Annual report and financial statements

YEAR ENDED 31 DECEMBER 2014

BACB

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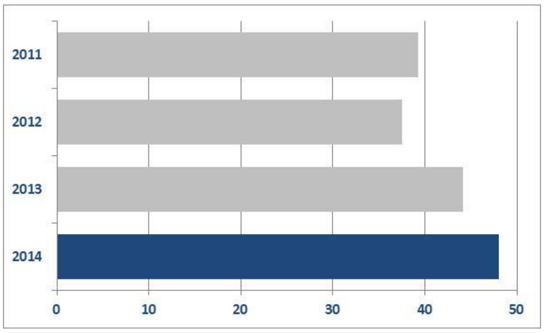
Financial Highlights

Operating Income

£48.1m

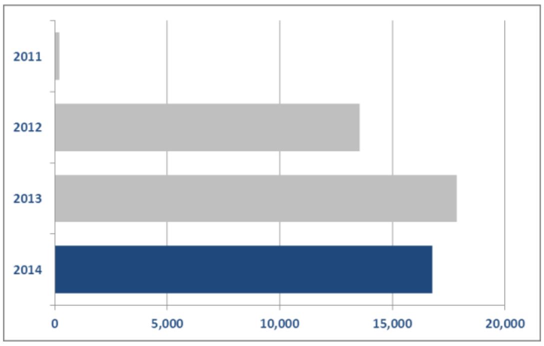
- Operating Income increased 9%



Underlying profit *

£16.8m

- Underlying Profit down 6%

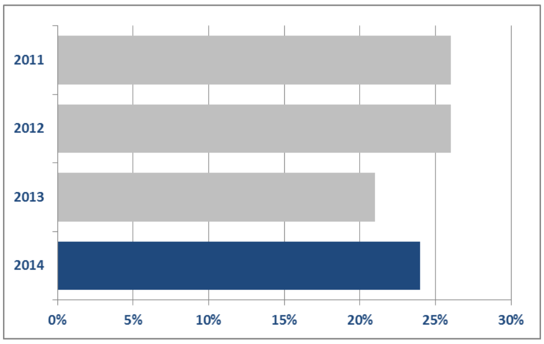


Capital Strength

24%

- Improved Capital Adequacy

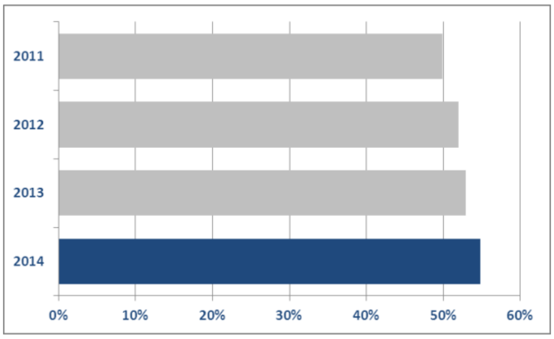
Tier 1 & 2 capital as a percentage of RWA's



Cost Income ratio **

55%

- Marginal increase in ratio



	2014 £m	2013 £m	2012 £m	2011 £m	2010 £m
Financial Position					
Operating Income before loan impairments	48.1	44.2	37.5	39.3	45.3
Underlying Profit*	16.8	17.8	13.6	0.2	19.0
Profit Before Tax	5.5	17.8	13.6	0.2	19.0
Total Assets	2,916	2,402	2,181	2,936	3,350
Total Loans	1,765	1,608	1,558	2,057	2,472
Total Equity	202	197	190	179	179
Tier 1 & 2 Capital (Eligible Capital)	255	252	240	243	246
Ratios %					
Capital Adequacy	24%	21%	26%	26%	21%
Cost Income Ratio**	55%	54%	55%	52%	48%
Return on Tier 1 Capital **	8%	9%	7%	0%	11%
Return on Total Eligible Capital **	7%	7%	6%	0%	8%
Earnings per Share (p)	4.4	12.8	9.5	0.2	12.8
Number of Ordinary Shares	107,376,884				

**For a reconciliation of Profit Before Tax to Underlying Profit see page 8.*

***Based on costs included in underlying profit.*

CHAIRMAN'S STATEMENT

While 2014 has been a year of considerable change for BACB, the results for 2014 represent encouraging progress in the underlying business. Decisive action has been taken to address legacy issues in order to position the Bank for future growth.

Market environment

The second half of 2014 disturbed the complacency of many who believed that financial markets had settled in a predictable pattern. Global equities closed 2014 very close to their all-time highs, while bond yields in many countries closed at or near all-time lows. Furthermore, and, perhaps most significantly, the oil price halved.

Economic activity in 2014 in much of the world failed to reach levels required to rebuild sustainable consumer confidence and to prompt renewed investment expenditure, with most major central banks maintaining interest rates at their unprecedented low levels. Concerns over deflationary trends, particularly in the Eurozone, grew. Expectation of slower growth in the future weighed heavily on market sentiment, contributing to the commodity price falls and a general curtailment of global investment spending.

Uncertainty has continued into the beginning of 2015. Key trends include the strengthening U.S. Dollar, along with continued weakness in both the European economy and commodity prices, all of which appear to be sending very mixed messages about the health of the global economy, but also acknowledges the influence of continued unprecedented monetary intervention by central banks around the world.

2015 is likely to witness a continued battle between the forces of recovery and deflation with the result that markets will continue to be more volatile.

Against the volatile backdrop of the developed economies, the banking sector in BACB's core markets also continued to be challenging. This is noted particularly in the context of the continuing difficult regional political and business environment and, more specifically, the political challenges currently facing Libya, our parent bank's home market.

BACB has successfully navigated through past challenges in Libya and, while the situation is different, there are parallels with 2011 when sanctions were imposed. The Directors have carefully considered the situation, including information provided by the Central Bank of Libya and note the significant efforts by the international community to resolve the issues in the best interests of the whole people of Libya.

2014 changes at BACB

The Board acted proactively in identifying a need to deliver change in a number of areas at BACB. A largely new executive team was brought in towards the end of the year, with a mandate to position the Bank for future growth. Significant progress has been made, both in identifying and addressing some historic issues, while also delivering a strong growth plan for the Business.

2014 Performance

In late 2014, the Bank initiated a strategic review of its operations and the Board believes that this review demonstrates the strength of commitment to position the Bank for strong and sustainable future growth.

2014 performance has been severely impacted by non-recurring costs specifically and volatile market conditions more generally. However, the performance of the underlying business was robust in 2014, with a 3% year on year increase in net operating income. Profit after Tax is depressed due largely to one off items, however, if these are excluded the underlying business shows a £2.2m (16%) year-on-year increase.

Future Prospects

The management team has completed a wide-reaching strategic review and a number of key initiatives are already in progress. BACB has a strong franchise and there are significant opportunities to grow the business, so that we deliver strong financial returns to our shareholders, while offering value-add products to our clients.

We plan to deliver strong and sustainable revenue growth. We have developed a carefully considered strategy, and are continuing to diversify geographic, client and product focus, the latter building on the successful introduction in 2014 of real estate and commodity finance offerings. We have also restructured the Front Office into a client-centric operating model, delivering a full product suite to clients.

As well as building revenues, we must stay focused on cost containment. Our intent is to deliver a scalable and efficient platform, whereby revenue growth can be delivered without commensurate growth in costs. We will, in time, drive down our cost to revenue ratio.

We remain very conscious of the critical areas of governance, risk management and regulatory compliance. Significant enhancements have already been made in each of these areas and the Board remains committed to investing in these essential areas.

We believe that these new initiatives - which carefully balance both the need for an external, revenue growth focus and an internal control and efficiency focus - will have a positive impact on the future success of the Bank.

During the year, the Bank has continued to enjoy the full support of its shareholders, especially its majority shareholder, Libyan Foreign Bank. The Bank's capital and liquidity position remain stable and strong and have been further strengthened by the provision of approximately £25m additional capital by Libyan Foreign Bank as at June 2015 and a continuing statement of support, confirming continued provision of financial and liquidity support for at least the next twelve months.

I would like to thank my fellow directors and all the staff for their valuable contribution to BACB's success in 2014 and we look forward to the year ahead.

R D Dowie
Chairman
17 June 2015

STRATEGIC REPORT: BUSINESS STRATEGY AND MARKET ENVIRONMENT

Following my appointment as Chief Executive, the Bank has undertaken a multi-faceted review of the Bank's strategy, historic activities and operating and governance models. Our intent is to position the Bank for future growth leveraging the Bank's deep-rooted knowledge, contacts and expertise.

In order to achieve our growth plans we have implemented two key streams of activity to both ***Build the Bank*** and ***Strengthen the Bank***. The Build the Bank activity is focusing on the delivery of long-term, sustainable and quality revenues. Our Strengthen the Bank focus is working to enhance the Bank's systems of governance and control and to ensure that we are operating in an efficient manner. We are investing in both people and technology to enable us to deliver these two streams. Our shareholders have confirmed their intent to invest in the BACB business for the long-term.

Build the Bank: Mission Statement

BACB will take advantage of the Bank's position as a foreign owned London bank to intermediate the trade and capital flows between its target markets.

We will leverage our proven track record in providing bespoke structured trade and commodity finance to build a client-centric business operating model that facilitates the cross-selling of other banking and treasury solutions. We will participate in syndicated loan transactions but only if the underlying business is "trade" related and promotes the development of bilateral client relationships in our core activities.

In addition, and in conjunction with our parent bank, Libyan Foreign Bank ("LFB"), we will utilise our balance sheet and access to term liquidity to build a diversified residential and commercial property portfolio.

BACB will ensure that its activities are conducted in accordance with all relevant regulations and laws and within an operating environment that promotes safe, secure and appropriate business for its clients.

Build the Bank: Market Environment

Operating income before loan impairments increased by 9% in 2014 notwithstanding the political and economic situation in some of the Bank's core markets, which remained challenging.

The situation in Libya, the country of the Bank's principal shareholder, remains volatile. However, the Bank's net exposure to Libya is manageable at less than 2% of total exposures and, while Libya remains a key market for the Bank, efforts to increase geographic diversification have reduced the overall impact of the current situation. The Bank's long established connections in the country leave us well placed to provide further support when the economy of Libya stabilises and grows. In the short-term, the Bank has benefitted from deposit inflows but trade finance and other activity is understandably depressed. Our shareholders have made a conscious decision to invest in the long-term sustainability of our franchise and the Bank performs a key role in the interaction of Libya with the global economy. This is reflected in the commitment by Libyan Foreign Bank to provide approximately £25m additional capital and a statement of ongoing liquidity support.

The Bank has initiated a strategic review of its operations, considering internal and external factors including evaluating the robustness of the Bank's procedures and controls. As part of this review, a legal review of certain historical transactions was initiated and is still ongoing. In addition, the Board has made a determined decision to pull out of the Sudanese market and to focus on quality deal origination developing long-term client relationships. As at the date of publication of the financial statements, the exit from Sudan is substantially complete.

Furthermore, the business has diversified its geographical, client and product base in order to ensure stable future earnings and to optimally leverage the Bank's strong liquidity and capital position.

The Bank continues to rely on its parent for liquidity and current funding levels remain stable and strong. The Board continues to consider alternative funding strategies, in order to mitigate this risk.

Other key macro-economic factors that impact the Bank are the strengthening of the U.S. dollar and the weakness in commodity process generally and oil prices specifically.

With regards to currency impacts, the strengthening of the U.S. dollar has a positive impact given that most of the Bank's revenues are generated in U.S. dollars, compared to a cost base which is largely sterling denominated. The Bank continues to carefully consider its foreign exchange hedging strategy.

The weakness in commodity prices has depressed the margins in our commodity finance franchise, however, business volumes remain strong.

The Bank has carefully considered its exposure to oil price risk and, in particular, analysed any requirement for additional specific or collective impairments and concluded that there is no such requirement. The sector outlook remains generally negative and the Bank will continue to monitor its position.

Build the Bank: Delivery Plans

The delivery of sustainable business growth in line with the Bank's mission statement will be based on the following activities:

Build on BACB's core North African trade finance franchise, leveraging shareholder contacts and networks, where possible
Carefully targeted growth into new markets, initially in Francophonic West Africa
Delivery of a client-centric marketing strategy putting clients' needs first, offering a complimentary product portfolio
Focused expansion into new products, notably Commodity Finance and UK Real Estate lending

Following a strategic review in the Fourth Quarter of 2014, the Bank has restructured the Front Office Divisions away from product "silos" into a client-focused organisation.

This structural change has been complemented by a training and development programme to support Relationship Managers to be able to offer a full product suite to clients. In addition, 8 target markets were researched to allow new business development activity to fully mobilise early in 2015.

Focus remains on the nascent but successful Commodity Finance and Real Estate lending businesses and it is the intention to expand the real estate business in UK residential and commercial real estate.

Strengthen the Bank

Corporate Governance continues to be a key area of focus and the Bank has implemented a new framework based on Board Governance Standards. The framework is aligned to the latest Governance Principles issued by the Basel Commission on Banking Supervision.

The Executive Committee structure has been rationalised in order to ensure transparent timely and suitably empowered decision making.

The Bank's Risk Appetite has been revised and the Bank has delivered enhanced risk management practices, with risk limits aligned to a carefully considered business strategy.

The Bank's future profitability depends on delivery of quality solutions to clients in a controlled and efficient manner. Our aim is to deliver revenue growth while keeping costs stable. Technology delivery will be a key enabler to achieving this goal. A review of the Bank's system architecture has been mobilised, with key areas of initial focus in the critical areas of risk management and regulatory reporting.

People remain the Bank's key asset and the Executive Team bring many years of experience in their respective fields and, working alongside their colleagues who have been at BACB for some time, the Bank's management team are well placed to deliver.

P.A. Hartwell
Chief Executive Officer

The Strategic Report was approved by the Board of Directors on 17 June 2015.

Susannah L. Aliker
Secretary
17 June 2015

STRATEGIC REPORT: FINANCIAL PERFORMANCE

Overview

BACB is a London-based wholesale bank and an established provider of trade finance and treasury services to Africa and the Middle East. The Bank strives to build long term relationships within its chosen markets.

The Bank continued to transact its international banking business in the areas of treasury markets, commercial and correspondent banking and medium-term lending.

The Bank is authorised under the terms of the Financial Services and Markets Act 2000 and is regulated by the Prudential Regulation Authority, and the Financial Conduct Authority.

Results

2014 profit after tax for the year of £4.7m is after significant one-off costs of £11.3m related principally to the review of historic activities.

The underlying business performance was robust with a 3% increase in Net Operating Income against a background of challenging markets.

A reconciliation of the Profit before tax in the Statement of Comprehensive Income to Underlying Profit is shown below.

	2014	*2013*
	£'000	*£'000*
Profit before income tax in Statement of Comprehensive Income	5,511	17,848
Add back:		-
Professional fees relating to management reorganisation (note 11)	704	-
Review of historic activities (note 11)	10,563	-
Underlying profit before tax	**16,778**	***17,848***
Underlying profit after tax	**15,996**	***13,767***

Business Performance Overview

Performance by business line is discussed below in the *Business Operating Model* section of this report.

Operating Expenses

At £26.3m *(2013: £23.8m)* administrative expenses excluding exceptional non-recurring costs were 10% higher than the previous year. Average headcount during 2014 was 158 *(2013: 146).*

Exceptional non-recurring costs of £11.3m were incurred in 2014 *(2013: nil)*. These costs principally relate to a review of historic business activities, along with professional fees related to the 2014 management reorganisation.

Impairments

The level of impairment charges £4.9m *(2013: £2.5m)* has increased due to adverse market conditions and includes a Libya specific Collective Impairment.

Balance sheet

Balance sheet totals were as follows:-

	2014	*2013*
	£'000s	*£'000s*
Liquid Asset Buffer	1,001,670	*479,790*
Secondary Asset Buffer	285,184	*354,889*
Other professional market placements, debt securities and derivatives	929,817	*863,929*
Professional market placements, debt securities and derivatives	2,216,671	*1,698,608*
Term and Real Estate lending	542,395	*587,252*
Other	157,351	*116,288*
Balance sheet footings	**2,916,417**	***2,402,148***
Contingent liabilities	93,687	*97,193*
Other commitments	463,896	*590,862*

Total assets increased by 21% year-on-year. The main increase was in Treasury placement and investment activities, with total lending also ahead.

The Bank holds deposits placed with it by its customers, both by way of on-demand current accounts in the Banking department, and also as term deposits in the Treasury. These deposits are placed in professional markets on similar terms, or invested in liquid and high quality debt securities.

Capital Adequacy

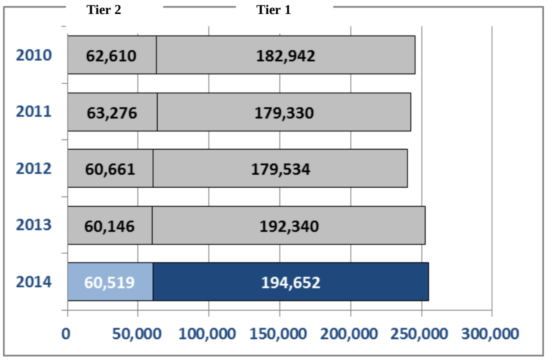
At 31 December 2014 and during the year, the Bank held more than adequate levels of capital as required by the Prudential Regulation Authority (the "PRA").

As at 31 December 2014 the Bank's Capital Adequacy ratio was 24%.

Additional capital of approximately £25m was committed in June 2015 as explained in Note 37 "Post balance sheet events" and this will further improve the Bank's capital adequacy ratio.

The amounts of regulatory capital differ from the balances shown in the Bank's Statement of Financial Position due to adjustments in respect of certain reserves which arise on the application of IFRS.

Tier 1 and Tier 2 Capital



As at 31 December 2014, this does not include the Post Balance Sheet adjustment (Note 37).

Tier 1 capital comprises share capital and reserves (as adjusted). Tier 2 capital comprises mainly issued term subordinated debt.

Risk Weighted Assets (RWAs) were £1.1bn as at 31 December 2014 *(2013: £1.2bn)*, of which £976m relates to Credit Risk exposure.

The following table shows the build-up of the Bank's minimum capital requirement and capital adequacy position calculated in accordance with regulatory rules (the "Pillar 1 requirement") at 31 December:

	2014	*2013*
	£'000	*£'000*
Credit risk	78,111	*96,917*
Market risk	1,093	*2,054*
Counterparty risk capital component	49	-
Operational risk	6,135	*6,104*
Total Pillar 1 capital requirement	**85,388**	***105,075***
Capital in place	255,171	*252,486*
Excess of capital in place over minimum requirement under Pillar 1	**169,783**	***147,411***

On 1 January 2014, Basel III regulations, commonly known as CRD IV, revised the definition of capital resources and included additional capital and disclosure requirements. The 2013 comparatives have not been restated to reflect this change. In addition, the EU directive related to "equivalence" (CRR Article 107) which is effective from 1 January 2015, will impact the Bank's capital requirement going forward.

Further Information regarding the Bank's approach to risk management, and its capital adequacy and liquidity are contained in the unaudited disclosures made under the requirements of Basel II Pillar 3 (the Pillar 3 disclosures). These disclosures are published on the Bank's website, www.bacb.co.uk.

Liquidity

Conditions in the Bank's traditional markets were by no means benign and the resultant adverse impact on business confidence and political stability negatively influenced the availability of term funding from third-party sources. As a consequence the Bank continues to source most of its liquidity from a concentrated customer base (primarily the Central Bank of Libya and LFB). Efforts to diversify the Bank's depositor base are in place and will continue through 2015.

Liquidity is managed by the Bank's Treasury operation, overseen and guided by the Asset and Liability Committee, and reporting to the Board. As a general principle and in compensation for its concentrated funding base, key liquidity indicators are maintained at levels well in excess of the minimum regulatory requirements.

Key Performance Indicators

The Bank makes use of key performance indicators as part of its monitoring of the Bank's performance and risks. Such indicators include: the Capital Adequacy or 'Capital Strength' Ratio; and the Cost: Income Ratio. Both of these ratios, based upon the Bank's underlying profits and expenses, are disclosed in the Financial Highlights.

STRATEGIC REPORT: BUSINESS OPERATING MODEL

BACB continued to develop its core North African trade finance business in 2014 which contributed 37% of Net Operating Income (NOI). The other key business lines were Lending, which includes Term Lending and the nascent Commodity Finance and UK Real Estate Lending businesses, and Treasury.

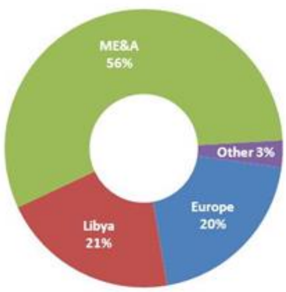
Net Operating Income by Business Area

	2014	*2013*
Trade finance	16,620	*19,939*
Banking services	2,667	*3,040*
Commodity finance	1,434	*109*
Commercial term lending	10,141	*7,357*
Real estate lending	707	*1*
Treasury	13,031	*13,061*
Other	(1,486)	*(1,822)*
Total operating income	**43,114**	***41,685***

The development of the Commodity and Real Estate Finance businesses form a key part of the Bank's strategy to leverage its traditional expertise in trade finance and lending, with complimentary new products, which will also provide greater diversification of income streams.

The geographic split of revenue remained concentrated in the Middle East and North Africa (56% of Net Operating Income increasing to 77%, including Libya).

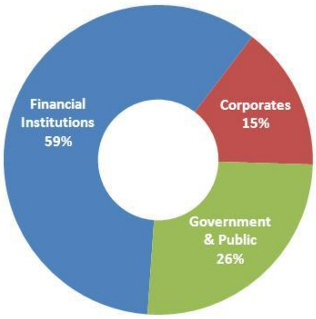
Operating Income by Geography



BACB's strategic intent is to diversify its target countries and thus its sources of income, becoming less dependent on its traditional North African markets. In view of the economic growth in Sub Saharan Africa, the Bank is developing relationships with banks and major institutions across this region, with a focus on Francophonic West Africa.

Most of the Bank's exposure is to financial institutions (59% of total).

Credit Exposure by Counter-party type



In order to deliver a streamlined proposition to its Clients, the Bank reorganised its revenue generating functions at the end of 2014 into a "client-centric" business operating model. The new structure aims to ensure that the Bank's full product range is offered to clients in order to enhance the client value proposition.

Each of the main business lines is discussed briefly below.

Trade Finance

BACB is an experienced facilitator of trade finance instruments, to and from its target markets. The Bank's multi-lingual staff offer advice and guidance to clients in structuring transactions and ensuring that clients' business needs are conducted prudently and in accordance with local and international requirements. The Bank is also able to leverage a wide network of sister banks, correspondents and representative offices in Algiers and Tripoli.

Trade Finance volumes were lower in 2014 compared to 2013, largely due to reductions in Libya, driven by market instability. Furthermore, the Business made a strategic decision to withdraw from trade with Sudan in the Third Quarter of 2014.

Conditions are anticipated to remain challenging in Libya in the coming year and this has been reflected in the Bank's forward looking projections.

Lending

The Bank's lending activity comprises:

- Term Lending - vanilla and structured loan facilities to institutions and corporates;
- Commodity Finance - short-term structured facilities to commodity traders;
- Real Estate - term lending facilities secured against the asset (both residential and, in the future, commercial property).

Overall lending balances grew 2% during 2014 to £601m at the Year End. Success was achieved in sourcing new transactions at pricing which reflected the utilisation of capital, liquidity and country risk. Borrowers were either sovereign, quasi-sovereign, trading companies or banks, and transactions financed both imports and exports.

2014 was the first full year of operation for the Commodity Finance business. These are bilateral financing facilities to UK and European trading companies. The facilities will be either on-demand overdrafts, or short term (30-180 days) for the financing of purchases and sales of commodities by those companies.

2014 was also the first full year of activity for the UK real estate lending business which focuses currently on prime Central London residential real estate. This business is a key part of the Bank's growth strategy and consideration is also being given to non-residential UK real estate opportunities.

The Bank continues to manage its historic loan book, which comprises longer dated facilities to MENA borrowers. These are primarily oil, gas and power-related project loans to sovereign-related institutions. These loans, generally at lower margins than those being achieved on the newer areas referred to above, continue to run off.

Banking Services

BACB provides a wide range of banking services to clients and correspondent banks. Services provided include: accounts in a wide range of currencies, international payments, payrolls, deposits and internet banking. Our payment systems are fully compatible with all major settlement systems.

Payment volumes grew steadily in the first six months but fell back as Libyan business slowed in the second half.

Treasury

The Treasury department continued to undertake a dual role on behalf of the Bank.
It provides access for the Bank's customers to the London markets, servicing their requirements in the interest rate, foreign exchange, derivative and debt markets. The Bank can create structured products including derivative structures and Islamic banking services.

This responsibility is combined with the task of managing the Bank's own financial resources, including its balance sheet structure, cash-flow liquidity management and hedging. The Treasury department also undertakes a very limited amount of own-account (proprietary) trades, taking positions in these markets with a view to earning income for the Bank.

As part of the requirements under the regulatory liquidity rules, the Bank maintains a Liquid Asset Buffer comprising a primary portfolio of OECD government and related entity fixed and floating rate securities as disclosed in the table on page 8. These bonds tend to yield a return commensurate to their risk rating which the Bank seeks to supplement by way of a secondary portfolio of bank and corporate debt securities (including bank certificates of deposit) issued principally by investment grade rated entities.

While the Bank's access to funded credit lines from large international financial institutions remains limited, its access to derivative and other trading lines is acceptable, and it is able to price transactions on behalf of its customers across the full range of markets on a fully competitive basis. The Bank's customer service proposition is the ability to combine professional execution across a wide range of treasury and capital markets with efficient settlement and competitive pricing.

Regulatory Compliance

Regulatory compliance is of utmost importance. An initiative has been mobilised to enhance the Bank's regulatory reporting processes and systems. Furthermore, the detail and impacts of new regulation are continually reviewed. As referred to on page 9 above, as would be expected given the Bank's geographic focus, the EU directive related to "equivalence" (CRR Article 107) which is effective from 1 January 2015, will impact the Bank's capital requirement going forward.

Significant regulatory and compliance tasks in 2014 included the submission of the Bank's Recovery and Resolution Plan, the Individual Liquidity Adequacy Assessment, new COREP and EMIR reporting requirements, new large exposure rules and assessment of the impact of the US offshore tax reporting under FATCA. Appropriate controls and oversight continued to be exercised in these areas.

Information Technology

Information Technology remains a critical area for the Bank, both to ensure the Bank delivers the best possible service to clients and to ensure internal processes are as efficient and effectively controlled as possible.

The 2014 project to upgrade the Banks's core banking system was halted in order to progress a wider review of technology requirements. An Enterprise Architecture project was mobilised in December 2014 in order to define the Bank's technology strategy over a 5 year planning horizon, fully aligned to the strategic business plan.

The strategic intent is to deliver a technology platform *"to enforce improved data integrity, data quality and data sharing across the Bank, with systems that support better decision making and more efficient processing in our trading activities in a supportable, controlled and compliant manner"*. As such we are evaluating the upgrade our trade finance system. Near term enhancements are also in progress to enhance the technology platforms underpinning the Bank's regulatory and credit reporting activities specifically.

Internal Audit

Internal Audit is fully independent of the business and the function was outsourced to PricewaterhouseCoopers on 1 January 2014. The audit function undertakes a risk-based audit programme to review the internal controls, regulatory and risk management processes of the Bank and reports directly to the Bank's Audit and Risk Committee (ARC).

The 2014 Internal Audit programme for the year was completed successfully, including a number of additional reviews commissioned at the request of the Audit and Risk Committee.

Human Resources

People are the Bank's most important asset. Whilst welcoming new employees in 2014, including several new senior executives and a new Chief Executive, the Bank also continued to retain a high proportion of its experienced employees with low voluntary turnover levels.

Performance Management: the Bank has introduced a refreshed and simplified performance review process, which is aligned to salary and performance award recommendations.

Performance Awards: This discretionary scheme has been realigned. Award nominations are based on an appropriate distribution of profits between shareholders and employees. Key criteria considered are: the needs of the Bank; performance against the Business Plan; and individual behaviours and contribution towards the achievement of their objectives.

Values: the Bank is embedding six core Values which apply to all employees. Employees will be measured on their behaviours as well as their delivery of objectives.

Leadership Development activities include Relationship Manager and Future Leader development programmes. The former will support Relationship Managers, as they move to the new client-centric operating model.

Health and Safety: The Bank maintains the highest standards possible for the health, welfare and safety of its employees, customers and visitors.

Corporate Social Responsibility

Business standards: The Bank restricts itself from certain types of business for ethical and legal reasons:

- The Bank will not involve itself in activities which attempt to circumvent applicable sanctions.
- The Bank will only involve itself in the financing of weapons or any other "dual use goods" if they satisfy strict criteria as to suitability of purpose.
- The Bank will only involve itself in the financing of crops or chemicals that could be used in the manufacture of illegal drugs or other banned substances if it has taken reasonable steps to establish the legitimate purpose of the transaction.
- The Bank will not knowingly involve itself in transactions associated with pornography, or which may involve the exploitation of children.

Environment: The Bank remains committed to reducing the environmental footprint of its operations through initiatives to recycle and reduce waste, minimise energy consumption and invest in the latest "environmentally efficient" technologies; delivering both environmental benefits as well as cost savings for the Bank in the short, medium and long-term.

In January 2015, the Bank was recognised for recycling and environmental best practice and was presented with the Platinum Award in the annual Clean City Awards Scheme, further demonstrating BACB's commitment to the Conservation of the Environment.

Charitable support: In 2014, The Bank made charitable donations of £3,236, including support for employee fundraising through the Bank's "£ for £" scheme, matching fund raising up to £500 per employee per year. The Bank also facilitates "Give As You Earn" charitable giving by employees.

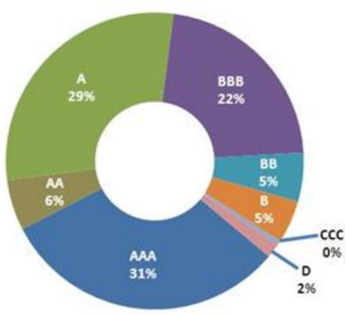
STRATEGIC REPORT: PRINCIPAL RISKS AND UNCERTAINTIES

Credit Risk

Acceptance of Credit Risk remains the Bank's principal source of revenue and, in consequence, its principal source of financial risk. During 2014, it has continued to be an area of challenge in the light of political, economic and social events in the Bank's core markets. The Bank has managed this risk by only offering products, exposures and tenors that are proportionate to the risk profile of the underlying counterparties and the markets in which they operate, whilst maintaining an active focus on a small number of watch-list or impaired loans through a dedicated resource. As a result:

i. Of the Bank's £2.9bn total assets, 1.5% by value are on the "watch-list" and 1.3% are classified as impaired;
ii. In common with most financial institutions, the Bank has analysed the impact of current and forecast oil prices on its exposures and has concluded that the impact, if any, is manageable;
iii. In late 2014, the Bank made a strategic decision to withdraw from Sudan. As at the date of publication of the Financial Statements, this exit is substantially complete.

Credit Exposure by Grade
Rated by Fitch and internal grading system



Libya

The political challenges currently facing Libya are the subject of much international interest. Significant efforts by the international community to resolve the issues are continuing in the best interests of the whole people of Libya. These challenges have impacted international business with Libya, which still has significant oil and gas reserves close to Europe.

The key considerations for BACB are as follows:

i. Elements of BACB's banking business with Libya have declined and are not expected to return to historical levels in the short term. However, the Bank's net exposure to Libya after risk mitigation is manageable at less than 2% of total exposures and, while Libya continues to be a key market for the Bank, efforts to increase geographic diversification have reduced the overall impact of the current situation;
ii. The ongoing support from our majority shareholder, LFB, remains steadfast. In June 2015, LFB injected approximately £25m additional capital into the Bank (refer Note 37) and also in May refreshed its annual Statement of Support, which confirms continued provision of financial support, including meeting the Bank's ongoing liquidity needs for at least the next twelve months;
iii. Support for BACB has also been evident from the Central Bank of Libya and senior Libyan officials have noted the key role BACB performs in the interaction of Libya with the global economy;
iv. The Bank continues to rely for liquidity on its parent, Libyan Foreign Bank, and the Central Bank of Libya. Current funding levels remain both stable and strong. The current unrest presents a concern that LFB could in future become unable to continue such support. In this event, which the

Directors consider should not happen, the highly liquid nature of BACB's balance sheet means that it would have up to a year to make alternative arrangements;

v. Furthermore, if, as happened in 2011, the Libyan political situation results in sanctions imposed in relation to Libya, then the funding would become permanent for the duration.

Other Important Risks

The Bank faces a range of other risks including market, operational and pension risk. The approach to managing these risks, together with a description of the full range of risks faced by the Bank, is set out in Note 4 to the accounts. As part of its broader governance enhancements, the Bank has refreshed its Risk Appetite Statement and a number of key risk related policies.

i. In parallel with the strategic review of the Bank's operations which commenced in late 2014, BACB commenced a thorough review of certain historical activities, which may have involved possible breaches of U.S. sanctions. As part of this historical review, much of which dates pre-2009, BACB has made a voluntary disclosure to the US Authorities and continues to co-operate with them. At the same time, Regulators in the UK were informed. The review is ongoing and it is premature to reach a final conclusion thereon;

ii. The Directors have also considered the need for counterparty banks to continue to operate with BACB. Across the whole sector, there is a trend for counterparty banks to review the potential reputational and legal risks associated with clearing transactions initiated by other banks. The Directors acknowledge the need to provide comfort to these counterparties and are committed to ensuring and demonstrating the robustness of the Bank's procedures and controls. They believe that their review of historical activities demonstrates the strength of that commitment and will assist in providing the necessary comfort to ensure that BACB remains attractive to counterparties.

The above risks and uncertainties have been fully considered by the Directors as part of the Bank's going concern assessment and are also referenced in Notes 29 and 32 of these Financial Statements.

STRATEGIC REPORT: CORPORATE GOVERNANCE

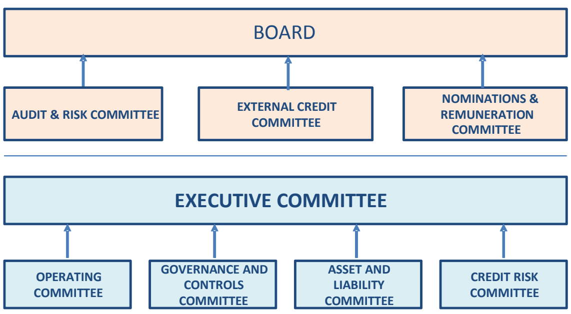
Shareholders

The Bank's shareholders as at the reporting date were: Libyan Foreign Bank (83.48% shareholding); Banque Exterieure d'Algerie (8.26% shareholding); and Banque Centrale Populaire (8.26% shareholding). Changes to shareholdings after the balance sheet reporting date are disclosed in Note 37.

Governance

The governance arrangements followed by the Bank's board of directors (the "Board") are mandated in a formal agreement between its shareholders (the "Shareholders' Agreement") and in the Articles of Association of the Bank. These 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 Shareholders' Agreement sets out the arrangements for changes in shareholding.

During 2014, a number of enhancements were made to the Governance arrangements of BACB especially in relation to the Executive Committees.



Board arrangements

The Board comprises the individuals listed on page 18 and includes two independent non-executive directors, one of whom is the Chairman of the Board and the other the Chairman of the Audit and Risk Committee. The Chief Executive and the Chief Operating Officer are full time employees of the Bank and are regarded as Executive Directors. All of the other directors are regarded as being Non-Executive Directors. The Board met seven times during 2014.

The Board has appointed a number of committees consisting of certain directors and senior executives. The following are the principal committees:

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 does not meet, but instead considers applications as they arise by circulation. Decisions of the committee must be unanimous to be valid.

Audit & Risk Committee ("ARC")

Non-Executive Directors are eligible to sit on the Audit & Risk Committee. The committee increased the frequency of its meetings in 2014 and considers the Bank's financial reporting, the nature and scope of audit reviews, and the effectiveness of the systems of internal control, compliance and risk management. The Bank's external auditors, its outsourced Internal Auditors together with the senior financial, risk and compliance executives attend meetings of the Audit & Risk Committee.

Nominations and Remuneration Committee ("NRC")

The Nominations and Remuneration Committee meets as required in order to agree the remuneration and employment policies of the Bank and to make key appointments.

The Committee was involved in the appointment of the new Chief Executive and other new members of the Executive Team during 2014.

Executive Management

Led by the Chief Executive, the Executive team comprises the executive managers responsible for the day-to-day operations and management of the Bank. The executive team meets fortnightly as an Executive Committee ("**ExCo**"). The Bank's ExCo comprises the Chief Executive (Chair), and nine senior executives covering front office, risk and compliance, finance, control and infrastructure functions.

Following a review of the Bank's Governance arrangements, the Committee structure reporting into ExCo was rationalised into four Committees, namely the Operating Committee, the Asset and Liability Committee, the Credit Risk Committee and the Governance and Controls Committee. This enhanced Governance framework will deliver enhanced delegated authority, along with increased transparency and accountability for decision making.

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

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

Board of Directors

The Bank benefits from the skills and experience of its Board members. Shareholder appointees bring a wealth of experience of BACB core markets and complement the skills of the independent non-executives and the executive Board members. The members of the Board, and the capacity in which they sit on the Board, are noted below:

Mr Robert Douglas Dowie[1] (Chairman)
Mr Michael Stevenson[1] (Chair of the Audit and Risk Committee)
Mr Mohamed Shokri (Vice Chairman)
Mr Ahmed Aburkhis
(Appointed 19 June 2014)
Dr Ezzeddin Ashur
Dr Khaled Kagigi
Mr Sameh Krekshi (ceased to be a Director 11 June 2015)
Mr Mohamed Loukal
Mr Mohamed Zine

Apart from Mr Aburkhis, all Directors served throughout the year.

<u>Directors appointed after 31 December 2014</u>
Mr Paul Hartwell Chief Executive Officer
Appointed 13 May 2015
Mr Mark Norris Chief Operating Officer
Appointed 1 April 2015

<u>Directors' resignations during the year</u>
Mr Andrew Martin
Effective date 28 August 2014
Mr Crispian Denby
Effective date 5 September 2014

[1] Independent Non-Executive Director

STATEMENT OF DIRECTORS' RESPONSIBILITIES

In respect of the Strategic Report, Directors' Report and the financial statements

The directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with IFRSs as adopted by the EU and applicable law.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Bank will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

DIRECTORS' REPORT

For the year ended 31 December 2014

The directors present their annual report and the audited financial statements for the year ended 31 December 2014. These financial statements have been prepared in accordance with the Companies Act 2006 and applicable accounting standards.

Financial risk management objectives and policies

The Bank's objectives and policies with regard to financial and other risks, including the policy for hedging, are set out in Note 4 to the financial statements, together with an indication of the exposure to financial risk.

Results

The profit after taxation for the year amounted to £4,729,000 *(2013: £13,767,000)*. The Directors do not recommend a dividend.

Going concern

These Financial Statements have been prepared on a going concern basis as the Directors are satisfied that the Bank has the resources to continue in business for the foreseeable future. Their rationale is discussed further in Note 2.

Share capital and subordinated liabilities

The Bank's majority shareholder, Libyan Foreign Bank, has committed approximately £25,000,000 of additional share capital which was approved on 14 June 2015. This additional capital was drawn down on 17 June 2015 as explained in Note 37.

Company name and number

British Arab Commercial Bank plc is an unlisted public company registered in England and Wales. The company number is 1047302.

Directors and their interests

A list of the directors who served during the year is shown on page 18. None of the directors holds or has held shares in the Bank. All of the directors benefited from qualifying third party indemnity provisions in place during the financial year and at the date of this report.

Directors’ representation

The directors who held office at the date of approval of this Directors’ Report confirm that, so far as they each are aware, there is no relevant audit information of which the Bank’s auditors are unaware; and each director has taken all steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Bank’s auditors are aware of that information.

Auditors

KPMG LLP was appointed to act as the Bank's auditors for the year ended 31 December 2014.

Susannah L. Aliker
Secretary
By order of the Board
17 June 2015

All amounts in £'000s unless otherwise stated

INDEPENDENT AUDITOR'S REPORT

To the members of British Arab Commercial Bank plc

We have audited the financial statements of British Arab Commercial Bank plc for the year ended 31 December 2014 set out on pages 24 to 80. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 19, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Bank's affairs as at 31 December 2014 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the EU; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Emphasis of matter

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosures made in Note 2, the basis of preparation, concerning the Bank's ability to continue as a going concern. In that section the Directors set out their confidence in the current liquidity position but also the risks faced by the Bank in relation to its dependence on its Libyan parent company and the Central Bank of Libya for its liquidity requirements in light of the uncertain political situation currently in Libya, which could deteriorate. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Bank's ability to continue as a going concern. These financial statements do not include the adjustments that would result if the Bank was unable to continue as a going concern.

All amounts in £'000s unless otherwise stated

INDEPENDENT AUDITORS' REPORT (continued)

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

David Todd
(Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square, London, E14 5GL
17th June 2015

All amounts in £'000s unless otherwise stated

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2014

	Note	2014	2013
Interest and similar income	8	35,464	*32,643*
Less: Interest expense and similar charges	8	(14,195)	*(17,379)*
Net interest income		**21,269**	***15,264***
Fee and commission income	9	18,880	*21,084*
Less: Fee and commission expense	9	(643)	*(652)*
Net fee and commission income		**18,237**	***20,432***
Net trading income	10	6,958	*7,875*
Other operating income		1,612	*596*
Operating income before loan impairments		**48,076**	***44,167***
Loan impairments	12	(4,962)	*(2,482)*
Net operating income		**43,114**	***41,685***
Administrative expenses	11	(37,603)	*(23,837)*
Profit before income tax		**5,511**	***17,848***
Income tax expense	13	(782)	*(4,081)*
Profit for the year		**4,729**	***13,767***
Other comprehensive income/(expense):			
Items that will not be reclassified to profit or loss			
Actuarial (loss)/gain on pension fund	24	(1,060)	*299*
Related Tax	13	(14)	*(166)*
		(1,074)	*133*
Items that are or may be reclassified to profit or loss			
Change in fair value of available for sale financial assets	13	(358)	*976*
Fair value losses/(gains) attributable to available for sale financial assets transferred to income	13	2,461	*(588)*
Related Tax	13	(417)	*(30)*
		1,686	*358*
Other comprehensive gain for the year, net of tax		**612**	***491***
Total comprehensive gain for the year		**5,341**	***14,258***

All of the profit for the financial year and the prior year was derived from continuing activities. The Notes on pages 28 to 80 form part of these financial statements.

All amounts in £'000s unless otherwise stated

STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

	Note	2014	*2013*
Assets			
Cash, notes and coins		633	*223*
Financial investments	14	1,122,262	*766,373*
Loans and advances to banks	15	1,293,790	*1,156,909*
Loans and advances to customers	16	471,375	*450,839*
Property, plant and equipment	18	8,993	*8,875*
Intangible assets	18	2,310	*2,031*
Derivatives	19	567	*1,271*
Corporation tax receivable		2,610	*-*
Prepayments, accrued income and other debtors	20	13,877	*15,627*
Total assets		**2,916,417**	***2,402,148***
Liabilities			
Deposits from banks	21	1,938,136	*1,452,278*
Other deposits	21	686,071	*674,490*
Other liabilities, accruals and deferred income	22	24,383	*16,281*
Deferred taxation	23	1,183	*179*
Derivatives	19	1,342	*1,014*
Corporation tax payable		-	*1,264*
Net pension liability	24	2,614	*2,673*
Subordinated liabilities	25	60,519	*57,141*
Total liabilities		**2,714,248**	***2,205,320***
Called up share capital	26	79,453	*79,453*
Capital redemption reserve	27	4,104	*4,104*
Other reserves	27	118,612	*113,271*
Capital and reserves attributable to the Bank's equity holders	27	**202,169**	***196,828***
Total liabilities and equity		**2,916,417**	***2,402,148***

The Notes on pages 28 to 80 form part of these financial statements.

Signed:

Mr R D Dowie
Chairman

Mr M Shokri
Vice Chairman

Mr P Hartwell
Chief Executive

17 June 2015

All amounts in £'000s unless otherwise stated

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014

	Share capital	Total reserves				Total equity
		AFS reserve	Capital redemption reserve	Retained earnings	Total	
Balance at 31 December 2012	***79,453***	***3,163***	***4,104***	***103,050***	***110,317***	***189,770***
Profit for 2013	*-*	*-*	*-*	*13,767*	*13,767*	*13,767*
Other comprehensive income for 2013	*-*	*358*	*-*	*133*	*491*	*491*
Dividend relating to 2012	*-*	*-*	*-*	*(7,200)*	*(7,200)*	*(7,200)*
Balance at 31 December 2013	**79,453**	**3,521**	**4,104**	**109,750**	**117,375**	**196,828**
Profit for 2014	-	-	-	4,729	4,729	4,729
Other comprehensive income / (expense) for 2014	-	1,686	-	(1,074)	612	612
Balance at 31 December 2014	**79,453**	**5,207**	**4,104**	**113,405**	**122,716**	**202,169**

All amounts in £'000s unless otherwise stated

STATEMENT OF CASH FLOW

For the year ended 31 December 2014

	Note	2014	2013
Net cash flow from operating activities			
Profit before taxation		**5,511**	***17,848***
Adjustments for:			
Loan impairment losses	12	4,962	*2,482*
Profit on realisation of equity shares and investments	14	-	*(309)*
Depreciation and amortisation	11,18	1,355	*1,128*
Loss on sale or impairment of fixed assets	11	676	*141*
Non-cash items included in net profit		**6,993**	***3,442***
Loans, advances and other debt securities other than cash and cash equivalents		2,673	*(200,768)*
Other debtors and prepayments		4,335	*(606)*
Change in operating assets		**7,008**	***(201,374)***
Customer accounts and deposits by banks		418,975	*225,768*
Other liabilities		5,487	*(1,491)*
Change in operating liabilties		**424,462**	***224,277***
Tax paid		**(4,065)**	***(2,515)***
Net cash generated from operating activities		**439,909**	***41,678***
Cash flow from investing activities:			
Purchases of equity shares and investments	14	(555)	*(1,691)*
Proceeds of redemptions of equity shares and investments	14	513	*629*
Proceeds on sale of fixed assets		-	*18*
Purchase of tangible assets	18	(691)	*(491)*
Purchase of intangible assets	18	(1,737)	*(894)*
Net cash used in investing activities		**(2,470)**	***(2,429)***
Financing activities: dividends paid		**-**	***(7,200)***
Net increase in cash and cash equivalents		**437,439**	***32,049***
Cash equivalents at the beginning of the year		1,041,466	*1,014,858*
Effect of exchange rate change on cash and cash equivalents		35,937	*(5,441)*
Cash and cash equivalents at the end of the year		**1,514,842**	***1,041,466***
Cash and cash equivalents comprise:			
Cash, notes and coin		633	*223*
Loans and advances to banks of original maturity three months or less		1,058,934	*1,031,243*
Certificates of deposit and other debt securities of three months original maturity or less		455,275	*10,000*
Cash and cash equivalents		**1,514,842**	***1,041,466***

All amounts in £'000s unless otherwise stated

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

1. General information

British Arab Commercial Bank plc ("the Bank" or "BACB") is a public company, limited by shares. The Bank was incorporated in England and Wales on 23 March 1972 as UBAF Limited. The Bank's name was changed to UBAF Bank Limited on 4 January 1977, and to British Arab Commercial Bank Limited on 4 March 1996. On 2 June 2010, the Bank was re-registered as a public company, and its name changed to the current style. The Bank's registered office (and principal place of business) is situated in England, and is currently at 8-10 Mansion House Place, London EC4N 8BJ.

The Bank carries on the business of international banking, and its worldwide activities are regulated by the Prudential Regulation Authority ("the PRA"), and the Financial Conduct Authority ("the FCA").

The financial statements were authorised for issue by the board of directors on 17 June 2015.

2. Basis of preparation

These financial statements have been prepared on a going concern basis as the Directors are satisfied that the Bank has the resources to continue in business for the foreseeable future.
In making this assessment, the Directors have considered a wide range of information relating to present and future conditions. Information relevant to this assessment regarding the Bank's principal activities, strategic direction and challenges and uncertainties are described in the Strategic Report on pages 15-16. That review includes a review of current and future projections of profitability, capital resources and liquidity, which the Directors have subjected to stress testing. Particular consideration has been given to:

i. the potential outcome of legal proceedings (as outlined in Note 32);
ii. the need for counterparty banks to continue to operate with BACB and to provide critical facilities. This review has specifically considered a sector-wide trend for counterparty banks to review such relationships due to the potential reputational and legal risks associated with clearing transactions initiated by other banks (as considered in the Principal Risks section);
iii. the funding model of the Bank which is concentrated and dependent on its parent, Libyan Foreign Bank, and the Central Bank of Libya. The current provision of liquidity is strong and the Directors are confident that this will continue. However, the political situation in Libya could worsen and threaten this funding in the longer-term. While the Directors remain confident, they do, as in the 2010 financial statements during the last Libyan unrest, consider it is important to note that because of the concentrated funding and the risk that the political situation worsens, this represents a material uncertainty which may cast doubt on the future ability of the Bank to continue as a going concern. This review has also taken particular account of the positive support from the Bank's Parent and in particular the highly liquid nature of the majority of BACB's balance sheet, along with the provision of an additional amount of approximately £25,000,000 of capital and, in May 2015, a Statement of Support from Libyan Foreign Bank which confirms continued provision of financial support, including meeting the Bank's ongoing liquidity needs for at least the next twelve months.

The Bank has prepared its financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU and effective for the Bank's reporting for the year ended 31 December 2014. IFRS comprise accounting standards issued by the International Accounting Standards Board ("IASB") and its predecessor body or adopted as interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") and its predecessor body.

The financial statements have been prepared in the Bank's functional and presentation currency, Sterling, rounded to the nearest thousand. They are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments, financial instruments held at

All amounts in £'000s unless otherwise stated

fair value through the profit and loss account, financial instruments classified as being available-for-sale and the defined benefit pension fund.

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. The results form the basis for making judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRS that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in Note 5.

IFRS standards which were adopted by the Bank during 2014, or which are expected to affect the Bank's reporting in future years, are shown below.

a) Standards adopted during the year

IAS 32 Offsetting Financial Assets and Financial Liabilities
The amendments to the standard address inconsistencies in current practice when applying the offsetting criteria. The amendments clarify the meaning of "currently has a legally enforceable right of set-off"; and confirm that some gross settlement systems may be considered equivalent to net settlement. The standard is effective for periods beginning on or after 1 January 2014. Its effect on the Bank's financial statements is immaterial.

b) Future accounting developments

IFRS 9 Financial Instruments
This standard forms part of the International Accounting Standard Board's project to replace the existing standard on the recognition and measurement of financial instruments. This standard requires all financial assets to be classified and measured on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The standard also differs from existing requirements for accounting for financial assets in various other areas, such as embedded derivatives and the recognition of fair value adjustments in the Statement of Other Comprehensive Income ("**OCI**"). The standard also introduces an expected credit loss model for calculating impairment on financial assets and revises the general hedge accounting requirements to align these to risk management. The standard will be applied retrospectively (subject to the standard's transitional provisions). The impact on the annual financial statements has not yet been fully determined. The standard is expected to be effective for periods beginning on or after 1 January 2018, subject to EU endorsement.

c) Changes to the presentation of the financial statements and notes to the financial statements

In the Statement of Financial Position, the following changes to presentation have been made, compared to the financial statements for the year to 31 December 2013.

i. Debt securities and equity shares and investments have been combined in a single category named "Financial investments". This is considered more appropriate as it is more in line with the current presentation by other financial institutions.

ii. Debt securities managed as part of the Bank's loan book have been transferred to financial investments from loans and advances to customers, where they were disclosed in the previous financial statements. The effect of this is disclosed in Notes 14 and 16.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all years presented in these financial statements.

a) Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognised in the income statement using the effective interest rates of the financial assets or financial liabilities to which they relate.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability.

Interest received on securities held for dealing purposes, and associated funding costs, are included within Interest and similar income, and Interest expense and similar charges, respectively.

b) Fee and commission income

The Bank earns fee income from a diverse range of services it provides to its customers. Fee income is accounted for as follows:

i. if the income is earned on the execution of a significant act, it is recognised as revenue when the significant act has been completed (for example, fees arising from negotiating, or participating in the negotiation of, a transaction for a third party, such as the arrangement for the acquisition of securities);
ii. if the income is earned as services are provided, it is recognised as revenue as the services are provided (for example, documentary credit confirmation fees, custody and banking service fees); and
iii. if the income is an integral part of the effective interest rate of a financial instrument, it is recognised as an adjustment to the effective interest rate (for example, loan origination fees) and recorded in interest income (See Note 3a).

The Bank provides certain guarantee facilities which are dependent on uncertain future events. These facilities include surety, fidelity, performance, bid and advance payment bonds. In each case, the guarantees given by the Bank are covered by matching counter-indemnities provided by a third party. Fees and commissions arising from the provision of such services are recognised over the period for which the service is provided.

c) Foreign currencies

The Directors regard Sterling as the currency of the primary economic environment in which the Bank operates. Accordingly, Sterling is regarded as being the functional currency of the Bank, which is also the reporting currency of the Bank.

Transactions in foreign currencies are recorded in Sterling at the rate of exchange prevailing on the date on which the transaction arose. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange ruling at the balance sheet date. Any resulting exchange differences are included in the income statement or, for available for sale assets, in other comprehensive income. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated into the functional currency using the rate of exchange at the date of the initial transaction.

All amounts in £'000s unless otherwise stated

d) Net trading income

Net trading income comprises gains less losses related to trading assets and liabilities, and includes all realised and unrealised fair value changes and foreign exchange differences.

e) Income tax

Income tax on the profit or loss for the year comprises current tax and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised in other comprehensive income, in which case it is recognised there.

Current tax is the tax expected to be payable on the taxable profit for the year, calculated using tax rates enacted or substantially enacted by the balance sheet date, and any adjustment to tax payable in respect of previous years. Current tax assets and liabilities are offset when the Bank intends to settle on a net basis and the legal right to set off exists.

Deferred tax is recognised on temporary differences between the carrying amount of assets and liabilities in the statement of financial position and the amount attributed to such assets and liabilities for tax purposes. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent it is probable that future taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax is calculated using the tax rates expected to apply in the years in which the assets will be realised or the liabilities settled.

Deferred tax relating to actuarial gains and losses arising from defined benefit plans are recognised in other comprehensive income.

Deferred tax relating to fair value re-measurement of available-for-sale investments is recognised in other comprehensive income and is subsequently recognised in the income statement when the related investment is realised.

f) Derivatives and hedge accounting

Derivative assets and liabilities on different transactions are only netted if the transactions are with the same counterparty, a legal right of set-off exists, and the cash flows are intended to be settled on a net basis and assets and liabilities are realised and settled simultaneously.

The method of recognising fair value gains or losses depends on whether the derivative is held for trading, or is designated as a hedging instrument. All gains and losses from changes in the fair value of derivatives held for trading are recognised in the income statement. Derivatives designated as hedges are classified as fair value hedges. Hedge accounting is applied to derivatives designated as hedging instruments provided certain criteria are met.

Hedge accounting

It is the Bank's policy to document, at the inception of a hedging relationship, the relationship between the hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking the hedge. Such policies also require documentation of the assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items attributable to the hedged risks. Interest on designated qualifying hedges is included in Net interest income.

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.

If the hedging relationship no longer meets the criteria for hedge accounting, the cumulative adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to the income statement over the residual period to maturity. Where the adjustment relates to the carrying amount of a hedged available-for-sale equity security, this remains in equity until the disposal of the equity security.

Hedge effectiveness testing
To qualify for hedge accounting, IAS39 requires that at the inception of the hedge and throughout its life, each hedge must be expected to be highly effective (prospective effectiveness). Actual effectiveness (retrospective effectiveness) must also be demonstrated on an ongoing basis. The documentation of each hedging relationship sets out how the effectiveness of the hedge is assessed. The method adopted by the Bank for assessing hedge effectiveness will depend on its risk management strategy.

For prospective effectiveness, the hedging instrument must be expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated. For actual effectiveness, the changes in fair value or cash flows must offset each other in the range of 80% to 125% for the hedge to be deemed effective.

g) Financial assets

The Bank has classified its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. Management has determined the classification of its investments on adoption of IFRS at 1 January 2005, and thereafter on initial recognition. The Bank classified no assets as held-to-maturity investments in 2013 or 2014.

i. Financial assets at fair value through profit and loss
This category comprises three sub-categories:

- financial assets held for trading;
- financial assets designated at fair value through profit and loss at inception as part of a fair value hedge; and
- derivatives, unless they are designated as hedges.

ii. Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term. They arise when the Bank provides money, goods or services to a debtor with no intention of trading the receivable.

iii. Available-for-sale
Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

h) Fair value measurement

Derivatives
Derivatives are recognised on trade date, being the date on which an irrevocable commitment to enter into a contract is executed. They are subsequently carried, at fair value. Fair values are obtained from quoted market prices in active markets, or by using valuation techniques, including recent market transactions, where an active market does not exist. Valuation techniques include discounted cash flow models and option pricing models as appropriate. All derivatives are classified as assets when their fair value is positive or as liabilities when their fair value is negative.

In the normal course of business, the fair value of a derivative on initial recognition is considered to be the transaction price (i.e. the fair value of the consideration given or received). However, in certain circumstances the fair value of an instrument will be evidenced by comparison with other observable current market

All amounts in £'000s unless otherwise stated

transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets, including interest rate yield curves, option volatilities and currency rates. When such evidence exists, the Bank recognises a trading profit or loss on inception of the derivative. If observable market data is not available, the initial increase in fair value indicated by the valuation model, but based on unobservable inputs, is not recognised immediately in the income statement but is recognised over the life of the transaction on an appropriate basis, or recognised in the income statement when the inputs become observable, or when the transaction matures or is closed out.

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract, the embedded derivative meets the definition of a derivative, and the combined contract is not designated at fair value through profit and loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement.

Financial assets

Purchases and sales of financial assets which are available-for-sale are recognised on settlement date, being the date on which the Bank makes payment to receive the asset. Loans are recognised when cash is advanced to the borrowers. Financial assets are initially recognised at fair value plus directly attributable transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets at fair value through profit and loss are recognised on trade date, being the date on which an irrevocable commitment to enter into a contract is executed.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Gains and losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are included in the income statement in the year in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised in income to the extent that the change in value arises from a fair value hedging relationship with the balance recognised directly in equity, until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in equity is recognised in profit and loss. However, interest calculated using the effective interest method is recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement when the Bank's right to receive payment is established.

The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Bank establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

i) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

j) De-recognition of financial assets and liabilities

Financial assets are de-recognised when the rights to receive cash flows from the assets have expired; or where the Bank has transferred its contractual right to receive the cash flows of the financial assets and either:

i. substantially all the risks and rewards of ownership have been transferred;
ii. substantially all the risks and rewards have neither been retained nor transferred but control is not retained; or
iii. the asset has been substantially modified, so that an old asset is derecognised and a new one recognised in its place.

All amounts in £'000s unless otherwise stated

Financial liabilities are de-recognised when they are extinguished, i.e. when the obligation is discharged or cancelled or expired.

k) Impairment of financial assets

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

i. significant financial difficulty of the issuer or obligor;
ii. a breach of contract, such as default or delinquency in interest or principal payments;
iii. the Bank granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
iv. it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
v. the disappearance of an active market for that financial asset because of financial difficulties; or
vi. observable data indicating that there is a measurable decrease in the estimated future cashflows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
    - adverse changes in the payment status of borrowers in the portfolio; or
    - national or local economic conditions that correlate with defaults on the assets in the portfolio.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a portfolio of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The Bank also considers whether to make collective provision for impairments that have been incurred but not yet reported, but has recognised no such impairment for the reporting year.

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 "watchlist", 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 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 has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

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

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

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

Available-for-sale assets
The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or a portfolio of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss, is removed from equity and recognised in the income statement.

l) Reverse repos

Securities purchased under commitments to resell (“reverse repos”) are not recognised on the balance sheet and an asset is recorded in respect of the initial consideration paid. Non trading reverse repos are measured at amortised cost. The difference between the purchase and resale price is treated as interest and recognised in net interest income over the life of the agreement.

m) Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation calculated on a straight line basis to write off the assets over their estimated useful lives as follows:

Long leasehold premises and improvements	
Leasehold improvements	10 years
Leasehold premises	50 years
Other assets	
Equipment	3 or 5 years
Motor vehicles	5 years
Furniture, fixtures and fittings	10 years

Leasehold premises and leasehold land comprise the Bank’s principal office at 8-10 Mansion House Place, London, EC4N 8BJ. The premises, but not the land, are categorised as a finance lease, capitalised and depreciated over 50 years. All property plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset’s carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial year in which they are incurred. The assets’ residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset’s carrying amount is written down immediately to its recoverable amount if the asset’s carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset’s fair value less costs to sell and value in use. Gains and losses on disposals are included in the income statement.

All amounts in £'000s unless otherwise stated

n) Intangible assets

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software, including directly incurred internal costs. Costs associated with maintaining computer software programs are recognised as an expense as incurred.

The capitalised cost of computer software is amortised over 3 or 5 years. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

o) Leases

Lease agreements which transfer substantially all the risks and rewards of the ownership of assets are classified as finance leases and all other lease agreements are classified as operating leases. The Bank's lease agreements relate to its main office at 8-10 Mansion House Place, London EC4N 8BJ. The main lease agreement whereby the Bank is the lessee is treated as a finance lease in respect of the leasehold premises, but an operating lease in respect of the leasehold land. The Bank also sub-lets a part of the office. This sub-lease agreement, in which the Bank acts as lessor, is classified as an operating lease.

The cost of the finance lease is based upon the lease premium paid upon inception of the lease. The premises element of the premium is capitalised and depreciated over its useful economic life. Impairment testing of the asset is carried out as if the premises were owned by the Bank.

The cost of the leasehold land is also based upon the lease premium paid upon inception of the lease. The land element of the premium is charged to profit and loss over the lease term with the amount not yet charged shown as a prepayment. This charge, together with the ground rent charge, is charged within administrative expenses.

The minimum non-cancellable payments and receipts in respect of operating leases are disclosed. In respect of payment commitments, these are the minimum ground rent payments due. In respect of receipts from the sub-lessee, these are minimum rent and service charge receipts until the date of the break clause in the sub-lease.

p) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents include unrestricted highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Such investments are normally those with less than three months' maturity from the date of acquisition, and include cash, notes and coin, treasury bills and other eligible bills, professional market placements to banks, amounts held at correspondents and certificates of deposit.

q) Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are determined by discounting the expected future cash flows at a pre-tax discount rate that reflects the current market assessment of the time value of money and, where appropriate, the risks specific to the liability.

All amounts in £'000s unless otherwise stated

r) Contingent liabilities

Contingent liabilities are possible obligations whose existence depends on the outcome of uncertain future events or those present obligations where the outflows of resources are uncertain or cannot be measured reliably. Contingent liabilities are not recognised in the financial statements but are disclosed unless they are remote.

s) Financial guarantee contracts

Where the Bank enters into financial guarantee contracts to guarantee the indebtedness of other companies within the Bank, the Bank considers these to be insurance arrangements and accounts for them as such. In this respect, the Bank treats the guarantee contract as a contingent liability until such time as it becomes probable that the Bank will be required to make a payment under the guarantee.

t) Employee benefits

The Bank provides both a defined benefit and a defined contribution pension plan for its staff. In each case, the assets of the schemes are held separately from those of the Bank. A defined benefit plan is a pension plan

that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. A defined contribution plan is a pension plan under which the Bank pays fixed contributions into a separate entity, and where the Bank has no legal or constructive obligations to pay further contributions.

The net asset or liability recognised in the statement of financial position in respect of the defined benefit pension plan is the fair value of the plan assets less the present value of the defined benefit obligation at the balance sheet date. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows. The discount rate is the yield at the reporting date on AA credit-rated bonds that have maturity dates approximating the terms of the Bank's obligations.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income. Other gains and losses are recognised in the income statement.

For the defined contribution plan, the Bank pays contributions to the BACB Defined Contribution Retirement Benefit Scheme. The Bank has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

u) Debt securities in issue

Debt securities in issue are recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost and any difference between proceeds net of transaction costs and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

If the Bank purchases its own debt, it is removed from the statement of financial position and the difference between the carrying amount of a liability and the consideration paid is included in net trading income.

v) Share capital

Share issue costs

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

All amounts in £'000s unless otherwise stated

Dividends on ordinary shares
Dividends are recognised in equity in the year in which they are approved by the Bank's shareholders.

w) Segmental reporting

An operating segment is a component of the Bank that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Bank's other segments. All operating segments are reviewed regularly by the Bank's Executive Management to make decisions about resources to be allocated to the segment, and to assess its performance, and for which discrete financial information is available.

x) Earnings per share

The Bank presents earnings per share data (in the Financial Highlights only) for its ordinary shares by dividing the profit or loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding in the year.

4. Risk management

a) 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 risks accepted are 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.

b) 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 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 Chief Operating Officer has overall responsibility for the adequacy and effectiveness of the first line of defence and management of its day-to-day operation.	Establishes the policies and tools required by the Governance Standards to provide the framework for managing each principal risk type and provides oversight and monitoring over the first line risks and controls. This comprises: • Risk Management Function that facilitates and monitors the implementation of effective risk management practices by operational management and assists risk owners in defining the target risk exposure and reporting adequate risk related information throughout the organisation; • Compliance Function that monitors compliance with applicable laws and regulations. The Chief Risk Officer is responsible for ensuring the adequacy of the Second Line of defence. He is supported by a team of specialist compliance, credit, market and operational risk professionals.	Comprises Internal Audit and provides independent assurance on the effectiveness of governance, risk management and internal controls, including the manner in which the first and second lines of defence achieve risk management and control objectives. The Internal Audit function is responsible for assessing: • management's processes for ensuring compliance with controls, through periodic reviews of businesses; • management's remediation plans in respect of control breaches; and • the effectiveness of the Bank's control and assurance processes. The Board has appointed PricewaterhouseCoopers to provide internal audit services. They have an independent reporting line to the chairman of ARC.

All amounts in £'000s unless otherwise stated

c) Principal Risks

The Bank's principal risks and uncertainties as at the reporting date are referenced in the Strategic Report on pages 15 – 16 and these specific risks are being addressed by management.

The Bank has identified 9 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 RISK

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

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

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

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

Risk Mitigation:

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

- embarking on a process to establish itself as a high performance organisation with a clearly understood strategy;
- 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.

ii) 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 the Bank may suffer as a result of its failure to comply with laws, regulations, its own policies, code of conduct, and standards. The Bank's principal sources of compliance risk are:

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

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

Compliance risk is overseen by the Audit and Risk Committee with a risk based plan submitted at least annually. Mitigation controls along with action and remediation plans are overseen by the Governance and Control Committee.

All amounts in £'000s unless otherwise stated

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

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

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

iii) CREDIT AND COUNTRY RISKS

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

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

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

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

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

- development and oversight of the credit and country risk management frameworks;
- developing credit and country risk policies, tools and frameworks across the business, including grading systems;
- managing effective credit and country risk assessment strategies and independent challenge of requests from the 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.

All amounts in £'000s unless otherwise stated

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 where 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 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:

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

Credit risk quantitative disclosures

At 31 December 2014 the value of cash collateral held and utilised by the Bank on terms under which set off can be applied in the event of default by the counterparty was £230,220,000 (2013: £213,498,000). This includes the utilised portion of a US$250,000,000 deposit placed by Libyan Foreign Bank as collateral for the obligations of itself and affiliated entities. Collateral may also be taken in the form of personal guarantees given by individuals associated with the obligating counterparty, but no value is ascribed in these circumstances. Other mitigants include insurance, back-to-back commitments from financial institutions of acceptable quality, or security.

Credit risk is assessed below using various analyses of the following balances disclosed in these financial statements:

	2014	*2013*
Cash, notes and coins	633	*223*
Financial investments: debt securities (note 14)	1,106,581	*752,532*
Loans and advances to banks	1,293,790	*1,156,909*
Less: bills discounted (note 15) *	(51,295)	*(64,555)*
Loans and advances to customers (note 16)	471,375	*450,839*
Add: off balance sheet exposures impaired by provision on balance sheet (below)	1,360	-
Derivatives	567	*1,271*
Total on balance sheet	**2,823,011**	***2,297,219***
Contingent liabilities (note 29)	93,687	*97,193*
Other commitments (note 30)	463,896	*590,862*
Less: off balance sheet exposures impaired by provision on balance sheet	(1,360)	-
Total off balance sheet	**556,223**	***688,055***
Total	**3,379,234**	***2,985,274***

Notes:
* Bills discounted represent a prepayment of off balance sheet Bank obligations and therefore are excluded from balance sheet totals to avoid double counting of exposures.

All amounts in £'000s unless otherwise stated

The Bank uses a credit grading system, to facilitate the monitoring of the portfolio and individual exposures. Credit risks assessed in accordance with that methodology are shown below.

31 December 2014 Grade	Contingent liabilities and other commitments	Cash, loans and advances, debt securities and derivatives	Maximum exposure to credit risk	Cash collateral	Net credit exposure
Grade 1 (Prime)	2,785	1,001,765	1,004,550	-	1,004,550
Grade 2 (High)	61	11,251	11,312	-	11,312
Grade 3 (High)	11,659	73,626	85,285	(13,578)	71,707
Grade 4 (High)	27,829	158,675	186,504	(14,940)	171,564
Grade 5 (Upper Medium)	61,377	302,375	363,752	-	363,752
Grade 6 (Upper Medium)	33,740	354,550	388,290	-	388,290
Grade 7 (Upper Medium)	25,895	255,483	281,378	(40,875)	240,503
Grade 8 (Lower Medium)	74,890	361,907	436,797	(2,192)	434,605
Grade 9 (Lower Medium)	161,136	159,255	320,391	(116,244)	204,147
Grade 10 (Non Investment)	27,846	58,859	86,705	(869)	85,836
Grade 11 (Speculative)	30,808	73,579	104,387	(8,853)	95,534
Total acceptable risk	**458,026**	**2,811,325**	**3,269,351**	**(197,551)**	**3,071,800**
Grade 12 (Watchlist)	47,157	45,048	92,205	(32,669)	59,536
Grade 13 (Substandard)	-	-	-	-	-
Grade 14 (Doubtful)	1,105	36,895	38,000	-	38,000
Less: impairments	(1,360)	(22,755)	(24,115)	-	(24,115)
Grade 15 (Loss)	-	-	-	-	-
Ungraded	-	3,793	3,793	-	3,793
Total risk	**504,928**	**2,874,306**	**3,379,234**	**(230,220)**	**3,149,014**
Discounted bills	51,295	(51,295)	-	-	-
Total credit exposures	**556,223**	**2,823,011**	**3,379,234**	**(230,220)**	**3,149,014**

All amounts in £'000s unless otherwise stated

31 December 2013 Grade	*Contingent liabilities and other commitments*	*Cash, loans and advances, debt securities and derivatives*	*Maximum exposure to credit risk*	*Cash collateral*	*Net credit exposure*
Grade 1 (Prime)	*2,980*	*454,019*	*456,999*	*-*	*456,999*
Grade 2 (High)	*56*	*3,278*	*3,334*	*-*	*3,334*
Grade 3 (High)	*211*	*81,466*	*81,677*	*-*	*81,677*
Grade 4 (High)	*9,990*	*259,162*	*269,152*	*(9,236)*	*259,916*
Grade 5 (Upper Medium)	*88,552*	*338,217*	*426,769*	*-*	*426,769*
Grade 6 (Upper Medium)	*54,922*	*258,582*	*313,504*	*(40,390)*	*273,114*
Grade 7 (Upper Medium)	*93,758*	*327,088*	*420,846*	*(57,171)*	*363,675*
Grade 8 (Lower Medium)	*208,066*	*226,403*	*434,469*	*(26,120)*	*408,349*
Grade 9 (Lower Medium)	*79,184*	*228,567*	*307,751*	*(12,681)*	*295,070*
Grade 10 (Non Investment)	*117,665*	*48,232*	*165,897*	*(62,924)*	*102,973*
Grade 11 (Speculative)	*22,547*	*48,842*	*71,389*	*(4,823)*	*66,566*
Total acceptable risk	***677,931***	***2,273,856***	***2,951,787***	***(213,345)***	***2,738,442***
Grade 12 (Watchlist)	*10,124*	*8,218*	*18,342*	*(153)*	*18,189*
Grade 13 (Substandard)	*-*	*9,026*	*9,026*	*-*	*9,026*
Grade 14 (Doubtful)	*-*	*25,113*	*25,113*	*-*	*25,113*
Less: impairments	*-*	*(18,994)*	*(18,994)*	*-*	*(18,994)*
Grade 15 (Loss)	*-*	*-*	*-*	*-*	*-*
Total credit exposures	***688,055***	***2,297,219***	***2,985,274***	***(213,498)***	***2,771,776***

The Bank provides facilities to in excess of 350 counterparties encompassing exposures in over 70 countries and territories (2013: in excess of 350 counterparties encompassing exposures in over 60 countries and territories). Regional concentrations of credit risk arising from operations were as follows:

31 December 2014	**Contingent liabilities and other commitments**	**Cash, loans and advances, debt securities and derivatives**	**Total**
United Kingdom	30,198	485,492	515,690
Europe excluding UK	33,649	914,993	948,642
Libya	169,259	15,040	184,299
Other Middle East and Africa	298,881	595,956	894,837
Other Countries	25,596	832,715	858,311
Impairments	(1,360)	(21,185)	(22,545)
Maximum exposure to credit risk	**556,223**	**2,823,011**	**3,379,234**

31 December 2013	*Contingent liabilities and other commitments*	*Cash, loans and advances, debt securities and derivatives*	*Total*
United Kingdom	*35,359*	*687,497*	*722,856*
Europe excluding UK	*41,245*	*628,509*	*669,754*
Libya	*209,869*	*10,593*	*220,462*
Other Middle East and Africa	*373,278*	*632,743*	*1,006,021*
Other Countries	*28,304*	*356,871*	*385,175*
Impairments	*-*	*(18,994)*	*(18,994)*
Maximum exposure to credit risk	***688,055***	***2,297,219***	***2,985,274***

All amounts in £'000s unless otherwise stated

By industry, concentrations of credit risk were as follows:

	2014	*2013*
Financial institutions (including central banks)		
Banks	1,734,322	*2,076,689*
UK building societies	3,032	*3,149*
Multilateral financial institutions	200,856	*9,434*
Other financial intermediaries	57,943	*21,533*
	1,996,153	***2,110,805***
Corporates		
Commodities	60,680	*32,849*
Construction and engineering	14,899	*31,651*
Energy	273,165	*216,168*
Non-bank credit grantors	10,626	*16,911*
Transport and storage	11,955	*31,741*
Other	142,470	*346,304*
	513,795	***675,624***
Public administration	**858,872**	***217,839***
Other Entities	**34,529**	-
Impairments	(24,115)	*(18,994)*
Maximum exposure to credit risk	**3,379,234**	***2,985,274***

All amounts in £'000s unless otherwise stated

iv) MARKET AND LIQUIDITY RISKS

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

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

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

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

Market and liquidity risk management is overseen by the Asset and Liability Committee which reviews and makes recommendations via 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 arising from banking book positions, which in the absence of those contracts, would result in unwanted exposures, or excesses to market risk limits. The Bank does not deal in complex derivative transactions.

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

All amounts in £'000s unless otherwise stated

The Bank's overall net short position (on foreign exchange open positions and cash arising on settled trades) at 31 December 2014 (being the sterling equivalent value of all the currencies where the currency obligations were higher than currency receivables) was £814,000 (2013: £549,000). Were these currencies to strengthen by 5% against the remaining currencies, then the Bank would lose £41,000 (2013: £27,000). Overall net short positions as determined daily were as follows:

	2014	*2013*
Maximum	5,335	*5,419*
Minimum	272	*275*
Average	985	*854*

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 2014, PVBP amounted to £19,156 (2013: £25,849). PVBP (calculated on a daily basis) was as follows:

	2014	*2013*
	£	*£*
Maximum	33,074	*27,946*
Minimum	8,396	*13,772*
Average	16,768	*20,232*

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 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).

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.

The repricing characteristics of the Bank's statement of financial position are set out below:

All amounts in £'000s unless otherwise stated

31 December 2014	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non- interest bearing	Total
Financial investments	398,862	440,870	184,323	82,526	-	15,681	1,122,262
Loans and advances to banks	1,016,212	272,592	4,986	-	-	-	1,293,790
Loans and advances to customers	218,457	163,737	80,565	8,616	-	-	471,375
Other assets	-	-	-	-	-	28,990	28,990
Total assets	**1,633,531**	**877,199**	**269,874**	**91,142**	**-**	**44,671**	**2,916,417**
Deposits from banks	1,454,924	245,452	207,957	29,803	-	-	1,938,136
Other deposits	577,124	92,268	3,869	12,810	-	-	686,071
Subordinated liabilities	60,519	-	-	-	-	-	60,519
Other liabilities and shareholders' funds	-	-	-	-	-	231,691	231,691
Total equity and liabilities	**2,092,567**	**337,720**	**211,826**	**42,613**	**-**	**231,691**	**2,916,417**
Derivatives (at contract value)	-	-	-	-	-	-	
Receivable	48,523	17,304	24,356	1,160	-	-	
Payable	52,650	-	17,625	21,070	-	-	
Overall gap	(463,163)	556,783	64,779	28,619	-	(187,020)	
Reverse Cumulative gap	**187,018**	**650,181**	**93,398**	**28,619**	**-**	**(187,020)**	

31 December 2013	*Up to 1 month*	*1-3 months*	*3-12 months*	*1-5 years*	*Over 5 years*	*Non- interest bearing*	*Total*
Financial investments	*161,597*	*281,295*	*193,919*	*102,994*	*6,048*	*20,520*	*766,373*
Loans and advances to banks	*838,231*	*248,306*	*70,702*	*-*	*-*	*(330)*	*1,156,909*
Loans and advances to customers	*151,978*	*197,933*	*119,612*	*302*	*-*	*(18,986)*	*450,839*
Other assets	*-*	*-*	*-*	*-*	*-*	*28,027*	*28,027*
Total assets	***1,151,806***	***727,534***	***384,233***	***103,296***	***6,048***	***29,231***	***2,402,148***
Deposits from banks	*789,167*	*448,307*	*121,959*	*92,711*	*-*	*134*	*1,452,278*
Other deposits	*537,831*	*102,059*	*34,219*	*-*	*-*	*381*	*674,490*
Subordinated liabilities	*-*	*57,141*	*-*	*-*	*-*	*-*	*57,141*
Other liabilities and shareholders' funds	*-*	*-*	*-*	*-*	*-*	*218,239*	*218,239*
Total equity and liabilities	***1,326,998***	***607,507***	***156,178***	***92,711***	***-***	***218,754***	***2,402,148***
Derivatives (at contract value)							
Receivable	*41,574*	*19,826*	*4,923*	*51,064*	*-*	*-*	
Payable	*81,803*	*-*	*2,117*	*27,918*	*6,048*	*-*	
Overall gap	*(215,421)*	*139,853*	*230,861*	*33,731*	*-*	*(189,523)*	
Reverse Cumulative gap	***189,024***	***404,445***	***264,592***	***33,731***	***-***	***(189,523)***	

Non-interest bearing items comprise share capital, accumulated impairments, tangible and intangible assets and other sundry debtors and creditors not subject to interest. Such net non-interest bearing liabilities are used to fund the Bank's assets by way of internal placements, and give rise to a structural interest rate position. Gap limits available to the Bank's dealers for the management of interest rate risk in the banking book are stated net of these placements.

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

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 repricings, such as typically arise from fixed rate loans or deposits, are converted into shorter periods as can be accommodated within the gap limits.

All amounts in £'000s unless otherwise stated

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 carried out under the rules of the Bank's regulator. The Bank manages its exposure to liquidity risk by ensuring that it has holds a buffer of high quality liquid assets that will enable it to meet its obligations as they fall due under normal and a range of stressed conditions. In addition the Bank monitors the ratio of its longer dated assets to capital and longer term funding to reduce the liquidity risks deriving from maturity transformation.

The table below analyses the Bank's assets and liabilities into relevant maturity buckets based on the remaining period at the balance sheet date to the contractual maturity date.

At 31 December 2014	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Undated	Total
Financial investments	225,408	297,689	236,562	354,986	-	7,617	1,122,262
Loans and advances to banks	988,402	169,301	119,162	9,608	-	7,317	1,293,790
Loans and advances to customers	58,023	27,944	116,067	210,853	58,488	-	471,375
Other assets	-	-	-	-	-	28,990	28,990
Total assets	**1,271,833**	**494,934**	**471,791**	**575,447**	**58,488**	**43,924**	**2,916,417**
Deposits from banks	1,258,509	213,355	308,289	157,915	-	68	1,938,136
Other deposits	577,124	92,268	3,869	12,810	-	-	686,071
Subordinated liabilities	-	-	-	-	60,519	-	60,519
Other liabilities and shareholders' funds	-	-	-	-	-	231,691	231,691
Total equity and liabilities	**1,835,633**	**305,623**	**312,158**	**170,725**	**60,519**	**231,759**	**2,916,417**
Net liquidity gap	**(563,800)**	**189,311**	**159,633**	**404,722**	**(2,031)**	**(187,835)**	

At 31 December 2013	*Up to 1 month*	*1-3 months*	*3-12 months*	*1-5 years*	*Over 5 years*	*Undated*	*Total*
Financial investments	*67,482*	*129,481*	*257,323*	*285,518*	*6,048*	*20,522*	*766,373*
Loans and advances to banks	*814,190*	*194,834*	*130,221*	*17,993*	*-*	*(329)*	*1,156,909*
Loans and advances to customers	*42,839*	*37,928*	*120,406*	*198,268*	*70,383*	*(18,985)*	*450,839*
Other assets	*-*	*-*	*-*	*-*	*-*	*28,026*	*28,027*
Total assets	***924,511***	***362,243***	***507,950***	***501,779***	***76,431***	***29,234***	***2,402,148***
Deposits from banks	*789,167*	*448,307*	*91,720*	*122,951*	*-*	*133*	*1,452,278*
Other deposits	*537,831*	*102,059*	*34,219*	*-*	*-*	*381*	*674,490*
Subordinated liabilities	*-*	*-*	*-*	*-*	*57,141*	*-*	*57,141*
Other liabilities and shareholders' funds	*-*	*-*	*-*	*-*	*-*	*218,239*	*218,239*
Total equity and liabilities	***1,326,998***	***550,366***	***125,939***	***122,951***	***57,141***	***218,753***	***2,402,148***
Net liquidity gap	***(402,487)***	***(188,123)***	***382,011***	***378,828***	***19,290***	***(189,519)***	

All amounts in £'000s unless otherwise stated

v) OPERATIONAL AND PROJECT RISKS

Definitions:
Operational Risk is the risk of loss resulting from inadequate or failed processes, people and systems or from external events. 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. From a Bank-wide perspective project risk management falls within the overall operational risk framework.

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

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

The Bank has appointed a Chief Controls Officer in Line 1 reporting to the Chief Operating Officer. The Chief Controls Officer has day to day responsibility for assuring the completeness and performance of the Bank's operational risk control processes. He 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 2014 amounted to £458,000 (2013: £161,000). This included £439,000 (2013: £nil) out of £676,000 (2013: £141,000) which is also classified as part of "loss on sale or impairment of tangible and intangible assets" (see Note 11).

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

- identification of mission critical processes and potential points of failure, and ensuring adequate controls are in place;
- IT technical standards and change control procedures;
- HR policies, processes and controls;
- implementing an information security management system framework, consistent with the ISO 27000 family of standards;
- business continuity planning;
- escalation and reporting of operational incidents to ensure that timely actions are taken to resolve the incident and root cause analysis performed to mitigate the likelihood of recurrence; and

- insurance policies to cover relevant risk exposures. Insurance is viewed as complementary to and not a replacement for a robust control environment.

5. Critical accounting estimates and judgements in applying accounting policies

The Bank makes estimates and assumptions that may affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Valuation of Financial Instruments
The Bank's accounting policy on fair value measurements is discussed in Note 3h. The judgements made in assessing valuations of financial instruments are described in Note 7.

Impairment losses on loans and advances
The Bank reviews its loan portfolios to assess impairment at least on an annual basis. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from individual loans and advances. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a portfolio, or national or local economic conditions that correlate with defaults on assets in the portfolio. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

At 31 December 2014 loans to nine customers were impaired *(2013: eight loans)*. The Bank is not confident that any future cash flows will arise in respect of four of those loans *(2013: six loans)*, and they are therefore considered to be fully impaired. Any cashflows which do arise in the future will be recognised in income on receipt.

Cashflows in respect of the remaining five loans are the subject of continuing negotiations between lending syndicates and the borrowers, the outcomes of which are uncertain at 31 December 2014. Assumptions have been made regarding the outcome of these negotiations, and hence future cashflows based on information regarding the value of underlying assets and businesses, and on indicative secondary market pricing where available.

If recoveries on the remaining five impaired loan are 10% lower than has been estimated, then the amount of the impairment which would have been charged in 2014 in respect of those loans would have been increased by £2,419,000 *(2013: £430,000 in respect of two loans)*.

Pension fund
The Bank assesses the value of its defined benefit pension fund assets and obligations in accordance with IAS19. The standard requires that certain assumptions be made which are set out in Note 24. Note 24 also sets out an analysis of the sensitivity of the defined benefit obligations to changes in certain assumptions.

Software
Computer software is included in intangible assets. It includes purchased software. It may also include, on an exceptional basis for specific projects, internal development costs. Costs incurred in the ongoing maintenance of software are expensed immediately as incurred.

Other
The Bank's Directors are not aware of any other judgement areas that would materially affect the income statement.

All amounts in £'000s unless otherwise stated

6. Analysis of financial assets and liabilities by measurement basis

Financial assets and financial liabilities are measured on an ongoing basis either at fair value or at amortised cost. The summary of significant accounting policies in Note 3 describes how the classes of financial instruments are measured, and how income and expense, including fair value gains and losses, are recognised. The following table analyses the financial assets and liabilities in the statements of financial position by the class of financial instrument to which they are assigned and therefore by the measurement basis.

31 December 2014	Loans and receivables	Financial assets and liabilities at amortised cost	**Total assets and liabilities held at amortised cost**	Available for sale	At fair value through profit and loss	Derivatives designated as fair value hedging instruments	**Total assets and liabilties held at fair value**	**Total**
Assets								
Cash, notes and coins	-	633	**633**	-	-	-	**-**	**633**
Financial investments	-	-	**-**	1,103,769	18,493	-	**1,122,262**	**1,122,262**
Loans and advances to banks	1,293,790	-	**1,293,790**	-	-	-	**-**	**1,293,790**
Loans and advances to customers	461,238	-	**461,238**	-	10,137	-	**10,137**	**471,375**
Derivatives	-	-	**-**	-	552	15	**567**	**567**
Total financial assets	1,755,028	633	**1,755,661**	1,103,769	29,182	15	**1,132,966**	**2,888,627**
Total non-financial assets								**27,790**
Total assets								**2,916,417**
Liabilities								
Deposits from banks	-	1,890,095	**1,890,095**	-	48,041	-	**48,041**	**1,938,136**
Other deposits	-	686,071	**686,071**	-	-	-	**-**	**686,071**
Derivatives	-	-	**-**	-	784	558	**1,342**	**1,342**
Subordinated liabilities	-	60,519	**60,519**	-	-	-	**-**	**60,519**
Total financial liabilities	-	2,636,685	**2,636,685**	-	48,825	558	**49,383**	**2,686,068**
Total non-financial liabilities								**230,349**
Total equity and liabilities								**2,916,417**

31 December 2013	*Loans and receivables*	*Financial assets and liabilities at amortised cost*	***Total assets and liabilities held at amortised cost***	*Available for sale*	*At fair value through profit and loss*	*Derivatives designated as fair value hedging instruments*	***Total assets and liabilties held at fair value***	***Total***
Assets								
Cash, notes and coins	*-*	*223*	***223***	*-*	*-*	*-*	***-***	***223***
Financial investments	*-*	*-*	***-***	*737,332*	*29,041*	*-*	***766,373***	***766,373***
Loans and advances to banks	*1,156,909*	*-*	***1,156,909***	*-*	*-*	*-*	***-***	***1,156,909***
Loans and advances to customers	*436,483*	*-*	***436,483***	*-*	*14,356*	*-*	***14,356***	***450,839***
Derivatives	*-*	*-*	***-***	*-*	*1,257*	*14*	***1,271***	***1,271***
Total financial assets	*1,593,392*	*223*	***1,593,615***	*737,332*	*44,654*	*14*	***782,000***	***2,375,615***
Total non-financial assets								***26,533***
Total assets								***2,402,148***
Liabilities								
Deposits from banks	*-*	*1,370,935*	***1,370,935***	*-*	*81,343*	*-*	***81,343***	***1,452,278***
Other deposits	*-*	*674,490*	***674,490***	*-*	*-*	*-*	***-***	***674,490***
Derivatives	*-*	*-*	***-***	*-*	*147*	*867*	***1,014***	***1,014***
Subordinated liabilities	*-*	*57,141*	***57,141***	*-*	*-*	*-*	***-***	***57,141***
Total financial liabilities	*-*	*2,102,566*	***2,102,566***	*-*	*81,490*	*867*	***82,357***	***2,184,923***
Total non-financial liabilities								***217,225***
Total equity and liabilities								***2,402,148***

All amounts in £'000s unless otherwise stated

Of the total £29,182,000 *(2013: £44,654,000)* assets at fair value through the profit and loss account, £18,910,000 *(2013: £29,655,000)* represents financial assets and derivatives held for trading purposes, and £10,272,000 *(2013: £14,999,000)* financial assets designated as such at inception. Of the total £48,826,000 *(2013: £81,490,000)* liabilities at fair value through the profit and loss account, £597,000 (*2013: £147,000)* represents financial liabilities and derivatives held for trading purposes, and £48,229,000 *(2013: £81,343,000)* financial liabilities designated as such at inception.

7. Fair values of financial assets and liabilities

a) Financial assets and liabilities held at amortised cost

Observable market prices are not available for many of the Bank's financial assets and liabilities not measured at fair value. The fair values of such assets are required to be estimated and disclosed, and the table below summarises the carrying amounts and estimated fair values of those financial assets and liabilities. Bid prices are used to determine fair values of assets, whereas offer prices are applied for liabilities.

The fair values set out below are based on indices for proxy assets and liabilities not already carried at fair value which are considered to be similar, but not identical, to those held by the Bank. Further, these fair values have been determined using internal models, the results of which might not be equivalent to those which would be arrived at between willing buyer and willing seller. Such models are characterised as giving rise to "Level 3" type valuations, including inputs which are unobservable, or based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

	31 December 2014		*31 December 2013*	
	Carrying value (note 6)	Fair value	*Carrying value (note 6)*	*Fair value*
Financial Assets				
Cash, notes and coins	633	633	*223*	*223*
Loans and advances to banks	1,293,790	1,293,586	*1,156,909*	*1,156,974*
Loans and advances to customers	461,238	458,775	*436,483*	*426,730*
Financial Liabilities				
Deposits from banks	1,890,095	1,890,312	*1,370,935*	*1,371,590*
Other deposits	686,071	685,937	*674,490*	*674,650*
Subordinated liabilities	60,519	48,108	*57,141*	*43,863*

Loans and advances to banks and customers

Loans and advances to banks include professional market placements and other loans and advances, net of accumulated impairments.

The estimated fair value of professional market placements (which are for terms up to one year) is based on discounted cash flows using prevailing market interest rates for the relevant periods.

The estimated fair value of term and real estate lending is derived by comparing the actual yields being received on loans advanced by the Bank with observed yields from corporate and financial bond indices considered to be of similar credit quality and duration. At 31 December 2014 observed market yields for those indices were higher than those being achieved, and as a result the estimated fair market value of the loans at that date represents an overall discount to their carrying value as shown above. The Bank has no current intention of disposing of any of these loans, and accordingly, in the opinion of the directors, the amount of the discount is not indicative of an impairment which should be recognised through the Bank's accounts. Loans and advances which are impaired are stated at their book value without further adjustment.

All amounts in £'000s unless otherwise stated

Deposits
The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand. The estimated fair value of fixed interest-bearing deposits and other borrowings without a quoted market price is based on discounted cash flows using market interest rates for debts with similar remaining maturity.

The market interest and exchange rates as at year-end for the principal currencies in which the Bank has assets and liabilities, and by reference to which assets and liabilities have been valued, were as follows:

	31 December 2014			*31 December 2013*		
	Sterling	US Dollars	Euro	*Sterling*	*US Dollars*	*Euro*
Interest rates						
3 month	0.55%	0.32%	0.02%	*0.50%*	*0.23%*	*0.23%*
6 month	0.74%	0.48%	0.09%	*0.59%*	*0.31%*	*0.32%*
1 year	1.01%	0.60%	0.26%	*0.86%*	*0.56%*	*0.47%*
5 year	1.45%	1.79%	0.36%	*1.83%*	*1.65%*	*1.13%*
Exchange rates	1.0000	1.5612	1.2845	*1.0000*	*1.6535*	*1.2005*

Subordinated liabilities
Subordinated liabilities represent term obligations. The obligations are not quoted, and a valuation has been estimated using discounted cash flow techniques based on yields observed in the market for subordinated instruments issued by other similar organisations with similar credit rating.

As other financial institutions use different valuation methodologies and assumptions in determining fair values, comparisons of fair values between financial institutions may not be meaningful and users are advised to exercise caution when using this data.

Cash, notes and coins
Fair value is disclosed as being the same as carrying value for cash, notes and coins given the nature of the assets.

b) Financial assets and liabilities held at fair value
The majority of the Bank's financial instruments measured at fair value are valued using quoted market prices or market standard valuation techniques based on observable market data.

The Bank measures fair values using the following fair value hierarchy that reflects the significance of inputs used in making the measurements.

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category comprises instruments valued using reference to quoted market data such as yield curves.
- Level 3: Valuation techniques using significant unobservable inputs. This category comprises equity investments valued by reference to published accounts or third party valuations.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Bank determines fair values using valuation techniques.

All amounts in £'000s unless otherwise stated

Valuation techniques include net present value and discounted cashflow models, comparison to similar instruments for which market observable prices exist, Black-Scholes and polynomial option pricing models and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other data used in estimating discount rates, bond prices and foreign currency exchange rates. The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The table below analyses financial instruments measured at fair value at the end of the reporting year, by the level in the fair value hierarchy into which measurement is categorised.

31 December 2014	**Level 1**	**Level 2**	**Level 3**	**Total (Note 6)**
Financial Investments	1,106,581	-	15,681	1,122,262
Loans and Advances to Customers	-	10,137	-	10,137
Derivative Assets	352	215	-	567
	1,106,933	**10,352**	**15,681**	**1,132,966**
Deposits from banks	-	48,041	-	48,041
Derivative Liabilities	532	810	-	1,342
	532	**48,851**	**-**	**49,383**

31 December 2013	***Level 1***	***Level 2***	***Level 3***	***Total (Note 6)***
Financial Investments	*752,532*	*-*	*13,841*	*766,373*
Loans and Advances to Customers	*-*	*14,356*	*-*	*14,356*
Derivative Assets	*-*	*1,271*	*-*	*1,271*
	752,532	***15,627***	***13,841***	***782,000***
Deposits from banks	*-*	*81,343*	*-*	*81,343*
Derivative Liabilities	*-*	*1,014*	*-*	*1,014*
	-	***82,357***	***-***	***82,357***

There were no significant transfers of assets between levels during 2014, and no significant changes in valuation techniques.

Debt securities
The aggregate fair values of listed debt securities are calculated based on quoted market prices, and are all categorised accordingly as Level 1. Unlisted debt securities would be valued by reference to discounted cash flows using market interest rates for debts with similar remaining maturity.

Equity shares and investments
Assets categorised as Level 3 comprise the Bank's investments in equity shares and investments. These assets are valued by reference to reports from fund managers, and from the audited annual reports (which may be a year in arrears) of the companies in which the Bank is invested. The sensitivity of value of these assets is therefore directly related to the movements in the value of the net assets of the investee entities, subject to currency fluctuations. Movements during the year of these assets are set out in Note 14.

Derivative assets and liabilities
The fair values of spot and forward foreign exchange contracts and interest futures are based upon quoted prices in active markets, and are all categorised accordingly as Level 1. The fair values of interest rate swaps and foreign exchange options are derived from net present value and discounted cashflow models, with

All amounts in £'000s unless otherwise stated

interest rates derived from yield curves derived from market data. These instruments are categorised as Level 2.

Loans and advances and deposits from banks
Certain of these assets and liabilities are held at fair value. These fair values are also derived from net present value and discounted cashflow models, with interest rates derived from yield curves derived from market data. These instruments are categorised as Level 2.

8. Net interest income

	2014	*2013*
Interest income		
Professional market placements and debt securities	13,676	*16,906*
Loans, advances and overdrafts	21,709	*15,737*
Other	79	-
	35,464	***32,643***
Interest income comprises		
Interest arising on financial assets at fair value through the income statement	2,279	*1,263*
Interest recognised on impaired assets (note 12)	-	*162*
Gains / (losses) arising from the change in fair value of fair value hedges		
- on hedging instruments	(165)	*34*
- on hedged items attributable to the hedged risk	234	*133*
Other interest	33,116	*31,051*
	35,464	***32,643***

The amount recorded in the income statement in respect of the ineffectiveness of fair value hedges was £nil in the year ended 31 December 2014 *(Year ended 31 December 2013:£nil)*

	2014	*2013*
Interest expense		
Deposits from banks and other deposits	12,369	*15,432*
Subordinated loans	1,826	*1,947*
	14,195	***17,379***
Interest expense comprises		
Interest arising on financial liabilities at fair value through the income statement	995	*1,161*
Other interest	13,200	*16,218*
	14,195	***17,379***

All amounts in £'000s unless otherwise stated

9. Net fee and commission income

	2014	*2013*
Fee and commission income		
Safe custody	215	*275*
Trade services:		
Guarantees	1,132	*1,083*
Other trade services income	14,949	*17,705*
Term lending (other than amounts which form part of the effective interest rate)	396	*-*
Banking payments and services	2,188	*2,021*
	18,880	**21,084**
Fee and commission expense		
Brokerage and other fees	**(643)**	***(652)***

10. Net trading income

	2014	*2013*
Foreign exchange dealing	5,705	*6,659*
Debt securities	79	*(87)*
Other	1,174	*1,303*
	6,958	***7,875***

Foreign exchange dealing income includes gains and losses from spot and forward contracts, options and translated foreign currency assets and liabilities.

All amounts in £'000s unless otherwise stated

11. Administrative expenses

	2014	*2013*
Staff costs:		
Salaries and other emoluments	9,790	*8,953*
Social security costs	1,362	*1,257*
Other pension costs:		
- Defined benefit scheme (note 24)	(117)	*1,300*
- Defined contribution scheme (note 24)	1,049	*736*
Total fixed staff employment costs	**12,084**	***12,246***
Variable staff costs: performance awards	2,465	*2,118*
Total staff employment costs	**14,549**	***14,364***
Reorganisation costs (excluding pension augmentations)	361	*485*
Other employment related costs (see below)	2,090	*613*
Total staff costs	**17,000**	***15,462***
Fees payable to the Bank's auditors for the audit of the Bank's annual financial statements	185	*136*
Fees payable to the Bank's auditors for other services :		
- Other services pursuant to legislation	10	*8*
- Taxation advice	93	*10*
- All other services	505	*913*
Depreciation (including amortisation of intangibles)	1,355	*1,128*
Amounts payable in respect of operating leases:		
- Amortisation of prepaid rental on land	63	*63*
- Ground rental	160	*160*
Loss on sale or impairment of tangible and intangible assets	676	*141*
Regulatory supervision fees	55	*57*
Other administrative expenses	6,234	*5,759*
General administrative expenses	**26,336**	***23,837***
Professional fees relating to management reorganisation	**704**	**-**
Review of historic activities	**10,563**	**-**
Administrative expenses	**37,603**	***23,837***

The average number of employees in place during the year was 158 (*2013: 146*).

Other employment related costs include contractors and outsourced services. The increase in these costs in the year ended 31 December 2014 included the effect of outsourcing the Bank's Internal Audit function, which also resulted in a saving in staff employment costs.

Professional fees relating to management reorganisation and charges for the review of historic activities (also refer Note 32) were significant one-off costs in the year ended 31 December 2014. Legal costs incurred in the historic review, which includes a provision for costs to be incurred in 2015 but committed as at December 2014 amount to £10,563,000.

All amounts in £'000s unless otherwise stated

Directors' remuneration included above totalled £912,000 *(2013:* £1,396,000*)*. The emoluments of the highest paid director were £215,000 *(2013:* £370,000*)* and the amount of his accrued pension as at balance sheet date was £nil *(2013: £nil)*. Directors' remuneration includes £25,000 due in respect of pension contributions to a defined contribution scheme for one director *(2013: Contributions totalling £37,000 to a defined benefit scheme and a defined contribution scheme for two separate directors).*

12. Net charge for impairment losses on loans and advances

The movements in impairment provisions were as follows:

	2014	*2013*
Balance at 1 January	**18,994**	***21,641***
Exchange translation and other movements	1,685	*356*
Effect of discounting (note 8)	-	*(162)*
Provisions written off	(1,526)	*(5,323)*
Profit and loss account:		
New allowances	5,594	*2,961*
Reversal of allowances no longer required	(524)	*(479)*
Recoveries of amounts written off in previous periods	(108)	-
	4,962	***2,482***
Balance at 31 December	**24,115**	***18,994***
Individual impairments	23,331	*18,994*
Collective impairments	784	-
Total, being impairments against: Loans and advances to customers	**24,115**	***18,994***

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.

Collective impairments arise in respect of Banks 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 the extensive individual reviews, and based on previous experience, evidence has been detected that impairment existed at 31 December 2014 requiring a collective allowance only in respect of exposures to Libya (*2013: no collective provision*).

Further information with regard to impaired and other facilities is shown in the table below.

All amounts in £'000s unless otherwise stated

	2014		*2013*	
	Number of Facilities	**Gross Exposure**	***Number of Facilities***	***Gross Exposure***
Impaired facilities				
Impaired facilities against which there was no collateral	9	38,000	*8*	*25,113*
Of the above:				
Facilities formally restructured on terms which may be less favourable to the Bank (impairment in respect of this facility £3,717,000)	1	5,310	-	-
Facilities in the process of being restructured as at the reporting date (impairment in respect of this facility £1,453,000)	1	4,844	-	-
Unimpaired facilities subject to forbearance, restructuring or close monitoring				
Amounts past due in respect of unimpaired financial assets	-	-	-	-
Facilities formally restructured on terms which may be less favourable to the Bank but which do not give rise to an impairment	1	9,608	*6*	*30,747*
Unimpaired facilities in the process of being restructured as at the reporting date	1	5,899	*1*	*9,025*
Overdrafts in excess of originally agreed limits subject to temporary forbearance	1	2,485	*2*	*1,165*
Watchlist or substandard facilities subject to closer monitoring than normal (which may include some of the unimpaired balances above)	28	92,205	*4*	*27,368*
Relaxations of material covenants or temporary relaxations of repayment terms at reporting dates	-	-	-	-
Facilities being restructured post reporting date	3	40,717	-	-

Forbearance: as part of its banking and trade services business the Bank may from time to time be required, or otherwise agree, to provide overdraft or other temporary facilities to its customers beyond the precise terms upon which such facilities have been intended to operate; this is defined as forbearance.

"Watchlist" 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.

All amounts in £'000s unless otherwise stated

13. Income tax expense

	2014	*2013*
Current tax:		
Total UK corporation tax charge	587	*3,990*
Of which: amount recognised in other comprehensive income	(227)	*(88)*
Current tax on items taken through the income statement	360	*3,902*
Current tax adjustment in respect of previous periods	(396)	*23*
Deferred tax (note 23)		
Origination and reversal of timing differences	284	*259*
Effect of tax rate change	29	*18*
Deferred tax adjustment in respect of previous periods	501	*(25)*
	814	*252*
Amounts associated with movements in the pension fund	4	*(96)*
	782	***4,081***

The charge for tax on the profit for the year is based on the average UK corporation tax rate of 21.5% *(2013: 23.25%)*. A reduction in the UK corporation tax rate from 23% to 21% (effective from 1 April 2014) was substantively enacted on 3 July 2012. A further reduction to 20% (effective from 1 April 2015) was substantively enacted on 2 July 2013. This will reduce the company's future current tax charge accordingly.

The tax charge for the year is lower *(2013: lower)* than the standard rate of corporation tax in the UK as explained below:

	2014	*2013*
Profit on ordinary activities before tax	**5,511**	***17,848***
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK	1,185	*4,149*
Adjustment in respect of previous periods	104	*(2)*
Effect of change in tax rate	28	*18*
Permanently disallowed items	(534)	*(77)*
Other items	(1)	*(7)*
UK Corporation tax charge	**782**	***4,081***

All amounts in £'000s unless otherwise stated

Income tax recognised in other comprehensive income is made up as follows:

	2014			*2013*		
	Before tax	**Tax**	**Net of tax**	***Before tax***	***Tax***	***Net of tax***
Actuarial gain/(loss) on pension fund	(1,060)	(14)	(1,074)	*299*	*(60)*	*239*
Change in fair value of available for sale financial assets	(358)	99	(259)	*976*	*(225)*	*751*
Fair value losses/(gains) attributable to available for sale financial assets transferred to income	2,461	(529)	1,932	*(588)*	*137*	*(451)*
Effect of change in tax rates	-	13	13	*-*	*(48)*	*(48)*
	1,043	**(431)**	**612**	***687***	***(196)***	***491***
Movements in other comprehensive income / (expense):						
- Adjusted through AFS reserve:						
Current tax		(227)			*(88)*	
Deferred tax (note 23)		(190)			*58*	
		(417)			*(30)*	
- Adjusted through pension fund liability and retained earnings:						
Current tax		-			*(93)*	
Deferred tax (note 23)		(14)			*(73)*	
		(14)			*(166)*	
		(431)			***(196)***	

The analysis below has been compiled on the basis of the location of office where transactions are recorded.

			2014		
Nature of activities	**Geographical location**	**Turnover**	**Profit before tax**	**Corporation tax paid**	**Average number of employees**
Banking	United Kingdom	43,114	5,511	4,065	158
			2013		
Nature of activities	*Geographical location*	*Turnover*	*Profit before tax*	*Corporation tax paid*	*Average number of employees*
Banking	*United Kingdom*	*41,685*	*17,848*	*2,515*	*146*

Turnover above has been defined as net operating income. No public subsidies were received during the reporting year. This disclosure has been prepared in accordance with the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

All amounts in £'000s unless otherwise stated

14. Financial investments

	2014	*2013*
Debt issued by governments and multilateral financial institutions	793,001	*365,148*
Other listed debt securities issued by banks	291,308	*327,882*
Other listed debt securities issued by non-banks	3,779	*30,461*
Debt securities held for trading	18,493	*29,041*
Total debt securities	**1,106,581**	***752,532***
Equity shares and investment funds	**15,681**	***13,841***
	1,122,262	***766,373***

Included in debt issued by governments and multilateral financial institutions above are debt securities of £6,406,000 *(2013: £6,057,000)* managed as part of the Bank's loan book. These were categorised as loans in the financial statements for the year ended 31 December 2013.

Debt securities with fixed interest rates (other than those with a single interest period less than 1 year) amounted to £177,469,000 *(2013: £173,119,000).*

Equity shares comprise long-term participations of not more than 10% of the share capital of the following companies:

International Company for Leasing SAE: 1,727,999 ordinary shares of Egyptian Pounds 10

Investments comprise long-term participations in limited partnership investment funds managed by third parties, whose purpose is to identify growing companies in the Arab Mediterranean region.

Equity shares and investment funds are categorised by the Bank as "level 3" investments (see Note 7). The movements on these investments were as follows:

	2014	*2013*
Balance at 1 January	13,841	*11,853*
Exchange translation	314	*(79)*
Changes in fair value during the year	1,484	*1,005*
Realised gain	-	*(309)*
Additions	555	*1,691*
Disposals	(513)	*(320)*
Balance at 31 December	**15,681**	***13,841***
Comprising:		
Equity shares	3,232	*2,782*
Investment funds	12,449	*11,059*
	15,681	***13,841***

All amounts in £'000s unless otherwise stated

15. Loans and advances to banks

Loans and advances to banks with fixed interest rates (other than those with a single interest period less than 1 year) amounted to £nil (*2013: £nil).*

	2014	*2013*
Funds held at correspondent banks	65,295	*113,572*
Professional market placements	1,017,921	*805,741*
Term and Real Estate lending	158,435	*160,982*
Bills discounted	51,295	*64,555*
Overdrafts and other advances	844	*12,059*
	1,293,790	***1,156,909***

Professional market placements includes £213,744,000 *(2013: £120,822,000)* lent to other institutions against the security of OECD government debt securities by way of sale and repurchase transactions executed in accordance with market standard terms (reverse repo transactions).

16. Loans and advances to customers

Loans and advances to customers with fixed interest rates (other than those with a single interest period less than 1 year) amounted to £15,328,000 *2013: £20,403,000).*

	2014	*2013*
Professional market placements to non banks	10,626	*11,651*
Term and Real Estate lending	442,158	*426,867*
Overdrafts and other advances	42,706	*31,315*
Less: Provisions for impairments (note 12)	(24,115)	*(18,994)*
	471,375	***450,839***

Included in financial instruments above (Note 14) are £6,406,000 *(2013: £6,057,000)* of debt securities managed as part of the Bank's loan book. These were categorised as loans in the financial statements for the year ended 31 December 2013, the balance for Term and Real Estate lending as at that date has been adjusted accordingly.

17. Shares in Bank undertakings

At 31 December 2014 there were no subsidiary undertakings of the Bank (2013: none). On 19 December 2013 the Bank had sold its interests in its two dormant subsidiaries to its Finance Director (see also Note 34).

All amounts in £'000s unless otherwise stated

18. Property, plant and equipment and intangible assets

	Property, plant and equipment			Intangible assets	
	Long leasehold premises and improvements	Other assets	Total	Computer software	Total
Cost					
Balance at 1 January 2014	15,073	2,195	17,268	5,689	22,957
Additions during the year	121	570	691	1,737	2,428
Disposals during the year	-	(94)	(94)	(770)	(864)
At 31 December 2014	15,194	2,671	17,865	6,656	24,521
Less: accumulated depreciation					
Balance at 1 January 2014	6,659	1,734	8,393	3,658	12,051
Charge for the year	331	241	572	783	1,355
Disposals during the year	-	(93)	(93)	(198)	(291)
Impairment loss	-	-	-	103	103
At 31 December 2014	6,990	1,882	8,872	4,346	13,218
Net book value at 31 December 2014	**8,204**	**789**	**8,993**	**2,310**	**11,303**
Cost					
Balance at 1 January 2013	*14,794*	*2,135*	*16,929*	*4,990*	*21,919*
Additions during the year	*279*	*212*	*491*	*894*	*1,385*
Disposals during the year	-	*(152)*	*(152)*	*(195)*	*(347)*
At 31 December 2013	*15,073*	*2,195*	*17,268*	*5,689*	*22,957*
Less: accumulated depreciation					
Balance at 1 January 2013	*6,343*	*1,665*	*8,008*	*3,103*	*11,111*
Charge for the year	*316*	*204*	*520*	*608*	*1,128*
Disposals during the year	-	*(135)*	*(135)*	*(53)*	*(188)*
At 31 December 2013	*6,659*	*1,734*	*8,393*	*3,658*	*12,051*
Net book value at 31 December 2013	***8,414***	***461***	***8,875***	***2,031***	***10,906***

The long leasehold premises are at 8-10 Mansion House Place, London EC4N 8BJ. No future lease payments are due in respect of these premises (although they are in respect of land, see Note 36).

The net book value of £8,204,000 *(2013: £8,414,000)*, including improvements, excludes the lease of land, which is accounted for as an operating lease, and which has a balance sheet value represented by a prepayment (see Note 20) of £8,321,000 *(2013: £8,384,000)*, making a total asset value of £16,525,000 *(2013: £16,798,000)*. On 10 May 2012 the Bank received a valuation report in connection with this asset prepared by qualified chartered surveyors familiar with the market for such assets estimating that the market value of the Bank's interest at that time amounted to £17,850,000.

Other assets comprise: technology hardware; furniture, fixtures and fittings; and motor vehicles.

Impairments of intangible assets have been recognised following a review of certain software and development expenditure previously capitalised, where value in use is uncertain or unlikely. No recoverable amounts are recognised in respect of impaired assets.

The original cost of fully depreciated tangible and intangible assets still in use by the Bank at year-end was £7,486,000 (2013: £7,124,000).

There were commitments for capital expenditure on 31 December 2014 of £54,000 (2013: £593,000).

All amounts in £'000s unless otherwise stated

19. Derivatives

The following were outstanding:

	31 December 2014		
	Contract notional amount	Positive fair values	Negative fair values
Spot and forward foreign exchange contracts held for trading purposes	224,727	293	(532)
Interest rate swaps qualifying as fair value hedges	35,280	15	(558)
Interest rate swaps at fair value through the profit and loss account	56,064	135	(187)
Interest futures held for trading purposes	65,977	59	-
Foreign exchange options at fair value through the profit and loss account			
Purchased	79,443	65	-
Sold	79,443	-	(65)
		567	**(1,342)**

	31 December 2013		
	Contract notional amount	*Positive fair values*	*Negative fair values*
Spot and forward foreign exchange contracts held for trading purposes	*256,429*	*540*	*(73)*
Interest rate swaps qualifying as fair value hedges	*36,083*	*14*	*(867)*
Interest rate swaps at fair value through the profit and loss account	*51,064*	*123*	-
Interest rate cap, collar and floor contracts at fair value through the profit and loss account	*30,240*	*520*	-
Interest futures held for trading purposes	*76,809*	-	-
Foreign exchange options at fair value through the profit and loss account			
Purchased	*21,016*	*74*	-
Sold	*21,016*	-	*(74)*
		1,271	***(1,014)***

Foreign exchange contracts are agreements by which an amount of one currency is exchanged for a different amount of a different currency at a specified future date. The contract amount in the table above is the amount receivable.

Interest rate swaps are agreements by which interest on an agreed amount is paid at various dates in the future on a specified basis, and in exchange interest is received on the same amount, but on a different basis. Interest rate futures are exchange traded contracts whose price is determined by reference to changes in interest rates between the date the contract is entered into, and the valuation date, calculated in respect of notional deposits with future start and maturity dates.

Interest rate cap contracts are option contracts under which the buyer of the contract will pay the difference between a periodic floating market rate and a fixed rate of interest (the cap rate), but only where that periodic market rate exceeds the cap rate.

Interest rate floor contracts are option contracts under which the buyer of the contract will receive the difference between a fixed rate of interest (the floor rate) and the periodic floating market rate, but only where that periodic market rate is below the floor rate.

Interest rate collar contracts are combinations of interest rate caps and interest rate floors.

All amounts in £'000s unless otherwise stated

Foreign exchange options are agreements to enter into a foreign exchange contract at a rate which has been fixed at the outset, at a specified date in the future if the market rate ruling at a future date is more (or less) than the fixed rate.

Interest rate swaps qualifying as fair value hedges comprise synthetic alterations whereby interest bearing assets or liabilities with fixed or extended re-pricing periods have been converted into shorter re-pricing periods which can be more easily accommodated within the Bank's risk management policies.

Interest rate swaps at fair value through the profit and loss account represent either speculative market positions or are hedges of economic exposure, but not qualifying for hedge accounting in accordance with IAS39. Interest rate cap, collar and floor contracts at fair value through the profit and loss account are regarded as being hedges of economic exposures, but do not qualify for hedge accounting in accordance with IAS39.

Foreign exchange options at fair value through the profit and loss account represent either contracts executed for customers against similar contracts with market counterparties, or else represent speculative market positions.

Derivatives entered into by the Bank are in accordance with standard market terms.

20. Prepayments, accrued income and other debtors

	2014	*2013*
Prepaid rental for land	8,321	*8,384*
Prepayments and accrued income	4,193	*6,659*
Other debtors	1,363	*584*
	13,877	***15,627***

The prepaid rental for land arises from its treatment as an operating lease and represents the lease premium in respect of land being expensed over the lease term. The Bank is also obliged to pay ground rent in respect of its leasehold land interest over the remaining life of the lease. Both of these expenses for the year are disclosed in Note 11. Future commitments in respect of ground rent are disclosed in Note 36.

21. Deposits

Deposits from banks with fixed interest rates (other than those with a single interest period less than 1 year) amounted to £90,415,000 *(2013: £92,711,000).*

There were no other deposits with fixed interest rates (other than those with a single interest period less than 1 year) *(2013: £47,910,000).*

The Bank has not had any defaults of principal, interest or other breaches with respect to its liabilities during 2014 *(2013: £nil).*

All amounts in £'000s unless otherwise stated

22. Other liabilities, accruals and deferred income

	2014	*2013*
Other liabilities	7,049	*9,450*
Accruals and deferred income	17,334	*6,831*
	24,383	***16,281***

23. Deferred taxation

	Balance at 1 January 2014	Recognised in Profit or Loss	Recognised in Other Comprehensive Income	Balance at 31 December 2014	Deferred tax assets	Deferred tax liabilities
Property, plant and equipment and intangible assets	(397)	106	-	(291)	-	(291)
Staff benefits	494	(316)	-	178	178	-
IFRS adjustments (see below)	111	(111)	-	-	-	-
Capital loss in investments	-	14	-	14	14	-
Investments	(387)	(507)	(190)	(1,084)	-	(1,084)
Tax assets (liabilities)	**(179)**	**(814)**	**(190)**	**(1,183)**	**192**	**(1,375)**
Tax assets on pension liabilities (note 24)	**668**	**-**	**(14)**	**654**	**654**	**-**

	Balance at 1 January 2013	*Recognised in Profit or Loss*	*Recognised in Other Comprehensive Income*	*Balance at 31 December 2013*	*Deferred tax assets*	*Deferred tax liabilities*
Property, plant and equipment and intangible assets	*(498)*	*101*	*-*	*(397)*	*-*	*(397)*
Staff benefits	*720*	*(227)*	*-*	*493*	*493*	*-*
IFRS adjustments (see below)	*238*	*(126)*	*-*	*112*	*112*	*-*
Investments	*(445)*	*-*	*58*	*(387)*	*-*	*(387)*
Tax assets (liabilities)	***15***	***(252)***	***58***	***(179)***	***605***	***(784)***
Tax assets on pension liabilities (note 24)	***741***	***-***	***(73)***	***668***	***668***	***-***

Deferred tax assets and liabilities above are shown for analysis only, with the net deferred tax liability shown on the Statement of Financial Position, as tax balances are offsettable.

"IFRS adjustments" in the table above refers to the amortisation of opening adjustments on transition from UK GAAP to IFRS.

24. Pension fund

Defined benefit scheme

The Bank sponsors the Scheme which is a funded defined benefit arrangement, closed to future accrual during the year. This is a separate trustee administered fund holding the pension scheme assets to meet long term pension liabilities for 292 deferred or pensioner members as at 31 December 2014 *(2013: 24 active members and 272 deferred or pensioner members)*. The level of retirement benefit is principally based on basic salary at 1 April prior to leaving active service and is linked to changes in inflation up to retirement.

The Scheme is subject to the funding legislation outlined in the Pensions Act 2004 which came into force on 30 December 2005. This, together with documents issued by the Pensions Regulator, and Guidance Notes adopted

All amounts in £'000s unless otherwise stated

by the Financial Reporting Council, set out the framework for funding defined benefit occupational pension schemes in the UK.

The trustees of the Scheme are required to act in the best interest of the Scheme's beneficiaries. The appointment of the trustees is determined by the Scheme's trust documentation. It is policy that one third of all trustees should be nominated by the members.

A full actuarial valuation was carried out as at 31 December 2013 in accordance with the Scheme funding requirements of the Pensions Act 2004 and the funding of the Scheme is agreed between the Bank and the trustees in line with those requirements. These in particular require the surplus / deficit to be calculated using prudent, as opposed to best estimate actuarial assumptions.

This actuarial valuation showed a deficit of £6,328,000. The Bank has agreed with the trustees that it will aim to eliminate the deficit over a period of 5 years from 1 August 2014 by the payment of annual contributions of £1,472,000, payable in monthly instalments, in respect of the deficit. In addition and in accordance with the actuarial valuation, the Bank has agreed with the trustees that it will pay monthly contributions of £20,000 in respect of the expenses of the Scheme and in addition will also meet the levies to the Pension Protection Fund.

For the purposes of IAS19 the actuarial valuation as at 31 December 2013, which was carried out by a qualified independent actuary, has been updated on an approximate basis to 31 December 2014. There have been no changes in the valuation methodology adopted for this year's disclosures compared to the previous year's disclosures.

Amounts included in the statement of financial position

	31 December 2014	***31 December 2013***	***31 December 2012***
Fair value of Scheme assets	69,658	*61,189*	*60,656*
Present value of defined benefit obligation	(72,926)	*(64,530)*	*(63,881)*
Deficit in the Scheme	(3,268)	*(3,341)*	*(3,225)*
Deferred tax	654	*668*	*741*
Net liability	**(2,614)**	***(2,673)***	***(2,484)***

The present value of Scheme liabilities is measured by discounting the best estimate of future cash flows to be paid out by the Scheme using the projected unit credit method. The value calculated in this way is reflected in the net liability in the balance sheet as shown above.

The projected unit credit method is an accrued benefits valuation method in which allowance is made for projected earnings increases. The accumulated benefit obligation is an alternative actuarial measure of the Scheme liabilities, whose calculation differs from that under the projected unit credit method in that it includes no assumption for future earnings increases. In assessing this figure for the purpose of these disclosures, allowance has been made for future statutory revaluation of benefits up to retirement. At the balance sheet date the accumulated benefit obligation was £72,926,000 (i.e. the same as the defined benefit obligation).

All actuarial gains and losses will be recognised in the year in which they occur in Other Comprehensive Income (OCI).

All amounts in £'000s unless otherwise stated

Reconcilation of opening and closing present value of the Defined Benefit Obligation

	2014	2013
Defined benefit obligation at start of period	64,530	*63,881*
Current service cost	138	*762*
Expenses	197	*220*
Interest expense	2,890	*2,717*
Contributions by scheme participants	14	*54*
Actuarial losses due to scheme experience	2,450	*71*
Actuarial gains due to changes in demographic assumptions	(1,394)	*(2,093)*
Actuarial losses due to changes in financial assumptions	7,902	*1,167*
Benefits paid and expenses	(3,224)	*(2,426)*
Past service costs	-	*177*
Gains on curtailments	(577)	-
Defined benefit obligation at end of period	**72,926**	***64,530***

The Scheme closed to future accrual on 1 April 2014. The curtailment has been measured at this date based on actuarial assumptions consistent with market conditions at this date. The curtailment measures the reduction in liabilities due to active members' benefits no longer being linked to future salary growth.

Reconciliation of opening and closing values of the Fair Value of Plan Assets

	2014	2013
Fair value of scheme assets at start of period	61,189	*60,656*
Interest income	2,765	*2,576*
Return on scheme assets (excluding amounts included in interest income)	7,898	*(556)*
Contributions by the Bank	1,016	*885*
Contributions by scheme participants	14	*54*
Benefits paid and expenses	(3,224)	*(2,426)*
Fair value of scheme assets at end of period	**69,658**	***61,189***

The actual return on the Scheme's assets over the year ending 31 December 2014 was £10,663,000.

Defined benefit costs recognised in Profit and Loss

	2014	2013
Service cost:		
Current service cost	138	*762*
Past service cost and (gain)/ loss from settlements	(577)	*177*
Expenses	197	*220*
Net interest cost	125	*141*
Defined benefit costs/recognised in profit and loss	**(117)**	***1,300***

All amounts in £'000s unless otherwise stated

Defined benefit costs recognised in other Comprehensive Income

	2014	*2013*
Return on scheme assets (excluding amounts included in interest income) - gain/(loss)	7,898	*(556)*
Experience losses arising on the defined benefit obligation	(2,450)	*(71)*
Effects of changes in the demographic assumptions underlying the present value of the defined benefit obligation - gains	1,394	*2,093*
Effects of changes in the financial assumptions underlying the present value of the defined benefit obligation - losses	(7,902)	*(1,167)*
Total amount recognised in other comprehensive income - (loss)/gain	**(1,060)**	***299***

Assets

	31 December 2014	*31 December 2013*	*31 December 2012*
Corporate Bonds	-	*10,309*	*9,958*
Liability Driven Investment (LDI)	13,246	*9,079*	*9,041*
Diversified Growth Funds	20,814	*20,532*	*18,568*
Cash	546	*134*	*205*
Purchased Annuities	35,052	*22,146*	*22,884*
Adjustment due to a pensioner buy-in	-	*(1,011)*	*-*
Total assets	**69,658**	***61,189***	***60,656***

None of the fair values of the assets shown above include any direct investments in the Bank's own financial instruments or any property occupied by, or other assets used by, the Bank. All of the Scheme assets have a quoted market price in an active market with the exception of the trustee's bank account balance.

It is the policy of the trustees and the Bank to review the investment strategy at the time of each funding valuation. The trustees' investment objectives and the processes undertaken to measure and manage the risks inherent in the Scheme investment strategy are documented in the Scheme's Statement of Investment Principles as at 31 December 2014.

	31 December 2014 % per annum	*31 December 2013 % per annum*	*31 December 2012 % per annum*
Rate of discount	3.60	*4.60*	*4.30*
Inflation (RPI)	3.15	*3.50*	*3.10*
Salary increases	3.15	*4.00*	*3.60*
Allowance for revaluation of deferred pensions of RPI or 7.5% p.a. if less	3.15	*3.50*	*3.10*
Allowance for pension in payment increases of RPI or 7.5% p.a. if less	3.15	*3.50*	*3.10*
Allowance for commutation of pension for cash at retirement	No allowance	*No allowance*	*No allowance*

The Scheme has purchased insurance policies to match the liabilities in relation to some pensioner members.

All amounts in £'000s unless otherwise stated

Significant Actuarial Assumptions

The mortality assumptions adopted at 31 December 2014 are 100% of the standard tables S2PxA_L, Year of Birth, no age rating for males and females, projected using CMI_2014 converging to 1.25% p.a.

These imply the following life expectancies:

	Life expectancy at age 60 (years)
Male retiring in 2014	28.2
Female retiring in 2014	29.4
Male retiring in 2024	29.1
Female retiring in 2024	30.4

Analysis of the sensitivity to the principal assumptions of the present value of the Defined Benefit Obligation

	Change in assumption	***Change in liabilities***
Discount rate	Decrease of 0.25% p.a.	*Increase by 4.8%*
Rate of inflation	Increase of 0.25% p.a.	*Increase by 4.6%*
Rate of mortality	Increase in life expectancy of 1 year	*Increase by 3.0%*
Rate of mortality	Mortality improvement - long term rate 1%	*Decrease by 1.4%*
Cash commutation	50% of post A-day maximum using current factors	*Decrease by 1.3%*

The sensitivities shown above are approximate. Each sensitivity calculation considers one change in isolation. The inflation sensitivity includes the impact of changes to the assumptions for revaluation and pension increases. The average duration of the defined benefit obligation at the year ending 31 December 2014 is 19 years.

The Scheme typically exposes the Bank to actuarial risks such as investment risk, interest rate risk, mortality risk and longevity risk. A decrease in corporate bond yields, a rise in inflation or an increase in life expectancy would result in an increase to Scheme liabilities. This would detrimentally impact the balance sheet position and may give rise to increased charges in future profit and loss accounts. The trustees have in part managed these risks by securing some pensioner liabilities with insurance policies which exactly match the benefits provided under the Scheme.

The best estimate of contributions to be paid by the Bank to the plan for the year commencing 1 January 2015 is £1,712,000.

Defined contribution scheme

At 31 December 2014, 152 employees were members of that scheme *(2013:* 121 *employees)*. Contributions to the BACB Defined Contribution Retirement Benefit Scheme are made by both employer and employee in accordance with a fixed formula. In the year ended 31 December 2014, the Bank paid £1,049,000 *(2013: £736,000)* by way of contributions into that scheme. There were no outstanding or pre-paid contributions to this scheme at 31 December 2014 *(2013: £nil)*.

All amounts in £'000s unless otherwise stated

25. Subordinated liabilities

Subordinated loans in issue are denominated in US Dollars and are subordinated in all respects to the claims of other creditors. The loans can only be repaid before their due dates either on liquidation of the borrower after all other claims have been satisfied, or with express permission granted by the Prudential Regulation Authority. The loans, which have been subscribed in full by the Bank's principal shareholder, Libyan Foreign Bank, qualify for inclusion in full in the Bank's capital base as Lower Tier 2 capital and bear interest based on inter-bank offered rates for dollar deposits.

	2014	*2013*
Due 29th October 2020	20,173	*19,047*
Due 29th April 2023	20,173	*19,047*
Due 29th October 2025	20,173	*19,047*
	60,519	***57,141***

Subordinated loan issues and redemptions after the balance sheet reporting date are disclosed in Note 37.

26. Called up share capital

Authorised share capital comprises 115,000,000 Ordinary Shares of £1 each, 140,000,000 Ordinary Shares of US$1 each and 5,000,000 Deferred Non-Voting Shares of £1 each. Each paid up Ordinary £1 share carries the same rights as each paid up Ordinary $1 share. No rights attach to the Deferred Non-Voting shares until such time as they become paid up.

Issued share capital comprises:

	Number of shares ('000)		**Paid up amount**	
	2014	*2013*	**2014**	*2013*
Ordinary Shares of £1 each fully paid	30,403	*30,403*	30,403	*30,403*
Ordinary Shares of US$1 each fully paid	76,974	*76,974*	49,050	*49,050*
Deferred Non-Voting Shares of £1 each nil paid	5,000	*5,000*	-	-
	112,377	***112,377***	**79,453**	***79,453***

Share capital issued after the balance sheet reporting date is disclosed in Note 37.

27. Capital and reserves attributable to the Bank's equity holders

	2014	*2013*
Called up share capital (note 26)	79,453	*79,453*
Capital redemption reserve	4,104	*4,104*
Other reserves		
Retained earnings	113,405	*109,750*
AFS Reserve	5,207	*3,521*
	118,612	113,271
	202,169	**196,828**

The Capital Redemption reserve arose on the purchase and cancellation of issued share capital in 2008.

All amounts in £'000s unless otherwise stated

The Available-for-sale ("AFS") reserve arises in respect of changes in the market value of assets categorised as being available for sale (Note 3g).

Retained earnings and the AFS reserve are available for distribution subject to the maintenance of adequate capital resources.

The directors have not declared a dividend in respect of the profits for the year ended 31 December 2014 *(2013: £nil).*

28. Capital maintenance

The Bank's capital comprises share capital and reserves (Note 27) and subordinated liabilities (Note 25). It is subject to the regulatory capital requirements of the Prudential Regulation Authority. The Bank's objectives in the management of capital are: to maintain appropriate levels of capital to support its business strategy; and to meet its regulatory requirements.

29. Contingent liabilities

The Bank extends commercial facilities to customers which provide for the issuance of performance guarantees, bid and bail bonds, and other types of guarantees. Such transactions amounted to £93,687,000 at 31 December 2014 *(2013: £97,193,000).*

The Bank's practice is to extend such facilities against a counter-indemnity. Accordingly, the Bank's risk in such transactions is a failure of both the party providing the counter-indemnity, and a failure under the underlying contract resulting in the guarantee being called. No losses arose from such contracts in the year ended 31 December 2014 *(2013: Nil).*

In parallel with the strategic review of the Bank's operations which commenced in late 2014, BACB commenced a thorough review of certain historical activities. The historic review referenced in Note 32 is ongoing and it is premature to reach a final conclusion thereon. The expectation is that any such costs are unlikely to be significant to the accounts of BACB.

30. Other commitments

	2014	*2013*
Other commitments comprise:		
Credit lines and other commitments to lend: original maturity		
under one year	12,370	*2,920*
over one year	5,187	*4,897*
Documentary credits and short-term trade-related transactions	419,387	*567,756*
Own acceptances	26,952	*15,289*
	463,896	***590,862***

All amounts in £'000s unless otherwise stated

31. Foreign currency assets / liabilities

Foreign currency assets and liabilities for the Bank were as follows:

31 December 2014	Sterling	Dollars	Euro	Other currencies	Total
Total assets	524,157	1,655,618	668,904	67,738	2,916,417
Total equity and liabilities	(586,465)	(1,615,520)	(634,060)	(80,372)	(2,916,417)
Derivatives (at contract notional value)	62,054	(40,523)	(34,544)	13,013	-
Net exposures	**(254)**	**(425)**	**300**	**379**	**-**
Contingent liabilities and other commitments	12,331	322,915	195,681	26,656	557,583
31 December 2013	***Sterling***	***Dollars***	***Euro***	***Other currencies***	***Total***
Total assets	*393,770*	*1,692,759*	*273,928*	*41,691*	*2,402,148*
Total equity and liabilities	*(399,580)*	*(1,542,202)*	*(398,167)*	*(62,199)*	*(2,402,148)*
Derivatives (at contract notional value)	*5,702*	*(150,600)*	*124,091*	*20,807*	*-*
Net exposures	***(108)***	***(43)***	***(148)***	***299***	***-***
Contingent liabilities and other commitments	*15,906*	*328,101*	*302,413*	*41,635*	*688,055*

The Bank's policies for managing the risk of exchange revaluations on foreign currency assets and liabilities are explained in Note 4.

32. Legal proceedings

In parallel with the strategic review of the Bank's operations which commenced in late 2014, BACB commenced a thorough review of certain historical activities, which may have involved possible breaches of U.S. sanctions. As part of this historical review, much of which dates pre-2009, BACB has made a voluntary disclosure to the US Authorities and continues to co-operate with them. At the same time, Regulators in the UK were informed. Communication with Authorities in both jurisdictions continues. The review is ongoing and it is premature to reach a final conclusion thereon.

33. Segmental report

The Bank has seven reportable segments as described below, which are the Bank's principal operating departments. While sharing customers in common, the departments offer different products and services with different risk and operational characteristics. Internal management information is constructed to measure separately the operational and risk characteristics of these departments, together with the resources they consume, and the financial results that they produce. The following summary describes the operations of each of the Bank's reportable segments:-

- Trade Finance. The provision of payment and other guarantee type facilities in support of the international trade ambitions of its customers represents the Bank's principal franchise. The majority of these customers are located in the countries of North Africa and the Eastern Mediterranean which form the Bank's geographic niche.
- Banking Services. The Bank acts as an important banking correspondent for its customers providing tailored account and international payment services.

All amounts in £'000s unless otherwise stated

- Commodity Finance. The provision of short term secured facilities to commodity companies to support their day to day trading activities.
- Term Lending. The Bank undertakes lending both in support of its customers ambitions, but also in support of projects or investments in the wider Arab world and Africa.
- Real Estate Lending. The Bank provides finance to high net worth property investors in respect of substantial Central London residential properties.
- Treasury. In addition to servicing the Bank's own funding and market risk management requirements, the Treasury also provides access to the international financial markets for the Bank's customers. The Treasury also assumes market risk by way of trading activities within agreed limitations.
- Other. This includes items not specifically allocated to other segments.

Information regarding the results of each reportable segment is included below. Performance is measured based on net segment profit as included in the internally generated management information utilised by the board of directors, and by executive management. Segment profit is stated after charging (or crediting) interest between the segments in respect of the segment assets or liabilities which either require or generate funding. There are no other significant transactions between segments.

2014	Trade Finance	Banking Services	Commodity Finance	Term Lending	Real Estate Lending	Treasury	Other	Total
Net interest income	806	842	929	13,500	536	6,241	(1,585)	21,269
Net fee and commission income	15,915	1,693	505	174	171	(180)	(41)	18,237
Net trading income	-	-	-	-	-	6,958	-	6,958
Other operating income	-	-	-	-	-	12	1,600	1,612
Net charge for impairment losses	(101)	132	-	(3,533)	-	-	(1,460)	(4,962)
Total Operating income	**16,620**	**2,667**	**1,434**	**10,141**	**707**	**13,031**	**(1,486)**	**43,114**
Directly attributable segment expenses	(6,327)	(2,855)	(233)	(2,717)	(126)	(2,557)	-	(14,815)
Net segment profit / (loss)	**10,293**	**(188)**	**1,201**	**7,424**	**581**	**10,474**	**(1,486)**	**28,299**
Common costs not attributable to segments								(22,788)
Profit before income tax								**5,511**
BALANCE SHEET								
Segment assets	38,587	17,454	18,607	542,395	50,055	2,223,099	26,220	2,916,417
Segment liabilities	-	594,921	8,923	-	-	2,021,705	290,868	2,916,417
Contingent liabilities and other commitments	529,573	-	10,453	17,557	-	-	-	557,583

2013	*Trade Finance*	*Banking Services*	*Commodity Finance*	*Term Lending*	*Real Estate Lending*	*Treasury*	*Other*	*Total*
Net interest income	*1,000*	*1,200*	*76*	*10,085*	*-*	*5,262*	*(2,359)*	*15,264*
Net fee and commission income	*18,754*	*1,840*	*33*	*(61)*	*1*	*(91)*	*(44)*	*20,432*
Net trading income	*-*	*-*	*-*	*-*	*-*	*7,875*	*-*	*7,875*
Other operating income	*-*	*-*	*-*	*-*	*-*	*15*	*581*	*596*
Net charge for impairment losses	*185*	*-*	*-*	*(2,667)*	*-*	*-*	*-*	*(2,482)*
Total Operating income	***19,939***	***3,040***	***109***	***7,357***	***1***	***13,061***	***(1,822)***	***41,685***
Directly attributable segment expenses	*(5,012)*	*(2,093)*	*(34)*	*(1,635)*	*-*	*(1,864)*	*-*	*(10,638)*
Net segment profit / (loss)	***14,927***	***947***	***75***	***5,722***	***1***	***11,197***	***(1,822)***	***31,047***
Common costs not attributable to segments								*(13,199)*
Profit before income tax								***17,848***
BALANCE SHEET								
Segment assets	*64,555*	*19,422*	*11,835*	*587,252*	*-*	*1,678,710*	*40,374*	*2,402,148*
Segment liabilities	*-*	*619,569*	*5,399*	*-*	*-*	*1,508,213*	*268,967*	*2,402,148*
Contingent liabilities and other commitments	*670,193*	*-*	*10,045*	*7,817*	*-*	*-*	*-*	*688,055*

All amounts in £'000s unless otherwise stated

Substantially all of the assets of the Bank are held in the United Kingdom. However, many of the Bank's customers are domiciled overseas. Directors and Executive Management monitor the Bank's sources of revenue by reference to the geographic location of the customer.

The analysis of total operating income below is based on the location of the customer giving rise to the revenue. As for the segmental information shown above, customer income is stated after charging (or crediting) interest in respect of assets that either require or generate income.

	2014	*2013*
United Kingdom	5,291	*2,477*
Europe excluding UK	1,733	*1,134*
Libya	9,288	*11,821*
Other Middle East and Africa	24,926	*24,267*
Other	1,876	*1,986*
	43,114	***41,685***

34. Related parties

The Bank regards the following as being related parties in accordance with IAS24:

a) The Bank regards Libyan Foreign Bank as its parent company. Libyan Foreign Bank and all of its subsidiaries, together with Libyan Foreign Bank's owner, the Central Bank of Libya and all of its subsidiaries, are considered to be related parties. The Bank considers these parties to be in a position to exert significant influence over the Bank. The Bank enters into commercial transactions in the ordinary course of business with these parties on an arm's-length basis.

b) Key management personnel, including the Bank's directors, and identified Executive Managers.

	Significant influence	**Key management personnel**
Balances at 31 December 2014		
Loans and advances	25,843	3 *
Deposits	1,588,256	-
Subordinated liabilities	60,519	-
Contingent liabilities and other commitments	123,726	-
Volumes executed during 2014		
Loans and advances	277,978	3
Deposits	65,993,708	-
Derivatives (contract amount)	10,226,839	-
Contingent liabilities and other commitments	201,680	-
Included in income statement		-
Interest receivable	104	-
Interest payable	10,301	-
Fees and commissions receivable	3,242	-

All amounts in £'000s unless otherwise stated

	Significant influence	***Key management personnel***	
Balances at 31 December 2013			
Loans and advances	*11,527*	*15*	*
Deposits	*1,162,313*	*-*	
Subordinated liabilities	*57,140*	*-*	
Contingent liabilities and other commitments	*101,250*	*-*	
Volumes executed during 2013			
Loans and advances	*204,770*	*10*	
Deposits	*73,427,080*	*-*	
Derivatives (contract amount)	*6,756,798*	*-*	
Contingent liabilities and other commitments	*166,959*	*-*	
Included in income statement			
Interest receivable	*176*	*-*	
Interest payable	*13,242*	*-*	
Fees and commissions receivable	*3,348*	*-*	

*At 31 December 2014 £3,000 was outstanding by way of interest free loans due from one Executive Manager of the Bank and no amount was outstanding by way of interest bearing loans due from any Executive Manager of the Bank. No amount was outstanding from any Director. *(At 31 December 2013 £10,000 was outstanding by way of interest free loans due from four Executive Managers of the Bank and £5,000 was outstanding by way of interest bearing loans due from one Executive Manager of the Bank. No amount was outstanding from any Director.)*

In addition, the Bank has entered into the following further related party transactions.

i. The Bank meets the employment costs of executives seconded to it by related parties. The costs of these secondments were £312,000 *(2013: £270,000).*

ii. Key management personnel compensation:

	2014	*2013*
Directors' attendance and standing fees	461	*431*
Executive Managers		
Salaries and other short term benefits	2,356	*2,462*
Post-employment benefits	161	*184*
	2,978	***3,077***

iii. As disclosed in Note 17, on 19 December 2013, the Bank sold its interests in its two dormant subsidiaries to the Bank's then Finance Director at a price equal to their book values at that date: £1,001. The Finance Director subsequently arranged for the companies to be wound up.

All amounts in £'000s unless otherwise stated

35. Collateral

By a Security Deed dated 24 June 2014, the Bank has granted a charge to Deutsche Bank AG London Branch over its collateral pledge account held there, in which it holds securities with a minimum value of €30,000,000. The carrying value as at 31 December 2014 was £27,915,000.

36. Operating lease commitments

The leasehold land at the Bank's main office is categorised as an operating lease, as is a sub-lease of part of the premises (see Note 3o). The Bank has obligations to make payments for ground rent in its capacity as lessee, and is entitled to rental and service charge receipts in its capacity as sub-lessor.

The amounts shown below are the minimum non-cancellable amounts payable and receivable. They take account of a long-term basic rent obligation up to August 2147, as well as short-term additional obligations, in the Bank's position as lessee. They also take account of receivables in respect of a sub-lease entered into the Bank as lessor during 2014, assuming only the minimum amounts receivable up to a break clause in May 2017.

31 December 2014	Less than one year	Between one and five years	More than five years	Total
Operating lease payments due	87	320	10,213	10,620
Operating lease receipts due	(238)	(277)	-	(515)
Net payment / (receipt) commitment	**(151)**	**43**	**10,213**	**10,105**

31 December 2013	*Less than one year*	*Between one and five years*	*More than five years*	*Total*
Operating lease payments due	***160***	***327***	***10,293***	***10,780***

37. Post Balance Sheet Events

The Bank's majority shareholder, Libyan Foreign Bank, has committed £24,795,000 of additional capital. This additional capital was committed on 15 June 2015 and drawn down on 17 June 2015, as explained below:

i. cancellation and redemption of existing subordinated debt of £24,696,500 ($38,250,000 of which $31,492,500 related to the subordinated debt due 29 October 2020 and $6,757,500 of the subordinated debt due 29 April 2023);
ii. issue of 38,250 000 USD ordinary shares of $1 each creating £24,696,500 of new equity share capital;
iii. issue of new subordinated debt denominated in Euros of €34,200,000 (£24,795,000 equivalent) with an expiry date of 17 June 2025.

The Bank's shareholders as at reporting date and date of signing of these financial statements were:

	As at 31 December 2014	As at 17 June 2015
Libyan Foreign Bank	83.48%	87.80%
Banque Exterieure d'Algerie	8.26%	6.10%
Banque Centrale Populaire	8.26%	6.10%

All amounts in £'000s unless otherwise stated

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