BACB

year ended 31 December 2019

ANNUAL REPORT & FINANCIAL STATEMENTS

CONTENTS

section 1

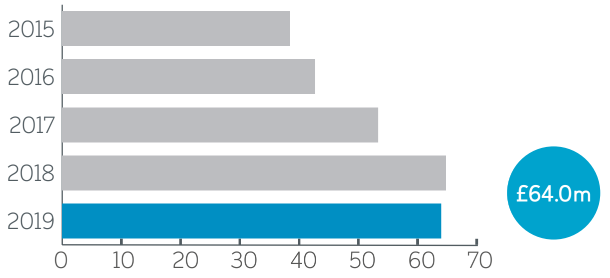
CONTENTS

section 2

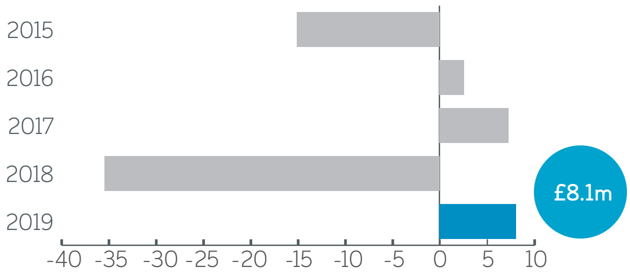
FINANCIAL HIGHLIGHTS

Consistent revenue streams, return to profitability and increased capital strength

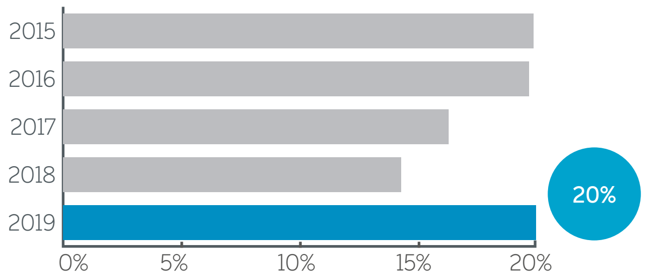
Operating Income down 1% to £64.0m



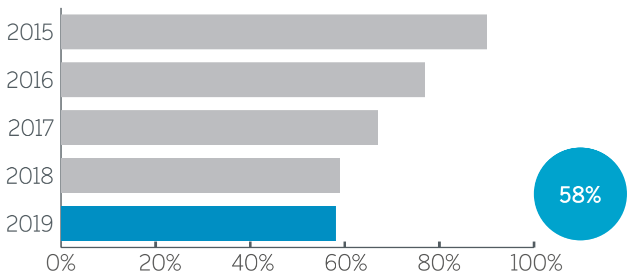
Profit before tax up £43.4m to £8.1m



Capital Strength increased from 14% to 20%



Cost/Income Ratio 58%



	2019	2018	2017	2016	2015
FINANCIAL POSITION £m					
Operating Income before Loan impairments	64.0	64.8	53.4	42.7	38.5
Profit/(Loss) before income tax	8.1	(35.4)	7.3	2.6	(15.1)
Profit/(Loss) for the year	7.6	(35.3)	6.8	2.7	(14.5)
Total Assets	2,779	3,894	2,953	2,939	3,021
Total Loans	1,841	2,079	2,086	1,624	1,596
Total Equity	178	168	217	208	210
Tier 1 & 2 Capital (Eligible Capital)	236	233	281	278	271
RATIOS %					
Capital Adequacy[1]	19.6%	14.3%	16.3%	19.7%	19.9%
Cost Income Ratio[2]	58%	59%	67%	77%	90%
Return on Tier 1 Capital	4%	-22%	3%	1%	-7%
Return on Tier 1 & 2 (Total Eligible Capital)	3%	-15%	2%	1%	-6%
Non Performing Loans	5%	10%	4%	3%	3%

[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

During 2018 the Bank has adopted IFRS 9 and changed its recognition and measurement of some financial assets and liabilities.
Due to the transition method chosen, comparative information in respect of 2017 and prior years has not been restated.

BOARD OF DIRECTORS

The Board of Directors led by the Chairman Michael Stevenson.

“The Board is above all focused on ensuring the Bank is fit for growth in pursuit of its strategic objectives.”

MICHAEL STEVENSON
Chairman

MOHAMED SHOKRI
Vice Chairman
Non-Executive Director

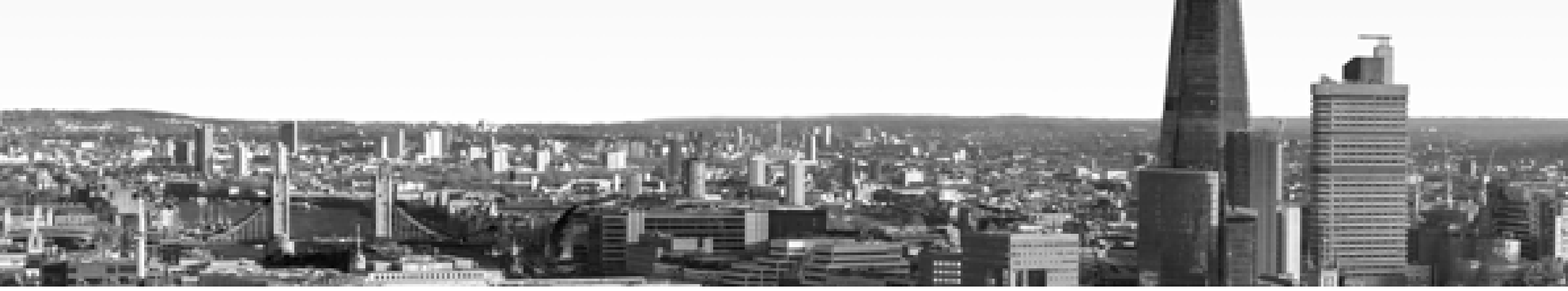
SUSIE ALIKER
CEO
Executive Director

KHALED KAGIGI
Chair of Risk &
Conduct Committee
Independent
*Non-Executive Director**

JEHANGIR JAWANMARDI
Chair of Audit Committee
Independent
Non-Executive Director

AHMED ABURKHIS
Non-Executive Director

MOHAMED ZINE
Non-Executive Director



*The appointment of Dr Khaled Kagigi as Senior I-NED and Chair of the Risk and Conduct Committee is subject to regulatory approval.

> *"BACB is a boutique commercial bank specialising in trade solutions for clients in challenging markets."*

Dear Shareholders,

2019 saw the Board take important steps to drive the Bank in its return to profitability. Progress has been made to improve our asset quality, strengthen our internal operating and control environment and to reinforce the discipline required from our people in the execution of their responsibilities to our stakeholders. However, our results for the year show that there is more work to be done to improve our resilience and to deliver better returns for our Shareholders.

The Board is above all focused on ensuring the Bank is fit for growth in pursuit of its strategic objectives and the directors continue to apply their broad expertise to support that focus on delivery of the strategy. We are also committed to maintaining high standards of governance and to supporting a performance culture within our employee-base.

Several business enhancements were delivered during 2019: improving the quality of information to the Board, taking measures to improve credit quality, further embed our conduct and culture principles and enhancing the robustness of our risk management and controls framework. The Board remains alert to the challenges the Bank faces from operating in high-risk jurisdictions and, we provide oversight of the Executive Team who navigate the associated commercial complexities and geopolitical issues.

As we move into 2020, operational resilience is a key area of attention and the Board continues to review the Executive team's work to develop this framework and also on resilience planning for the Bank. Having upgraded our technology platform and with a new CIO having joined the Bank in June, we have developed an IT strategy which affords the Bank capabilities to evaluate and address technological advances, while further enhancing our cyber security.

THE BOARD'S STRATEGY

BACB is a boutique commercial bank specialising in trade solutions for clients in challenging markets. The Board modified the Bank's risk appetite during the year, prioritising our core trade finance business, while focusing on strengthening our foundations to ensure the right skills and platform are in place to deliver controlled growth. During 2019, our Treasury and UK Real Estate businesses have provided strong positive contributions and our distribution capability has grown substantially, including enhanced collaboration with our shareholder network. Our long-term strategic objective continues to be to deliver sustainable profitable growth whilst ensuring that we have a positive impact on the markets in which we operate.

Following the stabilisation of our new core banking system in early 2019, the BACB Executive team has focused on delivering improved client service delivery capabilities whilst also continuing to ensure robust compliance capabilities. Regulatory compliance and Anti-Financial crime systems and controls remain a high priority for the Bank and we continue to upskill our staff with targeted training. We have supplemented this important area with the creation of a new role at the Executive Committee level, enhancing the oversight of non-financial risks.

While the negotiations of the post-Brexit arrangements continue through 2020, we continue to closely monitor developments which may impact the business and our staff.

OUR PEOPLE

The BACB team care deeply about our customers and about the Bank. The CEO's People Strategy aims to nurture talent within the Bank and to develop a culture of collaboration across departments. An important people initiative continues through the secondment programme with our majority shareholder, wherein we assist with the development of their future executive talent.

I would like to take this opportunity to express my continued thanks to all our colleagues for their ongoing efforts this year. Our employees are fundamental to the delivery of our long-term strategic goals. In 2019, we have worked together as a One-BACB team to develop a collaborative learning environment and enquiring culture; conduct and culture remains a key priority for the Board.

STAKEHOLDERS

The Board continues to promote success of the Bank for the shareholders and wider stakeholders. As a Bank, we deliver a quality service within a framework of risk awareness, control and collaboration across our chosen markets. We recognise that how we conduct ourselves is as important as what we deliver.

GOVERNANCE

During the year, Mr F. Othman, Mr B. Semid and Mr A. Naama stepped down from the Board. I would like to express my sincere gratitude for their valuable contributions throughout their tenure.

The CEO has initiated changes in the executive governance structure. A new Management Committee (a Sub-Committee of the Executive Committee) has been formed to further promote bank communications, collaboration and conduct.

At the end of 2019 we undertook an externally facilitated Board effectiveness review. Actions such as this have demonstrated that the Board is working well together and provides the required effective challenge to the Executive to deliver quality governance and operate as an effective Board.

Finally, as the Board approves these financial statements, we are in the throes of a global health pandemic caused by the COVID-19 virus. It has not only impacted our personal lives, but also the global economy. These are unique and uncertain times. I would like to thank our staff for their efforts and fortitude during these challenging times.

MICHAEL J STEVENSON

Chairman

7 May 2020

BUSINESS STRATEGY AND MARKET ENVIRONMENT

> *"During 2019, we made progress building on our strategic objective of delivering sustainable profitable growth."*

As a boutique bank, BACB strives to provide value-add trade solutions and to facilitate global trade flows, with a specific focus on North and sub-Saharan Africa. We work closely with importers and exporters, supporting both sides of the supply chain.

During 2019, we made progress building on our strategic objective of delivering sustainable profitable growth. This followed the need to tidy-up our balance sheet at the end of 2018, which included providing for some stressed assets. We have focused on improved asset quality via a tightened risk appetite, as well as enhancing our internal operating environment to ensure we have a stable platform to support planned growth. The 2019 profit of £7.6m shows a return to profitability and progress made towards meeting these objectives.

We ended 2019 stronger, both financially and as a team. We have the strategy, capability and the ambition to deliver more.

As at early 2020, we continue to monitor the challenging market environment in the light of the COVID-19 pandemic overlaid by the impact on the oil price of the breakdown of OPEC production agreements.

STRATEGIC REVIEW

The Bank's strategy remains firmly centred on trade to and from developing markets. We have a long-term horizon, seeking quality revenues to drive bottom line growth and making a positive difference to the countries in which we operate.

BACB's value proposition leverages on (i) the skills and expertise of our team; (ii) a focus on delivery of value-add solutions for our network, not just products, and (iii) an absolute commitment to ensuring our clients can trust our compliance capabilities in order to get the right deals over the line.

The BACB team comprises a multi-cultural, multi-lingual group of people who are dedicated to delivering quality trade solutions. We continue to boost the expertise within the Bank, including our client-facing relationship managers, our experts in trade operations and our specialist risk and compliance experts.

Our network extends across more than 100 partner banks with coverage in 28 markets, including 22 of the 54 countries in Africa, as well as across Europe, the Middle East and Asia. We have continued to embed our two-client approach wherein we serve clients on both sides of trade flows, having strong relationships with trading businesses in Europe and other developed markets. During 2019, we facilitated USD 2.4 billion of trade finance activity, showing our strength as a niche player; a strength recognised when we won the GTR Leaders in Trade 2019 Award for the Best Trade Finance Bank in North Africa.

The third pillar in our value proposition centres on trust. For our clients we are a trusted intermediary helping them to effectively and efficiently conduct business. We continue to enhance our capabilities in risk and compliance, as well as to invest in technology solutions that ensure we stay at the forefront of regulatory developments and market best-practice.

A BANK FIT FOR GROWTH

As a mid-size bank, we recognise that service delivery and quality are critical. During the course of 2019, we delivered on internal initiatives to strengthen the foundations and to ensure we are fit for growth.

We reassessed the Bank's risk management framework and delivered enhancements to the credit review process. Our aim is to ensure that we take the right quality of assets onto our books. We have enhanced the credit assessment process and the monitoring of customer and market developments, alerting us to warning signs of instability to permit prompt assessment and action, where required.

A key focus for the Bank has been to build on our Compliance and Anti-Financial Crime ("AFC") capabilities. We have more clearly defined our AFC risk appetite, enhanced the level of AFC training across the Bank including introducing a sanctions certification requirement for front-line staff, and continued to build on our technological capabilities in this important area. We have also implemented a behavioural monitoring system to enhance our screening capability. Recognising the importance of these critical areas, we established a new role of Chief Compliance Officer & General Counsel at the ExCo level.

"We established a client service working group aimed at ensuring client service is a true differentiator for BACB"

We have successfully stabilised our new core banking system following its implementation. This system is now well positioned to support the future growth of the business.

And we enhanced our internal control environment by completing a front to back operational risk and control review. Covering each business line, the results for each were presented at the newly established Management Committee, and evidenced a robust control environment, while highlighting some areas for enhancement. This was a valuable process, which has accelerated momentum on a number of initiatives including our 2020 operational resilience enhancements in accordance with evolving regulatory expectations. Effective January 2020, we established a dedicated Middle Office function to enhance control monitoring in the Front Office, while also helping the business to do business!

Service delivery is of critical importance to BACB. Our strategy is centred on our clients and their ease of doing business; our aim being to facilitate both sides of each trade flow, identifying solutions and providing a high level of service throughout.

In early 2019, we established a client service working group aimed at ensuring client service is a true differentiator for BACB. We are small enough to know each of our clients and flexible enough to deliver rapid decisions. There were occasions in 2019 when client service fell below the high standards to which we hold ourselves, in part due to the stabilisation period following the implementation of our new core banking system. A client service monitoring unit has now been established in the newly created Middle Office.

The 2019 result, while showing a modest return to profitability, was lower than hoped for and impacted by market stress in the latter part of the year. Going forward, we focus on the origination of high quality assets although remain conscious of the increased global economic uncertainty facing us in 2020.

> *"Our people strategy is focused on ensuring we continue to attract, develop and retain high calibre talent."*

PEOPLE, CULTURE AND CONDUCT

Our People are at the heart of all we do. Our aim is to build a collaborative and engaged culture, where personal and organisational learning and innovation are encouraged. Our people strategy is focused on ensuring we continue to attract, develop and retain high calibre talent.

Indeed an important differentiator for BACB is how we work together as a team, as well as how we collaborate externally across our extensive network of partner banks. Improved internal collaboration is crucial to delivering value add solutions and quality service to our clients.

the year we launched the "BACB Together" programme including a Lunch and Learn series and charity team-building days. Externally we continue to engage with our sister banks, partner institutions and trade bodies to realise the full potential of those relationships.

LOOKING FORWARD

Our strategic objective is to deliver sustainable profitable growth.

Our near-term strategy is focused on successfully growing the current franchise. As part of this strategy, we are prudently re-building the commodity finance book in accordance with a tightened risk appetite, as well as selectively enhancing our trade product portfolio, and extending our coverage network into some new markets. We are ambitious, with accelerated growth plans facilitated by the investment made in staff, systems and our asset distribution capability.

In line with regulatory expectations, we are building on the Bank's operational resilience framework and climate change initiatives. We continue to progress a number of other project initiatives including readiness for the cessation of LIBOR.

We manage the business with reference to a balanced score-card, which ensures appropriate prioritisation of initiatives based on financial, risk and control, client and people priorities.

As a result of the COVID-19 pandemic and associated market turbulence overlaid by the impact on the oil price of the breakdown of OPEC production agreements, we have carefully assessed the Bank's near term strategy under two possible scenarios in terms of duration and severity and, while this is a hugely challenging period, we believe the Bank's fundamentals demonstrate adequate resilience. Our immediate priority is the well-being of staff, clients and other stakeholders.

> *"Our immediate priority is the well-being of staff, clients and other stakeholders."*

We are focused on how we take the Bank forward and firmly believe we are well placed with the right people, a niche offering and a nimble approach to deliver on our strategic priorities.

SUSANNAH ALIKER

Chief Executive Officer

7 May 2020

STRATEGIC REPORT

BUSINESS AND PERFORMANCE OVERVIEW

OUR NETWORK

BACB HEAD OFFICE
LONDON

Representative offices:
Tripoli, LIBYA
Algiers, ALGERIA
Abidjan, CÔTE D'IVOIRE
Munich, GERMANY
Dubai, UAE (closing mid 2020)

OVERVIEW

BACB is a boutique commercial bank, a trusted intermediary, active in 28 countries, principally across Africa, the Middle East and Asia. The Bank aims to provide clients with value-add trade solutions, leveraging the skills and expertise of a diverse and talented team. The Bank also provides a niche UK real estate finance offering and operates a full Treasury function, which actively operates in foreign exchange, derivative and debt capital markets.

Based in the heart of 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 aims 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 strives to be trusted and admired by clients, employees and the trade sector for its proven expertise, network and its compliant approach. Our aim is that BACB offers maximum value at every point of the trade cycle.

BACB has a robust network of relationships 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

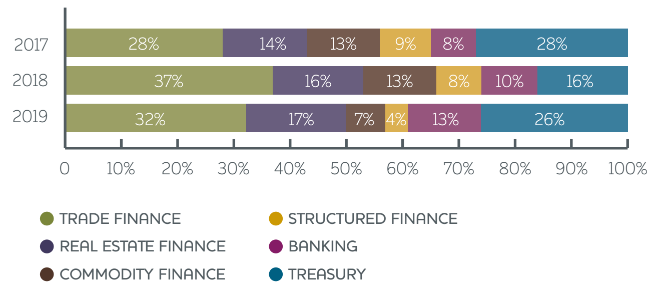
The Bank has six key business lines:

- TRADE FINANCE
- STRUCTURED FINANCE
- COMMODITY FINANCE
- BANKING SERVICES
- REAL ESTATE FINANCE
- TREASURY

Our business lines are each 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.

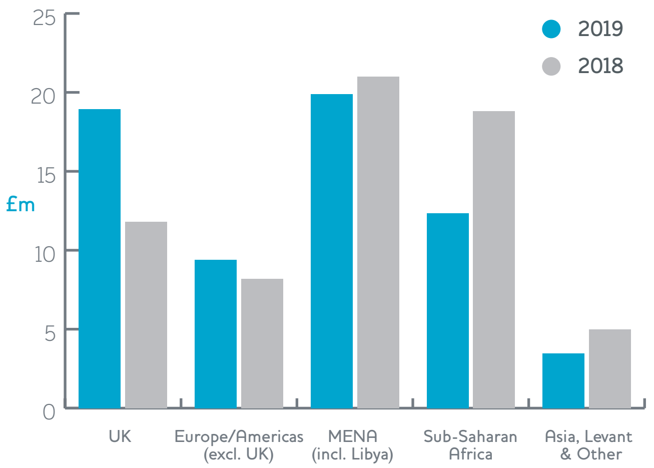
The Bank's balance sheet strategy is intentionally prudent, maintaining a relatively sizable book of liquidity assets. Furthermore, the Bank significantly expanded its distribution capability in 2019. This growth was achievable due to the capabilities in originating quality trade assets and this distribution capability has further optimised the utilisation of the Bank's balance sheet.

OPERATING INCOME BY BUSINESS LINE



The income from various business lines demonstrates a balance across banking sectors, as well as an increasingly balanced spread of geographies from which the Bank's revenues derive.

OPERATING INCOME BY REGION



THE FOLLOWING ANALYSIS PROVIDES AN OVERVIEW BY BUSINESS LINE.

	TRADE FINANCE	COMMODITY FINANCE	REAL ESTATE FINANCE	STRUCTURED FINANCE	TREASURY	BANKING SERVICES
ACTIVITY	LCs, guarantees, receivables, collections	Transaction financing and short-term facilities for traders	Buy to let residential and commercial property lending	Structured trade and commodity finance	Balance sheet management and trading. Money market placements: FX products	Banking and payment services to small number of key clients
DESCRIPTION	Core trade finance business to support flows with challenging markets	Secured commodity finance	Interest only LTV up to 60%* comprises: (i) high end residential (ii) commercial	Currently managed within existing portfolio exposure. No new business growth	Investment portfolios and client activity	Supporting core business functions
TENOR	Typically up to 1 year	Typically up to 1 year	Typically 5 year period	Tailored short & medium term finance over periods greater than 1 year		Over periods of less than 1 year
% REVENUE 2019	32%	7%	17%	4%	26%	13%
CLIENT TYPE	Corporate & Others, Financial Institutions, Government & Para-Statal	Corporate & Others, Financial Institutions	Corporate & Others	Corporate & Others, Financial Institutions, Government & Para-Statal	Corporate & Others, Financial Institutions	Corporate & Others, Financial Institutions, Government & Para-Statal

KEY: CORPORATE & OTHERS; FINANCIAL INSTITUTIONS; GOVERNMENT & PARA-STATAL

*LTV up to 65% (REDUCED TO 60% BREXIT risk)

TRADE FINANCE

At BACB we aim to enable businesses to enhance their trading status and achieve their domestic and international trade objectives through the provision of trade finance solutions, leveraging the expertise of our trade specialists, and underpinned by our network across various markets.

Throughout 2019, BACB supported trade activities across 28 markets and handled over USD 2.4bn of trade assets. The Trade Finance Business contributed 32% of the Bank's total revenue.

BACB was named the GTR Best Trade Finance Bank for North Africa in 2019 and BACB was also awarded confirming bank status by the IFC Global Trade Finance Programme, thereby further strengthening our trade finance capabilities.

We offer a range of trade finance services, including: Import and Export Letters of Credit, Standby Letters of Credit, Bills of Collection, Payment Guarantees, Bid Bonds and Trade Loans. Our solid reputation and two-client approach helps us to advise and confirm transactions globally, providing financial security to traders and improving the management of foreign trade exposures.

Additionally, throughout the year, we continued to build our trade distribution capability, with GBP 317.5m of trade assets distributed in 2019 (a year on year increase of 89%), actively engaging with banks, brokers and insurers, demonstrating our ability to originate quality trade finance assets. Through this work, we have efficiently utilised our balance sheet, and created greater credit risk appetite in the international financial markets for trade finance risk in the developing markets in which BACB operates.

STRUCTURED FINANCE

The Bank's policy towards lending remains that new lending activity should support our core businesses by providing value-added structured solutions to our clients.

Structured Finance also manages the run-off of the Bank's legacy loan book. The balance has reduced significantly over the course of the year, partly as a result of loans maturing and partly as a result of asset disposals. Much of this book comprises longer dated project financings in the oil, gas and power sectors with relatively low margins that no longer reflect the Bank's risk appetite or yield requirements.

During the year, these activities were combined with our Commodity Finance business in order to combine our deal structuring expertise with our knowledge of certain commodity markets.

We are currently risk-off on new structured finance activity and will continue to monitor our risk appetite for this business line.

COMMODITY FINANCE

2019 has seen our commodity trade finance activity realigned in accordance with the Bank's revised risk appetite. During the year we exited a number of relationships which has reduced our commodity exposure to GBP 129m compared to the previous year end exposure of GBP 276m.

This has been achieved with clear oversight by the Board Credit Committee, together with organisational changes which have strengthened our management team for this activity.

Effective from 2019 the Bank now focuses on commodity finance business, which is complementary to the core trade finance business combined with conservative lending structures to lower the probability of default and loss given default. We will continue the strategy of lending to a wider multi-banked client base active in trading physical commodity products that benefit from futures markets or generally good commodity market liquidity which allows a significant reduction that clients have to commodity price and contract performance risk.

BANKING SERVICES

BACB provides a range of complementary banking services to select corporate and financial institution clients. These include accounts in a range of currencies, international payments, payroll services and deposits.

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 ratios.

As at 2019 year end, the real estate book stood at GBP 450m. Revenues increased by 10% in the year to GBP 11m. This business is a key part of the Bank's diversification strategy and provides a reliable Sterling denominated annuity income flow at relatively attractive risk adjusted returns.

We continue to carefully assess the portfolio to ensure that risks of market softening in the run up to Brexit have been minimised. During 2019 the proportion of the portfolio comprising Commercial property increased to 54% (2018: 50%). As a result of the current uncertainty, our new lending activity requires increased levels of security, which will continue through the term of the BREXIT transition period.

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 customer service proposition of the Treasury department is the ability to combine professional execution across a wide range of treasury and capital markets products, with efficient settlement and competitive pricing, in a Market in Financial Instruments Directive II (MiFID II) compliant manner. Foreign exchange is a primary focus, offering clients competitive pricing via FX trading portals. We are increasingly active in intermediating flows, and specialise in African, Middle East and other niche regional debt markets.

The Bank also offers a limited range of structured products and Islamic finance. Treasury combines its client centric mandate with the management of the Bank's own financial resources, namely: to manage 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 Bonds. To supplement income, Treasury is mandated to manage a separate investment portfolio of bank and corporate debt securities issued principally by investment grade rated entities.

INTERNAL OPERATIONS

BACB has a commitment to operate in an efficient and compliant manner in all of its activities, key aspects of which are considered below:

REGULATORY COMPLIANCE

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

Significant regulatory and compliance projects and initiatives in 2019 included the continued embedding of the requirements of the MiFID II, as well as the ongoing implementation of the revised Payment Services Directive (PSD2), ensuring the Bank complies with all the relevant regulatory requirements. In addition, the Bank has sought to ensure that it is aligned to further updates within the Senior Management and Certification Regime (SMCR) framework, the requirements with regards to the LIBOR transition and obligations as the UK prepares for Brexit.

ANTI-FINANCIAL CRIME

In line with BACB's risk appetite, the Bank as a UK regulated financial institution, ensures that there is significant focus across all three 'lines of defence' on Anti Financial Crime ("AFC") measures, particularly given the potentially higher risk profile of products and services offered by the Bank and the geographical scope of the Bank's client base.

The Anti-Financial Crime (AFC) Department has continued to identify, monitor and implement enhancements to the Bank's Anti Money Laundering (AML) and AFC policies, procedures, systems and controls with a focus on maintaining a risk based approach to compliance within applicable UK and EEA laws and regulations.

The Bank recognises the need for on-going enhancement of its systems and controls, which is shaped by the Bank's AFC Compliance Plan. This includes the enhancement of the internal compliance monitoring programme, training of the Bank's personnel and keeping up to date with UK and applicable international regulatory news, guidance and best practices. In addition, the Bank's screening systems used for transaction and payment monitoring are optimised on an on-going basis.

During 2019, BACB upgraded its sanctions compliance programme. Enhancements were made to Know Your Customer (KYC) and Transaction Monitoring structures and we continued to invest in technological screening solutions. A full risk assessment was conducted of the Bank wide financial sanctions controls, in accordance with applicable UK, EU and US legal and regulatory obligations. The 5th AML Directive which came into force in January 2020 has been incorporated into the Bank's processes.

INFORMATION TECHNOLOGY

Information Technology remains a critical area for BACB, both to ensure the delivery of excellent service to our clients and to underpin internal processes which are efficient and effectively controlled. The Bank has a Board approved IT Strategy which is backed by open, transparent IT Governance. An IT Steering Group was set up in 2019, supported by an IT Change Advisory Board, to effectively oversee the implementation of IT change.

Our IT strategy aims to provide cost effective IT services which assist the business with its growth plans. The strategy delivers a system infrastructure which enhances client service, data integrity, quality and security across the Bank. Our solutions support sound decision making, efficient processing and regulatory compliance, in a controlled and cost effective manner. Operational Resilience is at the heart of our solution and we regularly test our IT security and resilience capabilities. We continue to monitor and selectively implement regulatory and financial technology solutions.

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 2019 this service was provided by PricewaterhouseCoopers and as of January 2020 has been transitioned to Deloitte.

PEOPLE

BACB provides a collaborative workplace focused on learning and development, widely acknowledged for its expertise in trade, finance and successfully doing business in challenging markets.

In 2019 BACB implemented a people strategy focused on Attracting, Developing and Retaining Talent, in alignment with our business strategy. We strive to help our people to develop and grow to deliver the best service to our customers through collaboration, innovation and risk mitigation.

CULTURE AND CONDUCT

For BACB, our regulators, and the banking industry more generally, Conduct and Culture is a key area of focus. Our objective is to ensure that our staff know what good conduct means, recognising that how things should be done is as important as what we do. There has also been a continued focus on ensuring the Bank's Conduct and Whistleblowing frameworks are up to date and effective with enhanced training and information being provided across the Bank.

Our Whistleblowing policy ensures that all staff are encouraged to raise any concerns they may have about the way in which the business is run or the conduct of other members of BACB. In line with best practise, there is a Board designated Whistleblowing Champion.

During 2019 our People Strategy considered steps to further embed the culture agenda, with initiatives established to promote team work and collaboration both internally across the Bank, as well as looking at life outside of work through external team events and volunteering initiatives to augment our social responsibilities. We have enhanced our ability to measure both conduct and culture providing metrics to the Executive Committee, with escalation to the Board, where appropriate. In addition to metrics concentrating on misconduct, we consider it equally important to monitor metrics that highlight positive conduct and to make a clear linkage between good and bad behaviours and remuneration.

PERFORMANCE MANAGEMENT

In 2019 we implemented changes to the Performance Management process including a new behaviours and values grading, and facilitated a process of ongoing rather than annual or semi-annual dialogue, helping to enhance feedback mechanisms.

Our approach has been to better calibrate technical and behavioural competencies within the process to ensure that employee performance continues to be assessed based on both what is achieved and how it is achieved.

LEADERSHIP DEVELOPMENT

Employee development is critical for a successful organisation, and during 2019 we continued with our focus on developing skills and competencies for our staff. Over the course of the year there was a significant level of Bank-wide Training, with voluntary Lunch and Learn events and a programme of mandatory Regulatory Compliance and Risk Awareness training.

DIVERSITY

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 the success of our business is based on embracing diversity, and it is this approach that has allowed the Bank to maintain a competitive advantage.

HEALTH AND SAFETY

The Bank maintains the highest possible standards for the health, welfare and safety of its employees, clients and visitors.

CORPORATE SOCIAL RESPONSIBILITY BUSINESS STANDARDS AND CONDUCT

BACB is committed to conducting business responsibly and ethically. The Bank aims to maintain the highest standards with regards to human rights, diversity and inclusion. The Bank will only accept business which meets strict ethical and legal criteria. This approach to business is reflected in the Bank's values and behaviours, these are demonstrated at all levels of the Bank, and are at the core of how BACB operates.

ENVIRONMENT AND SUSTAINABILITY

The Bank has for many years recognised the importance of reducing its own carbon footprint. But increasingly we recognise that the biggest challenge to creating a sustainable future is climate change. In alignment with the pioneering work being undertaken by our Regulator we are engaging with the increasing expectation that the financial community should focus on the sustainability impacts of its business decisions and practices. In addition we have enhanced our risk management practices to identify, assess and manage the financial risks associated with climate change and have allocated overall responsibility for this to a Senior Management Function.

Since the Bank's establishment a consistent message of reduce, reuse and recycle has been operated. The Bank encourages walking, cycling and low carbon transport, providing a cycle to work scheme and season ticket loans for staff who take public transport.

The Bank has a Sustainability Working Group with a remit of constant improvement; in 2019 the group's recommendations saw the Bank invest in reusable cutlery, crockery and glassware, with mugs and re-usable water bottles given to all staff.

2019 saw the removal of vending machines that served hot beverages in plastic cups and the total removal of all disposable cups, with the Bank installing energy efficient boiling water and chilled water taps on all floors. BACB composts used tea and coffee grinds and has a rainwater butt for use in watering internal plants.

We have participated in the Corporation of London Clean City Award scheme since it began in 1993, and were Platinum Award Winners for 2019.

CHARITABLE SUPPORT

In 2019 total charitable donations made by the Bank were GBP 4,261. 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.

EMPLOYEE VOLUNTEERING

2019 saw the launch of BACB Together Days, in partnership with the organisation Employee Volunteering, 96 staff volunteered at 7 separate events, helping 5 different schools, charities and community projects. BACB is a strong supporter of staff volunteering, providing time off for staff to participate in these activities. The Bank plans to further expand its volunteering programme over the course of 2020.

NON-FINANCIAL INFORMATION STATEMENT

The non-financial reporting requirements contained in section 414c of the Companies Act 2006 are addressed below.

ENVIRONMENTAL MATTERS

Disclosures: Environment and Sustainability (page 1.20); Section 172 Statement (page 1.30).

Relevant policies: Environment policy.

EMPLOYEES

Disclosures: Our People (page 1.19); The Chairman's Statement (page 1.8), and the Chief Executive Officer's statement (page 1.10).

Relevant policies: Conflicts of Interest and Related Parties; Whistleblowing; Health and Safety; Recruitment; Diversity and Inclusion, and Code of Conduct.

SOCIAL MATTERS

Disclosures: Corporate Social Responsibility, Charitable Support, and Employee Volunteering (page 1.20), and Section 172 Statement (page 1.30).

RESPECT FOR HUMAN RIGHTS

Disclosures: Section 172 Statement (page 1.30).

Relevant policies: Modern Slavery; Procurement; Anti-money laundering, and Sanctions Compliance.

ANTI-BRIBERY AND CORRUPTION

Disclosures: Anti-Financial Crime (page 1.18).

Relevant policies: Anti-bribery and Corruption; Financial Crime Risk Appetite Statement, and Financial Crime Governance Standard.

We manage risk through our comprehensive risk governance and control framework, as described in the Strategic Report: Principal Risks and Uncertainties on pages 1.22 to 1.27, and in Note 4, Risk Management, page 2.21. 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 our wider risk management approach.

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

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 which fosters a strong risk culture, supported by timely, complete, accurate and relevant risk reporting.

Risks are monitored within the framework of an 'overarching governance standard' which is underpinned by governance standards covering nine principal risk types. The Board considers an 'Enterprise Risk Assessment' at each meeting which assesses those risks which may present a threat to the stability or sustainability of its business franchise.

This risk management framework is described in greater 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 in consequence, its principal source of financial risk. The degree of credit risk the Bank is prepared to accept is calibrated to its Board approved business plan and the supporting risk appetite framework.

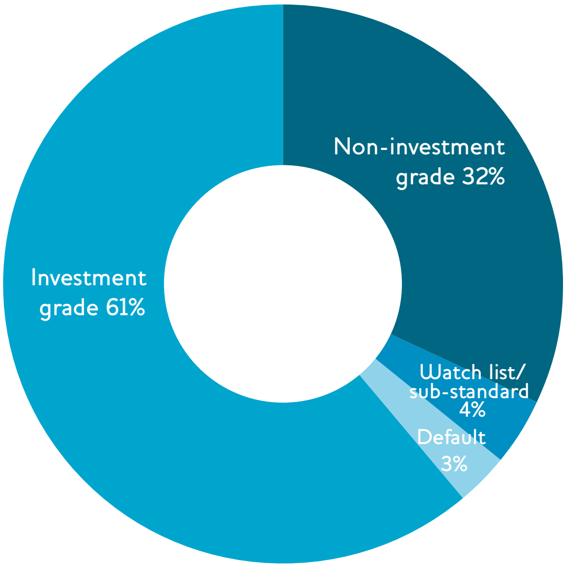
The Bank's strategic geographical focus means that a significant portion of credit risk is aligned to the lower end of the credit grading spectrum. However, the intent of the Bank's trade and commodity finance business streams involves short-term, secured and self-liquidating exposures, with the Real estate finance book being fully secured at prudent loan-to-value levels. The Bank manages its credit risk by employing a number of mitigants including:

- 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 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.

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 IFRS 9 allowance for credit losses for year ended 31 December 2019 amounted to £18.6m (2018: £59.0m).

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.

CREDIT PROVISIONS AND CAPITAL ADEQUACY RISK ASSESSMENT AND STRESS MODELLING

CREDIT PROVISIONS RISK ASSESSMENT

The 2019 result includes GBP 18.6m of credit impairments which is stated after recoveries related to provisions taken in 2018.

Overall IFRS 9 'Stage 3' exposures are GBP 101m, of which Commodity and Structured Finance exposures total GBP 78m.

In 2018 the Bank required an unacceptable level of provisions, 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.

During 2019 the Bank undertook a strategic review of these activities which reaffirmed its 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 Finance and commodity-based Structured Lending activities, which included terminating facilities for a number of customers.

The gross exposure on the commodity related exit book was reduce from GBP88m in December 2018 to GBP56m at 31 December 2019, of which 68% is provided. Given this book has a number of loans already in default combined with the repositioning of these activities, this continues to be an area of potentially higher risk. There is significant ongoing focus on maximising recoveries on the defaulted exposures.

In addition to the above, there is credit risk across the whole portfolio which the directors continue to monitor and stress.

CAPITAL ADEQUACY RISK ASSESSMENT

As at 31 December 2019, Tier 1 capital headroom amounted to GBP 31.1m and Total capital headroom GBP 61.1m.

At 31 December 2018 the Bank's capital requirement exceeded capital in place (both Tier 1 and Total capital) due to the level of credit provisions recognised during 2018, requiring partial utilisation of regulatory stress buffers. During 2019, capital headroom has recovered. This was achieved substantially through careful management of risk weighted assets (including restricting new business take-on and sale of some positions) as well as an interim profits review which allowed the 2019 half year profit to be added to capital.

In late 2019 the Bank prepared an Internal Capital Adequacy Assessment Process (ICAAP) assessment to evaluate its core risks and mitigations and their impact on capital adequacy and management. The ICAAP has considered a number of stress scenarios on the Bank's capital adequacy including a reduction in commodity prices, political instability impacting major markets, global economic downturn and additional credit provisions. This analysis evidences that the Bank's business model would enable it to withstand a number of stress scenarios whilst remaining within its current regulatory capital requirements. The ICAAP was approved by the Bank's ARCC and Board in early 2020.

In line with the Strategy, the Board continues to work with the shareholders to strengthen the capital base of the Bank to support future business growth.

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 political and economic situation in Libya has been volatile in recent years and the outlook for the country remains challenging, which could lead to disruption or curtailment of the Bank's primary source of funding.

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, the relatively short-term nature of much of its lending and the quality of the underlying security, particularly its UK real estate assets.

This liquidity analysis is based on key assumptions, most notably around the impact of property prices on its UK real estate finance portfolio, which have been stressed to allow for Brexit uncertainty, future credit losses and the Bank's ability to generate new secured funding at a reasonable level.

LIBYA POLITICAL CHALLENGES

The political challenges in Libya continue to be the subject of much interest, and more so with the most recent developments.

Significant efforts by the international community to resolve the issues in the best interests of the people of Libya continue. 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.

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.

Net exposure to Libya after risk mitigation is less than 1% of total exposures. 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.

In summary, 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. Across the whole sector, the trend for counterparties to review the potential regulatory and legal risks associated with clearing transactions initiated by other banks has continued. The directors acknowledge 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 significant progress made in strengthening the Bank's governance and control procedures and continued investment in sanctions monitoring, Anti-Money Laundering and Counter Terrorist Financing controls demonstrate the Bank's commitment to ensuring the robustness of its operations and assists in providing the necessary comfort to ensure that BACB remains a safe counterparty with which to transact business. The closure of the review of historic activities with OFAC removes any potential uncertainty related to this matter.

The Board is reassured by the continuing stability of the Bank's principal correspondent banks and other counterparty bank relationships.

In summary: 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 2019 culminating in the launch of a revised People Strategy and the roll out of a number of initiatives in 2019.

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 a key 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.

Regulatory focus with a view of enhancing the UK regulatory framework on operational resilience was a key focus for the Bank during the year and will continue as the Bank works towards the required implementation date of 2021.

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 terms of the settlement agreement require that the Bank establish and maintain for a period of 5 years certain compliance measures in the form of a sanction compliance program. The Bank has presented and discussed the sanctions compliance program with OFAC and confirmed the program is adequate. The Bank's sanctions compliance programme has been developed with the intention to comply with the "Framework for OFAC Compliance Commitments" issued by the US Department of Treasury (5 February 2019) and was reviewed from a second line of defence perspective by a leading external consultant. The findings of this review were presented to the Board which then approved to make the annual certification with respect to the Bank's sanctions compliance measures as of 1 March 2020.

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. Other projects, including Regulatory change initiatives, are subject to close oversight by Executive Management and the Board.

The Bank seeks to mitigate risk and uncertainty for our critical information assets and systems and has a low appetite for material incidents affecting these or the wider operations and reputation of the Bank.

The impact of the UK's decision to leave the European Union continues to be monitored. Any weakening of Sterling against the US dollar will have a detrimental impact on the Bank's asset and capital base which may result in higher capital demands however will enhance revenues. Longer-term, the assessment remains that Brexit will have a minimal direct impact on BACB, given the Bank's market geographical focus outside the EU.

As at early April 2020 and in response to the COVID-19 pandemic, the Bank's immediate priorities have been the welfare of our staff, our ability to maintain operational continuity and to protect our customer relationships. We have focused on ensuring both operational and financial resilience. We have identified key business services, we have been highly selective with regard to new business take-on and we are closely monitoring existing exposures for any signs of stress. We recognise an elevated level of operational risk given that substantially the entire workforce are working remotely and also elevated levels of credit, country and market risk as a result of the current market volatility. We are in the fortunate position where the Bank's liquidity remains stable and strong. Our approach has been to act in full accordance with the guidance issued by the UK Government, the National Health Service and international health bodies, as well as by regulators including the PRA and FCA.

Through the Bank's Crisis Management Team we have a coordinated response in place, and have taken steps to strengthen our operational resilience. We have implemented and enhanced our business continuity and disaster recovery plans and prompt action by our Technology team delivered a substantial increase in our remote working capability in advance of the wider lockdown being imposed in late March 2020. Our Front Office Team has been in close contact with our clients, as well as our correspondent banking and other key service providers, regarding their business continuity efforts and disaster recovery programmes.

As the intensity of the pandemic and the global response to it continue to evolve, the management team is closely monitoring exposures, with a particular focus on those which are due to mature and flow off the balance sheet in the near term in order to identify any signs of stress. The assessment of management is that this is perhaps the biggest risk to the Bank at this time, namely otherwise sound assets not paying down on a timely basis. At the same time, we will provide support to customers where appropriate and enter into new business transactions where it appears safe to do so. However, in the current environment it is sensible to ensure our risk appetite evolves to reflect market conditions so we have restricted the pipeline of new business in order to be highly selective in order to appropriately mitigate this risk.

Management has assessed the potential implications of the current situation on each business line and there are a number of different dynamics. We recognise an immediate decline in trade finance volumes as a result of the global slow down, equally there is a view of the criticality of global trade as we emerge from the pandemic with a need to boost global economic activity. With regards commodity finance, we continue to monitor any increased risk due to the volatility of underlying commodity prices. On the real estate book, we recognise a sudden halt in residential activity as well as potential impacts on the commercial real estate book, particularly with regards to our exposures to the hotel and retail sectors. Market movements continue to drive significant volatility in our treasury positions which are marked to market on a daily basis but, given our strong funding position, we do not need to be a forced seller into this market. As a result of our sterling denominated capital base and largely dollar denominated balance sheet the Bank's capital position has experienced significant but tolerable impact from the weakening of the UK pound against the US dollar.

At the time of writing, the situation is ongoing and changeable. BACB will continue to monitor events and to evolve our business response. Our ultimate objective is to ensure the Bank's financial and operational resilience although we recognise the broader macro factors which are outside our control. We continue to provide open and proactive communication to key Stakeholders.

The above risks and uncertainties have been fully considered by the directors as part of the Bank's going concern assessment.

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 2018 accounts (audited), LFB reported total assets of c.$18bn and net assets of c.$4bn, 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 agreements 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 various issues which must be decided by the Board (as opposed to Executive Management) and those other matters reserved for approval and decision by shareholders.

The Board governance arrangements are complemented by an executive governance structure, which has been strengthened significantly in recent years. The executive governance structure benefits from clearly articulated governance principles and risk management objectives, underpinned by an articulation of the principal risk types incurred by the Bank and associated minimum controls for the management and reporting of these risks in accordance with the Bank's overall risk appetite.

The Bank has adopted the market accepted 'three lines of defence' model with the outsourced Internal Audit function acting as the third-line of defence and providing independent assurance to the Audit, Risk and Conduct Committee on the appropriateness and effectiveness of the system of internal control.

BOARD ARRANGEMENTS

The Bank benefits from the skills and experience of its Board members. Shareholder appointees bring experience of BACB markets. Differences in the skills, experience, background, race, gender and other distinctions between directors are considered in shaping the optimum composition of the Board and its sub-committees.

As at 31 December 2019, the following individuals served on the Board:

BOARD MEMBER	SUB-COMMITTEE MEMBER	STATUS
Mr MICHAEL STEVENSON *Chairman*	ARCC/NRC	I-NED
Mr MOHAMED SHOKRI *Vice-Chairman*	ARCC/NRC	NED
Mr AHMED ABURKHIS	ARCC/NRC	NED
Mrs SUSANNAH ALIKER		ED
Mr JEHANGIR JAWANMARDI	ARCC/BCC	I-NED
Dr KHALED KAGIGI[1]	ARCC/BCC	I-NED
Mr ABDULLAH NAAMA[2]	ARCC/BCC	NED
Mr FAESAL OTHMAN[3]	ARCC/BCC	NED
Mr BRAHIM SEMID[4]	BCC	NED
Mr MOHAMED ZINE	ARCC/BCC	I-NED

Note 1: The appointment of Dr Khaled Kagigi as Senior I-NED and Chair of the Risk and Conduct Committee is subject to regulatory approval.

Note 2: Mr Abdullah Naama resigned from the Board on 1st May 2019.

Note 3: Mr Faesal Othman resigned from the Board on 24th July 2019.

Note 4: Mr Brahim Semid resigned from the Board on 24th December 2019.

The Board includes four independent non-executive directors, one of whom is the Chair of the Board, two of whom are Co-Chairs of the Audit, Risk and Conduct Committee (of which one remains subject to Regulatory approval). The Chief Executive is a full time employee of the Bank and is regarded as an Executive Director. All of the other directors are regarded as Non-Executive Directors.

The Board met on seven occasions during 2019.

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, with the Nominations and Remuneration Committee providing oversight of the process. The findings of the evaluation process are reported annually to the Board and any relevant matters addressed.

At the end of 2019, the Board undertook an Effectiveness Review, in conjunction with a specialist corporate governance advisory firm. They have provided insight into the development of the Board since the previous review in 2015. The review confirmed there is a strong level of engagement amongst the directors with the work of the Board and the Executive Management.

SECTION 172 STATEMENT

As a Board, we have always taken wider stakeholders' needs into account while making our decisions. 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:

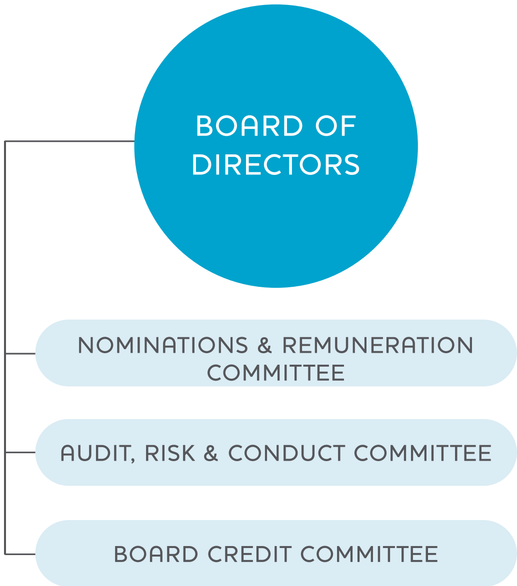
- Standing agenda items and papers presented at Board meetings on people matters, business strategy and stakeholders matters.
- Annually the Board reviews the Bank's strategy and receives periodic updates against plan from the Executive Management. In addition, each year strategy review is undertaken, which considers the purpose and values of the Bank along with the future strategy of the business.
- Employee engagement. During 2019 the Executive Management relaunched a People Strategy, with the aim of building a collaborative culture to enhance employees' 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. We established a Client Services Working Group in 2019 to better address the needs of our clients and improve our service offering. 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.

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.



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.

AUDIT, RISK & CONDUCT COMMITTEE ("ARCC")

Non-Executive Directors are eligible to sit on the Audit, Risk & Conduct Committee. The Committee considers the Bank's financial reporting, the nature and scope of audit reviews, and the effectiveness of the systems of internal control, conduct, compliance and risk management.

Meetings are separated into agendas for Audit matters and Risk and Conduct matters, with separate Chairs.

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

The Audit, Risk and Conduct Committee met six times during 2019.

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 seven times during 2019.

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.

The members of ExCo are:

- Chief Executive Officer
- Chief Financial Officer
- Chief Risk Officer
- Chief Operations and Controls Officer
- Human Resources Director
- Head of Corporate and Institutional Banking
- General Counsel and Chief Compliance Officer

The Company Secretary attends as a standing invitee.

ExCo has established six sub-committees that cover risk management, governance, regulatory compliance, Anti-Financial crime, operating and business development matters.

The ExCo Sub-Committee structure is as summarised below:

Following review and recommendation by the ExCo, the Board approved the establishment of a Management Committee, effective April 2019, to complement the existing Governance Framework. The Management Committee has provided a greater level of engagement with and understanding of Bank-wide governance across a wider group of SMF and Certified staff.

The Strategic Report was approved by the Board of Directors on 7 May 2020.

PATRICIA SMITH

Secretary to the Board

7 May 2020

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 Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of 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 IFRSs as adopted by the EU;
- 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.

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 2019

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2019

The directors present their annual report and the audited financial statements for the year ended 31 December 2019. 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 £7,628,000 (2018: Loss of £35,308,000).

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 1.29. 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 27 June 2019, to hold office until the conclusion of the next General Meeting at which Financial Statements are laid before the company. In accordance with Section 489 of the Companies Act of 2006, a resolution for the reappointment of KPMG LLP as auditor of the Bank is to be proposed at the forthcoming Annual General Meeting.

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.

PATRICIA SMITH

Secretary to the Board

By order of the Board

7 May 2020

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 2019 which comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity and 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 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; 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-four financial years ended 31 December 2019.

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: INCLUDING 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 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

The impact of uncertainties due to the UK exiting the European Union on our audit

Refer to page 1.22-1.27 (Principal risks and uncertainties).

Unprecedented levels of uncertainty

All audits assess and challenge the reasonableness of estimates, in particular as described in impairment loss provisions, and related disclosures, and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Bank's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and its effects are subject to unprecedented levels of uncertainty of consequences, with the full range of possible effects unknown.

Our response

We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included:

- Our Brexit knowledge: We considered the Directors' assessment of Brexit-related sources of risk for the Bank's business and financial resources compared with our own understanding of the risks. We considered the Directors' plans to take action to mitigate the risks.
- Sensitivity analysis: When addressing impairment loss provisions and other areas that depend on forecasts, we compared the Directors' analysis to our assessment of the full range of reasonably possible scenarios resulting from Brexit uncertainty and, where forecast cash flows are required to be discounted, considered adjustments to discount rates for the level of remaining uncertainty.
- Assessing transparency: As well as assessing individual disclosures as part of our procedures on funding concentration and loan impairment allowances, we considered all of the Brexit related disclosures together, including those in the strategic report, comparing the overall picture against our understanding of the risks.

Our results

We found the estimates and related disclosures of impairment loss provisions and disclosures in relation to going concern to be acceptable. However, no audit should be expected to predict the unknowable factors or all possible future implications for a Bank and this is particularly the case in relation to Brexit.

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, including the impact of Brexit, 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 provisions;
- 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

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 Brexit and 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 external counsel:** Meeting with 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.

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 Brexit and 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 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;
- **Reviewing regulatory correspondence:** Reviewing 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 (2018: we found the disclosure of the material uncertainty to be acceptable).

THE RISK

Impairment loss provisions (£81.7 million; 2018: £92.2 million)

Refer to page 2.9-2.11 (accounting policy) and page 2.47-2.50 (financial disclosures).

Subjective estimate

These are judgemental areas due to the level of subjectivity inherent in estimating the recoverability of loan balances.

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

The Bank has a diverse range of credit exposures. These include a book of longer dated 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 expected credit losses and the model is reliant on certain subjective assumptions. The model is sensitive to changes and movements in these assumptions.

Our response

Our procedures included:

- **Control design:** Testing the design and operating effectiveness of key controls over the monitoring and reporting of loans and advances, and the completeness of provisioning watchlists;
- **Independent evaluation:** Undertaking a detailed assessment of a selection of exposures for indicators of credit deterioration;
- **Reperformance:** Reperforming calculations and agreeing data inputs to third party documentation, including collateral valuation reports;
- **Our entity experience:** Critically assessing and challenging the assumptions used by the Bank in its impairment models, including considering varying the quantum of assumptions, 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;
- **Financial risk modelling expertise:** Using our own specialists to assist in evaluating the appropriateness of the Bank's IFRS 9 model and the accuracy of the model outputs.

Our results

We found the ECL charge and impairment allowances recognised to be acceptable (2018: acceptable).

3. WE HAVE NOTHING TO REPORT ON 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").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. 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 absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Bank will continue in operation.

We identified going concern as a key audit matter (see section 2 of this report). Based on the work described in our response to that key audit matter, we are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements.

We have nothing to report in these respects.

4. OUR APPLICATION OF MATERIALITY AND AN OVERVIEW OF THE SCOPE OF OUR AUDIT

Materiality for the financial statements as a whole was set at £600 thousand (2018: £736 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 £16.0 million (2018: £14.7 million), of which it represents 3.75% (2018: 5%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £30 thousand (2018: £37 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 and was performed at the Bank's head office in London.

5. 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.

6. 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.

7. RESPECTIVE RESPONSIBILITIES

DIRECTORS' RESPONSIBILITIES

As explained more fully in their statement set out on page 1.33, 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 other irregularities (see below), 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, other irregularities 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.

IRREGULARITIES – ABILITY TO DETECT

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 correspondence and discussed with the Directors and other management the policies and procedures regarding compliance with laws and regulations. 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: regulatory capital and liquidity, conduct, financial crime including money laundering, sanctions list and market abuse regulations recognising the financial and regulated nature of the Bank's activities. 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.

Through our audit procedures we are aware that the Bank agreed a settlement payment with the US regulatory authorities as described more fully by the Directors in note 33.

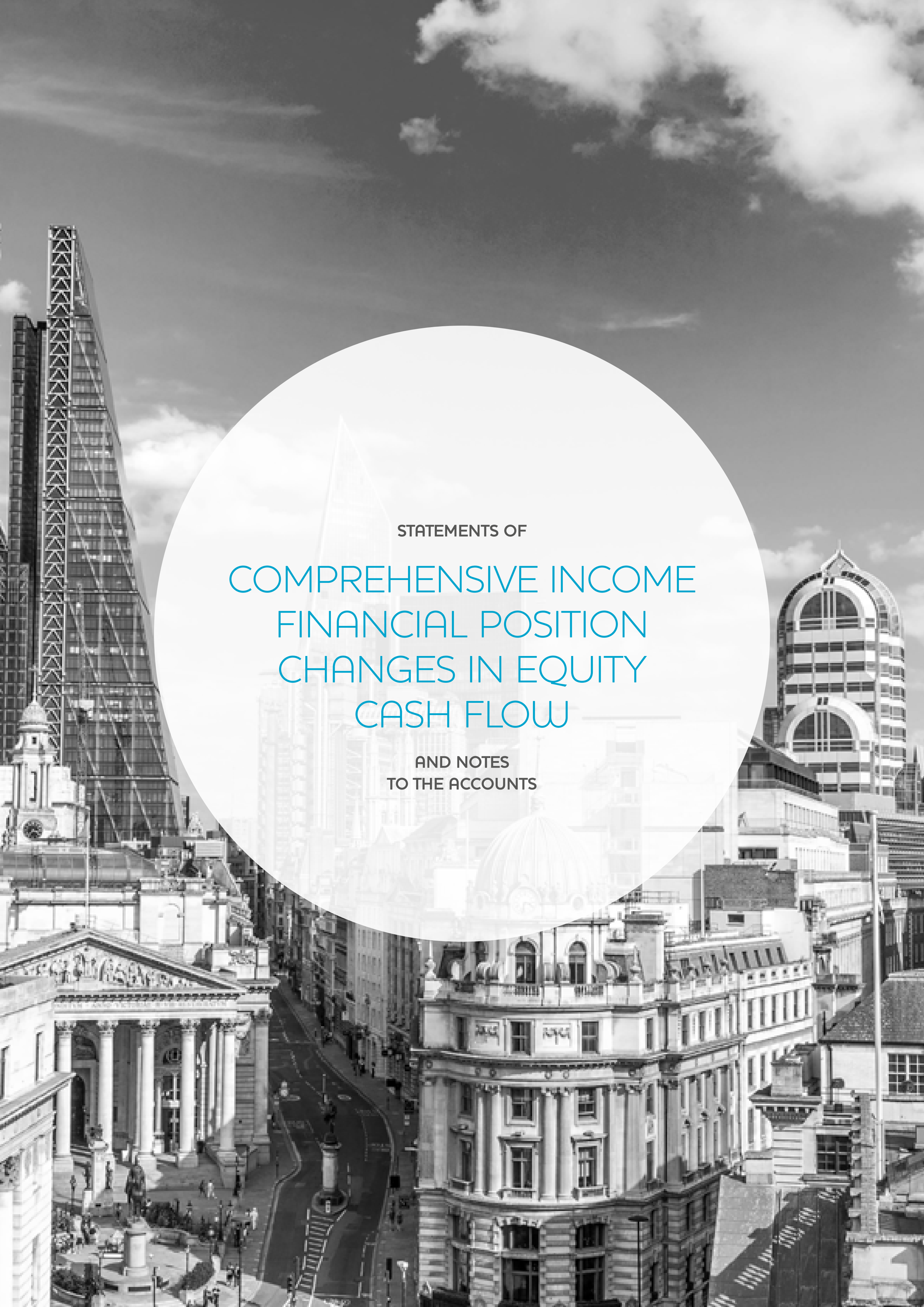
Other than this matter the limited procedures described above did not identify actual or suspected non-compliance.

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 (irregularities) 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 irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

8. 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
7 May 2020



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 2019

	Note	2019	*2018*
Interest and similar income	8	77,416	*81,564*
Less: Interest expense and similar charges	8	(47,067)	*(44,358)*
Net interest income		**30,349**	***37,206***
Fee and commission income	9	19,488	*22,667*
Less: Fee and commission expense	9	(1,098)	*(372)*
Net fee and commission income		**18,390**	***22,295***
Net trading income	10	13,870	*5,358*
Other operating income	11	1,415	*(23)*
Operating income before allowance for credit losses		**64,024**	***64,836***
Allowance for credit losses	13	(18,558)	*(59,043)*
Net operating income		**45,466**	***5,793***
Administrative expenses	14	(37,388)	*(38,018)*
Regulatory charge	33	-	*(3,141)*
Profit / (loss) before income tax		**8,078**	***(35,366)***
Income tax (charge) / credit	15	(450)	*58*
Profit / (loss) for the year		**7,628**	***(35,308)***
Other comprehensive income/(expense):			
Items that will not be reclassified to profit or loss			
Remeasurement of defined benefit liability	26	(1,633)	*(1,075)*
Related Tax	15	278	*183*
Equity investments designated at fair value through other comprehensive income	19	(139)	*(928)*
Related Tax	15	25	*177*
		(1,469)	*(1,643)*
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		4,094	*(5,950)*
Expected credit (loss) / gain on debt securities recognised in the income statement		(177)	*445*
Fair value gains attributable to debt securities transferred to income		1,156	*373*
Related Tax	15	(1,516)	*1,085*
		3,557	*(4,047)*
Other comprehensive income / (loss) for the year, net of tax		**2,088**	***(5,690)***
Total comprehensive income / (loss) for the year		**9,716**	***(40,998)***

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 2019

	Note	2019	2018
Assets			
Cash, notes and coins		89	*110*
Derivatives	16	751	*1,249*
Loans and advances to banks	17	1,189,720	*997,428*
Loans and advances to customers	18	651,514	*1,081,161*
Financial investments	19	891,682	*1,774,166*
Corporation tax receivable		214	*677*
Property, plant and equipment	20	11,682	*8,378*
Intangible assets	20	10,491	*10,954*
Deferred tax assets	22	994	*2,914*
Prepayments, accrued income and other debtors	23	22,181	*16,815*
Total assets		**2,779,318**	***3,893,852***
Liabilities			
Deposits from banks	24	1,836,945	*3,047,548*
Other deposits	24	674,607	*585,058*
Derivatives	16	3,093	*1,119*
Other liabilities, accruals and deferred income	25	14,168	*16,044*
Corporation tax payable		-	-
Net pension liability	26	741	*584*
Subordinated liabilities	27	71,870	*75,321*
Total liabilities		**2,601,424**	***3,725,674***
Called up share capital	28	104,357	*104,357*
Capital redemption reserve	29	4,104	*4,104*
Other reserves	29	69,433	*59,717*
Capital and reserves attributable to the Bank's equity holders	29	**177,894**	***168,178***
Total liabilities and equity		**2,779,318**	***3,893,852***

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

Mrs S Aliker
Chief Executive

7 May 2020

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019

	Share capital	Capital redemption reserve	Other reserves			Total equity
			Retained earnings	Fair Value reserve	Total	
Balance as at 1 Jan 2018	**104,149**	**4,104**	**100,702**	**1,719**	**102,421**	**210,674**
Loss for the year	-	-	(35,308)	-	(35,308)	(35,308)
Other comprehensive loss	-	-	(892)	(4,798)	(5,690)	(5,690)
Total comprehensive loss for the period	-	-	(36,200)	(4,798)	(40,998)	(40,998)
Transactions with owners, recorded directly in equity						
Issue of ordinary shares	208	-	(208)	-	(208)	-
Dividends	-	-	(1,498)	-	(1,498)	(1,498)
Total contributions by and distributions to owners	**208**	**-**	**(1,706)**	**-**	**(1,706)**	**(1,498)**
Balance at 31 December 2018	**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**

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 2019

	Note	**2019**	*2018*
Cash flows from operating activities			
Profit/(loss) before taxation		8,078	*(35,366)*
Adjustments for:			
Allowance for credit losses	13	18,558	*59,043*
Profit on realisation of equity shares and investments	19	-	*-*
Depreciation and amortisation	14,20	2,519	*1,024*
Loss on sale or impairment of property, plant and equipment	14	-	*1,101*
Other non-cash items included in net profit	14	(1,035)	*1,731*
Non-cash items included in net profit		**20,042**	***62,899***
Loans, advances and other debt securities other than cash and cash equivalents		125,407	*263,435*
Other debtors and prepayments		(2,485)	*41,805*
Change in operating assets		**122,922**	***305,240***
Customer accounts and deposits by banks		(1,022,442)	*839,143*
Other liabilities		(3,196)	*8,238*
Change in operating liabilties		**(1,025,638)**	***847,381***
Income tax received/(paid)		724	*(782)*
Net cash (used in)/generated from operating activities		**(873,872)**	***1,179,372***
Cash flows from investing activities			
Proceeds of redemptions of equity shares and investments	19	-	*-*
Purchase of property, plant and equipment	20	(3,994)	*(644)*
Purchase of intangible assets	20	(1,369)	*(5,744)*
Net cash used in investing activities		**(5,363)**	***(6,388)***
Cash flows from financing activities			
Dividend paid		-	*(1,498)*
Net cash used in financing activities		**-**	***(1,498)***
Net (decrease) / increase in cash and cash equivalents		**(879,235)**	***1,171,486***
Cash and cash equivalents at the beginning of the year		1,821,651	*625,253*
Effect of exchange rate change on cash and cash equivalents		(45,179)	*24,912*
Cash and cash equivalents at the end of the year		**897,237**	***1,821,651***
Cash and cash equivalents comprise:			
Cash, notes and coin		89	*110*
Loans and advances to banks of original maturity three months or less		768,892	*627,016*
Loans and advances to non-banks of original maturity three months or less		3,786	*191,951*
Certificates of deposit and other debt securities of three months original maturity or less		124,470	*1,002,574*
Cash and cash equivalents		**897,237**	***1,821,651***

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 2019

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 7 May 2020.

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 at least the next year.

In making this assessment, the directors have considered a wide range of information relating to present and future conditions. Information relevant to this assessment regarding the Bank's principal activities, strategic direction and challenges and uncertainties are described in the Strategic Report on pages 1.10-1.27. 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.

Libya continues to face significant challenges. The continuing lack of resolution of the situation in Libya presents a degree of risk given the funding model of the Bank, which is concentrated and dependent on its principal shareholder, Libyan Foreign Bank (LFB), and LFB's shareholder, the Central Bank of Libya (CBL). Details of the funding provided by LFB and CBL are set out in Note 34.

LFB's ability to continue to provide funding is potentially dependent on the situation in Libya. The directors have considered the most recent escalation of tension in the country. The country's budget has been materially adversely affected by significant reduction in oil production exacerbated by the collapse in the oil price. Nevertheless the Country is estimated by informed market observers to have sufficient reserves. The situation remains uncertain, however, and ongoing developments can be negative as well as positive. The greatest risk to the Bank with regard to the Libya situation appears to be further escalation of the conflict, which could result in a severe reduction in the Bank's funding. Whilst the provision of liquidity has remained steadfast during the period since the current instability commenced in 2011, it does represent a potential uncertainty linked to the ongoing political situation in Libya.

The directors have considered, and are confident of, the Bank's ability to meet repayment of its deposits were the renewal of funding from Libya to reduce materially or cease. This is due to the liquid nature of much of the Bank's asset base and the relatively short-term nature of much of its lending. The Bank's dependency, in this situation, is on key assumptions, most notably around its ability to monetise its UK real estate lending portfolio given the impact of COVID 19 and Brexit on property prices, as well as the risk of future credit losses and the Bank's ability to raise new secured funding at a reasonable haircut.

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 as well as the extension of a cash collateralised deposit of $350 million to 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, (ii) the Bank’s continuing positive liquidity noting that during the course of the year LFB continued its funding to BACB and (iii) ongoing discussions with LFB with regards the extension of the scope and applicability of cash collateral with 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 reimposed 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 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. 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 as discussed in the Strategic Report Business and Performance Overview.

The directors are monitoring the impact of the COVID-19 pandemic and the related macroeconomic turbulence overlaid by the impact on the oil price of the breakdown of OPEC production agreements very closely. Since early March 2020, the outbreak has created significant disruption to our staff and customers.

The Bank has assessed severe but plausible downside scenarios, which reflect the potential impacts of COVID 19, including a global slowdown with dampened consumer confidence through Q2 and Q3 2020, the likelihood of revenue reductions from lower lending and transaction volumes and an elevated risk of credit losses stemming from disruption to our client’s business. 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. For the maintenance of capital headroom above minimum requirements, this analysis assumes the extension of the maturity of the Bank's subordinated debt to 2027, which has been agreed in principle with the counterparty, LFB.

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.

If even more severe downsides were to be realised due to COVID-19, the directors are confident the Bank would be able to take a number of steps to ensure its capital solvency. In particular, due to the short term nature of the Bank's portfolios, the Bank is able to stabilise its capital position quickly if necessary by letting exposures roll over and further reducing the uptake of new business. Other actions available to management could include the sale of some of the Bank's liquidity assets, further sell-down of assets via distribution and/or monetising part of the real estate portfolio. In the event of a sustained shock, we would also consider options to align the Bank's cost base to a reduced scale of business activity. In extremis, there may be a requirement to engage with the Bank's main shareholders to convert the subordinated debt into Tier 1 capital.

b) Compliance with International Financial Reporting Standards

The Bank has prepared its financial statements in accordance with IFRS as adopted by the EU (Adopted IFRS) and effective for the Bank's reporting for the year ended 31 December 2019. IFRS comprise accounting standards issued by the International Accounting Standards Board (IASB) and its predecessor body or adopted as interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and its predecessor body.

The financial statements have been prepared in the Bank's functional and presentation currency, Sterling, rounded to the nearest thousand. They are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments, financial instruments held at fair value through the profit and loss account, financial instruments held at fair value through other comprehensive income and the defined benefit pension fund.

The preparation of financial statements in conformity with Adopted 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 Adopted 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.

c) Accounting Standards adopted during the year

The Bank has adopted IFRS 16 with a date of initial application of 1 January 2019, as a result, the Bank has changed its accounting policy for lease contracts as detailed below.

The Bank has adopted the standard using the modified retrospective approach under which the assets arising from the applicable leases are measured at an amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments recognised immediately before the date of initial application. The comparative information for 2018 is not restated and presented under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below.

Except for the changes below, the Bank has consistently applied the accounting policies as set out in Note 3 to all periods presented in these financial statements.

IFRS 16 Leases

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer (lessee) and the supplier (lessor). It introduces a single lessee accounting model and requires lessees to recognise a right of use ('ROU') asset, which is amortised over the length of the lease, and a corresponding financial liability, which is measured at amortised cost. Lessor accounting remains substantially the same as under IAS 17.

The changes introduced by the new standard impact the accounting treatment of the leasehold land at the Bank's main office, the leases for the office facilities used by the Bank's overseas representative offices and leases in respect of motor vehicles which were previously classified as operating leases. The Bank has adopted the standard using the modified retrospective approach whereby the Bank recognises a lease liability, being the present value of the remaining lease payments, and a ROU asset, which is based on the lease liability adjusted by prepaid or accrued lease payments. The increase in the statement of financial position as result of the recognition of the lease liability and ROU asset as at 1 January 2019 is £3.9m.

d) Future 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). There is 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 IBOR amendments to IFRS 9, IAS 39 and IFRS 7 for periods commencing on or after 1 January 2020 have now been endorsed by the EU. The Bank has decided not to early adopt these amendments to IFRSs.

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 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 systematic 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 FVOCI assets, in other comprehensive income. Non-monetary assets and liabilities (shareholders' equity, property plant and equipment, and intangible assets) that are measured in terms of historical cost in a foreign currency are translated into the functional currency using the rate of exchange at the date of the initial transaction.

d) Net trading income

Net trading income comprises gains, less losses related to financial assets designated 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 2019.

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 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) Financial assets – classification and measurement

From 1 January 2018, the Bank has applied IFRS 9 and has classified 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.

The Bank has taken the irrevocable election to classify equity investments 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.

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 investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never recycled to profit or loss even if the asset is sold or impaired.

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

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.

h) Fair value measurement

Derivatives

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

In the normal course of business, the fair value of a derivative on initial recognition is considered to be the transaction price (i.e. the fair value of the consideration given or received). However, in certain circumstances the fair value of an instrument will be evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets, including interest rate yield curves, option volatilities and currency rates. When such evidence exists, the Bank recognises a trading profit or loss on inception of the derivative. If observable market data is not available, the initial increase in fair value indicated by the valuation model, but based on unobservable inputs, is not recognised immediately in the statement of comprehensive income but is recognised over the life of the transaction on an appropriate basis, or recognised in the statement of comprehensive income when the inputs become observable, or when the transaction matures or is closed out.

i) 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.

j) De-recognition of financial assets and liabilities

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

- 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.

k) 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 as loans and advances 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.

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.

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;
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of 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 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 such as the Economist Intelligence Unit ("EIU") Top 10 Global Risks. 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. 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:

	2019			*2018*		
	Optimistic	BAU	Downturn	*Optimistic*	*BAU*	*Downturn*
Scenario probability weighting	0-10%	75-80%	15-25%	*0-5%*	*70-85%*	*10-25%*

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. An overlay has been recorded to increase the downturn scenario to 45% and to decrease the BAU scenario to 50%, with an optimistic scenario of 5%. The overlay applied represents management's best estimate of the likelihood of a Libyan downturn, taking into account a range of factors.

During 2019 we adjusted the scenarios for a number of current economic impacts. These included: 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.

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.

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

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 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 cases 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 profit or loss and OCI.

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.

l) 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.

m) Property, plant and equipment

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

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

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

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the 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

n) Intangible assets

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

The capitalised cost of 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.

o) Leases

The Bank has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17.

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 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 earlier of the end of the useful life of the right if use asset or the end of the lease term. The estimated useful lives of right of use assets are determined on the same basis as those of property and equipment.

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 profit or loss if the carrying amount of the ROU asset has reduced to zero.

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 minimum non-cancellable payments and receipts in respect of operating leases are disclosed. In respect of payment commitments, these are the minimum ground rent payments due in relation to the Bank’s main London office as well as that due for each of the representative offices. In respect of receipts from the sub-lessee, these are minimum rent and service charge receipts until the date of the break clause in the sub-lease.

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.

2018 accounting policy under IAS 17

Lease agreements which transfer substantially all the risks and rewards of the ownership of assets are classified as finance leases and all other lease agreements are classified as operating leases. The Bank's lease agreements relate to its main office at 8-10 Mansion House Place, London EC4N 8BJ, as well as the rental of office facilities for each of the overseas representative offices. The lease agreement for the main London office whereby the

Bank is the lessee is treated as a finance lease in respect of the leasehold premises, but an operating lease in respect of the leasehold land. The Bank also sub-lets a part of the office. This sub-lease agreement, in which the Bank acts as lessor, is classified as an operating lease. The rental agreements for the representative offices are treated as operating leases.

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

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

The minimum non-cancellable payments and receipts in respect of operating leases are disclosed. In respect of payment commitments, these are the minimum ground rent payments due in relation to the Bank's main London office as well as that due for each of the representative offices. In respect of receipts from the sub-lessee, these are minimum rent and service charge receipts until the date of the break clause in the sub-lease.

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. The accounting policies applicable to the Bank as a lessor in the comparative period were not different from IFRS 16.

p) Cash and cash equivalents

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

q) Provisions

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

r) Contingent liabilities

Contingent liabilities are possible obligations whose existence depends on the outcome of uncertain future events or those present obligations where the outflows of resources are uncertain or cannot be measured reliably.

Contingent liabilities are not recognised in the financial statements but are disclosed, unless they are remote.

s) 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.

t) Share capital

Share issue costs

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

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 statement 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 1.10-1.27 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
Operational	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 peripheral parties, such as joint venture partners or suppliers or false rumours. In addition to having good governance practices and transparency, companies 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 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, integration of risk management into strategy setting and effective communications and brand building;
- cultural alignment built on corporate values, supported by appropriate performance incentives and a positive culture regarding compliance with laws and regulations;
- quality commitment including a focus on stakeholder interactions and open, transparent and quality 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.

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, it is generally agreed to incorporate matters such as how customers are treated, remuneration of employees and how the Bank deals with conflicts of interest.

The Bank's **culture** refers to the shared values, attitudes, standards, and beliefs of the Bank's employees. BACB's culture is rooted in our goals, strategies, structure, and approaches to employee engagement, 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', to which all staff have been asked to sign up to.

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 (at least bi-annual) reporting to the Board.

Risk Mitigation:

- the Bank conducted a culture survey, the results of which became the basis for 'The BACB Way', our code of conduct;
- the Bank's staff performance appraisal system requires that all staff appraisals include consideration of behaviours and compliance with the Bank's Code of Conduct, which informs in part levels of fixed and variable compensation;
- the Chief Executive Officer carries out a regular risk assessment, which is considered by the Executive Committee and by the Audit and Risk Committee of the Board. Culture and Conduct Risk is a standing agenda item for the Executive Committee;
- 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 in a country for a variety of non-obligor specific reasons, including political or economic changes or other actions by a government.

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 Audit 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 Board 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 back-to-back commitments from financial institutions of acceptable quality, or security;
- liquidity buffers are only used to purchase the securities of OECD governments and multilateral development bank fixed and floating rate securities 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.

Credit risk quantitative disclosures

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

	2019	*2018*
Cash, notes and coins	89	*110*
Financial investments: debt securities (Note 19)	885,211	*1,767,556*
Loans and advances to banks (Note 17)	1,189,720	*997,428*
Loans and advances to customers (Note 18)	651,514	*1,081,161*
Derivatives	751	*1,249*
Unsettled trade receivables (Note 23)	959	*-*
Total on balance sheet	**2,728,244**	***3,847,504***
Financial guarantees (Note 31)	147,448	*122,386*
Other commitments (Note 31)	362,529	*556,330*
Less: off balance sheet exposures impaired by provision on balance sheet	(1,342)	*(2,043)*
Total off balance sheet	**508,635**	***676,672***
Total	**3,236,879**	***4,524,176***

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.

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

Type of credit exposure	Percentage of exposure that is subject to collateral 2019	2018	Principal types of collateral held
On-balance sheet:			
Loans and advances to banks			
Professional market placements	**58.5%**	*52.8%*	Debt securities
Term lending	**22.0%**	*20.1%*	Cash and guarantees
Bills discounted	**14.7%**	*9.5%*	Cash and guarantees
Overdrafts and other advances	**0.0%**	*52.7%*	Cash
Loans and advances to customers			
Professional market placements to non banks	**0.0%**	*100.0%*	Debt securities
Term and Real Estate lending	**81.2%**	*72.1%*	Residential/Commercial property
Bills discounted	**96.5%**	*100.0%*	Cash
Overdrafts and other advances	**0.0%**	*11.8%*	Cash and guarantees
Off-balance sheet:			
Credit lines and other commitments	**36.6%**	*28.4%*	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.

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**

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

31 December 2018	Maximum exposure	Cash collateral *	Property collateral	Debt securities	Guarantees	Net exposure to credit risk
On-balance sheet:						
Cash, notes and coins	110	-	-	-	-	110
Financial investments: debt securities (Note 19)	1,767,556	-	-	-	-	1,767,556
Loans and advances to banks						
Funds held at correspondent banks	369,114	-	-	-	-	369,114
Professional market placements	255,424	-	-	(134,747)	-	120,677
Term lending	165,235	(6,198)	-	-	(26,981)	132,056
Bills discounted	207,837	(13,898)	-	-	(5,823)	188,116
Overdrafts and other advances	2,694	(1,418)	-	-	-	1,276
Less: Provisions for impairments (Note 17)	(2,876)	-	-	-	-	(2,876)
Loans and advances to customers						
Professional market placements to non banks	191,951	-	-	(191,831)	-	120
Term and Real Estate lending	721,135	-	(502,456)	-	(17,196)	201,483
Bills discounted	26,484	(26,476)	-	-	-	8
Overdrafts and other advances	228,515	-	-	-	(27,012)	201,503
Less: Provisions for impairments (Note 18)	(86,924)	-	-	-	-	(86,924)
Derivatives	1,249	-	-	-	-	1,249
Total on balance sheet	**3,847,504**	**(47,990)**	**(502,456)**	**(326,578)**	**(77,012)**	**2,893,468**
Off-balance sheet:						
Credit lines and other commitments	676,677	(179,047)	-	-	(13,255)	484,375
Total off balance sheet	**676,677**	**(179,047)**	**-**	**-**	**(13,255)**	**484,375**
Total	**4,524,181**	**(227,037)**	**(502,456)**	**(326,578)**	**(90,267)**	**3,377,843**

**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.

In certain cases, cash collateral is held against other forms of lending and off-balance sheet exposures. At 31 December 2019 the value of cash collateral held and utilised by the Bank on terms under which set off can be applied in the event of default by the counterparty was £264,487,000 (*2018: £266,610,000*). This includes the utilised portion of a USD 350,000,000 deposit (2018: 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 enters into distributions with third parties to sell 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.

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

	2019	2018
LTV ratio		
Less than 55%	117,666	*100,221*
55 - 65%	207,745	*246,592*
66 - 75%	101,063	*125,837*
76 - 85%	17,447	*29,806*
86 - 95%	7,500	-
Total	**451,421**	***502,456***

As at 31 December 2019, the facility under LTV ratio 86% - 95% is credit impaired, as at 31 December 2018 this facility amounted to £7,560,000 and is shown under LTV ratio 76 – 85%.

By industry, concentrations of credit risk were as follows:

	2019	2018
Financial institutions (including central banks)		
Banks	1,311,836	*1,436,507*
Multilateral development banks	367,673	*334,103*
Other financial intermediaries	417,613	*514,813*
	2,097,122	***2,285,423***
Corporates		
Commodities	151,806	*342,122*
Construction and engineering	2,076	*1,345*
Energy	245,822	*164,362*
Transport and storage	22,582	*22,587*
Real estate	370,716	*428,880*
Other	59,721	*115,356*
	852,723	***1,074,652***
Public administration	**306,426**	***1,161,494***
Others	**62,090**	***94,450***
Impairments	(81,480)	*(91,838)*
Maximum exposure to credit risk	**3,236,879**	***4,524,181***

Credit grading

The Bank uses a credit grading system, 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.

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.

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

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; and
- 20: There has been an actual event of default.

Master Rating Scale

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
Watchlist 1	W15 - W18	3.714% - 25.000%	B	CCC	B2	Caa2	B	CCC
Watchlist 2	W18	12.001% - 25.000%	CCC	CCC	Caa2	Caa2	CCC	CCC
Watchlist 3 Sub-Standard	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 - 2018

			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*
Watchlist 1	*W15 - W18*	*3.714% - 25.000%*	*B*	*CCC*	*B2*	*Caa2*	*B*	*CCC*
Watchlist 2	*W18*	*12.001% - 25.000%*	*CCC*	*CCC*	*Caa2*	*Caa2*	*CCC*	*CCC*
Watchlist 3 Sub-Standard	*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.

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**

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

31 December 2018 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)	*135,011*	*2,638,883*	*2,773,894*	*-*	*2,773,894*
Grades 11 - 17 (Non-Investment Grade)	*280,463*	*994,330*	*1,274,793*	*-*	*1,274,793*
Grades 18 - 19 (Watchlist + Substandard)	*255,814*	*91,984*	*347,798*	*(227,036)*	*120,762*
Grade 20 (Default)	*7,428*	*212,106*	*219,534*	*-*	*219,534*
	678,716	***3,937,303***	***4,616,019***	***(227,036)***	***4,388,983***
Loss allowance	***(2,044)***	***(89,799)***	***(91,843)***	***-***	***(91,843)***
Carrying amount	***676,672***	***3,847,504***	***4,524,176***	***(227,036)***	***4,297,140***

There are exposures with credit grade 18 which are based upon country caps, but have not displayed a significant increase in credit risk.

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.

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)**

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

Loans and advances to banks - 31 December 2018

Gross exposure	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Grades 1- 10 (Investment Grade)	*582,628*	*-*	*-*	*582,628*
Grades 11 - 17 (Non-Investment Grade)	*304,983*	*45,169*	*-*	*350,152*
Grades 18 - 19 (Watchlist + Substandard)	*66,555*	*-*	*-*	*66,555*
Grade 20 (Default)	*-*	*-*	*969*	*969*
	954,166	***45,169***	***969***	***1,000,304***
Loss allowance	***(1,648)***	***(259)***	***(970)***	***(2,876)***
Carrying amount	***952,518***	***44,910***	***(1)***	***997,428***

Loans and advances to customer - 31 December 2018

Gross exposure	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Grades 1- 10 (Investment Grade)	*263,996*	*-*	*-*	*263,996*
Grades 11 - 17 (Non-Investment Grade)	*536,322*	*126,388*	*-*	*662,710*
Grades 18 - 19 (Watchlist + Substandard)	*26,499*	*4,080*	*-*	*30,579*
Grade 20 (Default)	*-*	*-*	*210,800*	*210,800*
	826,817	***130,468***	***210,800***	***1,168,085***
Loss allowance	***(1,830)***	***(3,371)***	***(81,723)***	***(86,924)***
Carrying amount	***824,987***	***127,097***	***129,077***	***1,081,161***

Off balance sheet - 31 December 2018

Gross exposure	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Grades 1- 10 (Investment Grade)	*134,306*	*705*	*-*	*135,011*
Grades 11 - 17 (Non-Investment Grade)	*273,055*	*7,072*	*-*	*280,127*
Grades 18 - 19 (Watchlist + Substandard)	*245,971*	*9,843*	*-*	*255,814*
Grade 20 (Default)	*-*	*-*	*7,764*	*7,764*
	653,332	***17,620***	***7,764***	***678,716***
Loss allowance	***(854)***	***(19)***	***(1,171)***	***(2,044)***
Carrying amount (provision)	***(854)***	***(19)***	***(1,171)***	***(2,044)***

The Bank provides facilities to in excess of 340 counterparties encompassing exposures in over 65 countries and territories (*2018: in excess of 460 counterparties encompassing exposures in over 75 countries and territories*).

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

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

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**

31 December 2018	*Financial guarantees and other commitments*	*Cash, loans and advances, debt securities and derivatives*	*Total*
United Kingdom	*103,327*	*687,563*	*790,890*
Europe excluding UK	*116,666*	*744,251*	*860,917*
Libya	*221,126*	*41,164*	*262,290*
Other Middle East and Africa	*201,684*	*563,636*	*765,320*
United States	*7,853*	*1,252,674*	*1,260,527*
Other Countries	*28,060*	*648,015*	*676,075*
Impairments	*(2,039)*	*(89,799)*	*(91,838)*
Maximum exposure to credit risk	***676,677***	***3,847,504***	***4,524,181***

MARKET AND LIQUIDITY RISKS

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

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

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

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

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

The Chief Risk Officer and his direct report, the Market Risk Manager, are responsible for:

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

Market and liquidity risk management is overseen at an executive level by the Asset and Liability Committee which reviews and makes recommendations via the Executive Committee to the Audit 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 Board from time to time.

Risk Mitigation:

The Bank's Treasury function has day-to-day responsibility for managing its market and liquidity exposures. The Bank does not 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 (interest rate risk) arising from banking book positions, which in the absence of those contracts, would result in unwanted exposures, or excesses to market risk limits. The Bank does not deal in 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. 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. This mismatch is hedged at the discretion of the Bank's Asset and Liability Committee.

The Bank's overall net short position (on foreign exchange open positions and cash arising on settled trades) at 31 December 2019 (being the Sterling equivalent value of all the currencies where the currency obligations were higher than currency receivables) was £2,157,000 (*2018: £829,000*). Were these currencies to strengthen by 5% against the remaining currencies, then the Bank would lose £108,000 (*2018: £41,000*).

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

	2019	*2018*
Maximum	7,571	*2,227*
Minimum	23	*6*
Average	1,170	*650*

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

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

Interest rate risk

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

As at 31 December 2019, PVBP amounted to £29,996 (*2017: £42,534*). PVBP (calculated on a daily basis) was as follows:

	2019	*2018*
Maximum	44	*50*
Minimum	15	*16*
Average	31	*35*

Hedges

Derivative contracts are used in both the banking and trading books to modify market risk exposures in the light of perceptions about future movements in those markets. In the banking book, in particular, derivative contracts are used to reduce market risk exposure arising from banking book interest rate. Derivatives in respect of the banking book as at 31 December 2018 and 2019 consist solely of include interest rate swaps whose purpose is to reduce economic exposure to interest rate risk. These swaps are used to ensure that longer dated interest rate re-pricings, such as typically arise from fixed rate loans or deposits, are converted into shorter periods that can be accommodated within the gap limits.

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

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)**	

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

31 December 2018	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
Financial investments	*661,610*	*987,688*	*29,661*	*87,402*	*1,195*	*6,610*	*1,774,166*
Loans and advances to banks	*639,269*	*235,980*	*122,179*	*-*	*-*	*-*	*997,428*
Loans and advances to customers	*519,957*	*504,805*	*53,788*	*2,611*	*-*	*-*	*1,081,161*
Other assets	*984*	*88*	*20*	*-*	*-*	*40,005*	*41,097*
Total assets	***1,821,820***	***1,728,561***	***205,648***	***90,013***	***1,195***	***46,615***	***3,893,852***
Deposits from banks	*2,029,212*	*428,160*	*541,108*	*37,768*	*-*	*11,300*	*3,047,548*
Other deposits	*262,785*	*87,431*	*219,650*	*15,117*	*-*	*75*	*585,058*
Subordinated liabilities	*-*	*30,757*	*-*	*19,604*	*24,960*	*-*	*75,321*
Other liabilities and shareholders' funds	*13,841*	*82*	*42*	*357*	*-*	*171,603*	*- 185,925*
Total equity and liabilities	***2,305,838***	***546,430***	***760,800***	***72,846***	***24,960***	***182,978***	***3,893,852***
Derivatives (at contract value)							
Receivable	*13,742*	*3,926*	*-*	*-*	*-*	*-*	
Payable	*(7,853)*	*-*	*(5,889)*	*(3,926)*	*-*	*-*	
Overall gap	***(478,129)***	***1,186,057***	***(561,041)***	***13,241***	***(23,765)***	***(136,363)***	
Reverse Cumulative gap	***1***	***478,130***	***(707,927)***	***(146,886)***	***(160,127)***	***(136,363)***	

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 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 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.

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)**	

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

At 31 December 2018	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Undated	Total
Financial investments	394,625	704,346	32,881	610,417	31,897	-	1,774,166
Loans and advances to banks	639,389	191,260	150,982	15,797	-	-	997,428
Loans and advances to customers	411,037	41,332	90,068	520,181	18,543	-	1,081,161
Other assets	13,449	29	49	59	-	27,511	41,097
Total assets	**1,458,500**	**936,967**	**273,980**	**1,146,454**	**50,440**	**27,511**	**3,893,852**
Deposits from banks	1,841,513	387,549	622,603	195,883	-	-	3,047,548
Other deposits	262,860	87,431	40,645	194,122	-	-	585,058
Subordinated liabilities	-	-	-	19,604	55,717	-	75,321
Other liabilities and shareholders' funds	16,682	82	42	357	584	168,178	185,925
Total equity and liabilities	**2,121,055**	**475,062**	**663,290**	**409,966**	**56,301**	**168,178**	**3,893,852**
Net liquidity gap	**(662,555)**	**461,905**	**(389,310)**	**736,488**	**(5,861)**	**(140,667)**	

OPERATIONAL RISK

Definitions:
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 Audit and Risk Committee at least annually on the Bank's operational risk appetite and policies, or approves where within delegated authority, having regard to the Bank's business plans and Operational Risk Standards as approved by the Audit and Risk Committee.

Operational risk losses in the year to 31 December 2019 amounted to £417,000 (*2018: £198,000*).

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

- identification of mission critical processes and potential points of failure, and ensuring that adequate controls are in place;
- IT technical standards and change control procedures;
- HR policies, processes and controls;
- project management policies and procedures;

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

- 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;
- 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:
The decision was taken towards the end of 2018 to allocate oversight responsibility for Compliance to the Head of Operational Risk (now Head of Operational Risk and Compliance) to better balance responsibilities. 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 Audit Risk and Conduct Committee, to whom 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:
As noted above the decision was taken during 2018 to reallocate responsibilities for Compliance and Financial Crime to permit the MLRO to focus full time on the Financial Crime agenda. This has also resulted in Financial Crime being categorised as a Principal Risk Type of the Bank on a standalone basis (previously it was combined with Compliance).

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 Audit, Risk and Conduct Committee, to whom the MLRO 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 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 3g and 3h. 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 2019 13 loans to customers were impaired (*2018: loans to 16 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 2019. 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 2k. The ECL provision is sensitive to judgements and assumptions made regarding formulation of forward-looking scenarios. 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.

Software

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

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 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**

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

31 December 2018	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	110	-	-	-	**110**
Financial investments	-	1,762,634	6,610	4,922	**1,774,166**
Loans and advances to banks	997,428	-	-	-	**997,428**
Loans and advances to customers	1,081,161	-	-	-	**1,081,161**
Derivatives	-	-	-	1,249	**1,249**
Total financial assets	2,078,699	1,762,634	6,610	6,171	**3,854,114**
Total non-financial assets					**39,738**
Total assets					**3,893,852**
Liabilities					
Deposits from banks	3,047,548	-	-	-	**3,047,548**
Other deposits	585,058	-	-	-	**585,058**
Derivatives	-	-	-	1,119	**1,119**
Subordinated liabilities	75,321	-	-	-	**75,321**
Total financial liabilities	3,707,927	-	-	1,119	**3,709,046**
Total equity and non-financial liabilities					**184,806**
Total equity and liabilities					**3,893,852**

Of the total £15,326,000 (*2018: £6,171,000*) assets at fair value through the profit and loss account, £15,326,000 (*2018: £6,171,000*) represents financial assets and derivatives held for trading purposes.

Of the total £3,093,000 *(2018: £1,119,000)* liabilities at fair value through the profit and loss account, £3,093,000 (*2018: £1,119,000)* represents derivatives held for trading purposes. As at 31 December 2019, there were no financial liabilities designated at fair value through the profit and loss account at inception *(2018: nil)*.

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.

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

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**

31 December 2018	*Level 1*	*Level 2*	*Level 3*	*Total*	*Carrying value (Note 6)*
Cash, notes and coins	-	*110*	-	*110*	*110*
Loans and advances to banks	-	-	*996,819*	*996,819*	*997,428*
Loans and advances to customers	-	-	*1,081,081*	*1,081,081*	*1,081,161*
Financial assets held at amortised cost	**-**	***110***	***2,077,900***	***2,078,010***	***2,078,699***
Deposits from banks	-	-	*3,116,318*	*3,116,318*	*3,047,548*
Other deposits	-	-	*596,355*	*596,355*	*585,058*
Subordinated liabilities	-	-	*68,117*	*68,117*	*75,321*
Financial liabilities held at amortised cost	**-**	**-**	***3,780,790***	***3,780,790***	***3,707,927***

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 2019 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.

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:

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

	31 December 2019			31 December 2018		
	Sterling	US Dollars	Euro	Sterling	US Dollars	Euro
Interest rates						
3 month	0.79%	1.91%	-0.38%	0.91%	2.81%	-0.31%
6 month	0.88%	1.82%	-0.32%	1.03%	2.77%	-0.24%
1 year	0.83%	1.76%	-0.32%	1.08%	2.75%	-0.23%
5 year	0.90%	1.72%	-0.12%	1.25%	2.55%	0.16%
Exchange rates	1.0000	1.3233	1.1793	1.0000	1.2735	1.1130

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.

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

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.

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.

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

31 December 2019	Level 1	Level 2	Level 3	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**

31 December 2018	*Level 1*	*Level 2*	*Level 3*	*Total fair value (Note 6)*
Financial investments	*1,767,556*	*-*	*6,610*	*1,774,166*
Derivative assets	*1,089*	*160*	*-*	*1,249*
Total assets held at fair value	***1,768,645***	***160***	***6,610***	***1,775,415***
Derivative liabilities	*1,081*	*38*	*-*	*1,119*
Total liabilities held at fair value	***1,081***	***38***	***-***	***1,119***

There were no significant transfers of assets between levels during 2019, and no significant changes in valuation techniques.

Debt securities

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

Equity shares and investments

Assets categorised as Level 3 comprise the Bank's investments in equity shares and investments. These assets are valued by reference to reports from fund managers, and from the audited annual reports (which may be a year in arrears) of the companies in which the Bank is invested. The sensitivity of value of these assets is therefore directly related to the movements in the value of the net assets of the investee entities, subject to currency fluctuations. Movements during the year of these assets are set out in Note 19.

Derivative assets and liabilities

The fair values of spot and forward foreign exchange contracts and interest futures are based upon quoted prices in active markets and are all categorised accordingly as Level 1. The fair values of interest rate swaps and foreign exchange options are derived from net present value and discounted cash flow models, with interest rates derived from yield curves derived from market data. These instruments are categorised as Level 2.

8. Net interest income

Interest income is made up as follows:

	2019	*2018*
Interest income		
Professional market placements and debt securities	30,922	*25,450*
Loans, advances and overdrafts	46,419	*56,106*
Other	75	*8*
	77,416	***81,564***

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

The amount recorded in interest arising on financial assets at fair value through the income statement is £794,392 (2018: £1,078,737).

Interest expense is made up as follows:

	2019	2018
Interest expense		
Deposits from banks and other deposits	(43,768)	*(41,516)*
Subordinated loans	(3,148)	*(2,842)*
Other	(151)	*-*
	(47,067)	***(44,358)***

9. Net fee and commission income

In the following table fee and commission income from contracts with customers in the scope of IFRS 15 is made up as follows:

	2019	2018
Fee and commission income		
Safe custody	55	*129*
Trade services:		
Guarantees	819	*731*
Documentary credit and trade finance fees	14,872	*17,794*
Term lending (other than amounts which form part of the effective interest rate)	243	*260*
Banking payments and services	3,499	*3,753*
	19,488	***22,667***
Fee and commission expense		
Brokerage and other fees	**(1,098)**	***(372)***

10. Net trading income

Net trading income is made up as follows:

	2019	2018
Foreign exchange dealing	12,872	*5,563*
Debt securities	1,229	*(300)*
Other	(231)	*95*
	13,870	***5,358***

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

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

11. Other operating income

Other operating income is made up as follows:

	2019	*2018*
Rent recovery	77	*185*
Dividends from equity shares and investment funds	182	*165*
Gains / (losses) on debt securities at fair value through other comprehensive income	1,156	*(373)*
	1,415	***(23)***

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:

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**

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

31 December 2018	Trade Finance	Real Estate	Commodity Finance	Structured Finance	Banking	Treasury	Other	Total
Net interest income	6,857	9,899	5,527	4,859	4,142	5,922	-	37,206
Net fee and commission income	17,222	155	2,736	101	2,272	(191)	-	22,295
Net trading income	-	-	-	-	-	5,358	-	5,358
Other operating income	-	-	-	-	-	(373)	350	(23)
Total Operating income	24,079	10,054	8,263	4,960	6,414	10,716	350	64,836

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 25% of the total *(2018: 23%).*

	2019	*2018*
United Kingdom	18,954	*11,824*
Europe / Americas (excl. UK)	9,396	*8,186*
MENA (incl Libya)	19,854	*21,043*
Sub - Saharan Africa	12,360	*18,777*
Asia, Levant and Other	3,460	*5,006*
	64,024	***64,836***

On 6 December 2019, the Board of Directors decided to close the Dubai Representative Office. It is expected that the closure will be complete by mid-2020. The total operating income earned from the Dubai Representative Office for the year ending 31 December 2019 is £68,000 which is included within MENA.

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 amortised cost, and on financial guarantees and other commitments for the year ended 31 December 2019.

31 December 2019	**Loans**	**Debt**	**Off-balance sheet positions**	**Other movements**	**Total**
Balance at 1 January	**89,800**	**369**	**2,043**	**-**	**92,212**
Exchange translation	(945)	-	(69)	-	(1,014)
Allowances recovered	(4,950)	(190)	-	-	(5,140)
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
Recoveries of interest from impaired loans	-	-	-	(553)	(553)
Recoveries of amounts written off in previous periods	-	-	-	(226)	(226)
Allowance for credit losses	18,871	(190)	263	(386)	18,558
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 and off balance positions	**80,138**	**179**	**1,342**	**-**	**81,659**

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

31 December 2018	*Loans*	*Debt*	*Off-balance sheet positions*	*Total*
Balance at 31 December 2017	***47,994***	*-*	***809***	***48,803***
Impact of transition to IFRS9	*6,535*	*224*	*687*	*7,446*
Balance at 1 January 2018	***54,529***	***224***	***1,496***	***56,249***
Exchange translation and other movements	*2,964*	*-*	*62*	*3,026*
Allowances recovered	*-*	*-*	*-*	*-*
New allowances	*58,415*	*143*	*485*	*59,043*
Recoveries of amounts written off in previous periods	*-*	*-*	*-*	*-*
Allowance for credit losses	***58,415***	***143***	***485***	***59,043***
Reversal of allowances for loans written off	*(26,108)*	*-*	*-*	*(26,108)*
Balance at 31 December	***89,800***	***367***	***2,043***	***92,210***
Credit impaired	*82,377*	*-*	*1,171*	*83,548*
Not credit impaired	*7,423*	*367*	*872*	*8,662*
Total credit losses allowance against loans and off balance positions	***89,800***	***367***	***2,043***	***92,210***

The contractual amount outstanding on financial assets that were written off during the reporting period and are still subject to enforcement activity was £28,482,000 (*2018: £26,108,000*).

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 £7,888,000 for 2019 (*2018: £8,664,000*).

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 2019 (*2018: 16 facilities*), with new impairment allowances recognised for 9 of those facilities during the year (*2018: 14 facilities*). Of the 13 facilities impaired as at 31 December 2019, 9 facilities had no collateral in place (*2018: 9 facilities*).

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

	2019		*2018*	
	Number of Facilities	**Gross Exposure**	*Number of Facilities*	*Gross Exposure*
Impaired facilities				
Total impaired facilities	13	100,818	*16*	*219,533*
Impaired facilities against which there was no collateral	9	89,857	*9*	*158,708*
Of the above:				
Facilities formally restructured on terms which may be less favourable to the Bank. Impairment in respect of this facility £nil (*2018: £2,487,043*)	-	-	*1*	*16,352*
Facilities in the process of being restructured as at the reporting date. Impairment in respect of these facilities £23,721,514 (*2018: £6,038,789*)	3	24,425	*2*	*12,710*
Companies in liquidation. Impairment in respect of these facilities £9,186,313 (*2018: £1,223,612*)	3	11,006	*2*	*3,508*
Waiver on repayments. Impairment in respect of these facilities £33,858,726 (*2018: £31,339,485*)	2	47,112	*3*	*84,959*
Shortfall to be paid on maturing underlying contracts. Impairment in respect of this facility £2,587,176 (*2018: £7,857,691*)	1	7,314	*1*	*41,179*
Unimpaired facilities subject to forbearance, restructuring or close monitoring				
Watchlist or substandard facilities subject to closer monitoring than normal	6	57,597	*3*	*2,761*
Breach of covenant, which is being addressed	4	19,168	*2*	*10,582*

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

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

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:

Possible economic scenarios

As described in Note 2k 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 2k, coupled with a 10% decrease in the weighting of the BAU scenario would result in an increase of £0.5 million in the impairment allowance (*2018: £0.7 million*). Applying a weighting of 100% to the downside scenario would result in an increase of £4.1 million in the impairment allowance (*2018: £5.8 million*).

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

If LGDs on the stage 3 (credit impaired) loans are 10% higher than has been estimate then the amount of the impairment which would have been charged in 2019 in respect of those loans would have been increased by by £7.3 million *(2018: £13.6 million in respect of 16 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 £10.8 million.

14. Administrative expenses

	2019	*2018*
Staff costs:		
Salaries and other emoluments	16,861	*16,278*
Social security costs	2,043	*1,966*
Other pension costs:		
Pension Running costs for both schemes	283	*317*
Defined contribution scheme	2,005	*1,723*
Total staff employment costs	**21,192**	***20,284***
Reorganisation costs	382	*314*
Other employment related costs (see below)	3,333	*3,730*
Total staff costs	**24,907**	***24,328***
Fees payable to the Bank's auditors for the audit of the Bank's annual financial statements	575	*315*
Fees payable to the Bank's auditors for other services :		
Other services pursuant to legislation	15	*15*
Depreciation (including amortisation of intangibles)	2,519	*1,024*
Amounts payable in respect of operating leases:		
Amortisation of prepaid rental on land	63	*63*
Ground rental	-	*143*
Loss on sale or impairment of tangible and intangible assets	-	*1,101*
Regulatory supervision fees	115	*99*
Other administrative expenses		
Premises & Technology	5,020	*6,084*
Legal & Professional	1,419	*1,452*
Other	2,755	*3,394*
Administrative expenses	**37,388**	***38,018***

The average number of employees in place during the year was 224 (*2018: 228*).

Other employment related costs include contractors.

Directors' remuneration included above totalled £931,000 *(2018: £1,046,000)*. The emoluments of the highest paid director were £399,000 *(2018: £319,000)* and the amount of their accrued pension as at statement of financial position date was £nil *(2018: £nil)*. There were no pension contributions for any directors during the year *(2018: £nil)*.

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

15. Income tax

	2019	*2018*
Current tax		
Total UK corporation tax (credit)/charge	212	*(257)*
Of which: amount recognised in other comprehensive income	-	*-*
Current tax on items taken through the income statement	212	*(257)*
Current tax adjustment in respect of previous periods	(469)	*24*
Deferred tax (Note 22)		
Origination and reversal of timing differences	420	*416*
Effect of tax rate change	66	*(17)*
Deferred tax adjustment in respect of previous periods	-	*-*
Deferred tax adjustment in respect of unused losses	221	*(224)*
	707	*175*
Total income tax charge / (credit)	**450**	*(58)*

The tax charge on the profit for the year is based on the average UK corporation tax rate of 19% (2018: 19%). A reduction in the UK corporation tax rate to 19% (effective from 1 April 2017) and to 17% (from 1 April 2020) was substantively enacted on 6 September 2016. Deferred tax as at 31 December 2019 has been calculated taking into account the impact of these rates. 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. This will increase the company's future current tax charge accordingly and increase the deferred tax asset by £90,000.

The tax charge for the year is lower *(2018: lower)* than the charge resulting from applying the standard rate of UK corporation tax. The differences are explained below:

	2019	*2018*
Profit / (loss) on ordinary activities before tax	**8,078**	*(35,366)*
Profit / (loss) on ordinary activities multiplied by standard rate of corporation tax in the UK	1,535	*(6,719)*
Effects of:		
Adjustment in respect of previous periods	(469)	*24*
Effect of change in tax rate	66	*(17)*
Non taxable income	(39)	*(4)*
Non deductible items	298	*71*
Losses on which no deferred tax has been recognised	-	*7,068*
Prior period losses recognised as a deferred tax asset	221	*(224)*
Previously unrecognised losses utilised during the year	(1,162)	*-*
Other items	-	*(257)*
Total income tax charge / (credit)	**450**	*(58)*

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

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

	2019			*2018*		
	Before tax	**Tax**	**Net of tax**	*Before tax*	*Tax*	*Net of tax*
Actuarial gain/(loss) on pension fund	(1,633)	278	(1,355)	*(1,075)*	*183*	*(892)*
Change in fair value of equity investments designated at FVOCI	(139)	25	(114)	*(928)*	*177*	*(751)*
Change in fair value of debt securities designated at FVOCI	4,094	(1,445)	2,649	*(5,950)*	*1,156*	*(4,794)*
Fair value losses/(gains) attributable to FVOCI financial assets transferred to income	1,156	(71)	1,085	*373*	*(71)*	*302*
	3,478	**(1,213)**	**2,265**	***(7,580)***	***1,445***	***(6,135)***

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

		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

		2018			
Nature of activities	*Geographical location*	*Turnover*	*Loss before tax*	*Corporation tax paid*	*Average number of employees*
Banking	*United Kingdom*	*5,793*	*(35,366)*	*782*	*228*

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 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**

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

	31 December 2018		
	Contract amount	*Positive fair values (Assets)*	*Negative fair values (Liabilities)*
Spot and forward foreign exchange contracts held for trading purposes	*554,298*	*1,070*	*681*
Interest rate swaps held for trading	*17,668*	*121*	*-*
Interest futures held for trading purposes	*951,628*	*20*	*400*
Options on foreign exchange for trading purposes	*116,967*	*38*	*38*
		1,249	*1,119*

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 account 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.

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

17. Loans and advances to banks

	2019	*2018*
Funds held at correspondent banks	357,750	*369,114*
Professional market placements	454,756	*255,424*
Term lending	89,248	*165,235*
Bills discounted	301,149	*207,837*
Overdrafts and other advances	2,014	*2,694*
Less: Provisions for impairments	(15,197)	*(2,876)*
	1,189,720	***997,428***

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 2019 and at 31 December 2019.

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 2018 and 2019.

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**

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

31 December 2018

Gross exposure	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Funds held at correspondent banks	*369,114*	*-*	*-*	*369,114*
Professional market placements	*255,424*	*-*	*-*	*255,424*
Term lending	*127,432*	*37,803*	*-*	*165,235*
Bills discounted	*200,004*	*7,366*	*467*	*207,837*
Overdrafts and other advances	*2,192*	*0*	*502*	*2,694*
Total	*954,166*	*45,169*	*969*	*1,000,304*

Impairment allowance	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Funds held at correspondent banks	*(22)*	*-*	*-*	*(22)*
Professional market placements	*(34)*	*-*	*-*	*(34)*
Term lending	*(725)*	*(226)*	*-*	*(951)*
Bills discounted	*(864)*	*(33)*	*(468)*	*(1,365)*
Overdrafts and other advances	*(2)*	*-*	*(502)*	*(504)*
Total	*(1,647)*	*(259)*	*(970)*	*(2,876)*

Net Exposure	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Funds held at correspondent banks	*369,092*	*-*	*-*	*369,092*
Professional market placements	*255,390*	*-*	*-*	*255,390*
Term lending	*126,707*	*37,577*	*-*	*164,284*
Bills discounted	*199,140*	*7,333*	*(1)*	*206,472*
Overdrafts and other advances	*2,190*	*0*	*-*	*2,190*
Total	*952,519*	*44,910*	*(1)*	*997,428*

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 2018	1,647	259	970	2,876
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
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)
Write-offs	-	-	-	-
Unwind of discount	-	-	-	-
Foreign exchange and other movements	(78)	(14)	(36)	(128)
Balance as at 31 December 2019	**2,143**	**103**	**12,951**	**15,197**

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

	Provision for impairments			
	Stage 1	*Stage 2*	*Stage 3*	*Total*
Balance as at 1 January 2018	*3,130*	-	-	*3,130*
Transfer to Stage 1	*3*	*(3)*	-	
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Change in other risk parameter (incl change in account balances)	*(2)*	*3*	-	*1*
New financial assets originated or purchased	*1,939*	*259*	*970*	*3,168*
Financial assets that have been derecognised	*(3,423)*	-	-	*(3,423)*
Write-offs	-	-	-	-
Unwind of discount	-	-	-	-
Foreign exchange and other movements	-	-	-	-
Balance as at 31 December 2018	*1,647*	*259*	*970*	*2,876*

Loans and advances to banks with fixed interest rates (other than those with a single interest period less than 1 year) amounted to £nil (*2018: £nil).*

Professional market placements includes £267,303,000 *(2018: £134,745,000)* 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

	2019	*2018*
Professional market placements to non banks	3,786	*191,951*
Term and Real Estate lending	556,168	*721,135*
Bills discounted	40,677	*26,484*
Overdrafts and other advances	115,824	*228,515*
Less: Provisions for impairments	(64,941)	*(86,924)*
	651,514	***1,081,161***

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 2019 and at 31 December 2019.

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 2019 and 2018.

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**

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

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**

31 December 2018

Gross exposure	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Professional market placements to non banks	*191,951*	*-*	*-*	*191,951*
Term and Real Estate lending	*495,951*	*129,119*	*96,065*	*721,135*
Bills discounted	*26,484*	*-*	*-*	*26,484*
Overdrafts and other advances	*112,431*	*1,349*	*114,735*	*228,515*
Total	*826,817*	*130,468*	*210,800*	*1,168,085*

Impairment allowance	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Professional market placements to non banks	*-*	*-*	*-*	*-*
Term and Real Estate lending	*(1,417)*	*(3,371)*	*(49,595)*	*(54,383)*
Bills discounted	*-*	*-*	*-*	*-*
Overdrafts and other advances	*(413)*	*(1)*	*(32,127)*	*(32,541)*
Total	*(1,830)*	*(3,372)*	*(81,722)*	*(86,924)*

Net Exposure	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Professional market placements to non banks	*191,951*	*-*	*-*	*191,951*
Term and Real Estate lending	*494,534*	*125,748*	*46,470*	*666,752*
Bills discounted	*26,484*	*-*	*-*	*26,484*
Overdrafts and other advances	*112,018*	*1,348*	*82,608*	*195,974*
Total	*824,987*	*127,096*	*129,078*	*1,081,161*

The following tables show reconciliations 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 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)
Transfer to Stage 3	-	-	-	-
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)
Unwind of discount	-	-	-	-
Foreign exchange and other movements	(61)	(105)	(651)	(817)
Balance as at 31 December 2019	**1,063**	**3,700**	**60,178**	**64,941**

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

	Provision for impairments			
	Stage 1	*Stage 2*	*Stage 3*	*Total*
Balance as at 1 January 2018	*2,958*	*4,963*	*43,478*	*51,399*
Transfer to Stage 1	*303*	*(1,695)*	*-*	*(1,392)*
Transfer to Stage 2	*(567)*	*2,137*	*-*	*1,570*
Transfer to Stage 3	*(443)*	*(842)*	*26,183*	*24,898*
Change in other risk parameter (incl change in account balances)	*351*	*(856)*	*19,730*	*19,225*
New financial assets originated or purchased	*2,572*	*330*	*16,498*	*19,400*
Financial assets that have been derecognised	*(4,067)*	*(965)*	*(26,108)*	*(31,140)*
Write-offs	*-*	*-*	*-*	*-*
Unwind of discount	*-*	*-*	*-*	*-*
Foreign exchange and other movements	*723*	*300*	*1,941*	*2,964*
Balance as at 31 December 2018	*1,830*	*3,372*	*81,722*	*86,924*

Loans and advances to customers with fixed interest rates (other than those with a single interest period less than 1 year) amounted to £nil (*2018: £nil).*

Professional market placements comprises £nil *(2018: £191,951,000)* 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).

19. Financial investments

	2019	*2018*
Debt issued by governments and multilateral development banks	617,809	*1,456,160*
Other listed debt securities issued by banks	248,169	*297,132*
Other listed debt securities issued by non-banks	4,657	*9,342*
Debt securities held for trading	14,576	*4,922*
Total debt securities	**885,211**	***1,767,556***
Equity shares and investment funds	**6,471**	***6,610***
	891,682	***1,774,166***

A reversal of impairment allowances of £218,000 (*2018: loss for impairment allowances £369,000*) 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 £75,860,000 *(2018: £1,204,445,000).*

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:

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

	2019	2018
Balance at 1 January	6,610	*7,538*
Changes in fair value during the year	(139)	*(928)*
Balance at 31 December	**6,471**	***6,610***
Comprising:		
Equity shares	2,515	*1,964*
Investment funds	3,956	*4,646*
	6,471	***6,610***

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 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)
Impairment loss	-	-	-	-	-
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**

	Property, plant and equipment			*Intangible assets*	
	Long leasehold premises and improvements	*Other assets*	*Total*	*Computer software*	*Total*
Cost					
Balance at 1 January 2018	*15,616*	*2,897*	*18,513*	*11,870*	*30,383*
Additions during the year	*497*	*147*	*644*	*5,744*	*6,388*
Disposals during the year	*(3)*	*(68)*	*(71)*	*-*	*(71)*
At 31 December 2018	*16,110*	*2,976*	*19,086*	*17,614*	*36,700*
Less: accumulated depreciation and amortisation					
Balance at 1 January 2018	*8,021*	*2,201*	*10,222*	*5,074*	*15,296*
Charge for the year	*324*	*214*	*538*	*486*	*1,024*
Disposals during the year	*(2)*	*(50)*	*(52)*	*-*	*(52)*
Impairment loss	*-*	*-*	*-*	*1,100*	*1,100*
At 31 December 2018	*8,343*	*2,365*	*10,708*	*6,660*	*17,368*
Net book value at 31 December 2018	*7,767*	*611*	*8,378*	*10,954*	*19,332*

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

Computer software cost and accumulated depreciation balances as at 1 January 2019 reflect a reclassification of £1.1m in respect of impairment which in prior year was disclosed as depreciation. There is no effect on the balance sheet due to this reclassification.

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 £11,230,000 *(2018: £7,767,000)*, including improvements, excludes the lease of land, for which a premium has been prepaid and at balance sheet date amounts to £8,006,000 *(2018: £8,069,000) (see Note 23)*, making a total asset value of £19,236,000 *(2018: £15,836,000)*. This includes right-of-use assets in respect of leasehold premises and leases relating to representative offices of £3,855,000 respectively as at 1 January 2019 which were recognised following the implementation of IFRS 16. The carrying amount for right-of-use assets as at 31 December 2019 was £3,696,000 (Note 21).

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 £1,508,000 *(2018: £6,388,000)* including expenditure of £1,004,000 *(2018: £5,709,000)* 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.

The original cost of fully depreciated tangible and intangible assets still in use by the Bank at year end was £11,022,000 (*2018: £10,065,000*).

There were commitments for capital expenditure on 31 December 2019 of £223,000 (2018*: £240,000*).

21. Lease commitments

Leases as Lessee

The Bank leases their main office at 8-10 Mansion Place and representative offices in Libya, Algeria, Dubai and Munich. 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.

The Bank also leases a representative office in Ivory Coast and motor vehicle in Munich lease with contract terms of 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.

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).

31 December 2019	
Balance as at 1 January	3,855
Depreciation charge for the year	(159)
Balance as at 31 December	**3,696**

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

31 December 2019	
Balance as at 1 January	3,855
Interest on lease liabilities	(151)
Other movements	(8)
Balance as at 31 December	**3,696**

At 31 December 2018, the future minimum lease payments under non-cancellable operating leases (accounted for under IAS 17) were payable as follows:

31 December 2018	Less than one year	Between one and five years	More than five years	Total
Operating lease payments due	360	445	9,813	10,618
Operating lease receipts due	(33)	-	-	(33)
Net payment commitment	**327**	**445**	**9,813**	**10,585**

The following shows the reconciliation between the operating lease as at 31 December 2018 and the opening balance for right-of use assets as above.

Operating lease commitments at 31 December 2018 as disclosed under IAS 17 in the Bank's financial statements	10,585
Difference between MHP lease payments and minimum payment commitment	8,676
Undiscounted lease liability	**19,261**
Discount factor	(15,356)
Net Present Value of lease liability	**3,905**
Recognition exemption for leases with less than 12 months of lease term at transition to IFRS 16	(50)
Total Right of Use asset as at 1 January 2019	**3,855**

Under IAS 17 the operating lease commitment was calculated using the minimum payment commitments however under IFRS 16 the undiscounted lease liability has been calculated using the expected payments that will be incurred until the end of the lease.

Amounts recognised in statement of comprehensive income are as follows:

31 December 2019	
Depreciation charge for the year	159
Interest on lease liabilities	151
Expenses relating to short term leases	19
Total undiscounted lease liabilities at 31 December	**329**

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

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%.

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.

Investment in finance lease	2019	2018
Less than 1 year	214	33
Between one and two years	238	-
Between two and three years	183	-
Total investment in finance lease	**635**	**33**

22. Deferred taxation

	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)**

	Balance at 1 January 2018	*Recognised in Profit or Loss*	*Recognised in Other Comprehensive Income*	*Balance at 31 December 2018*	*Deferred tax assets*	*Deferred tax liabilities*
Property, plant and equipment and intangible assets	*(199)*	*-*	*-*	*(199)*	*-*	*(199)*
Staff benefits	*93*	*(24)*	*-*	*69*	*69*	*-*
Unused tax losses loss carried forward	*806*	*224*	*-*	*1,030*	*1,030*	*-*
Tax assets on pension liabilities (Note 26)	*149*	*(232)*	*183*	*100*	*100*	*-*
Debt securities classified at fair value through OCI	*(318)*	*-*	*1,085*	*767*	*767*	*-*
Equity Investments classified at fair value through OCI	*(191)*	*-*	*177*	*(14)*	*-*	*(14)*
IFRS 9 Transitional adjustment	*1,304*	*(143)*	*-*	*1,161*	*1,161*	*-*
Deferred tax assets (liabilities)	*1,644*	*(175)*	*1,445*	*2,914*	*3,127*	*(213)*

Deferred tax asset and liability balances are off-settable.

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

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 £728,000 (*2018: £1,030,000*). The Bank has unused tax losses of £32,567,162 (*2018: £38,181,879*) 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

	2019	*2018*
Prepaid rental for land	8,006	*8,069*
Prepayments and accrued income	991	*1,051*
Unsettled trade receivables	959	-
Other debtors	12,225	*7,695*
	22,181	***16,815***

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

24. Deposits

Deposits from banks totalled £1,836,945,000 (*2018: £3,047,548,000*) of which deposits with fixed interest rates (other than those with a single interest period less than 1 year) amounted to £113,202,000 *(2018: £95,769,000).*

Other deposits totalled £674,607,000 (*2018: £585,058,000*) of which deposits with fixed interest rates (other than those with a single interest period less than 1 year) amounted to £23,917,000 *(2018: £26,616,000).*

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.

25. Other liabilities, accruals, and deferred income

	2019	*2018*
Other liabilities	5,430	*8,582*
Accruals and deferred income	3,700	*5,419*
Lease liability	3,696	-
Loss allowance provision on financial guarantees and other commitments (Note 31)	1,342	*2,043*
	14,168	***16,044***

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 268 deferred or pensioner members as at 31 December 2019 *(2018: 269 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.

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

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.

This actuarial valuation showed a deficit of £5,283,000. The company has agreed with the trustees that it will aim to eliminate the deficit over a period of 3 years and 8 months from 1 January 2017 by the payment of annual contributions of £1,472,000, payable in monthly instalments, in respect of the deficit.

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 2016 has been updated on an approximate basis to 31 December 2019. There have been no changes in the valuation methodology adopted for this year's disclosures compared to the previous year's disclosures.

Amounts included in the statement of financial position

	2019	*2018*
Fair value of Scheme assets	76,485	*72,023*
Present value of defined benefit obligation	(77,226)	*(72,607)*
Deficit in the Scheme - net liability	**(741)**	***(584)***

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 £77,226,000 (i.e. the same as the defined benefit obligation).

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

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

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

	2019	*2018*
Defined benefit obligation at start of period	72,607	*81,118*
Expenses	-	*196*
Interest expense	2,033	*1,954*
Actuarial losses due to scheme experience	-	*424*
Actuarial losses due to changes in demographic assumptions	(647)	*11*
Actuarial gains/(losses) due to changes in financial assumptions	5,776	*(4,971)*
Benefits paid and expenses	(2,543)	*(6,125)*
Defined benefit obligation at end of period	**77,226**	***72,607***

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

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

	2019	*2018*
Fair value of scheme assets at start of period	72,023	*80,220*
Interest income	2,037	*1,947*
Return on scheme assets (excluding amounts included in interest income)	3,496	*(5,611)*
Contributions by the Bank	1,472	*1,592*
Benefits paid and expenses	(2,543)	*(6,125)*
Fair value of scheme assets at end of period	**76,485**	***72,023***

The actual return on the Scheme's assets over the year ended 31 December 2019 was £5,533,000 (*2018: loss of £3,662,000*).

Defined benefit costs recognised in Profit and Loss

	2019	*2018*
Expenses	174	*196*
Net interest cost	(4)	*5*
Defined benefit costs recognised in profit and loss	**170**	***201***

Defined benefit costs recognised in other Comprehensive Income

	2019	*2018*
Return on scheme assets (excluding amounts included in interest income) - gain/(loss)	3,496	*(5,611)*
Experience losses arising on the defined benefit obligation	-	*(424)*
Effects of changes in the demographic assumptions underlying the present value of the defined benefit obligation - gain / (loss)	647	*(11)*
Effects of changes in the financial assumptions underlying the present value of the defined benefit obligation - (loss) / gain	(5,776)	*4,971*
Total loss recognised in other comprehensive income	**(1,633)**	***(1,075)***

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

Assets

	2019	*2018*
Liability Driven Investment (LDI)	12,364	*11,716*
Diversified Growth Funds	24,655	*21,031*
Cash	165	*629*
Purchased Annuities	39,301	*38,647*
Total assets	**76,485**	***72,023***

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.

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

Significant Actuarial Assumptions

	2019 % per annum	*2018 % per annum*
Rate of discount	2.05	*2.85*
Inflation (RPI)	2.90	*3.30*
Allowance for revaluation of deferred pensions of RPI or 7.5% p.a. if less	2.90	*3.30*
Allowance for pension in payment increases of RPI or 7.5% p.a. if less	2.90	*3.30*
Allowance for commutation of pension for cash at retirement	75% of Post A-Day	*75% of Post A-Day*

The mortality assumptions adopted at 31 December 2019 are 100% of the standard tables S2PxA_L, Year of Birth, no age rating for males and females, projected using CMI_2018 converging to 1.00%p.a. These imply the following life expectancies:

	2019 **Life expectancy at age 60 (years)**	*2018* *Life expectancy at age 60 (years)*
Male retiring in 2019	27.4	*27.6*
Male retiring in 2019	28.4	*28.6*
Male retiring in 2029	27.9	*28.1*
Male retiring in 2029	29.1	*29.3*

The following table analyses of the sensitivity to the principal assumptions of the present value of the Defined Benefit Obligation:

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

	Change in assumption	*Change in liabilities*
Discount rate	Decrease of 0.25% p.a.	*Increase by 4.8%*
Rate of inflation	Increase of 0.25% p.a.	*Increase by 4.8%*
Rate of mortality	Increase in life expectancy of 1 year	*Increase by 3.5%*
Rate of mortality	Mortality improvement - long term rate 0.75%	*Decrease by 1.2%*
Cash commutation	50% of post A-day maximum using current factors	*Increase by 0.8%*

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 2019 is 19 years.

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

The best estimate of contributions to be paid by the Bank to the scheme for the year commencing 1 January 2020 is £981,336.

Defined contribution scheme

At 31 December 2019 207 employees *(2018: 183 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 2019, the Bank paid £1,761,719 *(2018: £1,548,000)* by way of contributions into that scheme. There were no outstanding or pre-paid contributions to this scheme at 31 December 2019 *(2018: £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 2019 and bear interest based on inter-bank offered rates for dollar and euro deposits. The amounts disclosed below include accrued interest.

	2019	*2018*
Due 28 April 2023	18,847	*19,604*
Due 29 October 2025	23,996	*24,960*
Due 17 June 2025	29,027	*30,757*
	71,870	***75,321***

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

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	
	2019	*2018*	**2019**	*2018*
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***

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

	2019	*2018*
Called up share capital (Note 28)	104,357	*104,357*
Capital redemption reserve	4,104	*4,104*
Other reserves		
Retained earnings	69,069	*62,796*
Revaluation reserve	364	*(3,079)*
	69,433	59,717
	177,894	***168,178***

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 3g).

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 2019 *(2018: £1,706,000).*

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.

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

Capital resources are made up by:

	2019	*2018*
Capital and reserves attributable to the Bank's equity holders	177,894	*168,178*
Less: Intangible Assets	(10,491)	*(10,954)*
Less: Adjustments as required by regulations	(1,623)	*(1,777)*
Add: IFRS9 transition adjustment	5,044	*5,771*
Tier 1 capital	**170,824**	*161,218*
Subordinated liabilities less accrued interest	71,491	*74,880*
Less: amortisation of subordinated liabilities	(6,265)	*(2,616)*
Tier 2 capital	**65,226**	*72,264*
Capital resources	**236,050**	***233,482***

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.

From 1 January 2018 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.

	2019	*2018*
Financial guarantees	147,448	*122,386*
Other commitments comprise:		
Credit lines and other commitments to lend: original maturity		
under one year	22,720	*76,524*
over one year	-	-
Documentary credits and short-term trade-related transactions	333,489	*474,229*
Own acceptances	6,320	*5,577*
	509,977	***678,716***

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 2018 and at 31 December 2019.

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)**

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

31 December 2018

Contract amount	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Financial guarantees	*99,527*	*15,432*	*7,427*	*122,386*
Other commitments	*553,805*	*2,188*	*337*	*556,330*
Total	*653,332*	*17,620*	*7,764*	*678,716*

Loss allowance provision	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Financial guarantees	*(411)*	*(18)*	*(1,119)*	*(1,548)*
Other commitments	*(443)*	*(1)*	*(51)*	*(495)*
Total	*(854)*	*(19)*	*(1,170)*	*(2,043)*

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

	Provision for impairments			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance as at 31 December 2018	853	19	1,170	2,042
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	1	-	1
Transfer to Stage 3	-	-	-	-
Change in other risk parameter (incl change in account balances)	(173)	50	(461)	(584)
New positions originated or purchased	348	51	-	399
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**

	Provision for impairments			
	Stage 1	*Stage 2*	*Stage 3*	*Total*
Balance as at 1 January 2018	*1,452*	*24*	*20*	*1,496*
Transfer to Stage 1	*3*	*(3)*	*-*	
Transfer to Stage 2	*-*	*-*	*-*	*-*
Transfer to Stage 3	*-*	*-*	*254*	*254*
Change in other risk parameter (incl change in account balances)	*(45)*	*2*	*2*	*(41)*
New positions originated or purchased	*633*	*2*	*894*	*1,529*
Financial assets that have been derecognised	*(1,247)*	*(7)*	*-*	*(1,254)*
Foreign exchange and other movements	*58*	*1*	*-*	*59*
Balance as at 31 December 2018	*854*	*19*	*1,170*	*2,043*

32. Foreign currency assets / liabilities

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

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

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

31 December 2018	*Sterling*	*Dollars*	*Euro*	*Other currencies*	*Total*
Total assets	*724,078*	*2,327,008*	*799,336*	*43,430*	*3,893,852*
Total equity and liabilities	*(585,142)*	*(2,431,094)*	*(851,536)*	*(26,080)*	*(3,893,852)*
Derivatives (at contract notional value)	*(135,244)*	*101,490*	*51,298*	*(17,544)*	*-*
Net exposures	*3,692*	*(2,596)*	*(902)*	*(194)*	*-*
Contingent liabilities and other commitments	*67,632*	*404,875*	*196,515*	*9,694*	*678,716*

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

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 identified Executive Managers and their close family members.

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

The analysis below sets outs balances with related parties:

	2019	*2018*
Balances outstanding		
Loans and advances	10,165	*12,068*
Deposits	1,522,878	*2,405,408*
Subordinated liabilities	71,870	*75,321*
Derivatives (contract amount)	-	*125*
Contingent liabilities and other commitments	45,958	*103,035*
Included in income statement		
Interest receivable	213	*176*
Interest payable	37,462	*25,738*
Fees and commissions receivable	3,439	*6,259*
Fees and commissions payable	-	*14*
Net trading income	2,228	-

At 31 December 2019 no amount was outstanding in respect of interest free loans or interest bearing loans due from Executive Managers of the Bank (*2018: £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 £499,740 *(2018: £641,000)*.

ii. Key management personnel compensation:

	2019	*2018*
Directors' attendance and standing fees	532	*555*
Executive Managers		
Salaries and other short term benefits	2,012	*2,070*
Post-employment benefits	102	*40*

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	2019	*2018*
Libyan Foreign Bank	707,241	*898,103*
Cental Bank of Libya	639,633	*845,286*
Total	1,346,874	*1,743,389*

Weighted average maturity	2019	*2018*
Libyan Foreign Bank	0.93 years	*0.97years*
Cental Bank of Libya	0.13 years	*0.11 years*

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

35. Events after the reporting period

On 6 March 2020, in view of the spread of the COVID-19 pandemic the Bank invoked its Crisis Management Team and has taken steps to strengthen our operational resilience to secure our operational capability.

The ECL at 31 December 2019 was estimated based on a range of forecast economic conditions as at that date. Since early 2020 the COVID 19 outbreak has caused disruption to business and economic activity. The impact this has on economic and market conditions will be considered when determining the severity and likelihood of downside economic scenarios that will be used to estimate ECL in 2020.

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