# GULF INTERNATIONAL BANK (UK) LTD

## Basel II Pillar 3 Disclosures

**31 December 2020**

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# 1. OVERVIEW

## 1.1 Introduction and background

Gulf International Bank (UK) Limited ("GIB (UK)") is authorised by the Prudential Regulation Authority ("PRA") and regulated by the PRA and the Financial Conduct Authority ("FCA"). The Bank has a branch in New York and is a wholly owned subsidiary of Gulf International Bank B.S.C (Bahrain). This document sets out the Basel II Pillar 3 disclosures required by Fourth Capital Requirements Directive (CRD IV) and the Capital requirements Regulations (575/2013) ("CRR") and BIPRU Chapter 11. The European Banking authority (EBA) issued guidelines in December 2016 on the disclosure requirements under part 8 of the CRR. These have been considered and included where applicable.

The Basel II framework consists of three "Pillars", as summarised below:

- Pillar 1 defines minimum capital requirements which firms are required to maintain for Operational, Market and Credit risk.
- Pillar 2 defines the supervisory review process which firms are required to maintain including a requirement to conduct an Internal Capital Adequacy Assessment Process (ICAAP)
- Pillar 3 defines market discipline by developing a set of regulatory disclosure requirements that will give market participants transparency in relation to a firm's regulatory capital and risk exposures

## 1.2 Disclosure policy

### 1.2.1 Scope of disclosure

All financial information in this Basel II Pillar 3 document is as at 31st December 2020, our financial year-end with the prior year end comparatives (where applicable). These disclosures have not been subject to external audit except where they are equivalent to those prepared under accounting requirements for inclusion in the annual report and accounts. These disclosures are in addition to those set out in the GIB (UK) financial statements presented in accordance with the International Financial Reporting Standards (IFRS) and the disclosures are mostly based on the information included within the regulatory returns unless stated otherwise.

### 1.2.2 Frequency and location

GIB (UK) will publish this pillar 3 disclosures document on an annual basis on the publically accessible website ww.gibam.com.

## 1.3 CRDV/CRRII

On 27th June 2019, the EU's revisions to the capital framework, known as the Capital Requirements Directive V and the Capital Requirements Regulation II, entered into force. This included a number of changes to the capital standards including:

- Changes to the calculation of market risk in line with the Basel proposals for the Fundamental Review of the Trading Book;
- Changes to the calculation of Counterparty Credit risk in line with the Basel 'SA-CCR' framework;
- Changes to the approach to calculation and measurement of IRRBB under Pillar 2 to implement the revised Basel standards on IRRBB management;
- A binding NSFR measure of 100%; and
- A binding leverage ratio measure of 3%.

The impact of these changes on GIB (UK) is mitigated by the following:

- We note that due to its size GIB(UK) should be able to utilise the simplified and less complex regimes for market risk and counterparty credit risk which reduce the extent of changes from the current CRDIV/CRR rules; and
- The implementation date for the remaining CRDV/CRRII changes are effective from January 2022

As such, whilst GIB (UK) is aware of the changes it expects the impact on its business model to be relatively minimal. The largest area of change from a capital management perspective will be the introduction of a binding leverage ratio.

The leverage ratio aims to preserve financial stability by acting as a backstop to risk based capital requirements and by constraining the building up of excessive leverage during economic upturns. It is calculated as follows:

$$\frac{Capital\ measure}{Exposure\ measure} \geq 3\%$$

GIB (UK) already reports their leverage ratio, in line with the new requirement to disclose the leverage ratio as at 1 January 2019. As at the 31 December 2020, GIB (UK)'s leverage ratio is 4.61 % and is therefore already in excess of the 2021 binding requirement of ≥3%.

# 2 GIB (UK) STRUCTURE AND OVERALL RISK AND CAPITAL MANAGEMENT

## 2.1 Corporate Structure

GIB (UK) is a 100% owned subsidiary of Gulf International Bank BSC (GIB) (registered in Bahrain), which is owned by the Public Investment Fund of Saudi Arabia (97.2%) and the Kuwait Investment Authority (0.73%), Ministry of Finance UAE (0.438%), Qatar Holding Company (0.73%), Bahrain Mumtalakat Holding Company (0.438%) and the Oman Investment Authority (0.438%).

The principal subsidiaries and basis of consolidation for capital adequacy purposes & regulatory reporting purposes are as follows:

| Subsidiary | Domicile | Ownership | Consolidation basis |
|---|---|---|---|
| GIB (UK) Nominees Limited | United Kingdom | 100% | Full Consolidation |
| GIB (UK) Alternative Investment Management Ltd | United Kingdom | 100% | Full Consolidation |

There are no investments in subsidiaries that are treated as a deduction from the GIB (UK)'s regulatory capital.

Note:
GIB (UK) Nominees is an unregulated entity.
GIB (UK) Alternative Investment Management Limited has recently been de-registered with the FCA and will be wound down soon.

## 2.2 Risk Management & Governance

### 2.2.1 Governance Structure

GIB (UK) has a governance framework which set out its committee structure. GIB (UK) also has a risk management framework which includes policies, procedures, limits, and comprehensive risk measurement and management information systems for the identification, control, monitoring and reporting of financial and non-financial risks. GIB (UK) is required to comply with the risk management policies of the GIB Group; however GIB (UK) maintains its own governance framework and risk management framework which reflect its business model and external environment and GIB (UK)'s business lines are supported with its own policies and procedures.

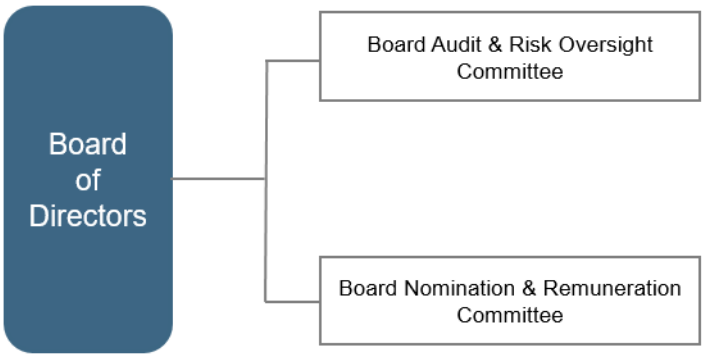
The Board of Directors ('the Board') has established a number of oversight committees chaired by independent Directors to support it. The Board committees are:

- Audit and Risk Oversight Committee (AROC);
- Nomination and Remuneration Committee

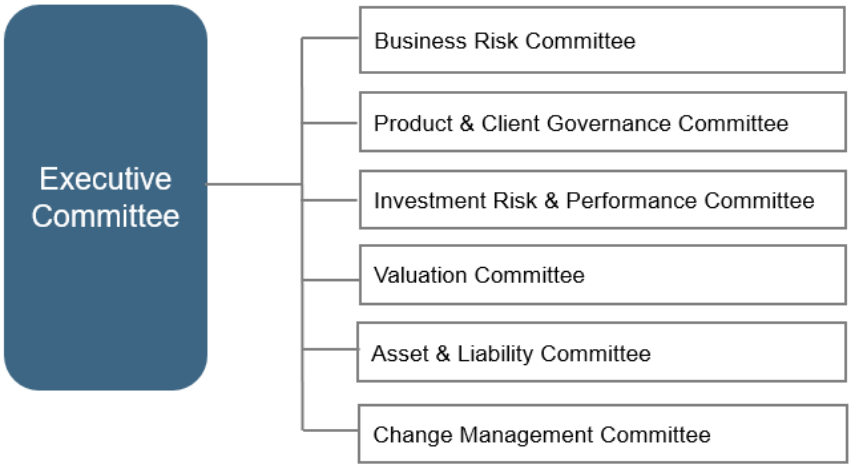
There is also a Strategy Steering Committee responsible for monitoring the implementation of GIB (UK)'s strategy. Finally, the CEO has established an Executive Committee (ExCo) and a number of Management Committees.

The GIB (UK)'s current governance structure is set out below:

## Board Committees:




## Management Committees:




### Board

The Board of Directors has ultimate authority for the management and control of GIB (UK). The Board's primary role is to oversee the activities of executive management.

The schedule of meetings is agreed by the Board in the year prior to that in which the meetings are being held. These may be varied from time to time according to diary constraints. Any director can call a meeting to address pressing matters outside of this schedule.

The scope of the Board meetings covers a prescribed list of matters. These include the regular review of financial performance of GIB (UK), GIB (UK)'s strategy and Business Plan. It also includes the annual approval of the ICAAP, the ILAAP, the Recovery Plan and the Resolution Pack.

## Audit & Risk Oversight Committee

The GIB (UK) Audit & Risk Oversight Committee (AROC) is a non-executive committee of the Board chaired by an independent Director, and is responsible for assisting the Board in providing oversight of the integrity of the financial statements; GIB (UK)'s compliance with legal, regulatory and governance requirements; reviewing all risk exposures and capital and liquidity ratios; external auditors' qualifications and independence; performance of GIB (UK)'s internal audit function; the review of GIB (UK)'s systems of internal control.

Meetings shall be held generally once a quarter or as directed by the Chair.

## Nomination and Remuneration Committee

The Nomination and Remuneration Committee is a non-executive committee of the Board chaired by an Independent director. The purpose of the Nomination and Remuneration Committee is to:

- Lead the process for Director Nominations, ensure plans are in place for orderly succession to both the Board and senior management positions, and oversee the development of a diverse pipeline for succession.
- Oversee the design of, and recommend to the Board, an overall remuneration policy for GIB (UK) that is aligned with its long-term business strategy, its business objective, its risk appetite, culture, and recognises the interests of relevant stakeholders. It oversees the implementation of, and reviews, remuneration and related policies and the alignment of incentives and rewards with culture.

The Committee meets at least twice a year.

## Executive Committee

The purpose of this committee is to maintain a reporting and control structure whereby all of the line operations of GIB (UK) are accountable to the Executive directors so as to ensure that all areas of the business are adequately managed, with particular emphasis on business development.

Responsibilities of the Executive Committee include:

- Reporting decisions and directives from the Board of Directors and coordinating their implementation.
- Reviewing corporate financial position including profitability and balance sheet. Providing input and constructive challenge to the process of budget-setting, ultimately endorsing the annual budget to be presented to the Board for approval.
- Discharging responsibilities for policy and procedure approval and ongoing oversight, as delegated by the Board.
- Meetings shall be held generally once a month or as directed by the Chair.

## Business Risk Committee

The objective of the Business Risk Committee is to advise Senior Management on the key elements of the firm's risk management approach, and to assist the Chief Risk Officer in ensuring all risks across the business are captured, understood and managed to the firm's risk appetite. The Business Risk Committee oversees the implementation of the Risk Management Framework in line with best practices in the industry whilst ensuring that it is aligned with GIB (UK).

The responsibilities for the Business Risk Committee include:

- Driving an effective risk culture across the organisation;
- Approving of risk management methodologies;
- Recommending approval of GIB (UK)-wide risk policies and limits to AROC, including the risk appetite statement and actions taken to support implementation;
- Monitoring the firm's compliance with governance and risk frameworks (established in policy and procedures);
- Approving reports and dashboards prepared by Risk & Compliance on Conduct Risk/Risk Culture, Operational, Regulatory, Market, Liquidity and Strategic/Business Risks going to AROC and Group Risk Committee;
- Overseeing management of significant risk issues, monitoring key risk indicators, and progress against any risk and audit points raised;
- Approving the Risk and Compliance Annual Programmes including training and monitoring plans and track their implementation.

Meetings shall be held generally once a month or as directed by the Chair.

## Asset & Liability Committee

The purpose of the Asset & Liability Committee ("ALCO") is identifying, managing and controlling all the bank's balance sheet risks and capital management, and is responsible for the implementation of the asset and liability strategy and policy (including limits) for the bank's balance sheet.

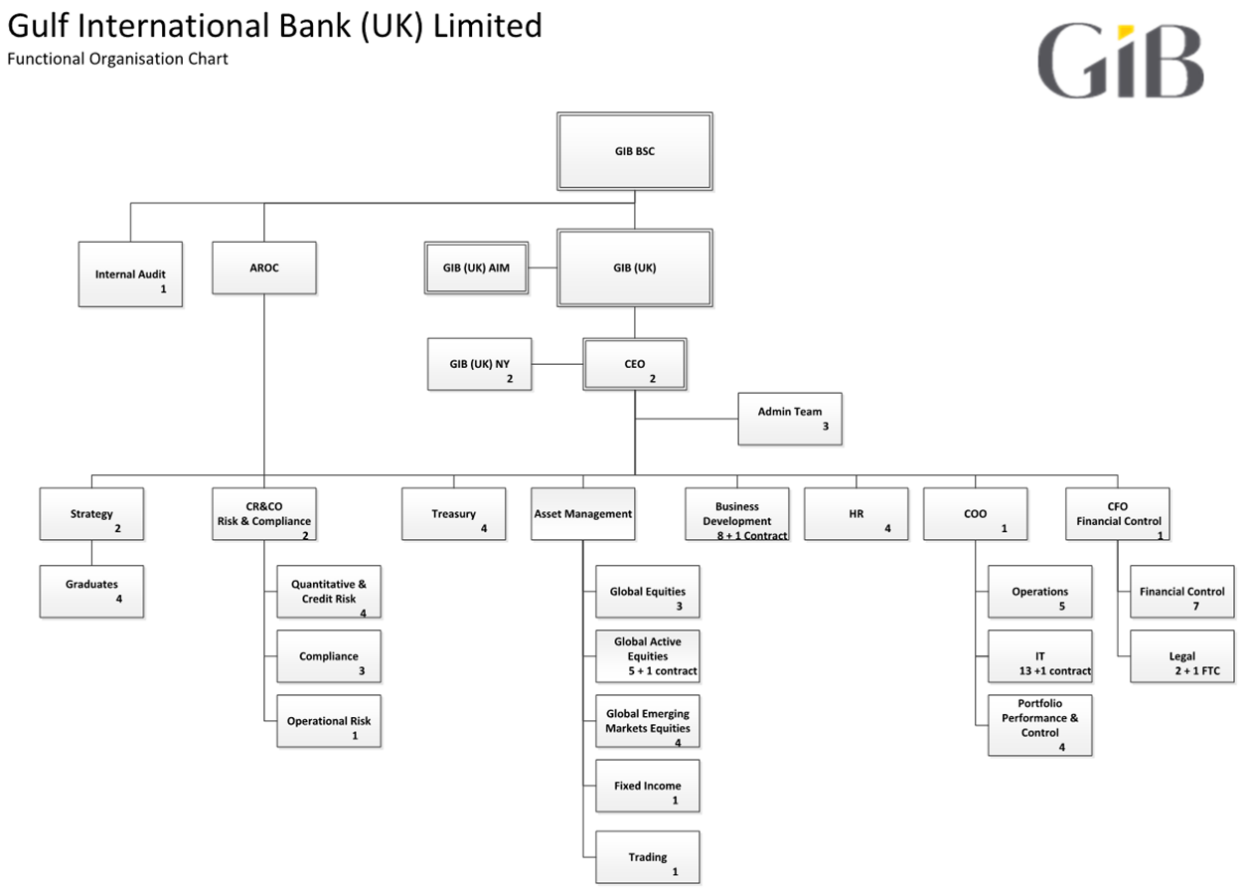
Key responsibilities of ALCO include:

- Supporting the Board with the articulation of its risk appetite statement and limits with regards to capital, interest rate, credit, market and liquidity risk.
- Reviewing capital, interest rate, credit, market and liquidity risk against limits and report on breaches and exceptions to the Executive Committee and, where outside the Board approved Risk Appetite Statement, the Audit & Risk Oversight Committee.
- Ensuring that prudential regulatory breaches for the period have been notified to the Prudential Regulation Authority.
- Discussing the contents of the reports prepared by Treasury, Financial Control and Risk departments.
- Inputting into the capital and liquidity adequacy assessment and recovery planning processes and the preparation of the resolution pack.
- Inputting into the development and approval process for new Banking & Treasury products before they are approved by the Client & Product Governance Committee.

Meetings of the Committee shall be held generally once a month or as directed by the Chair.

All Governance Committees operate to agreed and documented Terms of Reference stating objectives, authorities and responsibilities. The Terms of Reference are maintained by the Chairs and re-approved on an annual basis.

The management structure in place to support the business lines is below, showing the number of employees in each team as at September 2021:




## 2.2.2 Three Lines of defence

As part of the Risk Management Framework, GIB (UK) has a clearly defined three lines of defence model in place, which is in accordance with generally accepted best practice. The three lines of defence are as follows:

First line: Business (Treasury & Banking and Asset Management) and support units (e.g. HR, Finance & Legal, IT & Operations, Portfolio Performance & Control etc.) - take risks and operate controls. They are responsible and accountable for the ongoing management of their risks. This includes identifying, assessing and reporting exposures taking into account the firm's RA and policies;

Second line: Oversight Functions – a Risk & Compliance function, with an independent reporting line into the AROC, supports the identification, measurement, monitoring and reporting of risks and oversees the business lines' risk taking activities; and

Third line: Independent Assurance – GIB (UK) outsources its internal audit assurance function to the Group according to an agreed charter. It is not involved in developing, implementing or operating the risk management framework and reports independently to the AROC. The GIB (UK) ICAAP is covered as part of the annual Regulatory Reporting & Prudential Planning audit.

Under this model, the second LOD does not have the authority to approve or veto the Business decisions to take risks. They can confirm that a risk exposure is, in their opinion, within or out of the Board's approved RA and escalate their concerns to the CEO or Chair of AROC. However, the Money Laundering Reporting Officer has a veto right for on-boarding clients, counterparties and authorising transactions.

## 2.2.3 Limits and Monitoring

### i) Market Risk

GIB (UK)'s market risk appetite is defined through a series of VaR and interest rate gapping limits covering all aspects of the bank's business and related risks. Limits are set for each risk category (interest rate risk including, equity risk, currency risk,) and business area. Limits are also applied to the overall trading activity as well as for the bank's total activities i.e. including the banking activity.

### ii) Credit Risk

GIB (UK) also operates counterparty and country limits for credit risk over long and short as well as net positions. Individual positions are subject to credit analysis both in the Trading Book and the Banking Book and there are clear controls to track the effectiveness of limits.

### iii) Regulatory Risk

Capital usage, concentration and liquidity are monitored and reported daily against approved limits.
Monthly summaries are prepared and circulated to the Asset and Liability Committee as well as the attendees at the meetings in 2.2 above. Monthly reports also include the results of liquidity stress tests.

## 2.3 Risk Control Functions

GIB (UK) has a dedicated Risk & Compliance function independent of business units headed by the CRCO, who reports to the CEO from a management perspective, the Chair of the Audit & Oversight Risk Committee from an independent perspective and the Group CRCO from a functional perspective.

The Risk & Compliance function carries out the following functional activities:

- Developing, implementing and managing GIB (UK)'s Risk Management Framework.
- Facilitating the formulation of GIB (UK)'s RAS, as well as overseeing that risk exposure is aligned to its RA.
- Supporting Risk and Compliance Assessments in order to identify the key and material risks faced, covering all business and support functions.
- Overseeing development, reviewing and implementing of Risk and Compliance policies.
- Monitoring adherence to internal limits/ triggers and compliance with ratios to maintain alignment with regulatory requirements and internally set parameters (Key Risk Indicators, etc.) and policies.
- Monitoring adherence to applicable UK and EEA laws and regulations across GIB (UK)'s business activity, taking into account the UK and EEA regulatory requirements and tracking recommendations through to completion.
- Providing analysis on risk reporting covering the key risks to Board and Management, as well as address any reporting needs to meet regulatory requirements. Providing updates to Board and Management on regulatory change management, compliance monitoring and regulatory training.
- Overseeing the business continuity planning and operational resilience process to ensure the organisation as a whole remains viable in the event of any incident. This includes facilitating table top 'fire drills'.
- Defining the annual Risk and Compliance training plan for GIB (UK) staff covering key regulations and risk processes. Lead the delivery of the training plan.
- Establishing and maintaining an effective regulatory change management framework to identify, assess and support the implementation of new regulatory requirements by the first LOD.
- Ensuring regulatory communications are answered promptly, liaising with the regulators regarding Senior Managers approval and regulatory visits.

## 2.4 Business Activities

In the broadest sense, the role of the Bank is to generate revenues from client related services. The Bank's business may be segmented into two business lines which are summarised below:

### i) Client Asset Management

Client assets are managed through segregated discretionary portfolios, structured products and pooled investment funds in equities, fixed income and trade finance . This generates fee income for the Bank.

### ii) Treasury and Banking Services

This comprises the acceptance of client deposits and their placement in short dated money market instrument and longer term fixed income investment securities, generating money market income and client related foreign exchange revenues. In addition to executing business as principal the Bank also generates fees through its Fiduciary Deposit services, acting as agent between customers and other banks. The Bank's Treasury function ensures that the firm maintains a robust liquidity profile at all times.

# 3. CAPITAL RESOURCES

## 3.1 Capital base

The regulatory capital base as at 31 December 2020 (reported to the regulator) on a consolidated basis is set out in the table below:-

| US$ millions | Tier 1 | Tier 2 | 2020 Per Regulatory returns* | 2020 Per GIB (UK) FS disclosure** |
|---|---|---|---|---|
| Share Capital | 250 | - | 250 | 250 |
| Retained Earnings | 143 | - | 143 | 143 |
| **Total regulatory capital** | **393** | **-** | **393** | **393** |

Tier 1 regulatory capital is defined as capital of the same or close to the character of paid up capital and comprises share capital, share premium, retained earnings and eligible reserves as reported to the regulator.

Tier 2 capital comprises qualifying subordinated term finance, collective impairment provisions and revaluation reserves. GIB (UK) has no Tier 2 capital.

* Figures reported to the regulator as of 31/12/20 includes unaudited losses for financial year 2020
** As per GIB UK 2020 Financial statement note 20 (g). This includes the Bank's and its subsidiaries profits for 2020

# 4. REGULATORY CAPITAL REQUIREMENTS

## 4.1 Capital requirements for credit risk

For regulatory reporting purposes, GIB (UK) calculates the capital requirements for credit risk based on the standardised approach. Under the standardised approach on and off balance sheet credit exposures are assigned to exposure classes based on the type of counterparty or underlying exposure. Following the assignment of exposures to the relevant standard classes, the Risk Weighted Assets ("RWA") are derived based on prescribed risk weightings. Under the standardised approach, the risk weightings are provided by the PRA and are determined based on the counterparty's external credit rating. The external credit ratings are derived from eligible External Credit Assessment Institutions (ECAI's) approved by the PRA.

GIB (UK) uses ratings assigned by the following three PRA approved ECAI's; Standard & Poor's Rating Group, Moody's Investors Services and Fitch Group.

GIB (UK) uses the ECAI's risk assessments for the following classes of exposures; Central governments, multilateral development banks, Institutions, Corporates, and Other assets

An overview of the **net** exposures, RWAs and capital requirements for credit risk analysed by standard portfolio, as at 31st December 2020 are presented in the tables below:-

| US$ millions | Rated exposure | Unrated exposure | Total exposure | Average risk weight | RWA | Credit Risk capital requirement |
|---|---|---|---|---|---|---|
| Central governments | 5,089 | - | 5,089 | 2% | 83 | 7 |
| Multilateral development banks | 424 | - | 424 | - | - | - |
| Institutions | 2,391 | - | 2,391 | 31% | 738 | 59 |
| Corporates | 593 | - | 593 | 49% | 291 | 23 |
| Public Sector Entities | - | - | - | - | - | - |
| Particularly High Risk | - | 10 | 10 | 150% | 15 | 1 |
| Other assets | - | 91 | 91 | 85% | 78 | 6 |
| **Total** | **8,496** | **101** | **8,598** | **14%** | **1,206** | **96** |

**31 December 2019 (Comparatives)**

| US$ millions | Rated exposure | Unrated exposure | Total exposure | Average risk weight | RWA | Credit Risk capital requirement |
|---|---|---|---|---|---|---|
| Central governments | 6,744 | - | 6,744 | - | 8 | 1 |
| Multilateral development banks | 339 | - | 339 | - | - | - |
| Institutions | 2,262 | - | 2,262 | 27% | 607 | 49 |
| Corporates | 313 | - | 363 | 58% | 212 | 17 |
| Public Sector Entities | 21 | - | 21 | 20% | 4 | - |
| Particularly High Risk | - | 28 | 28 | 150% | 42 | 3 |
| Other assets | - | 13 | 13 | 100% | 13 | 1 |
| **Total** | **9,678** | **91** | **9,770** | **9%** | **887** | **71** |

Exposures are stated after taking account of credit risk mitigants where applicable. The treatment of credit risk mitigation is explained in more detail in section 5.1.2(vii) of this report.

The definitions of each standard portfolio and the related RWA requirements are set out in section 5 of this report.

## 4.2 Capital requirements for market risk

GIB (UK) uses the standard rules method to calculate the regulatory capital requirements relating to market risk.

The market risk is multiplied by 12.5, the reciprocal of the theoretical 8 per cent minimum capital ratio, to give market risk-weighted exposure on a basis consistent with credit risk-weighted exposure.

The RWAs and Pillar 1 capital requirements as at 31 December 2020 for market risk are presented in the table below:-

| US$ millions | RWA | Pillar 1 Capital requirement |
|---|---|---|
| Equity risk | - | - |
| Interest rate risk | 137.5 | 11 |
| Foreign exchange risk | 6.25 | 0.5 |
| **Total** | **143.75** | **11.5** |

**31 December 2019 Comparatives**

| US$ millions | RWA | Pillar 1 Capital requirement |
|---|---|---|
| Equity risk | 62.5 | 5 |
| Interest rate risk | 50 | 4 |
| Foreign exchange risk | 12.5 | 1 |
| **Total** | **125** | **10** |

## 4.3 Capital requirements for operational risk

For regulatory reporting purposes, the capital requirement for operational risk is calculated according to the standardised approach. Under this approach, the GIB (UK)'s average gross income over the preceding three financial years is allocated to prescribed business units, and then multiplied by various fixed beta factors as prescribed in the PRA rules. These beta factors range from 12 to 18 per cent.

The capital requirement for operational risk at 31st December 2020 amounted to US$10.3 million (2019: US$10.6 million).

## 4.4 Pillar 2 / ICAAP considerations

GIB (UK)'s regulatory capital base exceeded the PRA's minimum requirements throughout the year ended 31st December 2020. The GIB (UK)'s regulatory capital adequacy ratios are set out in section 4.5 of this report.

As a number of Pillar 2A risk types exist such as interest rate risk in the banking book, concentration risk and business risk, GIB (UK) uses its existing internal capital measurements as the basis for determining additional capital buffers. GIB (UK) considers the results of its capital adequacy stress testing, along with economic capital and Risk Weighted Assets (RWA) forecasts, to determine its internal capital requirement and to ensure that it is adequately capitalised in stress scenarios reflecting its risk appetite.

## 4.5 Capital adequacy

GIB (UK) has adopted the Standardised approach to credit risk, market risk and operational risk in order to calculate the Basel II Pillar 1 minimum capital requirement.

GIB (UK) capital management aims to maintain an optimum level of capital to enable it to pursue strategies that build long-term shareholder value, whilst always meeting minimum regulatory ratio requirements.

**Minimum capital requirements:** The purpose of capital adequacy regime is to bring safety and soundness in financial system. This is achieved through three pillars, Pillar 1 requires minimal capital requirement, Pillar 2 based on supervisory review process and Pillar 3 is on market discipline and transparency. The following table shows GIB (UK)'s minimum capital requirement under Pillar 1. For Pillar 2 the PRA reviews the self-assessment of risks commonly referred as the Internal Capital Adequacy Assessment (ICAAP). After supervisory review the PRA sets a Total Capital Requirement (TCR) which an institution need to hold at all times. For GIB (UK), the regulatory minimum is 13.21% (i.e. (Pillar 1+Pillar 2A/ TCR + buffers.) plus static add-on for the Pension obligation risk. The CCYB is calculated on a quarterly basis and the buffer would be increased if the requirements were above it.

GIB (UK)'s capital adequacy ratio (as reported to the regulator) at 31 December 2020 was:

| | 2020 |
|---|---|
| Total RWAs (US$ millions) | 1,482 |
| Capital base (US$ millions) | 393 |
| Tier 1 capital (US$ millions) | 393 |
| Total capital requirement (US$ millions) | 237 |
| Surplus Capital | 156 |
| **Tier 1 ratio** | 26.48% |
| **Total Capital ratio** | 26.48% |

**GIB (UK) capital base as per regulatory reporting for the year ended 31 December 2020 including the 2020 year-end unaudited/verified losses*

## 4.6 Regulatory Capital Buffer

Under CRD IV, GIB (UK) is required to meet the CCB and CCyB, both of which are expressed as a percentage of Pillar 1 RWAs.

### Capital conservation buffer ("CCB")

The CCB has been created to allow banks to build up buffers outside periods of stress. These can be used to absorb losses while avoiding breaching minimum capital requirements. The CCB buffer had been set by the PRA at 2.5%, resulting in the CCB buffer of US$ 37.1mn (i.e 2.5% of risk weighted assets) as at 31 December 2020.

As per the requirement, we have been maintaining the CCB buffer of 2.5% from 1st January 2020.

### Countercyclical buffer ("CCyB)

National authorities have the right to set a CCyB when it deems the economy to be building up system-wide risk. The rate for the UK is set by the Financial Policy Committee ("FPC") of the Bank of England.

Under CRD IV, institutions are required to calculate a weighted average CCyB rate based on the proportion of its risk weighted exposures to different countries and the CCyB rate in those countries.

As of 31 December 2020, GIB (UK) had a CCyb buffer of nil (2019: USD 1,359k) and hence a weighted average CCyB rate of 0% (2019: 0.116%).

# 5. SOURCES OF RISK

## 5.1 CREDIT RISK

Credit risk is the risk that a customer, counterparty or an issuer of securities or other financial instruments fails to perform under its contractual payment obligations thus causing GIB (UK) to suffer a financial loss.

Credit Risk faced by GIB (UK) arises through two broad categories, counterparty risk and issuer risk:

Counterparty credit risk is the risk that a counterparty fails to fulfil its contractual obligations as they fall due, as a result of deterioration in its credit status, including default and/ or insolvency. Issuer risk is the risk that the issuer of a security defaults on its obligations to pay coupons or the principal due on the security, as a result of deterioration in its credit status, including default and/or insolvency.

GIB (UK) is exposed to counterparty credit risk in respect to its money market placements and reverse repo transactions. GIB (UK) is exposed to issuer risk through positions held on the proprietary bond investment portfolio.

Where appropriate, GIB (UK) seeks to minimise its credit exposure using a variety of techniques including, but not limited to, the following:

- All money market placement and reverse repo transactions are conducted with highly rated financial institutions;
- Entering into transactions in derivatives, foreign exchange instruments, repos and reverse repos on the terms of industry standard documents, such as ISDAs and CSAs and GMRAs, respectively;
- Obtaining collateral of high quality; and
- Investing in bonds issued by issuers of high credit quality.

GIB (UK) has established risk appetite levels, which are within the overarching parameters set out in the GIB Group Risk Appetite policy and adjusted to comply with UK regulatory requirements and business model. This reflects the assessment of relative credit risk, with varying tolerance levels based on a number of factors, including but not limited to product type, geographic location, credit quality and tenor of exposures. These appetite metrics form the basis upon which maximum exposure limits are derived, as part of the governance framework to measure, mitigate and manage credit risk within the GIB (UK)'s risk appetite.

GIB (UK)’s Board has established a Credit Risk Policy, which includes a risk based internal credit assessment process that provides internal credit risk ratings for approval of credit limits. Group-wide credit limit setting and approvals are conducted within GIB (UK)’s Board-approved guidelines, and the measurement, monitoring and control of credit exposures are done on a Group-wide basis in a consistent manner.

In line with the credit risk management policy, all counterparties go through an annual credit review process, and credit profiles of these counterparties are monitored through an internal credit-monitoring tool, which tracks changes in external credit ratings, and credit default swaps spreads.

The utilisation of Credit Risk limits is monitored by Group Credit Administration under an intra-group service agreement and any breaches are escalated to GIB (UK) Treasury and Risk.

GIB (UK) Credit Risk reports on credit risk to the ALCO on a monthly basis and the AROC on a quarterly basis

**Significant increase in credit risk**

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative tests based on the movement of PDs and qualitative information and analysis, based on the Bank’s historical experience and taking into consideration both internal and external indicators and expert credit assessment and inclusion of forward looking information.

Credit risk grades as aforementioned are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates. Each exposure is allocated to a credit risk grade on initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result

in an exposure being moved to a different credit risk grade. Therefore the risk of default occurring increases as the credit risk deteriorates i.e 2 and above, between 2- and 3+, between 3 and 4+, and 4 and below, are considered to be increase in credit risk where they have been downgraded 6 notches, 5 notches, 4 notches and 3 notches respectively since initial recognition, and where the current pricing has not been adjusted to reflect the new risk profile of the counterparty.

The rating system is different for the Debt investment securities where the globally recognised international investment grades are used. These are considered to have low credit risk when their credit risk rating is equivalent to the globally understood definition of an investment grade rating or a debt investment security with similar credit risk characteristics.

**Credit-impaired loans**

Credit-impaired loans and advances are graded 8 to 10 in the Bank's internal credit risk grading systems

**Credit risk***

The GIB (UK)'s interbank placements, which make up 48% (2019: 39%) of total assets and are mainly short-term placements with highly rated, investment grade (BBB and above), Western European, US, Australian or Japanese Banks. The Bank retains some exposure to the larger Banks in the Middle East. The Bank also placed $4,472mn (2019: $5,922mn) with the Bank of England and $360mn (2019: $ 757mn) with the US Federal Reserve. The Bank also has credit risk of $277mn (2019: $177mn) arising from its Investment in debt securities, which consist of highly rated Government, Corporate and Financial Institutions.

A total of $780mn, 7% of the balance sheet assets, relates to tri-party reverse repo transactions with the Parent (GIB BSC) (2019: $560mn, 5% of balance sheet assets) and a further $1,170mn, 11% of balance sheet assets, relates to tri-party reverse repo transactions with other banking counterparties (2019: $1,410mn, 12% of balance sheet assets). The net exposure after credit mitigation on all of the tri-party reverse repo transactions amounted to $21.9mn of which $2.7mn was with GIB BSC.

Geographically, the Bank's total credit exposure at year-end is to Europe, 78% (2019: 81%); the GCC, 15% (2019: 12%); North America, 4% (2019: 7%); Asia, 3% (2019: 0.4%).

* as disclosed in the GIBUK financials

## 5.1.1 Credit risk disclosures

The credit risk exposures presented in much of this report differ from the credit risk exposures reported in the financial statements. This is mainly due to the fact that these are the credit exposures reported in the regulatory returns under the standard approach as at 31 December 2020. Differences arise due to the application of different methodologies, as illustrated below:-

- Off-balance sheet exposures are converted into credit exposure equivalents by applying a credit conversion factor (CCF). The off-balance sheet exposure is multiplied by the relevant CCF applicable to the off-balance sheet exposure category. Subsequently, the exposure is treated in accordance with the standard portfolios referred to in section 4.1 of this report in the same manner as on-balance sheet exposures.
- Credit risk exposure reporting under Pillar 3 is frequently reported by standard portfolios based on the type of counterparty. The financial statement presentation is based on asset class rather than the relevant counterparty.
- Certain eligible collateral is applied to reduce exposure under the framework, whereas no such collateral netting is applicable in the financial statements.
- Certain exposures are either, included in, or deducted from, regulatory capital rather than treated as an asset as in the financial statements, e.g. unrated securitisation tranches.

- External rating agency ratings are based on the highest rating from the lowest two ratings while for internal credit risk management purposes the lowest rating is used.

## 5.1.2 Gross Credit exposure

### i) Gross credit exposure

The gross and average gross exposure to credit risk before applying collateral, guarantees, and other credit enhancements as at 31 December 2020 was as follows:

| US$ millions | Gross credit exposure | Average gross credit exposure* |
|---|---|---|
| **Balance sheet items:** | | |
| Cash and other liquid assets | 5,068 | 5,659 |
| Placements with banks | 3,047 | 5,390 |
| Investment Securities | 303 | 234 |
| Trading Securities | 10 | 35 |
| Other assets, excluding derivative-related items | 61 | 7 |
| **Total on-balance sheet credit exposure** | **8,489** | **11,325** |
| **Off-balance sheet items:** | | |
| Credit-related contingent items | | |
| Derivative and foreign exchange instruments | 37 | 62 |
| **Total off-balance sheet credit exposure** | **37** | **62** |
| **Total credit exposure** | **8,527** | **11,387** |

*The average gross credit exposure is based on monthly averages for the year ended 31st December 2020.

**31 December 2019 Comparatives**

| US$ millions | Gross credit exposure | Average gross credit exposure |
|---|---|---|
| **Balance sheet items:** | | |
| Cash and other liquid assets | 6,995 | 5,936 |
| Placements with banks | 4,559 | 5,268 |
| Investment Securities | 228 | 171 |
| Trading securities | 28 | 53 |
| Other assets, excluding derivative-related items | 14 | 13 |
| **Total on-balance sheet credit exposure** | **11,824** | **11,441** |
| **Off-balance sheet items:** | | |
| Credit-related contingent items | | |
| Derivative and foreign exchange instruments | 62 | 76 |
| **Total off-balance sheet credit exposure** | **62** | **76** |
| **Total credit exposure** | **11,887** | **11,517** |

Other assets principally comprised accrued interest, fees and commissions.

The gross credit exposure for derivative and foreign exchange instruments is the replacement cost (current exposure) representing the cost of replacing the contracts at current market rates should the counterparty default prior to the settlement date. The gross credit exposure reported in the table above does not include potential future exposure. Further details on the counterparty credit risk relating to off-balance sheet exposures are set out in section 6.3(i) of this report.

## ii) Credit exposure by geography

The classification of credit exposures by geography, based on the location of the counterparty as at 31 December 2020, was as follows:-

| US $ Millions | Cash & other liquid assets | Placements with banks | Investment securities | Trading securities | Other assets | Off balance sheet items | Total |
|---|---|---|---|---|---|---|---|
| Middle East | 61 | 1,133 | 57 | - | - | 1 | 1,252 |
| Africa | 0 | - | - | - | - | 11 | 11 |
| Europe | 4,596 | 1,203 | 208 | 10 | 61 | 23 | 6,102 |
| North America | 386 | 177 | 11 | - | - | 2 | 575 |
| Asia | 25 | 534 | 26 | - | - | - | 585 |
| Total Exposure | **5,068** | **3,047** | **303** | **10** | **61** | **37** | **8,527** |

**31 December 2019 Comparatives**

| US $ Millions | Cash & other liquid assets | Placements with banks | Investment securities | Loans & advances | Other assets | Off balance sheet items | Total |
|---|---|---|---|---|---|---|---|
| Middle East | 47 | 1,517 | 97 | 0 | - | 1 | 1,662 |
| Africa | 0 | 0 | 0 | 0 | - | | 0 |
| Europe | 6,168 | 2,615 | 83 | 28 | 14 | 29 | 8,937 |
| North America | 766 | 176 | 11 | 0 | - | 22 | 976 |
| Asia | 14 | 252 | 37 | 0 | - | 10 | 313 |
| Total Exposure | **6,995** | **4,559** | **228** | **28** | **14** | **62** | **11,887** |

## iii) Credit exposure by industry

The classification of credit exposures by industrial sector as at 31 December 2020 was as follows:-

| US $ Millions | Cash & other liquid assets | Placements with banks | Investment securities | Trading securities | Other assets | Off balance sheet items | Total |
|---|---|---|---|---|---|---|---|
| Financial Services | 221 | 3,047 | 145 | 10 | - | 37 | 3,462 |
| Government | 4,846 | - | 157 | - | - | - | 5,004 |
| Other asset | - | - | - | - | 61 | - | 61 |
| Total Exposure | 5,068 | 3,047 | 303 | 10 | 61 | 37 | 8,527 |

**31 December 2019 Comparatives**

| US $ Millions | Cash & other liquid assets | Placements with banks | Investment securities | Trading securities | Other assets | Off balance sheet items | Total |
|---|---|---|---|---|---|---|---|
| Financial Services | 294 | 4,559 | 185 | 28 | - | 62 | 5,129 |
| Government | 6,701 | - | 43 | - | - | - | 6,744 |
| Other asset | - | - | - | - | 14 | - | 14 |
| Total Exposure | **6,995** | **4,559** | **228** | **28** | **14** | **62** | **11,887** |

### iv) Credit exposure by credit quality step (CQS)

The credit risk profile based on the PRA's defined credit quality steps as at 31 December 2020 was as follows:-

| US $ Millions | Cash & other liquid assets | Placements with banks | Investment securities | Loans & advances | Other assets | Off balance sheet items | Total |
|---|---|---|---|---|---|---|---|
| CQS1 | 4,937 | 912 | 23 | - | - | 33 | 5,904 |
| CQS2 | 51 | 1,597 | 128 | - | - | 5 | 1,780 |
| CQS3 | 79 | 539 | 125 | - | - | - | 742 |
| CQS4 | 0 | - | - | - | - | - | 0 |
| CQS5 | 1 | - | - | - | - | - | 1 |
| CQS6 | - | - | - | - | - | - | - |
| Unrated | 0 | - | 28 | 10 | 61 | - | 99 |
| Total Exposure | **5,068** | **3,047** | **303** | **10** | **61** | **37** | **8,527** |

**31 December 2019 Comparatives**

| US $ Millions | Cash & other liquid assets | Placements with banks | Investment securities | Loans & advances | Other assets | Off balance sheet items | Total |
|---|---|---|---|---|---|---|---|
| CQS1 | 6,847 | 1,123 | 23 | 0 | 0 | 58 | 8,051 |
| CQS2 | 85 | 2,563 | 155 | 0 | 0 | 3 | 2,806 |
| CQS3 | 63 | 874 | 0 | 0 | 0 | 1 | 938 |
| CQS4 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| CQS5 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| CQS6 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Unrated | 0 | - | 50 | 28 | 14 | 0 | 92 |
| Total Exposure | **6,995** | **4,559** | **228** | **28** | **14** | **62** | **11,887** |

The analysis is presented prior to the application of any credit risk mitigation techniques.

**CQS Mapping supporting the above tables**

| CQS | External equivalents |
|---|---|
| 1 | AAA to AA- |
| 2 | A+ to A- |
| 3 | BBB+ to BBB- |
| 4 | BB+ to BB- |
| 5 | B+ to B- |
| 6 | CCC+ and below |
| Unrated | Unrated |

### v) Credit exposure by maturity

The maturity profile of funded credit exposures based on contractual maturity dates as at 31 December 2020 was as follows:

| US $ Millions | Cash & other liquid assets | Placements with banks | Investment securities | Trading securities | Other assets | Off balance sheet items | Total |
|---|---|---|---|---|---|---|---|
| Within 3 mths | 5,068 | 1,426 | 55 | - | 61 | 9 | 6,619 |
| 4 mths – 1 Year | - | 1,253 | 30 | - | - | 26 | 1,310 |
| 1 – 5 Years | - | 368 | 217 | - | - | 2 | 588 |
| Over 5 years and other | - | - | - | 10 | - | - | 10 |
| Total Exposure | **5,068** | **3,047** | **303** | **10** | **61** | **37** | **8,527** |

**31 December 2019 Comparatives**

| US $ Millions | Cash & other liquid assets | Placements with banks | Investment securities | Loans & advances | Other assets | Off balance sheet items | Total |
|---|---|---|---|---|---|---|---|
| Within 3 mths | 6,995 | 1,815 | 62 | - | 14 | 21 | 8,907 |
| 4 mths – 1 Year | - | 1,556 | 8 | - | - | 14 | 1,578 |
| 1 – 5 Years | - | 1,188 | 158 | - | - | 27 | 1,373 |
| Over 5 years and other | - | - | - | 28 | - | - | 28 |
| Total Exposure | **6,995** | **4,559** | **228** | **28** | **14** | **62** | **11,887** |

An analysis of off balance sheet exposure is set out in section 6 of this report.

### vi) Equities held in the banking book

At 31st December 2020, there were no equity investments held in the banking book.

### vii) Credit risk mitigation

The credit exposure information presented in section 5.1.2 of this report represents gross exposures prior to the application of any credit risk mitigation techniques. Collateral items and guarantees which can be used for credit risk mitigation under the capital adequacy framework are referred to as eligible collateral. Only certain types of collateral and some issuers of guarantees are eligible for preferential risk weights for regulatory capital adequacy purposes. Furthermore, the collateral management process and the terms in the collateral agreements have to fulfil the PRA's prescribed minimum requirements (such as procedures for the monitoring of market values, insurance and legal certainty) set out in their capital adequacy regulations.

The reduction of the capital requirement attributable to credit risk mitigation is calculated as follows:-

- Adjusted exposure amount: GIB (UK) uses the comprehensive method for financial collateral such as cash, bonds and stocks. The exposure amount is adjusted with regard to the financial collateral. The size of the adjustment depends on the volatility of the collateral and the exposure. GIB (UK) uses volatility adjustments specified by the PRA, known as supervisory haircuts, to reduce the benefit of collateral and to increase the magnitude of the exposure.

Exposures secured by eligible financial collateral, guarantees and credit derivatives, presented by standard portfolio were as follows:-

| | 31 December 20 | | 31 December 2019 | |
|---|---|---|---|---|
| US$ millions | Exposure before credit risk mitigation | Of which secured by: Eligible collateral | Exposure before credit risk mitigation | Of which secured by: Eligible collateral |
| Financial Institutions | 2,373 | 1,928 | 1,970 | 1,962 |

**Guarantees and credit derivatives**
Only eligible providers of guarantees and credit derivatives may be recognised in the standardised approach for credit risk. Guarantees issued by corporate entities may only be taken into account if their rating corresponds to A- or better. The guaranteed exposures receive the risk weight of the guarantor.

**Collateral and valuation principles**
The amount and type of collateral is dependent upon the assessment of the credit risk of the counterparty. The market / fair value of the collateral is actively monitored on a daily basis and requests are made for additional collateral in accordance with the terms of the underlying agreements. In general, lending is based on the customer's repayment capacity and not the collateral value. However, collateral is considered the secondary alternative if the repayment capacity proves inadequate. Collateral is not usually held against securities or placements.

## 5.1.3 Impaired credit facilities and provisions for impairment

Individually impaired financial assets represent assets for which there is objective evidence that the GIB (UK) will not collect all amounts due, including both principal and interest, in accordance with the contractual terms of the obligation. Objective evidence that a financial asset is impaired may include: a breach of contract, such as default or delinquency in interest or principal payments, the granting of a concession that, for economic or legal reasons relating to the borrower's financial difficulties, would not otherwise be considered, indications that it is probable that the borrower will enter bankruptcy or other financial reorganisation, the disappearance of an active market, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

Provisions for impairment are determined based on the difference between the net carrying amount and the recoverable amount of a financial asset. The recoverable amount is measured as the present value of expected future cash flows, including amounts recoverable from guarantees and collateral.

### i) Impaired loan facilities and related provisions for impairment

There were no impaired loan facilities and related provisions for impairment as at 31st December 2020.

### ii) Specific Provisions for impairment – loans and advances

There were no movements in the specific provisions (Stage 3) for the impairment of loans and advances for the year ended 31st December 2020.

For movement in the expected credit losses (ECL), refer section 9 of this document.

### iii) Impaired investment securities and related provisions for impairment

Impaired investment securities and related provisions for impairment were as follows:-

| US$ millions | Gross exposure | Impairment provisions | Net exposure 31 Dec 2020 | 31 Dec 2019 |
|---|---|---|---|---|
| CDOs* | 9 | 9 | - | - |
| Equity investments* | 6 | 6 | - | - |
| **Total** | **15** | **15** | **-** | **-** |

### iv) Provisions for impairment – investment securities

The movements in the provisions for the impairment of investment securities were as follows:-

| | | | Specific Provisions | |
|---|---|---|---|---|
| US$ millions | CDOs | Equities | 31 Dec 2020 | 31 Dec 2019 |
| At 1st January 2020* | 9 | 6 | 15 | 15 |
| Amount utilised | - | - | - | - |
| Exchange rate movements | - | - | - | - |
| **Total** | **9** | **6** | **15** | **15** |

*** Legacy provisions which have been completely written off subsequently in 2019. These don't form part of the ECL disclosure.**

## 5.1.4 Past due facilities

There were no past due facilities during the year ended 31st December 2020 (2019: Nil).

## 5.1.5 Restructured loan facilities

There were no restructured loan facilities during the year ended 31st December 2020 (2019: Nil).

## 5.1.6 Recoveries recorded directly to the income statement

Other operating income included nil recovery from old investment positions during 2020 (2019: Nil)

## 5.2 Market Risk

Market risk is defined as the risk of losses arising from adverse movements in market prices.

GIB (UK) is exposed to market risk by performing treasury activities such as entering into FX or interest rate swaps contracts. Although these instruments can be used for hedging purposes, they are items contributing to the interest rate risk PRR and FX PRR.

Market Risk is measured using a VaR methodology. VaR is calculated on a daily basis by Group Finance under an intra-group Service Agreement. GIB (UK) has established risk appetite levels, which are within the overarching parameters set out in the GIB Group Risk Appetite policy and adjusted to comply with UK regulatory requirements and business model. Potential limit breaches are escalated to GIB (UK)'s Risk and Treasury departments. GIB (UK) Risk reports on market risk to the ALCO on a monthly basis and the AROC on a quarterly basis.

The risk engine used to calculate VaR is RiskMetrics, a market leading solution provided by MSCI. The VaR parameters are as follows:

- Using a Monte Carlo methodology with 2,500 simulations;
- 95% confidence interval;
- 21 days holding period;
- 1 year lookback period;
- 0.97 decay factor.

The limits for Value-at-Risk are set in the Risk Appetite Statement which is reviewed and approved by the Board of Directors of GIB (UK). The current Risk appetite limits for VaR are as follows:

| VaR Metric | Limit |
|---|---|
| **VaR from interest rate risk** | $ 1.75 million |
| **VaR from equity risk** | $ 3 million |
| **VaR from FX risk** | $ 0.6 million |
| **Total** | **$ 2.5 million** |

The highest total trading VaR in 2020 was $3.2m. This was above normal risk appetite limits and due to elevated market volatility induced by COVID and a limit increase was granted (as per the above table). At the time of writing the ICAAP all VaR figures are back below their risk appetite limits.

GIB (UK) seeks to minimise Market Risk by closely managing its interest rate gap and hedging most of its clients FX positions back to the market. It also routinely hedges its planned expenses in sterling back to the USD, which is the main currency of its revenues. Its Treasury revenues remain sensitive to the changes in yield curves.

The bank uses derivatives in order to reduce its exposure to market risk as part of its asset and liability management. This is achieved by entering into derivatives that hedge against the risk of treasury losses from mismatches in interest rates, currencies and maturities in relation to the asset and liability base. Overnight index swaps and currency swap agreements are most commonly used to this effect. Any open positions are small and revalued on a regular basis.

An inherent limitation of VaR is that past market movements may not provide an accurate prediction of future market losses. Historic analyses of market movements have shown that extreme market movements (i.e. beyond the 99 per cent confidence level) occur more frequently than VaR models predict. Stress tests are regularly conducted to estimate the potential economic losses in such abnormal markets. Stress testing combined with VaR provides a more comprehensive picture of market risk. The bank regularly performs stress tests that are constructed around changes in market rates and prices resulting from pre-defined market stress scenarios, including both historical and hypothetical market events. Historical scenarios include the 1997 Asian crisis, the 1998 Russian crisis, the events of 9/11 and the 2008 credit crisis. In addition, the bank performs stress testing based on internally developed hypothetical market stress scenarios.

## 5.3 Liquidity and Funding Risk

Liquidity risk is the risk that sufficient funds are not available to meet GIB (UK)'s financial obligations when they fall due. GIB (UK) financial obligations arise from doing business as a financial institution, for example paying our depositors, posting margins or paying for operational expenses.

Funding risk is the risk that the bank is not able to attract deposits or get funding in order to purchase assets in order to generate income.

GIB (UK)'s liquid resources are primarily comprised of:

- Cash and short dated interbank placements; and
- A liquidity buffer, which consists of eligible buffer assets as defined by the UK regulator, including deposits with the BoE and the Fed and marketable securities.

GIB (UK) also has an asset monetization program where asset's liquidity is tested by posting them to the Fed in exchange of liquidity. This test is performed at least annually and results are presented to ALCO.

GIB (UK) Board has established a Liquidity Risk Management Policy to ensure the Firm has access to adequate funds to meet its obligations, even under adverse conditions. In normal conditions, the objective is to ensure that there are sufficient funds available not only to meet current financial commitments but also to provide the flexibility to capitalise on opportunities for business expansion. These objectives are met through the application of a prudent mix of liquidity controls.

Liquidity stress testing is performed on a daily basis via the OLAR calculation and these parameters are reviewed on an annual basis as part of the ILAAP.

GIB (UK) Risk reports on liquidity risk to the ALCO on a monthly basis and the AROC on a quarterly basis.

GIB (UK) seeks to minimise Liquidity Risk by limiting maturity transformation and only investing in liquid bonds close to maturity and limiting the portion of the issuance it owns.

Based on the EBA guidelines published in EBA/GL/2016/11 under part 8 of the CRR, the table below shows LCR as reported to the regulator as at 31 December 2020:

**Liquidity Coverage ratio**

| LCR Components | 2020 | 2019 |
|---|---|---|
| | $ million | $ million |
| Liquidity Buffer | 5,860 | 7,658 |
| Total Net cash outflows | 2,019 | 2,926 |
| Liquidity Coverage ratio | % | % |
| **Liquidity coverage ratio (excluding PRA Scalar)** | 290* | 262* |

***If the impact of 5% PRA Scalar add-on is included the adjusted LCR as at 31 Dec 2020 will be 153%***

## 5.4 Operational Risk

GIB (UK) define Operational risk as the risk of loss arising from inadequate or failed internal processes, people and systems or from external events, whether intentional, unintentional or natural. This includes legal, but excludes strategic and reputational risks. Operational Risk arises across business lines through the normal course of business, and is generally deemed higher for new, complex or manual processes.

The Firm has implemented a structured framework for the ongoing management of operational risk in line with the Operational Risk Policy.

Respective business functions, with facilitation from Operational Risk, establish a set of key risk indicators for operational risk monitoring purposes, which reflect the key risks identified through the risk appetite statement.

A comprehensive RCSA programme is undertaken covering both front office and support functions as well as the second line of defence. The BRC has oversight of the assessment and controls in place to identify high risk or emerging risks to GIB (UK).

In GIB (UK), all operational risk events (OREs) regardless of the value of the operational loss are formally reported and investigated. All high and medium ORE reports will be discussed in detail at the BRC. High and medium events are reported to the AROC via the Risk and Compliance Dashboard on a quarterly basis.

GIB (UK) Has a Business Continuity Management Framework, used to implement the Firm's overall objectives and methodology, utilising a structure approach specifically geared to understanding and planning for a range of business interruption scenarios.

GIB (UK) adopted the Standardised Approach to the derivation of minimum regulatory capital requirements for operational risk which is explained further in section 4.3 of this report.

# 6 OFF-BALANCE SHEET EXPOSURE AND SECURITISATIONS

Off-balance sheet exposures are divided into two exposure types in accordance with the calculation of RWAs in the framework:-

- Credit-related contingent items: Credit-related contingent items comprise guarantees, credit commitments and unutilised approved credit facilities.
- Derivative and foreign exchange instruments: Derivative and foreign exchange instruments are contracts, the value of which is derived from one or more underlying financial instruments or indices, and include futures, forwards, swaps and options in the interest rate, foreign exchange, equity and credit markets

In addition to counterparty credit risk measured within the regulatory credit risk framework, derivatives also incorporate exposure to market risk and carry a potential market risk capital requirement, as shown in section 4.2 of this report.

For the two off-balance exposure types, there are different possible values for the calculation base of the regulatory capital requirement, as commented on below:-

## 6.1 Credit-related contingent items

For credit-related contingent items, the nominal value is converted to an exposure at default (EAD) through the application of a credit conversion factor (CCF). The CCF factor is between 0 per cent and 100 per cent depending on the type of contingent item, and is intended to convert off-balance sheet notional amounts into an equivalent on-balance sheet exposure.

Credit commitments and unutilised approved credit facilities represent commitments that have not been drawdown or utilised at the reporting date. The nominal amount provides the calculation base to which a CCF is applied for calculating the EAD. The CCF ranges between 0 per cent and 100 per cent depending on the approach, product type and whether the unutilised amounts are unconditionally cancellable or irrevocable.

The table below summarises the notional principal amounts, RWAs and capital requirements for each credit-related contingent category:-

| | 2020 | | | 2019 | | |
|---|---|---|---|---|---|---|
| US$ millions | Notional principal amount | RWA | Capital requirement | Notional principal amount | RWA | Capital requirement |
| Direct credit substitutes | - | - | - | - | - | - |
| Transaction-related contingent items | - | - | - | - | - | - |
| **Total** | **-** | **-** | **-** | **-** | **-** | **-** |

## 6.2 Derivative and foreign exchange instruments

GIB (UK) utilises derivative and foreign exchange instruments to meet the needs of its clients, and as part of its asset and liability management activity to hedge its own exposure to market risk. Derivatives and foreign exchange are subject to the same types of credit and market risk as other financial instruments. GIB (UK) has appropriate and comprehensive Board approved policies and procedures for the control of exposure to both market and credit risk from its derivative and foreign exchange activities.

In the case of derivative transactions, the notional principal typically does not change hands. It is simply a quantity which is used to calculate payments. While notional principal is a volume measure used in the derivative and foreign exchange markets, it is neither a measure of market nor credit risk. GIB (UK)'s measure of credit exposure is the cost of replacing contracts at current market rates should the counterparty default prior to the settlement date. Credit risk amounts represent the gross unrealised gains on non-margined transactions before taking account of any collateral held or any master netting agreements in place.

GIB (UK)'s derivative and foreign exchange activities are predominantly short-term in nature. Transactions with maturities over one year principally represent either fully offset trading transactions or transactions that are designated, and qualify, as fair value hedges.

The aggregate notional and fair value amounts for derivative and foreign exchange instruments at 31st December 2020 (as disclosed in the GIB UK's financial statements) are set out below:

| US$ millions | Notional principal amount | Fair value positive | Fair value negative |
|---|---|---|---|
| Exchange rate contracts | 2,367 | 12.5 | (49) |
| Interest rate contracts | 4,820 | 2.6 | (17) |
| Futures | 27 | - | (0.3) |
| **Total** | **7,214** | **15.1** | **(66)** |

**31 December 2019 Comparatives**

| US$ millions | Notional principal amount | Fair value positive | Fair value negative |
|---|---|---|---|
| Exchange rate contracts | 3,609 | 22 | (21) |
| Interest rate contracts | 5,327 | 28 | (37) |
| **Total** | **8,936** | **50** | **(58)** |

## 6.3 Counterparty credit risk

Counterparty credit risk is the risk that a counterparty to a contract in the interest rate, foreign exchange, equity and credit markets defaults prior to the maturity of the contract. The counterparty credit risk for derivative and foreign exchange instruments is subject to credit limits on the same basis as other credit exposures. Counterparty credit risk arises in both the trading book and the banking book.

### i) Counterparty credit risk calculation

For regulatory capital adequacy purposes, GIB (UK) uses the mark to market method to calculate the exposure for counterparty credit risk for derivative and foreign exchange instruments, the exposure values are used to determine the capital requirement under the standardised credit risk approach. Credit exposure comprises the sum of current exposure (replacement cost) and potential future exposure. The potential future exposure is an estimate, which reflects possible changes in the market value of the individual contract during the remaining life of the contract, and is measured as the notional principal amount multiplied by a risk weight. The size of the risk weight depends on the risk categorisation of the contract and its remaining life. Netting of potential future exposures on contracts within the same legally enforceable netting agreement is done as a function of the gross potential future exposure.

The EAD, RWAs and capital requirements for the counterparty credit risk of derivative and foreign exchange instruments (as per the regulatory reporting) analysed by standard portfolio as at 31 December 2020, is presented in the table below:-

| | Exposure at Default (EAD) | | | | |
|---|---|---|---|---|---|
| US$ millions | Current exposure | Future exposure | Total exposure | RWA | Capital requirement |
| Financial Institutions | 37 | 13 | 25 | 8 | 1 |
| Governments | - | - | - | - | - |
| **Total** | **37** | **13** | **25** | **8** | **1** |

**As at 31 December 2019**

| | Exposure at Default (EAD) | | | | |
|---|---|---|---|---|---|
| US$ millions | Current exposure | Future exposure | Total exposure | RWA | Capital requirement |
| Financial Institutions | 23 | 39 | 62 | 12 | 1 |
| Governments | - | - | - | - | - |
| **Total** | 23 | 39 | 62 | 12 | 1 |

### ii) Mitigation of counterparty risk exposure

GIB (UK) does not take advantage of risk mitigation techniques for derivative and foreign exchange-related exposures.

## 6.4 Securitisations

At 31st December 2020, GIB (UK) had nil exposure, net of impairment provisions, to securitisation tranches (2019: Nil).

**Further information on management services:**

GIB (UK) provides collateral management services to three collateralised debt obligations (CDOs) issued between 2002 and 2006. The CDOs are intended to extract relative value from a wide range of asset classes across a broad spectrum of credit ratings. The underlying collateral of the CDOs includes leveraged loans, residential and commercial real estate, consumer finance, lending to small and medium sized enterprises, and other receivables. Each CDO holds up to 65 individual investments.

## 6.5 Other Risk Types

### i) Interest rate risk in the banking book

Interest rate risk is the potential adverse impact on GIB (UK)'s future cash flows from changes in interest rates; and arises from the differing interest rate risk characteristics of GIB (UK)'s assets and liabilities. The risk appetite for market risk in the banking book is limited, the expectation being that most placements will match incoming deposits.

GIB (UK)'s risk appetite permits some degree of gapping and to control this risk, gapping limits and a daily VaR is run and utilisation is monitored against the limits.

The banking book is run on a largely matched basis with the term of the incoming customer deposits being matched when placing money market deposits. GIB (UK) has always run daily value at risk on the portfolio and the results of this process confirm the largely matched nature of the portfolio. GIB (UK) Treasury also manages interest rate risk daily by using the following Board approved 'Interest rate gapping limits':

- Up to 1 month $ 2.5 billion
- Up to 3 months $ 2.5 billion
- Up to 6 months $ 2.0 billion
- Up to 9 months $ 1.2 billion
- Up to 12 months $ 0.4 billion
- Up to 24 months $ 0.4 billion

Any transactions over 24 months requires approval from GIB (UK) ALCO and Group CRO. Treasury have both customer call and fixed deposits to place in the market, the gapping limits allow Treasury to place call deposits in the longer maturities and lock in margin by removing interest rate risk through swaps which significantly reduces the basis risk. The gapping limits also mitigate the sensitivity to changes in yield curve shape (i.e. non-parallel shifts). Other risks such as risks arising from items with indeterminate maturity (i.e. overnight, instant access) are immaterial.

GIB (UK) use the 'Standard methodology' using a 200bp shift in interest rates to reflect the potential economic impact. GIB (UK) also analysed the high and low points within the FSA 017 return. This resulted in the IRRBB of $ 21.7 million as disclosed in the 2020 ICAAP. GIB (UK) has proven more sensitive to a decrease in yield. Given the current economic conditions, GIB (UK) have decided not to cap the decrease at zero as we do not deem it unrealistic the interest rates would become negative in the near future. This figure was from a full 200bp downward shift and is therefore highly conservative.

GIBUK does not maintain material foreign currency exposures or equity exposures in the banking book.

In general, GIBUK's policy is to match financial assets and liabilities in the same currency or to mitigate currency risk through the use of currency swaps.

The table below summarises these re-pricing mismatches on the Group's non-trading book as at 31 December 2020 (as per the FS). Items are allocated to time bands by reference to the earlier of maturity and the next contractual interest rate re-pricing date.

| US$ millions | Within 3 months | Months 4 to 6 | Months 7 to 12 | over 1 year | Non-interest bearing items | Total |
|---|---|---|---|---|---|---|
| Cash and other liquid assets | 5,069 | - | - | - | - | **5,069** |
| Placements with banks | 2,497 | 1,442 | 681 | 368 | - | **4,988** |
| Debt securities at amortised cost | 27 | - | 30 | 220 | - | **277** |
| Other assets | - | - | - | - | 80 | **80** |
| Total assets | **7,593** | **1,442** | **711** | **588** | **80** | **10,414** |
| Deposits | 9,272 | 550 | 55 | 77 | - | **9,774** |
| Other liabilities | - | - | - | - | 50 | **50** |
| Equity | - | - | - | - | 393 | **393** |
| Total liabilities & equity | **9,272** | **550** | **55** | **77** | **442** | **10,397** |
| **On Balance sheet Gap** | (1,679) | 891 | 656 | 512 | (363) | |
| Derivatives held for risk management | 909 | (171) | (280) | (458) | - | |
| **Interest rate sensitivity gap** | **(770)** | **720** | **376** | **54** | **(363)** | |
| **Cumulative interest rate sensitivity gap** | **(770)** | **(50)** | **326** | **769** | **17** | |

**31 December 2019 (Comparatives)**

| US$ millions | Within 3 months | Months 4 to 6 | Months 7 to 12 | over 1 year | Non-interest bearing items | Total |
|---|---|---|---|---|---|---|
| Cash and other liquid assets | 6,845 | - | - | - | - | **6,845** |
| Placements with banks | 2,662 | 1,024 | 543 | 362 | - | **4,591** |
| Debt securities at amortised cost | 18 | 18 | - | 141 | - | **177** |
| Other assets | - | - | - | - | 40 | **40** |
| Total assets | **9,525** | **1,042** | **543** | **503** | **40** | **11,653** |
| Deposits | 10,368 | 835 | 49 | - | - | 11,252 |
| Other liabilities | - | - | - | - | 26 | 26 |
| Equity | - | - | - | - | 394 | 394 |
| Total liabilities & equity | **10,368** | **835** | **49** | **-** | **420** | **11,672** |
| **On Balance sheet Gap** | (843) | 207 | 494 | 503 | (380) | |
| Derivatives held for risk management | 2,761 | (1,476) | (534) | (752) | - | |
| **Interest rate sensitivity gap** | **1,918** | **(1,269)** | **(40)** | **(249)** | **(380)** | |
| **Cumulative interest rate sensitivity gap** | 1,918 | 649 | 609 | 942 | - | |

The repricing profile is based on the remaining period to the next interest repricing date and the balance sheet categories in the financial statements.

The substantial majority of assets and liabilities reprice within three months.

## ii) Climate change risk

GIB (UK) has considered climate change risks to the business through Pillar 2A in line with the PRA Supervisory Statement 3/19 released in April 2019.

As described in the PRA Supervisory Statement 11/19 climate change risk is decomposed in 2 risks: transition and physical risks. Transition risk is the risk posed by society's effort to mitigate the effects of climate change. It includes regulatory risk (the risk that newly enacted laws impose new restrictions on companies, for example in terms of taxes of C02 emissions), consumer behaviour risk (the risk that consumers shy away from certain products, for example plastic, diesel cars or meat) and technology risk (for example the developments in terms of battery storage could affect certain sectors).

Physical risk on the other end is posed by climate change itself. It can be reflected both by a higher frequency and severity of natural disasters (such as floods, storms, wildfires or droughts) and also by the very long term and gradual effects of climate change (such as air pollution, sea-level rise, temperatures increase).

GIB (UK) reflected on what are the climate-related risks it is exposed to. The Firm operates from London and does not outsource activities to third party located regions in high risk of climate change damage. GIB (UK) also does not lend money for infrastructures or real estate projects and does not sell mortgages therefore climate related financial risks are not affecting the Firm via this channel.

However, GIB (UK) does invests its own capital in financial instruments which could have their value deteriorated due to climate related financial risks transition or physical risk.

GIB (UK) believes that when it comes to climate related financial risk, this is the most plausible reason why the Firm's capital could be affected. It is worth noting that the Firm owns a portfolio of bonds which is held at book value (in the banking book), therefore these bonds would not have their value affected under this scenario.

# 7. LEVERAGE

Under CRD IV, firms are required to calculate a leverage ratio, which is not risk sensitive, to complement risk-based capital requirements. The leverage ratio measures the relationship between a firm's Tier 1 capital resources and its leverage exposure (total assets, plus certain off balance sheet exposures).

The table below shows a reconciliation of accounting assets and Leverage Ratio Exposures (as reported to the regulator):

| Summary of reconciliation of accounting assets and Leverage Ratio exposures | US $millions 2020 | US $millions 2019 |
|---|---|---|
| **Total Assets as per Financial Statements** | 10,463 | 11,730 |
| Adjustments for securities financing transactions | (1,928) | (1,963) |
| Adjustments for off balance sheet items | - | - |
| Adjustments for derivative financial instruments add-on amounts | 25 | 39 |
| Other adjustments | (35) | (36) |
| **Leverage Ratio total exposure method** | 8,524 | 9,770 |
| | | |
| **Securities Financing Transactions** | | |
| Original exposure value before credit risk mitigation | 1,950 | 1,970 |
| | | |
| Credit risk mitigation applied | 1,928 | 1,963 |
| | | |
| Off Balance sheet exposures (Note: amounts after adjustments applied to nominal value for conversion factors) | | |
| Off balance sheet items with a 50% CFF in accordance with Article 429 (10) of the CRR | - | - |
| **Total Off Balance Sheet exposures for Leverage Ratio** | - | - |
| | | |
| **Total Derivative exposures add-on for Leverage Ratio** | 25 | 39 |
| | | |
| **Tier 1 Capital and final Leverage Ratio** | | |
| Tier 1 capital | 393 | 383 |
| Leverage Ratio total exposure measure | 8,524 | 9,770 |
| **Leverage Ratio**** | **4.61%** | **3.92%** |

** As reported to the regulator

## 8. ASSET ENCUMBRANCE

As at 31st December 2020, GIB (UK)'s total assets were $10.4 billion (2019: $11.7 billion) the encumbered asset stood at $46.7 million (2019: $ 11.4 million) and all the remaining assets were unencumbered assets.

## 9. IFRS 9

EBA has published guidelines on uniform disclosures under Article 473(a) of Regulation EU no 575/2013 as regards the transitional period of mitigating the impact of the introduction of IFRS 9 on own funds. IFRS 9 has been implemented from 1 January 2019 and these guidelines apply from the same date. Due to minimal IFRS 9 impact, GIB (UK) has not taken any GIB (UK) benefit of transitional arrangements.

The adoption of IFRS 9 has changed GIB (UK)'s accounting for loan loss impairments by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires GIB (UK) to record an allowance for ECLs for all loans/placements and other debt financial assets not held at FVTPL. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk in which case the allowance needs to be for the lifetime ECL.

GIB (UK) classifies its financial instruments into stage 1, stage 2 and stage 3, based on the applied impairment methodology, as described below:

**Stage 1**

For financial instruments where there has not been a significant increase in credit risk since initial recognition and that are not credit-impaired on origination, GIB (UK) recognises an allowance based on the 12-month ECL.

**Stage 2**

For financial instruments where there has been a significant increase in credit risk since initial recognition, but they are not credit-impaired, GIB (UK) recognises an allowance for the lifetime ECL.

**Stage 3**

For credit-impaired financial instruments, GIB (UK) recognises the lifetime ECL.

As at 31st December 2020 GIB (UK) has recognized a Stage 1 expected credit loss provision of $332,000 on placements and securities. There were no stage 2 and Stage 3 loans therefore no provisions had been booked in this category.

| | | | 2020 | | | |
|---|---|---|---|---|---|---|
| US'000 | | ECL under IFRS 9 US$ '000 | Stage 1 | Stage 2 | Stage 3 | Total |
| Placements with banks | - | 85 | 85 | - | - | 85 |
| Financial Investments other than those measured at FVPL | - | 247 | 247 | - | - | 247 |
| | | **332** | **332** | **-** | **-** | **332** |

# 10. REMUNERATION

## 10.1 General

The Bank has considered FCA guidance on staff remuneration issued in May 2017 (PS17/10), in addition to the PRA Rulebook, the Remuneration Code ("the Code") and the Capital Requirements Regulation (Article 450).

This statement sets out the disclosures required under the requirements as they apply to the Bank. The Bank is classified as a Level 3 Bank under FCA guidance.

The average number of staff employed by the Bank during the year ended 31 December 2020 was 74 (2019: 81staff).

## 10.2 Decision making process

GIB UK has a Nomination and Remuneration Committee (NRC) which is a sub-committee of the Board. Its terms of reference are as follows:

### i) Membership

The Committee consists of not less than two non-executive directors appointed by the Board, one of whom shall be appointed Chairof the NRC by the Board. Executive Directors of GIB UK are not eligible to be members of the Committee.

### ii) Duties

The Committee is responsible for:

- Leading the process for Director Nominations, ensure plans are in place for orderly succession to both the Board and senior management positions, and oversee the development of a diverse pipeline for succession.
- Oversee the design of, and recommend to the Board, an overall remuneration policy for GIB UK that is aligned with its long term business strategy, its business objective, its risk appetite, culture and recognises the interests of relevant stakeholders. It oversees the implementation of, and reviews, remuneration and related policies and the alignment of incentives and rewards with culture

### iii) Meetings

The Committee will meet at least twice a year. Two members shall constitute a quorum. The Committee shall keep minutes of its proceedings. In addition to the members, and as agreed by them, other directors and managers may attend the meetings if invited.

## 10.3 Link between pay and performance

All staff receive a fixed and a variable component to their remuneration. The variable component is based on the performance of the individual and the firm as a whole and it is entirely discretionary.

## 10.4 Design Characteristics

The variable component of an individual's remuneration is designed to reward members of staff for good performance and to incentivise continued good performance in the future. In determining the quantum of the

variable component, various factors are taken into consideration which depends on the nature of the individual's role in the firm. Individuals engaged in business lines will be assessed on their net profit contribution to the firm, however the risk taken in achieving that performance will be factored into the assessment along with the transparency and certainty of the profits arising. They are also assessed on their overall contribution to the firm. Individuals engaged in risk, control and support functions are assessed through an appraisal process which is based on the achievement of objectives and meeting key performance criteria.

## 10.5 Aggregate remuneration information (in GBP)

**As at 31 December 2020:**

| Business Area | No. of Staff** | Fixed Remuneration (including pension & other benefits) | Variable Remuneration* |
|---|---|---|---|
| Senior Management | 12 | £3,502,206 | £1,091,667 |
| Treasury Division | 5 | £711,291 | £260,000 |
| Asset Management Division | 19 | £2,063,215 | £364,000 |
| Other staff | 67 | £3,502,206 | £297,000 |
| **TOTAL** | **103** | **£11,263,217** | **£2,012,667** |

* Including deferred remuneration amounting to £439,500k
** This is not average number of staff as disclosed in 10.1

## 10.6 Material Risk Takers (MRTs)

GIB (UK) maintains a list of all Material Risk Takers (MRTs) in compliance with Article 92 (2) of CRD IV and section 3 of the remuneration part of the PRA rulebook.

Commission Delegated Regulation No 604/2014 sets out regulatory technical standards (RTS) to identify categories of staff whose professional activities have a material impact on the risk profile of firms, also known as material risk takers (MRTs). Non-executive directors are not included in the numbers below.

As at 31 December 2020, the Bank had 15 MRT's, of whom 9 were Senior Managers. 15 of those MRTs were exempted from the requirements to defer any variable remuneration. There are no MRTs receiving remuneration above the de minimis threshold for 2020.

Total fixed staff employment costs for MRT staff for the year ended 31 December 2020 was £ £3,761,185 (2019: £ 3,130,326), and variable staff costs were £1,249,167 (2019: £ 1,771,941). The variable staff costs for the MRTs includes £423,500 deferred bonus.

As at 31 December 2020 the bank had 9 Senior Managers, who were all MRTs. Total fixed staff employment costs for Senior Managers staff for the year ended December 2020 was £3,502,206 (2019: £2,605,964), and variable staff costs were £ 1,394,344 (2019: £964,540).

The Bank has considered FCA guidance on staff remuneration issued in May 2017 (PS17/10), in addition to the PRA Rulebook, the Remuneration Code ("the Code") and the Capital Requirements Regulation (Article 450).