Pillar 3 Disclosures

31 December 2021

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1. INTRODUCTION

1.1.1. Overview

Bank of Africa UK ("BOA UK" or "the Bank") is a United Kingdom (UK) bank authorized by the Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority (FCA) and the PRA. BOA UK was established in 2007 and is a wholly owned subsidiary of BMCE International Holdings (BIH) which in turn is a wholly owned subsidiary of the ultimate parent group, Bank of Africa-BMCE Group (Morocco) otherwise referred to as 'Bank of Africa Group' or 'Bank of Africa' in this document. BOA UK has one branch in France, Paris and a Representative Office in Zurich.

The Bank's principal activities are Corporate and Investment Banking (CIB), focusing on trade, structured and project finance and corporate lending for target customers based in Africa or with an interest in the region and Treasury and Capital Markets (TCM), focusing on currency trading and money market activities.

BOA UK operates and acts as an interface between African corporates, financial institutions (FI), public and semi-public entities and their European trading or investment partners and the international financial markets.

1.1.2. Purpose

This document comprises BOA UK's Pillar 3 disclosures on capital and risk management as of 31 December 2021. The principal purposes being:

- To meet the regulatory disclosure requirements under Capital Requirement Regulations (CRR) & Directive, Part 8 – Disclosure by Institutions.
- To meet the rules the PRA set out in the PRA Rulebook
- To provide further useful information on the capital and risk profile of BOA UK.

1.1.3. Background

The European Union (EU) Capital Requirements Directive ("the Directive" or "CRD") came into effect on 1 January 2007. It introduced consistent capital adequacy standards and an associated supervisory framework in the EU based on the Basel II Accord. On 1 January 2014, the regulatory disclosure requirements of the CRR and the CRD Basel III regulations, commonly known as CRD IV, revised the definition of capital resources and included additional capital and disclosure requirements.

The aim of the capital adequacy regime is to promote safety and soundness in the financial system, structured around three 'pillars. The 'Capital Requirement Framework' which firms are required to apply is described below.

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

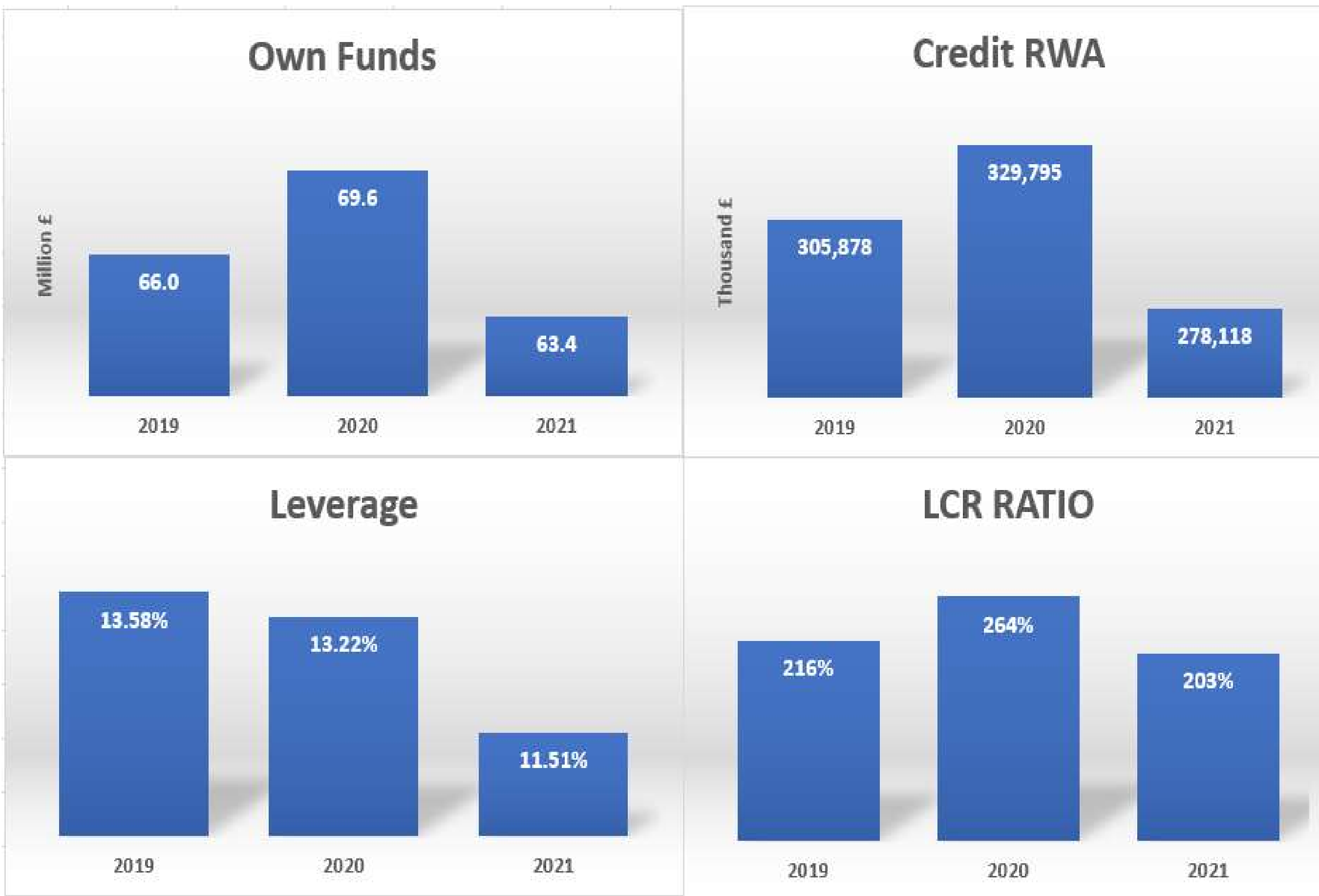
- **Pillar 1** on minimum capital requirements: Pillar 1 sets out the minimum capital requirements that firms are required to meet for credit, market and operational risk.

- **Pillar 2** on the supervisory review process: The supervisory review process requires firms and supervisors to take a view on whether a firm should hold additional capital against those factors not taken into account by the Pillar 1 process (e.g., interest rate risk in the banking book, concentration, business and strategic risk); and factors external to the firm (e.g., business cycle effects). To comply, institutions are required to develop adequate arrangements, strategies, processes and mechanisms, to maintain sound management and coverage of their risks, including maintenance of the prescribed capital requirements.

- **Pillar 3** on market discipline: Pillar 3 aims to promote market discipline by requiring firms to publish a set of disclosures which provide market participants key information to assess the firm's capital, risk exposures, risk assessment process and the capital adequacy of the firm.

The disclosures contained in this document cover both the qualitative and quantitative disclosure requirements of Pillar 3, as set out in the CRR, and based on data as of 31 December 2021 with comparative figures for 31 December 2020 where relevant.

1.1.4. KEY METRICS



1.1.5. DISCLOSURE POLICY

This document represents the Pillar 3 disclosures of BOA UK at 31 December 2021. These disclosures have been prepared purely for the purpose of explaining the basis on which the Bank has prepared and disclosed the capital requirements, providing information about the management of risks relating to those requirements.

This report has not been prepared for any other purpose. Therefore, it does not constitute any form of financial statement of the Bank, nor does it constitute a forward-looking projection of the Bank. The Bank does not seek any exemption from disclosure on the basis of materiality or on the basis of proprietary or confidential information. In accordance with the requirements of the CRR, the disclosures contained in this document cover both the qualitative (e.g., processes and procedures) and quantitative (e.g., actual numbers) requirements. In addition, the disclosures should be read in conjunction with BOA UK's most recent Annual Report.

1.5.1Disclosure Policy: Location, Verification, Frequency & the Banks Principal Activities.

i. **Location**: This report is published on the BOA UK corporate website at (www.bankofafricauk.co.uk/contact/).

ii. **Verification**: The Bank's Pillar 3 disclosures have been primarily prepared to explain the capital requirements as well as the management's strategies on risks. This is not a financial statement and hence, has not been audited. In accordance with the requirements of the CRR, the disclosures are both qualitative and quantitative. These disclosures have been subject to internal review and validation prior to being published.

iii. **Frequency**: These disclosures are updated annually and in line with the publication of the financial statements, unless there are significant changes in the risk profile or governance structure of the Bank that need to be disclosed.

iv. **Principal Activities**: The principal activities of BOA UK are to provide conventional and Wholesale Banking (namely Project Finance, Commodity & Structured Finance and Trade Finance), Treasury & Capital Markets services to customers.

1.1.6. Scope of Application

BOA UK is a registered Bank that is authorized and regulated by the PRA and the Financial Conduct Authority ("FCA").

As of 31 December 2021, BOA UK operated a representative office in Zurich and two branches in Dubai and Paris. However, the Bank disinvested from the Dubai Branch in February 2023. All decision-making take place in London but transactions are booked in both the London and Paris offices. BOA UK has not applied for any Internal Ratings Based ("IRB") waivers and consequently, no Pillar 3 IRB disclosures are included in this document.

1.1.7. Prudential Consolidation

The Bank is a single entity, so no consolidation is performed.

2. RISK MANAGEMENT OBJECTIVES AND POLICIES

2.1.1. Strategies and Processes

The ultimate governing body of BOA UK is the Board of Directors ('the Board'), who have responsibility for strategic direction and overall control of the bank including the overall governance and risk management of the Bank. BOA UK is a wholly owned subsidiary; hence the strategy of the bank is agreed with the Board of Directors in conjunction with its parent, Bank of Africa Group.

The Board of Directors has overall responsibility for the establishment and oversight of BOA UK's risk management framework and approves the risk management policies and procedures of thebank. It maintains overall accountability and authority for the adequacy and appropriateness of all aspects of BOA UK"s risk managementprocesses.

The Board has established a number of committees; Board Risk Committee (BRC), Remuneration Committee (RemCo), and the Board Audit Committee (BAC) for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank and to monitor compliance with the Bank's risk management policies and procedures, review remuneration and overall board governance requirements, and the adequacy of internal controls and audit The BAC is assisted by Internal Audit, which undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the BAC.

BOA UK's risk management policies are established to identify and analyze the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. BOA UK, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which employees understand their roles and obligations. The Board ensures that BOA UK's business is conducted with integrity, due skill, care and diligence at all times.

2.1.2. Board Directors

The Board consists of 7 Non-Executive Directors (NEDs) of which 3 were Independent NEDs and the CEO. Directors are appointed by the board and selected according to their knowledge and experience and the needs of the Bank.

The principal functions of the Board are:

(a) to have oversight of the governance framework in which the Bank is responsibly managed, including the nomination, appointment, removal, remuneration, succession planning and evaluation of its executive and non-executive Directors, CEO and senior managers.

(b) to review the performance of the Bank, in line with its financial, regulatory and cultural expectations.

(c) to maintain a compliant and ethical culture throughout the Bank.

(d) to ensure the integrity of the Bank's accounting and financial reporting systems, including its financial and operational controls.

(e) to assess and periodically review the effectiveness of the Bank's policies, arrangements and procedures in place to comply with the Bank's regulatory obligations and taking appropriate measures to address any deficiencies.

(f) to determine the nature and extent of significant risks faced by the Bank.

(g) to ensure that the Bank has sufficient resources including capital, key and experienced staff for the business to meet its objectives and effectively manage risk.

(h) to ensure that judgements and decisions are taken with due regard to the creation or increase in conduct risk, taking proactive steps to avoid or present those where possible.

(i) to review and approve new products, services and other business proposals relevant to the Bank and its business.

(j) to be consulted on any changes to the operating model of the Bank which may impact on its financial and risk exposure, including but not limited to technology, IT and outsourcing.

(k) to consider the adequacy of all management information (and where necessary requiring its enhancement) and review, monitor and approve standard reporting on the financial performance, market and credit exposures, capital, liquidity and funding.

(l) to constitute Board Committees and determine and periodically review their terms of reference, assign Board members and other officers or employees engaged in the business of the Bank to such Committees and review the reports and recommendations of any Board Committee so constituted.

(m) to implement an appropriate process for assessing the effectiveness of the Board, the Chairperson of the Board, Board Committees and Directors in fulfilling their responsibilities. The Board will review the reporting following completion of the evaluations and approve and oversee any improvement actions arising.

(n) to ensure that the Ultimate Parent Bank is informed of regulatory violations, any pending capital needs and any other issues that may affect the Ultimate Parent Bank.

(o) to manage conflicts and dealing with matters regarding disputes, significant events or capital, financial or management issues and avoid or managing conflicts of interest in accordance with the applicable law and regulation. This will include annual attestations on conflicts for Directors, and as required by a change in circumstances.

(p) setting the parameters of any delegations and any authorities, granting signing authorities (appointment of authorized signatories on behalf of the Bank) and powers of attorney; and

(q) approving and ratifying agreements, instruments, contracts for the Bank (including granting signing authorities or powers of attorney for such approvals and executions), where any such agreement, contract, arrangement, instrument does not come within the remit of the Executive Management or an existing Board Committee and is significant or material to the Bank by reason of value, structure, commitment, duration or risk.

2.1.3. The Board Risk Committee ("BRC")

The BRC reports to the Board. All of its members are NEDs of the Board, one of whom chairs the BRC. The BRC meets quarterly, or as frequently as is required to carry out properly its functions. The BRC has been established by the Board of Directors of BOA UK (Board) to deal with all risk management related issues of the Bank.

The purpose of the BRC is to assist the Board in monitoring the adequacy and the effectiveness of the Bank's risk management policies and processes, its responsibility is one of oversight and review. It does not provide expert advice nor exercise any executive role.

The duties and responsibilities of BRC are summarized below:

(a) provide advice to the Board on the Bank's overall current and future risk appetite and assist the Board in overseeing the implementation of that strategy by senior management.

(b) review whether prices of liabilities and assets offered to clients take fully into account the Bank's business model and risk strategy. Where they do not fully reflect risk, the Committee should present a remediation plan to the Board.

(c) provide advice on risk strategy, including the oversight of current risk exposures of the Bank with an emphasis on prudential risks (credit, market, liquidity, operational, insurance, conduct and group risk).

(d) review annually, on the basis of reports from management, the policies and processes put in place by management to control and manage the risks identified in the risk matrix, assess their adequacy and effectiveness and report any material deficiencies to the Board.

(e) review reports from management of material breaches of risk controls and events of non-compliance and consider the implication of such incidents for the integrity of the Bank's risk management controls.

(f) consider complaints management information (MI) and assess for any patterns of complaints which may indicate potential risk of breaches of regulatory obligations.

(g) approve of new products and/or activities.

(h) review and approve any changes to the operating model of the Bank which may impact on its risk exposure, including but not limited to technology and IT risk, resourcing and outsourcing risk; and

(i) review IT risks around cyber security, data protection and related policies.

2.1.4. Board Audit Committee

The Committee is appointed by the Board to assist the Board in fulfilling its obligations relating to the integrity and operation of the internal control systems, compliance with regulatory and financial reporting of the Bank. It will oversee the relationship with the Bank's external auditors and provide assurance to the Board that executive management's control assurance processes are implemented, complete and effective. The Committee safeguards the independence of, and oversees the performance of, the compliance and internal audit functions. The committee's duties and responsibilities are summarised below:

a) The Committee shall monitor the integrity of the financial statements of the Bank, including its annual audited accounts and quarterly management accounts, interim management statements, and any other formal announcement relating to its financial performance, reviewing significant financial reporting issues and judgements which they contain. The Committee shall also review summary financial statements, significant financial returns to regulators and any financial information contained in certain other documents.

b) Where requested by the Board, the Committee should review the content of the annual report and accounts and advise the Board on whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Bank's performance, business model and strategy.

c) Keep under review the adequacy and effectiveness of the Bank's internal financial controls and risk management systems and monitor the proper implementation of such controls.

d) Receive and review reports on regulatory compliance and financial crime compliance matters, including the adequacy of policies, procedures and arrangements for ensuring adherence to internal compliance policies and procedures and compliance with specific laws and regulations as requested by the Committee or required by laws and regulations and any significant correspondence with regulators.

e) Prior to submission to the Board, review the annual report on whistleblowing matters, including any instances of disclosure and reports to the FCA about each case the Bank contested but lost before an employment tribunal where the claimant successfully based all or part of their claim on detriment suffered as a result of making a protected disclosure.

f) Review the procedures and systems and controls for detecting financial reporting fraud.

g) Review the effectiveness of the processes and policies by which the Bank identifies and manages conduct risk.

h) Monitor and review the effectiveness of the Bank's internal audit function in the context of the Bank's overall risk management system.

2.1.5. Remuneration Committee (RemCo)

The Committee is appointed by the Board to assist the Board in overseeing remuneration policies and practices and Board governance This will include setting senior executive and director remuneration and developing and submitting to the Board recommendations with respect to other employee benefits considered advisable. The main duties and responsibilities of RemCo are to:

(a) determine and agree with the Board the framework or broad policy for the identification and remuneration of Material Risk Takers.

(b) review the ongoing appropriateness and relevance of the remuneration policy and make recommendations on any required changes to the Board.

(c) recommend and monitor the level and structure of remuneration for Material Risk Takers (as determined by the Board).

(d) in determining such policy, take into account all factors which it deems necessary, including applicable legal and regulatory requirements, the PRA and FCA's Remuneration Codes and other relevant guidance.

(e) work with the Governance and Nomination Committee to ensure that Material Risk Takers are provided with appropriate incentives to encourage enhanced performance and are, in a fair and responsible manner, rewarded for their individual contributions to the long-term success of the Bank.

to exercise general oversight with respect to the governance of the Board.

(f) to have responsibility for the corporate governance policies and procedures in place at the Bank and to make recommendations to the Board on any necessary improvements.

(g) assist, and make recommendations to, the Board in relation to proposed nominees for election and re-election to the Board and the Board Committees.

(h) to design and have oversight of the framework for the annual assessment of the Board's performance and the Board self-evaluation and its committees.

(i) .

2.1.6. Risk Management

The management of risk is a key element of the overall management of the Bank's operations. The Board's policy is that all risks should be identified, evaluated and managed appropriately. This will form the basis for better decision making and will enable management to focus on its activities appropriately and ensure a prudent risk management culture is embedded in all business operations.

Specific risk appetite thresholds must be approved by the Board in relation to specific business activities and in aggregate for the whole of BOA UK. Each business unit is responsible for managing the risks arising from its activities, and for ensuring that these risks are within the risk appetite parameters defined by the Board.

BOA UK's Credit Risk Policy set forth the roles and responsibilities of those supervisory bodies (e.g., Credit Committee, Board Risk Committee, etc.) and designated individuals (e.g., Chief Risk Officer, Business Heads, etc.) who participate in the risk management process of the Bank.

2.1.7. Credit Risk Management and Operating Structure

BOA UK is committed to having a strong credit function under which the bank's exposures are controlled within a well-defined credit risk appetite, laid down by the Board and its Credit Risk Committee. The credit systems and controls ensure that the exposures that the bank enters into are prudent and are in line with its strategy.

General framework

Responsibility for ensuring that credit risk remains in line with the Bank's risk appetite falls within a number of different areas, which can be summarized as follows:

Approval

- **The Board of Directors** retains the ultimate responsibility for setting the firm's risk appetite (see above), including the credit risk appetite, and for ensuring the establishment and adherence to sound principles for risk identification, measurement, monitoring and control. It is also responsible for approving credits which fall within its authority – e.g., credits above the delegated authority of the Board Risk Committee –, delegates' authorities to approve financing facilities at various organizational levels which will be documented and specify clearly the limits and conditions for each level, in the Credit Policy.

- **Board Risk Committee (BRC)** has delegated authority from the Board for setting the firm's risk appetite, including the credit risk appetite, and for ensuring the establishment and adherence to sound principles for risk identification, measurement, monitoring and control. It is also responsible for approving credits which fall within its authority – e.g., credits above the delegated authority of the Credit Committee.

- **The Credit Committee** is the main credit risk authority after the Board Risk Committee. More specifically, it oversees the management of the credit risk structure, reviews and approves credit applications within its authority and takes decisions on credit issues that are beyond the authorities granted to management.

- **The Business Units / Front Offices** undertake credit origination and relationship management in London and Paris and are primarily responsible for ensuring that credit risks are thoroughly assessed and present their requests to the relevant decision-making authority. The Risk Management Department (RMD) provides a second independent check prior to the submission of the application to Credit Committee. The business units are responsible for monitoring credit risks on a day-to-day basis.

  They are responsible and accountable for the risks associated with the running of their operations and are responsible for the selection of clients in accordance with Know Your Customer (KYC) principles and for managing such clients within approved limits.

  All new clients / counterparties must receive prior credit approval from the RMD, as well as clearance from Compliance Department, before they may be approved and set up for trading on any BOA UK system.

  Clients recommended for transactions/exposure approval by the Front Office (staff in CIB and TCM) are independently vetted by RMD for relevant financial soundness checks and by Compliance for anti-money laundering checks. Upon completion of the relevant checks and approval of credit limits, accounts will be opened in line with the account opening procedures, after which credit transactions can be executed.

  The risk department is comprised of the following sections, credit risk, market risk, and operational risk. These sections report into the CRO.

2.1.8. Market Risk Management and Operating Structure

BOA UK has a robust market risk framework to ensure the bank undertakes acceptable business, manages its trading book effectively, and is able to respond appropriately to market events as they arise.

General framework

Responsibilities associated with the market risk division fall within various areas:

- **The Board** retains ultimate responsibility for setting the firm's risk appetite (including market and liquidity risks), and consequently the allocation of capital. As with credit risk, there is a three tier system for market risk approval and limit setting, and under no circumstances is the Front Office able to approve a proposal. The three levels of market risk/limit approval comprise the Board, Board Risk Committee, ALCO, and the Chief Risk Officer with the Head of Treasury & Capital Markets or the CEO.
- **The Market Risk Team** is responsible for identifying, measuring, monitoring and controlling market risk on an ongoing basis. The portfolio and individual transactions are also analyzed by market value, and duration.
- Instruments traded include:
  1. Bonds.
  2. Currency (Spot & Forward).
  3. Money Market (MM).

- **The Operations team** is responsible for confirmation matching of executed trades with the bank's counterparties, the maintenance of the ongoing transactions through their lifecycle (e.g., reconciliations, custodians, reporting, etc.) and ensuring that settlement is in line with correct payment instructions.
- A number of other departments such as Finance, Operations and Information Technology [IT] and Compliance are also fundamentally involved with the Bank's market risk monitoring activities.

2.1.9. The Scope and Nature of Risk Reporting and Measurement Systems

BOA UK uses a number of systems to manage, aggregate and process information. The data transitions from the source booking systems and a number of subsequent aggregation processes. This enables a consistent and aligned set of data from the different business units as well as the London office and Paris branch to be collated. All systems are bespoke and provided by third party vendors.

2.1.10. Policies for Risk Mitigating

BOA UK faces credit risk on its exposure to sovereigns and corporates from its capital markets, corporate banking and project finance businesses, and from its exposure to financial institutions and corporates from its trade finance and treasury activities. BOA UK has a detailed Credit Risk Policy providing further details on BOA UK's credit policy, operating model and information on how the credit risk management processes are embedded in the business and overseen at the highest level within the bank. BOA UK purchases insurance from firms rated at least single A- to mitigate credit and political risk.

BOA UK does not have significant open positions on derivative products and use these only to hedge its own FX or interest rate risk.

2.1.11. Risk Appetite Statement

The Board of BOA UK sets an overall risk appetite, which guides the strategy and business plan, in terms of the type of businesses which BOA UK will enter into, the type of customers which they will target and the type of products and services that BOA UK will use and provide. The risk appetite defines, at a detailed level, the limits and targets that the bank will implement and at a higher level the aspirations of BOA UK's strategic aims along with the general risk culture of the business.

The risk appetite also helps to define the internal management, systems and controls arrangements that will be in place at BOA UK.

As a bank, the acceptance of risk is fundamental to the business of BOA UK. The Board's consideration of risk appetite is governed by the strategic direction that the Bank has decided to take over the forthcoming period and its associated capital plan.

In order that this can be done, the Board has distinguished between three types of risk for which it has risk appetite:

- Business Risks (Credit Risk and to a lesser degree Market Risk)
- Consequential Risks (mainly Operational and Legal risks)
- Liquidity Risks

BOA UK's overall risk appetite is reviewed by the Board on at least an annual basis or more frequently as and when circumstances change such as new business is being considered. The appetite is discussed by the Board on an integrated and bank-wide basis, in addition to any individual discussions about specific risk limits or processes. The Board agree not only the specific ways in which risks can be mitigated (e.g., through holding capital, implementing controls or by defining management actions or behaviors) but the appetite for the overall risk of the bank. In other words, the Board of BOA UK has defined the amount of risk exposure, or potential adverse impact from external or internal events, that BOA UK is willing to accept.

2.1.12. Risk Appetite for Credit Risk

- Country limits are set providing the maximum overall net exposure BOA UK deems appropriate to take on in any specific country. The amount is set out in the Country Risk report which is reviewed in detail by BRC annually with limits approved by the Board.
- Maximum counterparty limits are set at 22.5% of Tier 1 Capital (however on an exceptional basis the Board might approve certain exposure up to 25% of Tier 1 Capital). New clients are assessed by the Relationship Manager and a credit assessment is carried out. This then goes to the Credit Committee for approval.

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2.1.13. Risk Appetite for Market Risk

BOA UK has a low risk appetite for market risk as its key risk is credit. The BOA UK business units use various triggers and limits for plain-vanilla products both to measure and monitor market risk. The limits are set out in the Market Risk policy and approved by the Board Risk Committee and Board. The key specific types of Market Risk relevant to BOA UK are:

- Currency exchange risk: Position limits are used to control the total amount of transactions, e.g., foreign currency held (short or long positions) and therefore risk relating to movements in FX rates.
- Price fluctuation risk

Stop loss limits are used to control business.

2.1.14. Risk Appetite for Consequential Risk

There are other risks that are consequential to managing BOA UK's business such as Legal, Fraud, IT and People/Processing/External and Reputational Risk.

The intention is to manage these risks until they are as low as possible as unlike business risk, we do not have risk appetite for operational risk. Regardless of this, we understand that we can never eliminate this type of risk entirely, so we consider the threshold at which we will tolerate losses which we consider to be expected or inevitable.

2.1.15. Risk appetite for liquidity risk

The bank monitors the regulatory requirement of the Liquidity Coverage Ratio (LCR) at all the times. The LCR is monitored daily, and the results are discussed on a monthly basis in ALCO and the Bank's risk appetite for LCR is to be at least 120% at all the times.

3. OVERVIEW OF THE RISK MANAGEMENT FRAMEWORK

BOA UK adopts the risk management model known as the 'three lines of defense' governance model. This is the model of risk management that sits below the Board to implement and control the decisions on strategy, risk and capital that are taken by the Board. This model allows BOA UK to implement effective risk management and a risk culture. A summary is provided below for each line of defense.

The Board of Directors has ultimate accountability for risk management. Together, with various committees within BOA UK and risk policies, they are an integral part of BOA UK's Risk management framework. BOA UK is committed to ensure that its risk management framework is robust, up to date and in line with best practice. The Bank periodically reviews its risk appetite and ensures that it is in line with the current environment, the strategy and budgets under both business as usual and stressed conditions.

3.1.1. First Line of Defense: The Business

Business units operate as the first Line of Defense (LoD) by conducting its business in a way that meets the firm's strategic objectives whilst being consistent with the Board's approved risk appetite. The business, as the first LoD, is responsible for identifying and managing risks directly and executes its business in line with implemented limits, policies and procedures as determined by Risk, the second LoD.

The first LoD responsibilities are predominantly to:

• Prevent the firm, through forward looking risk identification, from taking risks which are inconsistent with its risk appetite.

• Performing proactive risk management and reporting new and emerging risks as they arise in order to mitigate identified risks.

• Own the risks and be responsible for the primary monitoring of controls.

3.1.2. Second Line of Defence: Risk Functions

The second LoD is independent from the first LoD. The second LoD provides oversight, monitoring, approval, challenge and advice to the first LoD in their risk management activities.

The second LoD comprises all Risk Management departments covering credit, market, operational and liquidity risks along with Compliance and Legal departments.

The second LoD provides full oversight of the first LoD's risk management activities. The second LoD also acts as guardian of the risk profile by ensuring the first LoD's acceptance of risk is consistent with all applicable laws, regulations and internal policy requirements.

The second LoD responsibilities are mainly to:

• Design and implement an appropriate and effective risk management framework, supported by policies and procedures.

• Ensure the first LoD has implemented the risk management framework.

• Implement effective controls to ensure compliance with the Board's risk appetite.

• Report and escalate key risk information and breaches or exceptions in a timely manner.

• Monitor compliance with all applicable laws and regulations.

The management of limit utilization, both in terms of amount and tenor, is essential to the prevention of limit excesses. As a matter of policy, transactions will only occur with prior formal approval. BOA UK's monitoring procedures in this regard differentiate between two levels:

I. Intraday Monitoring

Whenever a deal creates a potential excess, the Front Office unit originating the transaction has to apply for approval of the excess in accordance with temporary excess procedures before the transaction is confirmed to the counterparty. All intraday temporary approvals must be approved by at least two members of the Credit Committee.

II. End of Day Monitoring

The following reports will be used for End of Day Monitoring:

- BOA UK Exposure report - The BOA UK Exposure report consolidates all the bank exposure, by country, sector, group, counterparty and rating.
- Bond Portfolio report – Bank Bond Portfolio report and limits monitoring.

III. Compliance Function Operating Model

The Compliance function is responsible for the development, maintenance and implementation of the Compliance Function Operating Model. In accordance with this model, the Compliance function monitors regulatory developments, updates Compliance policies and procedures as well as providing advice and monitoring compliance with legal requirements, regulatory rules, regulatory guidance and codes of practice. The Compliance department promotes a robust and healthy challenge to management through the strict enforcement of legal obligations and compliance monitoring activities.

The Compliance Officer reports to the Chief Executive Officer and compliance reports are prepared for the Board Audit Committee, highlighting potential issues and recommended actions.

IV. Reporting lines for Risk Management

BRC, which is a sub-committee of the Board, has full oversight and ownership of the Credit Committee, Large Exposures Committee, Operational Risk Committee and Classification and Provisioning Committee.

3.1.3. Third Line of Defense: Internal Audit

The third LoD provides an independent and objective assurance of the effectiveness of internal controls established by the first and second lines of defense. This is provided by the Internal Audit function, reporting to the Audit Committee.

The team conducts unsolicited, periodic audits and spot checks to examine, evaluate and report on the adequacy of systems of internal controls and the effectiveness of risk management and governance processes. Audit regularly reviews the implementation status of any weaknesses identified and recommendations issued.

Authority is granted for full, free and unrestricted access to any and all the organization's records, personnel and physical properties of Bank of Africa UK deemed necessary to accomplish its audit activities. All records and information given to Internal Audit during review will be handled prudently, according to the appropriate professional codes of conduct.

The Internal Audit department promotes a robust and healthy challenge to management through its independent reviews and monitoring of compliance & other recommendations. The Head of Internal Audit reports independently to the Audit Committee, with a dotted reporting line to the CEO for day-to-day matters, particularly status updates as to whether the appropriate remedial measures have been taken in respect of any deficiencies identified. Audit reports are prepared for Management, Audit Committee & the Board, highlighting potential issues and recommended actions.

4. OWN FUNDS

On 31 December 2021 and throughout the financial year, BOA UK has complied with the capital requirements that were set out by regulators. BOA UK continues to use the standardized approach to credit and market risk and the Basic Indicator approach for operational risk to calculate its Pillar 1 capital requirements.

Tier 1 Capital

This is comprised entirely of Common Equity Tier 1 capital (CET1); made up of the permanent paid-up capital instruments (ordinary share capital), retained earnings, reserves and other comprehensive income (OCI) after adjustments for deductions for goodwill and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes. This is the core capital of the Bank and acts as a buffer to absorb losses to protect depositors and other creditors of the Bank.

Tier 2 Capital

This comprises of a Subordinated Loan amortized over the life of the loan. The Subordinated debt represents loans of €17.700k granted by the parent company on 31st May 2010 with original redemption date of 2020, which was extended (in 2015) to 31st May 2023, and then extended (in 2021) to 31st May 2029

£'000	2020	2021
Principal	15,924	14,854
Accrued Interest	193	178
Subordinated debt	16,117	15,032

SHARE CAPITAL & RESERVES

Share capital £'000	**2020**	**2021**
Issued, called up and fully paid 102,173,000 shares ordinary shares of £1	102,173	102,173
Share capital as of 31 December All shares rank equally with one vote per share. There is no entitlement to fixed income	102,173	102,173
Reserves		
FVOCI investment reserve	1,923	-3,056
Foreign currency translation	-298	-798

Accumulated losses	-21,420	-15,738
Reserves as of 31 December	-19,795	-19,592
Share capital and reserves	82,378	82,581

Reconciliation between Audited and Regulatory Reporting of Capital Resources

The following two tables evaluate the reconciliation between Regulatory and Reporting Resources in 2021 and 2020.

As at Dec. 2021 £'000	Audited Financial Statements	Consolidation Adjustments	Regulatory Own Funds
Share capital	102,173	0	102,173
Other reserves	-3,854	3,910	-7,764
Accumulated losses[1]	-15,738	4,202	-19,940
Goodwill[2]	-8,423	0	-8,423
Other intangibles[3]	-1,378	-313	-1,065
Deferred tax assets[4]	0	260	-260
Value adjustments due to the requirements for prudent valuation		138	-138
Other transitional adjustments to CET1 Capital		1,184	-1184
Total equity	72,780	0	63,399
Tier 1 Capital	72,780	0	63,399
Subordinated liabilities[5]	14,854	-177	15,031
Tier 2 Capital	14,854	0	15,031
Total Capital Resources	87,634	0	78,430

As at Dec. 2020 £'000	Audited Financial Statements	Consolidation Adjustments	Regulatory Own Funds
Share capital	102,173	0	102,173
Other reserves	1625	1,244	381
Accumulated losses[1]	-21,420	-571	-20,849
Goodwill[2]	-9051	0	-9,051
Other intangibles[3]	-1853	233	-2,086
Deferred tax assets[4]	0	0	0
Value adjustments due to the requirements for prudent valuation		99	-99
Other transitional adjustments to CET1 Capital		888	-888
Total equity	71,474	0	69,581

Tier 1 Capital	71,474	0	69,581
Subordinated liabilities[5]	15,924	71	15,853
Tier 2 Capital	15,924	0	15,853
Total Capital Resources	87,398	0	85,434

The table below represents BOA UK's composition of capital resources.

£'000	2020	2021
Tier 1 Capital	69,581	63,397
Tier 2 capital	15,853	15,032
Own funds	85,434	78,429
Risk Weighted Assets	505,809	520,863
Tier 1 Capital Ratio	13.76%	12.17%
Solvency Ratio	16.89%	15.06%

4.1. Capital Adequacy and Management

The primary objective of capital management is to ensure that BOA UK complies with its regulatory capital requirements and maintains healthy capital ratios in order to support its current and future activities and maximize shareholder's value.

BOA UK maintains an actively managed capital base to cover risks inherent in the business. The Bank manages its capital structure and makes adjustments to it in light of changes in economic conditions, regulatory requirements and the risk characteristics of its activities.

4.1.1. Capital Requirements

The capital framework which firms are required to apply is described below:

- **Pillar 1** sets out the minimum capital requirements that firms are required to meet for credit, market and operational risk.

- **Pillar 2A** Individual Capital Guidance ("ICG") sets out the requirements on firms with regard to their ICAAP, internal procedures and control mechanisms. The PRA expect that firms should meet Pillar 2A with at least 56% of CET1 capital.

- **The Institution Specific Countercyclical Buffer** ("CCyB") requires the firm to build up capital when aggregate growth in credit is judged to be associated with the buildup of system wide risk and can be drawn down to absorb losses during periods of stress.

- **Capital conservation buffer** ("CCoB") is designed to enable firms to absorb losses in stressed periods.

4.1.2. Capital Management

BOA UK maintains an actively managed capital base to cover risks inherent in the business. The Bank manages its capital structure and makes adjustments to it in light of changes in economic conditions, regulatory requirements and the risk characteristics of its activities.

An Internal Capital Adequacy Assessment Process (ICAAP) of capital needs is undertaken at least annually and is presented to the various BOA UK governance committees for review, challenge and approval. The ICAAP governance process ensures the Board is engaged in the process, i.e., reviews and approves the ICAAP. The ICAAP describes how risks are assessed, controlled, monitored, mitigated and reported and helps the management determine what might be required to maintain BOA UK's solvency assuming certain stressed conditions.

The minimum amount of regulatory capital required is determined in accordance with the relevant rules and the ICG received from the PRA. On 31 December 2021, and throughout the year, BOA UK's capital in place exceeded the minimum ICG requirement.

In addition to the capital required in respect of Pillar 1 risks, BOA UK allocates additional capital in respect of other risks not addressed under the Pillar 1 minimum capital requirements in its ICAAP.

BOA UK has identified the following as additional risks under Pillar 2:

- **Concentration Risk**: this represents the capital that the Bank estimates is necessary to adequately reflect the particular risk attaching to concentrations of credit risk in industries and/or regions.
- **Interest rate risk in the banking book**: this represents the capital that the Bank estimates is necessary to adequately reflect the interest rate risk attaching to positions held in the non-trading book i.e., the banking book.
- **Operational Risk**: is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.
- **Other Pillar 2 risks**: this includes all other amounts that BOA UK considers appropriate to adequately reflect its exposure to Pillar 2 risks not set out above.

BOA UK engages in thorough stress testing, scenario analysis and contingency planning in order to better understand and prepare for low economic cycles, high impact events (such as the 2007/2008 financial crisis). The stress testing in BOA UK includes multi- risk scenarios based on both macroeconomic scenarios (systemic scenarios) and BOA UK specific scenarios (idiosyncratic scenarios) as well as combinations of both. BOA UK Stress tests are set out in the ICAAP, Recovery Plan and ILAAP.

BOA UK's assessment during 2021 is that it had more than adequate capital resources to withstand the effects of a severe economic downturn. Separately, as of 31 December 2021, and throughout the year, BOA UK's capital in place (see own capital section) exceeded the minimum ICG requirement. The table below provides a breakdown of BOA UK's Pillar 1 capital requirements at 8% under the standardized approach.

Overview of BOA UK’s 2021 Risk Weighed Assets and Minimum Capital Required under Pillar 1

	RWA £’000		Min. Cap. Req £’000
	2020	2021	2021
Credit risk (excluding counterparty credit risk) (CCR)	329,795	278,118	22,249
Of which standardized approach (SA)	329,795	278,118	22,249
Of which internal rating-based (IRB) approach			
Counterparty credit risk	217	350	350
Of which standardized approach for counterparty credit risk			
Of which internal model method (IMM)			
Of which CVA	217	350	28
Equity in banking book under market-based approach			
Equity investments in funds – look-through approach			
Equity investments in funds – mandate-based approach			
Equity investments in funds – fallback approach			
Settlement risk			
Securitization exposures in banking book			
Of which IRB ratings-based approach (RBA)			
Of which IRB Supervisory Formula Approach (SFA)			
Of which SA/simplified supervisory formula approach			
Market risk	139,057	206,395	16,512
Of which standardized approach (SA)	139,057	206,395	16,512
Of which internal model approaches (IMM)			
Operational risk	36,741	36,001	2,880
Of which Basic Indicator Approach	36,741	36,001	2,880
Of which Standardized Approach			
Of which Advanced Measurement Approach			
Amounts below the thresholds for deduction (subject to 250% risk weight)			

Floor adjustment			
Total	505,810	520,864	41,991

5. CREDIT RISK

This is the potential risk that arises from customers failing to meet their obligations as they fall due. Credit risk includes counterparty risk, settlement risk and concentration risk. BOA UK faces credit risk on its exposure to sovereigns and corporates from its capital markets, corporate banking, project finance and commodity trade finance businesses, and from its exposure to financial institutions and corporates from its trade finance and treasury activities.

BOA UK has a detailed credit policy and procedures manual providing operating model and information on how the credit risk management processes are embedded in the business and overseen at the highest level within the bank.

BOA UK undertakes business (providing solutions, products and services accordingly) within the defined risk appetite and within the governance in place for approving any credit risk.

The Board of Directors (BoD) is the ultimate authority responsible for credit risk. On a business-as-usual basis the BoD delegate the Credit Risk responsibility to BRC who in turn delegates day to day activities to the Credit Committee. More specifically the Credit Committee, oversees the management of the credit risk structure, reviews and approves credit applications within its delegated authority and take decisions on credit issues that are beyond the authorities granted to management. Exposures are monitored daily, and appropriate action taken should a credit limit be breached.

The tables below provide a breakdown of the Bank exposure and RWA on 31 December 2021 and December 2020. The Bank uses Moody's, S&P and Fitch credit ratings in order to arrive at the risk weights necessary to calculate the risk-weighted values for its exposures to rated institutions. Where an institution is not externally rated, BOA UK uses its internal assessment to rate the institution (see ECAIS section).

Credit Risk Exposures and RWA per asset class as of 31 December 2021

2021	Exposures before CCF and CRM		Exposures post-CCF and CRM		RWA and RWA density	
Asset classes £'000	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
Sovereigns and their central banks	95,654	7,029	65,862	7,029	29,656	45%
Non-central government public sector entities	-		-	-	-	-
Multilateral development banks	-	-	-	4,196	-	-
Banks	32,532	14,462	39,451	8,280	15,814	40%
Corporates	164,586	88,379	193,217	45,011	183,016	95%
Regulatory retail portfolios	5	-	5	-	4	80%
Claims on institutions and corporate with a short-term credit assessment	40,316	4,633	40,988	4,205	19,337	47%
Exposures in default	8,960	-	2,530		3,473	137%
Other assets	21,698	-	21,698	-	26,817	124%
Total	363,838	114,503	363,838	68,721	278,112	76%

Credit Risk Exposures and RWA per asset class on 31 December 2020

2020	Exposures before CCF and CRM		Exposures post-CCF and CRM		RWA and RWA density	
Asset classes £'000	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
Sovereigns and their central banks	107,547	2,754	71,777	1,377	30,383	42%
Non-central government public sector entities	2,441	-	244	-	244	100%
Multilateral development banks	-	-	2,587	-	-	0%
Banks	53,032	4,813	57,222	4,813	34,231	60%
Corporates	202,675	39,357	238,451	20,611	213,117	89%
Regulatory retail portfolios	2	-	2	-	2	75%
Claims on institutions and corporate with a short-term credit assessment	10,651	26,081	10,651	14,918	33,030	310%
Exposures in default	9,116	-	2,372	-	3,301	139%
Other assets	9,714	-	11,873	-	15,487	130%
Total	395,180	73,005	395,180	41,719	329,795	83%

BOA UK exposure on 31 December 2021 by asset classes and risk weights post CCF and CRM

Exposure Classes	**Risk Weighting %**	**RWA (£ '000)**	**Pillar 1 (£ '000)**
Corporate	20%	5,554	444
	50%	25,216	2,017
	100%	127,381	10,190
	150%	24,866	1,989
Central Governments	0%		
	50%		
	100%	29,180	2,334
	150%	476	38
Public Sector Entities			
	100%		
Institutions	20%	1,123	90
	50%	6,214	497
	100%	8,478	678
Retail	75%	4	0
Exposures in Default	100%	644	52
	150%	2,830	226

Claims on Institutions with a short-term credit assessment	20%	7,323	586
	50%		
	100%	2,900	232
	150%	9,114	729
Other Items	20%	1,146	92
	50%	587	47
	100%	6,939	555
	150%	2,230	178
	250%	15,914	1,273
Total		278,118	22,249

5.1.1. Counterparty credit risk

This is the risk that a counterparty in a foreign exchange, interest rate, commodity, equity or credit derivative contract defaults prior to maturity date or before the final settlement of the contract/transaction cashflows. BOA UK trades vanilla products and only uses derivatives to hedge FX and interest rate risk. The Capital Requirement related to counterparty exposure for these products is calculated based on the mark to market method and is not material for BOA UK.

i. *Internal capital and credit limits*

Treasury is authorised only to execute trades with approved counterparties. The counterparties, their credit ratings and counterparty limits are proposed by TCM, reviewed by Risk Management and approved by the CC, BRC and the Board. This approval is updated at least once a year.

Any adverse event affecting the credit standing of any names in the approved counterparty list is advised immediately to Risk Management, ALCO and the CC for appropriate action. TCM will act accordingly upon any notice received.

ii. Collateral management

The Bank also seeks to negotiate with counterparties on a case-by-case basis, where collateral is deemed a necessary or desirable mitigant to the exposure. The terms of a Credit Support Annex (CSA) are specific to each legal document and determined by the Credit Committee approval for the counterparty. The nature of the collateral is specified in the legal document and is typically cash or highly liquid securities.

5.1.2. Use of Credit Risk Mitigation Techniques

BOA UK only use either cash or credit risk insurance from insurance providers rated A- or higher as collateral. BOA UK does not assign any value or take any risk mitigation benefits from other forms of security obtained/held and therefore does not make use of balance sheet netting. BOA UK in the last two years had the following collateral and financial guarantees.

2021 £'000	Exposures unsecured: carrying amount	Exposures secured by collateral	of which secured by collateral	of which secured by financial guarantees	of which secured by credit derivatives
Loans	354,792	119,996	29,952	90,044	
Debt securities					
Total	363,753	126,426	29,952	90,044	
Of which defaulted	8,960	6,430		6,430	

Defaulted loans reported on 31 December 2021

	2021 £'000
Defaulted loans and debt securities at end of the previous reporting period	13,854
Loans and debt securities that have defaulted since the last reporting period	
Returned to non-defaulted status	
Amounts written off	
Other changes	172
Defaulted loans and debt securities at end of the reporting period	14,026

Note: Figures stated using regulatory submissions and may differ from Annual Financial Statements due to timing reasons.

6. IMPAIRMENT PROVISIONS (IFRS 9)

Every exposure in the portfolio is allocated into each of the IFRS 9 stages (1, 2&3), which in turn determines how its ECL is calculated. Most exposures will be classified as stage one at origination and will be moved to stage two if there is significant increase in credit risk (SICR). The Bank use both qualitative and quantitative criterion to decide if there has been significant increase in credit risk since date of origination of the asset. The Bank's process to assess changes in credit risk is multifactor and comprise three main metrics:

a) Primary indicators (Quantitative) i.e.(i) change in lifetime PDs and (ii) movement along the rating band

b) Secondary indicators (Qualitative); the bank considers a number of qualitative factors to determine the level of credit risk.

c) 'Backstop' Indicators – there is a rebuttable presumption that the credit risk has increased significantly if contractual payments are more than 30 days past due; this presumption is applied unless the Bank has reasonable and supportable information demonstrating that credit risk has not increased significantly since initial recognition.

Each counterparty is monitored for SICR on an ongoing basis.

The determination of whether there has been a significant increase in credit risk is taken by the Provisions Committee which receives recommendations from both Risk Department and the Relationship Managers. The quantitative element is the primary indicator of significant increases in credit risk, with the qualitative element playing a secondary role.

The computation of the ECL is based on the combination of the three factors: PD, LGD and EAD.

The Bank uses an externally acquired model to generate PDs and LGDs used in the calculation of ECLs. As the reflection of multiple scenarios is a requirement under the IFRS9 standard, the model uses three scenarios in the estimation of both PD and LGD. The data is sourced from multiple sources (i.e., IMF, S&P, and World Bank) and input under different scenarios (Base, Upside and Downside). Each scenario is assigned a weight. The Model incorporates the following forward-looking information projected out 5 years: GDP growth, change in Unemployment, change in Equity Index, change in Energy Index, change in Non-Energy Index and change in the Proportion of rating Downgrades.

As the calculation of the PD and LGD are affected by future economic conditions, the final model output (ECL) is influenced by economic expectations. As a result of this relationship during periods of positive economic outlook the model output (ECL) will go down due to lower PiT PDs and LGDs. While in times of economic downturns the ECL estimates will increase.

BOA UK has established a robust credit risk framework to ensure that the Bank undertakes acceptable credit business; manages its credit portfolio effectively and is able to deal with negative events as they may arise from time to time. To this end, BOA UK has produced an internal Credit Risk Provisioning Policy. This policy aims to clearly set out the procedure that BOA UK will follow when making provisions in line with IFRS 9 requirements. Noting BOA UK is required by regulators and in line with best practice to at all times to assesses and monitor all problem (both potential and actual) accounts on a regular basis and have an adequate level of provisions for all Estimated Credit Losses (ECL).

NOTE: BOA UK takes a provision on a specific client/transaction basis and not a general or collective provision on a portfolio basis. The aggregate amount of specific provisions (including interest in suspense and expenses) would be adequate to absorb the estimated credit losses for individually identified credit exposures.

Impairment of Goodwill - Goodwill is tested at each reporting date for impairment and the evaluation requires significant management judgement in estimating the present value of future estimated cash flows expected to be derived from the cash generating units (CGU) to which goodwill has been allocated. Goodwill arising from business combination is allocated to CGU or group of CGUs that are expected to benefit from the synergies of the combination. Assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that is largely independent of the cash inflows of other assets or CGUs.

Impairment of Other Intangible Assets - They are reviewed for any indication of impairment at each reporting date. Where there is such an indication, judgement is required in the estimation of the present value of the future cash flows expected to be derived from the asset or the cash generating unit to which it is allocated.

Credit Quality of Assets as at 31December 2021

2021	Gross carrying values of		Allowances/Impairments	Net values
£000	Defaulted exposures (a)	Non-defaulted exposures (b)	(c)	(a + b - c)
Loans	14,026	356,148	6,422	363,752
Debt/Securities				-
OBS exposures		114,503		114,503
Total	14,026	470,652	6,422	478,255

Credit Quality of Assets on 31 December 2020

2020	Gross carrying values of		Allowances/Impairments	Net values
£000	Defaulted exposures (a)	Non-defaulted exposures (b)	(c)	(a + b - c)
Loans	13,854	388,045	6,718	395,180
Debt/Securities				-
OBS exposures		73,005		73,005
Total	13,854	461,050	6,718	468,185

7. UNENCUMBERED ASSETS

An asset is treated as encumbered if it has been pledged or is subject to any form of arrangement to secure, collateralize or credit-enhance any on-balance-sheet or off-balance-sheet transaction from which it cannot be freely withdrawn. Assets pledged that are subject to any restrictions in withdrawal, such as assets that require prior approval before withdrawal or replacement by other assets, are considered encumbered. As of 31 December 2021, BOA UK had no encumbered assets.

8. USE OF ECAIS

BOA UK makes use of external credit assessments provided by Fitch and S&P who are recognized by the regulator as an eligible external credit assessment institution (ECAI) for the purpose of calculating credit risk requirements under the standardized approach. External credit assessments are used in relation to the following asset classes:

- Central Governments and Central Banks.
- Financial Institutions.
- Corporates.
- Insurance companies and Insurance Syndicates.

Credit Quality Steps as of 31 December 2021

ECAIs rating 2021	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to BB-	B+ to B	CCC+ and below		
Credit Quality Step	1	2	3	4	5	6	Unrated	Total
£'000								
Central Gov./Central Banks					29,180	476		29,656
Public Sector Entities								0
Multi-lateral Development banks								0
International Organisations								0
Institutions		1,123	6,213	8,478				15,814
Corporates	5,554	25,216		127,381		24,866		183,017
Secured by mortgages on immovable property								0
Exposures in default					3,474			3,474
Institutions/corporate with a short-term credit		7323			2,900	9,113		19,336
Equity exposures								0
Retail							5	5
Items associated with particularly high risk								0
Other items		1146	588	6,939		2230	15,914	26,817
Grand Total	5,554	34,808	6,801	142,798	35,554	36,685	15,919	278,119

9. MARKET AND LIQUIDITY RISK

9.1.1. Market Risk

Market Risk is the risk that the Bank's earnings or capital, or its ability to meet business objectives, will be adversely affected by changes in the level or volatility of market rates or prices such as interest rates, credit spreads, commodity prices and foreign exchange rates. This incorporates a range of risks, however for BOA UK the principal elements are interest rate and currency exchange rate risk. BOA UK has some appetite for trading securities and other debt instruments, mainly in relation to the management of overall liquidity requirements, which expose it to financial risk of changes in bond prices. Risks are managed individually through the use of limits and restricting product exposures.

The management and measurement of market risk is continuous and undertaken by both the TCM department and Risk Management Unit. Daily reports are prepared and assessed. All market risks are monitored and regularly considered by the ALCO, BRC and the Board.

Market risk in the banking book may arise from corporate banking activities; all market risk arising from this business will be passed to the trading book for active management and will therefore attract the additional capital requirements for interest rate and foreign exchange risk set out above. Only minimal currency risk arises from BOA UK's fixed income activity as the purchase of most securities denominated in foreign currency would be funded on a matched basis. Currency risk will arise, however, from BOA UK's trading in foreign exchange, mainly spot and forwards (not options).

Market risks are included under Pillar 1 following the requirements of the standardized approach for specific risk capital charge and the interest rate maturity method for general market risk. The market risk RWAs are given below:

	2020 RWA	2021 RWA
Outright products £'000		
Interest rate risk (general and specific)	131,152	191,965
Equity risk (general and specific)		
Foreign exchange risk	7,905	14,430
Commodity risk		
Options		
Simplified approach		
Delta-plus method		
Scenario approach		
Securitization		
Total	139,057	206,395

9.1.2. Liquidity Risk

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

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

The Bank monitors its LCR to ensure that at all times it is operating within this requirement. The Bank's LCR has consistently remained above 100% the regulatory requirement (including the regulatory buffer). The Bank Liquidity risk appetite is higher than the current min regulatory requirement of 100%.

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

The LCR composition as of 31 December 2021 is detailed in the table below:

		Total unweighted value (AVG) £'000	Total weighted value (AVG) £'000
High-quality liquid assets			
1	Total HQLA	47,310	47,310
Cash outflows			
2	**Retail deposits and deposits from small business customers, of which:**	1,914	333
3	Stable deposits	290	15
4	Less stable deposits	1,624	318
5	**Unsecured wholesale funding, of which:**	102,874	59,346
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	12,119	3,030
7	Non-operational deposits (all counterparties)	90,755	56,316
8	Unsecured debt		
9	**Secured wholesale funding**		
10	**Additional requirements, of which:**	14,392	14,392
11	Outflows related to derivative exposures and other collateral requirements	14,392	14,392
12	Outflows related to loss of funding on debt products		
13	Credit and liquidity facilities		
14	**Other contractual funding obligations**		
15	**Other contingent funding obligation**	66,166	3,784
16	**TOTAL CASH OUTFLOWS**		77,855
Cash inflows			
17	**Secured lending (i.e., reverse repos)**		
18	**Inflows from fully performing exposures**	67,543	64,920
19	Other cash inflows		
20	**TOTAL CASH INFLOWS**	67,543	64,920

			Total Adj. value
21	**Total HQLA**		47,310
22	**Total net cash outflows**		19,464
23	**Liquidity Coverage Ratio (%)**		243.06%

9.1.3. Exposure to Interest Rate Risk not in Trading Book

We define Interest Rate Risk in the Banking Book (IRRBB) as the risk on BOA UK's capital and earnings arising from adverse movements in interest rates that might affect the banking book positions. BOA UK's main interest rate risk (IRR) is the risk arising from the funding of loans and the bond portfolios. Noting the relatively simple vanilla products offered by BOA UK, there is very limited potential for impact from typical "optionality risk" (as would be embedded in more complex products offered by other banks).

We calculate the IRRBB using six interest rate scenarios as prescribed by the International Bank of Settlement (BIS) in "Interest rate risk in the banking book guidance published in 2016 and PRA guidance. We establish the potential IRR based on the maximum movement between the base case and the following interest rate shock scenarios (200bp - Parallel Up/Down, Steepener, Flattener, Short rate up, Short rate down).

We have calculated but not considered the impact of a 2% negative shift in interest rates as we do not hold any short bond positions and therefore not exposed to a fall in interest rates. There is no impact from BOA UK's equity, hence no calculation is undertaken or included in the IRRBB for equity.

If there is any change in our strategy to incorporate fixed rate lending in the banking book, we will hedge by transferring the risk to the trading book.

10. OPERATIONAL RISK

Operation Risk is the risk of loss arising from failed or inadequate internal processes or systems, human error or other external factors. This risk is managed by individual business areas that have responsibility for putting in place appropriate controls for their business. The Head of Operational Risk reports to the CRO to ensure close co-ordination in control and risk assessments on a regular basis.

BOA UK adopts the standardized approach (Basic Indicator Approach) for calculating the Pillar 1 charge relating to Operational Risk and consequently embarks on rigorous risk identification exercises to establish any Pillar 2 requirement for Operational Risk.

BOA UK's Operational Risk framework aims to:

- Control (potential) losses generated by operational risk.
- Improve control of operations where necessary.
- Put in place adequate performance measurement and early warning signals; and
- Enhance operational risk awareness and culture.

In order to ensure the Bank has sufficient capital to cover these operational risks the Bank also maintains a range of insurance policies to cover eventualities such as business interruption, loss of computer systems and damage to property.

11. LEVERAGE RATIO

The Leverage Ratio was introduced under the Basel III reforms as a simple, transparent, non-risk-based ratio intended to restrict the build-up of leverage in the banking sector to avoid a distressed deleveraging process that could damage the broader financial system. It is defined as the ratio of Tier 1 Capital to Total Exposures (pre-Credit Risk Mitigation and Risk Weighting of exposures).

Monitoring and requiring firms to manage this metric allows regulators to limit the accumulation of excessive leverage, which is widely considered to have precipitated the banking crisis. The PRA has proposed that a minimum leverage ratio requirement of 3% will apply to all banks in the UK.

As of 31 December 2021, BOA UK had a leverage ratio of 11.51% (13.22% at 31/12/2020), very comfortably in excess of the PRA minimum (see table below for details). Given BOA UK's overall balance sheet size, relatively limited range of banking products and clients, it is considered that the risk of a material unexpected movement in the leverage ratio is very limited. Therefore, the risk of excessive leverage is minimal. BOA UK regularly monitors its Capital Adequacy Ratio; this provides an effective early indication of potential changes in the leverage ratio.

The risk of excessive leverage is also managed through the Recovery & Resolution Plan. If the leverage ratio were to fall below a defined level, BOA UK may take actions to restore its capital position, which may include actions to increase capital resources or to reduce the size of the balance sheet based on a time scale deemed appropriate to the situation.

The following table provides the computation of the Leverage Ratio:

On-balance sheet exposures (GBP '000)		**2020**	**2021**
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	495,642	500,152
2	Intangibles Asset amounts deducted in determining Basel III Tier 1 capital	12,119	18,835
3	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of rows 1 and 2)**	**483,523**	**481,317**
Derivative exposures			
4	Replacement cost associated with *all* derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)	196	0
5	Add-on amounts for PFE associated with *all* derivatives transactions	760	733
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework		
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)		
8	(Exempted CCP leg of client-cleared trade exposures)		
9	Adjusted effective notional amount of written credit derivatives		

10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)		
11	Total derivative exposures (sum of rows 4 to 10)	**956**	**733**
Securities financing transaction exposures			
12	Gross SFT *assets* (with no recognition of netting), after adjusting for sale accounting transactions		
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)		
14	CCR exposure for SFT assets		
15	Agent transaction exposures		
16	Total securities financing transaction exposures (sum of rows 12 to 15)		
Other off-balance sheet exposures			
17	Off-balance sheet exposure at gross notional amount	41,720	68,721
18	(Adjustments for conversion to credit equivalent amounts)		
19	Off-balance sheet items (sum of rows 17 and 18)	**41,720**	**68,721**
Capital and total exposures			
20	**Tier 1 capital**	**69,581**	**63,397**
21	**Total exposures (sum of rows 3, 11, 16 and 19)**	**526,199**	**550,771**
Leverage ratio			
22	**Basel III leverage ratio**	**13.22%**	**11.51%**

12. SECURITISATION

BOA UK does not undertake securitization, hence no disclosure is provided or required.

13. REMUNERATION POLICY

The remuneration policy of the Bank applies to all employees including its Board of Directors. The policy is subject to approval by the Remuneration Committee and the Board. The policy reflects the Bank's objectives for good corporate governance and in addition, it ensures that:

- the Bank is able to attract, develop and retain high-performing and motivated employees of the appropriate caliber to further the success of the Bank.
- the linking of reward to business and individual performance and strengthening of co-operative values which include a strong belief in stewardship of all the Bank's resources and, therefore, ensures that executives are not rewarded for the assumption of undue risk.
- pay practices are coherent and aligned with the employment conditions.
- appropriate compliance with the FCA Code of Practice.

The policy focuses on ensuring sound and effective risk management through a stringent governance structure for setting goals and communicating these goals to employees including both financial and non-financial goals in performance and result assessments making fixed salaries the main remuneration component.

13.1 Remuneration Components

The various remuneration components are combined to ensure an appropriate and balanced remuneration package that reflects the business unit, the employee's position in the Bank and professional activity as well as market practice. The current remuneration components are:

- basic salary
- pension scheme
- other benefits

13.2 Performance -based remuneration

Performance-based remuneration is awarded in a manner which promotes sound risk management and does not induce excessive risk-taking. This is done by ensuring:

- an appropriate balance between fixed and performance-based components
- that the fixed component represents a sufficiently high proportion of the total remuneration to make non-payment of the performance-based component possible
- that the performance-based component reflects the risk underlying the achieved result
- that awarded performance-based pay may be forfeited in full or in part if granted on the basis of unsustainable results.

13.3 Compensation for key management personnel of the Bank

Key management of the Bank include CEO, CFO, CRO, COO and MD Treasury and Capital Markets along with the Non-Executive Directors of the Bank. The non-executive Directors do not receive pension entitlements from the Bank.

The compensation for 2021 and 2020 are summarised in the table below.

£'000	2021	2020
Short term employee benefits	960	834

Compensation of (CEO, CFO, CRO, COO, MD)	960	834
Short term employee benefits	313	260
Compensation on non-executive Directors	313	260
Total compensation for key management	**1,273**	**1,094**

14. FINANCIAL RISK FROM CLIMATE CHANGE

The Board recognise that the Bank has regulatory and stakeholder obligations resulting from the financial risks which arise, or may arise in the future, from climate change.

The Bank has a Financial Risk from Climate Change (FRCC) policy that constitutes the Board's documented response to such obligations. The scope of the policy covers the following topics which were considered the most relevant for climate risk management:

- Risk governance
- Risk Management frameworks
- Risk appetite
- Scenario analysis

Physical Risks

Physical risks from climate change arise from several factors, and relate to specific weather events, such as heatwaves, floods, wildfires and storms, and the effects of longer-term shifts in the climate, such as changes in precipitation, extreme weather variability, sea level rise, and rising mean temperatures.

Transition Risks

Transition risks arise from the process of adjustment towards a low-carbon economy, including climate-related developments in policy and regulation, the emergence of disruptive technology or business models, and shifting sentiment and societal preferences.

FRCC Considerations

Both physical and transition risks may affect the livelihoods of individuals, and the viability and value, respectively, of businesses and countries, and their assets. Such effects can obviously increase financial risks, such as credit risk. Shifting sentiment and societal preferences may increase other risks, such as reputation risk - the Bank notes that the European Investment Bank announced the imminent cessation of all lending or investment supporting new fossil fuel projects.

Additionally, FRCC have distinctive elements, including the following:

- They may be exceptionally far-reaching in breadth and magnitude: their full impact on the financial system may therefore be larger than for other types of risks, and is potentially non-linear, correlated, and irreversible - past data may not be a good predictor.
- They present under uncertain and extended time horizons, and their full impact may crystallise outside of usual business planning horizons.
- While the exact outcome of Climate Change is uncertain, there is a high degree of certainty that financial risks from some combination of physical and transition risk factors will occur and

- The magnitude of future impact will, at least in part, be determined by the actions taken today; significant action taken, but too late to achieve climate goals, could result in the most severe financial risks crystallising.

These distinctive elements demand a strategic approach to FRCC.

15. GLOSSARY

Average Risk Weight (RW)	Risk weighted assets divided by capital exposure.
Basic Indicator Approach	The basic indicator approach, calculated using proxy percentages of 15% of the average of the previous 3-year bank's positive net interest income and net non -interest income to calculate a charge for operational risk.
Basis risk	Basis risk is the financial risk that offsetting investments in a hedging strategy will not experience price changes in entirely opposite directions from each other.
Cap-Floor Risk	Agreement between two parties providing the purchaser an interest rate ceiling or 'cap' on interest payments on floating rate debts.
Capital Conservation Buffer	To ensure that banks build up capital buffers outside periods of stress which can be drawn down as losses are incurred.
Common Equity Tier 1 (CET1)	The highest quality of regulatory capital resources, comprising common equity, retained earnings less regulatory adjustments, as defined under CRD IV. This is Equivalent to Core Tier1 as defined under previous CRD legislation.
Common Equity Tier 1 capital ratio	the ratio of Common Equity Tier 1 Capital to Risk Weighted Assets
Countercyclical Capital Buffer	This buffer is intended to protect the banking sector against losses that could be caused by cyclical systemic risks.
Counterparty Credit Risk	Counterparty credit risk is the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows.
Credit Quality Steps (CQS)	A credit quality assessment scale as set out in CRD IV
CRD IV	A package of legislation incorporating a Regulation (CRR) and a Directive (CRD) that implements the Basel Ill framework in Europe.
Credit risk	Risk of financial loss arising from a failure of a customer or counterparty to settle their financial and contractual obligations as they fall due.
Credit risk mitigation	Techniques to reduce the potential loss in the event that a customer (borrower or counterparty) becomes unable to meet its obligations. This may include the taking of financial or physical security, the assignment of receivables or the use of credit derivatives, guarantees, credit insurance, set off or netting.
External Credit Assessment	an ECAI (e.g., Moody's, Standard and Poor's, Fitch) is an institution that assigns credit ratings to issuers of certain types of debt obligations as well as the debt instruments themselves
Financial Conduct Authority	the UK conduct regulator which is responsible for regulation of conduct in
(FCA)	retail, as well as wholesale, financial markets and the infrastructure that supports those markets. The FCA's objective is to protect consumers, promote competition and enhance market integrity.
Gap risk	Gap risk refers to the risk that the price of a particular investment security can change significantly without any market trading taking place.
Guarantee	An agreement by a third party to cover the potential loss to a credit institution should a specified counterparty default on their obligations.

ICAAP	The Bank's internal assessment of the levels of capital that need to be held by the Bank to meet its regulatory capital requirements.
Individual Capital Guidance	The minimum amount of capital the Bank should hold as set by PRA under Pillar 2
Individual Liquidity Adequacy Assessment (ILAAP)	the Bank’s internal assessment of the levels of liquidity that need to be held by the Bank to meet its regulatory liquidity requirements.
Interest rate risk	Interest rate risk is the exposure of a firm’s financial condition to adverse movements in interest rates
Maturity	The remaining time in years that a borrower is permitted to take to fully discharge their contractual obligation (principal, interest and fees) under the terms of a loan agreement.
Minimum Capital Requirement	The minimum amount of regulatory capital that a financial institution must hold to meet the Pillar 1 requirements for credit, operational and market risk.
Operational Risk	Risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events.
Pillar 1	The part of the Basel III Framework which sets out the regulatory minimum capital requirements for credit, market and operational risk.
Pillar 2	The part of the Basel III Framework which sets out the process by which financial institutions review their overall capital adequacy. Supervisors then evaluate how well financial institutions are assessing their risks and take appropriate actions in response to the assessments. This includes all risks (Including Pillar 1 risks)
Pillar 3	The part of the Basel III Framework which sets out the disclosure requirements for firms to publish details of their risks, capital and risk management. The aims are greater transparency and strengthening market discipline.
Pipeline risk	the lender's risk that, between the time a lock commitment is given to the borrower and the time the loan is closed interest rates will rise and the lender will take a loss on selling the loan.
Prepayment risk	Prepayment risk is the risk involved with the premature return of principal on a fixed-income security.
Provisions/ECL	Amounts set aside to cover expected losses associated with credit risk.
PRA	The UK prudential regulator, which is a part of the Bank of England and alongside the FCA has responsibility for the oversight of building societies, banks and insurers. The PRA’s objective is to promote the safety and soundness of regulated firms.
Risk Weighted Assets (RWA)	A regulatory measure that adjusts the value of assets to reflect their level of risk when calculating capital requirements.
Stress testing	Various techniques that are used to gauge the potential vulnerability to exceptional but plausible events.
Subordinated debt	Tier 2 capital that is subordinated to the claims of all depositors, creditors and members holding shares in the Bank.
The Standardized Approach	The standardized approach to credit risk, calculated by applying varying RWA percentages to credit exposures, depending on the underlying risk.
Tier 1 (T1) capital	the sum of Common Equity Tier 1 and Additional Tier 1

Tier 1 (T1) capital ratio	the ratio of Tier 1 capital to Risk Weighted Assets
Tier 2 (T2) capital	A measure of regulatory capital that includes subordinated liabilities and provisions for collective impairment, less regulatory adjustments.

TCR	Total Capital Requirements
Total capital ratio	The Ratio of Total Capital to Risk Weighted Assets
Total Capital Requirement	the Total Pillar 1 requirements and Pillar 2A requirements (TCR)
Yield Curve risk	the yield curve risk is the risk of experiencing an adverse shift in market interest rates associated with investing in a fixed income instrument.