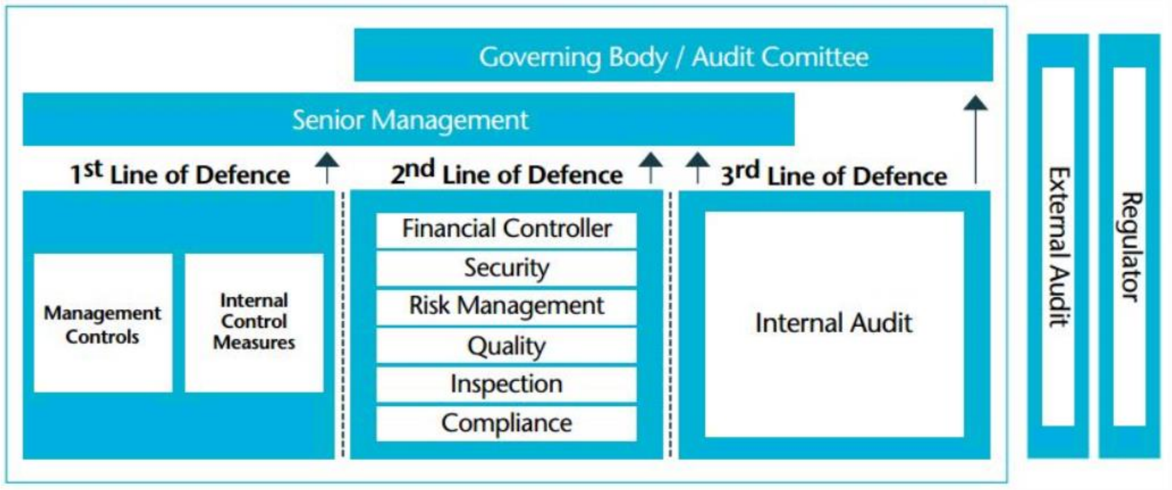
2.1.3 **Risk Governance**

The Bank employs a dedicated Risk Manager reporting to the Head of Risk & Compliance. The Risk Manager is supported by a Risk Analyst who prepares the monthly ALCO Dashboard incorporating liquidity metrics and EWIs (relevant sections are included as an Appendix to the ALCO Dashboard). Risk management within the Bank is a strategically important function 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 (Line 1);
- Oversight, monitoring and periodic reporting by the Bank's control functions (Line 2); and
- Internal audit (Line 3).

Risk Management Framework:



The first line of defence

(functions that own and manage risks)

This is formed by managers and staff who are responsible for identifying and managing risk as part of their accountability for achieving objectives. Collectively, they should have the necessary knowledge, skills, information, and authority to operate the relevant policies and procedures of risk control. This requires an understanding of the company, its objectives, the environment in which it operates, and the risks it faces.

The second line of defence

(functions that oversee or who specialise in compliance or the management of risk)

This provides the policies, frameworks, tools, techniques and support to enable risk and compliance to be managed in the first line, conducts monitoring to judge how effectively they are doing it, and helps ensure consistency of definitions and measurement of risk.

The third line of defence

(functions that provide independent assurance)

This is provided by internal audit which is outsourced to Mazars LLP. Sitting outside the risk management processes of the first two lines of defence, its main roles are to ensure that the first two lines are operating effectively and advise how they could be improved. Tasked by, and reporting to ARCC, it provides an evaluation, through a risk-based approach, on the effectiveness of governance, risk management, and internal control to the organisation's governing body and senior management.

It can also give assurance to sector regulators and external auditors that appropriate controls and processes are in place and are operating effectively.

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) 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:

Pillar One

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.

Pillar 2

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 subject to clearer regulatory definition and the Pillar 2B add-on is directly linked to risk-weighted assets.

2.1.6 **Going concern**

BoB (UK) 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) 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)'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 **MREL**

The Bank received its annual Minimum Requirement for Own Funds and Eligible Liabilities ("MREL") notification in 2017 in which the PRA:

- **confirmed** the Board's position set out in the RRP that the preferred resolution strategy for BOB (UK) is the Bank insolvency procedure (BIP) set out in the Banking Act 2009;
- **advised** that the Bank does not need to hold additional capital to facilitate any BIP since in the PRA's opinion, it has sufficient financial resources such that its failure could be managed in an orderly way
- **required** BOB (UK) to ensure that it continues to meet this condition on a continuous basis by reference to a formula set out in the Appendix to the letter.

Subsequent letters received in all intervening years since 2017 have confirmed that the Bank is easily resolvable and for the purposes of this ICAAP the Bank has been assessed that it is likely to continue to meet MREL requirements in both 2021/22 and 2022/23 and no additional bail-in capital buffer requirement will arise.

2.2 Risk Appetite

The BoB (UK) 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) Board;
e) develop appropriate and measured policies for the management of risk within the Bank; and
f) provide support to management and the BoB (UK) 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.

BoB (UK) 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) 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) 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.

2.3.2 **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.

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 under the ownership of first-line manages for the business areas under their control to determine the amount of residual risk that the Bank is willing to bear which are being monitored using KRIs.

Current 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) is exposed are managed and/or mitigated through a combination of tools, including:

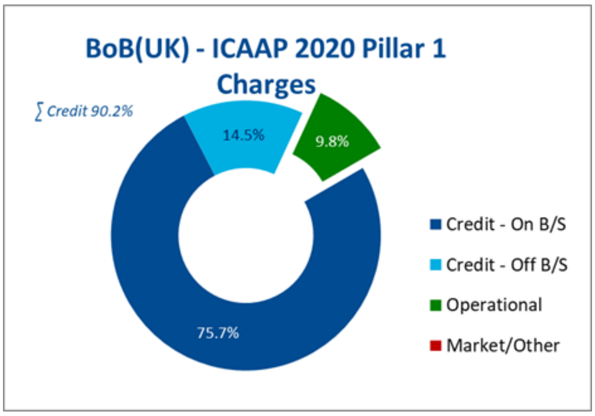
a) Controls/procedures designed to address specific risks, e.g. accounting controls;
b) Specific policies to address risk areas, e.g. Market Risk and Operational Risk policies;
c) Appropriate segregation of duties; and
d) Operating / procedures for each department/business line.

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 the section 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 (subject to Pillar 2 addition following supervisory review)



- The base case (31.12.2020) position shows credit as the largest Pillar 1 risk
- This is logical for a bank that focuses on wholesale business
- Contingent liabilities 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.

Credit risk is the largest calculated risk for the Bank which is logical as it focuses on wholesale business for banks in non-equivalent jurisdictions that are subject to higher counterparty weightings. The Bank's risk weighted assets (RWAs) as of 31/12/20 were £297.6m.

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 31.12.2020 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 at 31.12.2020. Fixed rate instruments are restricted to HQLAB holdings which are zero risk weighted, marked to market daily, funded from free capital and currently yield < 0.5%, so absent G-7 sovereign credit default, 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 in quarterly returns. The financial impact is approximately £592,000 at 31.12.2020.

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.

The Pillar 1 requirement as at 31.12.20 is determined through the 'Basic Indicator Approach' in which the operational risk capital requirement is obtained by averaging the previous three years' gross income and multiplying the figure by 15% as per the table below:

Operational Risk Capital Requirement	2017	2018	2019	Average
Net interest income	7,300,567	7,815,339	7,313,437	7,476,448
Net non-interest income	10,717,617	9,476,815	8,997,462	9,730,631
Total Operating income	**18,018,184**	**17,292,154**	**16,310,899**	**17,207,079**
15%				
ORCR *(3 year avg x 15%)*				**2,581,062**
			Total Risk Exposure Amount	32,263,273

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.

The ILAAP is updated annually by Risk and reviewed by ManCo approved annually by the Board via ARCC. The Bank's L-SREP assessment was concluded on 5th May, 2021 with a pillar 2 add-on of £2,000,000 for intraday risk applied..

The Bank's ILAAP as at 31.12.2020 was approved by the Board in February 2021. It concluded that the Bank had adequate levels of liquidity resources and during 2020 exceeded the regulatory requirements for the Liquidity Coverage Ratio ("LCR") and planned NSFR requirements at all times.

The Bank's own stress tests using a stressed 90-day LRP model showed positive gaps in all stresses without the need for management actions.

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 31st Dec 2020 (£M)	As a % of Total Gross Exposure	Net Exposure as at 31st Dec 2020 (£M)	As a % of Total Net Exposure
1	AAA to AA-	131.77	24%	131.77	28%
2	A+ to A-	49.39	9%	49.39	10%
3	BBB+ to BBB-	49.48	9%	49.48	10%
4	BB+ to BB-	0.00	0%	0.00	0%
5	B+ to B-	183.68	33%	143.02	30%
6	CCC+ and below	110.67	20%	81.16	17%
7	Unrated	30.83	6%	21.50	5%
TOTALS		*555.81*	*100%*	*476.31*	*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 SSHA.

The position as at 31st December 2020 is set out below.

Geographic Region	Gross Exposure as at 31st Dec 2020 (£M)	As a % of Total Gross Exposure	Net Exposure as at 31st Dec 2020 (£M)	As a % of Total Net Exposure
United Kingdom	188.44	34%	175.52	37%
North America	73.23	13%	73.23	15%
South/Latin America	0.00	0%	0.00	0%
Western Europe	26.83	5%	25.89	5%
Asia & Pacific	0.04	0%	0.04	0%
Middle East & North Africa	50.85	9%	35.37	7%
Sub-Saharan Africa	216.41	39%	166.25	35%
TOTALS	*555.81*	*100%*	*476.31*	*100%*

The 2020 ICAAP models concentration risk at 7.65% 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 31.12.2020 to £16.22m.

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 a 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) 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) 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 6 times per annum 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 100% 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 Plan (RP).

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 BCC or 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 workstreams are periodically reported to the ManCo, ARCC and BoB (UK) Board.

During the period covered in these disclosures, the UK is scheduled to leave the EU. Brexit is not generally considered to be of such significance to smaller US$ centric trade banks such as BoB (UK) that finance insignificant amounts of EU-UK trade.

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 and its far reaching and lingering consequences which were felt at first hand following a fine imposed on the business by the UK authorities in 2015. Management is monitoring for any signs of reputational fallout from the ongoing crisis in Lebanon which will have a significant impact on all banks there, including BOBSAL. As a subsidiary of BOBSAL it is expected that there will be some 'Group-think' spill over response from correspondents and L/C beneficiaries despite BOBUK being stand-alone for capital, liquidity and resolution purposes. There have been no widescale changes in posture or unexpected deposit withdrawals.

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 the Accuity 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.

2.8.12 **Climate Change Risk**

Whether physical or transition risks linked to climate change may adversely impact the Bank's franchise or viability over time.

Climate Change risk is incorporated in the Bank's risk management framework as follows:

- Risk Appetite is clearly defined
- A Climate Change Policy and an Action Plan was approved by the Board in 2019 and has been subject to annual review since
- The Strategic Report in the Bank's annual financial statements includes a section on climate change. In due course as a Public Interest Entity, the Bank stands ready to work with its external auditors to ensure that more detailed reporting is undertaken in accordance with industry guidance or law

The Bank's overarching policy statement in relation to climate change covers all activities across the entire balance sheet noting that in the absence of a project financing or syndicated term lending book the most likely areas of impact will be in respect of trade letters of credit (contingent liability) with expected changing patterns of trade and goods being imported across the supply chain as economic models and cycles are impacted by climate change impacts both physical and as a by-product of transition to a carbon neutral World.

At the current time, no specific modelling or assets classification is in place since the Bank does not have term assets or portfolios that are deemed susceptible to climate change deterioration; as noted below, the impact is likely to be seen via changing patterns of import and export flows with traditional instruments to support importers and exporters not changing in the immediate risk time horizon of the Bank.

Climate change risk is not expected to impact on the Bank's product range in the short to medium but can undermine sectors and markets over time leading to asset concentrations, higher or lower value transactions (with a direct impact on earnings). In extremis losses may occur or risk appetite be curtailed leading to losses in the absence of management actions.

The Bank regularly reviews and update as appropriate the Climate Change Policy and Action Plan in order to quantify and mitigate climate change risk in a manner proportionate with its business model and to make relevant disclosures in accordance with industry standards.

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 currently outsourced to Mazars LLP. 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.

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 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-orientated 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 maintain a 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) Board and therefore the parent company 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 has been calculated based on its risk appetite and projected growth. Ultimately, Risk Appetite is expressed in this statement as the Bank's appetite for earnings volatility in its key business areas arising from the main risk areas of credit, market and interest rate, operational, regulatory and reputational risk.

4. RISK IDENTIFICATION AND ASSESSMENT

4.1 Definition of a material risk

BoB (UK) 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) 3 LOD model.

The HRC is responsible to the ARCC and ultimately to the BoB (UK) 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) 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) 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.

Each 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) has a Remuneration Policy which is reviewed and upheld by the Remuneration and Nominations Committee of the Board in accordance with the FCA's Remuneration Code. The Committee is responsible for establishing, implementing and maintaining remuneration policies, procedures and practices that are consistent with and promote sound and effective risk management.

5.2 Information on Pay & Performance link

As per CRR Article 450(b) BoB (UK) 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 discretionary bonus policy. BoB (UK) 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.

	2020	2019
	£	£
Short-term employee benefits	**747,118**	**753,346**
Post-employment benefits	**22,323**	**27,963**
	769,441	**781,309**

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.

6.2 BOBUK Position

BoB (UK) is aware of the regulatory requirements and has established the necessary reporting framework to facilitate continuous monitoring of the encumbrance position.

The Bank's policy is not to permit any asset, either explicitly or implicitly, to be pledged or subject to an arrangement to secure, collateralise or credit enhance a transaction. There were no asset encumbrances as of 31/12/2020.