Pillar 3 and Remuneration Code Disclosures

AS AT 31 DECEMBER 2014

BACB

BRITISH ARAB COMMERCIAL BANK plc

Pillar 3 and Remuneration Code Disclosures

For Year Ended 31 December 2014

Approved by the Board 24 July 2015

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1 OVERVIEW

1.1. Introduction

Purpose

This document comprises British Arab Commercial Bank plc's ("**BACB**") Pillar 3 disclosures on capital and risk management at 31 December 2014. It has two principal purposes:

- To meet the regulatory disclosure requirements under CRD IV, Part 8 – Disclosure by Institutions and the rules the United Kingdom ("UK") Prudential Regulation Authority ("PRA") set out in the PRA Rulebook, Part PB – Public Disclosure and as the PRA has otherwise directed, and including Remuneration Code disclosures; and
- To provide further useful information on the capital and risk profile of the British Arab Commercial Bank plc ("BACB" or "the Bank").

Additional relevant information may be found in the BACB plc *Annual Report and Financial Statements 2014.*

Key Metrics

Common equity tier 1 ratio

18.2%

Up 2.3%, 2013: 15.9%

Total capital ratio

23.9%

Up 3.0%, 2013: 20.9%

Common equity tier 1 capital

£194m

Up 1.2%, 2013: £192m

Total regulatory capital

£255m

Up 1.1%, 2013: £252m

Total RWAs

£1,067m

Down 11.8%, 2013: £1,209m

New Capital June 2015

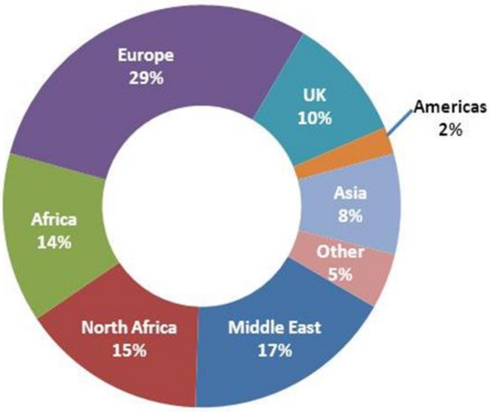
+ £24.8m

Not included in Dec 31 figures above

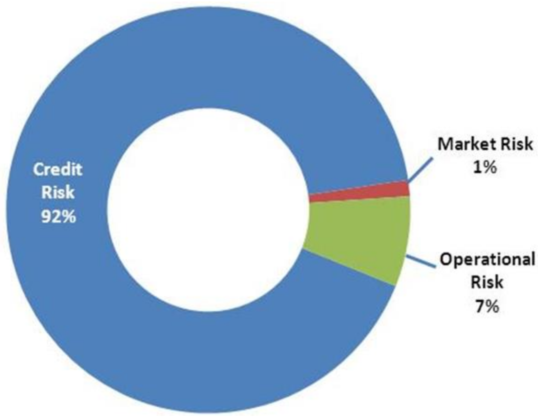
As disclosed in Note 37 of the Annual Report and Financial Statements, the Bank's majority shareholder, Libyan Foreign Bank, injected additional capital of £24.8mn in June 2015.

As at 30 June 2015, Common Equity Tier 1 Capital was £223.6mn and Total Regulatory Capital was £283.7mn, which also allows for a change in regulatory rules effective 1st January 2015 which no longer require AFS reserves to be deducted from capital (£5.2mn as at 31st December 2014).

Credit Risk by Geography



RWA's by Risk Type



1.2. Background

The European Union (EU) Capital Requirements Directive ("the Directive") 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, Basel III regulations, commonly known as CRD IV, revised the definition of capital resources and included additional capital and disclosure requirements.

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	Sets out the minimum capital requirements firms are required to meet for credit, market and operational risk.
PILLAR 2	The supervisory review process which requires firms and supervisors to consider whether a firm should hold additional capital against risks considered under Pillar 1 that are not fully captured under the Pillar 1 process (e.g. credit concentration risk); factors not covered under the Pillar 1 process (e.g. business and strategic risk); and matters external to the firm (e.g. business cycle effects).
PILLAR 3	Aims to promote market discipline by developing a set of disclosure requirements which will provide market participants with key information on a firm's capital, risk exposures, risk assessment processes and the capital adequacy of the firm.

The Directives are enforced in the UK by the Prudential Regulation Authority ("PRA"). The Pillar 3 disclosure requirements are contained in Articles 431 – 455 of the Capital Requirements Regulation ("CRR").

As under Basel II, BACB continues, under Basel III/CRDIV, to adopt the Standardised Approach to credit risk, the Basic Indicator Approach ("**BIA**") to operational risk and the Position Risk Requirement ("**PRR**") rules for market risk.

1.3. Disclosure Policy: Basis and Frequency of Disclosures

This document represents the Pillar 3 disclosures of BACB for the year ended December 2014 in accordance with all the requirements of Pillar 3 as set out in the CRR. The aim of the disclosures is to provide information on the basis of calculating Basel III capital requirements and the management of risks faced by the Bank.

Unless otherwise stated, all figures are as at 31 December 2014, the Bank's financial year-end. These disclosures, which are based on the Bank's regulatory returns, may differ from similar information in the Annual Report and Financial Statements which are prepared in accordance with International Financial Reporting Standards ("IFRS").

The main differences for BACB are as summarised below:

- Pillar 3 exposure values are derived from Balance Sheet values, net of provisions where appropriate, with Off Balance Sheet exposures assigned Credit Conversion Factors based on prescribed regulatory values; and
- Regulatory reporting rules require that the Bank make certain adjustments to Own Funds, the most material relate to Intangible Assets and dated Tier 2 Capital Instruments.

The following sets out the **Bank's Disclosure Policy** as applied to Basel III Pillar 3 Disclosures with Basel II comparatives including the information to be disclosed, frequency, media, location and verification.

BACB Disclosure Policy for Basel III Pillar 3 Disclosures

Information to be disclosed: The Bank's policy is to meet all required Pillar 3 disclosure requirements as detailed in the Capital Requirements Regulations.

Frequency: The Bank's policy is to publish the disclosures on an annual basis and in conjunction with the date of publication of the Annual Report and Financial Statements, which should be read jointly with this document.

The frequency of disclosure will be reviewed should there be a material change in approach used for the calculation of capital, business structure or regulatory requirements.

Medium and Location of publication: The Bank's Pillar 3 disclosures are published on the Bank's corporate website http://www.bacb.co.uk .

Verification: These disclosures have been subject to internal review and validation prior to being submitted to the Board for approval. This includes approval by the Bank's Executive Committee and Asset and Liability Committee (members of which include the Bank's Chief Risk Officer, Chief Executive Officer, Chief Operating Officer, Chief Financial Officer and Head of Client Coverage and Products).

The Bank's Pillar 3 disclosures have been approved by the Audit and Risk Committee and the Board. In addition, the Remuneration disclosures detailed in Section 9 of this document have been reviewed by the Nominations and Remuneration Committee of the Board. The disclosures are not subject to external audit, except where they are equivalent to those prepared under accounting requirements for inclusion in the Bank's Annual Report and Financial Statements.

Non-material, proprietary or confidential information: This document has been prepared to meet the Pillar 3 disclosure requirements set out in the CRR. The Bank does not seek any exemption from disclosure on the basis of materiality or on the basis of proprietary or confidential information.

1.4. Scope of Application

BACB plc is a UK registered Bank that is authorised by the PRA, and regulated by the PRA and the Financial Conduct Authority ("**FCA**").

BACB trades as a single entity; it has no subsidiaries or associates. BACB operates two representative offices, in Algiers and Tripoli in order to conduct marketing and client relationship activity. All transactions are booked in the London entity.

1.5. Prudential Consolidation

The Bank is a single entity and no consolidation is performed.

2 GOVERNANCE

2.1 Shareholders

The principal shareholder of the Bank is Libyan Foreign Bank. The bank's shareholders as at 31 December 2014 are listed below:

LIBYAN FOREIGN BANK	**83.48%**
BANQUE EXTÉRIEURE D'ALGÉRIE	**8.26%**
BANQUE CENTRALE POPULAIRE	**8.26%**
	100.00%

Changes to shareholdings after the balance sheet reporting date are disclosed in Note 37 of the Annual Report and Financial Statements.

The shareholders have entered into a formal Shareholders' Agreement ("SHA") which, together with the Articles of Association ("Articles"), mandate the governance arrangements which will be followed by the Board.

These documents and agreements provide that certain shareholders of the Bank may appoint directors in accordance with their shareholdings. They also provide for the appointment of the Chairman and the Chief Executive and for the formation of certain committees to oversee the day-to-day running of the Bank. A Schedule of Reserved Matters specifies matters which must be decided by the Board (rather than by Executive Management), with a separate schedule detailing matters reserved for approval and decision by shareholders. The SHA sets out the arrangements for changes in shareholding.

2.2 The Board

As at 31 December 2014, there were eleven members of the Board, comprising nine non-executive Directors ("**NEDs**") and two Executive Directors.

The SHA requires that the Board includes two independent non-executive Directors ("**INEDs**"). As at 31 December 2014, the two INEDs were the Chairman, Mr. Robert Douglas Dowie, and Mr. Michael Stevenson, who is Chair of the Audit and Risk Committee and the senior INED. The remaining (seven) non-executive Directors were appointed by shareholders pursuant to their shareholding and are not deemed "independent".

As at 31 December 2014, the appointments of the two Executive Directors, Mr. Paul Hartwell (Chief Executive Officer) and Mr. Mark Norris (Chief Operating Officer) were both subject to regulatory approval. As at the date of publication, both appointments have been fully approved.

The Bank's governance policies are set by the Board in accordance with the SHA and the Articles, as described above, and are implemented by Executive Management. During 2014, the Board met 7 times and the Audit and Risk Committee met 9 times.

The Board has ultimate responsibility for the Bank and, in accordance with the delegated authority from shareholders, the Board is responsible for establishing and approving the Bank's strategy and for establishing the governance and control framework of the Bank. It approves plans and performance targets for the Bank, the appointment of senior executives and the delegation of authorities. The Board satisfies itself that: financial controls and systems of risk management are effective and robust; it approves the Bank's Risk Appetite Statement and Governance Standards; and receives reports from the Audit and Risk Committee and from Executive Management on execution and compliance.

2.3 Board Recruitment Policy

Recruitment onto the Board combines an assessment of both technical capability and competency skills. Board recruitment is managed by the Nominations and Remuneration Committee, with subsequent ratification by the Board. Stakeholders involved in the process will usually include the CEO, the Chairman and the senior INED.

Future appointments will be made with a reference to a "Board Skills review" in order to establish the specific experience and skills needed to ensure the optimum blend of individual and aggregate capability having regard to the Bank's long term strategic plan.

2.4 Board Diversity Policy

The Bank is committed to promoting a diverse and inclusive workplace at all levels, reflective of the communities in which it does business. It approaches diversity in the broadest sense, recognising that successful businesses flourish through embracing diversity into their business strategy and maintaining a competitive advantage.

A truly diverse Board will include and make effective use of differences in the skills, regional and industry experience, background, race, gender and other distinctions between Directors. These differences will be considered when shaping the optimum composition of the Board.

The Nominations and Remuneration Committee is responsible for ensuring and assessing Board composition on behalf of the Board and recommends the appointment of new directors. All Board appointments are made on merit, in the context of the skills, experience, independence and knowledge, which the Board as a whole requires to be effective.

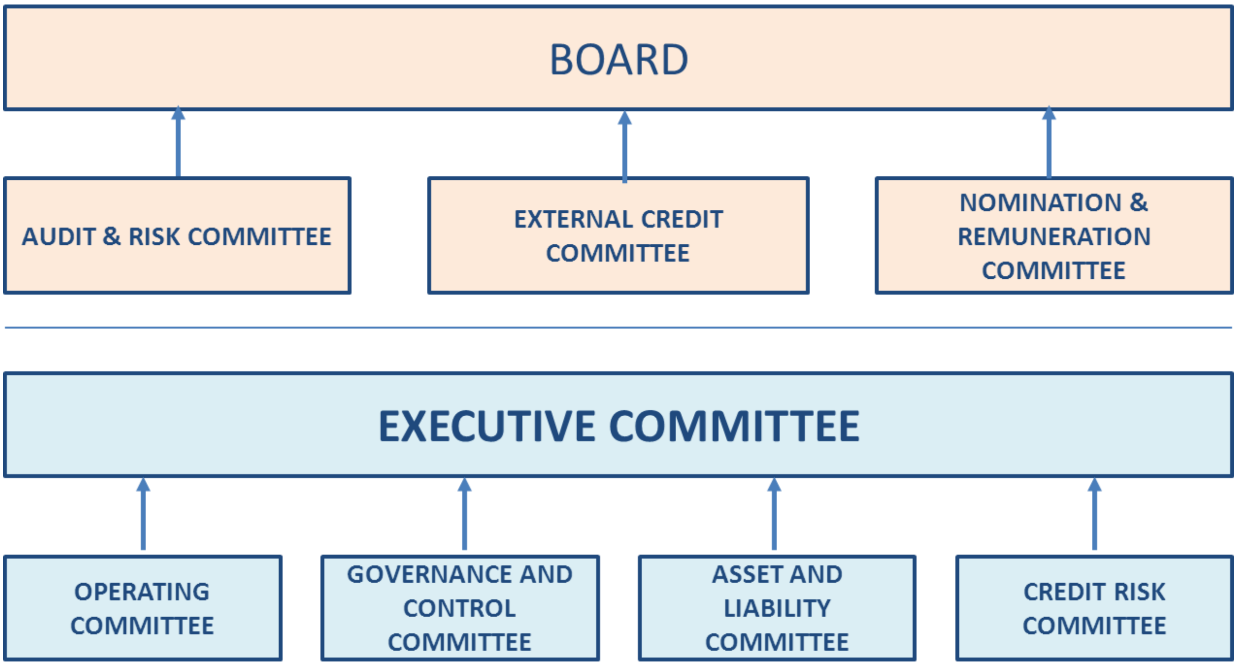
2.5 Number of Directorships held by the members of the Board

Name	Position with BACB	Directorships including BACB
Paul Hartwell	Chief Executive Officer	1
Mark Norris	Chief Operating Officer	2
Robert Dowie	Independent Non Executive, Chairman	3
Mohamad Shokri	Non-Executive Vice Chairman	2
Michael Stevenson	Independent Non-Executive, Chair of Audit and Risk Committee	2
Ahmed Aburkhis	Non-Executive Director	1
Ezzeddin Ashur	Non-Executive Director	4
Khaled Kagigi	Non-Executive Director	2
Sameh Krekshi	Non-Executive Director	2
Mohamed Loukal	Non-Executive Director	5
Mohamed Zine	Non-Executive Director	8

2.6 Overview of Governance Committee Structure

In order to support effective governance and management of the wide range of responsibilities, the Board has established three sub-Committees. Information flows up to the Board, or its sub-Committees, principally through the Executive Committee (ExCo).

Following the appointment of the new senior management team, the CEO has led an exercise to review and upgrade the Bank's Governance and Risk Management Framework. A number of enhancements have already been made, including the rationalization of the previous sub-Committees which reported into ExCo, into four Committees, as detailed below:



At the heart of the Governance enhancements are:

- clear direction from the Board on the medium-term Business Plan and Risk Appetite;
- the approval and adoption by the Board of an enhanced Governance framework based on documented Standards which articulate the Board's minimum control and reporting requirements. Each Standard will be supported by a policy or policies which translate the Standard into specific requirements and responsibilities and which will, in turn, be underpinned by operational procedures; and
- a reduced number of executive committees, permitting greater individual delegated authority, more focused oversight, and increased transparency and accountability for decision making.

2.7 Board Sub-Committees

An overview of the remit of the Board sub-committees is provided below:

2.7.1 Audit & Risk Committee ("ARC")

The ARC is a sub-committee of the Board and its members are non-executive Directors. The ARC has increased the frequency of its meetings to a minimum of 8 times a year and risk matters are considered at every meeting of the ARC. The Chairman of ARC provides an update on such matters at the next meeting of the Board.

The ARC is responsible for taking decisions and for providing guidance, advice and recommendations to the Board on:

- the Bank's principal risk categories with a view to re-enforcing a culture that encourages both good stewardship of risk and of regulatory awareness;

- risk levels in consideration of the Bank's overall risk appetite, market conditions and business strategy;
- the Bank's required submissions under the Internal Capital Adequacy Assessment Process ("ICAAP"), Individual Liquidity Adequacy Assessment ("ILAA") and Recovery & Resolution Plan ("RRP") regimes;
- assessment of the adequacy of stress testing, risk policy and regulatory developments;
- the qualifications, performance and role of the Bank's outsourced internal audit function and its assessment of the Bank's internal control systems and processes;
- the qualifications, performance and role of the Bank's external auditor;
- consideration of matters regarding the finances of the Bank including providing guidance and recommendations to the Board on all matters affecting the accuracy and appropriateness of the Bank's financial statements; and
- reports from Compliance in order to promote a culture of regulatory awareness. It ensures that all regulatory risks are properly monitored, managed and reported.

2.7.2 External Credit Committee ("ECC")

The ECC works as a committee of the Board to approve credit proposals and facilities exceeding the approval authority of the BACB executive approvers, having regard to the Bank's Credit Policy. Members of the ECC are the non-executive Directors who have requisite qualifications or experience. Decisions and approvals are achieved through electronic circulation of papers to all members.

2.7.3 Nominations and Remuneration Committee ("NRC")

The NRC is a non-executive committee of the Board that:

- reviews all matters affecting the composition and qualifications of the Board and sanctions the appointment of Directors, non-executive Directors and experts to the Board and its Committees;
- reviews the Bank's appointment policies, including the appointment of the Chief Executive and all other Executive Committee members and other senior employees; and
- ensures that staff, management, executive and Board remuneration is appropriately aligned to business and individual performance, and is consistent with shareholder interests.

The NRC performs these duties within a framework that takes account of prevailing market conditions, market practice and regulatory compensation guidelines (e.g. Remuneration Code). The Head of Human Resources is a member of the committee but does not carry a vote. The Committee met 2 times during 2014.

2.8 Executive Committee and Sub Committees

The Chief Executive has established the Executive Committee (ExCo) to assist him managing the business and delivering against the strategy, medium-term plan, operational plans, the annual budget and the risk appetite, in an effective and controlled manner.

In December 2014, the Board approved revised Terms of Reference for the ExCo and a revised structure of executive sub-committees was implemented with effect from 1 January 2015.

The ExCo membership comprises the Chief Executive (who acts as Chair) and nine other senior executives who are responsible for the day-to-day operations, internal control, business development and management of the Bank.

The Executive Committee has a business and prudential oversight remit, including

- formulating the strategy of the Bank for approval by the Board;
- ensuring the Bank is managed in accordance with the strategy;
- ensuring the Bank is managed in a sound, prudent and ethical manner and in accordance with all relevant laws, regulation and guidance and; and
- ensuring that all BACB internal committees are working effectively.

The Executive Committee has established four sub-committees and reports from sub-Committee Chairs are tabled at ExCo. The ExCo meets on a fortnightly basis and is chaired by the Chief Executive Officer.

2.8.1 Asset & Liability Committee ("ALCO")

The ALCO has primary responsibility for managing the risks inherent in the Bank's balance sheet which result from the Bank's business plan and operating model, with particular focus on capital, funding and liquidity.

The role of ALCO is to manage the balance sheet of the Bank and the optimization of the asset/liability structure and capital allocation. It is responsible for the operational and structural liquidity of the Bank, and its adherence to regulatory limits and prudential internal guidelines. It also oversees the measurement and monitoring of market risks across all asset classes and risk types.

The Asset and Liability Committee is Chaired by the Chief Risk Officer.

2.8.2 Credit Risk Committee ("CRC")

The role of the Credit Risk Committee is to ensure that there is a robust and effective credit and country risk management framework in place, oversight for the acceptance and management of the Bank's exposures to credit and country risk arising from the pursuit of the Bank's strategy and business plans.

This Committee is responsible for: the approval of policies and limits; and monitoring credit exposures and concentrations both on an individual and a portfolio basis, including review of individual obligor risks using the Board approved delegated mandates. It also oversees country and sector risks, and undertakes periodic reviews and assessments of portfolio, collateral, residual value and concentration risks.

The Credit Risk Committee is chaired by the Chief Risk Officer.

2.8.3 Operating Committee ("OpCo")

The role of the OpCo is: to provide oversight, review and challenge over the running and management of the Bank on an operational and day-to-day basis in accordance with all relevant laws, regulations and guidance; to ensure that shared service functions have appropriate resources, systems, processes, controls and policies to support the business and the business strategy; and to ensure that the resources, systems, processes and controls are effective, efficient and aligned with the business.

The Bank has established an Enterprise Project Management Office and project framework and methodology that is managed by the Chief Control Officer. The Projects are managed and monitored by OpCo and the Governance and Control Committee provides an independent oversight over Projects.

The OpCo is chaired by the Chief Operating Officer.

2.8.4 Governance and Control Committee ("GCC")

The GCC has primary responsibility for ensuring the adequacy of the Bank's governance, internal control and compliance framework and its effective execution.

Operational risk and project risk management is overseen by the GCC, which also reviews the findings from Internal and External Audit and agrees the adequacy of management's responses and action plans, and monitors the effective and timely closure of action items.

GCC also provides an independent oversight over major projects in the Bank.

The GCC is chaired by the Chief Control Officer.

3 RISK MANAGEMENT OBJECTIVES AND POLICIES

3.1 Introduction

The Bank's Executive Management team has commenced a comprehensive review of the Bank's strategy, risk appetite, medium term business plans, business operating model enterprise architecture and risk management framework. This is supported by an HR strategy designed to promote a robust, compliant risk culture and the behaviours expected of a high performance organisation. This will enhance existing policies, procedures and limits.

At the heart of this initiative is the Board approved adoption of an enhanced governance framework that is based on a clearly articulated Risk Appetite and Governance Standards which articulate the Board's minimum control and reporting requirements for each of the principal risk types faced by the Bank.

Governance Principles

Shareholder value based: The objectives of the Bank's business is to protect and enhance shareholder value. The risks to these business objectives should drive the system of internal control.

Embedded: The culture of the Bank should reflect its appetite for risk. This requires a suitable organisational structure, policies and procedures, and appropriate staff training in risk management, which enables risk to be managed at all levels of the business.

Supported and Assured: The system of governance and internal control should provide management with the assurance it needs that risks are identified and are being managed appropriately. The Board, or an appropriate sub-committee, must regularly receive and review reports on internal control from the governance and control process.

Reviewed: The Board must undertake a specific review of the effectiveness of the system of internal control and risk management processes at least annually.

3.2 Risk Management Objectives

The Bank's overarching risk management objectives are to ensure that:

- there is a clearly articulated Risk Appetite Statement that is calibrated to the financial resources of the Bank and its budget aspirations;
- there is a strong risk culture, which is embedded in daily operational activity;
- risks are identified and accepted within risk appetite, or approved as exceptions where not;
- risks are monitored to ensure they remain within, or come back within, risk appetite in agreed timescales, or action is taken promptly and effectively if that is not the case; and
- there is timely, complete, accurate and relevant risk reporting within the Bank and to the Board.

The Bank is committed to employing fit-for-purpose controls and compliance, specifically:

- complying with the letter and the spirit of the laws that govern the Bank;
- setting high standards for control and compliance activities;
- viewing 'excellence' in compliance as a key leadership responsibility;
- working with regulators to ensure compliance and to support the development of proportionate capabilities;
- being open both internally and with external stakeholders about the Bank's standards and opportunities for improvement; and
- ensuring that there are adequate processes and controls in first and second lines of defence, (described below) to ensure controls are working effectively.

3.3 Approach to Risk Management

The Bank's approach to risk management is to adopt the ***"Three Lines of Defence"*** model of governance with roles and responsibilities clearly defined.

<table>
<tr><th>1ST LINE</th><th>2ND LINE</th><th>3RD LINE</th></tr>
<tr>
<td>Each business area and function within the Bank is responsible for managing their risks and maintaining effective internal controls. This includes:
• the identification, assessment, acceptance, control and mitigation of risks;
• execution of risk and control procedures on a day to day basis; and
• the implementation of corrective actions to address process and control deficiencies.

There should be adequate managerial and supervisory controls in place to ensure compliance and to highlight control breakdown, inadequate processes, and unexpected events. Hence, the first line of defence should be able to assure effective risk management without reliance on the second line of defence.

The Bank's Chief Control Officer forms part of the first line of defence and has responsibility to ensure the overall adequacy and effectiveness of the first line controls. The Chief Operating Officer has overall responsibility for the adequacy and effectiveness of the first line of defence and management of its day-to-day operation.</td>
<td>Establishes the policies and tools required by the Governance Standards to provide the framework for managing each principal risk type and provides oversight and monitoring over the first line risks and controls. This comprises:
• Risk Management Function that facilitates and monitors the implementation of effective risk management practices by operational management and assists risk owners in defining the target risk exposure and reporting adequate risk related information throughout the organisation;
• Compliance Function that monitors compliance with applicable laws and regulations.

The Chief Risk Officer is responsible for ensuring the adequacy of the Second Line of defence. He is supported by a team of specialist compliance, credit, market and operational risk professionals.</td>
<td>Comprises Internal Audit and provides independent assurance on the effectiveness of governance, risk management and internal controls, including the manner in which the first and second lines of defence achieve risk management and control objectives.

The Internal Audit function is responsible for assessing:
• management's processes for ensuring compliance with controls, through periodic reviews of businesses;
• management's remediation plans in respect of control breaches; and
• the effectiveness of the Bank's control and assurance processes.

The Board has appointed PricewaterhouseCoopers to provide internal audit services. They have an independent reporting line to the Chairman of ARC.</td>
</tr>
</table>

3.4 Risk Declaration - Adequacy of the Risk Management arrangements

The Board is ultimately responsible for BACB's risk management framework. The risk management framework is the totality of systems, structures, policies, processes and people within the Bank that identify, assess, mitigate and monitor all internal and external sources of risk that could have a material impact on the Bank's operations.

During 2014 the Board commissioned reviews of the Bank's regulatory, risk management, IT and HR arrangements which identified a number of matters requiring improvement. This is work-in-progress and the Board anticipates that it will take a full calendar year to develop, implement and embed. The Bank will continue to operate within existing policies, procedures and limits until they have been superseded, at the same time maintaining a detailed level of scrutiny over transactions.

The Board is of the opinion that it has taken appropriate steps to provide reasonable but not absolute assurance that the activities of the Bank are and will continue to be managed in a prudent manner which will be under-pinned and strengthened by the revised governance and risk management framework.

3.5 Risk Statement

The Bank's Risk Statement is approved by the Board and describes the Bank's Risk Appetite and how it links to the overall strategy. The Risk Appetite is regularly monitored, with formal reviews by the Board of the Bank's risk measures in conjunction with the strategic planning process. During the year, the risk profile of the Bank has been maintained within the key financial exposure limits.

BACB's strategy is to take advantage of its position as a foreign owned London bank to intermediate the trade and capital flows between its target markets. The Bank will leverage its proven capability in providing bespoke structured trade and commodity finance to build a client-centric business model that facilitates the cross-sell of complementary banking and treasury solutions. In addition, it will utilise its balance sheet and access to term liquidity to build a diversified retail and commercial property portfolio.

The Bank's strategy is to be pursued within a defined Board approved Risk Appetite which combines a top-down view of its capacity to take risk with a bottom-up view of the business risk profile associated with the business's medium term plans. Taken as a whole, the Risk Appetite framework provides a basis for the allocation of risk capacity within the Bank.

The top-down Financial Volatility measure seeks to ensure that the Bank remains profitable even under severe market or economic stress conditions. The second element to the setting of risk appetite in BACB is an extensive system of Scope and Scale measures, which is a risk management approach that seeks to formally review and control business activities to ensure that they are within BACB's approved mandate (i.e. aligned to the expectations of the shareholders and any other relevant external stakeholders), and are of an appropriate scale (relative to the risk and reward of the underlying activities). In other words, it is a measure of the willingness of the Bank to accept certain types of risk. BACB will achieve this by using limits and triggers to avoid concentrations which would be out of line with external expectations, and which may lead to unexpected losses of a scale that would be detrimental to the stability of the Bank. The Bank expresses these Scope and Scale measures through a number of key measures which define the level of risk acceptable across three categories as set out below. These measures are being integrated into decision making, monitoring and reporting processes, with early warning trigger levels set to drive any required corrective action before overall tolerance levels are reached. Appendix II sets out a number of the key measures that are being developed to monitor the Bank's risk profile.

As explained in the Annual Report and Financial Statements, the Bank is dependent on its Libyan parent company and the Central Bank of Libya for its liquidity requirements. This dependency is noted in light of the uncertain political situation currently in Libya, which could deteriorate.

3.6 Principal Risks

The Bank has identified nine principal risk types across three overarching risk categories which might adversely impact its ability to achieve its strategic objectives, and defines its risk appetite through a range of Scope and Scale measures across these risk types which define the level of risk acceptable:

Risk Category	Principal Risk Type
Reputational	Reputational Compliance Conduct
Financial	Credit Country Market Liquidity
Operational	Operational Project

We set out in the following pages a brief description of each principal risk type and the framework for managing them. This summary should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties faced by the Bank, but rather those risks which the Bank currently believes may have a significant impact on the Bank's performance and future prosperity.

REPUTATIONAL RISK

Definition:

Reputational risk is the risk of damage to the Bank's reputation with relevant external parties, such as counterparties, clients, the shareholder community, governments, regulators etc. At its worst it can undermine the viability of the Bank. The risk is one of perception, irrespective of whether that perception is based on fact or assumption.

Reputational risk is an inherent risk of doing business and can arise from a wide variety of sources, including but not limited to:

- public knowledge of a failure of the Bank's compliance and risk management controls, for example regulatory fine; or non-compliance with changing regulatory requests.
- entering into transactions involving higher risk or sensitive industries, jurisdictions or counterparties.

Risk Management:

The Bank recognises that some of the countries in which its counterparties operate results in an enhanced exposure to reputational risk. As a result, its principal defence against reputational risk is through rigorous adherence to its compliance objectives of operating at all times in strict conformity with all applicable laws and regulations, including sanctions and anti-money laundering requirements. Further the Board and executive management team are committed to building a robust governance and risk management framework in order to safeguard the Bank from reputational damage that might arise from trading related losses.

Risk Mitigation:

The Bank is taking a range of qualitative steps to mitigate its exposure to reputational risks. These include:

- embarking on a process to establish itself as a high performance organisation with a clearly understood strategy;
- ensuring appropriate monitoring of the changing regulatory landscape in order to ensure full compliance;
- embedding a sound corporate culture built on target behaviours and values which have been developed at grass roots level; and
- restricting its appetite for sensitive types of business.

COMPLIANCE AND CONDUCT RISKS

Definition:

Compliance risk is defined as the risk of legal and/or regulatory sanctions, material financial loss, or loss to reputation the Bank may suffer as a result of its failure to comply with laws, regulations, its own policies, code of conduct, and standards. The Bank's principal sources of compliance risk are:

- the Bank being used as a vehicle to facilitate financial crime;
- breaches of sanctions applicable to BACB;
- internal policy breaches; and
- failure to implement adequately new regulatory requirements.

Conduct risk comprises a wide variety of activities and types of behaviour which fall outside the other main categories of risk, such as market, credit, liquidity and operational risk. In essence it refers to risks attached to the way in which the Bank and its staff conduct themselves. Although there is no official definition, it is generally agreed to incorporate matters such as how customers are treated, remuneration of staff and how the Bank deals with conflicts of interest.

Risk Management:

The Bank's objective is to comply with the letter and spirit of all applicable regulations and laws, and to embed a robust risk and compliance culture throughout the organisation which recognises the higher level of risk attached to many of the countries with which the Bank transacts.

The Compliance team is responsible for:

- developing applicable principles, standards and guidelines for compliance, communicating them and verifying adherence;
- providing advice to individual business units on applicable laws, directives, standards, and regulations as well as providing compliance support;
- monitoring trades, transactions and business processes in order to identify any potential compliance risks;
- implementing any measures arising from the anti-money laundering programme;
- ensuring that any occurrences which give reason to suspect money laundering or the financing of terrorism are identified and reported to the relevant authorities;
- providing regular training and education for staff on the applicable regulations, rules and internal standards;
- communicating with regulators.

Compliance risk is overseen by ARC with a risk based plan submitted at least annually. Mitigation controls, along with action and remediation plans are overseen by the GCC.

Conduct risk is a relatively new concept. BACB has, however, developed its overarching governance standard for Conduct Risk and this was approved by the Board in March 2015. Further work is now required to translate the Standard into operational policies and procedures. Oversight responsibility for this initiative has been assumed by the Chief Executive Officer.

As outlined in Note 32 of the Annual Report and Financial Statements, following a review of certain historical activities, much of which dates pre-2009, BACB has made a voluntary disclosure to the U.S. Authorities. The review is ongoing and BACB continues to co-operate with the US Authorities and the UK Regulators on this matter.

Risk Mitigation:

The Bank seeks to minimise the risk of Compliance or Conduct failure by:

- ensuring an up-to-date understanding of regulatory requirements which need to be complied with;
- ensuring that procedures and controls are in place and designed to minimise the risk of breaching those requirements;
- providing training for staff throughout the organisation aimed at promoting a good understanding of compliance issues; and
- undertaking a risk-based monitoring programme aimed at detecting shortcomings in or failures of compliance controls or processes.

CREDIT AND COUNTRY RISKS

Definitions:

Credit risk is the potential that a borrower or counterparty will fail to meets its obligations in accordance with agreed terms. The Bank's principal sources of credit risk are:

- exposures to banks, multilateral institutions and sovereigns in respect of foreign exchange and money market activities including the management of the Bank's liquid asset buffer;
- off-balance sheet exposures to bank and corporate counterparties in respect of obligations under trade finance transactions including letters of credit, guarantees and bonds; and
- loans and overdrafts to corporates, partnerships and private individuals arising from the Bank's commercial, real estate and commodity finance lending activities.

Country risk is the potential for loss arising from the impact of local events, particularly political and economic, but also natural, on the ability of counterparties in other jurisdictions to fulfil their obligations in accordance with agreed terms.

Risk Management:

For BACB, country risk largely arises as a result of the Bank taking credit risk on borrowers or counterparties outside the UK. Consequently the Bank's risk management of these two risks is aligned and largely managed alongside and together with each other.

The Bank's appetite for credit and country risks is set in response to its business plans and overall risk appetite. The Chief Risk Officer and his direct report, the Head of Credit, are responsible for:

- development and oversight of the credit and country risk management frameworks;
- developing credit and country risk policies, tools and frameworks across the business, including grading systems;
- managing effective credit and country risk assessment strategies and independent challenge of requests from the business for new, increased or extended limits;
- oversight of credit and country risk activities undertaken by the business;
- credit reporting and performance monitoring, including stress testing and portfolio modelling; and
- monitoring and managing the Bank's impaired exposures, and making recommendations jointly with the Chief Financial Officer on required levels of individual and collective impairment provisions and write-offs.

Credit and country risk management is overseen by the Credit Risk Committee which reviews and makes recommendations via ExCo to the ARC at least annually on the Bank's credit and country risk appetite and policies. The CRC approves within delegated authority limits entering into exposures, having regard to the Bank's business plans and Credit and Country Risk Standards as approved by the Board from time to time and with escalation to the Board External Credit Committee as required.

Risk Mitigation:

The Bank's business means that a significant portion of its credit and country risks are towards the lower end of its grading systems. In order to mitigate its credit and country risks, the Bank employs a number of risk mitigants:

- the Bank is implementing a revised framework of concentration limits and guidelines to diversify the risk of excessive exposure to individual countries, regions or sectors and to individual counterparties within those concentrations;
- limits are established for individual countries and counterparties based on their gradings;
- these limits govern quantum, nature and tenor of exposure. Typically the Bank will no longer enter into transactions in excess of one year other than in its real estate activity or for strategic customers or counterparties of appropriate credit quality;
- the Bank takes cash collateral for a significant portion of its exposures and employs other risk mitigants to the extent possible. Other mitigants include insurance, back-to-back commitments from financial institutions of acceptable quality, or guarantees. The Bank's policy on offsetting is disclosed in note 3i of the Annual Report and Financial Statements;
- liquidity buffers are only used to purchase the securities of highly rated sovereigns; and
- other surplus liquidity is primarily placed with or invested in the bonds of highly rated financial institutions.

The Bank uses a credit grading system to facilitate the monitoring of the portfolio and individual exposures. The Bank provides facilities to in excess of 350 counterparties encompassing exposure in over 70 countries and territories (2013: in excess of 350 counterparties encompassing exposure in over 60 countries). Credit risks assessed in accordance with that methodology are disclosed in Note 4 of the Annual Report and Financial Statements.

Table 1: BACB's credit risk exposures under the standardised approach for each of the risk exposure classes at 31 December as reported in the Regulatory Returns summarized by region.

31 December 2014	United Kingdom £'000s	Europe excl UK £'000s	Middle East and Africa £'000s	Other Countries £'000s	Total £'000s	Average exposure in 2014 £'000
Central Governments or Central Banks	120,686	200,977	20,543	291,427	633,633	574,008
Multilateral Development Banks	-	-	-	192,371	192,371	157,751
International organisations	-	-	-	7,979	7,979	8,156
Institutions	308,587	693,730	490,381	311,319	1,804,017	1,764,735
Corporates	38,962	7,655	317,002	35,393	399,012	460,757
Secured by mortgages on immovable property	24,616	21,885	3,555	-	50,056	32,112
Exposures in default	1,570	-	15,571	-	17,141	8,553
Equity exposure	-	-	3,232	-	3,232	2,895
Other	19,948	-	-	15	19,963	20,988
Total	514,369	924,247	850,284	838,504	3,127,404	3,029,954
31 December 2013 Total	719,912	669,754	1,210,433	385,175	3,004,268	

The exposure values in the table above have been adjusted by way of credit conversion factors ("CCF") for off balance sheet exposures in accordance with the PRA regulatory rules. The values are before applying risk weightings and include off balance sheet commitments. The average exposure value is calculated using the quarterly Regulatory Returns provided to the PRA during the year. The amounts reported in the Regulatory Returns above differ to the Annual Financial Statements due to year end accounting adjustments.

Under the Standardised approach BACB uses Fitch Ratings, as External Credit Assessment Institutions (ECAIs) across all its portfolios. In previous years BACB used Standard and Poor's, Moody's and Fitch Ratings. Credit ratings are mapped to credit quality steps as defined by the regulators, in the following table.

Table 2: Regional concentrations of collateral utilised to mitigate exposure (CRM).

31 December 2014	United Kingdom £'000s	Other European Union £'000s	Middle East and Africa £'000s	Other Countries £'000s	Total £'000s
Central Governments or Central Banks	-	-	18,179	-	18,179
Institutions	-	28	178,837	581	179,446
Corporates	6,849	251	23,025	2,470	32,595
Total	6,849	279	220,041	3,051	230,220

Table 3: Residual maturity of the Bank's exposures.

31 December 2014	Up to 1 month £'000	1-3 months £'000	3-12 months £'000	1-5 years £'000	Over 5 years £'000	Total £'000
Central Governments or Central Banks	218,654	284,965	128,965	1,049	-	633,633
Multilateral Development Banks	10,930	222	59,005	122,214	-	192,371
International organisations	-	-	7,979	-	-	7,979
Institutions	1,050,832	250,049	239,922	263,214	-	1,804,017
Corporates	50,045	34,977	111,901	145,965	56,124	399,012
Secured by mortgages on immovable property	-	-	-	50,055	-	50,055
Exposures in default	3,448	1,409	2,294	6,308	3,682	17,141
Equity exposure	-	-	-	-	3,232	3,232
Other	19,948	-	-	16	-	19,964
Total	1,353,857	571,622	550,066	588,821	63,038	3,127,404
31 December 2013 Total	1,383,510	408,771	587,724	546,158	78,105	3,004,268

Equity exposure relates to an investment in equity shares as explained in Note 14 of the Annual Report and Financial Statements. The amounts reported in the regulatory returns above differ to the Annual Financial Statements due to year end accounting adjustments. Investments in limited partnership investment funds are included as institutions.

Table 4: BACB's exposures after application of CCF and pre CRM by Credit Quality Step as reported to the PRA.

Credit quality step analysis pre CRM							
Fitch rating	*AAA to AA-*	*A+ to A-*	*BBB+ to BBB-*	*BB+ to BB-*	*B+ to B-*		
Credit Quality Step	**1**	**2**	**3**	**4**	**5**	**Unrated**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Central governments or central banks	613,090	-	-	-	-	20,543	633,633
Multilateral development banks	168,420	-	16,015	7,833	-	104	192,372
International Organisations	7,979	-	-	-	-	-	7,979
Institutions	386,983	620,323	324,201	13,877	28,077	430,556	1,804,017
Corporates	3,269	2,785	-	-	-	392,957	399,011
Secured by mortgages on immovable property	-	-	-	-	-	50,055	50,055
Exposures in default	-	-	-	-	-	17,141	17,141
Equity	-	-	-	-	-	3,232	3,232
Other items	-	-	-	19,586	-	378	19,964
Grand Total	1,179,741	623,108	340,216	41,296	28,077	914,966	3,127,404

Credit quality step analysis after CRM

Fitch rating	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to BB-	B+ to B-		
Credit Quality Step	**1**	**2**	**3**	**4**	**5**	**Unrated**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Central governments or central banks	830,113	2,646	-	-	-	20,543	853,302
Multilateral development banks	168,420	-	16,015	7,833	-	357	192,625
International Organisations	7,979	-	-	-	-	-	7,979
Institutions	173,229	620,323	324,201	13,877	28,077	430,303	1,590,010
Corporates	-	139	-	-	-	392,957	393,096
Secured by mortgages on immovable property	-	-	-	-	-	50,055	50,055
Exposures in default	-	-	-	-	-	17,141	17,141
Equity	-	-	-	-	-	3,232	3,232
Other items	-	-	-	19,586	-	378	19,964
Grand Total	1,179,741	623,108	340,216	41,296	28,077	914,966	3,127,404

Credit Risk Mitigation ("CRM") includes cash collateral placed with the Bank by way of security, reverse repo transactions and eligible guarantees. The amounts reported to the PRA (above) differ to the Annual Financial Statements due to year end accounting adjustments.

Table 5: Counterparty credit risk.

31 December 2014	**Gross positive fair values of contracts £'000**	**Potential credit exposure £'000**	**Total derivative credit exposure £'000**
Foreign Exchange contracts	293	1,305	1,598
Interest rate swaps	150	111	261
Interest rate floors	-	-	-
Foreign Exchange options	65	1,598	1,663
Interest rate futures	59	330	389
Total	**567**	**3,344**	**3,911**
31 December 2013			
Foreign Exchange contracts	540	3,086	3,626
Interest rate swaps	137	562	699
Interest rate floors	521	-	521
Foreign Exchange options	74	494	568
Interest rate futures	-	26	26
Total	**1,271**	**4,168**	**5,439**

MARKET AND LIQUIDITY RISKS

Definitions:

Market risk is the risk of a decrease in the actual or effective market value or earnings of a portfolio of financial instruments caused by adverse movements in market variables such as currency exchange and interest rates, bond prices or credit spreads.

Liquidity risk is the risk of the Bank 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.

Risk Management:

The Bank's appetite for market and liquidity risks is set in response to its business plans and overall risk appetite. The Chief Risk Officer and his direct report, the Market Risk Manager, are responsible for:

- development and oversight of the market and liquidity risk management frameworks;
- developing market and liquidity risk policies, tools and frameworks across the business;
- managing effective market and liquidity risk assessment strategies and independent challenge of requests from the first line for new, increased or extended limits;
- oversight of market and liquidity risk activities undertaken by the first line, including daily monitoring and reporting of compliance with limits designed to ensure adherence with the Bank's risk appetite in respect of market and liquidity risks; and
- market and liquidity risk reporting and performance monitoring, including stress testing.

Market and liquidity risk management is overseen by the Asset and Liability Committee which reviews and makes recommendations via ExCo to the ARC at least annually on the Bank's market and liquidity risk appetite and policies, or approves where within delegated authority, having regard to the Bank's business plans and Market and Liquidity Risk Standards as approved by the Board from time to time.

Risk Mitigation:

The Bank's Treasury function has day-to-day responsibility for managing its market and liquidity exposures. The Bank does not look to profit other than to a small extent from principal position trading exposures to bonds, interest rates or foreign exchange. Derivative contracts are used in both the banking and trading books to modify market risk exposures in the light of perceptions about future movements in those markets. In the banking book, in particular, derivative contracts are used to hedge market risk exposure arising from banking book positions, which in the absence of those contracts, would result in unwanted exposures, or excesses to market risk limits. The Bank does not deal in complex derivative transactions.

Exchange rate risk

The Bank manages its exposures to foreign exchange risk by way of limits on the size of permitted positions, both intra-day and overnight. Overnight trading positions must be protected by stop-loss orders placed with reputable correspondent banks. The size of the position limits is consistent with the amount of profit that the Bank is prepared to place at risk in the foreign exchange markets. The Bank earns the majority of its revenues in currencies other than sterling, but incurs the majority of its operating costs in sterling. This mismatch is not routinely hedged.

Interest rate risk

The Bank is exposed to changes in interest rates in various currencies arising from gaps in the future dates of repricing of assets, liabilities and derivative instruments. The Bank manages that risk by calculating, each working day, the sensitivity of changes in the present value of committed future cash flows to a 0.01% change in interest rates, using the Present Value of a Basis Point ("PVBP") methodology. Limits are placed on the overall amount of calculated PVBP with sub-limits for the overall banking book and for the Bank's trading books. The Bank considers the impact of changes in future interest rates on its future income streams by reference to these interest rate gaps.

A simultaneous increase in interest rates of 0.5% in all currencies, and in all maturities on 1 January 2015 would increase earnings from the financial assets associated with the non-interest bearing liabilities during 2015 by £595,000 (2013: a 0.5% increase in interest rates in all currencies would increase earnings in 2014 by £540,000).

Trading book

The Bank's trading book activities are limited to transactions in financial instruments mainly comprising the trading of foreign exchange, interest rate futures and debt securities. As well as PVBP limits to manage the interest rate risk in those books, risk is mitigated through:

- limits as to the size of particular books and individual positions within those books;
- stop loss limits to prevent the accumulation of losses from the Bank's principal position trading activities.

Liquidity Risk

Liquidity risk is formally assessed annually through the Internal Liquidity Adequacy Assessment process carried out under the rules of the Bank's regulator, and monitored daily through the performance of stress testing which is reported to the members of the ALCO. The Bank manages its exposure to liquidity risk by ensuring that it has 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 reduce the liquidity risks deriving from maturity transformation.

As explained in the Annual Report and Financial Statements, the Bank is dependent on its Libyan parent company and the Central Bank of Libya for its liquidity requirements. This dependency is noted in light of the uncertain political situation currently in Libya, which could deteriorate.

Table 6: The net liquidity gaps of the Bank (being the difference in contractual cash inflows from maturing assets, and outflows from maturing liabilities).

Net liquidity gap (Outflow)/inflow	Up to 1 month £'000	1-3 months £'000	3-12 months £'000	1-5 years £'000	Over 5 years £'000	Undated £'000
31-Dec-14	(563,800)	189,311	159,633	404,722	(2,031)	(187,835)
31-Dec-13	*(402,487)*	*(188,123)*	*382,011*	*378,828*	*19,290*	*(189,519)*

OPERATIONAL AND PROJECT RISKS

Definitions:

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

Project Risk is the risk that a project does not provide the agreed functionality and/or complete within budget and/or complete on time.

Risk management:

The Bank has identified Project Risk as a principal risk type as a result of the significant amount of projects that it is undertaking to achieve its strategic objectives. From a Bank-wide perspective project risk management falls within the overall operational risk framework.

The Bank's appetite for operational and project risks is set in response to its business plans and overall risk appetite. The Chief Risk Officer and his direct report, the Operational Risk Manager, are responsible for:

- development and oversight of the operational risk management frameworks;
- developing operational risk policies, tools and frameworks across the business, including operational risk incident reporting, analysis and recording and remedial action tracking;
- managing effective Risk Control Self-Assessment processes to identify and evaluate the Bank's exposures to operational risks ;
- oversight of operational risk management activities undertaken by the first line; and
- reporting and performance monitoring, including recording operational risk incidents, independent root cause evaluation and monitoring the adequacy and timeliness of remedial action.

The Bank has appointed a Chief Control Officer in Line 1 reporting to the Chief Operating Officer. The Chief Control Officer has day to day responsibility for assuring the completeness and performance of the Bank's operational risk control processes and also has responsibility for: Project Risk; establishing policies and protocols; and the Project Management Office, to assure the effective delivery of projects.

Operational risk management is overseen by the Governance and Control Committee which reviews and makes recommendations via ExCo to the ARC at least annually on the Bank's operational risk appetite and policies, or approves where within delegated authority, having regard to the Bank's business plans and Operational and Project Risk Standards as approved by the Board from time to time.

Risk Mitigation:

The Bank seeks to mitigate its operational risks using accepted operational risk management concepts and strategies including but not limited to:

- identification of mission critical processes and potential points of failure, and ensuring adequate controls are in place;
- IT technical standards and change control procedures;
- HR policies, processes and controls;
- implementing an information security management system framework, consistent with the ISO 27000 family of standards;
- business continuity planning;

- escalation and reporting of operational incidents to ensure that timely actions are taken to resolve the incident and root cause analysis performed to mitigate the likelihood of recurrence; and
- insurance policies to cover relevant risk exposures. Insurance is viewed as complementary to, and not a replacement for, a robust control environment.

Other risks

- Pension Fund Risk. The defined benefit scheme was closed to future accrual from 1 April 2014, but the risks associated with historically accrued obligations continue. There are risks that the liabilities associated with these arrangements may be higher than expected, or that the assets may not grow as expected. The Bank recognises that these are long term obligations, and seeks to manage the risks by assessing them using prudent assumptions and through the use of investment strategies designed to hedge the mismatch between obligations and assets.

4 OWN FUNDS

Own funds (also referred to as capital resources) is the type and level of regulatory capital that must be held to enable the Bank to absorb losses. The Bank is required to hold own funds in sufficient quantity and quality in accordance with CRD IV which sets out the characteristics and conditions for own funds.

Under the CRD IV framework two tiers of capital are recognised, being Tier 1 and Tier 2 Capital with the sum of Tier 1 and Tier 2 Capital constituting "Own Funds".

The CRD IV also requires a bank to have minimum levels of capital calculated by reference to its risk-weighted assets (RWA):

- Total capital of at least 8% of RWA;
- Tier 1 capital of at least 6% of RWA;
- Common Equity Tier 1 ("CET1") capital of at least 4.5% of RWA.

Under PRA transitional provisions for 2014, a bank must hold capital of 8% of RWA with a minimum of Tier 1 capital of 5.5% and CET 1 of 4%.

4.1 Total available capital

Table 7: The Bank's regulatory capital base and capital adequacy ratio at 31 December 2014.

	2014 £'000s	2013 £'000s
Common Equity Tier 1 Capital		
Ordinary Share Capital	79,453	79,453
Retained Earnings	113,405	109,750
AFS Reserve	5,207	3,521
Other Reserves	4,104	4,104
Deductions from Common Equity Tier 1:		
Regulatory Adjustments	(7,517)	(4,488)
Total Common Equity Tier 1 Capital	**194,652**	**192,340**
Tier 2 Capital		
Term issued Subordinated Debt	60,519	57,141
Regulatory Adjustments	-	3,005
Total Tier 2 Capital	**60,519**	**60,146**
Total Own Funds as at 31 December	**255,171**	**252,486**
Risk Weighted Assets	**1,067,344**	**1,209,812**
Common Equity Tier 1 Ratio	18.2%	15.9%
Capital Adequacy Ratio	23.9%	20.9%

The 2014 figures detailed above are based on Basel III regulations, commonly known as CRD IV, whilst 2013 are shown on a Basel II basis. Risk Weighted Assets is the total value of the Bank's on and off balance sheet exposures, weighted in accordance with the rules set out in the standardized approach to credit risk. The total for risk weighted assets is the amount reported in the Bank's Regulatory Returns as at that date.

The regulatory capital figures above differ from the amounts reported to the PRA as at 31 December as the total above includes the retained profits for the year which cannot be included in the amounts reported to the PRA until such time as the financial statements for the subject year are approved.

Tier 2 capital comprises term subordinated debt due 2020-2025 (lower Tier 2), issued in US Dollars and on terms which qualify for inclusion in capital resources.

BACB does not have any form of hybrid, innovative, Additional Tier-1 or Tier-3 capital.

4.2 Common Equity Tier 1 Capital

Common Equity Tier 1 capital comprises ordinary share capital plus reserves. Adjustments are made in respect of intangible assets and certain revaluation reserves in accordance with the PRA regulatory rules.

Table 8: Reconciliation between equity and common equity tier 1.

	2014 £'000s	2013 £'000s
Equity per Annual Financial Statements	202,169	196,828
Regulatory deductions from Equity:		
Intangible assets	(2,310)	(2,031)
Fair value gains on AFS debt securities excluded from capital	(5,207)	(2,457)
Common Equity Tier 1 Capital	**194,652**	**192,340**

A reconciliation of regulatory capital to the balance sheet is shown in Appendix III.

4.3 New Capital post year end

The Bank's majority shareholder, Libyan Foreign Bank, injected additional capital of £24.8m on 17 June 2015 as explained in Note 37 of the Annual Report and Financial Statements.

The Bank's total available capital as at 30 June 2015, including the additional capital, is summarised in the table below.

	30 June 2015 £'000s
Common Equity Tier 1 Capital	
Ordinary Share Capital	104,149
Retained Earnings	113,405
AFS Reserve	4,217
Other Reserves	4,104
Deductions from Common Equity Tier 1:	
Regulatory Adjustments	(2,233)
Total Common Equity Tier 1 Capital	**223,642**
Tier 2 Capital	
Term issued Subordinated Debt	60,108
Total Tier 2 Capital	**60,108**
Total Own Funds	**283,750**

5 CAPITAL ADEQUACY

5.1 Overview

From 1 January 2014, the Bank has complied with the revised rules for determining capital requirements as promulgated by the EU in accordance with the Capital Requirements Directive (CRD IV). Under CRD IV the Bank continues to adopt Standardised approach to credit risk, the Basic Indicator approach to operational risk and the standard PRA regulatory rules for market risk to calculate the Pillar 1 minimum capital requirement.

The PRA in their capacity as supervisors set targets for, and monitor, the capital adequacy of the Bank. Capital adequacy returns are submitted quarterly to the Regulators. As at 31 December 2014, and throughout the year, the Bank's capital in place "Own Funds" comfortably exceeded its minimum regulatory requirement. The Bank does not anticipate breaching these requirements during 2015.

5.2 Internal Capital Adequacy Assessment Process

The Board has ultimate responsibility for the Bank's capital management and capital allocation. The Finance, Risk Management and Treasury functions are responsible for the financial governance of the Bank and compliance with statutory, regulatory and disclosure requirements Ongoing monitoring of compliance with its regulatory requirements also takes place via the ALCO, which considers the adequacy of the Bank's capital position. In addition the Bank undertakes a comprehensive formal evaluation of its capital adequacy ("ICAAP") on a regular basis and usually every twelve months. The preparation of the ICAAP is the responsibility of the Chief Risk Officer.

The ICAAP is an assessment by the Bank, approved by the Board, of the level of capital that it believes is required in respect of the principal risks to which it is exposed in the execution of its business plan. The Bank uses a range of modelling, scenario analysis and stress testing techniques which it considers appropriate to the scale and nature of the Bank's activities in order to identify the capital levels required and compares these to the Pillar 1 minimum amounts. These techniques include an evaluation over the medium term planning horizon of the adequacy of the Bank's capital position even under a range of relevant extreme but plausible stressed conditions.

The ICAAP is subject to rigorous review and challenge by both the executive management team and the Board, through its ARC. The report is submitted to the Bank's prudential regulator, which will periodically revisit the Individual Capital Guidance requirements for the Bank in the light of the most recent ICAAP and the regulator's own supervisory processes.

5.3 Pillar 1 Capital Requirement

BACB's overall minimum capital resource requirement under Pillar 1 is calculated by adding the credit risk charge to that required for operational risk and market risk.

Table 9: The Bank's overall minimum capital requirement and capital adequacy position under Pillar 1 at 31 December.

	2014 Risk Weighted Assets ("RWA") £'000	2014 Capital Requirement £'000	2013 Capital Requirement £'000
Credit and Counterparty Credit Risk			
Central governments or central banks	9,041	723	5,210
Multilateral development banks	11,944	956	-
Institutions	507,871	40,630	50,167
Corporates	379,442	30,355	39,600
Secured by mortgages on immovable property	17,519	1,402	-
Exposures in default	23,153	1,852	-
Equity exposure	8,080	646	-
Other items	19,331	1,547	1,940
	976,383	**78,111**	**96,917**
Market Risk			
Interest Rate PRR	12,516	1,001	1,952
Foreign Exchange PRR	1,146	92	102
Operational Risk	76,686	6,135	6,104
Credit Valuation Adjustment	613	49	-
Total Pillar 1	**1,067,344**	**85,388**	**105,075**
Own Funds		**255,171**	**252,486**
Excess of capital in place over minimum requirement under Pillar 1		**169,783**	**147,411**

Total Pillar 1 capital requirement shown above are the amounts reported to the PRA as at 31 December in the regulatory returns

The Bank has no requirement under Pillar 1 with respect to the Countercyclical Buffer. The Countercyclical Rate set by the Financial Policy committee as of 31st December 2014 was zero and none of the EEA States to which we have an exposure have set a rate. The Financial Services Act 2012 led to the establishment of an independent Financial Policy Committee ("FPC") at the Bank of England. The Committee is charged with a primary objective of identifying, monitoring and taking action to remove or reduce systemic risks with a view to protecting and enhancing the resilience of the UK financial system. The FPC has a secondary objective to support the economic policy of the Government.

The European Commission issued "Commission Implementing Decision ("CID") 2014/908/EU" on 12 December 2014. The CID relates to the equivalence of regulatory supervision in certain third countries for the treatment of exposures. This is effective from 1 January 2015 and the impact on BACB will be approximately £15m of additional Pillar 1 Capital Requirement.

6 NON TRADING BOOK EXPOSURES IN EQUITIES

The Bank has exposure to equities by way of a small number of long term investments. These comprise a strategic investment in a financial company in the North African region, and two investments in venture capital equity investment funds managed by specialist fund managers whose objective is to invest in growing companies in that same region.

The direct investment is as follows:-

Company	*Holding*	
International Company for Leasing SAE	*1,727,999 ordinary shares of Egyptian Pounds 10*	*8.64%*

The Bank's objective in holding this investment is to seek long term investment growth. The Bank also participates in the Board of the company, and seeks to gain access to intelligence regarding developments in the local markets thereby.

The objective of the investment in the venture capital funds is to achieve long term capital growth by way of participation in growing companies in that region.

The investments are held in the Bank's balance sheet as Available for Sale assets. In the case of the direct investment the Bank has estimated fair value based on the audited net assets of the company involved. In the case of the investment funds the valuation is based on reports provided by the fund managers.

At 31 December 2014 the carrying value and movements of those investments in the Bank's balance sheet (which is the same as estimated fair value) was as disclosed in note 14 'Financial investments' of the Annual Report and Financial Statements.

7 IMPAIRMENT PROVISIONS

7.1 Summary of accounting policy

The Bank's accounting policy for the determination of impairments is set out in Note 3 of the Annual Report and Financial Statements. A summary of the main provisions of the policy is set out below.

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or portfolio of financial assets is impaired. A financial asset or a portfolio of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or portfolio of financial assets that can be reliably estimated. Objective evidence that a financial asset or portfolio of assets is impaired includes observable data that comes to the attention of the Bank about the following loss events:

i. significant financial difficulty of the issuer or obligor;

ii. a breach of contract, such as default or delinquency in interest or principal payments;

iii. the Bank granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;

iv. it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

v. the disappearance of an active market for that financial asset because of financial difficulties; or

vi. observable data indicating that there is a measurable decrease in the estimated future cashflows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:

  - adverse changes in the payment status of borrowers in the portfolio; or

  - national or local economic conditions that correlate with defaults on the assets in the portfolio.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a portfolio of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Bank may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Loans (and the related impairment allowance accounts) are normally written off, either partially or in full, when there is no realistic prospect of recovery of these amounts and, for collateralised loans, when the proceeds from the realisation of security have been received.

If in a subsequent period, the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent it is now excessive by reducing the loan impairment allowance account. The amount of any reversal is recognised in the income statement.

Available-for-sale assets

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or a portfolio of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss, is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the income statement.

7.2 Past due amounts

The Bank's normal policy is to assume that payments which are due to be paid on a particular date will be settled, and adjusts its books accordingly. However, the Bank closely monitors and actively manages receivables which are not paid on their due date (past due amounts), and expects to identify such amounts either on the day it was due for large sum amounts (using real time settlement enquiry systems), or else on the morning of the following day following completion of correspondent account reconciliations (nostro reconciliation).

There are many reasons why an amount may not be settled on the due date, the most common of which being delays in the settlement process which arise in the normal course of business. In such cases settlement normally takes place within a very short period of the contractual date, and interest or "good value" claims will arise to ensure that the Bank is protected.

Delays may also be indicative of other difficulties being experienced by the payment obligor. In such cases the Bank's policy is to re-book the amount as an overdue balance and to immediately contact the counterparty with a view to establishing the reason for the delay.

Overdue amounts are reported to appropriate levels of management to ensure that necessary actions are being taken. If the reasons for the delay are indicative of difficulty being experienced by the counterparty, then all of the balances due from that counterparty will be classified as being on "watch-list", resulting in increased management scrutiny and action.

7.3 Summary of position at 31 December 2014

The impairment provision as at 31 December 2014 was £24,115,000 (2013: £18,994,000). The 2014 impairment comprises £23,331,000 individual impairments and £784,000 collective impairments. The movements in impairment provisions are shown in note 12 of the Annual Report and Financial Statements.

The Bank is active in wholesale markets. Accordingly, its portfolio of financial assets comprises a relatively small number of individually significant claims, rather than a large number of individually insignificant claims as would be the case for similar companies acting in retail markets. This means that each claim due to the Bank is subject to individual impairment review at the reporting date taking account of the factors described in Note 3k of the Annual Report and Financial Statements. Collective impairments arise in respect of groups of exposures with similar risk characteristics for which previous experience indicates that impairment has taken place at the balance sheet date, but whose existence has yet to emerge. In light of reduced information flows from Libya which could increase the risk of default, BACB has recognised a collective impairment of £784,000 in respect of Libyan exposures.

At 31 December 2014, nine facilities comprising amounts due to the Bank of £38,000,000 were determined to be impaired *(2013: eight facilities comprising £25,113,000 due to the Bank)*. No collateral was held by the Bank in respect of these facilities.

No amounts were past due at 31 December 2014 in respect of unimpaired financial assets *(31 December 2013: £nil).*

Table 10: Counterparty Analysis of individual gross loans and impairments.

31 December 2014	Gross exposure £'000	Impairments £'000	Net exposure £'000
Institutions	957	(957)	-
Corporates	37,043	(22,374)	14,669
Total	38,000	(23,331)	14,669

Table 11: Regional Analysis of individual gross impaired loans and impairments.

31 December 2014	Gross exposure £'000	Impairments £'000	Net exposure £'000
Middle East and Africa	32,740	(18,072)	14,668
UK	5,260	(5,259)	1
Total	38,000	(23,331)	14,669

8 ASSET ENCUMBRANCE

An asset is treated as encumbered if it has been pledged or if it is subject to any form of arrangement to secure, collateralise or credit enhance any on-balance-sheet or off-balance-sheet transaction from which it cannot be freely withdrawn.

Assets currently pledged which are subject to restrictions on withdrawal include debt securities with a minimum value of €30,000,000. The carrying value of these assets as at 31 December 2014 was £27,915,000. Further information can be found in Note 35 of the Annual Report and Financial Statements. Initial margins provided against derivatives of £7,423,000 were also encumbered.

9 REMUNERATION

BACB has reviewed and acknowledged requirements from the FCA guidance issued in 2014 on staff remuneration within the banking sector, including The Remuneration Code (SYSC 19A) ("the Code") and The Capital Requirements Regulations (Article 450).

This statement sets out the disclosures required under the Code as they apply to the Bank. The Bank is classified as a Level 3 Bank under the Remuneration Guidelines.

The Bank will be complying with recent updates to the PRA and FCA Codes issued in 2015.

The Bank employed 167 members of staff at 31 December 2014 (2013: 153 staff). The staff costs of the Bank (as disclosed in the Note 11 of the Annual Report and Financial Statements) were as follows:

Table 12: Staff costs of the Bank

	2014 £'000	2013 £'000
Staff costs:		
Salaries and other emoluments	9,790	8,953
Social security costs	1,362	1,257
Other pension costs:		
- Defined benefit scheme	(117)	1,300
- Defined contribution scheme	1,049	736
Total fixed staff employment costs	**12,084**	**12,246**
Variable staff costs: performance awards	2,465	2,118
Total staff employment costs	**14,549**	**14,364**
Reorganisation costs (excluding pension augmentations)	361	485
Other employment related costs	2,090	613
Total staff costs	**17,000**	**15,462**
Of which: Code Staff	**3,035**	**2,539**

Due to the small number of staff a breakdown by business area is not disclosed.

Nominations and Remuneration Committee

Governance of all matters related to remuneration within the Bank lies with the Nominations and Remuneration Committee (NRC), comprising of four non-executive Board members. The Committee is composed of the Chairman, and three other non-executive Board members who possess the necessary skills to exercise the appropriate judgement. The Human Resources Director sits on the NRC but does not carry a vote.

The NRC has reviewed the Bank's remuneration policies to ensure compliance with the requirements outlined above. This includes reviewing the overall level of staff remuneration (including performance awards) in the context of the longer term business performance of the Bank, including its capital adequacy, in order to ensure that staff costs are appropriate in light of the Bank's current and prospective capital adequacy.

Performance Award Scheme

The Bank has in place performance award schemes for the benefit of its employees, which classify as 'variable remuneration' as defined in the Code. This is a discretionary scheme adopting a top down funding approach, together with individual performance and contribution assessment, based on a combination of:

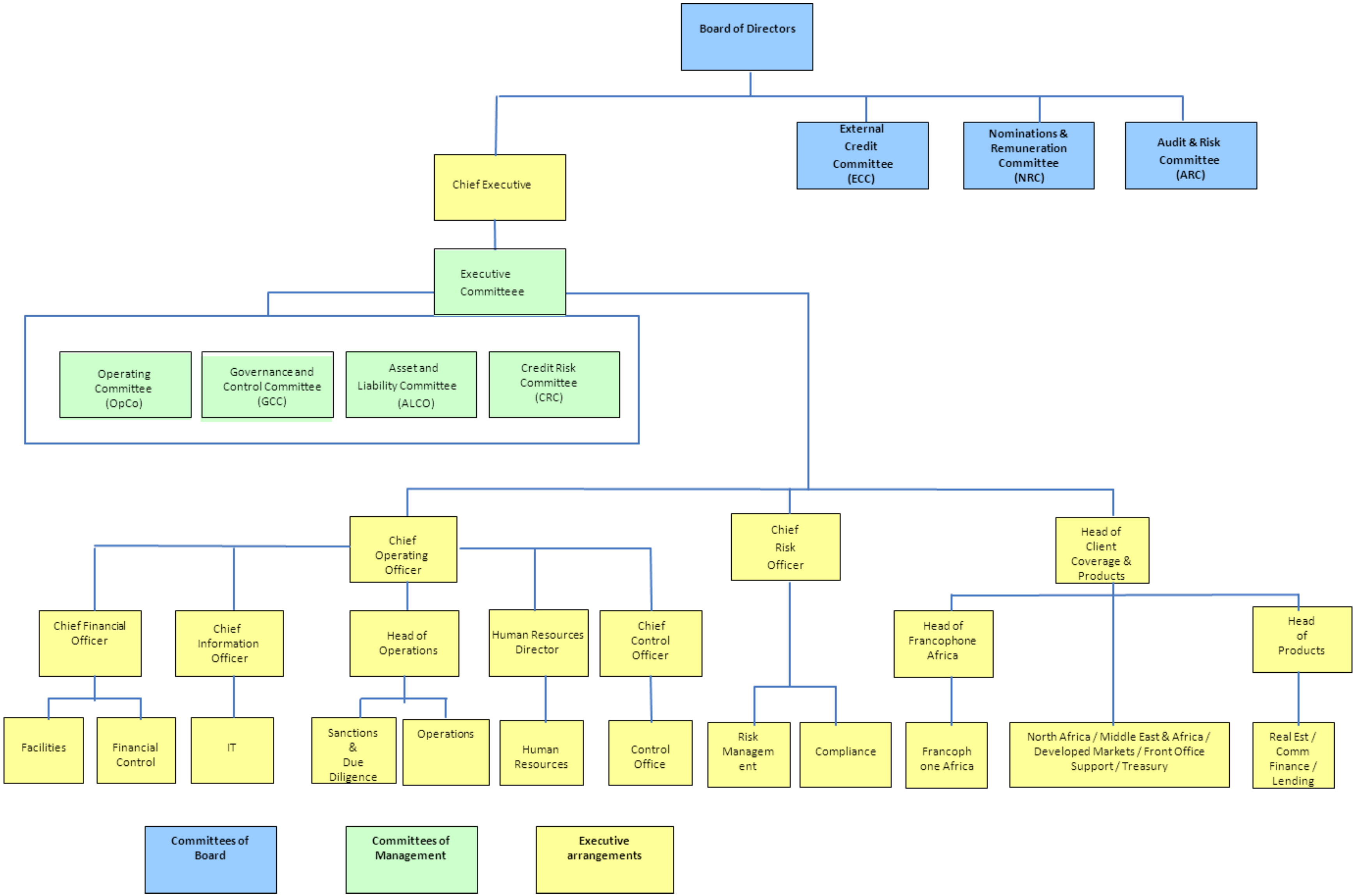
- An appropriate distribution of profits between shareholders and employees via the bonus pool, and the needs of the Bank as determined by NRC, the Board and senior management.
- The Bank's performance against the business plan prepared before the start of the year to which it relates.
- An individual's behaviours (as assessed against the Bank's values).
- An individual's contribution towards the achievement of their objectives (derived from their Performance Management Process score- a four point assessment scale).

Any amounts are payable in March following the year to which the award relates. A deferral system is in place for bonuses above £50,000 with effect from 2014. Amounts deferred will be paid in 3 equal instalments over a 3 year period. The previous deferral system will continue until all existing amounts have been paid in March 2017.

Code Staff

The Code requires that banks identify relevant senior executives and material risk takers and designate them as "Code Staff". 13 senior executives of the Bank were identified as Code Staff as at 31 December 2014 (16 as at 31 December 2013). Within this group no individual had either variable or total remuneration in excess of £500,000.

Appendix I: Organisation Chart



Appendix II: Key Risk Measurements

The following table sets out a number of the key measures that are being developed to monitor the Bank's risk profile.

	Risk Area	Metric	Comment	Measure at 31 December 2014
REPUTATIONAL	The Bank recognises the importance of its reputation and major reputational damage is one of the scenarios that the Bank monitors actively. It has developed contingency plans and monitors a range of formal early warning signals and plan activation indicators, as well as taking into consideration other information that comes to the attention of the Board in the normal course of business for example through communications with the financial community at large, regulators or other stakeholders.			
FINANCIAL	Capital and Leverage	Risk Asset Ratio	The Bank targets a minimum buffer above the regulatory capital guidance threshold and a leverage cap expressed as a multiple of its total capital and subordinated debt. It has operated within these requirements throughout the year. Our medium term business plans evidence that this will continue	24%
	Liquidity	Stress testing	Liquidity risk appetite has been set by the Board at a level which would allow the Bank to survive for 90 days following the start of a range of Board approved liquidity stress scenarios. In addition it has to comply with the Individual Liquidity Guidance which is set and adjusted periodically by the PRA. The Bank has held material surplus liquidity over and above the risk appetite level throughout the year.	Compliant
	Credit Risk	Net credit losses/credit exposures	The Bank's focus means that a significant portion of its non-treasury related credit and country risks are towards the lower end of or below investment grade. This implies a relatively high probability of default, which the Bank mitigates through the application of concentration and tenor limits or the use of credit mitigants, for which limits and triggers are being established, in order to ensure that net credit losses are within tolerance.	0.1%
	Market Risk	Stop loss limits	The Bank undertakes only limited proprietary trading activity in foreign exchange (including the management of foreign exchange risk resulting from banking book activities), interest rates and debt securities for which a range of limits have been set. Financial volatility is managed through a range of stop loss limits which require actions which are proportionate to the severity of any losses.	Compliant
		PVBP limits	Interest rate risk in the banking book is managed using a range of interest rate products with the Bank's net position subject to limits using the Present Value of a Basis Point ("PVBP") methodology.	Compliant
OPERATIONAL	The Bank monitors a range of operational performance indicators and tracks all operational risk incidents, the cause and quantum of which are reported to the Governance and Control Committee monthly with significant issues escalated to the Audit & Risk Committee or the Board.			

Appendix III: Regulatory Capital Balance Sheet Reconciliation

Institutions are required to provide information on the reconciliation between balance sheet items used to calculate own funds and regulatory own funds.

	Balance sheet extract £'000s	Balance sheet components £'000s
Assets		
Intangible assets	2,310	
of which: deduction from common equity tier 1 capital		2,310
Total Assets	2,916,417	
Liabilities		
Subordinated loan capital	60,519	
of which: Tier 2 capital		60,519
Total liabilities	2,714,248	
Equity		
Called up share capital	79,453	
of which: amount eligible for common equity tier 1 capital		79,453
Retained earnings	113,405	113,405
Other reserves	9,311	4,104
Total equity	202,169	
Total liabilities and equity	2,916,417	

Appendix IV: Main features of regulatory capital instruments

Capital instruments' main features template ([1])		COMMON EQUITY TIER 1	ADDITIONAL TIER 1	TIER 2
1	Issuer	British Arab Commercial Bank plc	N/A	British Arab Commercial Bank plc
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement	Private placement	N/A	Private placement
3	Governing law(s) of the instrument	English Law	N/A	English Law
	Regulatory treatment		N/A	
4	Transitional CRR rules	CET1	N/A	Tier 2
5	Post-transitional CRR rules	CET1	N/A	Tier 2
6	Eligible at solo/(sub-)consolidated/solo & (sub-)consolidated	Solo	N/A	Solo
7	Instrument type (types to be specified by each jurisdiction)	Common Equity	N/A	Term issued subordinated debt
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	£79.4m	N/A	£60.5m
9	Nominal amount of instrument	£1 and $1	N/A	$94.5m
9a	Issue price	£1 and $1	N/A	$94.5m
9b	Redemption price	N/A	N/A	N/A
10	Accounting classification	Called up share capital	N/A	Subordinated liabilities
11	Original date of issuance	Ordinary shares of £1 each, paid up capital: £2m 23 March 1972 £3m 29 June 1973 £5m 1 Dec 1976 £3m 30 Mar 1979 £3m 29 Jun 1979 £5m 30 Jun 1981 £5m 30 Jun 1982 £5m 30 Jun 1983 £5m 30 Jun 1984 £5m 30 Jun 1985 (£9m) 20 May 1993 Ordinary shares of $1 each, paid up capital: $93m 31 Mar 1988 ($12m) 20 May 1993 ($4m) 31 Dec 2008 Ordinary shares of $0.15 each, paid up capital: $80m 15 May 1990 ($80m) 20 May 1993	N/A	$94.4m 29 Oct 2010
12	Perpetual or dated	Perpetual	N/A	Dated
13	Original maturity date	N/A	N/A	$31.5m 29 Oct 2020 $31.5m 29 Apr 2023 $31.5m 29 Oct 2025
14	Issuer call subject to prior supervisory approval	N/A	N/A	N/A
15	Optional call date, contingent call dates, and redemption amount	N/A	N/A	N/A
16	Subsequent call dates, if applicable	N/A	N/A	N/A
	Coupons / dividends			
17	Fixed or floating dividend/coupon	Floating	N/A	Floating
18	Coupon rate and any related index	N/A	N/A	3 month USD Libor plus 2.9% per annum
19	Existence of a dividend stopper	N/A	N/A	N/A

Capital instruments' main features template ([1])		COMMON EQUITY TIER 1	ADDITIONAL TIER 1	TIER 2
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing	Fully discretionary	N/A	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary	N/A	Mandatory
21	Existence of step up or other incentive to redeem	No	N/A	No
22	Noncumulative or cumulative	Non-cumulative	N/A	Non-cumulative
23	Convertible or non-convertible	Non-convertible	N/A	Non-convertible
24	If convertible, conversion trigger (s)	N/A	N/A	N/A
25	If convertible, fully or partially	N/A	N/A	N/A
26	If convertible, conversion rate	N/A	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A	N/A
30	Write-down features	No	N/A	No
31	If write-down, write-down trigger (s)	N/A	N/A	N/A
32	If write-down, full or partial	N/A	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A	N/A
34	If temporary write-down, description of write-up mechanism	N/A	N/A	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Term issued subordinated debt	N/A	All liabilities deemed by the liquidator to have priority except the subordinated liabilities
36	Non-compliant transitioned features	No	N/A	No
37	If yes, specify non-compliant features	N/A	N/A	N/A
(1) 'N/A' inserted if the question is not applicable				

Note:

The Bank's majority shareholder, Libyan Foreign Bank, injected additional capital of £24.8m on 17 June 2015 as explained in Note 37 of the Annual Report and Financial Statements.

Appendix V: Disclosure of Own funds during Transitional period

Common Equity Tier 1 capital: instruments and reserves ([1])		**2014 £'000**
1	Capital instruments and the related share premium accounts	79,453
	of which: Instrument type 1	
	of which: Instrument type 2	
	of which: Instrument type 3	
2	Retained earnings	113,405
3	Accumulated other comprehensive income (and any other reserves)	9,311
3a	Funds for general banking risk	
4	Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1	
	Public sector capital injections grandfathered until 1 january 2018	
5	Minority interests (amount allowed in consolidated CET1)	
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	202,169
Common Equity Tier 1 (CET1) capital: regulatory adjustments		
7	Additional value adjustments (negative amount)	
8	Intangible assets (net of related tax liability) (negative amount)	2,310
9	Empty set in the EU	
10	Deferred tax assets that rely on future profitability excluding those arising from temporary difference (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	
11	Fair value reserves related to gains or losses on cash flow hedges	
12	Negative amounts resulting from the calculation of expected loss amounts	
13	Any increase in equity that results from securitised assets (negative amount)	
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	
15	Defined-benefit pension fund assets (negative amount)	
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	
17	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negatvie amount)	
18	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	
19	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	
20	Empty set in the EU	
20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	
20b	of which: qualifying holdings outside the financial sector (negative amount)	
20c	of which: securitisation positions (negative amount)	
20d	of which: free deliveries (negative amount)	
21	Deferred tax assets arising from temporary difference (amount above 10 % threshold , net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	
22	Amount exceeding the 15% threshold (negative amount)	
23	of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	
24	Empty set in the EU	
25	of which: deferred tax assets arising from temporary difference	
25a	Losses for the current financial year (negative amount)	
25b	Foreseeable tax charges relating to CET1 items (negative amount)	
26	Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment	
26a	Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468	5,207
26b	Amount to be deducted from or added to Common Equity Tier 1 capital with regard to additional filters and deductions required pre CRR	
27	Qualifying AT1 deductions that exceeds the AT1 capital of the institution (negative amount)	
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	7,517
29	**Common Equity Tier 1 (CET1) capital**	194,652

Common Equity Tier 1 capital: instruments and reserves (1)		2014 £'000
Additional Tier 1 (AT1) capital: instruments		
30	Capital instruments and the related share premium accounts	
31	of which: classified as equity under applicable accounting standards	
32	of which: classified as liabilities under applicable accounting standards	
33	Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1	
	Public sector capital injections grandfathered until 1 january 2018	
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interest not included in row 5) issued by subsidiaries and held by third parties	
35	of which: instruments issued by subsidiaries subject to phase-out	
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**	
Additional Tier 1 (AT1) capital: regulatory adjustments		
37	Direct and indirect holdings by an institution of own AT1 instruments (negative amount)	
38	Holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	
39	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	
40	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	
41	Regulatory adjustments applied to Additional Tier 1 capital in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase-out as prescribed in Regulation (EU) No 585/2013 (ie. CRR residual amounts)	
41a	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013	
41b	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Tier 2 capital during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013	
41c	Amounts to be deducted from added to Additional Tier 1 capital with regard to additional filters and deductions required pre- CRR	
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)	
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	
44	**Additional Tier 1 (AT1) capital**	
45	**Tier 1 capital (T1 = CET1 + AT1)**	194,652
Tier 2 (T2) capital: instruments and provisions		
46	Capital instruments and the related share premium accounts	60,519
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2	
	Public sector capital injections grandfathered until 1 january 2018	
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interest and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third party	
49	of which: instruments issued by subsidiaries subject to phase-out	
50	Credit risk adjustments	
51	**Tier 2 (T2) capital before regulatory adjustment**	60,519
Tier 2 (T2) capital: regulatory adjustments		
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	
53	Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institutions designed to inflate artificially the own funds of the institution (negative amount)	
54	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10 % threshold and net of eligible short positions) (negative amount)	
54a	Of which new holdings not subject to transitional arrangements	
54b	Of which holdings existing befor 1 January 2013 and subject to transitional arrangements	
55	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amounts)	
56	Regulatory adjustments applied to tier 2 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)	
56a	Residual amounts deducted from Tier 2 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013	
56b	Residual amounts deducted from Tier 2 capital with regard to deduction from Additional Tier 1 capital during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013	
56c	Amounts to be deducted from or added to Tier 2 capital with regard to additional filters and deductions required pre- CRR	
57	**Total regulatory adjustments to Tier 2 (T2) capital**	
58	**Tier 2 (T2) capital**	60,519
59	**Total capital (TC = T1 + T2)**	255,171

Common Equity Tier 1 capital: instruments and reserves (1)		2014 £'000
59a	Risk weighted assets in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amount)	1,067,344
	Of which:…items not deducted from CET1 (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Deferred tax assets that rely on future profitability net of related tax liability, indirect holdings of own CET1, etc)	
	Of which:..items not deducted from AT1 items (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Reciprocal cross holdings in T2 instruments, direct holdings of non-significant investments in the capital of other financial sector entities, etc.)	
	Items not deducted from T2 items (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Indirect holdings of own T2 instruments, indirect holdings of non-significant investments in the capital of other financial sector entities, indirect holdings of significant investments in the capital of other financial sector entities etc)	
60	**Total risk-weighted assets**	1,067,344
Capital ratios and buffers		
61	Common Equity Tier 1 (as a percentage of total risk exposure amount	18.9%
62	Tier 1 (as a percentage of total risk exposure amount	18.2%
63	Total capital (as a percentage of total risk exposure amount	23.9%
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements plus a systemic risk buffer, plus systemically important institution buffer expressed as a percentage of total risk exposure amount)	
65	of which: capital conservation buffer requirement	
66	of which: countercyclical buffer requirement	
67	of which: systemic risk buffer requirement	
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	18.9%
69	[non-relevant in EU regulation]	
70	[non-relevant in EU regulation]	
71	[non-relevant in EU regulation]	
Amounts below the thresholds for deduction (before risk-weighting)		
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions	
73	Direct and indirect holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions	
74	Empty set in the EU	
75	Deferred tax assets arising from temporary difference (amount below 10 % threshold , net of related tax liability where the conditions in Article 38 (3) are met)	
Applicable caps on the inclusion of provisions in Tier 2		
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	
78	Credit risk adjustments included in T2 in respect of exposures subject to internal rating-based approach (prior to the application of the cap)	
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)		
80	- Current cap on CET1 instruments subject to phase-out arrangements	
81	- Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	
82	- Current cap on AT1 instruments subject to phase-out arrangements	
83	- Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	
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