BACB PILLAR 3 AND REMUNERATION CODE DISCLOSURES

year ended 31 December 2015

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British Arab Commercial Bank plc
Approved by the Board 29 April 2016

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1 OVERVIEW

1.1. Introduction

Purpose

This document comprises British Arab Commercial Bank plc's ("**BACB**" or "**the Bank"**) Pillar 3 disclosures on capital and risk management at 31 December 2015. It has two principal purposes:

- To meet the regulatory disclosure requirements under CRD IV, Part 8 – Disclosure by Institutions and the rules of 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 BACB.

Additional relevant information may be found in the BACB plc *Annual Report and Financial Statements 2015.*

Key Metrics

Common equity tier 1 capital

£208m

Up 7.2%, 2014: £194m

Total regulatory capital

£271m

Up 6.3%, 2014: £255m

Common equity tier 1 ratio

15.3%

Down 2.9%, 2014: 18.2%

Total capital ratio

19.9%

Down 4%, 2014: 23.9%

Total RWAs

£1,361m

Up 28%, 2014: £1,067m

Leverage Ratio

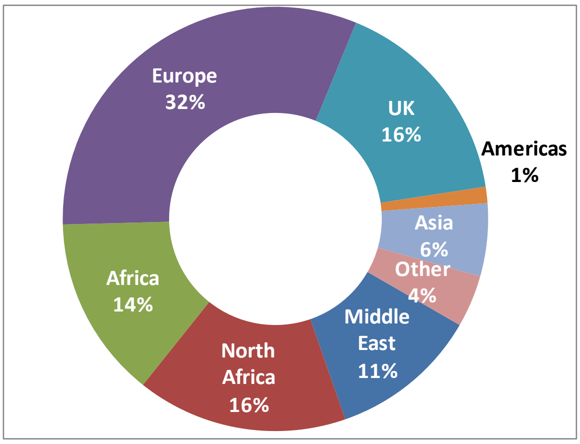
6.6%

As at 31 December 2015

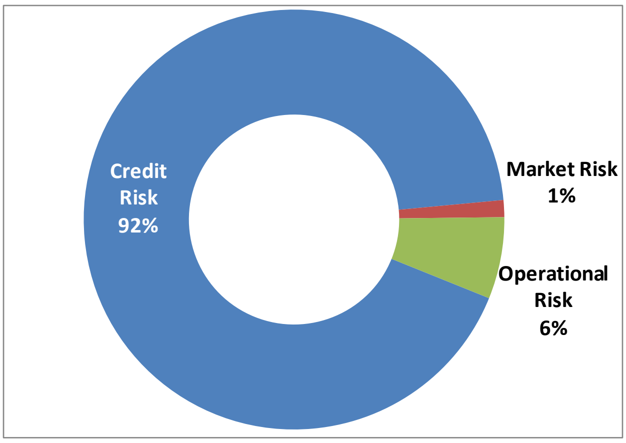
Liquidity Coverage Ratio

247%

Credit Risk Exposure 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 implemented in the EU under CRD IV and CRR, 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 including Pillar 3 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 – 463 of the Capital Requirements Regulation ("**CRR**").

BACB continues 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 2015 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 2015, the Bank's financial year-end. These disclosures, which are based on the Bank's regulatory returns having applied the relevant regulatory rules, 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 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 review by the Asset and Liability Committee and approval by the Bank's Executive 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 10 of this document have been reviewed and approved 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. The Bank does seek exemption on the basis of confidential information in the remuneration code disclosures, where disclosure of Material Risk Taker remuneration by business area would result in their ready identification.

1.4. Scope of application

BACB 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. As at 31 December 2015 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. The Bank has received regulatory approvals to establish representative offices in Côte d'Ivoire and Dubai.

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 2015 are listed below:

LIBYAN FOREIGN BANK	**87.80%**
BANQUE EXTÉRIEURE D'ALGÉRIE	**6.10%**
BANQUE CENTRALE POPULAIRE	**6.10%**
	100.00%

The shareholders have entered into a formal Shareholders' Agreement ("SHA") which, together with the Articles of Association ("Articles"), mandates 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 2015, 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 2015, 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 2015, the appointment of a further non-executive Director Mr Abdullah Naama was subject to regulatory approval. The appointment was fully approved on 2 February 2016.

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 2015, the Board met 6 times and the Audit and Risk Committee met 8 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 its sub-committees 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. All members of the Board are experienced in the banking industry and collectively bring experience of the Bank's markets and products along with risk, compliance and other specialist expertise.

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.

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.

A significant proportion of the Board comprises shareholder representatives. 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.

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 and Chair of Nominations and Remuneration Committee	3
Mohamad Shokri	Non-Executive Vice Chairman	2
Michael Stevenson	Independent Non-Executive, Chair of Audit and Risk Committee	3
Ahmed Aburkhis	Non-Executive Director	1
Ezzeddin Ashur	Non-Executive Director	3
Khaled Kagigi	Non-Executive Director	2
Mohamed Loukal	Non-Executive Director	5
Mohamed Zine	Non-Executive Director	8
Akram Grew	Non-Executive Director	2
Abdullah Naama	Non-Executive Director	1

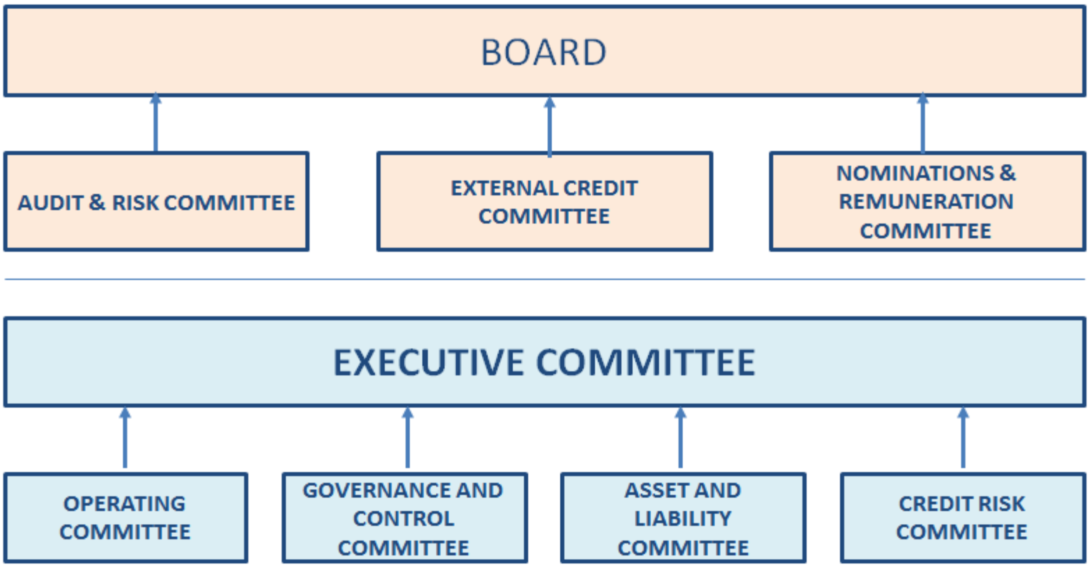
Note Mr Abdullah Naama was appointed 2nd February 2016 as a Non-Executive Director.

2.6 Overview of Governance Committee Structure

In order to support effective governance and management of its 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).

In 2015 the Bank embedded a revised governance framework which is aligned with the latest guidelines (published by the Basel Commission on Banking Supervision) on corporate governance in banks, specifically the need for the Board to take more direct ownership of and responsibility for the effectiveness of the systems of internal control. During the year the Bank embedded the new committee structure, introduced new governance standards and supporting policies, changed a number of delegated authorities and enhanced the level and quality of management and Board reporting.

The governance committee structure is as shown below.



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 meets a minimum of 8 times a year and internal control, risk and compliance matters are considered at each of its meetings. 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 making 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 Process ("ILAAP"), Recovery Plan and Resolution regimes;
- assessment of the adequacy of stress testing, risk policy and regulatory developments;
- assessment of the Bank's internal control systems and processes via feedback from the Bank's outsourced internal audit function;
- periodic reviews of the qualifications, performance and role of the Bank's outsourced internal audit function;
- 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 Board has delegated authority to approve the granting of credit applications to the executive management subject to certain limits. Applications above those limits must be referred to the External Credit Committee for their consideration and approval. The Committee considers applications as they arise. Decisions of the committee must be unanimous to be valid.

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 Committee met 4 times during 2015.

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.

The ExCo membership comprises the Chief Executive and ten 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. During 2015 ExCo met on a fortnightly basis and was chaired by the Chief Executive Officer.

2.8.1 Asset and 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, and 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 portfolios, 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 day-to-day governance, internal control and compliance framework and its effective execution.

Compliance, operational risk and project risk management are 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.

The GCC is chaired by the Chief Control Officer.

3 RISK MANAGEMENT OBJECTIVES AND POLICIES

3.1 Introduction

During 2015, the Executive Management team completed 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.

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 state 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 systems 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 has adopted a "three lines of defence" model of risk management and control.

1ST LINE	2ND LINE	3RD LINE
Each business area and function within the Bank is responsible for identifying, understanding and 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 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 is responsible to ensure the overall adequacy and effectiveness of the first line controls. The Head of Client Coverage and Products is responsible for pursuing the Bank's strategic objectives in accordance with Risk Appetite approved by the Board from time to time. The Chief Operating Officer has overall responsibility for the adequacy and effectiveness of the first line of defence and management day-to-day operations.	The second line of defence establishes the policies and tools required by the Governance Standards in order 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.	The third line of defence, comprising Internal Audit, 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 Internal Audit function is outsourced to PwC. The Head of Internal Audit reports to the Chair of the ARC and has a dotted line to the CEO.

In addition to the above, the Chief Executive is required to prepare and submit to each meeting of the Audit & Risk Committee an 'Enterprise Risk Assessment' that identifies those risks which may present a franchise risk to the bank. This assessment must include details of:

- Scope of the risk;
- Nature of the risk;
- Stakeholders;
- Risk evaluation;
- Loss experience / potential;
- Risk appetite and tolerance;
- Risk response and controls;
- Direction of risk tendency; and
- Strategy and policy developments

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.

The Board is of the opinion that it has taken appropriate steps to provide reasonable 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 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.

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 transactions entered into and risk exposures acquired in pursuit of the agreed strategy will permit the Bank to remain 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 used to monitor the Bank's risk profile.

The risks to the Bank resulting from the political situation in Libya are considered in more detail in the Strategic Report and in Note 2 of the Annual Report and Financial Statements.

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 below a brief description of each of the principal risk types and the framework for managing them.

I. REPUTATIONAL RISKS

REPUTATIONAL RISK

Definition:
Reputational risk is the risk arising from negative perception on the part of customers, counterparties, shareholders, investors, debt-holders, market analysts or other relevant parties or regulators that can adversely affect the Bank's ability to maintain existing, or establish new, business relationships and continued access to sources of funding. The Bank's reputation is an important asset and Reputational Risk is the risk of damage to that asset.

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;
- 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. Robust governance and risk management frameworks are intended to safeguard the Bank from reputational damage that might arise from trading related losses.

Risk mitigation:
The Bank has implemented a range of qualitative steps to mitigate its exposure to reputational risks. These include:

- building a high performance organisation with a clearly understood strategy and risk appetite;
- 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

Definitions:

Compliance risk is defined as the risk of legal and/or regulatory sanctions, material financial loss, or loss to reputation that the Bank may suffer as a result of a failure to comply with laws, regulations, its own policies, code of conduct, and standards, responsibility for which has been allocated to the Compliance Department. In the context of the Bank this encompasses primarily regulatory requirements in respect Money-Laundering, Financial Crime, Conduct Risk and Fair Treatment of Customers.

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 the Bank;
- internal policy breaches; and
- failure to implement adequately existing and new regulatory requirements.

Conduct risk is the risk that detriment is caused to the Bank, its customers, clients or counterparties because of the inappropriate execution of its business activities. 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 attaching 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 program;
- 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; and
- communicating with regulators.

Compliance risk is overseen by the Audit and Risk Committee. Mitigation controls along with action and remediation plans are overseen by the Governance and Control Committee.

The HR function is responsible for the HR framework which is designed to target the behaviours required by the Board and is embodied through the Bank's performance management processes and designed to recognize appropriate behaviours.

Risk mitigation:

The Bank seeks to minimise the risk of compliance or conduct failure by:

- ensuring an up-to-date understanding of regulatory requirements;
- 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 providing understanding of Compliance issues; and
- undertaking a risk-based monitoring programme aimed at detecting shortcomings in, or failures of, compliance controls or processes.

II. FINANCIAL RISKS

CREDIT AND COUNTRY RISKS

Definitions:

Credit risk is the risk of the Bank suffering financial loss if any of its customers, clients or market counterparties fails to fulfil their contractual obligations to the Bank. Included within Credit Risk is **Counterparty risk** which is the risk to each party of a derivative contract that the counterparty will not live up to its contractual obligations. Counterparty risk as a risk to both parties and should be considered when evaluating a contract.

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 risk that obligors may not be able to meet their obligations in other countries, for a variety of non-obligor specific reasons, including political or economic changes in a country or other actions by a government that may prevent the conversion of local currency into non-local currency and/or the transfer of funds outside the country. Country risk and **Sovereign risk** are closely related but not equivalent. Sovereign Risk is the risk of default by sovereign entities, which include government departments and the central bank or equivalent, on their obligations. Such obligations include government bonds or other debt instruments issued, funds placed with the central bank or their guarantees of other obligors' liabilities.

Risk management:

For the Bank, country risk 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 first line for new, increased or extended limits;
- oversight of credit and country risk activities undertaken by the first line;
- 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 the Executive Committee to the Audit and Risk Committee at least annually on the Bank's credit and country risk appetite and policies, or approves proposals within delegated authority, having regard to the Bank's business plans and Credit and Country Risk Standards as approved by the Board from time to time.

Risk mitigation:
The Bank's strategic focus 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:

- a framework of concentration limits and guidelines which 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 grading;
- these limits govern quantum, nature and tenor of exposure. Typically the Bank will not 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 back-to-back commitments from financial institutions of acceptable quality, credit insurance from highly regarded insurance providers, security over the asset being financed and guarantees;
- liquidity buffers are only used to purchase the securities of highly rated sovereigns and corporate /financial institutions issues.

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 of origin of the borrower

31 December 2015	United Kingdom £'000s	Europe excl UK £'000s	Middle East and Africa £'000s	Other Countries £'000s	Total £'000s	Average exposure in 2015 £'000
Central governments or central banks	145,918	257,535	5,691	293,201	702,345	709,624
Multilateral development banks	-	-	-	269,914	269,914	203,784
International organisations	-	-	-	-	-	5,578
Institutions	195,476	603,646	14,231	257,563	1,070,916	1,218,148
Corporates	86,057	31,159	674,860	82,173	874,250	835,377
Secured by mortgages on immovable property	70,054	88,420	3,547	16,549	178,570	111,751
Exposures in default	-	-	29,982	-	29,982	17,014
Equity exposure	-	-	3,299	-	3,299	3,249
Items associated with particularly high risk		2,741	10,786	-	13,527	13,010
Other	21,203	73	-	-	21,277	21,131
Total	518,709	983,575	742,397	919,400	3,164,080	3,138,667
31 December 2014 Total	514,369	924,247	850,284	838,504	3,127,404	3,029,954

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.

Under the Standardised approach BACB uses Fitch Ratings as an approved External Credit Assessment Institution (ECAI) for all its portfolios. The rating is mapped to the counterparty using the Fitch ID, refer to Table 4.

Table 2: Regional concentrations of credit risk mitigation (CRM)

31 December 2015	United Kingdom £'000s	Other European Union £'000s	Middle East and Africa £'000s	Other Countries £'000s	Total £'000s
Central governments or central banks	-	-	465	-	465
Institutions	137,072	93,573	-	360	231,005
Corporates	2,494	3,590	83,964	3,401	93,448
Total	139,565	97,162	84,430	3,761	324,919

Table 3: Residual maturity of the Bank’s exposures

The residual maturity of the Bank’s exposures

31 December 2015	Up to 1 month £'000	1-3 months £'000	3-12 months £'000	1-5 years £'000	Over 5 years £'000	Undated £'000	Total £'000
Central governments or central banks	211,702	344,190	118,146	28,307	-	-	702,345
Multilateral development banks	-	6,806	31,695	231,413	-	-	269,914
International organisations	-	-	-	-	-	-	0
Institutions	683,852	46,204	102,070	238,789	-	-	1,070,916
Corporates	281,837	105,284	257,521	165,260	64,349	-	874,250
Secured by mortgages on immovable property	-	-	-	178,570	-	-	178,570
Exposures in default	3,452	30	3,176	20,085	3,238	-	29,982
Equity exposure	-	-	-	-	3,299	-	3,299
Items associated with particularly high risk	-	-	2,741	10,786	-	-	13,527
Other	12,308	-	-	-	290	8,678	21,277
Total	1,193,152	502,514	515,349	873,211	71,177	8,678	3,164,080
31 December 2014 Total	1,353,857	571,622	550,066	588,821	63,038		3,127,404

Equity exposure relates to an investment in equity shares as explained in Note 14 of the Annual Report and Financial Statements. Investments in limited partnership investment funds are included as institutions.

Table 4: BACB's exposures after application of CCF and pre and post CRM risk transfers by Credit Quality Step as reported to the PRA (and post impairment provisions)

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	696,654	-	3,632	-	-	2,059	702,345
Multilateral development banks	269,914	-	-	-	-	-	269,914
International organisations	-	-	-	-	-	-	-
Institutions	284,391	444,641	235,949	-	-	105,936	1,070,916
Corporates	37,599	12,603	152,286	5,264	48,286	618,212	874,250
Secured by mortgages on immovable property	-	-	-	-	-	178,570	178,570
Exposures in default	-	-	-	-	-	29,982	29,982
Equity	-	-	-	-	-	3,299	3,299
Items associated with particularly high risk	-	-	-	-	-	13,527	13,527
Other items	-	-	-	-	-	21,277	21,277
Grand Total	1,288,558	457,244	391,867	5,264	48,286	972,862	3,164,080

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	917,729	157	3,632	-	-	1,826	923,344
Multilateral development banks	269,914	-	-	-	-	-	269,914
International organisations	-	-	-	-	-	-	-
Institutions	66,491	444,641	235,949	-	-	93,192	840,272
Corporates	37,875	9,973	152,286	4,158	48,286	632,295	884,872
Secured by mortgages on immovable property	-	-	-	-	-	178,570	178,570
Exposures in default	-	-	-	-	-	29,005	29,005
Equity	-	-	-	-	-	3,299	3,299
Items associated with particularly high risk	-	-	-	-	-	13,527	13,527
Other items	-	-	-	-	-	21,277	21,277
Grand Total	1,292,008	454,771	391,867	4,158	48,286	972,991	3,164,080

Credit Risk Mitigation ("CRM") includes cash collateral placed with the Bank by way of security, reverse repo transactions and eligible guarantees.

Table 5: Counterparty credit risk

31 December 2015	Gross positive fair values of contracts £'000	Potential credit exposure £'000	Total derivative credit exposure £'000
Foreign exchange contracts	129	420	550
Interest rate swaps	16	98	114
Interest rate floors	-	-	-
Foreign exchange options	35	34	70
Interest rate futures		670	670
Total	**181**	**1,223**	**1,404**
31 December 2014			
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**

MARKET AND LIQUIDITY RISKS

Definitions:

Market risk is the risk that the Bank's earnings or capital, or its ability to meet business objectives, will be adversely affected by changes in the level or volatility of market rates or prices such as interest rates, credit spreads, commodity prices and foreign exchange rates.

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

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

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 the Executive Committee to the Audit and Risk Committee 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 policies 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 (interest rate risk) 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 derivative transactions which it considers complex.

Exchange rate risk

The Bank manages its exposures to foreign exchange risk by way of limits on the size of permitted positions. 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. The ALCO is responsible for monitoring the exposure resulting from this mismatch and for hedging, as considered appropriate.

The Bank's overall net short position (on foreign exchange open positions and cash arising on settled trades) at 31 December 2015 (being the sterling equivalent value of all the currencies where the currency obligations were higher than currency receivables) was £375,000 (*2014: £814,000*). Were these currencies to strengthen by 5% against the remaining currencies, then the Bank would lose £19,000 (*2014: £41,000*).

Overall net short positions as calculated on a daily basis were as follows:

	2015	*2014*
	£'000	*£'000*
Maximum	25,715	*5,335*
Minimum	301	*272*
Average	2,033	*985*

The maximum exposure during 2015 reflects a briefly held position relating to the timing of share capital and subordinated debt changes which took place in June 2015. As at the reporting date, there was no significant exposure to any one currency representing more than 10% of the Bank's equity.

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 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.

As at 31 December 2015, PVBP amounted to £15,911 (*2014: £19,156*). PVBP (calculated on a daily basis) was as follows:

	2015	*2014*
	£	*£*
Maximum	32,619	*33,074*
Minimum	7,869	*8,396*
Average	16,908	*16,768*

Hedges

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 reduce market risk exposure arising from banking book interest rate and currency positions, which in the absence of those contracts, would result in unwanted exposures, or excesses to market risk limits. Such contracts are described as hedges. Hedge transactions are documented as such at inception, and the positions being hedged are clearly identified at the outset. Hedges are not generally entered into which would not qualify as such in accordance with accounting rules, and all such derivative hedges are designated as fair value hedges (see also Note 3f 2015 Annual Report and Accounts).

Changes in the fair value of derivatives that are designated and qualify as fair value hedging instruments are recorded in the income statement in Interest and similar income, together with changes in the fair value of the asset or liability or portfolio thereof that are attributable to the hedged risk.

A simultaneous increase in interest rates of 0.5% in all currencies, and in all maturities on 1 January 2016 would increase earnings from the financial assets associated with the non-interest bearing liabilities during 2016 by £609,000 (*2014: a 0.5% increase in interest rates in all currencies would increase earnings in 2015 by £595,000*).

Derivatives include interest rate and currency swap transactions, the purpose of which are to reduce economic exposure to interest rate risk, whether formally qualifying as hedges or otherwise. The purpose of such hedges is to ensure that longer dated interest rate re-pricings, such as typically arise from fixed rate loans or deposits, are converted into shorter periods as can be accommodated within the gap limits.

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; and
- stop loss limits to prevent the accumulation of losses from the Bank’s principal position trading activities.

Liquidity risk

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

The table below analyses the Bank’s assets and liabilities into relevant maturity buckets based on the remaining period from the balance sheet date to the contractual maturity date. The table has not been adjusted to reflect any behavioural characteristics that may have been observed by the Bank. Examples include the Bank’s portfolio of trading securities that are purchased with the intention of trading before their contractual maturity, and the Bank’s ability to liquidate banking book securities in the event of an unforeseen liquidity event.

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-15	(393,420)	141,814	(199,802)	668,377	(19,724)	(197,245)
31-Dec-14	*(563,800)*	*189,311*	*159,633*	*404,722*	*(2,031)*	*(187,835)*

III. OPERATIONAL RISKS

Definitions:

Operational risk is the risk of loss or other material adverse impact resulting from inadequate or failed internal processes, people and systems or from external events. It includes People Risk, which is the risk associated with inappropriate employee behaviour and the risk that the Bank does not have employees with the relevant skills to support the business strategy.

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. 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 Head of Operational Risk Management, 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 and 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's Chief Control Officer is in First Line and reports 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. The CCO also has responsibility for project risk and establishing policies, protocols and the Enterprise 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 the Executive Committee to the Audit and Risk Committee 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.

Operational risk losses in the year to 31 December 2015 amounted to £10,000 (*2014: £458,000*).

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 that adequate controls are in place;
- A risk and control self-assessment process is in place to identify and evaluate the Bank's exposure to Compliance and Conduct risks to ensure that appropriate corrective actions are in place and operating correctly.
- 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.

4 OWN FUNDS

Own funds (also referred to as capital resources) is the type and level of regulatory capital which 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 2015, a bank must hold capital of 8% of RWA with a minimum of Tier 1 capital of 6% and CET 1 of 4.5%.

As at 31st December 2015, BACB had a **Tier 1 Capital Ratio of 15.3%** and a **Total Capital Adequacy ratio of 19.9%.**

4.1 Total available capital

Table 7: The Bank's regulatory capital base and capital adequacy ratios at 31 December 2015

	2015 £'000s	2014 £'000s
Common Equity Tier 1 Capital		
Ordinary Share Capital	104,149	79,453
Retained Earnings	99,013	113,405
AFS Reserve	2,904	5,207
Other Reserves	4,104	4,104
Deductions from Common Equity Tier 1:		
Regulatory Adjustments	(1,897)	(7,517)
Total Common Equity Tier 1 Capital	**208,273**	**194,652**
Tier 2 Capital		
Term issued Subordinated Debt	63,064	60,519
Total Tier 2 Capital	**63,064**	**60,519**
Total Own Funds	**271,337**	**255,171**
Risk Weighted Assets	**1,361,260**	**1,067,344**
Common Equity Tier 1 Ratio	15.3%	18.2%
Capital Adequacy Ratio	19.9%	23.9%

Note Subordinated Debt above excludes accrued interest. Figure quoted on the Statement of Financial Position (SFP) for 2015 include accrued interest. The policy was changed in 2015 to show SFP assets and liabilities including relevant accrued interest. The effect on 2014 figures is not material.

The 2015 figures detailed above are based on Basel III regulations, commonly known as CRD IV. Risk Weighted Assets is the total value of the Bank's on and off balance sheet exposures, weighted in accordance with the relevant regulatory rules. The total for Risk Weighted assets is the amount reported in the Bank's regulatory returns as at that date.

Tier 2 capital comprises term subordinated debt due 2020-2025, issued in US Dollars and Euro 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

	2015 £'000s	2014 £'000s
Equity per Annual Financial Statements	210,170	202,169
Regulatory deductions from Equity:		
Intangible assets	(1,897)	(2,310)
Fair value gains on AFS debt securities excluded from capital	-	(5,207)
Common Equity Tier 1 Capital	**208,273**	**194,652**

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

4.3 New capital

The Bank's majority shareholder, Libyan Foreign Bank, injected additional Tier 1 capital of £24,696,500 on 17 June 2015 as explained in Note 26 of the 2015 Annual Report and Financial Statements.

5 CAPITAL ADEQUACY

5.1 Overview

From 1 January 2015, 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 the Standardised Approach to credit risk, the Basic Indicator Approach ("**BIA**") to operational risk and the Position Risk Requirement ("**PRR**") rules for market risk.

The PRA in its capacity as supervisor set targets for, and monitors, the capital adequacy of the Bank. Capital adequacy returns are submitted quarterly to the Regulators. As at 31 December 2015, 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 2016.

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 plus the Bank's Individual Capital Guidance requirements. 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 Sub-Committee. 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 capital requirement to that required for operational and market risks.

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

	2015	2015	2014
	Risk Weighted Assets ("RWA")	Capital Requirement	Capital Requirement
	£'000	£'000	£'000
Credit and Counterparty Credit Risk			
Central governments or central banks	3,643	291	723
Multilateral development banks	-	-	956
Institutions	254,240	20,339	40,630
Corporates	824,756	65,980	30,355
Secured by mortgages on immovable property	86,488	6,919	1,402
Exposures in default	39,084	3,127	1,852
Equity exposure	8,248	660	646
Items associated with high risk	20,291	1,623	-
Other items	20,954	1,676	1,547
	1,257,703	**100,616**	**78,111**
Market Risk			
Interest Rate PRR	16,259	1,301	1,001
Foreign Exchange PRR	1,537	123	92
Operational Risk	85,615	6,849	6,135
Credit Valuation Adjustment	146	12	49
Total Pillar 1	**1,361,260**	**108,901**	**85,388**
Total Own Funds		**271,337**	**255,171**
Excess of capital in place over minimum requirement under Pillar 1		**162,436**	**169,783**

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

The Bank has no requirement with respect to the Countercyclical Buffer. The Countercyclical Rate set by the Financial Policy committee as of 31 December 2015 was zero and none of the Bank's exposures were to relevant counterparties in states which have implemented Countercyclical Buffers. 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 was effective from 1 January 2015 and was a key contributor to the increase in capital requirement year on year.

6 NON TRADING BOOK EXPOSURES IN EQUITIES

The Bank has exposure to equities by way of three long term investments. These comprise a strategic investment in a financial company in the North African region (accounted for as an equity exposure) and two investments in venture capital equity investment funds managed by specialist fund managers whose objective is to invest in growing companies in that region, (treated as items associated with particularly high risk).

The Bank's objective in holding the strategic equity investment is to seek long term investment growth. The Bank also participates on the Board of the company.

The investments in the venture capital funds were entered into in order 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, including current audited financial statements.

At 31 December 2015 the carrying value and movements of those investments on the Bank's Statement of Financial Position (which is the same as estimated fair value) was as disclosed in Note 14 'Financial investments' of the 2015 Annual Report and Financial Statements. Please note that the exposure values disclosed in Tables 1,2 and 4 of this Report include undrawn commitments.

Total unrealised gains on these investments as at 31 December 2015 was £4.9mn.

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 2015 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 reasonably 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. The Bank also considers whether to make collective provision for impairments that have been incurred but not yet identified.

The Bank closely monitors and actively manages receivables which are not paid on their due date (past due amounts). If the reasons for the delay are indicative of difficulty being experienced by the counterparty, then, even if it is decided not to recognise impairment, all of the balances due from that counterparty will be classified as being on "watch list", resulting in increased management scrutiny and action.

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.

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. 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 next working day following completion of correspondent account (nostro) reconciliations.

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 and the Bank will 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.

Forbearance: as part of its banking and trade services business the Bank may renegotiate loans to customers in financial difficulties (referred to as 'forbearance' activities) to maximise collection opportunities and minimise the risk of default. Loan forbearance may be granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms. The revised terms may include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants.

"Watch list" items are so designated where there may have been some deterioration in the financial strength of the counterparty. The Bank may have granted forbearance in such cases, or may simply be monitoring the position more closely with no element of forbearance granted.

7.3 Summary of position at 31 December 2015

The impairment provision as at 31 December 2015 was £27,791,000 (*2014: £24,115,000*). The 2015 impairment comprises £21,791,000 individual impairments and £6,000,000 collective impairments. The movements in impairment provisions are shown in Note 12 of the 2015 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 2015 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 extensive individual reviews and recognising the challenging market conditions, in particular impacting the Oil and Gas sector, and the sector-wide trend to utilise collective impairments, the Bank increased the collective impairment to £6,000,000 in 2015 (*2014: £784,000*). This covers all of the Bank's exposures with an increased emphasis on sectors which are currently under a greater level of stress.

At 31 December 2015, five facilities comprising amounts due to the Bank of £50,672,000 were determined to be impaired *(2014: nine facilities comprising £38,000,000 due to the Bank)*. No collateral was held by the Bank in respect of these facilities. There were also off balance sheet amounts of £825,000 considered impaired but with credit risk mitigation in place.

No amounts were past due at 31 December 2015 in respect of unimpaired financial assets *(31 December 2014: £nil).*

An analysis of credit exposures by counterparty type is shown in Table 1 of this report, which details exposures net of the impairments shown below.

Table 10: Counterparty Analysis of individual gross loans and impairments

31 December 2015	Gross exposure £'000	Impairments £'000	Net exposure £'000
Corporates	51,497	(21,791)	29,706
Total	51,497	(21,791)	29,706

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	51,497	(21,791)	29,706
Total	51,497	(21,791)	29,706

Note, the tables above only report those exposures against which there is an impairment. No impairment is raised to the extent that an exposure has credit risk mitigation and therefore the Net exposure values noted above are different to the "Exposures in default" reported on Table 4.

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 2015 was £29,198,293. Initial margins provided against derivatives of £1,641,427 were also encumbered.

9 LEVERAGE

The Board has set a leverage limit which restricts the maximum exposure that the bank may take both on- and off-balance sheet in relation to shareholders' funds and subordinated debt. The limit is set at a level which results in a leverage ratio significantly above the Basle III minimum of 3%. The Bank's Treasury area has primary responsibility for ensuring compliance with the limit which is independently monitored and reported on by the Bank's independent risk management function.

The principal factor affecting the bank's leverage ratio during the period has been the level of deposits received.

Table 12: Summary of reconciliation of accounting assets and leverage ratio exposures

	£'000
Total assets as per Financial statements	3,021,295
Adjustments for derivative financial instruments	1,223
Adjustments for off balance sheet items	157,272
Other adjustments	(1,706)
Leverage ratio total exposure measure	3,178,084

Table 13: On balance sheet exposures (excluding derivatives and SFTs)

	£'000
On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	2,802,885
Asset amounts deducted in determining Tier 1 capital	(1,897)
Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)	2,800,988

Table 14: Derivative exposures

	£'000
Replacement cost associated with all derivatives transactions	181
Add-on amounts for PFE associated with all derivative transactions	1,223
Total derivative exposures	1,404

Table 15: Securities Financing Transactions (SFT) Exposures

	£'000
Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	218,420
Total securities financing transaction exposures	218,420

Table 16: Other off-balance sheet exposures

	£'000
Off balance sheet exposure at gross notional amount	365,513
Adjustments for conversion to credit equivalent amounts	(208,241)
Other off-balance sheet exposures	157,272

Table 17: Capital and total exposure measure

	£'000
Tier 1 capital	208,273
Leverage ratio total exposure measure	3,178,084
Leverage ratio	6.55%

10 REMUNERATION

BACB has reviewed and acknowledged requirements from the FCA guidance issued in 2015 on staff remuneration within the banking sector, in addition to the PRA Rulebook, the FCA code and the Capital Requirements Regulations (Article 450).

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

The Bank employed 173 members of staff at 31 December 2015 (*2014: 167 staff*). The total staff costs of the Bank (as disclosed in the Note 11 of the 2015 Annual Report and Financial Statements) were as follows:

Table 18: Staff costs of the Bank

	2015 £'000	2014 £'000
Staff costs:		
Salaries and other emoluments	11,640	9,790
Social security costs	1,544	1,362
Other pension costs:		
- Defined benefit scheme	356	(117)
- Defined contribution scheme	1,305	1,049
Total fixed staff employment costs	**14,845**	**12,084**
Variable staff costs: performance awards	1,544	2,465
Total staff employment costs	**16,389**	**14,549**
Reorganisation costs (excluding pension augmentations)	454	361
Other employment related costs	3,568	2,090
Total staff costs	**20,411**	**17,000**
Of which: Material Risk Takers/Code Staff	**4,334**	**3,035**

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), comprised of six non-executive Board members. The Committee is composed of the Chairman, and five other non-executive Board members who possess the necessary skills to exercise the appropriate judgement.

The NRC has reviewed the Bank's remuneration policies to ensure compliance with the requirements outlined above, which has been subject to review by the Audit and Risk Committee as required. 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, and ensuring that the Banks remuneration policies do not give rise to unnecessary conduct risks in the execution of the Bank's strategy.

Performance Award Scheme

The Bank has in place a performance award scheme 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.

Material Risk Takers (MRT's)

BACB have taken steps to assess the potentially in scope population with reference to a number of sources including a cross check to the SMR population and then an assessment against Qualitative and Quantitative assessment criteria set out in the final regulatory technical standard (RTS) published in the Official Journal of the EU on 6th June 2014 and which came into legislative effect 20 days from this date.

The final step in the process is an internal management assessment of the potentially in-scope population. Individuals who are excluded include:

(i) Executive Managers who fall in scope by virtue of reporting into the Head of a material business unit but who do not have any direct authority to make risk decisions;

(ii) Non Executive Directors who are not either (a) a Chair of a Board Committee or (b) are not a member of the Bank's external Credit Committee.

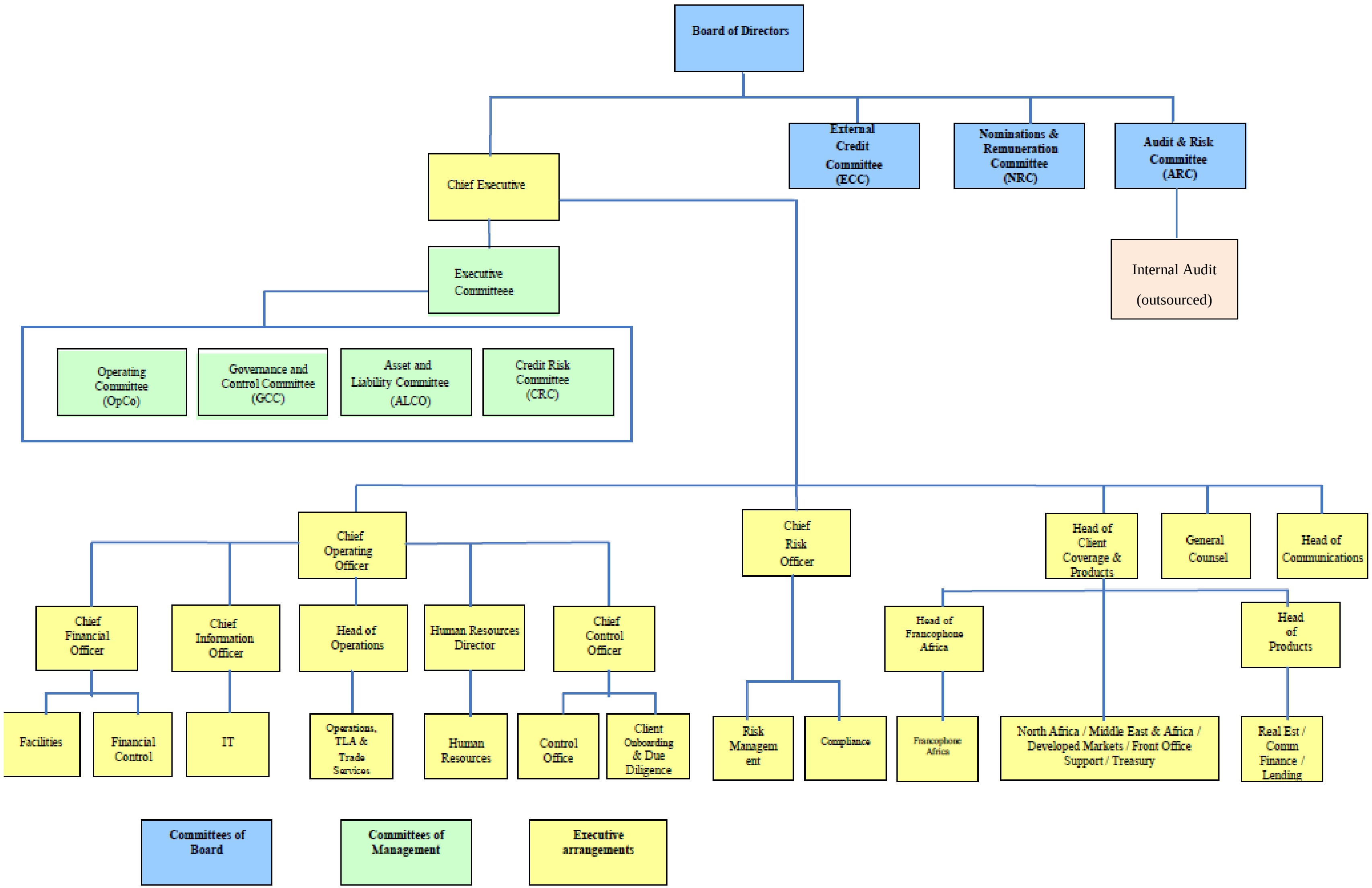
All other in scope employees are deemed as Material Risk Takers and the population is reviewed by senior management for final validation.

Fixed remuneration relating to 2015 for MRT's was £3,559,347 and variable remuneration relating to 2015 was £775,000, of this variable remuneration 30% (£145,500) was deferred remuneration.

During 2015, 23 staff were identified as MRT's.

The Bank does seek exemption on the basis of confidential information in the remuneration code disclosures, where disclosure of Material Risk Taker remuneration by business area would result in the individuals ready identification.

Appendix I: Organisation Chart



Appendix II: Key Risk Measurements

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

	Risk Area	Metric	Comment	Measure at 31 December 2015
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	20%
	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.	0.6%
	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.

Appendix III:

EBA regulatory capital balance sheet reconciliation

	Balance sheet extract £'000s	Balance sheet components £'000s
Assets		
Intangible assets	1,897	
of which: deduction from common equity tier 1 capital		1,897
Total Assets	3,021,295	
Liabilities		
Subordinated loan capital	63,307	
of which: Tier 2 capital		63,064
Total liabilities	2,811,125	
Equity		
Called up share capital	104,149	
of which: amount eligible for common equity tier 1 capital		104,149
Retained earnings	101,917	101,917
Other reserves	4,104	4,104
Total equity	210,170	
Total liabilities and equity	3,021,296	

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)	£104.1m	N/A	£63.0m
9	Nominal amount of instrument	£1 and $1	N/A	$56.2mn and €34.2mn
9a	Issue price	£1 and $1	N/A	$56.2mn and €34.2mn
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	<u>Ordinary shares of £1 each, paid up capital:</u> £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 <u>Ordinary shares of $1 each, paid up capital:</u> $93m 31 Mar 1988 ($12m) 20 May 1993 ($4m) 31 Dec 2008 $38.3m 17 June 2015 <u>Ordinary shares of $0.15 each, paid up capital:</u> $80m 15 May 1990 ($80m) 20 May 1993	N/A	<u>USD Subordinated debt</u> $94.4m 29 Oct 2010 ($38.3m) 17 June 2015 <u>EURO Subordinated debt</u> €34.2m 17 June 2015
12	Perpetual or dated	Perpetual	N/A	Dated
13	Original maturity date	N/A	N/A	$24.7m 29 Apr 2023 $31.5m 29 Oct 2025 €34.2m 17 June 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 3 month Euribor 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 £24,696,000 on 17 June 2015 as explained in Note 26 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])		2015 £'000
1	Capital instruments and the related share premium accounts	104,149
	of which: Instrument type 1	
	of which: Instrument type 2	
	of which: Instrument type 3	
2	Retained earnings	99,013
3	Accumulated other comprehensive income (and any other reserves)	7,008
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**	210,170
Common Equity Tier 1 (CET1) capital: regulatory adjustments		
7	Additional value adjustments (negative amount)	
8	Intangible assets (net of related tax liability) (negative amount)	1,897
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	-
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)**	1,897
29	**Common Equity Tier 1 (CET1) capital**	208,273

Common Equity Tier 1 capital: instruments and reserves ([1])		2015 £'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)**	208,273
Tier 2 (T2) capital: instruments and provisions		
46	Capital instruments and the related share premium accounts	63,064
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**	63,064
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**	63,064
59	**Total capital (TC = T1 + T2)**	271,337

Common Equity Tier 1 capital: instruments and reserves ([1])		2015 £'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)	1,361,260
	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**	1,361,260
Capital ratios and buffers		
61	Common Equity Tier 1 (as a percentage of total risk exposure amount	15.3%
62	Tier 1 (as a percentage of total risk exposure amount	15.3%
63	Total capital (as a percentage of total risk exposure amount	19.9%
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)	15.3%
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)	
84	- Current cap on T2 instruments subject to phase-out arrangements	
85	- Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	

Appendix VI: List of tables in this document

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