BACB

year ended 31 December 2020

ANNUAL REPORT & FINANCIAL STATEMENTS

BACB

your banking partner for

SPECIALIST MARKETS

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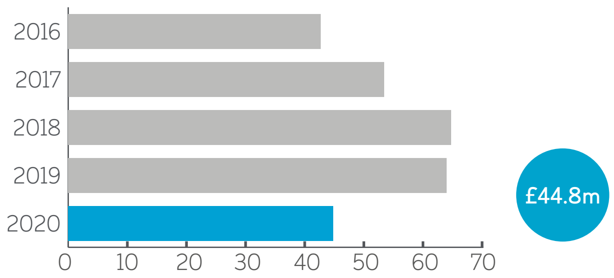
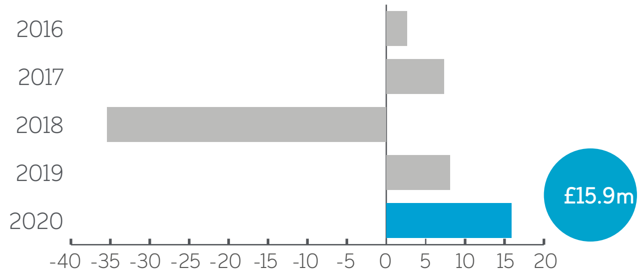
FINANCIAL HIGHLIGHTS

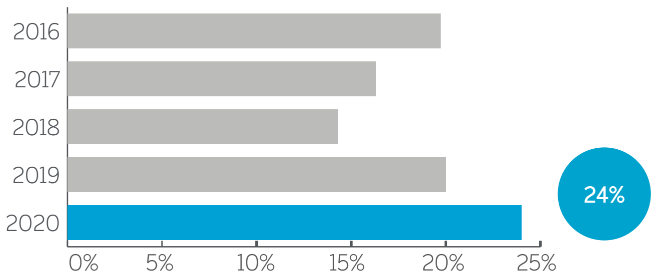
Operating Income down 30% to £44.8m



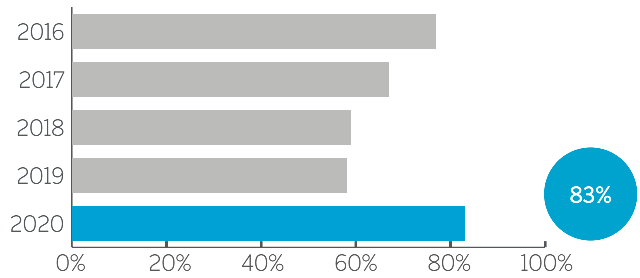
Profit before tax up £7.8m to £15.9m



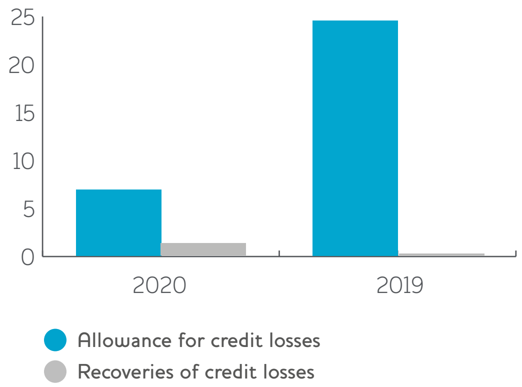
Capital Strength increased from 20% to 24%



Cost/Income Ratio 83%



Recoveries for credit losses £15m in 2020



	2020	2019	2018
FINANCIAL POSITION £m			
Operating Income before Loan impairments	44.8	64.0	64.8
Profit/(Loss) before income tax	15.9	8.1	(35.4)
Profit/(Loss) for the year	14.4	7.6	(35.3)
Total Assets	2,543	2,779	3,894
Total Loans	1,199	1,841	2,079
Total Equity	197	178	168
Tier 1 & 2 Capital (Eligible Capital)	264	236	233
RATIOS %			
Capital Adequacy[1]	24%	19.6%	14.3%
Cost Income Ratio[2]	83%	58%	59%
Return on Tier 1 Capital	8%	4%	-22%
Return on Tier 1 & 2 (Total Eligible Capital)	5%	3%	-15%
Non Performing Loans	5%	5%	10%

[1] Tier 1 and 2 capital divided by Risk Weighted Assets

[2] Based on Administrative Expenses divided by Operating Income before allowances for credit losses

BOARD OF DIRECTORS

The Board of Directors led by the Chairman Michael Stevenson.

MICHAEL STEVENSON
Chairman

MOHAMED SHOKRI
Vice Chairman
Non-Executive Director

EDDIE NORTON
CEO
Executive Director

AHMED ABURKHIS
Non-Executive Director

KHALED KAGIGI
Non-Executive Director

MOHAMED ZINE
Independent
Non-Executive Director

JEHANGIR JAWANMARDI
Chair of Audit Committee
Independent
Non-Executive Director

LAZHAR LATRECHE
Non-Executive Director

SUNDEEP BHANDARII
Independent
Non-Executive Director

NIGEL BOOTHROYD
Independent
*Non-Executive Director**

FAESAL OTHMAN
Non-Executive Director

*Subject to regulatory approval.

CHAIRMAN'S STATEMENT

"BACB is a boutique commercial bank specialising in trade solutions for clients in specialist markets."

Dear Shareholders,

The past 12 months have been some of the most extraordinary and challenging that anyone can remember, with the same being true for BACB.

The economic consequences of "lockdown policies" have been severe and it is to be hoped that the impact of vaccination and improved medical treatment for Covid-19 will allow national and international businesses to focus on rebuilding their businesses in a managed growth environment.

The banking environment was similarly affected; there were many challenges and risks emanating from both Covid-19 and our withdrawal from the European Union.

However, both of these significant events offer opportunities, especially to those best placed in existing markets, and who are agile in thought and action. Central Bankers around Europe and the World reacted by reducing interest rates in 2020, adversely affecting the financial performance of many banks, and there is little sign presently of an upturn in rates. Added to the ongoing economic uncertainty and volatility of currency movements the performance of the banking industry is expected to recover only slowly in 2021. It is however encouraging, that trade flows across most of our major trading areas held up remarkably through much of 2020, with growth expected to resume from Q2 in 2021.

OUR FINANCIAL PERFORMANCE IN 2020

In my last Chairman's Statement issued with our 2019 results, I noted that there was more work required to improve our resilience and to deliver better returns for our Shareholders. Our 2020 financial results confirm this remains the case. For various reasons, our business results struggled to perform in H1, even before the full impact of Covid-19 became evident. The move in March 2020 to home working demonstrated that our IT capabilities to support distant working were resilient. Everyone made extensive use of ZOOM and both customer and internal meetings adjusted and continued apace.

However, our business results continued to be challenged throughout the first half of 2020 and over the whole of the year our Income was down on the prior year by over 30%. Despite the decline in Income, our audited results for 2020 report a surplus of £15.9m before taxation. This is because our results benefited from welcome but unplanned recoveries totalling £15m from impaired assets as well as further receipts of £6.9m from a previously impaired exposure received between January and March 2021.

The Board recognises that our long-term strategy of sustainable profitable growth requires the business to generate trading profits with effective long-term risk management. No bank can rely on impairment recoveries to deliver a profitable outcome and actions have been taken to improve our management of credit risk.

OUR STRATEGIC DIRECTION

In October 2020, the Board appointed Mr Eddie Norton as Chief Executive with full authority to focus on improving the performance of the business units of BACB to deliver stronger returns across our core businesses and our core markets. Since his appointment, he has worked closely with the Board to commence delivering on his mandate to provide improved returns, initially by reviewing our products and efficiency across the Bank. Eddie is a former HSBC executive, with a wealth of expertise in trade finance, governance, and risk management. The Board is confident that his experience and fresh leadership approach will help the Bank make the most of the expected economic recovery, thus achieving the Board's long-term strategic objective of delivering sustainable profitable growth.

OUR BOARD OF DIRECTORS

Mr Eddie Norton joined BACB in October 2020 as CEO; and became an Executive Director in February 2021.

Also, in October, the Board appointed two experienced Independent Non-Executive Directors, Mr Sundeep Bhandari, and Mr Nigel Boothroyd. In February, the appointment of Mr Faesal Othman, representing the Libyan Foreign Bank as a Non-Executive Director was announced.

Our previous CEO, Ms Aliker, stepped down as CEO in September 2020. Ms Aliker served BACB for almost six and a half years, from 2014 to 2018 as Chief Finance Officer and Company Secretary and from June 2018 to September 2020 as CEO. The Board appreciates the commitment and work ethic shown during her time with BACB.

OUR STAKEHOLDERS

The Board of BACB recognises its corporate responsibilities to its stakeholders, our shareholders, customers, suppliers, and employees.

Without doubt, 2020 has been a year of many challenges, often testing our people in dealing with the unexpected, not least, home working full time since March 2020, with many families also on home schooling, and all facing the ever-present threat of the Covid-19 virus. I remain grateful to our people for their hard work and commitment to BACB during these testing times. I would also like to thank my fellow directors for their valuable contributions during a challenging year.

I hope everybody will stay well and stay safe as we rebuild our lives and businesses. We all face a steep climb to recover from the impact of the pandemic and the ensuing lockdowns. Yet I am confident that BACB with its new management is well positioned to rebound. With the impact of vaccinations, and international business now showing signs of recovery, we should all look forward to a more positive period ahead.

MICHAEL J STEVENSON

Chairman

31 March 2021

BUSINESS STRATEGY AND MARKET ENVIRONMENT

"The events of 2020 are a timely reminder that we must continue to be alert, agile and efficient."

2020 proved to be a challenging year for BACB where a combination of 2019 impairments and movements in foreign exchange rates resulted in urgent action to manage capital during the early months of 2020. By late March, the impact of the Covid-19 virus was apparent in our markets. The pandemic was declared, and, with its associated lock-downs, created business uncertainty. These events, and other matters, contributed to a reduction in our revenues in 2020 which declined by 30% compared with 2019. As we moved towards the end of the year, our capital position and capacity to do business improved and we have witnessed a gradual uptick in activity. Although conditions remain fluid, we are cautiously optimistic this recovery will continue.

Improvements made to our internal operating environment contributed to the Bank adapting well to conducting operations almost entirely remotely from the second quarter of the year onwards. BACB employees, both in the UK and abroad, made significant efforts to ensure continuity of service to our clients. I would like to recognise our staff, who have themselves faced considerable uncertainty in a rapidly changing business environment.

We remain, at our core, a trade finance bank with a unique and well-developed specialisation in African markets, and a strong belief in the value of relationship banking. An example of this is the part played by BACB in helping schools to reopen in Rwanda, where BACB's relationships with advising banks in Egypt enabled the Rwandan government to quickly import Egyptian steel needed for the construction of classroom blocks to allow children to return to schools in a Covid secure, socially distanced, manner. Separately BACB's continued support to Libya's oil sector, enabled business continuity for valued clients in the country during the pandemic-induced disruption, and we were delighted to see that this work was recognised in Global Trade Review (GTR)'s Best Deals Awards 2021.

Such examples illustrate the depth of our commercial engagement across borders, based on a deep understanding of institutions and markets supported by our well-developed capability in trade finance risk distribution.

RESULTS

The Bank's financial results are, of course, reflective of a challenging year. However, our operational resilience survived the challenge, and recoveries on losses provisioned during the 2018 and 2019 financial years transformed our 2020 results. As we look forward it is imperative that the business can deliver sustainable profitable growth in sometimes volatile market conditions without relying on unplanned recoveries.

> *"We ended the year with stable capital and liquidity metrics, which will underpin our capacity to support clients in 2021 and beyond"*

STRATEGIC DIRECTION

We ended the year with stable capital and liquidity metrics, which will underpin our capacity to support clients in 2021 and beyond. Trade finance remains our core focus, with the Bank's activities in Real Estate and Treasury contributing to a diversified and stable foundation for sustainable, profitable growth. The Real Estate division performed satisfactorily in the past year, notwithstanding market conditions, and remains a valuable component of the BACB offering.

There have also been some changes to the Bank's Executive Team; BACB have recruited a new Chief Risk Officer, who will join the bank at the end of March 2021 when the incumbent, Mr Christopher Strong, retires after six and a half years' service at the bank.

The events of 2020 are a timely reminder that we must continue to be alert, agile and efficient; BACB must be fit for the future. 2021 will see a refresh of our strategy as we assess and make changes to our operating model. This will include a holistic review of processes across the Bank to identify opportunities and efficiencies. These changes will help us to serve clients better and deliver predictable and satisfactory returns to shareholders. The revised strategy aims to set BACB on a trajectory of sustainable growth and to create an efficient and effective platform for the future.

EDDIE NORTON

Chief Executive Officer

31 March 2021

STRATEGIC REPORT

BUSINESS AND PERFORMANCE OVERVIEW

OUR NETWORK

BACB HEAD OFFICE
LONDON

Representative offices:
Tripoli, LIBYA
Algiers, ALGERIA
Abidjan, CÔTE D'IVOIRE

BUSINESS AND PERFORMANCE OVERVIEW

OVERVIEW

BACB is a specialist commercial bank, and a trusted partner, active in 28 countries principally across Africa, the Middle East and Asia. We aim to be our clients' banking partner for specialist markets, leveraging the skills and expertise of a diverse and talented team. In addition to BACB's core trade finance offering, the Bank also provides a niche UK real estate lending offering and operates a full Treasury function, which is active in foreign exchange, derivative and debt capital markets.

Based in the City of London, the Bank is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

THE STRATEGIC VISION

BACB aspires to provide a complementary portfolio of trade related instruments. The Board approved strategy is one of measured expansion, based on the Bank's core expertise and heritage of business in North and Sub-Saharan Africa.

BACB has a robust network of relationships, offering maximum value across its key markets, a client-centric approach and product specific expertise that enable the Bank to support stakeholders at both ends of the supply chain, strengthening the Bank's two-client approach.

BUSINESS OVERVIEW

The Bank has four key business lines:

- TRADE FINANCE
- COMMODITY FINANCE
- REAL ESTATE FINANCE
- TREASURY

The Bank's four business lines are complementary to the core trade franchise, with the exception of the Real Estate business, which forms part of the strategy to diversify income streams and to generate GBP revenue, providing some protection against the cyclical nature of global trade.

The Bank's balance sheet strategy is intentionally prudent, maintaining a relatively sizable book of liquid assets.

Throughout the pandemic BACB has continued to remain fully operational, without service interruption. In line with government guidelines, staff in the London headquarters and the representative offices in Algiers, Abidjan and Tripoli, migrated swiftly and seamlessly to remote working arrangements and continue, to provide day-to-day assistance to clients.

Trade flows have naturally faced great adversity during this period, but have been critically important to enabling public and private sector responses to the virus and paving the way for recovery. The Bank is proud to have played a part in facilitating the movement of goods throughout the evolution of the crisis, and has endeavoured to make the financing and provision of services as flexible as possible to accommodate client needs.

The following analysis provides an overview by business line.

TRADE FINANCE

BACB aims to support companies to develop and fulfil their international trading opportunities through the provision of bespoke trade finance solutions across specialist developing markets. Working closely with a network of international banking partners, BACB seeks to provide an experienced and personalised service.

Notwithstanding the challenging circumstances faced throughout most of 2020, BACB continued to offer its core trade finance activities across 28 markets and handled over USD 1.7bn of trade assets for our clients. The Trade Finance Business contributed 42% of the Bank's total revenue.

BACB was the GTR's Best Trade Finance Bank for North Africa in 2020 for the second consecutive year, re-affirming the Bank's specialist trade finance capability in the region.

BACB offers a broad range of trade finance services, including: Import and Export Letters of Credit;

Standby Letters of Credit; Bills for Collection and/or Discount; Payment Guarantees; Bid/Performance Bonds; Trade Loans; and Invoice Discounting. Our solid reputation and two-client approach enables us to advise and confirm transactions globally, thereby providing enhanced financial security to traders and improved management of international exposures and cash flow.

The Bank continued to develop its trade distribution capability with USD 289.1m of trade assets distributed in 2020. BACB actively engages with banks, brokers and insurers, demonstrating the Bank's ability to originate and distribute quality trade finance assets. This strong distribution capability enables BACB to make efficient use of its balance sheet and offer greater risk appetite in specialist trade finance markets.

COMMODITY FINANCE

2020 saw the stabilisation of BACB's commodity finance activity in accordance with the Bank's risk appetite, which was further adjusted due to the Covid-19 pandemic. At the end of the year the portfolio of commodity finance assets stood at GBP 140m.

The coming year will see the continuation of work to maintain a stable portfolio of existing assets, along with the completion of a detailed review of the business development strategy for the Commodity Finance offering. The review will recognise the needs of BACB's clients and shareholders, and ensure full alignment with the Bank's current risk appetite.

REAL ESTATE

The real estate business provides term lending facilities secured against high quality UK real estate assets, both residential and commercial, with relatively conservative loan to value and interest coverage ratios.

As at 2020 year end, the real estate book stood at GBP 444m. This represents a small decrease over the year as the business responded to the economic risks posed by the pandemic and Brexit uncertainty by adjusting risk appetite in certain sectors. The marginal reduction in book size was reflected in a smaller fall in revenues of 5% in the year to GBP 10.5m. This business, however, remains a key part of the Bank's diversification strategy and provides a good risk adjusted Sterling denominated annuity income flow.

With the worst case uncertainties related to Brexit now behind us but with the pace of the UK economic recovery from the pandemic still uncertain, the size and shape of the portfolio will be subject to continuous review in 2021. Success will be a function of maintaining the appropriate diversification across the book, whilst continuing to support existing customers. As a Sterling denominated book with deals that reference LIBOR, the Bank is working with existing and new customers through the transition to Risk Free Reference Rates; this is a collective challenge that BACB are well positioned to meet.

TREASURY

Treasury undertakes two primary roles; as an institutional counterparty to the global financial markets and as the Bank's balance sheet management function.

Treasury acts as a conduit between the Bank's clients in Africa and Middle East and the global liquidity pools, actively dealing in products across interest rate, foreign exchange, derivative and debt capital markets.

The Treasury department offers professional execution across a wide range of treasury and capital markets products combined with efficient settlement and competitive pricing in a Market in Financial Instruments Directive II (MiFID II) compliant manner. Foreign exchange is key offering and a significant revenue generator. BACB offers clients competitive pricing via FX trading portals to facilitate their needs for cash flow coverage and outright trading, however the Bank does not have risk appetite to take significant proprietary FX positions itself.

The Bank also offers a range of structured products and Islamic finance. Treasury combines its client centric mandate with the management of the Bank's own financial resources, managing the balance sheet structure, cash flow profiles, liquidity adequacy, and market risk hedging.

To mitigate funding and liquidity risks within regulatory and internal risk appetite, the Bank actively manages a significant portfolio of high quality Bonds. To supplement income, Treasury manage a separate investment portfolio of bank and corporate debt securities principally issued by investment grade rated entities. Additionally, a small book of Emerging Market Sub Investment Grade Bonds is managed in a Trading Book.

BANKING SERVICES

BACB offers a range of complementary banking services to select corporate and financial institution clients. The offering comprises of a range of different currency accounts, international payments, payroll services and deposits.

LEGACY PRODUCTS

The Bank's lending policy states that new lending activity should support core businesses through the provision of value-added structured solutions to clients.

Structured Finance also manages the run-off of the Bank's legacy loan book. This has reduced significantly over the course of the year, as a result of loans maturing and asset disposals. This book is largely comprised of longer dated, low margin project financings in the oil, gas and power sectors which no longer reflect the Bank's risk appetite or yield requirements.

BACB are risk-off on new structured finance activity and continue to monitor risk appetite for this business line.

INTERNAL OPERATIONS

BACB has a commitment to operate in an efficient and compliant manner in all of its activities, as detailed below:

REGULATORY COMPLIANCE

The Bank is committed to maintaining an effective, risk-based regulatory compliance framework. This is aligned to the requirements of a UK regulated institution operating within its target markets, products and service streams.

Significant regulatory and compliance projects in 2020 included the continued embedding of the requirements of the Payment Services Directive (PSD2) and the implementation of a new GRC system. These initiatives enhance the Compliance monitoring and control environment, alongside the delivery of a Bank-wide Regulatory / Horizon scanning framework to ensure compliance with relevant regulatory requirements. In addition, the Bank has continued to ensure alignment with updates to the Senior Management and Certification Regime (SMCR) framework, the requirements with regard to the continuing LIBOR transition and Brexit preparation obligations.

ANTI-FINANCIAL CRIME

BACB continues to build upon its AFC control achievements in 2019. As a UK regulated financial institution, BACB recognises the importance of maintaining a robust financial crime compliance programme, commensurate to the risks posed by the Bank's products and services, client base, and geographic footprint.

BACB operates a "three lines of defence" model and has a dedicated Anti-Financial Crime team within the Compliance Department, who are responsible for providing advice and guidance to the first line of defence on financial crime risk management. The Bank's employees are required to undertake annual financial crime compliance training, and receive supplementary training and guidance as required, to address applicable regulatory developments and changes to industry best practices.

During 2020, BACB continued to focus on strengthening its ability to mitigate financial crime risk by enhancing its financial crime compliance programme. This included developing the Bank's Sanctions Risk Assessment methodology, streamlining the provision of financial crime management information to the Bank's governance committees, and continuing to embed our internal compliance-monitoring programme.

OPERATIONAL RISK FRAMEWORK

BACB manage risk through a comprehensive risk governance and control framework, as described in the Strategic Report: Principal Risks and Uncertainties on pages 1.17 to 1.21, and in Note 4, Risk Management, page 2.22. Note 4 also describes the nine Principal Risk Types identified, which might adversely impact the Bank's ability to achieve its strategic objectives. These principal risks are subject to ongoing review by management and the Board, and are monitored within the framework of our Overarching Governance Standard. The policies noted above form part of the Bank's wider risk management approach.

BACB have considered the financial risks arising as a result of climate change within each of the principal risk standards.

ANTI-BRIBERY AND CORRUPTION

BACB operates a zero tolerance approach to bribery and corruption, and require compliance with all applicable anti-bribery corruption laws in jurisdictions in which we operate. BACB has a dedicated Anti-bribery and Corruption Policy and annual Anti-bribery and corruption training is provided to all of the Bank's employees.

INFORMATION TECHNOLOGY

Information Technology remains a critical area for BACB, both to ensure the delivery of excellent service to our clients and to underpin the efficiency of our internal processes. The Bank has a Board approved IT Strategy which is backed by open and transparent IT Governance. The IT Steering Group, populated by senior staff from across the Bank, oversees the implementation of IT change.

The Bank's IT strategy aims to provide cost effective IT services to assist the business' growth. The strategy delivers a system infrastructure that enhances client service, data integrity, quality and security across the Bank. BACB's systems support sound decision-making, efficient processing and regulatory compliance, in a controlled and cost effective manner. The Bank monitors and implements regulatory and financial technology solutions as required.

Operational Resilience is at the heart of the BACB's solution and the IT response to the Covid-19 pandemic ensured the Bank continued to function normally with very little disruption. This success was underpinned by regular testing of IT security and resilience capabilities and close working with Compliance and Audit teams.

INTERNAL AUDIT

The Internal Audit function is independent of the business and has a primary reporting line to the Chair of the Board Audit Committee. The function is fully outsourced.

In 2020 this service was provided by Deloitte.

CULTURE AND CONDUCT

For BACB, UK regulators, and the banking industry more generally, Conduct and Culture is a key area of focus. The Bank's objective is to ensure that staff has an understanding of good conduct, recognising that process is as important as outcome. In 2020 a programme of work began with an external industry expert to review BACB's Conduct Framework and identify areas of improvement. Following on from this work the Bank will review its Values and Behaviours during 2021. BACB revised its People Strategy to focus on teamwork and engagement.

The Bank has a Whistleblowing Policy, led by a

Board member, which enables all employees to raise concerns. The Bank has continued to focus on ensuring that the Whistleblowing framework is up to date and effective through enhanced training and information provision.

BACB perpetually reviews its ability to measure conduct and culture, enhancing its data gathering capability, and providing metrics to the Executive Committee and the Risk and Conduct Committee, where appropriate. In addition to analysing metrics of misconduct, the Bank considers it equally important to examine metrics highlighting positive behaviours, allowing the organisation to learn from excellent examples of conduct.

DIVERSITY AND INCLUSION

BACB is and has always been a diverse and inclusive place to work, reflective of the communities in which we do business. The Bank has always recognised that a key factor in our success as a business is our credentials with regard to diversity and inclusion.

CORPORATE SOCIAL RESPONSIBILITY, BUSINESS STANDARDS, AND CONDUCT

BACB is committed to conducting business responsibly and ethically. The Bank aims to maintain the highest standards concerning human rights, diversity and inclusion. The Bank will only accept business that meets strict ethical and legal criteria. This approach to business is reflected in the Bank's values and behaviours, which are demonstrated at all levels of the Bank, and are at the core of how BACB operates. All employees are formally assessed against these values and behaviours as part of the performance management process.

PEOPLE

BACB provides a collaborative, open and inclusive workplace, widely acknowledged for its expertise in trade, finance and specialist markets.

BACB's People Strategy is reviewed annually to align with business strategy and is focused on attracting, developing and retaining talent. During 2020 it was necessary to adapt the Bank's approach in response to the global pandemic and to ensure that employees remained at the forefront of the Bank's agenda. The Bank implemented initiatives to enhance communication with employees, support their mental health and wellbeing and monitor engagement levels. This has enabled BACB to continue to deliver an innovative, high quality service to all clients.

PERFORMANCE MANAGEMENT

The Bank's approach in 2020 has been to create a continuous dialogue of feedback and support on performance, achievements and behaviours. The embedding of the performance management software tool, implemented at the end of 2019, has enhanced feedback mechanisms and allowed all employees to link their objectives to the business strategy.

At BACB all individuals are assessed for behaviours and values as well as the results they have delivered. A formal employee recognition scheme was launched during Q4 to recognise and celebrate those who have been role models in their delivery for clients and the values and behaviours they have displayed.

LEARNING AND DEVELOPMENT

The Bank recognises the importance of employee development to add value and contribute to the success of the Bank. During 2020 the Bank continued to focus on staff development, hosting virtual "lunch and learn" events, online workshops and a programme of regulatory compliance and risk awareness training. Development forms an integral part of our performance management process.

CHARITABLE SUPPORT

In 2020 total charitable donations made by the Bank were GBP 1,900 including support for employee fundraising through the Bank's '£ for £' scheme, which matches fund raising up to £500 per employee per year.

The Bank facilitates 'Give As You Earn' charitable giving by employees and encourages volunteering, organising events for staff to participate in through the BACB Together initiative and by matching holiday days for staff.

ENVIRONMENT AND SUSTAINABILITY

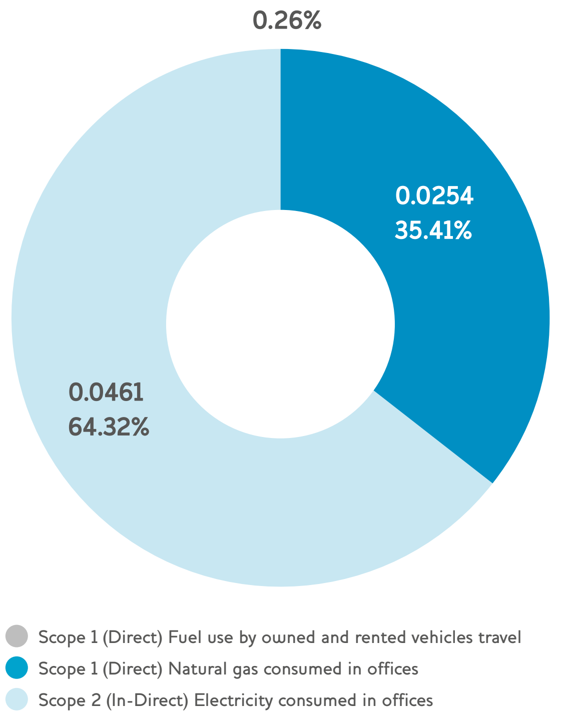
Building a sustainable future is recognised by BACB as crucial; the Bank is committed to ensuring environmental best practice, and has policies, procedures and targets in place to achieve this objective.

BACB recognises that the biggest challenge to creating a sustainable future is climate change. In alignment with the pioneering work being undertaken by UK Regulators the Bank has engaged with the consultation on enhancing banks' and insurers' approaches to managing the financial risks from climate change, furthermore the Bank has nominated a Senior Management Function and Board Sponsor to assess and manage exposure to physical and transitional risks identified.

Since the Bank's establishment, it has propounded a message of reduce, reuse and recycle; encouraging low carbon transportation methods through a cycle to work scheme and season ticket loans.

The Bank has a Sustainability Working Group, resulting in numerous environmental improvements over the past few years.

In Line with the Streamlined Energy and Carbon Reporting (SECR) Requirements BACB has produced a comprehensive report of the organisation's Greenhouse Gas (GHG) emissions covering the period 1st January to 31st December 2020. The scope of BACB's reporting encompasses electricity and gas associated with its operational office properties, as well as owned/controlled transport usage. The Bank's total emissions for the reporting period were 254.43 tCO_2e, with an intensity ratio of 0.072 tCO_2e /sq meter. The largest proportion of BACB's GHG emissions is attributable to office electricity usage, which represents 64.3% of the total emissions, equating to 163.66 tCO_2e.



STRATEGIC REPORT

PRINCIPAL RISKS AND UNCERTAINTIES

PRINCIPAL RISKS AND UNCERTAINTIES

The Bank's overarching risk management objectives are to operate within a clearly articulated risk appetite in an environment fostering a strong risk culture, supported by, accurate and relevant risk reporting.

Risks are monitored within the framework of an 'overarching governance standard', underpinned by governance standards covering nine principal risk types. The Board considers a 'Risk update from the CRO' at each meeting, to assess risks that may present a threat to the stability or sustainability of its business franchise.

This risk management framework is described in detail in Note 4. Principal risks and uncertainties are considered below.

CREDIT RISK

Acceptance of credit risk remains the Bank's principal source of revenue and consequently, its principal source of financial risk. The degree of credit risk the Bank is prepared to accept is calibrated according to the Executive strategic plan and risk appetite framework, approved by the Board.

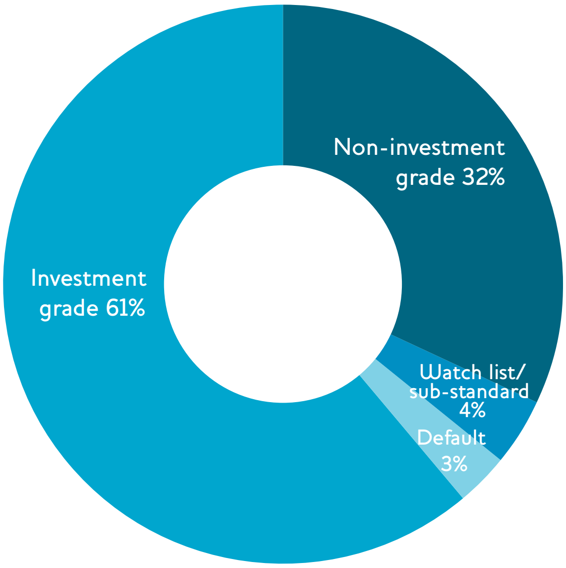
The Bank's strategic geographical focus means that a significant portion of credit risk is aligned to the lower end of the credit-grading spectrum. Credit risk is mitigated through the short-term nature of the trade and commodity finance business streams, where exposures are secured and self-liquidating. The Real Estate lending book is fully secured at prudent loan-to-value levels. The Bank mitigates its credit risk through the following measures:

- A framework of concentration limits and guidelines to avoid excessive exposures to individual counterparties, countries, regions or sectors;
- Limits which govern the quantum nature and tenor of exposures;
- Use of cash collateral and other forms of security, including the use of insurance or distribution;
- Business decision making made with reference to risk adjusted return criteria.

Approximately two-thirds of the Bank's exposures are classified as investment grade. This relates in the main to the Bank's liquidity portfolios.

CREDIT EXPOSURE BY GRADE

Rated by BACB internal grading system –



Of the Bank's total credit exposures, 4% by value are on the 'watch-list' and 3% are classified as impaired. The individually assessed impairment charge relates to a small number of exposures.

The IFRS 9 Financial Instruments accounting standard was adopted from 1 January 2018. The expected credit loss allowance for year ended 31 December 2020 amounted to £6.9m (2019: £24.5m).

The ensuing analysis considers key matters related to credit provisions incurred at 31 December 2018 and the consequent impact on the Bank's capital position during 2019 and 2020.

CREDIT PROVISIONS AND CAPITAL ADEQUACY RISK ASSESSMENT AND STRESS MODELLING

CREDIT PROVISIONS RISK ASSESSMENT

The 2020 result includes £6.9m in respect of credit impairments as well as the provision for a management overlay which are offsetted by recoveries of £15m related to provisions taken in 2018 and 2019.

The Bank responded to the challenges posed by Covid-19 by actively managing its risk appetite across its business lines. Consequently, the level of impairment provisions in 2020 is significantly reduced, and the Bank has benefited from a number of significant recoveries. In 2020 the Bank has not suffered any credit losses as an effect of the pandemic, although the IFRS9 charge reflects heightened caution attributable to the impact of Covid-19. This relates in particular to the Bank's Real Estate exposures: the Bank's residential portfolio has performed strongly with only a small number of borrowers requesting interest deferral and valuations of underlying security remaining firm; in its commercial portfolio the Bank has exposure to the hotel, retail, commercial office and student accommodation sectors, which have been adversely impacted by the pandemic. However, whilst the portfolio is being carefully monitored, only 2 borrowers have been granted interest deferrals which have not yet been made current and the Bank expects the recently announced steps to exit lockdown will bring some much-needed stimulus to its borrowers.

The Directors fully considered a number of risks and uncertainties as part of the Bank's going concern including but not limited to the items discussed below.

CAPITAL ADEQUACY RISK ASSESSMENT

As at 31 December 2020, Tier 1 capital headroom amounted to GBP 55.3m and Total capital headroom GBP 93.5m.

The Bank's surplus Tier 1 capital and total capital over the total regulatory minimum as at 31 December 2020 is significantly improved from that in prior years, again due to careful management of risk weighted assets and a tighter risk appetite particularly through the global economic uncertainties as a result of the pandemic.

FUNDING CONCENTRATION

The funding model of the Bank is concentrated and dependent on its principal shareholder, the Libyan Foreign Bank, and its ultimate parent the Central Bank of Libya. The recent volatile political and economic situation in Libya represents a risk of disruption or curtailment of the Bank's primary source of funding. However, recent developments pointing to a political solution are encouraging.

LIQUIDITY ANALYSIS

The Directors have considered a detailed analysis of contractual cash-flows and are confident of the Bank's ability to meet all of its obligations as they fall due should the Bank's funding from Libya reduce materially or cease. This is due to the highly liquid nature of the majority of the Bank's assets, and the relatively short-term nature of much of its lending.

LIBYA

There have been significant efforts by the international community to maintain momentum towards a solution involving a unified and internationally recognised government in Libya, as well as signs of an emergent interest from external parties to invest in Libya. This has permitted some stability, which should benefit the country's economy and levels of FX reserves.

Current funding levels from Libya remain stable and strong, with the maturity profile of the deposit base being broadly consistent. BACB remains strategically important to Libya in its interaction with the global economy and as a means of providing access to the international financial markets, including for its oil and gas revenues. In the event of the imposition of international sanctions, based on past experience it is likely that the funding would become permanent for their duration.

Business flows to and from Libya remain important to BACB. As and when stability returns to Libya, this market holds significant upside potential. The Directors' assessment is that the risks posed to the Bank as a result of its concentrated funding base do not pose a material uncertainty.

COUNTERPARTY BANKS

The Directors continue to monitor relationships with BACB's international counterparties and the need for counterparty banks to continue to transact with the Bank. The sector-wide trend for counterparties to review the potential regulatory and legal risks associated with clearing transactions initiated by other banks has continued. The Directors acknowledge that these concerns may be heightened due to the Bank's connections with Libya.

The Board monitors the impact and level of de-risking by its counterparties but cannot control the actions of the market. Recognising this, the Bank maintains a close and continuous dialogue with its principal counterparty and correspondent banks. The strengthening of the Bank's governance and control procedures and sanctions monitoring demonstrates the Bank's commitment to ensuring the robustness of its operations and provides comfort that BACB remains a safe counterparty with which to transact business.

The Directors' assessment is that the risks posed to the Bank as a result of its counterparty bank relationships do not pose a material uncertainty.

REPUTATIONAL RISKS

The Bank protects itself from material damage to its reputation by ensuring that any business activity is satisfactorily assessed and managed by the appropriate level of management and governance oversight.

OTHER IMPORTANT RISKS

The Bank faces a range of other risks including compliance, market, operational and conduct and culture risks.

A description of the full range of risks faced by the Bank and its approach to managing these risks is set out in Note 4.

Conduct and culture risk continued to be a key area of focus for the Bank during 2020, culminating in the launch of a revised People Strategy and the roll out of a number of initiatives in 2020.

Financial Crime risk is one of the 9 principal risk types outlined in the Bank's Overarching Governance Standard. The Bank also has a Financial Crime Risk Governance Standard, which forms part of the overall Governance and Risk Management Framework.

Regulatory compliance remains an area of focus. The Bank operates in some of the international markets' more challenging countries, and often with clients for whom it may be difficult, although not impossible, to obtain the required level of information to satisfy KYC, AML and Sanctions screening criteria.

Enhancement of operational resilience, in line with the regulatory framework, was a key focus during the year, as the Bank continued to work toward the 2021 implementation date. As disclosed in Note 33 the Bank signed a settlement agreement on 3 September 2019 with the U.S. Department of the Treasury's Office of Foreign Assets Control ("OFAC") regarding alleged historical U.S. dollar bulk funding practices between 2009 and 2014. The settlement follows an internal review that led the Bank to self-disclose its preliminary findings to OFAC. This was followed by an extensive internal review and period of cooperation with OFAC. Under the terms of the settlement agreement dated 3 September 2019, OFAC made no finding of fault regarding BACB, which did not admit liability for any alleged violations. No further action will be taken against the Bank by OFAC if it meets certain conditions and compliance measures under the terms of the settlement agreement, including payment in the amount of $4m and the annual certification of the Bank's Sanctions Compliance Programme for a period of 5 years, commencing, 1 March 2020. The latest attestation was completed on 1 March 2021.

BACB has implemented systems and controls designed to assure compliance with economic sanctions imposed by appropriate authorities.

Many of the countries and markets in which the Bank operates are facing political and economic uncertainty. The Bank seeks to mitigate these risks at all times through routine monitoring procedures.

The Bank-wide project to upgrade the core banking IT system went live at the end of 2018 with further improvements rolled out during 2019 and 2020. Other projects, including Regulatory change initiatives, are subject to close oversight by Executive Management and the Board.

The UK exited the European Union on 31 December 2020 with no material impact to the Bank.

BACB has for many years recognised the importance of reducing its own carbon footprint, as explained in the Environment and Sustainability section on page 1.16. In addition, we recognise the challenge that climate change poses to a sustainable future and have put in place a number of initiatives to address those challenges:

- The Bank is developing policy, with a Board level sponsor, designed to manage the evolution of the Bank's contribution to the climate change agenda. The Board will receive regular reports to help it make decisions in support of that journey. This has been recognised as one of the Bank's priority initiatives for 2021.

- The Bank's business model poses a significant challenge in this regard. BACB is a Libyan-owned Bank, which derives substantially all of its capital and funding from Libya's oil production. Furthermore, much of its business focus is on trade and commodity finance to match importers and exporters of essential or strategic goods in geographical regions where the climate change agenda is not well developed, but where that trade is essential to the economic well-being of the country. A working group will analyse these business flows with a view to identifying and measuring their potential impacts, and to develop proposals for consideration by the Board in relation to the Bank's contribution to the climate change agenda. Ultimately, these will be integrated into the Bank's strategy for the future. This will also inform the level of future disclosures.

- The Bank has put in place measures to manage the financial risks posed to the Bank's capital associated with climate change. These are integrated into the risk management framework and include inter alia risk assessment and scenario analysis at individual business unit and bank wide level. As evidenced by the maturity analysis set out in Note 4 the substantial majority of the Bank's credit and market exposures mature within 12 months, which significantly mitigates the potential impact of climate change on the Bank's exposures. Assets with a longer tenor mostly comprise marketable securities which have no direct exposure to climate change risk, and real estate loans with a maximum residual term of 5 years. BACB's Real Estate team regularly assesses the impact of climate change on asset quality, including but not limited to a regular flood risk assessment.

As stated elsewhere, the Bank has successfully adapted its systems and processes to manage the challenges posed by the Covid pandemic.

STRATEGIC REPORT

CORPORATE GOVERNANCE

SHAREHOLDERS

The Bank's shareholders as at the reporting date were:

- Libyan Foreign Bank (87.65%);
- Banque Extérieure d'Algérie (6.175%); and
- Banque Centrale Populaire (6.175%).

The Bank's majority shareholder, the Libyan Foreign Bank ('LFB') has a substantial international portfolio of investments, involving over 40 participations in 25 countries. In its 2019 unaudited accounts LFB reported total assets of c.$17.7bn and net assets of c.$4.3bn, including significant cash reserves.

GOVERNANCE

The governance arrangements followed by the Bank's Board of Directors (the Board) are mandated in a Shareholders' Agreement and in its Articles of Association.

These mandates provide that shareholders of the Bank may appoint directors in accordance with the proportion of 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. Schedules of Reserved Matters specify matters to be decided by the Board or reserved for approval and by the shareholders.

The Board governance arrangements are complemented by an executive governance structure. The executive governance structure operates under clearly articulated governance principles and risk management objectives. The Executive considers and reports on the principal areas of risk for the Bank and the associated controls framework, including risk appetite parameters. The Bank has adopted the market accepted 'three lines of defence' model. The outsourced Internal Audit function acts as the third-line of defence and provides independent assurance to the Audit Committee on the appropriateness and efficacy of the internal controls system.

BOARD ARRANGEMENTS

The Bank benefits from the diverse skills and experience of its Board members. Shareholder representatives bring experience of BACB markets. Board diversity in terms of experience and background ensure the optimal composition of the Board and its sub-committees.

During 2020, the following individuals served on the Board:

BOARD MEMBER	SUB-COMMITTEE MEMBER	STATUS
Mr MICHAEL STEVENSON *Chairman*	AC/RCC/NRC	I-NED
Mr MOHAMED SHOKRI *Vice-Chairman*	AC/RCC/NRC	NED
Mr AHMED ABURKHIS	AC/RCC/NRC	NED
Mr JEHANGIR JAWANMARDI	AC/RCC/BCC	I-NED
Dr KHALED KAGIGI	AC/RCC/BCC	NED
Mr SUNDEEP BHANDARI[1]	AC/RCC	I-NED
Mr NIGEL BOOTHROYD[2]	RCC/NRC	I-NED
Mr LAZHAR LATRECHE[3]	BCC	NED
Mr MOHAMED ZINE	AC/RCC/BCC	I-NED
Mrs SUSANNAH ALIKER[4]		ED

Note 1: Mr Sundeep Bhandari was appointed to the Board on 6th October 2020; his appointment as Chair of the Risk and Conduct Committee was approved by the PRA on 8th March 2021.
Note 2: Mr Nigel Boothroyd was appointed to the Board on 14th October2020.
Note 3: Mr Lazhar Latreche was appointed to the Board on 7th May 2020.
Note 4: Mrs Susannah Aliker resigned from the Board on 20th October 2020.
Note 5: The Board formally appointed Waterstone Company Secretaries Limited as Company Secretary to the Board on 5th February 2021 and Mrs Patricia Smith stepped down as Secretary to the Board on 4th December 2020 to take on other responsibilities in the Bank.

On 5th Feb 2021 the following additions to the Board were confirmed:

BOARD MEMBER	SUB-COMMITTEE MEMBER	STATUS
Mr EDDIE NORTON		ED
Mr FAESAL OTHMAN		NED

At the 31st December 2020, the Board had five independent non executive directors, including the Chair of the Board, Chair of the Audit Committee, Chair of the Risk and Conduct Committee, Chair (designate) of the Nominations and Remuneration Committee and Chair of the Board Credit Committee. During 2020 members of the Executive Committee attended Board meetings.

The Board met formally on nine occasions during 2020.

BOARD EVALUATION

The Chairman conducts an annual Board member evaluation as part of each individual member's annual Fit and Proper assessment, supported by the Compliance Department and overseen by the Nominations and Remuneration Committee. The findings of the evaluation process are reported annually to the Board and any relevant matters addressed.

At the end of 2020, the Board undertook a Board Skills Assessment. The findings from this review have been considered by the Nominations and Remuneration Committee and are being used to confirm that each Board Sub-Committee has the requisite skills and experience to fulfil its responsibilities, to identify any gaps and to identify topics for the Director Training Plan for 2021.

SECTION 172 STATEMENT

As a Board, we have always considered the needs of wider stakeholder when decision making. We seek to comply with the requirements of Section 172 Companies Act 2006 in considering, in good faith, what will promote the success of the Bank for the benefit of the stakeholders as a whole having due regard to the likely consequences of such decisions in the long-term.

The Board considers the requirements of s172 of the Companies Act 2006 through a combination of:

- Standing agenda items and papers presented at Board meetings on people matters, business strategy and stakeholders matters.
- The Board receives periodic updates against plan from the Executive Management.
- Employee engagement. The People Strategy continued through 2020 with the aim of building a collaborative culture to enhance employee engagement. The Board continues to invite members of management to present at meetings of the Board and its sub-committees.
- Our commitment to sustainability and the environment continues through our policy of reduce, reuse and recycle across our operations.
- Understanding our Clients and Customers. At BACB we have an experienced client facing team who look after our clients and who are knowledgeable about their business. Our Board receives periodic updates on the Bank's interaction with our clients. In addition BACB monitors payments to our suppliers (and complies with the reporting on payment practices regulations) and maintains a transparent tender process to all bidders. Detailed due diligence is undertaken on critical suppliers to monitor their activities and supply chain.
- All shareholders have representation on the Board via a nominated director or directors.

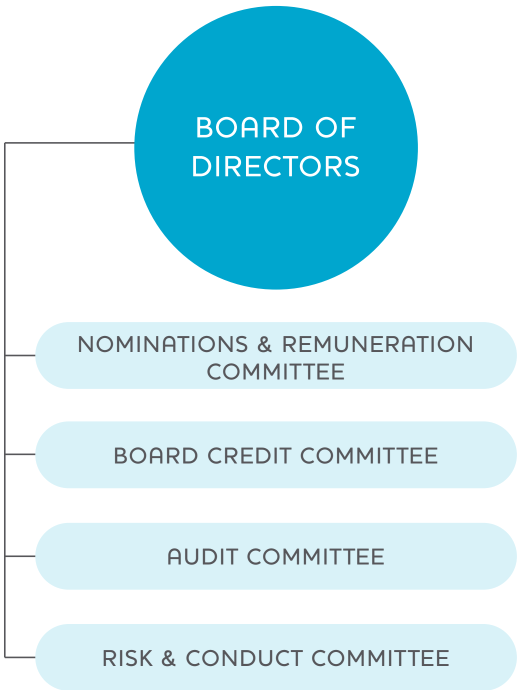
GOVERNANCE FRAMEWORK

The Board has ultimate responsibility for establishing, approving and periodically reviewing the strategy of the Bank and its governance framework. The Board oversees senior management to ensure that they manage the Bank's activities in a manner that is consistent with the strategy and governance framework.

BOARD SUB-COMMITTEES

The Board has established a number of Sub-Committees in order to enhance and streamline its decision making, as outlined below.

During the year the Audit, Risk and Conduct Committee was formally separated into two committees, the Audit Committee and the Risk and Conduct Committee with separate meeting Chairs. An independent non-executive director has been appointed as the new Chair of the Risk and Conduct Committee, subject to regulatory approval.



NOMINATIONS AND REMUNERATION COMMITTEE (“NRC”)

The Nominations and Remuneration Committee has a mandate to agree the remuneration and employment policies of the Bank and to make key appointments.

BOARD CREDIT COMMITTEE (“BCC”)

The Board has delegated authority to approve the granting of credit applications to executive management subject to certain limits. Applications above those limits must be referred to the Board Credit Committee for consideration and approval. The Committee considers applications as they arise. The Board Credit Committee met nine times during 2020.

AUDIT COMMITTEE (“AC”)

The Committee considers the Bank’s financial reporting, the nature and scope of audit reviews, and the effectiveness of the internal systems and controls.

RISK & CONDUCT COMMITTEE (“RCC”)

The Committee considers the Bank’s risk management, compliance, financial crime, whistleblowing, and conduct matters.

The CEO, CRO and CFO attend each meeting of the AC and RCC, along with the Bank’s external auditor, its outsourced internal auditors, and other Executives as required.

The AC and RCC met six times during 2020.

EXECUTIVE GOVERNANCE

Led by the Chief Executive, the Executive Committee (‘ExCo’) has a business and prudential remit and is responsible for:

- Formulating and endorsing the Bank’s strategy and annual operating plan for approval by the Board;
- Ensuring the Bank is managed in accordance with the strategy;
- Ensuring the Bank is managed in a sound, prudent and ethical manner and in accordance with all relevant laws, regulation and guidance;
- Managing the Bank’s interface to its principal stakeholders including the Board, regulators, customers and auditor.

Following a review and recommendation by the ExCo during Q4, the Board endorsed the streamlining of the executive sub-committees to reduce duplication across committees and increase efficiencies for senior management. In support of this committee restructure, the membership of the Executive Committee was extended in December 2020 to include all heads of business lines and the Chief Information Officer.

At 31st December, the members of ExCo were:

- Chief Executive Officer
- Chief Financial Officer
- Chief Risk Officer
- Chief Operations and Controls Officer
- Chief People Officer
- General Counsel and Chief Compliance Officer
- Chief Information Officer
- Treasurer
- Head of Client Coverage
- Head of Real Estate

ExCo has established a number of sub-committees to cover risk management, governance, regulatory compliance, anti-financial crime, operational resilience, and information security.

The ExCo Sub-Committee structure is as summarised below:

In January 2021 the Governance and Control Committee was renamed the Non-Financial Risk Committee to address the extended coverage of the committee to all areas of non-financial risk.

The Strategic Report was approved by the Board of Directors on 31 March 2021.

EDDIE NORTON

On behalf of the Board

31 March 2021

STATEMENT OF

DIRECTORS' RESPONSIBILITIES

IN RESPECT OF THE STRATEGIC REPORT, THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

STATEMENT OF

DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE STRATEGIC REPORT, THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

The Directors are responsible for preparing the Strategic Report, the 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 international accounting standards in conformity with the requirements of the Companies Act 2006 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 its profit or loss for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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 its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and 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.

Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report and a Directors' Report that complies with that law and those regulations.

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 2020

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2020

The Directors present their annual report and the audited financial statements for the year ended 31 December 2020. 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 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 £14,428,000 (2019: £7,628,000).

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.

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 1.23. None of the directors holds or has held shares in the Bank. All of the directors benefited from qualifying third party indemnity insurance in place during the financial year and at the date of this report.

COMPANIES ACT SECTION 172 DISCLOSURE

The statement by the Directors in performance of their statutory duties in accordance with section 172 (1) of the Companies Act 2006 is included in detail in the Strategic Review.

STAKEHOLDER ENGAGEMENT

The Board recognises the importance of taking into account all stakeholder interests, including in the principal decisions taken by the company during the financial year. We continue to seek feedback from our customers, our colleagues, shareholders and ourselves as a Board. Inclusion of both standing and rolling agenda items in our yearly cycle of meetings enable us to factor these into our decision-making and ensure our stakeholders' interests are met.

AUDITOR

KPMG LLP was appointed as the auditor of the Bank at its Annual General Meeting on 7 May 2020, to hold office until the conclusion of the next General Meeting at which Financial Statements are laid before the company. In accordance with auditor rotation requirements KPMG has to step down as auditors of the Bank in 2023, the Board is currently assessing options for the appointment of new auditors.

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 auditor are unaware; and Directors have taken all steps that they ought to have taken as Directors to make themselves aware of any relevant audit information and to establish that the Bank's auditor are aware of that information.

EDDIE NORTON

By order of the Board

31 March 2021

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF
BRITISH ARAB COMMERCIAL BANK PLC

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF BRITISH ARAB COMMERCIAL BANK PLC

1. OUR OPINION IS UNMODIFIED

We have audited the financial statements of British Arab Commercial Bank plc ("the Bank") for the year ended 31 December 2020 which comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flow, and the related notes, including the accounting policies in note 3.

In our opinion the financial statements:

• give a true and fair view of the state of the Bank's affairs as at 31 December 2020 and of its profit for the year then ended;

• have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and

• have been prepared in accordance with the requirements of the Companies Act 2006.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

Following a competitive tender process in the summer of 2017, we were reappointed as auditor of the Bank for the period ending 31 December 2017 and subsequent financial periods. We were originally appointed as auditor by the Directors on 27 September 1996. The period of total uninterrupted engagement is for the twenty-five financial years ended 31 December 2020. We have fulfilled our ethical responsibilities under, and we remain independent of the Bank in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to public interest entities. No non-audit services prohibited by that standard were provided.

2 KEY AUDIT MATTERS: OUR ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

THE RISK

Going concern

Refer to page 2.6-2.8 and page 2.72 (financial disclosures)

Disclosure quality

The financial statements explain how the Board has formed a judgement that it is appropriate to adopt the going concern basis of preparation for the Bank.

That judgement is based on an evaluation of the inherent risks to the Bank's business model, and how those risks might affect the Bank's financial resources or ability to continue operations over a period of at least a year from the date of approval of the financial statements.

There are four areas of risk:

- the Bank's regulatory capital position and the impact of the level of future credit impairments;
- there is a suspended penalty from the US regulatory authorities following the settlement agreement reached in September 2019 in respect of alleged historical sanctions violations;
- the funding model of the Bank is concentrated and dependent on its principal shareholder Libyan Foreign Bank, and its shareholder the Central Bank of Libya and their future funding is uncertain; and
- the Bank has a concentrated number of relationships with counterparty banks and these facilities are critical to its operations such that, should any of these key relationships be ended, this may cause difficulties for the Bank to continue operating under its current business model.

The risk for our audit is whether or not one or more of those risks are such that they amount to a material uncertainty that may cast significant doubt about the ability to continue as a going concern. If so, that fact is required to be disclosed. The Directors have determined that, as at the reporting date, a material uncertainty does not exist in respect of going concern.

Our response

We considered whether these risks could plausibly affect the capital position or funding concentration in the going concern period by assessing the Directors' sensitivities over the level of available financial resources indicated by the Bank's financial forecasts taking account of severe, but plausible, adverse effects that could arise from these risks individually and collectively.

THE RISK

Going concern

Refer to page 2.6-2.8 and page 2.72 (financial disclosures)

Our procedures over the Bank's capital position included:

- **Our COVID-19 knowledge:** Considering the Directors' assessment of COVID-19 related sources of risk for the Bank's business and financial resources compared with our own understanding of the risk, and evaluating the Directors' plans to take actions to mitigate the risk;
- **Our sector experience:** Applying our knowledge of the Bank's business and critically assessing its forecasts and projections and capital requirements, and comparing the Bank's stress scenarios to severe but plausible downsides to assess the severity of the Bank's scenarios applied, considering the potential reduction in revenues and increase in credit losses caused by COVID-19;
- **Evaluating Directors' plans:** Evaluating the achievability of the actions the Directors consider they would take to improve the position;
- **Enquiry of the regulator:** Meeting with the Prudential Regulatory Authority (PRA) to discuss its views on the Bank's current and future capital positions, and proposed plans; and
- **Assessing transparency:** Considering the adequacy of disclosures relating to going concern in the financial statements.

Our procedures over the Bank's suspended penalty included:

- **Evaluating Directors' assessment:** Evaluating the Directors' analysis of the Bank's compliance commitments in the context of the settlement agreement and the steps taken to mitigate the risk of the suspended penalty being applied;
- **Our sector experience:** With the assistance of our own sanctions compliance specialist, assessing the steps taken to mitigate the risk of the suspended penalty being applied;;
- **Enquiry of the Bank's external counsel:** Meeting with the Bank's external counsel to discuss their views on the settlement agreement, the suspended penalty and the Bank's progress in maintaining the sanctions compliance commitments;
- **Enquiry of the regulator:** Meeting with the Prudential Regulatory Authority (PRA) to discuss its views and insights on the settlement agreement; and
- **Assessing transparency:** Considering the adequacy of disclosures relating to going concern in the financial statements.

THE RISK

Going concern

Refer to page 2.6-2.8 and page 2.72 (financial disclosures)

Our procedures over funding concentration included:

- **Independent research:** Performing independent research on recent political and economic developments in Libya;
- **Our sector experience:** Evaluating the Bank's forecasts and projections, and liquidity requirements, and considering less predictable but realistic second order impacts, such as the impact of the COVID-19 pandemic and the possible consequential drop in UK real estate prices which could reduce the Bank's ability to finance any potential future liquidity gaps by borrowing against this loan book;
- **Stress testing:** With the assistance of our own liquidity specialists, independently performing stress testing;
- **Enquiry of the regulator:** Meeting with the Prudential Regulatory Authority (PRA) to discuss its views and insights on the Bank; and
- **Assessing transparency:** Considering the adequacy of disclosures relating to going concern in the financial statements.

Our procedures over the Bank's concentration counterparty banks included:

- **Evaluating Directors' assessment:** by evaluating their analysis of the Bank's counterparty bank position and the potential mitigating actions which may be taken;
- **Inspecting regulatory correspondence:** Inspecting correspondence between the Bank and the PRA to identify any matters arising;
- **Enquiry of Directors:** Meeting with the Directors and enquiring about the status of the counterparty bank relationships, and the possible impact of the COVID-19 pandemic on critical counterparty banks;
- **Enquiry of the regulator:** Meeting with the PRA to discuss its views and insights on the Bank; and
- **Assessing transparency:** Considering the adequacy of disclosures relating to going concern in the financial statements.

Our results

We found the going concern disclosure without any material uncertainty to be acceptable (2019: acceptable).

THE RISK

Credit impairments

(£65.7 million; 2019: £81.7 million)

Refer to page 2.14-2.18 (accounting policy) and page 2.48-2.51 (financial disclosures).

Subjective estimate

The estimation of expected credit losses (ECL) on credit exposures, involves significant judgement and estimates.

There is also an incentive on management to influence credit impairment to fraudulently manipulate earnings.

The Bank has a diverse range of credit exposures. These include a book of loans to counterparties in the Middle East and North Africa, trade and commodity finance portfolios, and a UK real estate portfolio. The Bank's business model involves the regular extension of credit to counterparties in countries which are subject to increased levels of political and economic instability.

A model is used to calculate the level of ECL and the model is reliant on certain subjective assumptions. The model is sensitive to changes and movements in these assumptions.

For credit exposures classified as either stage 1 or 2, a modelled assessment is performed to calculate impairment. The key areas where we identified greater levels of management judgement and therefore increased levels of audit focus in the Bank's estimation of ECL are:

- The selection and application of the probability of defaults (PD);
- The selection and application of the loss given defaults (LGD);
- The probability weighted scenarios determined using forward looking information; and
- The selection and application of post model adjustments (overlays).

For loans classified as stage 3, management typically performs an impairment assessment at an individual loan level, based on estimated future cash flows discounted to present value at the rate inherent in the loan. This is a highly manual and judgemental process, with a number of assumptions. There is also an incentive on management to influence credit impairment to fraudulently manipulate earnings.

The effect of these matters is that, as part of our risk assessment, we determined that credit impairments has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements disclose the sensitivities estimated by the Bank (note 13).

THE RISK

Credit impairments

(£65.7 million; 2019: £81.7 million)

Refer to page 2.14-2.18 (accounting policy) and page 2.48-2.51 (financial disclosures).

Our response

Our procedures included:

- **Control design:** Testing the design and operating effectiveness of key controls over the monitoring and reporting of credit exposures, and the completeness of provisioning watchlists;
- **Independent evaluation:** Performing a detailed assessment of a selection of exposures for indicators of credit deterioration to assess the appropriateness of the staging and associated ECL estimate;
- **Reperformance:** Reperforming calculations and agreeing data inputs to third party documentation, including collateral valuation reports and PDs;
- **Our entity experience:** Critically assessing and challenging the assumptions used by the Bank in its impairment models, including critically evaluating management's assumptions which are applied to determine the basis of model overlays, using our understanding of the Bank, current and past performance of its loans and our knowledge of the industry in respect of similar loan types;
- **Our sector experience:** Evaluating the appropriateness of the criteria for determining the staging of impairment using our knowledge of the industry. We engaged our own economics specialists to assist us in assessing the appropriateness of the Bank's methodology for determining the economic scenarios used and the probability weightings applied to them. This includes assessing the Bank's consideration of COVID-19 in its forecasts and the appropriateness of the assumptions made;
- **Credit risk expertise:** We involved our own credit risk analyst specialists to assist us in reperforming and inspecting model code for the calculation of the ECL, and evaluating the model output by inspecting the corresponding model functionality and independently implementing the model by rebuilding the model code; and
- **Assessing transparency:** We evaluated whether the disclosures appropriately reflect and address the uncertainty which exists when determining the expected credit losses. As a part of this, we assessed the sensitivity analysis of the that is disclosed. In addition, we assessed whether the disclosure of the key judgements and assumptions made is sufficiently clear.

Our results

We found the ECL charge and impairment allowances recognised to be acceptable (2019: acceptable).

3 OUR APPLICATION OF MATERIALITY AND AN OVERVIEW OF THE SCOPE OF OUR AUDIT

Materiality for the financial statements as a whole was set at £550 thousand (2019: £600 thousand), determined with reference to a benchmark of normalised profit before tax, normalised to exclude the review of historic activities as disclosed in note 33 and by averaging over the last three years on an absolute basis, due to fluctuations in the business cycle, of £18.5 million (2019: £16 million), of which it represents 2.97% (2019: 3.75%).

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole.

Performance materiality was set at 65% (2019: 65%) of materiality for the financial statements as a whole, which equates to £357 thousand (2019: £390 thousand). We applied this percentage in our determination of performance materiality based on the level of identified misstatements and control deficiencies during the prior period and changes of senior management during the current year.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £27.5 thousand (2019: £30 thousand), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the Bank was undertaken to the materiality level specified above.

4 GOING CONCERN

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Bank or to cease its operations, and as they have concluded that the Bank's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

An explanation of how we evaluated management's assessment of going concern is set out in the related key audit matter in section 2 of this report.

Our conclusions based on this work:

- we consider that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the Directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Bank's ability to continue as a going concern for the going concern period; and
- we have nothing material to add or draw attention to in relation to the Directors' statement in note 2 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Bank's use of that basis for the going concern period.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Bank will continue in operation.

5 FRAUD AND BREACHES OF LAWS AND REGULATIONS – ABILITY TO DETECT

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

Enquiring of directors, management and internal audit, and inspection of policy documentation as to the Bank's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Bank's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.

- Reading Board, Audit, and Risk and Conduct Committee minutes.
- Using analytical procedures to identify any unusual or unexpected relationships.
- Using our own forensic team to assist us in identifying fraud risks based on discussions of the circumstances of the Bank.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, and taking into account possible pressures to meet profit targets and our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls, in particular the risk that Bank management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates such as credit impairments. On this audit we do not believe there is a fraud risk related to revenue recognition because the Bank's revenue streams consist primarily of interest income and fees and commissions. These typically comprise high volumes of lower value transactions which are processed in an automated manner and are not subject to a high degree of judgement by management.

We also identified fraud risks related to:

- suppressing reporting of breaches under the settlement agreement with the US regulatory authorities in order to remain a going concern and avoid punitive enforcement under the agreement;
- manipulating capital adequacy by affecting profitability in order for the Bank to remain a going concern;
- understating credit impairments in response to possible pressures to meet profit target; and
- manipulating assumptions for the purpose of credit impairments in the ECL model in response to possible pressures to meet profit target.

Further detail in respect of going concern and credit impairments is set out in the key audit matter disclosures in section 2 of this report.

We performed procedures including:

- Identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted to unusual accounts or seldom-used accounts, those posted with round numbers or consistent ending numbers and those processed outside the normal course of business.
- Assessing significant accounting estimates for bias.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the Directors and other management (as required by auditing standards), and from inspection of the Bank's regulatory and legal correspondence, and discussed with the Directors and other management the policies and procedures regarding compliance with laws and regulations.

As the Bank is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Bank is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Bank is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Bank's license to operate. We identified the following areas as those most likely to have such an effect: anti-bribery, employment law, regulatory capital and liquidity and certain aspects of company legislation recognising the financial and regulated nature of the Bank's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Further detail in respect of compliance with the settlement agreement with the US regulatory authorities is set out in the key audit matter disclosures in section 2 of this report.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

6 WE HAVE NOTHING TO REPORT ON THE STRATEGIC REPORT AND THE DIRECTORS' REPORT

The Directors are responsible for the Strategic report and the Directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the Strategic report and the Directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in those reports;
- in our opinion the information given in the strategic report and the Directors' report for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

7 WE HAVE NOTHING TO REPORT ON THE OTHER MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Bank, 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.

We have nothing to report in these respects.

8 RESPECTIVE RESPONSIBILITIES

DIRECTORS' RESPONSIBILITIES

As explained more fully in their statement set out on pages 1.27-1.28, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements

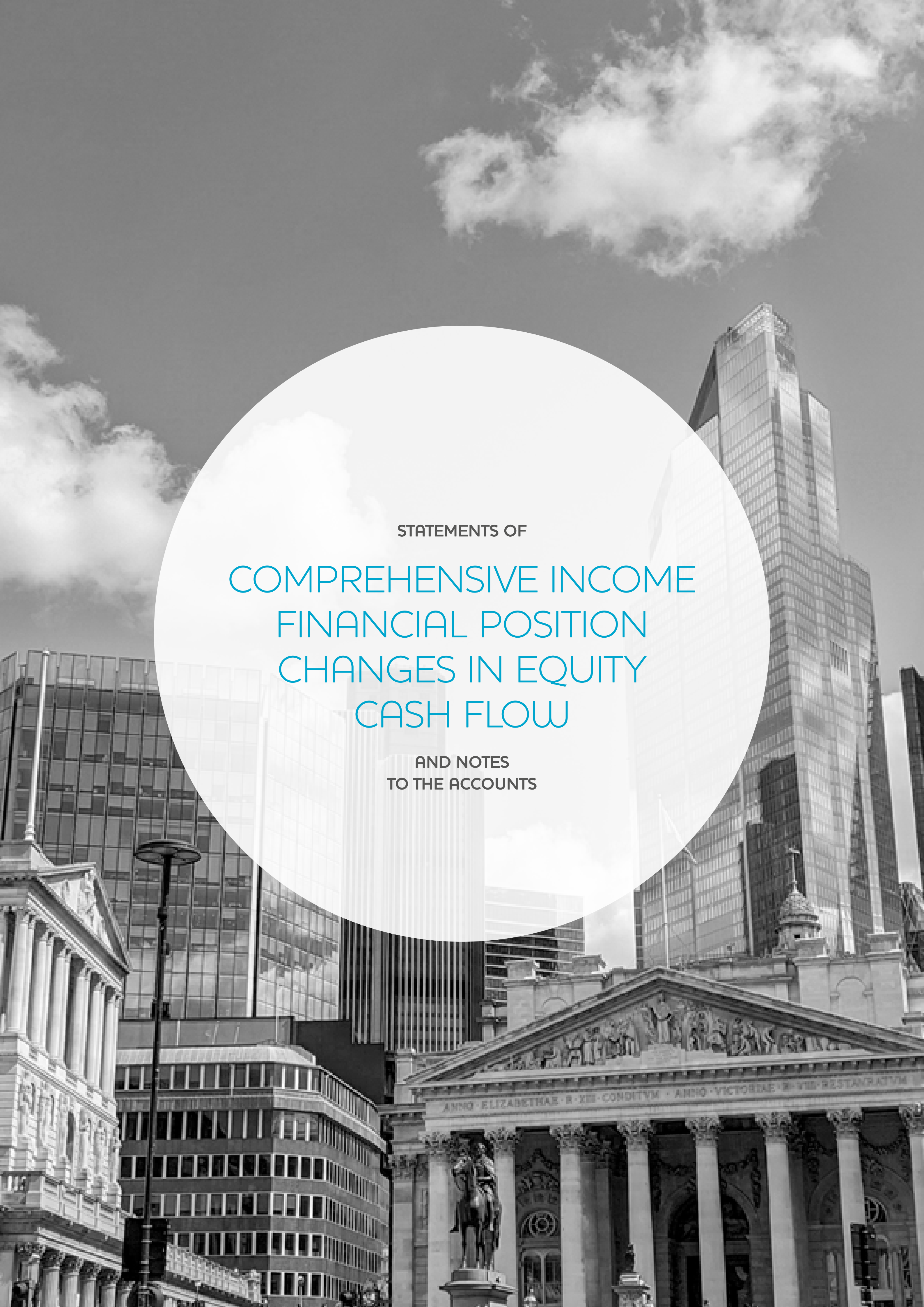
A fuller description of our responsibilities is provided on the FRC's website at **www.frc.org.uk/auditorsresponsibilities.**

9 THE PURPOSE OF OUR AUDIT WORK AND TO WHOM WE OWE OUR RESPONSIBILITIES

This report is made solely to the Bank'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 Bank'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 Bank and the Bank's members, as a body, for our audit work, for this report, or for the opinions we have formed.

MATTHEW DAVIES

Senior Statutory Auditor
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square, London, E14 5GL
31 March 2021



STATEMENTS OF

COMPREHENSIVE INCOME
FINANCIAL POSITION
CHANGES IN EQUITY
CASH FLOW

AND NOTES
TO THE ACCOUNTS

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	2020	2019
Interest and similar income	8	47,746	77,416
Less: Interest expense and similar charges	8	(24,196)	(47,067)
Net interest income		**23,550**	**30,349**
Fee and commission income	9	16,971	19,488
Less: Fee and commission expense	9	(1,269)	(1,098)
Net fee and commission income		**15,702**	**18,390**
Net trading income	10	2,797	13,870
Other operating income	11	2,742	1,415
Operating income before allowance for credit losses		**44,791**	**64,024**
Allowance for credit losses	13	(6,902)	(24,477)
Reversal of allowances booked in previous periods	13	13,754	5,693
Recoveries of amounts written off in previous periods	13	1,293	226
Net allowances for credit losses		**8,145**	**(18,558)**
Net operating income		**52,936**	**45,466**
Administrative expenses	14	(37,014)	(37,388)
Profit before income tax		**15,922**	**8,078**
Income tax charge	15	(1,494)	(450)
Profit for the year		**14,428**	**7,628**
Other comprehensive income/(expense):			
Items that will not be reclassified to profit or loss			
Remeasurement of defined benefit liability	26	298	(1,633)
Related Tax	15	(44)	278
Equity investments designated at fair value through other comprehensive income	19	(48)	(139)
Related Tax	15	10	25
		216	(1,469)
Items that are or may be reclassified to profit or loss			
Change in fair value for debt securities designated at fair value through other comprehensive income		2,575	4,094
Credit gain / (loss) on debt securities designated at fair value through other comprehensive income transferred to profit and loss		251	(177)
Fair value gains attributable to debt securities s designated at fair value through other comprehensive income transferred to income		2,117	1,156
Related Tax	15	(274)	(1,516)
		4,669	3,557
Other comprehensive income for the year, net of tax		**4,885**	**2,088**
Total comprehensive income for the year		**19,313**	**9,716**

All of the profit for the financial year and the prior year was derived from continuing activities. The Notes on pages 2.6 to 2.74 form part of these financial statements.

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2020

	Note	2020	*2019*
Assets			
Cash, notes and coins		219	*89*
Derivatives	16	1,081	*751*
Loans and advances to banks	17	616,563	*1,189,720*
Loans and advances to customers	18	582,529	*651,514*
Financial investments	19	1,306,280	*891,682*
Corporation tax receivable		-	*214*
Property, plant and equipment	20	12,120	*11,682*
Intangible assets	20	8,980	*10,491*
Deferred tax assets	22	-	*994*
Prepayments, accrued income and other debtors	23	14,370	*22,181*
Net pension asset	26	756	-
Total assets		**2,542,898**	***2,779,318***
Liabilities			
Deposits from banks	24	1,691,853	*1,836,945*
Other deposits	24	549,829	*674,607*
Derivatives	16	5,582	*3,093*
Other liabilities, accruals and deferred income	25	25,582	*14,168*
Corporation tax payable		794	-
Deferred tax liabilities	22	15	-
Net pension liability	26	-	*741*
Subordinated liabilities	27	72,036	*71,870*
Total liabilities		**2,345,691**	***2,601,424***
Called up share capital	28	104,357	*104,357*
Capital redemption reserve	29	4,104	*4,104*
Other reserves	29	88,746	*69,433*
Capital and reserves attributable to the Bank's equity holders	29	**197,207**	***177,894***
Total liabilities and equity		**2,542,898**	***2,779,318***

The Notes on pages 2.6 to 2.74 form part of these financial statements.

Signed:

Mr M Stevenson
Chairman

Mr M Shokri
Vice Chairman

Mr E Norton
CEO

31st March 2021

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2020

	Share capital	Capital redemption reserve	Other reserves			Total equity
			Retained earnings	Fair Value reserve	Total	
Balance at 1 January 2019	**104,357**	**4,104**	**62,796**	**(3,079)**	**59,717**	**168,178**
Profit for the year	-	-	7,628	-	7,628	7,628
Other comprehensive (loss) / income	-	-	(1,355)	3,443	2,088	2,088
Total comprehensive income for the period	-	-	6,273	3,443	9,716	9,716
Balance at 31 December 2019	**104,357**	**4,104**	**69,069**	**364**	**69,433**	**177,894**
Balance at 1 Janaury 2020	**104,357**	**4,104**	**69,069**	**364**	**69,433**	**177,894**
Profit for the year	-	-	14,428	-	14,428	14,428
Other comprehensive income	-	-	254	4,631	4,885	4,885
Total comprehensive income for the period	-	-	14,682	4,631	19,313	19,313
Balance at 31 December 2020	**104,357**	**4,104**	**83,751**	**4,995**	**88,746**	**197,207**

The Notes on pages 2.6 to 2.74 form part of these financial statements.

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

STATEMENT OF CASH FLOW

FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	2020	2019
Cash flows from operating activities			
Profit before taxation		15,922	*8,078*
Adjustments for:			
Allowance for credit losses	13	6,902	*24,477*
Recoveries of allowance for credit losses	13	(13,754)	*(226)*
Depreciation and amortisation	14,20	2,444	*2,519*
Loss on sale or impairment of property, plant and equipment	14	81	*-*
Net interest income and other non cash items included in net profit		(151)	*(1,035)*
Non-cash items included in net profit		**(4,478)**	***20,042***
Loans, advances other than cash or cash equivalents		234,049	*145,050*
Debt securities other than cash equivalents		(329,589)	*(19,643)*
Other debtors and prepayments		6,427	*(2,485)*
Change in operating assets		**(89,113)**	***122,922***
Customer accounts and deposits by banks		(254,610)	*(1,022,442)*
Other liabilities		10,181	*(2,886)*
Change in operating liabilties		**(244,429)**	***(1,025,328)***
Income tax received		214	*724*
Net cash used in from operating activities		**(321,884)**	***(873,562)***
Cash flows from investing activities			
Purchase of property, plant and equipment	20	(1,096)	*(3,994)*
Purchase of intangible assets	20	(356)	*(1,369)*
Net cash used in investing activities		**(1,452)**	***(5,363)***
Cash flows from financing activities			
Right of Use payments		**(156)**	*(310)*
Net cash used in Financing activities		**(156)**	***(310)***
Net decrease in cash and cash equivalents		**(323,492)**	***(879,235)***
Cash and cash equivalents at the beginning of the year		897,237	*1,821,651*
Effect of exchange rate change on cash and cash equivalents		12,872	*(45,179)*
Cash and cash equivalents at the end of the year		**586,617**	***897,237***
Cash and cash equivalents comprise:			
Cash, notes and coin		219	*89*
Loans and advances to banks of original maturity three months or less		350,549	*768,892*
Loans and advances to non-banks of original maturity three months or less		-	*3,786*
Certificates of deposit and other debt securities of three months original maturity or less		235,849	*124,470*
Cash and cash equivalents		**586,617**	***897,237***

The Notes on pages 2.6 to 2.74 form part of these financial statements.

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

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 2009, 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. The Bank is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

The financial statements were authorised for issue by the Board of Directors on 31st March 2021.

2. Basis of preparation

a) 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, being a period of at least 12 months from the approval of the financial statements.

In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including the impact that Covid-19 is having on the business. 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 1.8 to 1.26. This assessment includes a review of current and future projections of profitability, capital resources and liquidity, which the Directors have subjected to stress testing. It also includes a review of progress against the Bank's sanctions compliance commitments as agreed under the terms of the settlement agreement reached with OFAC on 3 September 2019.

Although the political situation in Libya remains unsettled there have been significant efforts by the international community to resolve the issues in the best interests of the Libyan people. There remains momentum towards finding a stable and lasting solution involving a unified and internationally recognised government, as well as signs of an emergent interest from external parties to invest in Libya. These initiatives have permitted the resumption of oil production in Libya at levels of in excess of 1 million barrels per day, which should bring some stability to the country's levels of FX reserves, which had been significantly depleted by recent conflicts falling from an estimated $80 billion in 2018 to $66 billion in 2020. It should be noted that this is still sufficient to fund an estimated 4 years of import requirements. Further, the recent endorsement of an interim Government of National Unity by the House of Representatives is an important step towards restoring unity, stability, security and prosperity in Libya.

Current funding levels from Libya remain both stable and strong, with the maturity profile of the deposit base being broadly consistent. BACB remains strategically important to Libya in its interaction with the global economy and as a means of providing access to the international financial markets, including for its oil and gas revenues. Furthermore, if, as happened in 2011, the Libyan political situation results in the imposition of international sanctions, the funding would become permanent for their duration. Details of the funding provided by LFB and CBL are set out in Note 34.

The Bank is not wholly reliant on business flows to and from Libya. Net exposure to Libya after risk mitigation is less than 1% of total exposures; however absence of Libyan business does put a strain on the total revenue of the Bank. While Libya continues to be a key market for the Bank, its strategy of geographic diversification has diluted the overall impact of the current situation and, as and when stability returns to Libya, this market holds significant upside potential.

The Directors have also considered LFB's intent to continue to support the Bank. Evidence of support from LFB has included the provision of additional capital in June 2015, and in 2020 the extension of the maturity of the subordinated loans subscribed by LFB to 2027. In January 2021 LFB restructured the collateral deposits held with BACB enabling the Bank to improve structural liquidity ratios marginally. These collateralised deposits (of $250m after the January 2021 restructuring) guarantee the commercial obligations of a number of Libyan obligors, and assurances of the strategic importance of BACB to the country of Libya. The Directors remain confident of the ongoing support of their principal Shareholder, including meeting the Bank's ongoing liquidity needs for at least the next twelve months. The Directors have taken into account (i) LFB's policy towards all of its participations, and (ii) the Bank's continuing positive liquidity noting that during the course of the year LFB continued its funding to BACB and, in light of the Bank's funding risk, are confident of the Bank's continuing positive liquidity.

The Directors have considered 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 in recent years for counterparty banks to review such relationships due to the potential reputational and legal risks associated with clearing transactions initiated by other banks, particularly those who operate with clients linked to countries perceived as higher risk. The Directors acknowledge the dependency of the Bank on preserving these essential correspondent banking relationships and the Board is reassured by the continuing stability of the Bank's principal correspondent and the stability of other counterparty bank relationships.

The Directors acknowledge their continued obligation relating to the Bank's sanctions compliance commitments as agreed under the terms of the settlement agreement reached with OFAC on 3 September 2019, further details are disclosed in Note 33. The changes to the Bank's sanctions compliance processes and controls since the events of 2009-2014, together with plans to maintain the compliance commitments, were presented to OFAC. The Directors are of the view that the Bank is on track in maintaining the sanctions compliance commitments.

The settlement agreement includes a substantial suspended penalty that could be imposed if the Bank fails to meet the sanctions compliance commitments. The Directors having obtained legal advice believe it is a low risk that the suspended penalty would be re-imposed as they are confident that the Bank has put in place appropriate processes and controls to meet its obligations under the settlement, such that although the matter could be subject to a degree of subjectivity it would be a low risk that the Bank would be seen as being in material breach of the requirements.

With regards to the situation the Bank would face in case of a further sanctions violation, the commitments under the agreement are not a guarantee that there will not be further violations, but an undertaking by the Bank, on a risk-based approach, that it will take appropriate steps to minimize that risk.

Following losses that occurred in 2018, in part due to a continuing drag of legacy and older exposures but mainly as a result of challenges which emerged in 2018 related to commodity-based lending exposures entered into since 2015, the Bank undertook a strategic review of these activities. At the time, the review reaffirmed the Bank's commitment to commodity-based activities, albeit with a much reduced scope and scale. The Bank therefore revised and tightened its risk appetite, particularly in respect of its commodity-based lending activities, which included terminating facilities for a number of customers. The Bank is refreshing its strategy as it assesses and makes changes to its operating model. This will include a holistic review of processes across the Bank to identify opportunities and efficiencies. The Directors are confident that these changes will help the Bank to serve clients better and deliver predictable and satisfactory returns to shareholders. The revised strategy aims to set BACB on a trajectory of sustainable growth and to create an efficient and effective platform for the future.

In assessing the current and future projections of profitability, capital resources and liquidity the Directors considered a number of severe but plausible stress scenarios that reflect the increasing uncertainty that Covid-19 pandemic had on the global economy and the Bank's core markets in particular as well as considering the impact from other emerging risks. These scenarios included stress tests aligned to the ICAAP for which the Bank uses an internal model. This analysis indicated that the Bank would maintain capital and liquidity headroom throughout the period covered by the forecasts, even in reasonable possible downside scenarios.

Consequently, the Directors are confident that the Bank will be able to operate with adequate levels of both liquidity and capital for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

b) Compliance with International Financial Reporting Standards

The Bank has prepared its financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. These financial statements are also prepared in accordance with International Financial Reporting Standards (IFRS) as 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 fair value through profit or loss, financial instruments held at fair value through other comprehensive income 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.

There were no new accounting standards adopted during the year.

c) Developments in Accounting Standards

Interest rate benchmark reform

A reform of major interest rate benchmarks is being undertaken globally to replace or reform IBOR with alternative nearly risk-free rates (referred to as IBOR reform) and is expected to be completed by year end 2021. There is still significant uncertainty over the timing and the methods of transition to alternative rates. The Bank does not expect any significant changes to its market and credit risk profile as a result of this transition mainly as the majority of our products are denominated in USD, have short tenor and the majority of the assets and liabilities are fixed rate. Nevertheless, it has established a cross-functional IBOR working group to manage its transition to alternative rates. The working group has been actively monitoring regulatory announcements, guidance and market updates. In line with the guidance and timeframe set by the FCA, BACB has been focused on the transition of it's GBP Libor linked lending, in particular the Bank's real estate business. With respect to lending exposures, which are expected to mature after 2021 the Bank is reaching put to clients with the objective of agreeing changes to an alternative reference rates.

In September 2019 the IASB issued amendments to IFRS 9, IAS 39 and IFRS 7 for periods commencing on or after 1 January 2020. These amendments provide temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by the IBOR reform. These amendments do not have a material impact on the Bank's financial statements.

There no other published future developments in accounting standards that will have a material impact on the Bank's accounting policies.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to both years presented in these financial statements, except where changed as a result of the adoption of new accounting standards as discussed above.

a) Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognised in the statement of comprehensive income 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. The effective interest rate is applied to the gross carrying amount of asset to calculate interest income for performing assets and applied to amortised cost to calculate interest income for non-performing assets.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a 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 range of services which it provides to its customers. Fee income is accounted for as follows:

- income earned on transaction-based arrangements which are recognised at a point in time when we have fully provided the service to the customer (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);
- income earned on services provided over time, where the income is recognised on a straight line basis over the life of the agreement; and
- income which is an integral part of the effective interest rate of a financial instrument and 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. For the majority of these transactions 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 and 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 statement of financial position date. Any resulting exchange differences are included in the statement of comprehensive income or, for non-monetary FVOCI assets, in other comprehensive income. Non-monetary assets and liabilities (shareholders' equity, property plant and equipment, and intangible assets) that are measured at historical cost are translated into the functional currency using the rate of exchange at the transaction date, and those measured at fair value are translated at the exchange rate at the date the fair value was determined.

d) Net trading income

Net trading income comprises gains, less losses related to financial assets classified at fair value through profit and loss, 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 statement of comprehensive income 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 or receivable on the taxable profit or loss for the year, calculated using tax rates enacted or substantively enacted by the statement of financial position 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. 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, this is assessed annually based on the Bank's future probability forecasted in the corporate plan and taking into consideration external factors that might impact on the Bank's future profitability.

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 pension plans are recognised in other comprehensive income.

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

f) Derivatives and hedge accounting

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets or liabilities. Derivatives are measured at fair value in the statement of financial position.

Hedge accounting

The Bank designates certain derivatives held for risk management as hedging instruments in qualifying hedging relationships. On initial designation of the hedge, the Bank formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The Bank makes an assessment, both at inception of the hedge relationship and on an ongoing basis, of whether the hedging instrument(s) is (are) expected to be highly effective in offsetting the changes in the fair value of the respective hedged item(s) during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80–125%.

There were no contracts designated as hedging instruments as at 31 December 2020.

Fair value hedges

When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognised asset or liability or a firm commitment that could affect statement of comprehensive income, changes in the fair value of the derivative are recognised immediately in the statement of comprehensive income in Interest and similar income, together with changes in the fair value of the hedged item that are attributable to the hedged risk.

If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. However, if the derivative is novated to a central counterparty by both parties as a consequence of laws or regulations without changes in its terms except for those that are necessary for the novation, then the derivative is not considered as expired or terminated.

Any adjustment up to the point of discontinuation to a hedged item for which the effective interest method is used is amortised to profit or loss as part of the recalculated effective interest rate of the item over its remaining life.

X-Valuation Adjustment (‘XVA’)

XVA fair value adjustments comprise Credit Valuation Adjustments (“CVA”), Debt Valuation Adjustments (“DVA”) and Funding Valuation Adjustments (“FVA”). CVA is the mark to market cost of protection required to hedge credit risk from counterparties in the Bank’s derivative and repo portfolios, and depends on expected and potential future exposures, default probability and recovery rates. DVA is taken to reflect the credit quality of the Bank in the valuation of liabilities measured at fair value, and is measured symmetrically to the CVA on the same products and calculation methodologies, based on the negative potential and expected exposures and the Company’s own creditworthiness. FVA measures the impact to funding for valuation estimates for derivatives.

The Bank manages its derivative and repo portfolios on the basis of its net exposure and thus has elected to measure these portfolios at fair value which represents the price that would be received to sell a net long or to transfer a net short position for a particular risk exposure in an orderly transaction between market participants at the measurement date under current market conditions. The Bank monitors derivative and repo portfolios, and based upon the credit quality of counterparties, and the short term maturity profile of contracts has concluded that applicable XVA is immaterial.

g) Cash, notes and coins

Cash, notes and coins includes notes and cash on hand, these are carried at amortised cost in the statement of financial position.

h) Financial assets – classification and measurement

On initial recognition, the Bank classifies its financial asset as measured at: fair value through profit or loss (FVTPL), fair value through other comprehensive income (FVOCI) and amortised cost.

A financial asset is measured at amortised cost if it meets both the following conditions and is not designed as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- The financial asset is held within a business model whose objective is achieved by both collecting the contractual cash flows and selling the financial assets.
- The contractual terms of the contract give rise on specific dates to cash flows that are solely payments of principal and interest on the principal outstanding and

The Bank has taken the irrevocable election to classify equity investments and investment in funds at fair value through other comprehensive income.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL.

Purchases and sales of financial assets which are at FVTPL or fair value through other comprehensive income are recognised on trade date, being the date on which an irrevocable commitment to enter into a contract is executed. 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. Assets measured at amortised cost are recognised on the date on which they are originated.

Subsequent measurement and gains and losses

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.
Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.
Debt investments at FVOCI	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Equity and other investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss. Other net gains and losses are recognised in OCI and are never recycled to profit or loss even if the asset is sold or derecognised.

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, net asset value and other valuation techniques commonly used by market participants.

Financial liabilities are measured initially at fair value plus transaction costs that are directly attributable to its issue. The fair value of a financial instrument at initial recognition is generally its transaction price. The Bank has no financial liabilities designated at FVTPL.

Business model assessment

The Bank's assessment of the objective of the business model in which an asset is held is carried out on a portfolio level basis, with assets being grouped into portfolios based on how those assets are managed by the business in order to generate cash flows. The key factors considered in making this assessment include:

- the business stated policies and objectives for the portfolio and the operation of those policies in practice;
- how the performance of the portfolio is evaluated and reported to management;
- how managers of the business are compensated; and
- the risks that affect the performance of the assets within the portfolio and the Bank's strategy to manage those risks.

For the purpose of assessing whether contractual cashflows are solely payments of principal and interest, principal is defined as the fair value of the financial asset on initial recognition and interest is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding. In performing this assessment, the Bank considers the contractual terms of the instrument. In respect of the legacy portfolio which include a number of non-standard clauses with little conformity between the facilities within the portfolio and a number of legacy loans which have been restructured, significantly altering their original terms, each facility agreements and credit renewal file are reviewed individually to determine that the cashflow meets the requirement of the SPPI test.

When customers request facilities that exceed the Bank's limit for single client exposure under the Bank's credit risk policy or impact the Bank's capital position, the facilities are approved and the Bank enters into funded risk participations with third parties to sell part of the facilities. The portion of the facilities that are transferred to third parties are classified as falling under the hold to sell business model and are measured at FVTPL.

i) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date.

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 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.

j) Offsetting financial instruments

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

k) 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:

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

On de-recognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss. Any interest in transferred financial assets that qualify for de-recognition that is created or retained by the Bank is recognised as a separate asset or liability.

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised. If the cash flows of the renegotiated asset are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and the new financial asset is recognised at fair value.

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

l) Impairment of financial assets

The Bank recognises impairment allowances for ECL on the following financial instruments that are not measured at FVTPL:

- lending exposures including funded Trade Finance exposures and reportable undrawn commitments;
- debt instruments held for liquidity purposes;
- money market deposits and placements classified at amortised cost; and
- letters of credit and guarantees offered by the Bank.

No impairment loss is recognised on equity investments, debt securities held for trading and derivatives held at FVTPL.

12 month ECL is the portion of ECL that results from default events on financial instruments that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as '**Stage 1 financial instruments**'.

Lifetime ECL is the ECL that results from all expected default events over the expected life of financial instruments. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as '**Stage 2 financial instruments**'.

Financial assets can be transferred between the different stages depending on their relative increase in credit risk since initial recognition. The ECL is measured on either 12 month or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition. When determining whether there has been a significant increase in credit risk, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis based on the Bank's historical experience and expert credit assessment and including forward-looking information.

The Bank uses three criteria for determining whether there has been a significant increase in credit risk:

- a quantitative test based on movement in probability of default;
- qualitative indicators; and
- a backstop of 30 days past due.

The Bank allocates each exposure to a credit risk grade based on a variety of data that is determined to be predicative of the probability of default. To ensure that credit grades are at all times a reasonable representation of the probability of default of each exposure each credit grade is reviewed at least annually or when new information is received.

In normal course of business days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. For exposures subject to moratoria due to the Covid-19 pandemic the Bank following guidance issued by regulators does not automatically classify these moratoria as stage 2 nor considers them forbearance measures. In view of the Bank's portfolio and size expert judgment is applied on each client that requests a payment holiday and the implications of the current situation on the client's long term credit worthiness is assessed. If other indicators (excluding the deferral request) of significant increase in credit risk are present and / or there is evidence that the client is facing long-term financial difficulties over the life of the exposure the ECL on such exposure is measured on a lifetime basis.

Financial assets within Lifetime ECL (stage 2), are transferred back to 12-month ECL (stage 1) when they are no longer considered to have experienced a significant increase in credit risk.

Where significant increase in credit risk was determined, using quantitative measures the instruments will automatically transfer back where the residual lifetime probability of default reverts to at least residual lifetime PD which is not significantly different from the origination PD for the same time period. Where the significant increase in credit risk was determined due to qualitative factors, the issues that led to the reclassification must be cured before the instruments can be reclassified in such instances management must determine that the cure is non-temporary through its review of the client's circumstances before the exposure is reclassified.

Measurement of ECL

ECL is a probability weighted estimate of credit losses. It is measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls, i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive over the shorter of 12 months or the period to maturity;
- debt investment securities which have credit risk rating equivalent to the globally understood definition of "investment grade" are considered to have low credit risk and are measured at 12 month ECL. The Bank does not apply the low credit risk exemption to any other financial instrument;
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of all estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive over the shorter of 12 months or the period to maturity; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Bank expects to recover over the shorter of 12 months or the period to maturity.

Cash flows are discounted to their present value using their original effective interest rate (EIR) or an approximation thereof.

The recognition and measurement of ECL is highly complex and involves the use of significant judgement and estimation, which include the formulation and incorporation of forward-looking probability weighted scenarios into the calculation of ECL.

The Bank formulates three economic scenarios, which represent the most likely outcome, referred to as the 'BAU scenario', and two less likely scenarios, referred to as 'optimistic' and 'downturn' scenarios. These scenarios are formally reassessed periodically, and at least quarterly, for continued appropriateness and to ensure the scenarios are unbiased and meet the requirements of IFRS 9. The 'BAU scenario' is aligned with information used by the Bank for other purposes such as country risk analysis and strategic planning. External information considered to formulate the "downturn scenario" includes market intelligence, economic data and forecasts published in respect of the countries where the Bank operates by rating agencies, economic forecast and information providers and the financial press. The probability weighting for each scenario is adjusted for each of the principal geographic areas to which BACB is sensitive in accordance with the prevailing trends and near-term outlook for these respective markets in line with the tenor of the assets held by the Bank, which is typically less than 12 months apart from the Bank's Real Estate portfolio. Whilst most countries are grouped under wider geographical regions, certain countries are assigned separate scenario weightings, due to their specific features, as well as noting strategic importance, size of the market and the Bank's exposure; these include: Libya, Nigeria, Turkey, Sudan and the UK Real Estate.

The probability weightings are determined by management using where available external, independent forecasts and information. Under normal economic circumstances, it is expected that the substantial majority of the probability weightings will be in the BAU category, with much smaller weightings applied to the optimistic and downside scenarios. However, greater weighting may be given to the downturn scenario in periods of economic stress. The conditions which exist under the BAU scenario are based on current economic forecasts, with the downside scenario based on a projected period of Global economic recession and the upside based on a period of Global economic growth, with each of the scenarios updated for specific events or factors which would impact the Bank's credit exposures.

The probability weighting of each scenario is based on the geographical area of the underlying exposure and, depending on the specific geography of the exposure, falls within the following ranges for each of the scenarios (excluding Libya, which is discussed separately below):

		2020			*2019*	
	Optimistic	BAU	Downturn	*Optimistic*	*BAU*	*Downturn*
Scenario probability weighting	10-20%	50-60%	20-40%	*0-10%*	*75-80%*	*15-25%*

Given the importance of the Libyan market for the Bank's business and due to the different political uncertainties facing the Libyan market the probability weightings have been considered separately, the BAU scenario is 40% and the downturn and optimistic scenario each 30% (2019: optimistic 5%, BAU 50%, downturn 45%). The overlay applied represents management's best estimate taking into account a range of factors and reflect positive developments in Libya, giving scope for upside albeit still exposed to downside risk following the formal ceasefire signed in October 2020.

During 2020, we adjusted the scenarios for a number of current economic impacts. These included: Covid-19, Brexit, political and economic developments in North Africa, the Middle East and Turkey; and potential conflicts between the United States and its trade partners.
As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. Note 13 shows sensitivity of the ECL provision to possible alternative economic scenarios and different assumptions.

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

Post model adjustments

The Covid-19 crisis has resulted in the unprecedented movement in economic and market drivers, changes in business behaviours and a dramatic increase in government support programmes for businesses and consumers. All of these factors dramatically impact the performance of financial models including ECL models. This has required the use of compensating controls such as overlays and overrides on top of model outputs to help protect the Bank from unwanted risks.

Management applied judgement to reflect the higher probability of default in respect of performing exposures operating in high-risk sectors. At the reporting date, the asset quality of such exposures remains sound and there is no evidence of significant increase in the credit risk of these exposures. However, it was deemed appropriate to apply a higher sectorial probability of default as a management overlay since the circumstances relating to Covid-19 are difficult to predict.

As regards the real estate portfolio the Bank has always taken a conservative view in determining the fair value of collateral property prices. However in view of the unpredictability of the current market situation the Bank has applied additional haircuts to arrive at the estimated recovery amount of exposures which have property held as collateral.

The performance and usage of the ECL models over the next 12 months will in all likelihood continue to be impacted significantly by the consequences of Covid-19 and management will continue to use expert judgment to determine the level if any of the overlays required.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL is measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset; and
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit impaired (referred to as '**Stage 3 financial assets**'). A financial asset is 'credit impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the client on terms that the Bank would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the exposure is 90 days past due;
- the disappearance of an active market for a security because of financial difficulties; or
- the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

A loan that has been renegotiated due to deterioration in the borrower's condition is usually considered to be credit impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

For financial assets that are credit-impaired, a transfer to Lifetime ECL (stage 2) or 12-month ECL (stage 1) is only permitted where the instrument is no longer considered to be credit-impaired on a non-temporary basis. This is determined by management giving due regard to both quantitative and qualitative information on a case-by-case basis for each credit-impaired exposure.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- *financial assets measured at amortised cost*: as a deduction from the gross carrying amount of the assets;
- *loan commitments and financial guarantee contracts*: generally, as a provision;
- *where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component*: the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- *debt instruments measured at FVOCI:* no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Write-offs

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in 'Allowance for credit losses' in the statement of comprehensive income.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

m) Reverse repos

Securities purchased under commitments to resell (“reverse repos”) are not recognised on the statement of financial position. Rather, a loan receivable 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.

n) 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 statement of comprehensive income during the financial year in which they are incurred. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date.

Assets that are subject to depreciation 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 statement of comprehensive income.

o) 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 the Enterprise Architect software is amortised over 7 years, Enterprise Architect Licenses over 10 years and all other computer software is amortised over either 3 or 5 years, or the remaining term of the software licence, from the date on which it is available for use. 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 statement of comprehensive income.

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

p) Leases

At inception or reassessment of a contract, the Bank assesses whether a contract is or contains a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. At inception or on reassessment of a contract that contains a lease component the Bank allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

As a lessee

The Bank's lease agreements relate to its main office at 8-10 Mansion House Place, London EC4N 8BJ, the rental of office facilities for each of the overseas representative offices and the lease of motor vehicles and other equipment.

The Bank recognises a right-of-use (ROU) asset and a lease liability at the lease commencement date. The ROU asset is initially measured at cost which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date plus any initial direct costs incurred and an estimate of costs to restore the asset less any lease incentives received.

The ROU asset is subsequently depreciated using the straight line method from the commencement date to the end of the lease term.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or if that rate cannot be determined the Bank's incremental borrowing rate.

The lease liability is measured at amortised cost using the effective interest rate method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate or if the Bank changes its assessment of whether it will exercise an extension or termination option. When the lease liability is remeasured this way a corresponding adjustment is made to the carrying amount of the ROU asset or is recorded in the statement of comprehensive income if the carrying amount of the ROU asset has reduced to zero.

Lease payments included in the measurement of the lease liability comprise minimum non-cancellable payments as such the minimum ground rent payments due in relation to the Bank's main London office as well as that due for each of the representative offices.

The Bank presents right of use assets in property plant and equipment and lease liabilities in other liabilities, accruals and deferred income in the statement of financial position.

The Bank has elected not to recognise right-of-use and lease liabilities for short-term leases of equipment that have a lease term of 12 months or less. The Bank recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

As a lessor

The Bank determines at lease inception whether each lease is a finance lease or an operating lease. To classify each lease, the Bank makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease, if not then it is an operating lease.

The Bank sub-lets a part of its main office, which it classifies as an operating lease. The Bank recognises lease payments received this operating lease as income on a straight line basis over the lease term as part of other income.

q) 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.

r) 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.

s) 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.

t) Employee benefits

The Bank provides both a defined benefit and a defined contribution pension scheme for its staff. The defined benefit scheme was closed to future accrual in 2014. In each case, the assets of the schemes are held separately from those of the Bank. A defined benefit scheme 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 scheme 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 statement of financial position 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 statement of comprehensive income.

For the defined contribution scheme, 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) Share capital

Share issue costs

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

Dividends on ordinary shares

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

Foreign currencies

Share capital is defined as a non-monetary liability (see Note 3c), and is measured in terms of historical cost in a foreign currency as translated into the functional currency using the rate of exchange at the date of the initial transaction.

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 which is calibrated to the financial resources of the Bank and its budget aspirations;
- there is a risk culture which is embedded in daily operational activity;
- risks are identified and accepted within risk appetite, or approved as exceptions where not;
- risks are monitored to ensure they remain within, or come back within, risk appetite in agreed timescales and 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, as summarised below:

- **1st LINE**: Each business area and function within the Bank is responsible for identifying, understanding and managing their risks and maintaining internal controls.
- **2nd LINE**: The second line of defence establishes the policies and tools, as required by the Bank's Governance Standards, to provide the framework for managing each Principal Risk Type and provides oversight and monitoring over the first line risks and controls.
- **3rd LINE**: The third line of defence, comprising Internal Audit, provides independent assurance on the effectiveness of governance, risk management and internal controls, including the manner in which the first and second lines of defence achieve risk management and control objectives.

c) Principal Risks

The Bank's principal risks and uncertainties as at the reporting date are referenced in the Strategic Report on pages 1.8 to 1.26 and these risks are each subject to ongoing active review by management and the Board.

The Bank has identified nine Principal Risk Types across three overarching risk categories which might adversely impact its ability to achieve its strategic objectives, and defines its risk appetite through a range of scope and scale measures across these risk types that define the level of acceptable risk.

The summary below outlines the risk categories as currently adopted by the Bank.

Risk Category	Principal Risk Type
Reputational	Reputational Culture and Conduct
Financial	Credit Country Market Liquidity
Non-Financial	Operational Compliance Financial Crime

A brief description of each of the Principal Risk Types and the framework for managing them is set out below.

REPUTATIONAL RISK

Definition:
Reputational Risk is the current and prospective impact on earnings and enterprise value arising from negative stakeholder opinion. Reputational Risk is a threat or danger to the good name or standing of the Bank. It can occur through a number of ways: directly as the result of the actions of the company itself; indirectly due to the actions of an employee or employees; or tangentially through other parties, such as joint venture partners, shareholders, clients, suppliers or trade press. In addition to having good governance practices and transparency, firms also need to be socially responsible and environmentally conscious to avoid Reputational Risk.

BACB has a very limited appetite for Reputational Risk, however it is recognised Reputational Risk cannot be eradicated completely and such risk is inherent within the banking environment and, in particular, in some of the higher risk countries with which BACB does business. It is recognised that Reputational Risk can arise from a wide variety of sources, some controllable, some less so.

Risk Management:
The Chief Executive Officer has primary responsibility for managing Reputational Risk. 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 adherence to its objectives of operating at all times in conformity with all applicable laws and regulations including sanctions and anti-money laundering requirements. Governance and risk management frameworks are intended to safeguard the Bank from reputational damage that might arise from trading related losses.

Risk Mitigation:
The Bank has implemented a range of initiatives to mitigate its exposure to Reputational Risks. These include:
- strategic alignment including Board oversight and integration of risk management into strategy setting, effective communications and brand building;
- cultural alignment built on corporate values, supported by appropriate performance management and a positive culture regarding compliance with laws and regulations;
- positive, open and transparent stakeholder interactions and public reporting;
- focusing on mainly non-complex products and a wholesale customer base, supported by a new product review and approval process;
- an operational focus on a strong control environment and appropriate organisational resilience;
- a proactive corporate communications strategy designed to safeguard the reputation of the Bank and media screening to identify issues and risks early; and
- an evolving approach to the environmental challenges faced by the financial services sector which recognises the needs of our shareholder and target markets

CULTURE AND CONDUCT RISK

Definition:
Conduct is ‘what the Bank does’ and Culture is ‘how the Bank does it’.

Conduct Risk is the risk that detriment is caused to the Bank, its customers, clients or counterparties because of the inappropriate execution of its business activities. Conduct Risk comprises a wide variety of activities and types of behaviour which fall outside the other main categories of risk, such as market, credit, liquidity and operational risk. In essence it refers to risks attached to the way in which the Bank and its employees conduct themselves. Although there is no official definition, Conduct Risk includes matters such as how customers are treated and how employees treat each other and work together.

The Bank’s **culture** refers to the shared values, norms, customs, attitudes, and beliefs of the Bank’s employees. BACB’s culture is rooted in our goals, strategies, structure, and approaches to employee engagement, our customers, investors, and the greater community. As such, it is an essential component in any business's ultimate success or failure.

Risk Management:
The Chief Executive Officer has primary responsibility for managing Culture and Conduct Risk. The Bank has established a set of values and behaviours which it expects all staff to display in their interactions with clients, competitors and each other, such behaviours being designed to drive a client-centric business model characterised by the levels of teamwork required to operate as a high performance organisation. These expectations are encapsulated in the Bank's code of conduct 'The BACB Way'

The overall framework for management of this risk is set out in the Culture and Conduct Risk Standard and Policy. Compliance with this Policy is overseen by the Executive Committee of the Bank, with regular annual reporting to the Board.

Risk Mitigation:
- On an annual basis, all staff attest to being aware of, and in compliance with the Bank's code of conduct.;
- the Bank's employee performance management system requires that all staff performance reviews include consideration of behaviours and compliance with the Bank's Code of Conduct, which informs in part levels of variable compensation;
- the Chief People Officer carries out a regular risk assessment, which is considered by the Executive Committee and by the, Risk and Conduct Committee of the Board.
- Culture and Conduct MI has been developed, which continues to evolve and draws inter alia on Operational Risk, Compliance and HR Metrics; and
- the Nominations and Remuneration Committee of the Board has regard to compliance with the Bank's values and behaviours when assessing the levels of individual compensation for executive management.

CREDIT AND COUNTRY RISKS

Definitions:
Credit Risk is the risk of the Bank suffering financial loss if any of its customers, clients or market counterparties fails to fulfil their contractual obligations to the Bank. 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 and the management of the Bank's liquidity portfolios;
- on and off-balance sheet exposures to bank and corporate counterparties in respect of obligations under trade finance transactions including letters of credit, guarantees and bonds; and
- loans and overdrafts to corporates, partnerships and private individuals arising from the Bank's commercial, real estate and commodity finance lending activities.

Country Risk is the risk that obligors may not be able to meet their obligations for a variety of non-obligor specific reasons, including political or economic changes in their country of risk or other actions by a government that may prevent the conversion of local currency and/or the transfer of funds outside that country.

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 risk types 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 credit grading systems;

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

Credit and country risk management is overseen at an executive level by the Credit Risk Committee which reviews and makes recommendations via the Executive Committee to the Risk and Conduct Committee at least annually on the Bank's credit and country risk appetite and policies, or approves proposals within delegated authority, having regard to the Bank's business plans and Credit and Country Risk standards as approved by the Risk and Conduct Committee from time to time. Significant credit decisions are escalated to the Board Credit Committee.

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

- a framework of concentration limits and guidelines which diversify the risk of excessive exposure to individual countries, regions or sectors and to individual counterparties within those concentrations;
- limits are established for individual countries and counterparties based on their grading;
- these limits govern quantum, nature and tenor of exposure. Typically the Bank will 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 distribution via sale of back-to-back commitments from financial institutions including banks or insurance companies of acceptable quality, or security;
- liquidity buffers are only used to purchase fixed and floating securities issued by of OECD governments and multilateral development bank which qualify as High Quality Liquid Assets under the PRA's Liquidity Coverage Ratio regime; and
- other surplus liquidity is primarily placed with or invested in the bonds of highly rated financial institutions.

Following the uncertainty and economic disruption caused by the Covid-19 the Bank managed its risk appetite:

- In its Trade Finance business by reducing obligor and country limits and the tenor of transactions, focussing on trading in strategic goods; and
- In its Real Estate business reducing its risk appetite across all sectors including margins of advance and loan amount, with no new business written in some sectors.

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

	2020	2019
Cash, notes and coins	219	*89*
Financial investments: debt securities (Note 19)	1,299,857	*885,211*
Loans and advances to banks (Note 17)	616,563	*1,189,720*
Loans and advances to customers (Note 18)	582,529	*651,514*
Derivatives (Note 16)	1,081	*751*
Unsettled trade receivables (Note 23)	-	*959*
Total on balance sheet	**2,500,249**	***2,728,244***
Financial guarantees (Note 31)	120,387	*147,448*
Other commitments (Note 31)	272,596	*362,529*
Less: off balance sheet exposures impaired by provision on balance sheet (Note 25)	(4,479)	*(1,342)*
Total off balance sheet	**388,504**	***508,635***
Total	**2,888,753**	***3,236,879***

The Bank holds collateral against certain of its credit exposures. The table below sets out the principal types of collateral held against different types of financial assets.

Type of credit exposure	**Percentage of exposure that is subject to collateral** **2020**	*2019*	**Principal types of collateral held**
On-balance sheet:			
Loans and advances to banks			
Professional market placements	**53.4%**	*58.5%*	Debt securities
Term lending	**6.4%**	*22.0%*	Cash and guarantees
Bills discounted	**23.1%**	*14.7%*	Cash and guarantees
Loans and advances to customers			
Term Lending	**0.0%**	*0.0%*	
Real Estate	**100.0%**	*98.3%*	Residential/Commercial property
Overdrafts and other advances	**0.0%**	*0.0%*	Cash and guarantees
Bills discounted	**100.0%**	*96.5%*	Debt securities
Off-balance sheet:			
Credit lines and other commitments	**33.9%**	*36.6%*	Cash and guarantees

The maximum exposure to credit risk for financial assets, including derivatives, recognised on the Statement of Financial Position is typically the carrying amount and is represented in the table below which analyses maximum exposure to credit risk by asset class, representing credit risk arising from counterparty default.

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

31 December 2020	Maximum exposure	Cash collateral *	Property collateral	Debt securities	Guarantees	Net exposure to credit risk
On-balance sheet:						
Cash, notes and coins	219	-	-	-	-	219
Financial investments: debt securities (Note 19)	1,299,857	-	-	-	-	1,299,857
Loans and advances to banks						
Funds held at correspondent banks	14,398	(67)	-	-	-	14,331
Professional market placements	335,043	-	-	(179,067)	-	155,976
Term lending	51,642	-	-	-	(3,294)	48,348
Bills discounted	216,897	(26,271)	-	-	(23,763)	166,863
Overdrafts and other advances	1,108	-	-	-	-	1,108
Less: Provisions for impairments (Note 17)	(2,525)	-	-	-	-	(2,525)
Loans and advances to customers						
Term Lending	65,915	-	-	-	-	65,915
Real Estate	443,964	-	(443,964)	-	-	-
Bills discounted	11,225		-	-	(11,225)	-
Overdrafts and other advances	119,745	-	-	-	-	119,745
Less: Provisions for impairments (Note 18)	(58,320)	-	-	-	-	(58,320)
Derivatives	1,081	-	-	-	-	1,081
Total on balance sheet	**2,500,249**	**(26,338)**	**(443,964)**	**(179,067)**	**(38,282)**	**1,812,598**
Off-balance sheet:						
Credit lines and other commitments	388,504	(123,383)	-	-	(8,368)	256,753
Total off balance sheet	**388,504**	**(123,383)**	**-**	**-**	**(8,368)**	**256,753**
Total	**2,888,753**	**(149,721)**	**(443,964)**	**(179,067)**	**(46,650)**	**2,069,352**

31 December 2019	*Maximum exposure*	*Cash collateral **	*Property collateral*	*Debt securities*	*Guarantees*	*Net exposure to credit risk*
On-balance sheet:						
Cash, notes and coins	*89*	-	-	-	-	*89*
Financial investments: debt securities (Note 19)	*885,211*	-	-	-	-	*885,211*
Loans and advances to banks						
Funds held at correspondent banks	*357,750*	*(564)*	-	-	-	*357,186*
Professional market placements	*454,756*	-	-	*(266,252)*	-	*188,504*
Term lending	*89,248*	-	-	-	*(19,622)*	*69,626*
Bills discounted	*301,149*	*(16,624)*	-	-	*(27,638)*	*256,887*
Overdrafts and other advances	*2,014*	-	-	-	-	*2,014*
Less: Provisions for impairments (Note 17)	*(15,197)*	-	-	-	-	*(15,197)*
Loans and advances to customers						
Professional market placements to non banks	*3,786*	-	-	-	-	*3,786*
Term and Real Estate lending	*556,168*	-	*(451,421)*	-	-	*104,747*
Bills discounted	*40,677*	*(39,271)*	-	-	-	*1,406*
Overdrafts and other advances	*115,824*	-	-	-	-	*115,824*
Less: Provisions for impairments (Note 18)	*(64,941)*	-	-	-	-	*(64,941)*
Derivatives	*751*	-	-	-	-	*751*
Unsettled trade receivables	*959*	-	-	-	-	*959*
Total on balance sheet	***2,728,244***	***(56,459)***	***(451,421)***	***(266,252)***	***(47,260)***	***1,906,852***
Off-balance sheet:						
Credit lines and other commitments	508,635	(169,420)	-	-	(16,727)	322,488
Total off balance sheet	**508,635**	**(169,420)**	**-**	**-**	**(16,727)**	**322,488**
Total	**3,236,879**	**(225,879)**	**(451,421)**	**(266,252)**	**(63,987)**	**2,229,340**

**In the markets where the Bank operates, with higher instances of fraud and government or other action, then the quality of and access to collateral can be less certain.*

Real estate lending is collateralised with residential or commercial property. The value of collateral for property loans is based on the most recently available valuations from independent sources. All security is subject to valuation at least every three years or more frequently if there is objective evidence either on a standalone or sectoral basis of value decline.

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

In certain cases, cash collateral is held against other forms of lending and off-balance sheet exposures. At 31 December 2020 this includes the utilised portion of a £256,166,000 (USD 350,000,000) deposit (2019: *£264,487,000, USD 350,000,000*) placed by Libyan Foreign Bank as collateral for the obligations of itself, affiliated entities and a number of other Libyan counterparties. 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 credit insurance and back-to-back commitments from financial institutions of acceptable quality, or security. When customers request facilities that exceed the Bank's limit for single client exposure under the Bank's credit risk policy, the Bank may enter into distribution arrangements with third parties to buy or underwrite part of these facilities to ensure that the clients' exposure remains within the approved credit limit.

Residential and commercial mortgage lending

The table below stratifies credit exposures for residential and commercial property loans by ranges of loan-to-value (LTV) ratio. LTV is calculated as the ratio of the gross amount of the loan to the value of the collateral. The gross amounts exclude any impairment allowance.

	2020	*2019*
LTV ratio		
Less than 55%	134,780	*117,666*
55 - 65%	147,617	*207,745*
66 - 75%	123,210	*101,063*
76 - 85%	13,948	*17,447*
86 - 95%	24,409	*7,500*
Total	**443,964**	***451,421***

As at 31 December 2020 the exposures with LTV ratio of 86% - 95% relates to commercial property loans are subject to moratoria due to the Covid-19 pandemic. As at 31 December 2019, the facility under LTV ratio 86% - 95% is credit impaired the exposure was derecognised in 2020 following settlement.

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

By industry, concentrations of credit risk were as follows:

	2020	*2019*
Financial institutions (including central banks)		
Banks	1,213,811	*1,311,836*
Multilateral development banks	603,272	*367,673*
Other financial intermediaries	21,866	*417,613*
	1,838,949	***2,097,122***
Corporates		
Commodities	151,693	*151,806*
Construction and engineering	1,255	*2,076*
Energy	147,696	*245,822*
Transport and storage	369,126	*22,582*
Real estate	22,560	*370,716*
Other	51,328	*59,721*
	743,658	***852,723***
Public administration	**320,077**	***306,426***
Others	**51,393**	***62,088***
Impairments	(65,324)	*(81,480)*
Maximum exposure to credit risk	**2,888,753**	***3,236,879***

Credit grading

The Bank uses a credit grading system, known as the Master Rating Scale and set out below to facilitate the monitoring of the portfolio and individual exposures.

A credit grade is a numerical measure of the Probability of Default (PD), which is the likelihood that a customer will default within the next twelve months. Credit grades range from 1 to 20 as per the Bank's Master Rating Scale. A credit grade of 20 is used if the customer or customer Group is in default. In addition to the credit grade a Watchlist grade is also utilised for customers exhibiting unsatisfactory features or considered to be of concern. The models used to establish credit grades and the associated PDs are subject to annual validation.

A credit grade must be agreed for each customer and reviewed at least annually, or when new information is received, to ensure that it is at all times a reasonable representation of the PD for that customer.

Credit grades are determined through the use of a model or methodology appropriate to the customer type using financial and non-financial information. Financial information includes the most recent available audited financial statements. Non-financial information includes:

- Country Capping, i.e. the maximum credit grading available to customers from a specific domicile;
- Post balance sheet date events; and
- External credit ratings or benchmark credit grades for peer companies.

The Watchlist Grades are defined as follows:

- WL1: A temporary/cautionary classification for clients who exhibit some unsatisfactory features, however viability is considered to be sound. This classification is considered where any amount is overdue by 14 days or more;
- WL2: Where there are some concerns over recoverability. This also captures any accounts that have been on Watchlist over 12 months or accounts where any amount is overdue by 30 days or more;
- WL3: Sub-standard. Where there are real concerns that if the position deteriorates the Bank could be at risk of loss or accounts where any amount is overdue by 60 days or more.

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

Master Rating Scale

Master Rating Scale - 2020

			External benchmarks					
			S&P		Moody's		Fitch	
Category	**Grade**	**Probability of Default***	**From**	**To**	**From**	**To**	**From**	**To**
Investment Grade	1 - 10	0.001% - 0.660%	AAA	BBB-	Aaa	Baa3	AAA	BBB-
Non-Investment Grade	11 - 18	0.661% - 25.000%	BB+	CCC	Ba1	Caa2	BB+	CCC
Grades 15 to 18	W15 - W18	3.714% - 25.000%	B	CCC	B2	Caa2	B	CCC
Grade 18	W18	12.001% - 25.000%	CCC	CCC	Caa2	Caa2	CCC	CCC
Grade 19	W19	25.001% - 50.000%	CCC-	CCC-	Caa3	Caa3	CCC-	CCC-
Default	20	100%	CC/D	CC/D	Ca	Ca	DDD-D	DDD-D

**Source: Moody's*

Master Rating Scale - 2019

			External benchmarks					
			S&P		*Moody's*		*Fitch*	
Category	***Grade***	***Probability of Default****	***From***	***To***	***From***	***To***	***From***	***To***
Investment Grade	*1 - 10*	*0.001% - 0.660%*	*AAA*	*BBB-*	*Aaa*	*Baa3*	*AAA*	*BBB-*
Non-Investment Grade	*11 - 18*	*0.661% - 25.000%*	*BB+*	*CCC*	*Ba1*	*Caa2*	*BB+*	*CCC*
Grades 15 to 18	*W15 - W18*	*3.714% - 25.000%*	*B*	*CCC*	*B2*	*Caa2*	*B*	*CCC*
Grade 18	*W18*	*12.001% - 25.000%*	*CCC*	*CCC*	*Caa2*	*Caa2*	*CCC*	*CCC*
Grade 19	*W19*	*25.001% - 50.000%*	*CCC-*	*CCC-*	*Caa3*	*Caa3*	*CCC-*	*CCC-*
Default	*20*	*100%*	*CC/D*	*CC/D*	*Ca*	*Ca*	*DDD-D*	*DDD-D*

**Source: Moody's*

Credit risks assessed in accordance with that methodology is shown below.

Assets measured at amortised cost and debt securities measured at fair value through other comprehensive income and fair value through profit and loss:

31 December 2020 Grade	**Financial guarantees and other commitments**	**Cash, loans and advances, debt securities and derivatives**	**Maximum exposure to credit risk**	**Cash collateral**	**Net credit exposure**
Grades 1- 10 (Investment Grade)	106,578	1,728,190	1,834,768	(2,088)	1,832,680
Grades 11 - 17 (Non-Investment Grade)	145,137	686,627	831,764	(29,700)	802,064
Grades 18 - 19 (Watchlist + Substandard)	135,658	87,278	222,936	(117,294)	105,642
Grade 20 (Default)	5,610	58,999	64,609	(639)	63,970
	392,983	**2,561,094**	**2,954,077**	**(149,721)**	**2,804,356**
Loss allowance	(4,479)	(60,845)	(65,324)	-	(65,324)
Carrying amount	**388,504**	**2,500,249**	**2,888,753**	**(149,721)**	**2,739,032**

31 December 2019 Grade	*Financial guarantees and other commitments*	*Cash, loans and advances, debt securities and derivatives*	*Maximum exposure to credit risk*	*Cash collateral*	*Net credit exposure*
Grades 1- 10 (Investment Grade)	*113,215*	*1,768,958*	*1,882,173*	*(5,797)*	*1,876,376*
Grades 11 - 17 (Non-Investment Grade)	*155,445*	*838,616*	*994,061*	*(4,474)*	*989,587*
Grades 18 - 19 (Watchlist + Substandard)	*234,173*	*102,450*	*336,623*	*(210,923)*	*125,700*
Grade 20 (Default)	*7,144*	*98,358*	*105,502*	*(4,685)*	*100,817*
	509,977	*2,808,382*	*3,318,359*	*(225,879)*	*3,092,480*
Loss allowance	*(1,342)*	*(80,138)*	*(81,480)*	*-*	*(81,480)*
Carrying amount	*508,635*	*2,728,244*	*3,236,879*	*(225,879)*	*3,011,000*

There are exposures with credit grade 18 and 19 which are based upon country caps, but have not displayed a significant increase in credit risk. In addition to the cash collateral, loan receivables in respect of securities purchased under commitments to resell ("reverse repos") are secured on AAA securities amounting to £179,067,000 as at 31 December 2020 (2019: £267,303,000).

Equity investments classified at fair value through other comprehensive income not included in the analysis above amount to £6,423,000 as at 31 December 2020 (2019: £6,471,000).

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Credit quality analysis

The following tables set out information about the credit quality of financial assets measured at amortised cost. The amounts in the table represent the gross carrying amounts. For financial guarantees and other commitments, the amounts in the table represent the amounts guaranteed or committed respectively.

Loans and advances to banks - 31 December 2020

Gross exposure	Stage 1	Stage 2	Stage 3	Total
Grades 1- 10 (Investment Grade)	370,050	-	-	370,050
Grades 11 - 17 (Non-Investment Grade)	179,143	17,357	-	196,500
Grades 18 - 19 (Watchlist + Substandard)	51,638	-	-	51,638
Grade 20 (Default)	-	-	900	900
	600,831	**17,357**	**900**	**619,088**
Loss allowance	**(1,600)**	**(25)**	**(900)**	**(2,525)**
Carrying amount	**599,231**	**17,332**	**-**	**616,563**

Loans and advances to customer - 31 December 2020

Gross exposure	Stage 1	Stage 2	Stage 3	Total
Grades 1- 10 (Investment Grade)	15,831	-	-	15,831
Grades 11 - 17 (Non-Investment Grade)	344,473	165,969	-	510,442
Grades 18 - 19 (Watchlist + Substandard)	167	56,310	-	56,477
Grade 20 (Default)	-	-	58,099	58,099
	360,471	**222,279**	**58,099**	**640,849**
Loss allowance	**(1,342)**	**(5,764)**	**(51,214)**	**(58,320)**
Carrying amount	**359,129**	**216,515**	**6,885**	**582,529**

Off balance sheet - 31 December 2020

Gross exposure	Stage 1	Stage 2	Stage 3	Total
Grades 1- 10 (Investment Grade)	101,153	994	-	102,147
Grades 11 - 17 (Non-Investment Grade)	133,593	8,404	-	141,997
Grades 18 - 19 (Watchlist + Substandard)	142,120	1,109	-	143,229
Grade 20 (Default)	-	-	5,610	5,610
	376,866	**10,507**	**5,610**	**392,983**
Loss allowance	**(650)**	**(42)**	**(3,787)**	**(4,479)**
Carrying amount (provision)	**(650)**	**(42)**	**(3,787)**	**(4,479)**

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

Loans and advances to banks - 31 December 2019

Gross exposure	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Grades 1- 10 (Investment Grade)	*885,822*	*-*	*-*	*885,822*
Grades 11 - 17 (Non-Investment Grade)	*260,719*	*27*	*-*	*260,746*
Grades 18 - 19 (Watchlist + Substandard)	*19,104*	*25,646*	*-*	*44,750*
Grade 20 (Default)	*-*	*-*	*13,599*	*13,599*
	1,165,645	***25,673***	***13,599***	***1,204,917***
Loss allowance	***(2,143)***	***(103)***	***(12,951)***	***(15,197)***
Carrying amount	***1,163,502***	***25,570***	***648***	***1,189,720***

Loans and advances to customer - 31 December 2019

Gross exposure	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Grades 1- 10 (Investment Grade)	*13,761*	*-*	*-*	*13,761*
Grades 11 - 17 (Non-Investment Grade)	*427,423*	*132,746*	*-*	*560,169*
Grades 18 - 19 (Watchlist + Substandard)	*39,338*	*18,427*	*-*	*57,765*
Grade 20 (Default)	*-*	*-*	*84,760*	*84,760*
	480,522	***151,173***	***84,760***	***716,455***
Loss allowance	***(1,063)***	***(3,700)***	***(60,178)***	***(64,941)***
Carrying amount	***479,459***	***147,473***	***24,582***	***651,514***

Off balance sheet - 31 December 2019

Gross exposure	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Grades 1- 10 (Investment Grade)	*112,858*	*357*	*-*	*113,215*
Grades 11 - 17 (Non-Investment Grade)	*151,256*	*4,189*	*-*	*155,445*
Grades 18 - 19 (Watchlist + Substandard)	*225,028*	*9,145*	*-*	*234,173*
Grade 20 (Default)	*-*	*-*	*7,144*	*7,144*
	489,142	***13,691***	***7,144***	***509,977***
Loss allowance	***(582)***	***(119)***	***(641)***	***(1,342)***
Carrying amount (provision)	***(582)***	***(119)***	***(641)***	***(1,342)***

The Bank provides facilities to in excess of 340 counterparties encompassing exposures in over 60 countries and territories (*2019: in excess of 340 counterparties encompassing exposures in over 65 countries and territories*).

The following table sets out the credit quality of trading debt securities. The analysis has been based on S&P rating:

	2020	*2019*
Rated AA- to A	736	*2,638*
Rated BBB+ and below	14,228	*11,938*
	14,964	***14,576***

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Regional concentrations of credit risk arising from operations were as follows:

31 December 2020	**Financial guarantees and other commitments**	**Cash, loans and advances, debt securities and derivatives**	**Total**
United Kingdom	28,162	470,776	498,938
Europe excluding UK	118,809	488,270	607,079
Libya	124,325	878	125,203
Other Middle East and Africa	96,318	381,888	478,206
United States	8,027	208,860	216,887
Other Countries	17,342	1,010,422	1,027,764
Impairments	(4,479)	(60,845)	(65,324)
Maximum exposure to credit risk	**388,504**	**2,500,249**	**2,888,753**

31 December 2019	***Financial guarantees and other commitments***	***Cash, loans and advances, debt securities and derivatives***	***Total***
United Kingdom	*30,733*	*466,324*	*497,057*
Europe excluding UK	*113,530*	*907,770*	*1,021,300*
Libya	*190,814*	*39,339*	*230,153*
Other Middle East and Africa	*142,049*	*492,929*	*634,978*
United States	*8,464*	*275,964*	*284,428*
Other Countries	*24,387*	*626,056*	*650,443*
Impairments	*(1,342)*	*(80,138)*	*(81,480)*
Maximum exposure to credit risk	***508,635***	***2,728,244***	***3,236,879***

MARKET AND LIQUIDITY RISKS

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

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

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

Risk Management:
The Bank's appetite for market and liquidity risks is set in response to its business plans and overall risk appetite.

The Chief Risk Officer and his direct report, the Market Risk Manager, are responsible for:
- development and oversight of the market and liquidity risk management frameworks;
- developing market and liquidity risk policies, tools and frameworks across the business;

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- 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 at an executive level by the Asset and Liability Committee which reviews and makes recommendations via the Executive Committee to the Risk and Conduct 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 Risk and Conduct Committee 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 budget for more than 10% of its revenue to be earned from principal position trading exposures to bonds, interest rates or foreign exchange, and profits should be driven where feasible by customer flows. 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. Overnight trading positions should 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 also accepts a degree of structural FX risk in its balance sheet as the majority of its risk weighted assets are denominated in US dollars or euros whilst its share capital is denominated in sterling, which is its reporting currency. With the exception of the revenues deriving from its real estate activity the Bank earns the majority of its revenues in currencies other than sterling, but incurs the majority of its operating costs in sterling.

The Bank's overall net open position (on foreign exchange open positions and cash arising on settled trades) at 31 December 2020 (being the Sterling equivalent value of all the currencies where the currency obligations were higher than currency receivables) was £1,629,000 (*2019: £2,157,000*). Were these currencies to strengthen by 5% against the remaining currencies, then the Bank would lose £81,000 (*2019: £108,000*).

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

	2020	*2019*
Maximum	5,021	*7,571*
Minimum	385	*23*
Average	1,070	*1,170*

As at the reporting date, there was no significant exposure to any one currency representing more than 10% of the Bank's equity.

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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 measures 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 Price Value of a Basis Point ("PVBP") methodology (this is a common method of measuring the price sensitivity of a bond by measuring the absolute value of the change in the price of a bond for a one basis point change in yield). 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 2020, PVBP amounted to £38,319 (*2019: £29,996*). PVBP (calculated on a daily basis) was as follows:

	2020	*2019*
Maximum	54	*44*
Minimum	29	*15*
Average	39	*31*

Hedges

Derivative contracts are used in both the banking and trading books to modify market risk exposures in the light of perceptions about future movements in those markets. In the banking book, in particular, derivative contracts are used to reduce market risk exposure arising from banking book interest rates. Derivatives in respect of the banking book as at 31 December 2019 include interest rate futures and swaps whose purpose is to reduce economic exposure to interest rate risk, during 2020 the interest swaps matured and none are recognised as at 31 December 2020. Futures are used to manage the overall quantum of interest rate risk whereas swaps are used as hedges against specific transactions.

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

31 December 2020	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Non-interest bearing**	**Total**
Financial investments	309,564	806,946	86,809	86,644	9,894	6,423	1,306,280
Loans and advances to banks	201,356	296,570	118,637	-	-	-	616,563
Loans and advances to customers	214,198	359,329	8,216	786	-	-	582,529
Other assets	739	337	49	-	756	35,645	37,526
Total assets	**725,857**	**1,463,182**	**213,711**	**87,430**	**10,650**	**42,068**	**2,542,898**
Deposits from banks	967,463	500,123	187,156	37,111	-	-	1,691,853
Other deposits	271,116	40,293	41,157	197,263	-	-	549,829
Subordinated liabilities	41,378	30,658	-	-	-	-	72,036
Other liabilities and shareholders' funds	14,357	71	619	-	-	214,133	- 229,180
Total equity and liabilities	**1,294,314**	**571,145**	**228,932**	**234,374**	**-**	**214,133**	**2,542,898**
Overall gap	**(568,457)**	**892,037**	**(15,221)**	**(146,944)**	**10,650**	**(172,065)**	
Reverse Cumulative gap	**-**	**568,457**	**(323,580)**	**(308,359)**	**(161,415)**	**(172,065)**	

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31 December 2019	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
Financial investments	212,270	491,837	105,244	73,047	2,812	6,472	891,682
Loans and advances to banks	887,413	101,016	201,291	-	-	-	1,189,720
Loans and advances to customers	186,230	423,408	40,330	140	-	1,406	651,514
Other assets	906	50	8	-	-	45,438	46,402
Total assets	**1,286,819**	**1,016,311**	**346,873**	**73,187**	**2,812**	**53,316**	**2,779,318**
Deposits from banks	959,942	567,728	272,391	36,884	-	-	1,836,945
Other deposits	436,650	112,381	51,096	74,480	-	-	674,607
Subordinated liabilities	-	71,870	-	-	-	-	71,870
Other liabilities and shareholders'	-	-	-	-	-	-	-
funds	7,435	1,397	428	260	-	186,376	195,896
Total equity and liabilities	**1,404,027**	**753,376**	**323,915**	**111,624**	**-**	**186,376**	**2,779,318**
Derivatives (at contract value)							
Receivable	-	3,778	-	-	-	-	
Payable	-	(3,778)	-	-	-	-	
Overall gap	**(117,208)**	**262,935**	**22,958**	**(38,437)**	**2,812**	**(133,060)**	
Reverse Cumulative gap	**-**	**117,208**	**(145,727)**	**(168,685)**	**(130,248)**	**(133,060)**	

Non-interest bearing items comprise share capital, accumulated impairments, tangible and intangible assets and other sundry debtors and creditors not subject to interest.

Trading book

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

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

Liquidity risk

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

The Bank monitors a range of liquidity indicators including: net cash flows over 14 days plus HQLA; the Liquidity Coverage Ratio (LCR); and net cash flows over 91 days plus HQLA. The Bank’s risk appetite is to be able to survive a 91-day period assuming no non-contractual rollover of Group funding.

The Treasurer ensures that the requirements for managing liquidity risk are incorporated in departmental operating procedures, to the extent required.

The Board is of the opinion that it has taken appropriate steps to provide reasonable assurance that the liquidity risk of the Bank is and will continue to be managed in a prudent manner.

The Bank’s appetite for liquidity risk is low. This is evidenced by the Bank’s LCR which shows that the surplus of HQLA is greatly in excess of the minimum amount the PRA requires the Bank to hold.

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

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At 31 December 2020	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Undated	Total
Financial investments	83,607	229,566	300,181	660,241	32,685	-	1,306,280
Loans and advances to banks	201,208	296,570	118,633	148	4	-	616,563
Loans and advances to customers	111,007	28,652	122,321	313,744	6,805	-	582,529
Other assets	735	337	48	-	757	35,649	37,526
Total assets	**396,557**	**555,125**	**541,183**	**974,133**	**40,251**	**35,649**	**2,542,898**
Deposits from banks	783,923	500,123	298,127	109,680	-	-	1,691,853
Other deposits	271,116	40,293	70,458	167,962	-	-	549,829
Subordinated liabilities	-	-	-	-	72,036	-	72,036
Other liabilities and shareholders' funds	14,354	71	619	156	-	213,980	229,180
Total equity and liabilities	**1,069,393**	**540,487**	**369,204**	**277,798**	**72,036**	**213,980**	**2,542,898**
Net liquidity gap	**(672,836)**	**14,638**	**171,979**	**696,335**	**(31,785)**	**(178,331)**	

At 31 December 2019	*Up to 1 month*	*1-3 months*	*3-12 months*	*1-5 years*	*Over 5 years*	*Undated*	*Total*
Financial investments	*6,811*	*225,620*	*143,312*	*513,127*	*2,812*	*-*	*891,682*
Loans and advances to banks	*875,878*	*101,016*	*201,291*	*11,535*	*-*	*-*	*1,189,720*
Loans and advances to customers	*102,021*	*45,154*	*111,374*	*376,711*	*16,254*	*-*	*651,514*
Other assets	*906*	*50*	*8*	*-*	*-*	*45,438*	*46,402*
Total assets	***985,616***	***371,840***	***455,985***	***901,373***	***19,066***	***45,438***	***2,779,318***
Deposits from banks	*768,656*	*567,102*	*388,693*	*112,494*	*-*	*-*	*1,836,945*
Other deposits	*357,929*	*58,902*	*81,419*	*176,357*	*-*	*-*	*674,607*
Subordinated liabilities	*-*	*-*	*-*	*18,847*	*53,023*	*-*	*71,870*
Other liabilities and shareholders' funds	*7,435*	*1,397*	*428*	*260*	*-*	*186,376*	*195,896*
Total equity and liabilities	***1,134,020***	***627,401***	***470,540***	***307,958***	***53,023***	***186,376***	***2,779,318***
Net liquidity gap	***(148,404)***	***(255,561)***	***(14,555)***	***593,415***	***(33,957)***	***(140,938)***	

OPERATIONAL RISK

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

Risk Management:
The Bank's appetite for operational risk is set in response to its business plans and overall risk appetite. The Chief Risk Officer and his direct report, the Head of Operational Risk and Compliance, 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, root cause analysis and recording and remedial action tracking;
- managing effective Risk and Control Self-Assessment processes to identify and evaluate the Bank's exposures to operational risks;
- oversight of operational risk management activities undertaken by the first line; and
- reporting and performance monitoring.

The Bank's Chief Operations and Control Officer is in the 1st Line of Defence (see Section 4b – Approach to Risk Management) and reports to the Chief Executive Officer. The Chief Operations and Control Officer has day to day responsibility for assuring the completeness and performance of the Bank's operational risk control processes.

Operational risk management is overseen at an executive level by the Governance and Control Committee, which reviews and makes recommendations via the Executive Committee to the Risk and Conduct 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 Risk Standards as approved by the Risk and Conduct Committee.

Operational risk losses in the year to 31 December 2020 amounted to £133,000 (*2019: £417,000*).

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

- identification of mission critical processes and potential points of failure, and ensuring that adequate controls are in place;
- IT technical standards and change control procedures;
- market standard IT security controls, software and processes;
- HR policies, processes and controls;
- project management policies and procedures;
- implementing an information security management system framework consistent with the ISO 27000 family of standards;
- operational resilience / 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.

COMPLIANCE RISK

Definition:
Compliance Risk is defined as the risk of legal and / or regulatory sanctions, material financial loss, or loss to reputation that the Bank may suffer as a result of a failure to comply with laws, regulations, internal policies, codes of conduct and standards, responsibility for which has been allocated to the Compliance Department. In the context of BACB, this encompasses primarily regulatory requirements in respect of Conduct Risk, Market Abuse and Fair Treatment of Customers.

The Bank's principal sources of Compliance Risk are:

- Enterprise-wide compliance risks including supervision and oversight, regulatory reporting and notifications, material outsourcing and / or failure to adequately implement existing and new regulatory requirements; and
- Business related including the risk that the Bank fails to conduct its activities appropriately, which may include consumer treatment, conflicts of interest, and / or complaints handling, as well as managing client money and assets.

Risk Management:
Day-to-day responsibility for the management of Compliance Risk rests with the Head of Operational Risk and Compliance who reports into the General Counsel and Chief Compliance Officer, who holds SMF 16 responsibility. 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.

The Compliance Department 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;
- providing regular training and education for staff on applicable regulations, rules and internal standards;
- regulatory scanning to ensure that any relevant developments or emerging risks are identified and appropriately addressed; and
- communicating with regulators.

Compliance Risk is overseen by the Risk and Conduct Committee, to which the Head of Operational Risk and Compliance provides periodic reports. At an executive level, Compliance risk, including mitigation controls along with action and remediation plans, is overseen by the Governance and Control Committee.

Risk Mitigation:

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

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

FINANCIAL CRIME

Definition:

Financial Crime Risk is the risk that the Bank may be used to further financial crime activity by breaching financial sanctions, laundering the proceeds of crime, terrorist financing, tax evasion, offering or accepting bribes or being used to channel funds from corrupt practices.

Risk Management:

The Money Laundering Reporting Officer (MLRO) and Head of Financial Crime, who holds SMF 17 responsibility, reports into the General Counsel and Chief Compliance Officer, who holds SMF 16 responsibility.

The Anti Financial Crime department is responsible for:

- Implementing an anti-financial crime risk management framework designed to mitigate the risk of the Bank being used as a vehicle to facilitate financial crime and breaches of sanctions applicable to the Bank.
- ensuring that any occurrences which give reason to suspect money laundering or the financing of terrorism are identified and reported to the relevant authorities;
- maintaining effective policies, systems and controls to combat and identify financial crime;
- monitoring that those policies and controls are being adhered to;
- providing regular and mandatory training on both a Bank-wide and targeted basis;
- horizon scanning to identify and prepare for forthcoming regulatory change;
- providing management information and reporting to management on the effectiveness of the Bank's anti-financial crime controls; and
- maintaining an independent second line function.

Financial Crime Risk is overseen by the Risk and Conduct Committee, to whom the MLRO provides periodic reports. At an executive level, the risk, including mitigation controls along with action and remediation plans, is overseen by the Governance and Control Committee.

Risk Mitigation:

- the Bank has invested heavily in enhancing both the quantity and calibre of resources in the first line who are responsible for ensuring compliance, subject to oversight, and in the case of higher risk cases, additional due diligence by the second line compliance team;
- the Bank employs a range of tools and processes, including technology solutions, to monitor new and existing customers and to monitor transactions for risk indicators, which will be investigated if triggered;
- the Bank has established a High Risk Advisory Committee, which consists of a senior members of executive management, to which the MLRO brings higher risk issues which in his opinion should be escalated for information or for discussion, in order to help the ultimate decision makers arrive at their decisions;
- the Bank has developed a Financial Crime Risk Appetite Statement to assist with decision making; and
- the Anti-Financial Crime team operates a risk based monitoring programme to ensure controls are effective

Note 33 provides details of the agreed settlement with the U.S. Office of Foreign Assets Control in relation to sanctions.

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. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Valuation of financial instruments

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

Impairment losses on loans and advances

For financial assets that are credit-impaired at the reporting period, the credit provision is calculated as the difference between the gross carrying amount and the present value of the estimated future cashflows.

ECL for not credit-impaired financial assets is made up by 12 month ECL (Stage 1) and lifetime ECL (Stage 2). This ECL is made up by:

- financial assets: the present value of all cash shortfalls, i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive;
- undrawn loan commitments: the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

At 31 December 2020 13 loans to customers were impaired (*2019: loans to 13 customers*). The restructuring of three loans were the subject of continuing negotiations between lending syndicates and the borrowers, the outcomes of which were uncertain at 31 December 2020. Assumptions have been made regarding the outcome of these negotiations, and hence future cash flows based on information regarding the value of underlying assets and businesses, and on indicative secondary market pricing where available.

The key assumptions used by management in determining ECL provisions is described in Note 3l. The ECL provision is sensitive to judgements and assumptions made regarding formulation of forward-looking scenarios and as at reporting date by the judgements used in determining the overlay to the modelled ECL. Significant judgement is also made in establishing the criteria for determining whether credit risk on the financial assets has increased significantly since initial recognition. The sensitivity analysis of the ECL outcomes to different assumptions are carried out and are disclosed in Note 13.

Pension fund

The Bank assesses the value of its defined benefit pension fund assets and obligations in accordance with IAS 19. The standard requires that certain assumptions be made which are set out in Note 26. Note 26 also sets out an analysis of the sensitivity of the defined benefit obligations to changes in certain assumptions.

IAS19 allows an employer to recognise a surplus as an asset to the extent that it is able to recover a surplus either through reduced contributions in the future or through refunds from the plan, even if the refunds may only be available at some distant time in the future, such as after the last benefit has been paid. IFRIC14 provides a detailed interpretation of this provision of IAS19, and the potential impact of any statutory funding requirements. The Directors' view is that, under the scheme rules, the Bank has an unconditional right to any surplus assuming the gradual settlement of liabilities over time until all members have left the scheme. Furthermore, in the ordinary course of business the Trustee has no rights to unilaterally wind up, or otherwise augment the benefits due to members of the scheme. Therefore, under IFRIC 14 the Bank is neither required to reflect any additional liabilities in relation to deficit funding commitments, nor restrict any scheme surplus that arises.

Software

Computer software is included in intangible assets. We considered the macroeconomic deterioration caused by the outbreak of Covid-19, to be an indicator of intangible asset impairment during the period. The impairment test was performed by comparing the net carrying amount of the capitalised software with its recoverable amount determined by calculating an estimated value-in-use. The Bank's forecasts were compiled taking into account the current economic situation and the Bank's risk appetite. The discount rate applied was based on the Bank's cost of funding as used by the Bank's FTP process. The analysis performed indicates that there is no impairment in respect of the capitalised software.

Deferred taxation

The Bank has carry forward tax losses that are available to offset against future taxable profit. However, deferred tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the unused tax losses or tax credits can be utilised. Management judgement is exercised in assessing whether this is the case, taking into account future profitability expectations. To the extent that actual outcomes differ from management's estimates, income tax charges or credits, and changes in current and deferred tax assets or liabilities, may arise in future periods.

Recognition and measurement of contingencies

Provisions for legal claims are recognised when the Bank has a 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 a reliable estimate of the amount can be made. In determining whether it is likely that significant liability will arise from legal claims, Management take appropriate legal advice.

Other

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

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 statement of financial position by the class of financial instrument to which they are assigned and therefore by the measurement basis.

31 December 2020	Assets and liabilities held at amortised cost	Debt securities held at FVOCI	Equity Investments held at FVOCI	Assets and liabilities manditorily designated at FVTPL	Total
Assets					
Cash, notes and coins	219	-	-	-	**219**
Financial investments	-	1,284,893	6,423	14,964	**1,306,280**
Loans and advances to banks	616,563	-	-	-	**616,563**
Loans and advances to customers	582,529	-	-	-	**582,529**
Derivatives	-	-	-	1,081	**1,081**
Total financial assets	1,199,311	1,284,893	6,423	16,045	**2,506,672**
Total non-financial assets					**36,226**
Total assets					**2,542,898**
Liabilities					
Deposits from banks	1,691,853	-	-	-	**1,691,853**
Other deposits	549,829	-	-	-	**549,829**
Derivatives	-	-	-	5,582	**5,582**
Subordinated liabilities	72,036	-	-	-	**72,036**
Total financial liabilities	2,313,718	-	-	5,582	**2,319,300**
Total equity and non-financial liabilities					**223,598**
Total equity and liabilities					**2,542,898**

31 December 2019	*Assets and liabilities held at amortised cost*	*Debt securities held at FVOCI*	*Equity Investments held at FVOCI*	*Assets and liabilities manditorily designated at FVTPL*	*Total*
Assets					
Cash, notes and coins	*89*	-	-	-	***89***
Financial investments	-	*870,636*	*6,471*	*14,575*	***891,682***
Loans and advances to banks	*1,189,720*	-	-	-	***1,189,720***
Loans and advances to customers	*651,514*	-	-	-	***651,514***
Derivatives	-	-	-	*751*	***751***
Total financial assets	*1,841,323*	*870,636*	*6,471*	*15,326*	***2,733,756***
Total non-financial assets					***45,562***
Total assets					***2,779,318***
Liabilities					
Deposits from banks	*1,836,945*	-	-	-	***1,836,945***
Other deposits	*674,607*	-	-	-	***674,607***
Derivatives	-	-	-	*3,093*	***3,093***
Subordinated liabilities	*71,870*	-	-	-	***71,870***
Total financial liabilities	*2,583,422*	-	-	*3,093*	***2,586,515***
Total equity and non-financial liabilities					***192,803***
Total equity and liabilities					***2,779,318***

Of the total £16,045,000 (*2019: £15,326,000*) assets at fair value through the profit and loss account, £16,045,000 (*2019: £15,326,000*) represents financial assets and derivatives held for trading purposes.

Of the total £5,582,000 *(2019: £3,093,000)* liabilities at fair value through the profit and loss account, £5,582,000 (*2019: £3,093,000)* represents derivatives held for trading purposes. As at 31 December 2020, there were no financial liabilities designated at fair value through the profit and loss account at inception *(2019: nil)*.

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7. Fair values of financial assets and liabilities

a) Financial assets and liabilities held at amortised cost

The fair values of assets and liabilities held at amortised costs are required to be estimated and disclosed, and the table below summarises both the carrying amounts and the 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. Observable market prices are not available for many of the Bank's financial assets and liabilities not measured at fair value.

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. Internal models may use inputs which are unobservable, or be based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

31 December 2020	**Level 1**	**Level 2**	**Level 3**	**Total**	**Carrying value (Note 6)**
Cash, notes and coins	-	219	-	219	219
Loans and advances to banks	-	-	616,525	616,525	616,563
Loans and advances to customers	-	-	582,313	582,313	582,529
Financial assets held at amortised cost	**-**	**219**	**1,198,838**	**1,199,057**	**1,199,311**
Deposits from banks	-	-	1,721,671	1,721,671	1,691,853
Other deposits	-	-	558,017	558,017	549,829
Subordinated liabilities	-	-	75,078	75,078	72,036
Financial liabilities held at amortised cost	**-**	**-**	**2,354,766**	**2,354,766**	**2,313,718**

31 December 2019	***Level 1***	***Level 2***	***Level 3***	***Total***	***Carrying value (Note 6)***
Cash, notes and coins	*-*	*89*	*-*	*89*	*89*
Loans and advances to banks	*-*	*-*	*1,189,135*	*1,189,135*	*1,189,720*
Loans and advances to customers	*-*	*-*	*651,504*	*651,504*	*651,514*
Financial assets held at amortised cost	***-***	***89***	***1,840,639***	***1,840,728***	***1,841,323***
Deposits from banks	*-*	*-*	*1,911,764*	*1,911,764*	*1,836,945*
Other deposits	*-*	*-*	*687,832*	*687,832*	*674,607*
Subordinated liabilities	*-*	*-*	*69,558*	*69,558*	*71,870*
Financial liabilities held at amortised cost	***-***	***-***	***2,669,154***	***2,669,154***	***2,583,422***

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 2020 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 2020			*31 December 2019*		
	Sterling	***US Dollars***	***Euro***	***Sterling***	***US Dollars***	***Euro***
Interest rates						
3 month	0.02%	0.26%	-0.55%	*0.79%*	*1.91%*	*-0.38%*
6 month	0.03%	0.20%	-0.53%	*0.88%*	*1.82%*	*-0.32%*
1 year	0.01%	0.19%	-0.53%	*0.83%*	*1.76%*	*-0.32%*
5 year	0.19%	0.44%	-0.46%	*0.90%*	*1.72%*	*-0.12%*
Exchange rates	1.0000	1.3663	1.1165	*1.0000*	*1.3233*	*1.1793*

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 profile.

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.

Valuation techniques include net present value and discounted cash flow 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.

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

The Bank uses widely recognised valuation models to determine the fair value of common and simple financial instruments that use only observable market data and require little management judgement and estimation. Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations, this reduces the need for management judgement and estimation and also reduces the uncertainty associated with determining fair values. For all other financial instruments, the Bank determines fair values using other valuation techniques described above.

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 2020	**Level 1**	**Level 2**	**Level 3**	**Total fair value (Note 6)**
Financial investments	1,299,857	-	6,423	1,306,280
Derivative assets	1,081	-	-	1,081
Total assets held at fair value	**1,300,938**	**-**	**6,423**	**1,307,361**
Derivative liabilities	5,582	-	-	5,582
Total liabilities held at fair value	**5,582**	**-**	**-**	**5,582**

31 December 2019	*Level 1*	*Level 2*	*Level 3*	*Total fair value* **Total fair value** *(Note 6)*
Financial investments	*885,211*	*-*	*6,471*	*891,682*
Derivative assets	*751*	*-*	*-*	*751*
Total assets held at fair value	***885,962***	***-***	***6,471***	***892,433***
Derivative liabilities	*3,084*	*9*	*-*	*3,093*
Total liabilities held at fair value	***3,084***	***9***	***-***	***3,093***

There were no significant transfers of assets between levels during 2020, 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 investment funds

Assets categorised as Level 3 comprise the Bank's investments in equity shares and investment funds. 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. Given the bespoke nature of the analysis in respect of each equity holding, it is not practical to quote a range of key unobservable inputs. Movements during the year of these assets are set out in Note 19.

Derivative assets and liabilities

The fair values of spot and forward foreign exchange contracts and interest futures are based upon observable market data 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 cash flow models, with interest rates derived from yield curves derived from market data. These instruments are categorised as Level 2.

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

8. Net interest income

Interest income is made up as follows:

	2020	2019
Interest income		
Loans, advances and overdrafts	33,693	*46,419*
Professional market placements and debt securities	14,051	*30,922*
Other	2	*75*
	47,746	***77,416***

The amount recorded in interest arising on financial assets at fair value through profit and loss is £1,120,458 (2019: *£794,392*).

Interest expense is made up as follows:

	2020	*2019*
Interest expense		
Deposits from banks and other deposits	(21,515)	*(43,768)*
Subordinated loans	(2,498)	*(3,148)*
Other	(183)	*(151)*
	(24,196)	***(47,067)***

9. Net fee and commission income

Fee and commission income from contracts with customers in the scope of IFRS 15 is made up as follows:

	2020	*2019*
Fee and commission income		
Trade services:		
Documentary credit and trade finance fees	13,641	*14,872*
Guarantees	563	*819*
Banking payments and services	2,593	*3,499*
Term lending (other than amounts which form part of the effective interest rate)	122	*243*
Safe custody	52	*55*
	16,971	***19,488***
Fee and commission expense		
Brokerage and other fees	**(1,269)**	***(1,098)***

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

10. Net trading income

Net trading income is made up as follows:

	2020	2019
Foreign exchange dealing	3,771	*12,872*
Debt securities - Realised (losses) / gains	(1,069)	*1,203*
Debt securities - Unrealised fair value movements	158	*26*
Other	(63)	*(231)*
	2,797	***13,870***

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

11. Other operating income

Other operating income is made up as follows:

	2020	2019
Gains on debt securities at fair value through other comprehensive income	2,117	*1,156*
Rental Income	278	*77*
Dividends to equity shares and investment funds measured at FVOCI	347	*182*
	2,742	***1,415***

12. Business line review

The Bank has six business lines which comprise its 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. Business decisions are made with reference to risk adjusted return on capital. The summary below describes the operations of each of the Bank's business lines:

- Trade Finance: the provision of core trade finance instruments supporting export and import customers.
- Real Estate Lending: the Bank provides tailored repayments facilities to investors in respect of commercial and high value residential properties.
- Commodity Finance: the provision of short-term secured facilities to commodity companies supporting trading activities.
- Structured Finance: The Bank provides lending facilities principally in support of the Bank's core trade and commodity finance businesses.
- Banking Services: The Bank acts as a banking correspondent for key clients providing tailored account and international payment services.
- Treasury: In addition to servicing the Bank's own funding and market risk management requirements, the Treasury provides access to the international financial markets for the Bank's customers, and assumes a limited amount of market risk by way of own account trading activities.
- Other: This represents items not specifically allocated to the Bank's business lines, principally rental income, returns on investments and foreign exchange revaluation.

Information regarding the results of each business line is included below. Performance is measured based on net business line profit as included in the internally generated management information and is stated after charging (or crediting) interest between business lines in respect of the assets or liabilities which either require or generate funding. There are no other significant transactions between business lines.

Operating income before allowance for credit losses by business line is as follows:

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

31 December 2020	Finance	Real Estate	Finance	Finance	Banking	Treasury	Other	Total
Net interest income	6,042	10,403	1,522	1,626	1,523	2,617	(183)	23,550
Net fee and commission income	12,730	102	1,297	(135)	1,466	242	-	15,702
Net trading income	-	-	-	-	-	2,797	-	2,797
Other operating income	-	-	-	-	-	2,117	625	2,742
Total Operating income	**18,772**	**10,505**	**2,819**	**1,491**	**2,989**	**7,773**	**442**	**44,791**

31 December 2019	*Trade Finance*	*Real Estate*	*Commodity Finance*	*Structured Finance*	*Banking*	*Treasury*	*Other*	*Total*
Net interest income	*7,147*	*11,036*	*3,083*	*2,668*	*5,795*	*771*	*(151)*	*30,349*
Net fee and commission income	*14,083*	*-*	*1,588*	*(66)*	*2,531*	*254*	*-*	*18,390*
Net trading income	*-*	*-*	*-*	*-*	*-*	*13,870*	*-*	*13,870*
Other operating income	*-*	*-*	*-*	*-*	*-*	*1,156*	*259*	*1,415*
Total Operating income	***21,230***	***11,036***	***4,671***	***2,602***	***8,326***	***16,051***	***108***	***64,024***

The analysis of total operating income below is based on the location of the customer giving rise to the revenue. Revenue from the Bank's main shareholder market of Libya is included within MENA and comprises 18% of the total *(2019: 25%).*

	2020	*2019*
United Kingdom	10,404	*18,954*
Europe / Americas (excl. UK)	7,563	*9,396*
MENA (incl Libya)	11,007	*19,854*
Sub - Saharan Africa	13,451	*12,360*
Asia, Levant and Other	2,366	*3,460*
	44,791	***64,024***

The Dubai Representative Office and the Munich Representative Office were closed in August and September 2020 respectively the income earned from these offices until operations ceased are included within MENA and Europe /Americas.

13. Allowance for credit losses

The below table shows the movement in impairment provisions on loans and advances to banks and customers at amortised cost, debt securities at fair value though other comprehensive income, and on financial guarantees and other commitments for the year ended 31 December 2020.

31 December 2020	Loans	Debt Securities	Off-balance sheet positions	Other movements	Total
Balance at 1 January	**80,138**	**179**	**1,342**	**-**	**81,659**
Exchange translation	(1,445)	(41)	(184)	-	(1,670)
New allowances	3,008	282	3,321	-	6,611
Administrative expenses associated with impaired loans	-	-	-	291	291
Allowances for credit losses	3,008	282	3,321	291	6,902
Reversal of allowances booked in previous periods	(13,460)	-	-	-	(13,460)
Recoveries of interest from impaired loans	-	-	-	(294)	(294)
Recoveries of amounts written off in previous periods	-	-	-	(1,293)	(1,293)
Reversals of allowances and recoveries of amounts written off in previous periods	(13,460)	-	-	(1,587)	(15,047)
Allowances for loans written off	(7,396)	-	-	-	(7,396)
Balance at 31 December	**60,845**	**420**	**4,479**		**65,744**
Credit impaired	52,114	-	3,787	-	55,901
Not credit impaired	8,731	420	692	-	9,843
Total credit losses allowance against loans, debt securities and off balance positions	**60,845**	**420**	**4,479**	**-**	**65,744**

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

31 December 2019	*Loans*	*Debt Securities*	*Off-balance sheet positions*	*Other movements*	*Total*
Balance at 1 January	***89,800***	***369***	***2,043***	***-***	***92,212***
Exchange translation	*(945)*	*-*	*(69)*	*-*	*(1,014)*
New allowances	*26,427*	*-*	*263*	*-*	*26,690*
Loans reclassed from Stage 3 to Stage 2	*(2,606)*	*-*	*-*	*-*	*(2,606)*
Administrative expenses associated with impaired loans	*-*	*-*	*-*	*393*	*393*
Allowance for credit losses	*23,821*	*-*	*263*	*393*	*24,477*
Reversal of allowances booked in previous periods	*(4,950)*	*(190)*	*-*	*-*	*(5,140)*
Recoveries of interest from impaired loans	*-*	*-*	*-*	*(553)*	*(553)*
Recoveries of amounts written off in previous periods	*-*	*-*	*-*	*(226)*	*(226)*
Reversals of allowances and recoveries of amounts written off in previous periods	*(4,950)*	*(190)*	*-*	*(779)*	*(5,919)*
Reclassification of exposure from off balance sheet to on balance sheet	*895*	*-*	*(895)*	*-*	*-*
Reversal of allowances for loans written off	*(28,483)*	*-*	*-*	*-*	*(28,483)*
Balance at 31 December	***80,138***	***179***	***1,342***	***-***	***81,659***
Credit impaired	*73,129*	*-*	*641*	*-*	*73,770*
Not credit impaired	*7,009*	*179*	*701*	*-*	*7,889*
Total credit losses allowance against loans, debt securities and off balance positions	***80,138***	***179***	***1,342***	***-***	***81,659***

The reconciliation from the opening to the closing balance of the allowance for credit losses by class of financial instrument are showed in Note 17, Note 18 and Note 31 respectively. The basis for determining transfers due to changes in credit risk is set out in our accounting policy Note 3l.

An increased impairment provision of £8.1m was booked in December 2020 to provide fully for an impaired exposure. However, the 2020 results includes a significant receipt of £6.9m between January and March 2021 which reduced the provision.

The contractual amount outstanding on financial assets that were written off during the reporting period and are still subject to enforcement activity was £7,396,000 (*2019: £28,482,000*).

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 financial institutions 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.

Impairment loss allowances on not credit-impaired financial assets and off balance sheet exposures are made up by 12 month ECL (Stage 1) and lifetime ECL (Stage 2), and total £9,843,000 for 2020 (*2019: £7,888,000).*

Further information with regard to impaired and other facilities is shown in the table below. There were a total of 13 impaired facilities at 31 December 2020 (*2019: 13 facilities*), with new impairment allowances recognised for 4 of those facilities during the year (*2019: 9 facilities*). Of the 13 facilities impaired as at 31 December 2020, 8 facilities had no collateral in place (*2019: 9 facilities*).

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	2020		*2019*	
	Number of Facilities	**Gross Exposure ***	*Number of Facilities*	*Gross Exposure **
Impaired facilities				
Total impaired facilities	13	63,970	*13*	*100,818*
Impaired facilities against which there was no collateral	8	60,341	*9*	*89,857*
Of the above:				
Facilities in the process of being restructured as at the reporting date. Impairment in respect of these facilities £11,784,383 (*2019: £23,721,514*)	2	11,784	*3*	*24,425*
Companies in liquidation. Impairment in respect of these facilities £2,667,737 (*2019: £9,186,313*)	2	3,264	*3*	*11,006*
Waiver on repayments. Impairment in respect of these facilities £34,554,418 (*2019: £33,858,726*)	2	41,440	*2*	*47,112*
Shortfall to be paid on maturing underlying contracts. Impairment in respect of this facility £3,510,565 (*2019: £2,587,176*)	2	3,853	*1*	*7,314*
Unimpaired facilities subject to forbearance, restructuring or close monitoring				
Watchlist or substandard facilities subject to closer monitoring than normal	1	13,812	*6*	*57,597*
Breach of covenant, which is being addressed	7	48,159	*4*	*19,168*

* Gross exposure net of cash collateral

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

'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.

Impact of multiple economic scenarios on the ECL and sensitivity to alternative assumptions

The ECL recognised in the financial statements reflects the effect on expected credit losses of a range of possible outcomes, calculated on a probability-weighted basis, based on the economic scenarios. The probability-weighted amount is typically a higher number than would result from using only the base economic scenario. Credit losses and defaults typically have a non-linear relationship to the many factors which influence credit losses, such that more favourable macroeconomic factors do not reduce expected losses as much as less favourable macroeconomic factors increase expected losses.

The sensitivity of ECLs outcome to different assumptions is as follows:

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As described in Note 3l the probability weighting of each scenario is based on the geographical area of the underlying exposure.

A 10% increase in the scenario weighting of the downturn scenario described in Note 3l, coupled with a 10% decrease in the weighting of the BAU scenario would result in an increase of £0.8 million in the impairment allowance (*2019: £0.5 million*). Applying a weighting of 100% to the downside scenario would result in an increase of £6.3 million in the impairment allowance (*2019: £4.1 million*).

A 10% increase in loss given default (LGD) assumption would result in an increase of £3.5 million *(2019: £2.6 million)* in the ECL stage 1 and 2 allowance and a 20% increase in LGD assumption would increase it by £7 million *(2019: £5.1 million).*

If LGDs on the stage 3 (credit impaired) exposures are 10% higher than has been estimate then the amount of the impairment which would have been charged in 2020 in respect of those loans would have been increased by £0.6 million (2019: £4.2 million in respect of 13 loans).

A 2 notch downgrade in probability of default (PD) (without changing stage allocation of the exposures) would result in an increase in the ECL stage 1 and 2 allowance of £10.3 million (2019: £9 million).

As noted in Note 3l, management assessed that unprecedented movement in economic and market drivers caused by the Covid-19 crisis has impacted the performance of ECL model and has required in the use of compensating controls such as overlays and overrides on top of model outputs to help protect the Bank from unwanted risks. The total overlay in the ECL model charged to the income statement for 2020 amounted to £1,048,883 *(2019: nil)*.

14. Administrative expenses

	2020	*2019*
Staff costs:		
Salaries and other emoluments	18,208	*16,861*
Social security costs	2,149	*2,043*
Other pension costs:		
Pension Running costs for both schemes	359	*283*
Defined contribution scheme	1,848	*2,005*
Total staff employment costs	**22,564**	***21,192***
Reorganisation costs	994	*382*
Other employment related costs	1,921	*3,333*
Total staff costs	**25,479**	***24,907***
Fees payable to the Bank's auditors for the audit of the Bank's annual financial statements	604	*575*
Fees payable to the Bank's auditors for other services :		
Other services pursuant to legislation	28	*15*
Depreciation (including amortisation of intangibles)	2,477	*2,519*
Amounts payable in respect of operating leases:		
Amortisation of prepaid rental on land	63	*63*
Loss on sale of tangible assets	81	-
Regulatory supervision fees	104	*115*
Other administrative expenses		
Premises & Technology	5,048	*5,020*
Legal & Professional	1,261	*1,419*
Other	1,869	*2,755*
Administrative expenses	**37,014**	***37,388***

The average number of employees in place during the year was 215 (*2019: 224*).

The fees payable to the Bank's auditors included above include overrun fees for prior year audits of £115,000 in 2020 and £180,000 in 2019.

Directors' remuneration included above totalled £952,534 *(2019: £931,000)*. The emoluments of the highest paid director were £330,681 *(2019: £399,000)* and the amount of their accrued pension as at statement of financial position date was £nil *(2019: £nil)*. There were no pension contributions for any directors during the year *(2019: £nil)*. Compensation for loss of office of directors (including amounts payable during contractual notice periods) totalled £181,530.

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15. Income tax

	2020	*2019*
Current tax		
Total UK corporation tax charge	929	*212*
Of which: amount recognised in other comprehensive income	-	*-*
Current tax on items taken through the income statement	929	*212*
Current tax adjustment in respect of previous periods	(136)	*(469)*
Deferred tax (Note 22)		
Origination and reversal of timing differences	476	*420*
Effect of tax rate change	(165)	*66*
Deferred tax adjustment in respect of unused losses	390	*221*
	701	*707*
Total income tax charge	**1,494**	*450*

The tax charge on the profit for the year is based on the average UK corporation tax rate of 19% (2019: 19%). The March 2020 Budget announced that the rate of 19% would continue to apply with effect from 1 April 2020, and this change was substantively enacted on 17 March 2020. Deferred tax as at 31 December 2020 has been calculated at this rate.

The tax charge for the year is lower *(2019: lower)* than the charge resulting from applying the standard rate of UK corporation tax. The differences are explained below:

	2020	*2019*
Profit on ordinary activities before tax	**15,922**	*8,078*
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK	3,025	*1,535*
Effects of:		
Adjustment in respect of previous periods	(136)	*(469)*
Effect of change in tax rate	(165)	*66*
Non taxable income	(70)	*(39)*
Non deductible items	308	*298*
Prior period losses recognised as a deferred tax asset	390	*221*
Previously unrecognised losses utilised during the year	(1,858)	*(1,162)*
Total income tax charge	**1,494**	*450*

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

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	2020			*2019*		
	Before tax	**Tax**	**Net of tax**	*Before tax*	*Tax*	*Net of tax*
Actuarial gain/(loss) on pension fund	298	(44)	254	*(1,633)*	*278*	*(1,355)*
Change in fair value of equity investments designated at FVOCI	(48)	10	(38)	*(139)*	*25*	*(114)*
Change in fair value of debt securities designated at FVOCI	2,575	(145)	2,430	*4,094*	*(1,445)*	*2,649*
Fair value (gains)/losses attributable to FVOCI financial assets transferred to income	2,117	(129)	1,988	*1,156*	*(71)*	*1,085*
	4,942	**(308)**	**4,634**	***3,478***	***(1,213)***	***2,265***

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

			2020		
Nature of activities	**Geographical location**	**Turnover**	**Profit before tax**	**Corporation tax refund**	**Average number of employees**
Banking	United Kingdom	52,936	15,922	(214)	215

			2019		
Nature of activities	*Geographical location*	*Turnover*	*Profit before tax*	*Corporation tax refund*	*Average number of employees*
Banking	*United Kingdom*	*45,466*	*8,078*	*(724)*	*224*

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 2014.

16. Derivatives

Derivative positions at 31 December were as follows:

		31 December 2020	
	Contract amount	**Positive fair values (Assets)**	**Negative fair values (Liabilities)**
Spot and forward foreign exchange contracts held for trading purposes	622,994	1,081	5,295
Interest futures held for trading purposes	47,574	-	287
		1,081	**5,582**

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	31 December 2019		
	Contract amount	*Positive fair values (Assets)*	*Negative fair values (Liabilities)*
Spot and forward foreign exchange contracts held for trading purposes	*347,691*	*751*	*2,473*
Interest rate swaps held for trading	*3,778*	*-*	*9*
Interest futures held for trading purposes	*192,700*	*-*	*611*
		751	*3,093*

The Bank's activities expose it primarily to the financial risk of changes in foreign currency exchange rates, and interest rates. The Bank uses foreign exchange forward contracts and options, interest rate swaps and futures, and similar instruments to hedge these exposures. Derivative positions may also be held for trading purposes.

Foreign exchange risk

A spot foreign exchange transaction is an agreement between two parties to buy one currency against selling another currency at an agreed price for settlement on the spot date.

A forward foreign exchange contract is an agreement by which a fixed amount of one currency is exchanged for a fixed amount of a different currency on a specified future date. The contract amount in the table above is the amount receivable.

A foreign exchange option contract is an agreement that gives the right but not the obligation to exchange money denominated in one currency into another currency at a pre-agreed exchange rate on a specified date. Foreign exchange options at fair value through the profit and loss represent either contracts executed for customers against similar contracts with market counterparties, or else represent trading positions.

Interest rate risk

An interest rate swap is an agreement through which two parties agree to exchange interest rate cash flows, based on a specified notional amount from a fixed rate to a floating rate (or vice versa) or from one floating rate to another.

Interest rate swaps qualifying as fair value hedges are entered into in order to allow the Bank to more easily accommodate within its risk management policies interest bearing assets or liabilities with fixed interest rates.

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 futures at fair value through the profit and loss account comprise economic hedges against fixed rate banking book positions. Interest rate futures held for trading comprise economic hedges against trading book positions.

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

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17. Loans and advances to banks

	2020	2019
Funds held at correspondent banks	14,398	*357,750*
Professional market placements	335,043	*454,756*
Term lending	51,642	*89,248*
Bills discounted	216,897	*301,149*
Overdrafts and other advances	1,108	*2,014*
Less: Provisions for impairments	(2,525)	*(15,197)*
	616,563	***1,189,720***

The following tables show the gross carrying amount and impairment loss allowances subject to 12 month and lifetime ECL on loans and advances to banks at amortised cost at 1 January 2020 and at 31 December 2020.

The opening gross carrying amount and impairment loss allowance on loans and advances to banks at amortised cost is presented as those subject to 12 month and lifetime ECL measurement. The Bank had no financial assets that were initially purchased or originated credit-impaired during the year ended 31 December 2019 and 2020.

31 December 2020

Gross exposure	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Funds held at correspondent banks	14,398	-	-	14,398
Professional market placements	321,043	14,000	-	335,043
Term lending	51,642	-	-	51,642
Bills discounted	213,540	3,357	-	216,897
Overdrafts and other advances	208	-	900	1,108
Total	**600,831**	**17,357**	**900**	**619,088**

Impairment allowance	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Funds held at correspondent banks	(5)	-	-	(5)
Professional market placements	(18)	(5)	-	(23)
Term lending	(639)	-	-	(639)
Bills discounted	(937)	(20)	-	(957)
Overdrafts and other advances	(1)	-	(900)	(901)
Total	**(1,600)**	**(25)**	**(900)**	**(2,525)**

Net Exposure	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Funds held at correspondent banks	14,393	-	-	14,393
Professional market placements	321,025	13,995	-	335,020
Term lending	51,003	-	-	51,003
Bills discounted	212,603	3,337	-	215,940
Overdrafts and other advances	207	-	-	207
Total	**599,231**	**17,332**	**-**	**616,563**

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31 December 2019

Gross exposure	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Funds held at correspondent banks	*357,724*	*27*	*-*	*357,751*
Professional market placements	*454,756*	*-*	*-*	*454,756*
Term lending	*89,248*	*-*	*-*	*89,248*
Bills discounted	*262,834*	*25,646*	*12,669*	*301,149*
Overdrafts and other advances	*1,083*	*-*	*930*	*2,013*
Total	*1,165,645*	*25,673*	*13,599*	*1,204,917*

Impairment allowance	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Funds held at correspondent banks	*(3)*	*-*	*-*	*(3)*
Professional market placements	*(34)*	*-*	*-*	*(34)*
Term lending	*(834)*	*-*	*-*	*(834)*
Bills discounted	*(1,263)*	*(103)*	*(12,021)*	*(13,387)*
Overdrafts and other advances	*(9)*	*-*	*(930)*	*(939)*
Total	*(2,143)*	*(103)*	*(12,951)*	*(15,197)*

Net Exposure	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Funds held at correspondent banks	*357,721*	*27*	*-*	*357,748*
Professional market placements	*454,722*	*-*	*-*	*454,722*
Term lending	*88,414*	*-*	*-*	*88,414*
Bills discounted	*261,571*	*25,543*	*648*	*287,762*
Overdrafts and other advances	*1,074*	*-*	*-*	*1,074*
Total	*1,163,502*	*25,570*	*648*	*1,189,720*

The following table shows the reconciliation from the opening to the closing balance of the impairment loss allowance.

	Provision for impairments			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance as at 31 December 2019	2,143	103	12,951	15,197
Change in other risk parameter (incl change in account balances)	(5)	1	-	(4)
New financial assets originated or purchased	1,597	23	-	1,620
Financial assets that have been derecognised	(2,128)	(99)	(11,643)	(13,870)
Foreign exchange and other movements	(7)	(3)	(408)	(418)
Balance as at 31 December 2020	**1,600**	**25**	**900**	**2,525**

	Provision for impairments			
	Stage 1	Stage 2	Stage 3	Total
Balance as at 31 December 2018	*1,647*	*259*	*970*	*2,876*
Change in other risk parameter (incl change in account balances)	*279*	*-*	*(4)*	*275*
New financial assets originated or purchased	*2,141*	*103*	*12,021*	*14,265*
Financial assets that have been derecognised	*(1,846)*	*(245)*	*-*	*(2,091)*
Foreign exchange and other movements	*(78)*	*(14)*	*(36)*	*(128)*
Balance as at 31 December 2019	*2,143*	*103*	*12,951*	*15,197*

Loans and advances to banks which are subject to the ECL model overlay as at 31 December 2020 amount to £789 million and the related overlay charged to the income statement amounted to £169,000. Loans and advances to banks totalling £23m were subject to a probability of default downgrade overlay which resulted in them being transferred to Stage 2.

Loans and advances to banks with fixed interest rates (other than those with a single interest period less than 1 year) amounted to £nil *(2019: £nil).*

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Professional market placements includes £179,066,826 *(2019: £267,303,000)* 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).

18. Loans and advances to customers

	2020	*2019*
Professional market placements to non banks	-	*3,786*
Term and Real Estate lending	509,879	*556,168*
Bills discounted	11,225	*40,677*
Overdrafts and other advances	119,745	*115,824*
Less: Provisions for impairments	(58,320)	*(64,941)*
	582,529	***651,514***

The following tables show the gross carrying amount and impairment loss allowances subject to 12 month and lifetime ECL on loans and advances to customers at amortised cost at 1 January 2020 and at 31 December 2020.

The opening gross carrying amount and impairment loss allowance on loans and advances to banks at amortised cost is presented as those subject to 12 month and lifetime ECL measurement. The Bank had no financial assets that were initially purchased or originated credit-impaired during the years ended 31 December 2020 and 2019.

31 December 2020

Gross exposure	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Term and Real Estate lending	267,339	222,279	20,261	509,879
Bills discounted	11,225	-	-	11,225
Overdrafts and other advances	81,907		37,838	119,745
Total	**360,471**	**222,279**	**58,099**	**640,849**

Impairment allowance	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Term and Real Estate lending	(940)	(5,764)	(20,261)	(26,965)
Bills discounted	(3)	-	-	(3)
Overdrafts and other advances	(399)	-	(30,953)	(31,352)
Total	**(1,342)**	**(5,764)**	**(51,214)**	**(58,320)**

Net Exposure	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Term and Real Estate lending	266,399	216,515	-	482,914
Bills discounted	11,222	-	-	11,222
Overdrafts and other advances	81,508	-	6,885	88,393
Total	**359,129**	**216,515**	**6,885**	**582,529**

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

31 December 2019

Gross exposure	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Professional market placements to non banks	*3,786*	-	-	*3,786*
Term and Real Estate lending	*376,456*	*151,173*	*28,539*	*556,168*
Bills discounted	*40,677*	-	-	*40,677*
Overdrafts and other advances	*59,603*	-	*56,221*	*115,824*
Total	*480,522*	*151,173*	*84,760*	*716,455*

Impairment allowance	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Professional market placements to non banks	*(3)*	-	-	*(3)*
Term and Real Estate lending	*(843)*	*(3,700)*	*(22,388)*	*(26,931)*
Bills discounted	*(11)*	-	-	*(11)*
Overdrafts and other advances	*(206)*	-	*(37,790)*	*(37,996)*
Total	*(1,063)*	*(3,700)*	*(60,178)*	*(64,941)*

Net Exposure	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Professional market placements to non banks	*3,783*	-	-	*3,783*
Term and Real Estate lending	*375,613*	*147,473*	*6,151*	*529,237*
Bills discounted	*40,666*	-	-	*40,666*
Overdrafts and other advances	*59,397*	-	*18,431*	*77,828*
Total	*479,459*	*147,473*	*24,582*	*651,514*

The following tables show reconciliations from the opening to the closing balance of the impairment loss allowance.

Loans and advances to customers

	Provision for impairments			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance as at 31 December 2019	1,063	3,700	60,178	64,941
Transfer to Stage 1	-	682	-	682
Transfer to Stage 2	(400)	-	-	(400)
Change in other risk parameter (incl change in account balances)	507	1,842	5,641	7,990
New financial assets originated or purchased	332	1	-	333
Financial assets that have been derecognised	(139)	(368)	(6,296)	(6,803)
Write-offs	-	-	(7,396)	(7,396)
Foreign exchange and other movements	(21)	(93)	(913)	(1,027)
Balance as at 31 December 2020	**1,342**	**5,764**	**51,214**	**58,320**

	Provision for impairments			
	Stage 1	*Stage 2*	*Stage 3*	*Total*
Balance as at 31 December 2018	*1,830*	*3,372*	*81,722*	*86,924*
Transfer to Stage 1	*8*	*(48)*	-	*(40)*
Transfer to Stage 2	*(121)*	*1,732*	*(2,393)*	*(782)*
Change in other risk parameter (incl change in account balances)	*(129)*	*(1,186)*	*8,903*	*7,588*
New financial assets originated or purchased	*307*	-	*370*	*677*
Financial assets that have been derecognised	*(771)*	*(65)*	*(931)*	*(1,767)*
Write-offs	-	-	*(26,842)*	*(26,842)*
Foreign exchange and other movements	*(61)*	*(105)*	*(651)*	*(817)*
Balance as at 31 December 2019	*1,063*	*3,700*	*60,178*	*64,941*

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Loans and advances to customers which are subject to the ECL model overlay as at 31 December 2020 amount to £576 million and the related overlay charged to the income statement amounted to £880,000. Loans and advances to customers totalling £105m were subject to a probability of default downgrade overlay which resulted in them being transferred to Stage 2.

During 2020 14 loan exposures amounting to £110,211,000 were granted payment moratoria due to the Covid 19 pandemic, during 2021 6 of these exposures have since reverted to normal payment terms.

Loans and advances to customers with fixed interest rates (other than those with a single interest period less than 1 year) amounted to £nil (*2019: £nil).* Professional market placements comprises £nil *(2019: £nil)* 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).

19. Financial investments

	2020	*2019*
Debt issued by governments and multilateral development banks designated as FVOCI	909,297	*617,809*
Other listed debt securities issued by banks designated as FVOCI	372,533	*248,169*
Other listed debt securities issued by non-banks designated as FVOCI	3,063	*4,657*
Debt securities designated as FVTPL	14,964	*14,576*
Total debt securities	**1,299,857**	***885,211***
Equity shares and investment funds designated at FVOCI	**6,423**	***6,471***
	1,306,280	***891,682***

Impairment allowances of £282,000 (*2019: reversal of impairment allowances £190,000*) related to debt securities is shown against other comprehensive income.

Debt securities with fixed interest rates (other than those with a single interest period less than 1 year) amounted to £96,537,000 *(2019: £75,860,000).*

Equity shares comprise long-term participations of not more than 10% of the share capital of the following company: International Company for Leasing SAE: 1,727,999 ordinary shares of Egyptian Pounds 10.

Investment funds comprise long-term participations in limited partnership investment funds managed by third parties, whose purpose is to identify growing companies in the Middle East North Africa 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:

	2020	*2019*
Balance at 1 January	6,471	*6,610*
Changes in fair value during the year	(48)	*(139)*
Balance at 31 December	**6,423**	***6,471***
Comprising:		
Equity shares	2,617	*2,515*
Investment funds	3,806	*3,956*
	6,423	***6,471***

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20. 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 2020	20,064	2,893	22,957	17,883	40,840
Additions during the year	975	121	1,096	356	1,452
Disposals during the year	(8)	(123)	(131)	(4,864)	(4,995)
At 31 December 2020	21,031	2,891	23,922	13,375	37,297
Less: accumulated depreciation and amortisation					
Balance at 1 January 2020	8,834	2,441	11,275	7,392	18,667
Charge for the year	458	163	621	1,856	2,477
Disposals during the year	(2)	(92)	(94)	(4,853)	(4,947)
At 31 December 2020	9,290	2,512	11,802	4,395	16,197
Net book value at 31 December 2020	**11,741**	**379**	**12,120**	**8,980**	**21,100**

	Property, plant and equipment			*Intangible assets*	
Cost	*Long leasehold premises and improvements*	*Other assets*	*Total*	*Computer software*	*Total*
Balance at 1 January 2019	16,110	2,976	19,086	16,514	35,600
Recognition of right of use asset on initial application of IFRS16	3,855	-	3,855	-	3,855
Adjusted balance at 1 January 2019	19,965	2,976	22,941	16,514	39,455
Additions during the year	99	40	139	1,369	1,508
Disposals during the year	-	(123)	(123)	-	(123)
At 31 December 2019	20,064	2,893	22,957	17,883	40,840
Less: accumulated depreciation and amortisation					
Balance at 1 January 2019	8,343	2,365	10,708	5,560	16,268
Recognition of right of use asset on initial application of IFRS16	159	-	159	-	159
Adjusted balance at 1 January 2019	8,502	2,365	10,867	5,560	16,427
Charge for the year	332	196	528	1,832	2,360
Disposals during the year	-	(120)	(120)	-	(120)
At 31 December 2019	8,834	2,441	11,275	7,392	18,667
Net book value at 31 December 2019	**11,230**	**452**	**11,682**	**10,491**	**22,173**

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 23).

The net book value of £11,741,000 *(2019: £11,230,000)*, including improvements, excludes the lease of land, for which a premium has been prepaid and at balance sheet date amounts to £7,943,000 *(2019: £8,006,000) (see Note 23)*, making a total asset value of £19,684,000 *(2019: £19,236,000)*. This includes right-of-use assets in respect of leasehold premises and leases relating to representative offices of £4,534,000 (2019: £3,696,000). The right-of-use assets were recognised in January 2019 following the implementation of IFRS 16.

On 31 March 2018, 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 £29,350,000. This valuation will be updated in 2023.

Other assets comprise: technology hardware; furniture, fixtures and fittings; and motor vehicles.
Additions during the year of £2,007,00 *(2019: £1,508,000)* including expenditure of £15,000 *(2019: £1,004,000)* related to Enterprise Architect intangible assets for the new core banking system. In evaluating the recoverable amount of intangible assets the Directors have considered future profitability of the Bank.

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The original cost of fully depreciated tangible and intangible assets still in use by the Bank at year end was £6,658,000 (*2019: £11,022,000*).

There were commitments for capital expenditure on 31 December 2020 of £206,000 (2019*: £223,000*).

21. Lease commitments

Leases as Lessee

The Bank leases their main office at 8-10 Mansion Place and representative offices in Libya, Algeria and Ivory Coast. The main office is a sub-lease of part of the premises (see Note 20). The lease premium (prepaid over the lease term), is disclosed in Note 23.

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 ground rent is re-negotiated every five years to reflect market rentals and is recognised as a right-of use asset and lease liability.

The lease contract terms for the Bank's representative offices in Libya, Algeria and Ivory Coast are less than one year. These leases are short-term and the Bank has elected not to recognise right-of use assets and lease liabilities for these leases.

The Bank adopted IFRS 16 on 1 January 2019, previously theses leases were classified as operating leases under IAS17.

Information about leases for which the Bank is a lessee is presented below.

Right-of-use assets

Right-of-use assets related to the ground rent of the main office and representative offices that are presented with property and equipment (see Note 20).

Right-of-use assets	**2020**	**2019**
Balance as at 1 January	3,696	3,855
Lease adjustments during the year	942	-
Depreciation charge for the year	(104)	(159)
Balance as at 31 December	**4,534**	**3,696**

Lease liabilities are disclosed with Other liabilities, accruals, and deferred income (Note 25).

Lease liability	**2020**	**2019**
Balance as at 1 January	3,696	3,855
Lease adjustments during the year	942	-
Lease payable	(125)	(310)
Interest on lease liabilities	183	151
Balance as at 31 December	**4,696**	**3,696**

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

Amounts recognised in statement of comprehensive income are as follows:

Amounts recognised in the income statement	2020	2019
Depreciation charge for the year	104	159
Interest on lease liabilities	183	151
Loss on ROU modifications	45	-
Expenses relating to short term leases	144	19
Total amount recognsided in the income statement	**476**	**329**

On implementation of IFRS 16 on 1 January 2019 when measuring lease liabilities for operating leases, the Bank discounted lease payments using the interest rate implicit in the lease or if that rate cannot be determined the Bank's incremental borrowing rate. The weighted average rate applied is 4%.

Amounts recognised in the cashflow statement	2020	2019
Right of use payments made in the year	156	310

Lease as lessor

The Bank sub-leases part of the building under a finance lease agreement in its capacity as a lessor.

The following table sets out the maturity analysis of lease receivables showing the undiscounted lease payments to be received.

Maturity profile of lease receivables	2020	2019
Less than 1 year	223	214
Between one and two years	170	238
Between two and three years	-	183
	393	**635**

22. Deferred taxation

	Balance at 1 January 2020	Recognised in Profit or Loss	Recognised in Other Comprehensive Income	Balance at 31 December 2020	Deferred tax assets	Deferred tax liabilities
Property, plant and equipment and intangible assets	(178)	(97)	-	(275)	-	(275)
Staff benefits	36	(22)	-	14	14	-
Unused tax losses loss carried forward	728	(328)	-	400	400	-
Tax assets on pension liabilities (Note 26)	127	(227)	(44)	(144)	-	(144)
Debt securities classified at fair value through OCI	(749)	-	(274)	(1,023)	-	(1,023)
Equity Investments classified at fair value through OCI	11	-	10	21	21	-
IFRS 9 Transitional adjustment	1,019	(27)	-	992	992	-
Deferred tax assets (liabilities)	**994**	**(701)**	**(308)**	**(15)**	**1,427**	**(1,442)**

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

	Balance at 1 January 2019	Recognised in Profit or Loss	Recognised in Other Comprehensive Income	Balance at 31 December 2019	Deferred tax assets	Deferred tax liabilities
Property, plant and equipment and intangible assets	(199)	21	-	(178)	-	(178)
Staff benefits	69	(33)	-	36	36	-
Unused tax losses loss carried forward	1,030	(302)	-	728	728	-
Tax assets on pension liabilities (Note 26)	100	(251)	278	127	127	-
Debt securities classified at fair value through OCI	767	-	(1,516)	(749)	-	(749)
Equity Investments classified at fair value through OCI	(14)	-	25	11	11	-
IFRS 9 Transitional adjustment	1,161	(142)	-	1,019	1,019	-
Deferred tax assets (liabilities)	2,914	(707)	(1,213)	994	1,921	(927)

Deferred tax asset and liability balances are off-settable.

The Bank recognises deferred tax asset for unused tax losses to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised, based on this criteria the Bank has recognised a deferred tax asset of £400,000 (*2019: £728,000*). The estimate of future taxable profit has been complied taking into account the current economic situation and the Bank's risk appetite and thus is reflective of management's best estimates. The Bank has unused tax losses of £25,202,893 (*2019*: *£32,567,162*) for which no deferred tax asset is recognised in the Statement of Financial Position. These losses do not have a fixed expiry date.

23. Prepayments, accrued income, and other debtors

	2020	*2019*
Prepaid rental for land	7,943	*8,006*
Amounts held in repect of collateral	3,592	*10,605*
Prepayments and accrued income	1,419	*991*
Unsettled trade receivables	-	*959*
Other debtors	1,416	*1,620*
	14,370	***22,181***

The prepaid rental for land arises represents the lease premium in respect of land being expensed over the lease term.

24. Deposits

	2020	*2019*
Deposits from banks	1,691,853	*1,836,945*
of which deposits with fixed interest rates	234,995	*113,202*
Other deposits	549,829	*674,607*
of which deposits with fixed interest rates	6,109	*23,917*

The Bank did not default on any principal or interest, nor did it breach any covenants with respect to its own liabilities during the year.

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

25. Other liabilities, accruals, and deferred income

	2020	2019
Unsettled trades - payable	7,319	-
Accruals and deferred income	4,800	*4,496*
Lease liability	4,696	*3,696*
Loss allowance provision on financial guarantees and other commitments (Note 31)	4,479	*1,342*
Employment related liabilities	1,011	*1,036*
Collateral for exchange traded transactions	956	*975*
Trade creditors	170	*212*
Other liabilities	2,151	*2,411*
	25,582	***14,168***

26. Pension funds

Defined benefit scheme

The Bank sponsors the Scheme which is a funded defined benefit arrangement and which closed to future pension accrual during 2014. This is a separate trustee administered fund holding the pension scheme assets to meet long-term liabilities for 267 deferred or pensioner members as at 31 December 2020 *(2019: 268 deferred or pensioner members)*. The level of retirement benefit is based on basic salary at 1 April 2014, or on leaving the scheme if earlier than this, and is linked to changes in inflation up to retirement.

The Scheme is subject to the funding legislation, which came into force on 30 December 2005, outlined in the Pensions Act 2004. This, together with documents issued by the Pensions Regulator and Guidance Notes adopted 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 at least one third of all trustees should be nominated by the members.

A full actuarial valuation was carried out as at 31 December 2019 in accordance with the scheme funding requirements of the Pensions Act 2004 and the funding of the plan is agreed between the company 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 £7,805,000. The company has agreed with the trustees that it will aim to eliminate the deficit over a period of 4 years and 4 months from 31 December 2019 by the payment of annual contributions of £1,472,000, in monthly instalments, from 1 November 2020 until 30 April 2024.

The Bank has considered the impact of IFRIC 14 and concluded that the Bank would have an unconditional right to any residual surplus from the Scheme.

For the purposes of IAS19 the actuarial valuation as at 31 December 2019 has been updated on an approximate basis to 31 December 2020. There have been no changes in the valuation methodology adopted for this year's disclosures compared to the previous year's disclosures.

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

Amounts included in the statement of financial position

	2020	*2019*
Fair value of Scheme assets	84,836	*76,485*
Present value of defined benefit obligation	(84,080)	*(77,226)*
Surplus/(deficit) in the Scheme - net asset/(liability)	**756**	***(741)***

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 on the statement of financial position as shown above. Consistent with the Bank's strategy to reduce future risk, the Scheme has purchased insurance policies to match the liabilities in relation to the pensioner members. A further buy-in was completed in 2015 and the liabilities related to all pensioner members as at that time were fully insured.

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 statement of financial position date the accumulated benefit obligation was £84,080,000 (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).

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

	2020	*2019*
Defined benefit obligation at start of period	77,226	*72,607*
Interest expense	1,549	*2,033*
Actuarial losses due to scheme experience	(845)	-
Actuarial losses/(gains) due to changes in demographic assumptions	142	*(647)*
Actuarial losses due to changes in financial assumptions	9,356	*5,776*
Benefits paid and expenses	(3,373)	*(2,543)*
Past service costs	25	-
Defined benefit obligation at end of period	**84,080**	***77,226***

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.

The defined benefit cost for the fiscal year ending on the 31 December 2020 includes a past service cost due to a plan amendment of £25,000. This has arisen following a High Court case on 20 November 2020 which ruled that transfers out of the plan, between 17 May 1990 and 28 October 2018, need to be revisited and equalised for GMP (if applicable).

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

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

	2020	*2019*
Fair value of scheme assets at start of period	76,485	*72,023*
Interest income	1,546	*2,037*
Return on scheme assets (excluding amounts included in interest income)	8,951	*3,496*
Contributions by the Bank	1,227	*1,472*
Benefits paid and expenses	(3,373)	*(2,543)*
Fair value of scheme assets at end of period	**84,836**	***76,485***

The actual return on the Scheme's assets over the year ended 31 December 2020 was £10,497,000 (*2019: £5,533,000*).

Defined benefit costs recognised in Profit and Loss

	2020	*2019*
Past service cost	25	-
Net interest cost	3	*(4)*
Defined benefit costs recognised in profit and loss	**28**	***170***

Defined benefit costs recognised in other Comprehensive Income

	2020	*2019*
Return on scheme assets (excluding amounts included in interest income) - gain	8,951	*3,496*
Experience gains arising on the defined benefit obligation	845	-
Effects of changes in the demographic assumptions underlying the present value of the defined benefit obligation - (loss)/gain	(142)	*647*
Effects of changes in the financial assumptions underlying the present value of the defined benefit obligation - (loss)	(9,356)	*(5,776)*
Total gain/(loss) recognised in other comprehensive income	**298**	***(1,633)***

Assets

	2020	*2019*
Liability Driven Investment (LDI)	16,722	*12,364*
Diversified Growth Funds	25,822	*24,655*
Cash	282	*165*
Purchased Annuities	42,010	*39,301*
Total assets	**84,836**	***76,485***

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 Purchased Annuities and the Scheme 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.

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

The plan has purchased insurance policies to match the liabilities in relation to the majority of the pensioner members.

Significant Actuarial Assumptions

	2020 % per annum	*2019 % per annum*
Rate of discount	1.40	*2.05*
Inflation (RPI)	2.95	*2.90*
Allowance for revaluation of deferred pensions of RPI or 7.5% p.a. if less	2.95	*2.90*
Allowance for pension in payment increases of RPI or 7.5% p.a. if less	2.95	*2.90*
Allowance for commutation of pension for cash at retirement	75% of Post A-Day	*75% of Post A-Day*

The Bank has updated its approach to setting RPI and CPI inflation assumptions in light of the RPI reform proposals published on the 4th September 2019 by the UK Government and UK Statistics Authority. The Bank continues to set RPI inflation in line with the market break-even expectations less an inflation risk premium. The inflation risk premium decreased from 0.35% at 31 December 2019 to 0.3% at 31 December 2020, as the RPI reform is now largely priced into the market-implied RPI curve. The estimated impact of the change in the methodology is approximately a £430,000 increase in the defined benefit obligation.

The mortality assumptions adopted at 31 December 2020 are 96% of the standard tables S3PMA /S3PFA_M, Year of Birth, no age rating for males and females, projected using CMI_2019 converging to 1.25% p.a. These imply the following life expectancies:

	2020 Life expectancy at age 60 (years)	*2019 Life expectancy at age 60 (years)*
Male retiring in 2019	27.1	*27.4*
Male retiring in 2019	28.9	*28.4*
Male retiring in 2029	27.7	*27.9*
Male retiring in 2029	29.7	*29.1*

The following table analyses 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 4.3%*
Rate of inflation	Increase of 0.25% p.a.	*Decrease by 4.1%*
Rate of mortality	Increase in life expectancy of 1 year	*Increase by 3.7%*
Rate of mortality	Mortality improvement - long term rate 0.75%	*Decrease by 0.9%*
Cash commutation	50% of post A-day maximum using current factors	*Increase by 0.9%*

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 ended 31 December 2020 is 17 years.

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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 scheme for the year commencing 1 January 2021 is £1,472,000.

Defined contribution scheme

At 31 December 2020 193 employees *(2019: 207 employees)* were members of the BACB Defined Contribution Retirement Benefit Scheme. Contributions to this Scheme are made by both employer and employee in accordance with a fixed formula. In the year ended 31 December 2020, the Bank paid £1,847,347 *(2019: £1,761,719)* by way of contributions into that scheme. There were no outstanding or pre-paid contributions to this scheme at 31 December 2020 *(2019: nil)*.

27. Subordinated liabilities

Subordinated loans in issue are denominated in US dollars and Euros, 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 the Bank's capital base as Tier 2 capital as at 31 December 2020 and bear interest based on inter-bank offered rates for dollar and euro deposits. The amounts disclosed below include accrued interest. During the year the maturity of the subordinated loans was extended to 2027.

	2020	*2019*
Due 29 April 2027 *(2019 maturity: 28 April 2023)*	18,202	*18,847*
Due 27 October 2027 *(2019 maturity: 29 October 2025)*	23,175	*23,996*
Due 17 June 2027 *(2019 maturity: 17 June 2025)*	30,659	*29,027*
	72,036	***71,870***

28. 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**	
	2020	*2019*	**2020**	*2019*
Ordinary Shares of £1 each fully paid	30,403	*30,403*	30,403	*30,403*
Ordinary Shares of US$1 each fully paid	115,488	*115,488*	73,954	*73,954*
Deferred Non-Voting Shares of £1 each nil paid	5,000	*5,000*	-	*-*
	150,891	***150,891***	**104,357**	***104,357***

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

	2020	*2019*
Called up share capital (Note 28)	104,357	*104,357*
Capital redemption reserve	4,104	*4,104*
Other reserves		
Retained earnings	83,751	*69,069*
Revaluation reserve	4,995	*364*
	88,746	69,433
	197,207	***177,894***

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

The Revaluation reserve arises in respect of changes in the market value of assets categorised as being fair value through other comprehensive income (Note 3i).

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

The Directors did not declare a dividend for the year ended 31 December 2020 *(2019: nil).*

30. Capital maintenance

The Bank's capital comprises share capital and reserves (Note 29) and subordinated liabilities (Note 27). 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.

Capital resources are made up by:

	2020	*2019*
Capital and reserves attributable to the Bank's equity holders	197,207	*177,894*
Less: Intangible Assets	(8,980)	*(10,491)*
Less: Adjustments as required by regulations	(2,325)	*(1,623)*
Add: IFRS9 transition adjustment	6,139	*5,044*
Tier 1 capital	**192,041**	*170,824*
Subordinated liabilities less accrued interest	71,785	*71,491*
Less: amortisation of subordinated liabilities	-	*(6,265)*
Tier 2 capital	**71,785**	*65,226*
Capital resources	**263,826**	***236,050***

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31. Financial guarantees and other commitments

The Bank extends commercial facilities to customers which provide for the issuance of performance guarantees, bid and bail bonds, and other types of guarantees.

Financial guarantees and other commitments have been classified and measured in accordance with IFRS 9. This involves measuring the loss allowance provision for financial guarantees and other commitments on a 12 month or lifetime ECL approach.

	2020	*2019*
Financial guarantees	120,387	*147,448*
Other commitments comprise:		
Credit lines and other commitments to lend: original maturity		
under one year	24,655	*22,720*
Documentary credits and short-term trade-related transactions	246,418	*333,489*
Own acceptances	1,523	*6,320*
	392,983	***509,977***

The following tables show the contract amount and loss allowance provisions subject to 12 month and lifetime ECL on financial guarantees and other commitments at 31 December 2019 and at 31 December 2020.

31 December 2020

Contract amount	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Financial guarantees	107,766	7,011	5,610	120,387
Other commitments	269,100	3,496	-	272,596
Total	**376,866**	**10,507**	**5,610**	**392,983**

Loss allowance provision	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Financial guarantees	(438)	(35)	(3,787)	(4,260)
Other commitments	(217)	(2)	-	(219)
Total	**(655)**	**(37)**	**(3,787)**	**(4,479)**

31 December 2019

Contract amount	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Financial guarantees	*128,706*	*11,598*	*7,144*	*147,448*
Other commitments	*360,436*	*2,093*	*-*	*362,529*
Total	***489,142***	***13,691***	***7,144***	***509,977***

Loss allowance provision	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Financial guarantees	*(381)*	*(71)*	*(641)*	*(1,093)*
Other commitments	*(201)*	*(48)*	*-*	*(249)*
Total	***(582)***	***(119)***	***(641)***	***(1,342)***

The following tables show reconciliations from the opening to the closing balance of the contract amount and the loss allowance provision.

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	Excepted credit loss provision			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance as at 31 December 2019	582	119	641	1,342
Transfer from Stage 1	-	15	665	680
Transfer from Stage 2	(5)	-	543	538
Transfer to Stage 3	(2)	(60)	-	(62)
Change in other risk parameter (incl change in account balances)	70	11	2,131	2,212
New positions originated or purchased	185	8	-	193
Financial assets that have been derecognised	(192)	(48)	-	(240)
Foreign exchange and other movements	12	(3)	(193)	(184)
Balance as at 31 December 2020	**650**	**42**	**3,787**	**4,479**

	Excepted credit loss provision			
	Stage 1	*Stage 2*	*Stage 3*	*Total*
Balance as at 31 December 2018	*854*	*19*	*1,170*	*2,043*
Transfer to Stage 2	*-*	*1*	*-*	*1*
Change in other risk parameter (incl change in account balances)	*(173)*	*50*	*(461)*	*(584)*
New positions originated or purchased	*347*	*51*	*-*	*398*
Financial assets that have been derecognised	*(408)*	*(1)*	*(38)*	*(447)*
Foreign exchange and other movements	*(38)*	*(1)*	*(30)*	*(69)*
Balance as at 31 December 2019	*582*	*119*	*641*	*1,342*

32. Foreign currency assets / liabilities

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

31 December 2020	**Sterling**	**Dollars**	**Euro**	**Other currencies**	**Total**
Total assets	662,777	1,471,730	376,166	32,225	2,542,898
Total equity and liabilities	(632,364)	(1,494,173)	(383,032)	(33,329)	(2,542,898)
Derivatives (at contract notional value)	119,382	(120,076)	8,127	(7,433)	-
Net exposures	**149,795**	**(142,519)**	**1,261**	**(8,537)**	-
Contingent liabilities and other commitments	27,535	192,301	165,013	8,134	392,983

31 December 2019	*Sterling*	*Dollars*	*Euro*	*Other currencies*	*Total*
Total assets	*564,682*	*1,639,048*	*542,980*	*32,609*	*2,779,319*
Total equity and liabilities	*(537,163)*	*(1,666,409)*	*(542,244)*	*(33,503)*	*(2,779,319)*
Derivatives (at contract notional value)	*113,899*	*(103,633)*	*5,970*	*(16,236)*	*-*
Net exposures	*141,418*	*(130,994)*	*6,706*	*(17,130)*	*-*
Contingent liabilities and other commitments	*30,585*	*258,333*	*213,485*	*7,573*	*509,976*

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

33. Legal proceedings

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

On 3rd September 2019 the Bank reached a final settlement with the U.S. Department of the Treasury's Office of Foreign Assets Control ("OFAC") regarding alleged historical U.S. dollar bulk funding practices between 2009 and 2014. Under the terms of the settlement agreement, OFAC made no finding of fault regarding BACB, which did not admit liability for any violations. No further action will be taken against the Bank by OFAC if it meets certain conditions including the payment of £3 million ($224,840,000 suspended penalty), which was reflected in full in the Statement of Comprehensive Income for the period ended 31 December 2018, and the annual certification of the Bank's sanctions compliance program, which it is acknowledged, could be subject to a degree of subjectivity.

No further civil or criminal enforcement proceedings are pending or considered to be threatened.

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. The ultimate parent company of the Bank is the Central Bank of Libya.

b) Key management personnel, including the Bank's Directors, and the members of the Executive Committee and their close family members.

The analysis below sets outs balances with related parties:

	2020	*2019*
Balances outstanding		
Debt securities	14,673	-
Loans and advances	8,745	*10,165*
Deposits	1,453,482	*1,522,878*
Subordinated liabilities	72,036	*71,870*
Contingent liabilities and other commitments	43,206	*45,958*
Included in income statement		
Interest receivable	207	*213*
Interest payable	(18,913)	*(37,462)*
Fees and commissions receivable	2,163	*3,439*
Fees and commissions payable	(103)	-
Net trading income	81	*2,228*

At 31 December 2020 no amount was outstanding in respect of interest free loans or interest bearing loans due from key management personnel of the Bank (*2019: £nil*). No amount was outstanding from any director.
In addition, the Bank has entered into the following related party transactions:

i. The Bank meets the employment costs of executives seconded to it by related parties. The costs of these secondments were £760,809 *(2019: £499,740)*.

ii. Key management personnel compensation:

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

Key management personnel compensation:

	2020	*2019*
Directors' attendance and standing fees	622	*532*
Executive Managers		
Salaries and other short term benefits	2,095	*2,012*
Termination benefits (including amounts payable during contractual notice periods)	393	*-*
Post-employment benefits	133	*102*

c) During the year, the Bank received funding from the Libyan Foreign Bank and the Central Bank of Libya. The following tables set out the deposits at year end:

Funding received	**2020**	*2019*
Libyan Foreign Bank	477,708	*707,241*
Cental Bank of Libya	743,903	*639,633*
Total	1,221,611	*1,346,874*

Weighted average maturity	*2020*	*2019*
Libyan Foreign Bank	0.39 years	*0.42 years*
Cental Bank of Libya	0.13 years	*0.13 years*

35. Events after the reporting period

In early 2021 the Bank entered into a restructuring agreement in respect of a legacy exposure which is fully provided, it is expected that as a result of this agreement the Bank will recover an approximate amount of £4million which will be recognised as a gain in the income statement in 2021.

There are further no matters that have taken place since the year end that require disclosure.

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

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