BACB

year ended 31 December 2021

ANNUAL REPORT & FINANCIAL STATEMENTS

CONTENTS

section 1

PAGE
1.4 FINANCIAL HIGHLIGHTS
1.5 BOARD OF DIRECTORS
1.6 CHAIRMAN'S STATEMENT
1.9 STRATEGIC REPORT: BUSINESS STRATEGY AND MARKET ENVIRONMENT
1.12 STRATEGIC REPORT: BUSINESS AND PERFORMANCE OVERVIEW
1.19 STRATEGIC REPORT: PRINCIPAL RISKS AND UNCERTAINTIES
1.24 STRATEGIC REPORT: CORPORATE GOVERNANCE
1.30 STATEMENT OF DIRECTORS' RESPONSIBILITIES
1.32 DIRECTORS' REPORT
1.34 INDEPENDENT AUDITOR'S REPORT

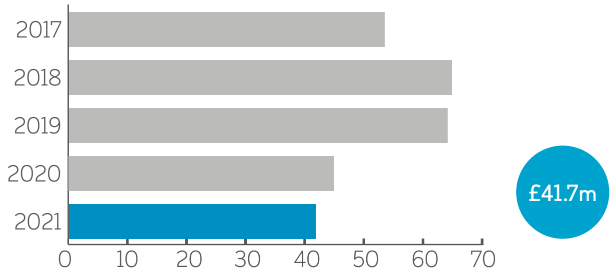
CONTENTS

section 2

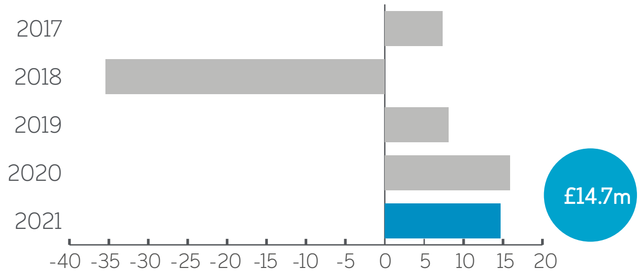
PAGE
2.2 STATEMENT OF COMPREHENSIVE INCOME
2.3 STATEMENT OF FINANCIAL POSITION
2.4 STATEMENT OF CHANGES IN EQUITY
2.5 STATEMENT OF CASH FLOW
2.6 1. General information
2.6 2. Basis of preparation
2.9 3. Significant accounting policies
2.21 4. Risk management
2.35 5. Critical accounting estimates and judgements in applying accounting policies
2.37 6. Analysis of financial assets and liabilities by measurement basis
2.38 7. Fair values of financial assets and liabilities
2.42 8. Net interest income
2.42 9. Net fee and commission income
2.43 10. Net trading income
2.43 11. Other operating income
2.43 12. Business line review
2.45 13. Allowance for credit losses
2.48 14. Administrative expenses
2.49 15. Income tax
2.50 16. Derivatives
2.51 17. Loans and advances to banks.
2.53 18. Loans and advances to customers
2.55 19. Financial investments
2.56 20. Property, plant and equipment and intangible assets
2.57 21. Lease commitments
2.59 22. Deferred taxation
2.60 23. Prepayments, accrued income and other debtors
2.60 24. Deposits
2.60 25. Other liabilities, accruals and deferred income
2.60 26. Pension funds
2.65 27. Subordinated liabilities
2.65 28. Called up share capital
2.65 29. Capital and reserves attributable to the Bank's equity holders
2.66 30. Financial guarantees and other commitments
2.67 31. Foreign currency assets/liabilities
2.68 32. Legal proceedings
2.68 33. Related parties
2.70 34. Events after the reporting period

FINANCIAL HIGHLIGHTS

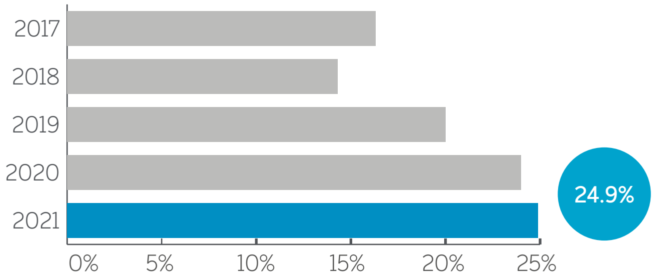
Operating Income down 7% to £41.7m



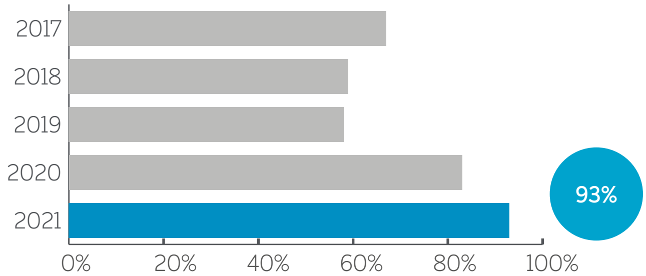
Profit/(Loss) before tax down 8% to £14.7m



Capital Strength increased from 24% to 24.9%



Cost/Income Ratio 93%



	2021	2020	2019	2018	2017
FINANCIAL POSITION £m					
Operating Income before Loan impairments	41.7	44.8	64.0	64.8	53.4
Profit/(Loss) before income tax	14.7	15.9	8.1	(35.4)	7.3
Profit/(Loss) for the year	13.0	14.4	7.6	(35.3)	6.8
Total Assets	2,782	2,543	2,779	3,894	2,953
Total Loans	1,073	1,199	1,841	2,079	2,086
Total Equity	210	197	178	168	217
Tier 1 & 2 Capital (Eligible Capital)	270	264	236	233	281
RATIOS %					
Capital Adequacy[1]	24.9%	24%	19.6%	14.3%	16.3%
LCR[2]	266%	230%	218%	220%	270%
Cost Income Ratio[3]	93%	83%	58%	59%	67%
Return on Tier 1 Capital	7%	8%	4%	-22%	3%
Return on Tier 1 & 2 (Total Eligible Capital)	5%	5%	3%	-15%	2%
Non Performing Loans	1%	6%	5%	10%	4%

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

[2] Annual LCR based on 13 point average

[3] Based on Administrative Expenses divided by Operating Income

BOARD OF DIRECTORS

The Board of Directors led by the Chairman Michael Stevenson.

MICHAEL STEVENSON
Chairman

MOHAMED SHOKRI
Vice Chairman
Non-Executive Director

EDDIE NORTON
CEO
Executive Director

AIMAN LASWAD
Non-Executive Director

MOHAMED ZINE
Non-Executive Director

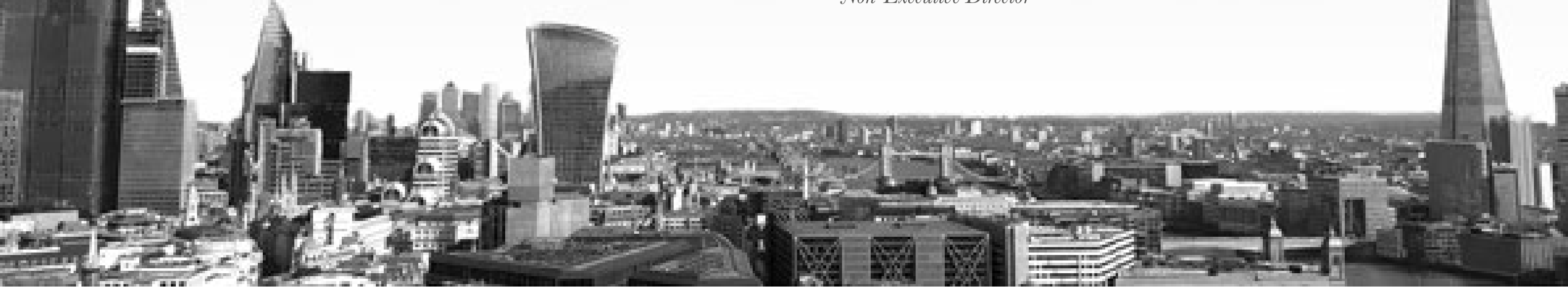
JEHANGIR JAWANMARDI
Chair of Audit Committee
Independent
Non-Executive Director

LAZHAR LATRECHE
Non-Executive Director

SUNDEEP BHANDARI
Independent
Non-Executive Director

NIGEL BOOTHROYD
Independent
*Non-Executive Director**

FAESAL OTHMAN
Non-Executive Director



*Subject to regulatory approval.

CHAIRMAN'S STATEMENT

"BACB, a UK bank delivering trade finance & investment expertise to enable clients, countries & communities to prosper"

Dear Shareholders,

In my last Chairman's statement, I wrote about the extraordinary challenges experienced in 2020 as a result of the Covid-19 pandemic. Many of these challenges have continued to reverberate in our markets throughout 2021 and will likely continue well into 2022. In addition, markets are now having to cope with the evolving conflict between Russia and Ukraine.

These challenges confirm the Board's strategic focus on strengthening our core services and market position, operating within a prudent risk appetite while strengthening the people and monetary capital of the Bank. Against this backdrop of uncertainty, and alongside volatility in some of BACB's markets, the Bank continues with its planned strategic change, the results of which should become apparent during the second half of this year and beyond.

In 2022, the Bank will celebrate its 50th anniversary. In the last half century, the banking sector has changed radically. Nowadays, greater 'agility' is required than 50 years ago! Whilst there is more global trade and improved methods of communication, there is also an ever-evolving regulatory landscape and a recognised need to respond to market related events more quickly. With the Executive managing a change programme, BACB is successfully adapting through the consolidation of its core businesses, improving its processes, investing in technology and culture change. However, it is important to recognise that the Bank must continue to be agile, adapt to the ongoing market challenges and keep pace with ever-changing external developments.

OUR FINANCIAL PERFORMANCE IN 2021

Our results for 2021 report a surplus of £14.7m before taxation. It is important to note that over 88%, or £13m, of this is derived from recoveries and write-backs made during the year. Last year, I wrote about the Bank's income challenge and the need to reduce dependence on recoveries for profitability. This challenge, alongside a need to improve BACB's currently poor cost-income ratio, continues. Whilst the income challenge for 2022 remains, actions have been taken by the Board and Executive to improve revenues for 2022. In addition, reviews continue to be performed on the Bank's cost base to improve the cost-income ratio. During 2021, changes to the Bank's risk appetite and the winding-down of our investment in Commodity Finance, which will be completed by May, reduced credit losses and it is expected that continued sound management will minimise impairment charges for 2022.

The Board's focus on both income growth and management of the cost-income ratio should result in improved sustainable profit growth within appropriate risk parameters. The Bank has been successful over the course of 2021 in managing risk and is now able to focus also on revenue generation and the deployment of capital. As BACB is unlikely to benefit from significant recoveries in 2022, the near-term financial emphasis for the current year will be on the revenue growth and cost-income management. Success in these areas will further strengthen the financial foundations of BACB for its future.

OUR STRATEGIC DIRECTION

The Bank's CEO, Mr Eddie Norton, has been in post since October 2020 and, since then, has launched a programme of strategic change which has been supported by the Board. The refreshed strategy has included the wind-down of Commodity Finance, renewed Trade Finance and Real Estate strategies, as well as change initiatives to ensure that BACB is 'fit for the future' from a perspective of both costs and processes. Under Mr Norton's leadership, BACB has re-focused on its traditional strengths and core markets within a strengthened risk management framework. The Board is confident that under Mr Norton's direction and through the delivery of the new strategy, focused equally on driving revenue and reducing costs, BACB will achieve sustainable growth over the years to come.

OUR BOARD OF DIRECTORS

Last year, I noted the appointment of two new Independent Non-Executive Directors – Mr Sundeep Bhandari and Mr Nigel Boothroyd; the Board continues to benefit from their experience and expertise, particularly during this time of significant change. Mr Paul Jennings was also appointed as an Independent Non-Executive Director in July 2021 and stepped down in November 2021 to assume the role of Chief Banking Officer and Deputy Chief Executive, providing vital support to Mr Norton in implementing the Bank's strategic plans. Mr Jennings' extensive experience in the sector will assist in identifying new opportunities for revenue and growth.

Mr Aiman Laswad also joined the Board in September 2021, representing Libyan Foreign Bank alongside Mr Faisal Othman and Mr Mohamed Shokri.

The Board recently commissioned an independent Board Effectiveness Review, and I am pleased to report that the findings were largely positive. The Board is committed to implementing all the recommendations made and improvement of the Bank's governance structures and processes is an ongoing Board consideration.

It is inevitable that during times of change and progression, and particularly given the active market in the post-Covid period, there will be changes in personnel at all levels. This has been evident in several changes in Executive Management during the period. The Board is confident that Mr Norton is building a team with the appropriate mix of skills and experience to guide the Bank through this period of transformation and to build and develop a cohesive culture..

OUR STAKEHOLDERS

The Board of BACB continues to recognise its corporate responsibilities to all stakeholders – our shareholders, customers, clients, suppliers and employees – and its wider social and environmental responsibilities.

The challenges imposed by the pandemic have continued throughout 2021 to some degree, with employees continuing to work remotely for much of the year. The Board is grateful for the continued commitment of employees during this challenging period. I would also like to thank my fellow directors for their commitment during the year; the Board has continued to operate effectively despite the restrictions imposed because of the pandemic. We hope that 2022 will see the resumption of travel and facilitate the ability of directors to meet and engage more easily with employees.

In 2020, I advised the Board of my plans to step down as Chairman. I agreed to remain in that position during 2021 to see the Bank through a period of strategic and leadership change. I am pleased to leave the Bank in a much-improved position; this would not have been possible without the commitment of the Executive and the continued support of the Board and our Shareholders.

Whilst 2021 did not see the complete return of normality and was not without challenge, BACB has made significant progress in developing a strategic direction which should create long-term, sustainable growth. Investment in the Bank's customers, processes, people and technology remains at the heart of our strategy. Whilst the underlying profitability challenges will continue to be the focus in 2022, we look forward delivering across these strategic areas to consolidate BACB's unique position in the market.

MICHAEL J STEVENSON

Chairman

31 March 2022

BUSINESS STRATEGY AND MARKET ENVIRONMENT

"Despite the unpredictability of global markets, the strategic changes we have made to our business have built a solid and resilient foundation."

We continue to operate in a period of uncertainty, and while we have mostly learned to live with Covid-19, the widespread economic consequences of the pandemic are still being felt.

New risks are emerging in 2022, but we remain vigilant and responsive to evolving geopolitical events. Notwithstanding these headwinds, I am comforted that the groundwork laid by our teams in the past year has strengthened BACB's resilience, positioning us well for our three-year growth plan commencing in 2022 – our 50th anniversary year.

For half a century, BACB has served as a trusted banking partner for our core markets across Africa, the Middle East and Asia, enabling our clients to prosper. This 50th anniversary milestone is an opportunity to reaffirm our commitment to our customers, and the communities and markets in which we operate. We can only achieve this, however, through constant evolution. There will always be unexpected challenges – economic and geopolitical – and it is incumbent on us to remain agile and adaptable, reacting to the changing requirements of our clients and partners.

LOOKING BEYOND THE PANDEMIC

The challenges posed by the pandemic continued in 2021. However, markets slowly adjusted, and the global economy began to recover from the unprecedented disruption to international trade.

In early 2021, it was evident that demand in our core geographies had begun to recover. This was reflected by increased trade flows underpinned by a rise in commodity prices for strategic goods. BACB responded by providing credit lines and guarantee facilities, leveraging our unique geographical coverage to support clients and economies within our franchise of 31 markets across Africa, Asia, and the Middle East, as well as in the UK where the Bank is headquartered and regulated.

In September we returned to the office, allowing us to resume in-person meetings and attend events. Such valuable face-to-face interaction serves to strengthen relationships with our customers and colleagues in the industry.

I am proud of the way our staff rose to the challenges of 2021, and readily adapted to the new reality of hybrid working – ensuring that the service received by our clients remained uninterrupted and of consistently high quality.

We maximised efficiencies through a hybrid operating model, supported and enhanced by investment in technology throughout the year.

STRATEGY

A review of strategy was undertaken during the year; the process involved engagement with key stakeholders, and resulted in a significant strategic revision, intended to refocus the Bank whilst simultaneously strengthening our risk appetite framework. The implementation of this strategy is built on pillars of safe and sustainable growth, de-risking legacy products, improved efficiency and operational resilience, and a drive to enhance conduct and culture.

Supporting clients by focusing on our core areas of expertise in Trade Finance, Real Estate and Treasury was successful in largely arresting the decline in revenues witnessed in 2020. This improvement is despite actions taken to progressively wind down our Commodity Finance product offering.

The first half of 2021 saw favourable conditions for our Trade Finance business, although this subsequently softened as activity in our core markets, including Libya, slowed towards the end of the year.

An enhanced focus on risk management resulted in a material reduction in impairments and we continued to benefit from recoveries on losses provisioned during the 2018 and 2019 financial years. In 2021, we further strengthened our capital and liquidity metrics, underpinning our commitment to serve our markets and grow the business. Prudent management stabilised the Bank's cost base, and in March 2021 we initiated a measured change programme entitled 'Fit for the Future'. The programme involves investment in technology as well as refining processes, improving client and employee experience, and focusing on operational efficiency.

"This 50th anniversary milestone is an opportunity to reaffirm our commitment to our customers, and the communities and markets in which we operate"

RESULTS

BACB's financial results reflect the challenging trading conditions of 2021, as well as the withdrawal of our Commodity Finance offering. Historically this activity has struggled to deliver acceptable returns, instead sizeable provisions and write-offs have occurred prompting the Board to request a full review of the product. After careful consideration, the Board subsequently approved a phased exit which commenced in July 2021 and will be completed by May 2022.

The Bank has benefited from extensive work to recover funds from previously impaired assets, alongside an enhanced risk management framework. Actions have been taken to improve both the quality and quantity of the Bank's income, with a particular focus on Trade Finance. This revenue drive will continue. We are also working to deliver efficiencies in 2022 and beyond, through the 'Fit for the Future' initiative.

It is clear our cost-income ratio is too high at present and that efficiency efforts alone will not fully address the problem. Our focus now is on driving safe, sustainable revenue growth in areas where we have demonstrable expertise and a solid track record, notably in Trade Finance, Real Estate and Treasury.

PERSONNEL

As part of our continued investment in talent, we have made key appointments to the Bank's Executive Team. These strategic hires add strength and depth to our expertise, demonstrating BACB's ability to attract the very best the industry has to offer. This includes the appointment of Paul Jennings as Chief Banking Officer and Deputy CEO, who after many years at the helm of ABC International Bank plc, is now leading BACB's revenue drive.

OUTLOOK

As I write, the conflict between Russia and Ukraine dominates the news headlines. This is a human tragedy as well as an event that threatens market stability. The situation is rapidly evolving and brings with it considerable economic and political uncertainty, not to mention acute suffering for those caught up in the conflict. There is evidence that the situation is causing disruption to already strained supply chains, which will necessitate continued monitoring as events unfold. Based on our current assessment, there are no material concerns over our exposure, nor our ability to act in line with regulatory and legal requirements.

Despite the unpredictability of global markets, the strategic changes we have made to our business have built a solid and resilient foundation – enabling us to enhance our franchise, support our customers, and navigate the future with confidence as we have done for the past 50 years.

EDDIE NORTON

Chief Executive Officer

31 March 2022

STRATEGIC REPORT

BUSINESS AND PERFORMANCE OVERVIEW

OUR NETWORK

BACB HEAD OFFICE
LONDON

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

BUSINESS AND PERFORMANCE OVERVIEW

OVERVIEW

British Arab Commercial Bank plc ("BACB" or the "Bank") is a specialist commercial bank, and a trusted partner, active in 31 countries principally across Africa, the Middle East and Asia. In addition to BACB's core Trade Finance offering, the Bank also provides niche UK Real Estate Finance facilities, and operates a full Treasury function, which is active in foreign exchange, derivative and debt capital markets. The ability to leverage local knowledge and product expertise make BACB our client's natural choice as their banking partner for specialist markets.

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

THE STRATEGIC VISION

The Bank's purpose is that we are "a UK bank delivering trade finance and investment expertise to enable clients, countries and communities to prosper". The Bank's strategy is one of measured expansion, based on the Bank's heritage in Africa, and expertise across chosen specialist markets. BACB's objective is long-term safe and sustainable growth in line with the Bank's risk appetite.

BACB has a robust network of relationships, offering maximum value across its key markets. With a client-centric approach and product-specific expertise, BACB supports stakeholders across the supply chain, strengthening the Bank's offering.

BUSINESS OVERVIEW

The Bank has three key business lines:

- TRADE FINANCE
- REAL ESTATE FINANCE
- TREASURY

The business lines are aligned to the Bank's strategic vision; our Trade Finance and Treasury function deliver a valuable product offering to our core markets, whilst our Real Estate Finance business diversifies income streams, generating GBP revenue, and providing protection against the cyclical nature of global trade.

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

During 2021 BACB remained fully operational, without service interruption, with staff in the London headquarters and in the representative offices based in Algiers, Abidjan and Tripoli, moving to hybrid working arrangements, and continuing to provide day-to-day assistance to clients.

Global trade flows have begun to recover, and BACB's support has remained critically important to enabling public and private sector responses to the pandemic and paving the way for recovery in our core markets. The Bank is proud to have played a part in facilitating the movement of goods and has endeavoured to make the financing and provision of services as flexible as possible to accommodate client needs.

The following analysis provides an overview by business line.

TRADE FINANCE

BACB supports companies to develop their international trading opportunities by providing trade finance solutions, throughout the supply chain, across specialist markets.

Working closely with a network of international banking partners, BACB provides an experienced and personalised service. Over the course of 2021, BACB has continued to offer its core Trade Finance activities across 31 markets and handled over USD 2.9bn of trade assets for our clients. In 2021 the Trade Finance business contributed 42% of the Bank's total revenue.

BACB won GTR's Best Deals award 2021 for our work with the National Oil Company of Libya; BACB also won Global Banking and Finance Review awards 2021 for the Best Trade Finance Bank in both Rwanda and Libya.

BACB offers a broad range of trade finance services, including Import and Export Letters of Credit; Standby Letters of Credit; Bills for Collection and/or Discount; Payment Guarantees; Bid/Performance Bonds; Trade Loans; and Invoice Discounting. Our solid reputation enables us to advise and confirm transactions globally, thereby providing enhanced financial security to traders and improved management of international exposures and cash flow.

The Bank continued to develop its trade distribution capability with USD 537m of trade assets distributed in 2021. BACB engages with banks, brokers and insurers, demonstrating BACB's ability to originate and distribute quality trade finance assets. This distribution capability enables efficient balance sheet usage and enhanced risk appetite, while creating additional liquidity in the international financial markets.

Following a strategic review of our business it was determined that BACB should wind down the Commodity Finance activity; during 2021 a phased withdrawal from the market began with completion expected in Q2 2022.

REAL ESTATE

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

As at 2021-year end, the real estate book stood at GBP 417m. This represents a small decrease over the year as the business accommodated maturity of some significant deals and adjusted its risk appetite to de-risk in certain sectors, as the entire UK real estate market faced the uncertainties of the pandemic along with the rest of the economy. Following a strategic review of the business in line with the Bank's risk appetite certain sectors were deemed off-risk to new business, with related deals managed out of the portfolio. Revenues of GBP 10.1m were ahead of budget, and the Real Estate business remains a key part of the Bank's diversification strategy, providing a good risk adjusted Sterling denominated annuity income flow.

A notable achievement in 2021 has been the successful transition of existing deals away from LIBOR to risk-free rates. All new real estate business is priced relative to GBP Sterling Overnight Index Average (SONIA).

Maintaining the appropriate levels of term funding to support the business, with diversification across the sectors and geographies, whilst continuing to support existing customers, will be the key factors determining success.

TREASURY

Treasury undertakes two primary roles: as an institutional counterpart in the global financial markets for clients and as the Bank's balance sheet management function.

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

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

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

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

INTERNAL OPERATIONS

The Bank is committed to enhancing the efficiency and effectiveness of its internal operations as well as meeting its regulatory and compliance obligations in all its activities, as detailed below:

FINANCIAL CRIME RISK

As a UK-regulated financial institution, BACB recognises the importance of maintaining a robust financial crime control framework that is commensurate with the risks posed by its products and services, client base, and geographic footprint.

BACB operates a "three lines of defence" model and has a dedicated Financial Crime Risk Team within the second line of defence. This team is responsible for providing oversight and guidance to the first line of defence on all financial crime risk matters. The Bank's employees are required to undertake annual financial crime compliance training and receive supplementary guidance and training in response to regulatory developments and changes to industry best practice.

During 2021, BACB continued to strengthen its ability to mitigate financial crime risk by enhancing key components of its financial crime control framework. This included simplifying its financial crime policy structure, upgrading key systems and processes, and enhancing its financial crime risk assessment methodology.

With regards to bribery and corruption, BACB operates a zero-tolerance approach, and requires compliance with all applicable anti-bribery corruption laws in jurisdictions in which we operate. BACB has a dedicated Anti-Bribery and Corruption Policy, and annual training is provided to all employees.

REGULATORY COMPLIANCE

BACB is committed to maintaining an effective, risk-based regulatory compliance framework. This is in full alignment with the requirements of a UK-regulated institution operating within its target markets, products and service streams.

Several significant regulatory and compliance projects were undertaken in 2021, including the transition from LIBOR to risk-free rates, financial resilience and resolution and operational resilience alongside other key framework reviews. These initiatives continue to enhance the Bank's Compliance monitoring, testing, and control environment – complementing BACB's ongoing regulatory horizon-scanning framework and ensuring compliance with relevant regulatory requirements.

Additionally, as the Senior Management and Certification Regime (SMCR) framework has continued to evolve, BACB has maintained its proactive approach to ensure that the Bank is positively engaged to put in place initiatives and actions to make improvements in culture and conduct.

OPERATIONAL RISK FRAMEWORK

BACB manage risk through a comprehensive risk governance and control framework, as described in the Strategic Report: Principal Risks and Uncertainties on pages 1.19, and in Note 4, Risk Management, page 2.21.

The Bank's principal risks have been approved by the Board. BACB has in place a process of continuous review, as additional risks are identified this may lead to an amendment of the principal risk types. Enhancement of the governing committees' terms of reference and policy standards are being undertaken as part of the Bank's ongoing commitment to maintaining a strong regulatory risk framework. The policies noted above form part of the Bank's wider risk management approach.

BACB has considered the financial risks arising as a result of climate change within each of the principal risk standards where appropriate, and a Climate Change Policy was approved during 2021.

INFORMATION TECHNOLOGY

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

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

Operational Resilience is at the heart of BACB's effectiveness, which is now based on a hybrid office and home-working model. The success of the IT estate is underpinned by regular testing of IT security and resilience capabilities and close working with Compliance and Audit teams.

INTERNAL AUDIT

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

In 2021, this service was provided by Deloitte.

PEOPLE, CULTURE AND CONDUCT

PEOPLE

BACB provides a collaborative, open and inclusive workplace, widely acknowledged for its expertise in trade finance and specialist markets. The Bank's People Strategy is reviewed annually to align with business strategy and is focused on attracting, developing and retaining talent. 2021 has been focused on the "building blocks" of our people agenda, for example we improved our employee benefits package and introduced an online portal so that our staff can easily access all their benefits in one place.

2021 saw BACB adopt a hybrid working model; this followed multiple workshops undertaken with staff, and regular detailed communications including town halls and video blogs. Throughout the pandemic the Bank has pioneered initiatives to enhance communication with employees, support their mental health and wellbeing, and monitor engagement levels through an online survey tool.

PEOPLE DEVELOPMENT

The Bank recognises the importance of employee development to add value and contribute to the success of the Bank. During 2021 the Bank continued to focus on staff development, hosting virtual and hybrid "lunch and learn" events, online workshops and a programme of regulatory compliance and risk awareness training. BACB is also in the process of launching a people management and high potential development programme.

Development forms an integral part of our performance management process, which has been tailored to create a continuous dialogue of feedback and support on performance, achievements and behaviours. The Bank uses a performance management software tool to link staff objectives to the business strategy.

Over the course of 2021 BACB has continued to demonstrate its ability to recruit the best talent and develop our people to ensure that we maintain a strong level of expertise in key leadership roles.

CULTURE AND CONDUCT

For BACB, UK regulators, and the banking industry more generally, culture and conduct is a key area of focus. The Bank's aim is to ensure that staff understand good conduct, recognising that the process is as important as the outcome.

In 2021 a programme of work began which has laid the groundwork for 2022; a Culture and Conduct Steering Group has been established to oversee delivery of improvement actions regarding risk culture, diversity and inclusion, values and behaviours and the creation of a Purpose Statement for the Bank. We have engaged with staff widely on culture and conduct via a series of virtual and in-person workshops and by staff surveys.

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

BACB recognises the importance of data to the development of its culture and conduct agenda. HR Management Information is produced and reviewed on a quarterly basis, and we will build this out to include more detailed diversity and inclusion data as we progress through 2022.

At BACB all individuals are assessed for behaviours and values as well as the results they have delivered. A formal employee recognition scheme 'Going the Extra Mile (GEM)' was launched in 2020 to recognise and celebrate those individuals and teams who have been role models in their business activities and the values and behaviours they displayed.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG)

ENVIRONMENTAL

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

In response to the pioneering work being undertaken by UK Regulators, the Bank has engaged with them on the consultation on "enhancing banks' and insurers' approaches to managing the financial risks from climate change". Furthermore, the Bank has nominated a Senior Management Function and Board Sponsor to assess and manage exposure to physical and transitional risks identified.

Environmental, social and governance assessment is now included as part of the credit risk framework through application of the S&P ESG model for banks and corporates. This assesses our clients' vulnerability to ESG factors including climate risk by considering their domicile and industrial sector.

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

The Bank has a Sustainability Working Group that has contributed to numerous environmental improvements over the past few years including the full implementation of a zero waste to landfill process. Redundant IT equipment is removed by companies selected for their environmentally friendly processes. Furthermore, working in partnership with our cleaning providers we now have no chemical-based cleaning products on-site, and have been able to substantially reduce single use plastics.

Ongoing major investment in our Facilities have made the lifts 50% more energy efficient, additionally the upgrade of the Building Management System is underway, with projected completion by end of March 2022.

LOCAL COMMUNITIES

BACB is committed to conducting business responsibly and ethically, the Bank aims to maintain the highest standards concerning human rights, diversity and inclusion. The Bank will only accept business that meets strict ethical and legal criteria.

This approach to business is reflected in the Bank's values and behaviours, which are being reviewed and updated at the start of 2022. All employees are formally assessed against the Bank's values and behaviours as part of the performance management process.

In 2021 total charitable donations made by the Bank were GBP3,700 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 employee volunteering events for staff to participate in throughout the year through the BACB Together initiative, organising events for staff to participate in through the BACB Together initiative and by matching holiday days for staff.

During 2021, despite the challenges that the pandemic brought, the Bank was able to run 5 Employee Volunteering events at charities in and around London. These one-day events provide our colleagues the opportunity to get involved in a wide range of charitable projects, to give back to the community and support worthy causes closest to them.

DIVERSITY AND INCLUSION

BACB is and has always been a diverse and inclusive place to work, reflective of the communities in which we do business.

Our aim is to become a more diverse and inclusive organisation at all levels; during 2021 a detailed diversity and inclusion analysis and review was completed; this has led to a 10-point action plan being created for implementation over the course of 2022. The Bank launched a Women's Network in Q4 2021 and has recently become a partner of the Women in Banking and Finance network.

STRATEGIC REPORT

PRINCIPAL RISKS AND UNCERTAINTIES

PRINCIPAL RISKS AND UNCERTAINTIES

Principal risks[1] are subject to ongoing active review by management and the Board, in terms of performance and ongoing applicability. At the Board's request, a comprehensive review of these Principal Risks was undertaken in the second half of 2021 and a revised set of Principal Risks was recommended to the Board.

The Board agreed that the work to embed this revised structure will take place during 2022 and the completed framework will be the basis of reporting for the Annual Report and Financial Statements for 2022.

CREDIT RISK

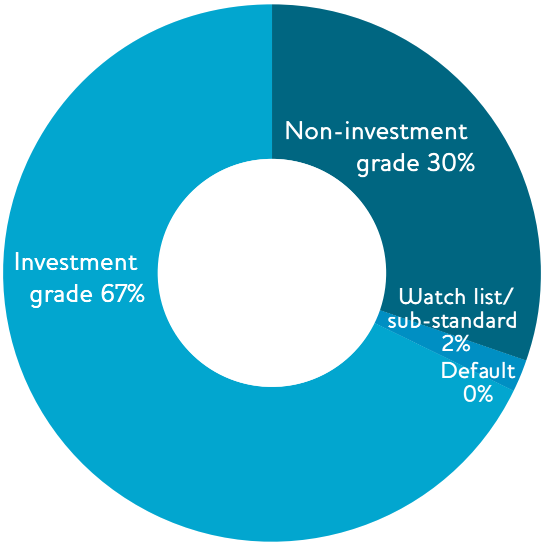
CREDIT PROVISIONS AND STRESS MODELLING

The IFRS 9 Financial Instruments accounting standard was adopted from 1 January 2018.

The 2021 ECL impairment charge in the Statement of Comprehensive Income comprises £1.2m in additional impairments which are offset by recoveries and reversals of £13m of which £10m relate to recoveries and reversals of exposures provided in prior years and a reversal of provisions of £3m attributable to the changes in the Bank's risk appetite and the winding-down of the commodity finance product.

The Bank responded to the continued challenges posed by Covid-19 and other market conditions by actively managing its risk appetite across its business lines. Consequently, the level of impairment provisions in 2021 is significantly reduced, and the Bank has benefited from a number of significant recoveries. In 2021 the Bank has suffered minimal credit losses as an effect of the pandemic. The Bank's residential real estate portfolio has performed strongly with only a small number of borrowers requesting interest deferral and valuations of underlying security remaining firm. In its commercial portfolio the Bank has exposure to the hotel, retail, commercial office and student accommodation sectors, which are seeing return to pre-pandemic activity. However, the IFRS 9 charge reflects a consideration of residual impact of Covid-19 in respect of relatively higher risk sectors within Real Estate, where the Bank holds external valuations predating the start of the COVID-19 pandemic.

CREDIT EXPOSURE BY GRADE[2]



Approximately two-thirds of the Bank's exposures are classified as investment grade, this relates in the main to the Bank's liquidity portfolios. 2% by value are on the Bank's 'watch-list'.

FUNDING CONCENTRATION

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

[1] *A description of key risks faced by the Bank and its approach to managing these risks is set out in Note 4.*

[2] *Rated by BACB internal grading system*

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 financial assets, and the relatively short-term nature of much of its lending.

LIBYA

There have been significant efforts by the international community to maintain momentum towards a political solution involving a unified and internationally recognised government in Libya, as well as signs of an emergent interest from external parties to invest in Libya. Although the situation remains uncertain, these developments have permitted some economic stability, which should benefit the country's fiscal position and levels of FX reserves.

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

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

COUNTERPARTY BANKS

The Bank's principal correspondent banks are BNY Mellon, Banca Popolare di Sondrio and Barclays. The risk of loss of access to one of the correspondent banks is managed by diversifying the different currencies or business across the existing banks. The trigger of the contingency arrangements on the loss of one correspondent bank would reduce the Bank's profitability but would ensure the continuation of business until direct access can be renegotiated.

In the extreme situation of a loss of all principal correspondents, the Bank could reconfigure its business model and utilise indirect accounts with smaller banks. While this would involve heightened operational and credit risk, be more costly and could negatively change the perception of BACB in the market, this model could ensure continuation of business until direct access can be renegotiated. Such a reorganised but constrained business model could be viable for a period and outlined in the Bank's Recovery Plan.

CAPITAL RISK

The Bank 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.

	2021	2020
Capital and reserves attributable to the Bank's equity	210,286	197,207
Less: Intangible Assets	(7,582)	(8,980)
Less: Adjustments as required by regulations	(6,330)	(2,325)
Add: IFRS9 transition adjustment	3,500	6,139
Tier 1 capital	**199,874**	192,041
Subordinated liabilities less accrued interest	70,256	71,785
Tier 2 capital	**70,256**	71,785
Capital resources	**270,130**	**263,826**

Included in regulatory capital is an amount of £3.5m (2020: £6.1m) relating to regulatory transitional arrangements for IFRS 9 under which banks may add back to capital a percentage of the impact that IFRS 9 has had on credit loss allowances. The impact is defined as the increase in credit loss allowances on day one of IFRS 9 adoption and any subsequent increase in ECL in non-credit-impaired exposures thereafter. The add-back must be tax-affected which also leads to adjustments to exposures and risk weighted assets.

In accordance with the parameters set out in the PRA Rulebook, the Internal Capital Adequacy Assessment Process ("ICAAP") is embedded in the risk management framework of the Bank. The ICAAP identifies and assesses the risks to the Bank, considers how these risks can be mitigated and demonstrates that the Bank has sufficient resources, after mitigating actions, to withstand all reasonable scenarios. Not all material risks can be mitigated by capital, but where capital is appropriate the Board has adopted a "Pillar 1 plus" approach to determine the level of capital the Bank needs to hold. This method takes the Pillar 1 capital requirement for credit, market and operational risk as a starting point, and then considers whether each of the calculations delivers a sufficient amount of capital to cover risks to which the Bank is, or could be, exposed. Where the Board considers that the Pillar 1 calculations do not adequately cover the risks, an additional Pillar 2A capital requirement is applied.

OTHER IMPORTANT RISKS

PEOPLE RISK

As is to be expected of a bank of our size and nature People Risk represents an important risk that the bank manages closely, as evidenced by the People, Conduct and Culture section above. In particular, a core vulnerability that is managed through our Operational Resilience Framework is our exposure to People Risk in circumstances where our available staffing levels could drop below the minimum number required to operate a critical process. This is especially true for a Bank of our size, however, ongoing cross training and automation increases our ability to remain within impact tolerances and to withstand short term periods of high staff absence. This risk is further mitigated by the ability of our staff to work from home in our new hybrid way of working; this reduces the likelihood of staff being exposed to the same risk simultaneously.

To address short term periods of high staff absence, plans are in place to redirect focus on processing critical transactions in order to maintain Important Business Services until staffing levels can be restored. In the event of longer-term staff shortage, other options available are to hire in contract resources and/or more permanent hires.

It is very important that BACB communicates and engages with our staff, that we recognise, motivate and energise our people to deliver on our ambitious change agenda. We have a very focused people agenda focusing on all those areas as well as individual development plans and a Learning & Development Programme to elevate performance and demonstrate we are investing in our people. Our remuneration approach remains focused and aligned to the market to ensure we can reward and retain our key people.

CYBER RISK

There are constantly emerging cyber risks and threats (zero-day vulnerabilities, DDoS attacks, phishing emails, etc) and it is important that the Bank maintains a credible defence against these threats to prevent breaches as far as is reasonably possible.

The Cyber insurance market seems to be following the same route as the 'financial lines' market, in that the underwriters have not assessed the risks appropriately and this has led to a withdrawal of some providers, a hardening of the cyber insurance pricing and a reduction in type and availability of cover. BACB maintained the level of cover that was in place for 2021, albeit at a premium increase. Continued enhancement of our Cyber protection model will maximise the ability to access equivalent insurance cover on an ongoing basis.

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. The Bank's principal defence against reputational risk is ensuring that it is operating in conformity with all applicable laws and regulations including sanctions and anti-money laundering requirements.

CLIMATE RISK

The Bank has carried out climate change scenario analysis and believes its exposure to physical risk to be low. It has also carried out a review of its trade finance activities, and, given the nature of its ownership and the markets in which it operates, may be subject to transition risk in the medium- to long-term (over 5 years). This, however, should be tempered by the development needs of these markets as articulated in the UN Sustainable Development Goals.

BACB recognises its share of responsibilities in combatting climate change by supporting the transition to a low carbon and climate resilient economy. As a financial institution, we are committed to playing our part in addressing this global challenge through our role as a financial intermediary between the economy, the environment and society. The Bank recognises that in some of our markets, fossil fuels are important for economic development and supporting the alleviation of poverty. The Bank's strategy on climate is developing with acknowledgement of:

- the related climate change associated with fossil fuels,
- the development and lifting of poverty, and
- the aspiration of our shareholders.

Thus, the Bank's risk exposure to intensive climate change business will predominantly be short term and in the main trade related. Furthermore, given the Bank's current balance sheet structure, and risk appetite, term lending to fossil fuel infrastructure projects is considered outside our current strategy. During 2021 the Board approved a Climate Change Policy which is owned and maintained by the Chief Risk Officer ("CRO"). In accordance with this policy the Bank:

- nominated Mr Sundeep Bhandari as Board Climate Change "Champion" with specific responsibility for oversight of the implementation of this policy;
- established a working group chaired by a member of EXCO, which is responsible for developing policy on reducing the impact of the Bank's business activities on Climate Change for consideration and approval by EXCO and the Board;
- during the course of 2022 the Bank will develop a system of recording business levels associated with activities potentially giving rise to Climate Change:
  - trade finance transaction numbers and values related to oil and gas, coal, other extractive industries and/or freight; or
  - the proportion of the Bank's earnings and profits earned from such transactions.

STRATEGIC REPORT

CORPORATE GOVERNANCE

SHAREHOLDERS

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

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

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

GOVERNANCE

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

These mandates provide that the 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, Deputy Chief Executive and for the formation of certain committees to oversee the day-to-day running of the Bank. Schedules of Reserved Matters specify matters to be decided by the Board or reserved for approval and by the shareholders.

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

BOARD ARRANGEMENTS

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

During 2021, the following individuals served on the Board:

BOARD MEMBER	SUB-COMMITTEE MEMBER	STATUS
Mr MICHAEL STEVENSON *Chairman*	AC/NRC	I-NED
Mr MOHAMED SHOKRI *Vice-Chairman*	AC/NRC	NED
Mr AHMED ABURKHIS[1]	AC/NRC	NED
Mr JEHANGIR JAWANMARDI	AC/RCC	I-NED
Dr KHALED KAGIGI[2]	RCC/BCC	NED
Mr SUNDEEP BHANDARI	AC/RCC	I-NED
Mr NIGEL BOOTHROYD	RCC/NRC	I-NED
Mr LAZHAR LATRECHE	AC/BCC	NED
Mr MOHAMED ZINE	RCC/BCC	NED
Mr EDWARD NORTON[3]		ED
Mr FAESAL OTHMAN[4]	AC/RCC/BCC	NED
Mr PAUL JENNINGS[5]	AC/RCC	I-NED
Mr AIMAN LASWAD[6]	RCC/BCC	NED

Note 1: Mr Ahmed Aburkhis resigned from the Board on 10th May 2021

Note 2: Dr Khaled Kagigi resigned from the Board on 10th May 2021

Note 3: Mr Edward Norton was appointed to the Board on 5th February 2021

Note 4: Mr Faisal Othman was appointed to the Board on 5th February 2021

Note 5: Mr Paul Jennings was appointed to the Board on 13th July 2021 and resigned on 19th November 2021 to become Deputy CEO

Note 6: Mr Aiman Laswad was appointed to the Board on 10th September 2021

At the 31st of December 2021, the Board had four independent non-executive directors, including the Chair of the Board, Chair of the Audit Committee, Chair of the Risk and Conduct Committee and Chair of the Nominations and Remuneration Committee. During 2021 certain members of the Executive Committee attended Board meetings.

The Board met formally on eight occasions during 2021.

BOARD EVALUATION

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

During 2021, the Chairman commissioned an independent third party to undertake a Board Effectiveness Review. There were no material deficiencies identified although the Board has taken the opportunity to put in place initiatives to improve its effectiveness in certain areas and to move closer to best-in-class benchmarks. This work has commenced and will develop throughout 2022.

SECTION 172 STATEMENT

This statement sets out how the Directors have approached and met their responsibilities under section 172 Companies Act 2006, and in particular how the Directors have satisfied themselves that they have acted in a way which is most likely to promote the success of the Bank for the benefit of its members as a whole whilst also having regard to stakeholders' interests.

As a Board, we have always taken wider stakeholders' needs into account while making our decisions. We understand the need to consider the likely consequences of any decision for the long term and uphold our reputation for high standards of business conduct and robust governance, overseen by our Risk and Conduct Committee.

We ensure the requirements of section 172 of the Companies Act 2006 are met and our stakeholders' interests considered through a combination of (amongst other things):

SHAREHOLDERS

Responsible behaviour towards our shareholders and treating them fairly and equally to ensure they benefit from the success of our business strategy. The Board recognises that the Bank's strategic objective of sustainable profitable growth can only be achieved if it delivers on all stakeholders' expectations. All shareholders have representation on the Board via a nominated director or directors, and in 2021 the Board and Executive hosted LFB Chairman, Mohammed Addarrat, during his visit to the UK.

EMPLOYEES

During 2021 we have made considerable progress to deliver on the People Strategy, approved by the Board, with the aim of building a collaborative culture to enhance employees' engagement. We conducted regular employee surveys throughout the year using an online engagement tool, with the output calling for a focus on communication, collaboration and training, which have resulted in a measurable action plan calibrated to key business drivers. Workshops on Diversity and Inclusion, Purpose Statement, Risk Culture and Values and Behaviours have also taken place.

At the Board level, we continue to invite members of executive management to present and discuss their business lines at meetings of the Board and its sub-committees.

SUPPLIERS

We monitor payments to our suppliers (and comply with the reporting on payment practices regulations) and ensure a transparent tender process to all bidders. Detailed due diligence is applied on critical suppliers to monitor their activities and supply chain (to ensure compliance with the modern slavery rules, for example).

CUSTOMERS

Understanding our Clients and Customers is the cornerstone of our business; for half a century, BACB has served its core markets across Africa, the Middle-East and Asia, enabling our clients to prosper. At BACB we are proud to have a team of professionals our clients can trust, who are experts in their field and who care about our customers and about BACB. During 2021 we have specifically focused on addressing the needs of our clients and improving our service offering. Our Board receives regular updates on both satisfaction and complaints data.

COMMUNITY AND THE ENVIRONMENT

As part of its commitment to sustainability and the environment, BACB endeavours to follow environmental best practice, and has policies, procedures and targets in place to achieve this objective. Our policy of reduce, reuse and recycle is implemented across our operations, and the Bank has a Sustainability Working Group whose work has led to the implementation of numerous environmental improvements.

During 2021 BACB ran 5 separate Employee Volunteering events at charities in and around London. These one-day events provide our colleagues the opportunity to get involved in a wide range of charitable projects, to give back to the community and support worthy causes closest to them. The Bank also supports employees' individual fundraising through the Bank's '£ for £' scheme, which matches fund raising up to £500 per employee per year and facilitates a 'Give As Your Earn' scheme.

REGULATORS, GOVERNMENTS, AND WIDER INDUSTRY

BACB is authorised by the Prudential Regulation Authority and is regulated by the Financial Conduct Authority and the Prudential Regulation Authority. The Bank regularly corresponds with its regulators as part of its commitment to maintaining an effective, risk-based regulatory compliance framework. This is in full alignment with the requirements of a UK-regulated institution operating within its target markets, products and service streams.

ADDITIONAL CONSIDERATIONS

Standing agenda items and papers are presented at each Board meeting, for example the Chief Executive Officer presents an update on people matters, business strategy and shareholder matters at each meeting.

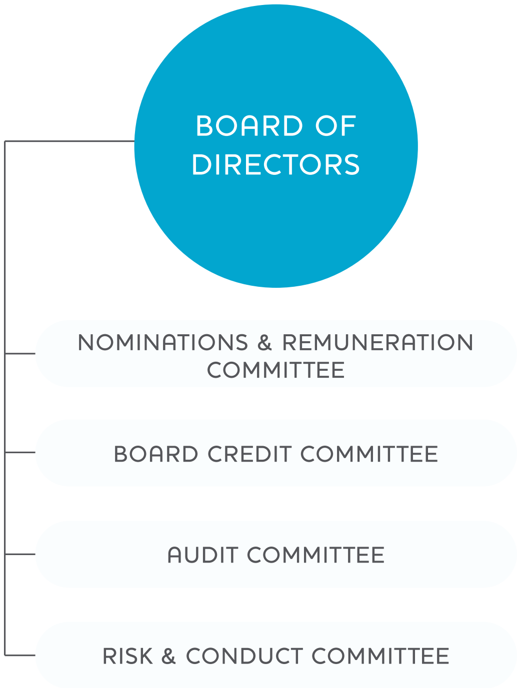
Each year we undertake a detailed strategy review, which considers the purpose and values of the Bank along with the future strategy of the business. This is reflected in our budget for the following year along with a medium term (three-year) operating plan.

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 several Sub-Committees to enhance and streamline its decision making, as outlined below. All Sub-Committees, with the exception of the Board Credit Committee, are Chaired by an Independent Non-Executive Director.



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. The NRC meets formally six times a year with ad hoc meetings held as and when required.

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 twelve times during 2021.

AUDIT COMMITTEE ("AC")

The Committee considers the Bank's financial reporting, the nature and scope of audit reviews, and the effectiveness of the internal systems and controls. The AC met six times during 2021.

RISK & CONDUCT COMMITTEE ("RCC")

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

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

The RCC met nine times during 2021.

EXECUTIVE GOVERNANCE

The Executive Committee ("ExCo") derives its mandate and operates under delegated authority from the Board. The Board reviews and approves the Terms of Reference for ExCo, on an annual basis. Led by the Chief Executive, 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;
- Agreement of the Bank's Purpose Statement;
- Managing the Bank's interface to its principal stakeholders including the Board, regulators, customers and auditor.

The Executive Committee members are:

- Chief Executive Officer (CEO)
- Deputy Chief Executive Officer (DCEO)
- Chief Financial Officer (CFO)
- Chief Risk Officer (CRO)
- Chief Operations and Controls Officer (COCO)
- Chief People Officer (CPO)
- General Counsel and Chief Compliance Officer (GCO, CCO)
- Chief Information Officer (CIO)
- Treasurer

ExCo has established several sub-committees to cover risk management, governance, regulatory compliance, anti-financial crime, operational resilience, and information security. The ExCO Sub-Committee structure is summarised below:

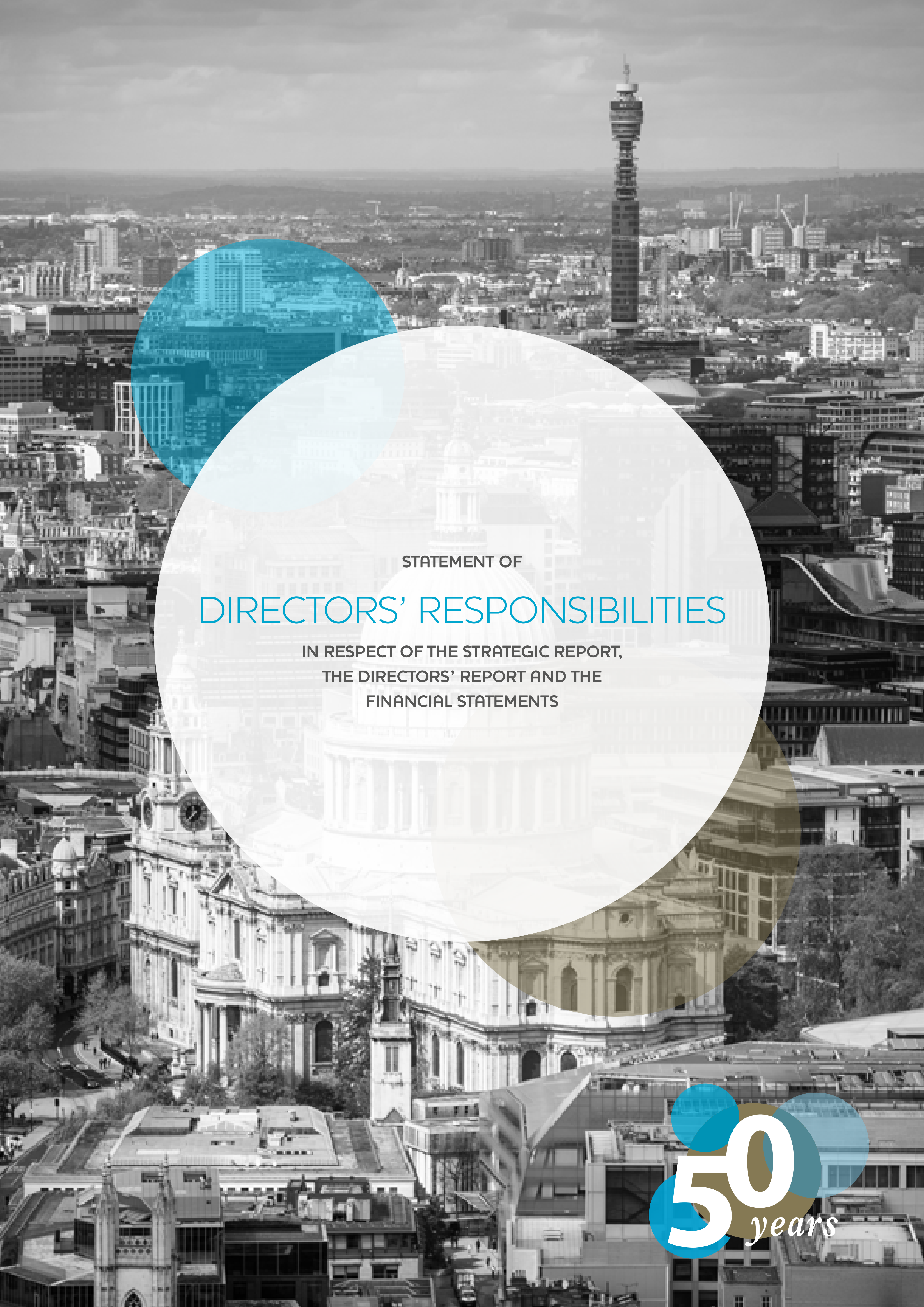
In January 2021 the Governance and Control Committee was renamed the Non-Financial Risk Committee to address the extended coverage of the committee to all areas of non-financial risk. During 2021 the Credit Risk Committee was divided into the Credit Risk Oversight Committee and the Executive Credit Approval Committee.

The Strategic Report was approved by the Board of Directors on 31 March 2022.

EDDIE NORTON

On behalf of the Board

31 March 2022



STATEMENT OF

DIRECTORS' RESPONSIBILITIES

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

50 years

STATEMENT OF

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

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and applicable law.

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

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

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

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

DIRECTORS' REPORT

FOR THE YEAR ENDED
31 DECEMBER 2021

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2021

The Directors present their annual report and the audited financial statements for the year ended 31 December 2021. These financial statements have been prepared in accordance with the Companies Act 2006 and applicable accounting standards.

The Directors have recommended a final payment for 2021 of £10m (2020: nil), which is subject to approval at the Annual General Meeting in May 2022.

The Bank did not make any political donations during the year (2020: nil).

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Bank's objectives and policies, with regard to financial and other risks, are set out in the Strategic Report Principal Risks and Uncertainties. Note 4 to the financial statements discloses the Bank's exposure to financial risks.

RESULTS

The profit after taxation for the year amounted to £13,035,000 (2020: £14,428,000).

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 and for at least 12 months from the date of the approval of the financial statements. The 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 1.25, directors' remuneration is disclosed in Note 14 on page 2.48. 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. Further details can be found in the s172 statement.

AUDITOR

In accordance with auditor rotation requirements KPMG ceased to act as auditors of the Company on 18th May 2021. On 18th May 2021 Mazars LLP was appointed as the auditor of the Bank at its Annual General Meeting to hold office until the conclusion of the next General Meeting at which Financial Statements are laid before the company.

DIRECTORS' REPRESENTATION

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

EDDIE NORTON

By order of the Board

31 March 2022

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

OPINION

We have audited the financial statements of British Arab Commercial Bank Plc (the 'Bank') for the year ended 31 December 2021 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flow, and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in their preparation is applicable law and UK-adopted international accounting standards.

In our opinion, the financial statements:

- give a true and fair view of the state of the Bank's affairs as at 31 December 2021 and the Bank's profit for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; 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 under those standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We are independent of the Bank in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

CONCLUSIONS RELATING TO GOING CONCERN

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

We identified going concern of the Bank as a key audit matter. Description of the risk and our audit procedures to evaluate the directors' assessment of the Bank's ability to continue to adopt the going concern basis of accounting is set out in the "Key audit matters" section below.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Banks's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, 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. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We summarise below the key audit matters in forming our audit opinion above, together with an overview of the principal audit procedures performed to address each matter and key observations arising from those procedures.

These matters, together with our findings, were communicated to those charged with governance through our Audit Completion Report.

KEY AUDIT MATTER	HOW OUR SCOPE ADDRESSED THIS MATTER
Going concern **Refer to significant accounting policy (Note 2 (a)) in pages 2.6-2.8 and note 32 on page 2.68.** The financial statements explain how the directors have formed a judgement that it is appropriate to adopt the going concern basis of preparation for the Bank. The judgement is based on an evaluation of the inherent risks to the Bank's business model, and how those risks might affect the Bank's financial resources or ability to continue operations over a period of at least twelve months from the date of approval of the financial statements. There are four areas of risks:	Our overall audit procedures to evaluate the directors' assessment of the Bank's ability to continue to adopt the going concern basis of accounting included but were not limited to: • Undertaking an initial assessment at the planning stage of the audit to identify events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern; • Obtaining an understanding of the relevant controls relating to the directors' going concern assessment; • Evaluating the directors' method to assess the Bank's ability to continue as a going concern including the specific risks areas identified; and • Evaluating the key assumptions used and judgements applied by the directors including consideration of impact of Covid-19 and events after balance sheet date in forming their conclusions on going concern. In relation to specific risks identified, we considered whether each of the risks individually, or in combination, may cast significant doubt about the Bank's ability to continue as a going concern. Our audit procedures included the following:
1. Suspended penalty: As explained in Note 32 and Note 2(a), In 2019 the Bank reached a settlement agreement with US regulatory authorities	**1. Suspended penalty:** • Evaluating the directors' assessment of the Bank's compliance commitment as set out in the settlement agreement, • With the assistance of in-house financial crime specialist, assessing

for a payment of suspended penalty and to maintain sanctions compliance commitment for five years. There is a risk that if there were to be a compliance commitment breach, the US regulatory authorities may conduct a new investigation or impose the suspended penalty.	the robustness of the bank's sanctions programme and adherence to the settlement agreement including the review of annual sanctions compliance programme attested by external advisors; • Enquiring with the Bank's external counsel on the existence of any actual pending or threatened matters against the Bank raising any material risk; • Inspecting regulatory correspondence and board meeting minutes; • Meeting with the Prudential Regulation Authority (PRA) to discuss its views and insights on the settlement agreement and • Evaluating the adequacy and appropriateness of the director's disclosure in the financial statements.
2. Regulatory Capital position: Sufficiency of the Bank's regulatory capital in the event of unprecedented increase in impairment charges or revenue reductions and continued regulatory focus as discussed above.	**2. Regulatory capital position:** • Reviewing and challenging the directors' assessment of the Bank's projections of its capital requirements, including the sensitivities to plausible stressed scenarios of increased credit risk charges or decreased revenues and evaluating the achievability of planned actions to improve position; • Meeting with the PRA to discuss its views and insights on the Bank's capital position and review correspondences with regulators; and Evaluating the adequacy and appropriateness of the director's disclosure in the financial statements.
3. Correspondent bank relationships: Risk of loss of future trade and continue operating under the current business model should the key correspondent banks decide to cease transacting with the Bank.	**3. Correspondent bank relationships:** • Evaluating the directors' analysis of their relationships with correspondent banks, including the assessment of the potential actions that can be taken to mitigate the risks should the key correspondent banks decide to terminate their relationship; • Meeting with the PRA to discuss its views on the matter and inspect any correspondences with regulators; and • Evaluating the adequacy and appropriateness of the director's disclosure in the financial statements.
4. Funding concentration: Availability of funding, should the need arise, as most of the Bank's funding is concentrated and dependent on its principal shareholder Libyan Foreign Bank, and its shareholder the Central Bank of Libya.	**4. Funding concentration:** • Performing regular research on political and economic developments in Libya; • Reviewing and challenging the directors' assessment of the Bank's projections of its liquidity position and requirements, including the sensitivities to plausible stressed scenarios and evaluating the achievability of planned actions to improve position; • Meeting with the PRA to discuss its views and insights on the

There is significant judgement used by the directors to conclude that it is appropriate to adopt the going concern basis of preparation of financial statements. The impact of each of the risk individually, or in combination, may impact the Bank's ability to continue as a going concern therefore requires significant focus in the audit.

matter and reviewing correspondences with regulators; and

- Evaluating the adequacy and appropriateness of the director's disclosure in the financial statements.

Our observations

Our conclusions are set out within 'Conclusions relating to going concern' section above.

Allowance for credit losses - Expected Credit Loss ('ECL') £17.8 million (statement of financial position) and charge/(reversal) in statement of comprehensive income (£11.3) million.

Refer to significant accounting policy (Note 3 (k)) and Note 13 of the financial statements in pages 2.14-2.18 and 2.45-2.47.

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

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

A model is used to calculate the level of ECL and the model is

Our audit procedures included, but were not limited to:

- Testing the design, implementation and operating effectiveness of key controls over the monitoring and reporting of credit exposures, and the completeness of provisioning watchlists;
- Reviewing the ECL methodology applied by the Bank and assessing its compliance with the requirements of IFRS 9;
- Independent credit review testing and challenging management on the application of Significant increase in credit risk ('SICR') for a sample of counterparties to identify indicators of credit deterioration to assess the appropriateness of the staging and associated ECL estimate;
- With the assistance of our in-house credit specialist assessing and challenging the assumptions used by the Bank in its impairment models 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;
- We engaged our in-house economics specialists to assist us in assessing the reasonableness of economic scenarios and the probability weightings applied in the ECL model;
- Reperforming calculations and agreeing data inputs to third party documentation where applicable, including collateral valuation reports and PDs;
- Assessed the methodology of the stage 3 ECL for compliance with the requirements of IFRS 9;
- Independently recalculated the ECL for all stage 3 loans including consideration of the completeness and accuracy of the key inputs, assumptions and the incorporation of forward-looking information; and

reliant on number of subjective assumptions and sensitive to changes and movements in these assumptions.

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

- The selection and application of the probability of defaults (PD);
- The selection and application of the loss given defaults (LGD);
- The probability weighted scenarios determined using forward looking information;
- The selection and application of post model adjustments (overlays); and
- Staging of loans and the identification of significant increase in credit risk

For credit exposures classified as stage 3, management typically performs an impairment assessment at an individual loan level, based on estimated future cash flows discounted to present value at the rate inherent in the loan. This is a highly manual and judgemental process, with several assumptions.

We have identified this area as significant risk and a key audit matter in our audit as it involves application of significant judgement by management.

- Evaluating whether the disclosures appropriately reflect and address the uncertainty which exists when determining the expected credit losses, including sensitivity analysis and key judgements.

Our observations

We found that the allowance for credit losses recognised as at 31 December 2021 is reasonable and the approach taken in respect of ECL to be consistent with the requirements of IFRS 9.

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

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall materiality	£1,010,000
How we determined it	0.5% net assets
Rationale for benchmark applied	We believe that the benchmark of net assets as a key focus of users of the financial statements, who, in the current environment of the Bank, are more focused on balance sheet strength as determined by regulatory capital for which net assets is a good proxy. We have therefore used net assets given its importance to the Bank's solvency and regulatory capital resources.
Performance materiality	Performance materiality is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the financial statements exceeds materiality for the financial statements as a whole. We set performance materiality at £404,000, which represents 40% of overall materiality.
Reporting threshold	We agreed with the directors that we would report to them misstatements identified during our audit above £30,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

As part of designing our audit, we assessed the risk of material misstatement in the financial statements, whether due to fraud or error, and then designed and performed audit procedures responsive to those risks. In particular, we looked at where the directors made subjective judgements, such as assumptions on significant accounting estimates.

We tailored the scope of our audit to ensure that we performed sufficient work to be able to give an opinion on the financial statements as a whole. We used the outputs of our risk assessment, our understanding of the Bank, their environment, controls, and critical business processes, to consider qualitative factors to ensure that we obtained sufficient coverage across all financial statement line items.

OTHER INFORMATION

The other information comprises the information included in the Annual Report and Financial Statements, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

OPINIONS ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

In light of the knowledge and understanding of the Bank and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us 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 Bank's 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.

RESPONSIBILITIES OF DIRECTORS

As explained more fully in the statement of directors' responsibilities in respect of the strategic report, the directors' report and the financial statements set out on page 1.30 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for 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 the directors either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud.

Based on our understanding of the Bank and their industry, we considered that non-compliance with the following laws and regulations might have a material effect on the financial statements. These include anti-bribery and corruption laws, breaches of regulatory requirements of financial crime, sanctions requirements by U.S. Department of the Treasury's Office of Foreign Assets Control (OFAC), regulatory and supervisory requirements of the Prudential Regulation Authority ('PRA') and of the Financial Conduct Authority ('FCA') might have a material effect on the financial statements.

In identifying and assessing risks of material misstatement in respect to irregularities including non-compliance with laws and regulations, our procedures included but were not limited to:

- Gaining an understanding of the legal and regulatory framework applicable to the Bank, the industry in which it operates and considering the risk of acts by the Bank which were contrary to the applicable laws and regulations, including fraud;
- Inquiring of management and, where appropriate, those charged with governance, as to whether the Bank is in compliance with laws and regulations, and discussing their policies and procedures regarding compliance with laws and regulations;
- Inspecting correspondence with the US regulatory authorities, PRA and FCA;
- Reviewing minutes of directors' meetings in the year; and
- Discussing amongst the engagement team the laws and regulations listed above, and remaining alert to any indications of non-compliance.

We also considered those laws and regulations that have a direct effect on the preparation of the financial statements, such as tax legislation, pension legislation, the Companies Act 2006.

In addition, we evaluated the directors' and management's incentives and opportunities for fraudulent manipulation of the financial statements, including the risk of management override of controls, and determined that the principal risks related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates, in particular in relation to allowance for credit losses, the Bank's ability to continue as a going concern, and the Bank's compliance with the OFAC settlement agreement.

Our audit procedures in relation to fraud included but were not limited to:

- Making enquiries of the directors and management on whether they had knowledge of any actual, suspected or alleged fraud;
- Gaining an understanding of the internal controls established to mitigate risks related to fraud;
- Performing control testing over the Bank's transaction monitoring processes;
- Discussing amongst the engagement team the risks of fraud; and
- Addressing the risks of fraud through management override of controls by performing journal entry testing.

The primary responsibility for the prevention and detection of irregularities, including fraud, rests with both those charged with governance and management. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

The risks of material misstatement that had the greatest effect on our audit are discussed in the "Key audit matters" section of this report.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

OTHER MATTERS WHICH WE ARE REQUIRED TO ADDRESS

Following the recommendation of the audit committee, we were appointed by the Board of Directors on 18 May 2021 to audit the financial statements for the year ended 31 December 2021 and subsequent financial periods. The period of total uninterrupted engagement is one year.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Bank and we remain independent of the Bank in conducting our audit.

Our audit opinion is consistent with our additional report to the audit committee.

USE OF THE AUDIT REPORT

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.

RUDI LANG

(Senior Statutory Auditor) for and on behalf of Mazars LLP
Chartered Accountants and Statutory Auditor
Tower Bridge House
St. Katharine's Way
London, E1W 1DD
31st March 2022

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 2021

	Note	2021	*2020*
Interest and similar income	8	33,156	*47,746*
Less: Interest expense and similar charges	8	(12,248)	*(24,196)*
Net interest income		**20,908**	***23,550***
Fee and commission income	9	17,502	*16,971*
Less: Fee and commission expense	9	(1,599)	*(1,269)*
Net fee and commission income		**15,903**	***15,702***
Net trading income	10	3,393	*2,797*
Other operating income	11	1,519	*2,742*
Operating income before allowance for credit losses		**41,723**	***44,791***
Allowance for credit losses	13	(1,245)	*(6,902)*
Reversal of allowances booked in previous periods	13	12,441	*13,754*
Recoveries of amounts written off in previous periods	13	547	*1,293*
Net allowances for credit losses		**11,743**	***8,145***
Net operating income		**53,466**	***52,936***
Administrative expenses	14	(38,763)	*(37,014)*
Profit before income tax		**14,703**	***15,922***
Income tax charge	15	(1,668)	*(1,494)*
Profit for the year		**13,035**	***14,428***
Other comprehensive income/(expense):			
Items that will not be reclassified to profit or loss			
Remeasurement of defined benefit liability	26	3,231	*298*
Equity investments designated at fair value through other comprehensive income	19	*(138)*	*(48)*
Related Tax	15	(588)	*(34)*
		2,505	*216*
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		*(3,924)*	*2,575*
Credit gain / (loss) on debt securities designated at fair value through other comprehensive income transferred to profit and loss		*(218)*	*251*
Fair value gains attributable to debt securities designated at fair value through other comprehensive income transferred to income upon derecognition		*1,130*	*2,117*
Related Tax	15	551	*(274)*
		(2,461)	*4,669*
Other comprehensive income for the year, net of tax		44	***4,885***
Total comprehensive income for the year		**13,079**	***19,313***

No profit for the financial year and the prior year was derived from discontinued operations as defined by IFRS 5. The Notes on pages 2.5-2.70 form part of these financial statements.

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2021

	Note	**2021**	*2020*
Assets			
Cash, notes and coins		218	*219*
Derivatives	16	616	*1,081*
Reverse Repurchase agreements		215,824	*179,067*
Loans and advances to banks	17	588,843	*437,496*
Loans and advances to customers	18	484,536	*582,529*
Financial investments	19	1,456,288	*1,306,280*
Property, plant and equipment	20	19,719	*12,120*
Intangible assets	20	7,582	*8,980*
Prepayments, accrued income and other debtors	23	3,437	*14,370*
Net pension asset	26	5,480	*756*
Total assets		**2,782,543**	***2,542,898***
Liabilities			
Deposits from banks	24	1,876,756	*1,691,853*
Other deposits	24	604,750	*549,829*
Derivatives	16	1,268	*5,582*
Other liabilities, accruals and deferred income	25	17,530	*25,582*
Corporation tax payable		900	*794*
Deferred tax liabilities	22	539	*15*
Subordinated liabilities	27	70,514	*72,036*
Total liabilities		**2,572,257**	***2,345,691***
Called up share capital	28	104,357	*104,357*
Capital redemption reserve	29	4,104	*4,104*
Other reserves	29	101,825	*88,746*
Capital and reserves attributable to the Bank's equity holders	29	**210,286**	***197,207***
Total liabilities and equity		**2,782,543**	***2,542,898***

The Notes on pages 2.5-2.70 form part of these financial statements.

Signed:

Mr M Stevenson
Chairman

Mr M Shokri
Vice Chairman

Mr E Norton
CEO

31st March 2022

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2021

	Share capital	Capital redemption reserve	Other reserves			Total equity
			Retained earnings	Fair Value reserve	Total	
Balance at 1 Janaury 2020	**104,357**	**4,104**	**69,069**	**364**	**69,433**	**177,894**
Profit for the year	-	-	14,428	-	14,428	14,428
Other comprehensive income	-	-	216	4,669	4,885	4,885
Total comprehensive income for the period	-	-	14,644	4,669	19,313	19,313
Balance at 31 December 2020	**104,357**	**4,104**	**83,713**	**5,033**	**88,746**	**197,207**
Balance at 1 Janaury 2021	**104,357**	**4,104**	**83,713**	**5,033**	**88,746**	**197,207**
Profit for the year	-	-	13,035	-	13,035	13,035
Other comprehensive income	-	-	2,505	(2,461)	44	44
Total comprehensive income for the period	-	-	15,540	(2,461)	13,079	13,079
Balance at 31 December 2021	**104,357**	**4,104**	**99,253**	**2,572**	**101,825**	**210,286**

The Notes on pages 2.5-2.70 form part of these financial statements.

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

STATEMENT OF CASH FLOW

FOR THE YEAR ENDED 31 DECEMBER 2021

	Note	2021	2020
Cash flows from operating activities			
Profit before taxation		14,703	*15,922*
Adjustments for:			
Allowance for credit losses	13	1,245	*6,902*
Recoveries of allowance for credit losses	13	(12,441)	*(13,754)*
Depreciation and amortisation	14,20	2,544	*2,444*
Loss on sale or impairment of property, plant and equipment	14	9	*81*
Net interest income and other non cash items included in net profit		(3)	*(151)*
Non-cash items included in net profit		**(8,646)**	***(4,478)***
Reverse repuchase agreements		(36,757)	*88,235*
Loans, advances other than cash or cash equivalents		(13,840)	*145,814*
Debt securities other than cash equivalents		7,009	*(329,589)*
Derivatives		465	*(330)*
Other debtors and prepayments		1,497	*6,757*
Change in operating assets		**(41,626)**	***(89,113)***
Customer accounts and deposits by banks		238,429	*(254,610)*
Other liabilities		(12,192)	*10,181*
Change in operating liabilties		**226,237**	***(244,429)***
Income tax (paid)/received		(1,074)	*214*
Net cash gained from/(used in) operating activities		**189,594**	***(321,884)***
Cash flows from investing activities			
Purchase of property, plant and equipment	20	(274)	*(1,096)*
Purchase of intangible assets	20	(540)	*(356)*
Net cash used in investing activities		**(814)**	***(1,452)***
Cash flows from financing activities			
Lease payments for Right of Use assets		**(191)**	***(156)***
Net cash used in financing activities		**(191)**	***(156)***
Net increase/(decrease) in cash and cash equivalents		**188,589**	***(323,492)***
Cash and cash equivalents at the beginning of the year		586,617	*897,237*
Effect of exchange rate change on cash and cash equivalents		(8,486)	*12,872*
Cash and cash equivalents at the end of the year		**766,720**	***586,617***
Cash and cash equivalents comprise:			
Cash, notes and coin		218	*219*
Loans and advances to banks of original maturity three months or less		376,162	*350,549*
Certificates of deposit and other debt securities of three months original maturity or less		390,340	*235,849*
Cash and cash equivalents		**766,720**	***586,617***

The Notes on pages 2.5-2.70 form part of these financial statements.

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

1. General information

British Arab Commercial Bank plc ("the Bank" or "BACB") is a public company, limited by shares. The Bank was incorporated in England and Wales on 23 March 1972 as UBAF Limited. The Bank's name was changed to UBAF Bank Limited on 4 January 1977 and to British Arab Commercial Bank Limited on 4 March 1996. On 2 June 2009, the Bank was re-registered as a public company, and its name changed to the current style. The Bank's registered office (and principal place of business) is situated in England and is currently at 8-10 Mansion House Place, London EC4N 8BJ.

The Bank carries on the business of international banking. The Bank is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

The financial statements were authorised for issue by the Board of Directors on 31st March 2022.

2. Basis of preparation

a) Going Concern

These financial statements have been prepared on a going concern basis as the Directors are satisfied that the Bank has the resources to continue in business for the foreseeable future, being a period of at least 12 months from the approval of the financial statements.

In making this assessment, the Directors have considered a wide range of information relating to present and future conditions. Information relevant to this assessment regarding the Bank's principal activities, strategic direction and challenges and uncertainties are described in the Strategic Report. 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 and other key risks around our core markets, operational risks, and operational resiliency.

Although the political situation in Libya remains unsettled following the recent political developments including the postponement of the election originally scheduled for December 2021, this does not necessarily increase uncertainty for BACB. The Bank holds historical relationships with Libyan markets. Oil production in Libya typically remains at levels in excess of 1 million barrels per day, which continue to bring some stability to the country's levels of FX reserves which have increased slightly from $67 billion in 2020 to $71 billion in 2021. It should be noted that this is still sufficient to fund an estimated 4 years of import requirements.

Current funding levels from Libya remain both stable and strong, with a staggered maturity profile. BACB remains strategically important to Libya in its interaction with the global economy and as a means of providing access to the international financial markets, including for its oil and gas revenues. Furthermore, if, as happened in 2011, the Libyan political situation results in the imposition of international sanctions, the funding would become permanent for their duration. Details of the funding provided by Libyan Foreign Bank ('LFB') and Central Bank of Libya ('CBL') are set out in Note 33. Management's plan to launch retail deposits to the UK residents in Q2 2022 will reduce the Bank's funding and liquidity concentration risk.

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

The Directors have also considered LFB's intent to continue to support the Bank. LBF has a very strong relationship with the Bank and is supportive of its Board and its executive management team. In recent years evidence of ongoing support from LFB has included, ongoing renewal of deposits in addition to the subordinated loan maturity extension to 2027. In January 2021 LFB restructured the collateral deposits held with BACB enabling the Bank to improve structural liquidity ratios marginally. These collateral deposits (of $250m after the January 2021 restructuring) guarantee the commercial obligations of several Libyan obligors, and reflect the strategic importance of BACB to the country of Libya. The Directors remain confident of the ongoing support of LFB, including meeting the Bank's ongoing liquidity needs for at least the next twelve months. The Directors have considered (i) LFB's policy towards all of its participations, and (ii) the Bank's continuing positive liquidity noting that during the course of the year LFB continued its funding to BACB and, in light of the Bank's funding risk, are confident of the Bank's continuing positive liquidity.

The Directors have considered the need for correspondent 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 correspondent 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 correspondent 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 32. 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. BACB is at the end of year three of five of the OFAC settlement agreement and the risk of enforcement action is significantly lowered as there have been extensive enhancements to, and further embedding of, the sanctions compliance programme.

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 considered legal advice believe it is a low risk that the suspended penalty would be re-imposed as they are confident that the Bank has put in place appropriate processes and controls to meet its obligations under the settlement agreement, such that although the matter could be subject to a degree of subjectivity it would be minimal 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.

During 2021 the Bank has refreshed its strategy and it is expected that the new strategic direction will set BACB on a trajectory of sustainable growth and to create an efficient and effective platform for the future.

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

Although there are a range of operational risks that the Bank faces, in each case the risks have been identified and controls / mitigants are in place and constantly being reassessed and enhanced, under the oversight of both the Non-Financial Risk Committee and the Board Risk and Conduct Committee.

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

b) Compliance with International Financial Reporting Standards

The Bank has prepared its financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. These financial statements are also prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and its predecessor body or adopted as interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and its predecessor body.

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

The preparation of financial statements in conformity with international accounting standards in conformity with the requirements of the Companies Act 2006 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 international accounting standards in conformity with the requirements of the Companies Act 2006 that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in Note 5.

There were no new accounting standards adopted during the year. As noted in Note 2d during 2021 the Bank implemented the risk-free rate reform.

c) Developments in Accounting Standards

Interest rate benchmark reform

During the year the Bank's LIBOR Transition Working Group, comprising of key stakeholders from across the Bank and working in partnership with the wider industry and external law firms and specialist advisers, managed the implementation of the Bank's risk-free rate reform (referred to as IBOR reform). The Real Estate business entered its first SONIA structured exposure in June 2021 and the loan portfolio maturing post 2021 have been amended to refer to the new risk-free rate. There were no accounting implications of this transition as the repapering of the exposures did not result in debt modification and the transactions were deemed to be economically identical. As from October 2021, pricing in respect of new or roll-over trade finance or treasury loans and deposits is no longer referencing LIBOR, as the change is entered into on roll-over or origination again there are no accounting implications. As expected, the Bank did not have significant changes to its market and credit risk profile as a result of this transition.

Legacy contract positions are actively being managed down in line with regulatory transition milestones. The Bank's exposure to interest rate benchmarks subject to reform as at 31 December 2021 is as follows:

31 December 2021	Sterling	Dollars	Euro
Assets			
Loans and advances to customers	2,954	40,285	1,944
Financial investments	10,002	171,116	-
Liabilities			
Deposits	-	291,229	12,534
Derivatives			
Derivatives (at contract notional value)	-	92,336	-

There are no 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.

a) Interest income and expense

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

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. The effective interest rate is applied to the gross carrying amount of asset to calculate interest income for performing assets and applied to amortised cost to calculate interest income for non-performing assets.

The calculation of the effective interest rate includes transaction costs and fees (for example, loan origination 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); and

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

- income earned on services provided over time, where the income is recognised on a straight-line basis over the life of the agreement.

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 within net trading income or, for non-monetary FVOCI assets, in other comprehensive income within equity investments designated at FVOCI. Non-monetary assets and liabilities (shareholders' equity, property plant and equipment, and intangible assets) that are measured at historical cost are translated into the functional currency using the rate of exchange at the transaction date, and those measured at fair value are translated at the exchange rate at balance sheet date.

d) Net trading income

Net trading income comprises gains, less losses related to financial assets and liabilities classified at fair value through profit and loss and includes all realised and unrealised fair value changes. Foreign exchange gains and losses on financial instruments measured at amortised cost as well as fair value through profit and loss are also included.

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

Derivatives are measured at fair value through profit and loss in the statement of financial position.

X-Valuation Adjustment ('XVA')

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

The Bank manages its derivative portfolios on the basis of its net exposure and thus has elected to measure these portfolios at fair value which represents the price that would be received to sell a net long or to transfer a net short position for a particular risk exposure in an orderly transaction between market participants at the measurement date under current market conditions.

g) Financial assets – classification and measurement

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

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

Purchases and sales of financial assets which are at FVTPL or fair value through other comprehensive income are recognised on trade date, being the date on which an irrevocable commitment to enter into a contract is executed. Financial assets are initially recognised at fair value plus directly attributable transaction costs for all financial assets not carried at fair value through profit or loss. Assets measured at amortised cost are recognised on the date on which they are originated.

Subsequent measurement and gains and losses

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

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

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 structure finance portfolio which include several 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

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

Derivatives

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

In the normal course of business, the fair value of a derivative on initial recognition is considered to be the transaction price (i.e. the fair value of the consideration given or received). However, in certain circumstances the fair value of an instrument will be evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets, including interest rate yield curves, option volatilities and currency rates. When such evidence exists, the Bank recognises a trading profit or loss on inception of the derivative.

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. The Bank did not have any material offsetting financial instruments in 2021 or 2020.

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 expected credit losses (ECL) on the following financial instruments that are not measured at FVTPL:

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

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

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

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

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

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

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

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

In normal course of business days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. In 2020, for exposures subject to moratoria due to the Covid-19 pandemic the Bank followed guidance issued by regulators and did not automatically classify these moratoria as stage 2 nor considered them forbearance measures. In view of the Bank's portfolio and size expert judgment was applied on each client that requested a payment holiday and the implications on the client's long term credit worthiness was assessed. If other indicators (excluding the deferral request) of significant increase in credit risk were present and / or there was evidence that the client was facing long-term financial difficulties over the life of the exposure the ECL on such exposure was measured on a lifetime basis. During 2021 following the removal of the Covid-19 restrictions the business-as-usual process for determining business days past due was re-established for all exposures.

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 for a consecutive period of 12 months.

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

Measurement of ECL

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

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

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

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

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

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

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

	2021			2020		
	Optimistic	BAU	Downturn	*Optimistic*	*BAU*	*Downturn*
Scenario probability weighting	10-20%	50-65%	15-40%	*10-20%*	*50-60%*	*20-40%*

Given the importance of the Libyan market for the Bank's business and due to the different political uncertainties facing the Libyan market the probability weightings have been considered separately, the BAU scenario is 50%, the downturn scenario is 40% and optimistic scenario 10% (2020: optimistic and downturn each 30%, BAU 40%). The weightings applied represent management's best estimate taking into account a range of factors and reflect the recent developments in Libya, giving scope for upside albeit still exposed to downside risk following the postponement of the Presential elections in December 2021.

During 2021, we adjusted the scenarios for a number of current economic impacts. These included: Covid-19, political and economic developments in North Africa, the Middle East and Turkey; and potential conflicts between the United States and its trade partners. Although the potential impact of the Russian-Ukrainian conflict was considered by management as part of the going concern assessment, the event was deemed as a 2022 event in terms of the IFRS 9 scenario weightings.

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. Note 13 shows sensitivity of the ECL provision to possible alternative economic scenarios and different assumptions.

Post model adjustments

The Covid-19 crisis has resulted in the unprecedented movement in economic and market drivers, changes in business behaviours and a dramatic increase in government support programmes for businesses and consumers. All these factors dramatically impact the performance of financial models including ECL models. This has required the use of compensating controls such as overlays and overrides on top of model compensating controls such as overlays and overrides on top of model outputs would ensure the ECL charge is true and fair. During 2020, management applied judgement to reflect the higher probability of default in respect of performing exposures and it was deemed appropriate to apply a higher sectorial probability of default as a management overlay since the circumstances relating to Covid-19 were difficult to predict. The Bank also applied additional haircuts to arrive at the estimated recovery amount of exposures which have property held as collateral.

During 2021 management continued to review the performance of the Bank's exposures and its ECL models and determined that substantially modelling uncertainty resulting from the Covid-19 pandemic had been captured in the Bank's ECL model. As a result, the overlay was removed. The property valuation stress test also demonstrated that the additional haircuts to applied to the value of property held as collateral were no longer required. However, the Bank retained an overlay to reflect the relatively higher risk sectors within Real Estate, where the Bank holds external valuations predating the start of the Covid-19 pandemic. At the reporting date, the asset quality of such exposures remains sound and there is no evidence of significant increase in the credit risk of these exposures.

The Bank's Credit Risk Oversight Committee oversees and reviews management's assessment regarding the origination, measurement, and release of the ECL overlay.

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:

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

- If the 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 restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

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

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

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

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

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

Presentation of allowance for ECL in the statement of financial position

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

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

Write-offs

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

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

Financial assets that are written off could still be subject to enforcement activities in line 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 accumulated 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	5 or 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 right of use asset under note 3o and depreciated using the straight-line method from the commencement date to the end of the lease term.

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.

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

o) Leases

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

As a lessee

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

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

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

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

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

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

The Bank presents right of use assets in property plant and equipment and lease liabilities in other liabilities, accruals and deferred income in the statement of financial position.
The Bank has elected not to recognise right-of-use and lease liabilities for short-term leases of equipment that have a lease term of 12 months or less. The Bank recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

As a lessor

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

p) Cash and cash equivalents

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

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 the statement of changes in equity as a deduction, net of tax, from the proceeds.

Dividends on ordinary shares

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

Foreign currencies

Share capital is measured in terms of historical cost in a foreign currency as translated into the functional currency using the rate of exchange at the date of the initial transaction.

4. Risk Management

a) Risk Management Objectives

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

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

b) Approach to Risk Management

The Bank has adopted a "three lines of defence" model of risk management and control, as summarised below:

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

c) Principal Risks

The Bank's principal risks and uncertainties as at the reporting date are referenced in the Strategic Report on pages 1.19 to 1.23 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 followed by the Bank during 2021.

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

A brief description of the financial disclosures related to these risks and the framework for managing them is set out below.

CREDIT AND COUNTRY RISKS

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 activities.

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

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

The Bank's appetite for credit and country risks is set in response to its business plans and overall risk appetite. The Chief Risk Officer and their 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 Oversight Committee (CROC) which reviews and makes recommendations via the Executive Credit Approval Committee (ECAC) to the Risk and Conduct Committee (RCC) at least annually on the Bank's credit and country risk appetite and policies, or approves proposals within delegated authority, having regard to the Bank's business plans and Credit and Country Risk standards as approved by the Risk and Conduct Committee from time to time. Significant credit decisions are escalated to the Board Credit Committee.

Risk Mitigation:
The Bank's strategic focus means that a significant portion of its credit and country risks are towards the higher risk 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 where appropriate. Other mitigants include distribution via sale of back-to-back commitments to financial institutions including banks or insurance companies of acceptable quality, or security;
- liquidity buffers are only used to purchase fixed and floating securities issued by of OECD governments and multilateral development bank which qualify as High-Quality Liquid Assets under the PRA's Liquidity Coverage Ratio regime; and
- other surplus liquidity is primarily placed with or invested in the bonds of highly rated financial institutions.

Whilst Covid-19 had limited direct impact on the Bank, in response to the uncertainty and economic disruption caused by the pandemic the Bank managed its risk appetite through the following actions:

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

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

	2021	*2020*
Cash, notes and coins	218	*219*
Financial investments: debt securities (Note 19)	1,450,003	*1,299,857*
Reverse repurchase agreements	215,824	*179,067*
Loans and advances to banks (Note 17)	588,843	*437,496*
Loans and advances to customers (Note 18)	484,536	*582,529*
Derivatives (Note 16)	616	*1,081*
Total on balance sheet	**2,740,040**	***2,500,249***
Financial guarantees (Note 30)	96,032	*120,387*
Other commitments (Note 30)	377,339	*272,596*
Less: off balance sheet exposures impaired by provision on balance sheet (Note 25)	(2,930)	*(4,479)*
Total off balance sheet	**470,441**	***388,504***
Total	**3,210,481**	***2,888,753***

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

	Percentage of exposure that is subject to collateral		
Type of credit exposure	**2021**	*2020*	**Principal types of collateral held**
On-balance sheet:			
Reverse repurchase agreements	**99.7%**	*100.0%*	Debt securities
Loans and advances to banks			
Professional market placements	**0.0%**	*0.0%*	
Term lending	**23.7%**	*6.4%*	Cash and guarantees
Bills discounted	**30.0%**	*23.1%*	Cash and guarantees
Overdrafts and other advances	**3.0%**	*0.0%*	Cash and guarantees
Loans and advances to customers			
Term Lending	**0.0%**	*0.0%*	
Real Estate	**100.0%**	*100.0%*	Residential/Commercial property
Overdrafts and other advances	**0.0%**	*0.0%*	
Bills discounted	**0.0%**	*100.0%*	Cash and guarantees
Off-balance sheet:			
Credit lines and other commitments	**42.8%**	*33.9%*	Cash and guarantees

Note: *Guarantees include credit risk insurance and unfunded risk participations.*

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

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

31 December 2021	Maximum exposure	Cash collateral *	Property collateral	Debt securities	Guarantees	Net exposure to credit risk
On-balance sheet:						
Cash, notes and coins	218	-	-	-	-	218
Financial investments: debt securities (Note 19)	1,450,003	-	-	-	-	1,450,003
Reverse repurchase agreements	215,824			(215,116)		708
Loans and advances to banks						
Funds held at correspondent banks	19,334	(93)	-	-	-	19,241
Professional market placements	149,449	-	-	-	-	149,449
Term lending	68,643	-	-	-	(16,259)	52,384
Bills discounted	346,214	(65,565)	-	-	(38,176)	242,473
Overdrafts and other advances	6,334	-	-	-	(189)	6,145
Less: Provisions for impairments (Note 17)	(1,131)	-	-	-	-	(1,131)
Loans and advances to customers						
Term Lending	40,738	-	-	-	-	40,738
Real Estate	418,790	-	(418,790)	-	-	-
Bills discounted	-	-	-	-	-	-
Overdrafts and other advances	38,199	-	-	-	-	38,199
Less: Provisions for impairments (Note 18)	(13,191)	-	-	-	-	(13,191)
Derivatives	616	-	-	-	-	616
Total on balance sheet	**2,740,040**	**(65,658)**	**(418,790)**	**(215,116)**	**(54,624)**	**1,985,852**
Off-balance sheet:						
Credit lines and other commitments	470,441	(178,709)	-	-	(22,681)	269,051
Total off balance sheet	**470,441**	**(178,709)**	**-**	**-**	**(22,681)**	**269,051**
Total	**3,210,481**	**(244,367)**	**(418,790)**	**(215,116)**	**(77,305)**	**2,254,903**

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

**In the markets where the Bank operates, the quality of and access to collateral can be less certain hence the Bank's strategy to hold cash collateral.*

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

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 2021 this includes the utilised portion of a £184,672,206 (USD 250,000,000) deposit (2020: £256,166,000 (USD 350,000,000)) placed by Libyan Foreign Bank as collateral for the obligations of itself, affiliated entities and a number of other Libyan counterparties. Collateral may also be taken in the form of personal guarantees given by individuals associated with the obligating counterparty, but no value is ascribed in these circumstances. Other mitigants include credit insurance and back-to-back commitments from financial institutions of acceptable quality, or security. When customers request facilities that exceed the Bank's limit for single client exposure under the Bank's credit risk policy, the Bank may enter into distribution arrangements with third parties to buy or underwrite part of these facilities to ensure that the clients' exposure remains within the approved credit limit.

Residential and commercial mortgage lending

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

	2021	*2020*
LTV ratio		
Less than 55%	118,617	*134,780*
55 - 65%	147,708	*147,617*
66 - 75%	103,972	*123,210*
76 - 85%	8,014	*13,948*
86 - 95%	21,280	*24,409*
More than 95%	19,199	-
Total	**418,790**	***443,964***

As at 31 December 2021, the exposures with LTV ratio over 95% relates to commercial property loans in higher risk sectors that were subject to the ECL overlay were the Bank holds external valuations predating the start of the Covid-19 pandemic.

By industry, concentrations of credit risk were as follows:

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

	2021	*2020*
Financial institutions (including central banks)		
Banks	1,507,776	*1,213,811*
Multilateral development banks	599,080	*603,272*
Other financial intermediaries	2,864	*21,866*
	2,109,720	***1,838,949***
Corporates		
Commodities	41,735	*151,693*
Construction and engineering	1,265	*1,255*
Energy	127,830	*147,696*
Transport and storage	28,279	*22,560*
Real estate	401,404	*369,126*
Other	24,510	*51,328*
	625,023	***743,658***
Public administration	**464,437**	***320,077***
Others	**28,553**	***51,393***
Impairments	(17,252)	*(65,324)*
Maximum exposure to credit risk	**3,210,481**	***2,888,753***

Credit grading

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

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

A credit grade must be agreed for each customer and reviewed at least annually, or when new information is received, to ensure that it is at all times a reasonable representation of the PD for that customer.
Credit grades are determined through the use of a model or methodology appropriate to the customer type using financial and non-financial information. Financial information includes the most recent available audited financial statements. Non-financial information includes:

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

The Watchlist Grades are defined as follows:

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

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

Master Rating Scale

Master Rating Scale - 2021

Category	Grade	Probability of Default*	S&P From	S&P To	Moody's From	Moody's To	Fitch From	Fitch To
					External benchmarks			
Investment Grade	1 - 10	0.001% - 0.387%	AAA	BBB-	Aaa	Baa3	AAA	BBB-
Non-Investment Grade	11 - 18	0.388% - 17.841%	BB+	CCC	Ba1	Caa2	BB+	CCC
Grades 15 to 18	W15 - W18	2.739% - 17.841%	B	CCC	B2	Caa2	B	CCC
Grade 18	W18	12.343% - 17.841%	CCC	CCC	Caa2	Caa2	CCC	CCC
Grade 19	W19	17.842% - 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 - 2020

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

Credit risks assessed in accordance with this methodology are shown below.

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

31 December 2021 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)	81,445	1,925,691	2,007,136	(1,847)	2,005,289
Grades 11 - 17 (Non-Investment Grade)	200,210	728,370	928,580	(35,813)	892,767
Grades 18 - 19 (Watchlist + Substandard)	188,634	89,263	277,897	(206,706)	71,191
Grade 20 (Default)	3,082	11,038	14,120	(721)	13,399
	473,371	2,754,362	3,227,733	(245,087)	2,982,646
Loss allowance	(2,930)	(14,322)	(17,252)	-	(17,252)
Carrying amount	470,441	2,740,040	3,210,481	(245,087)	2,965,394

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

There are exposures with credit grade 18 and 19 which are based upon country caps but have not displayed a significant increase in credit risk. In addition to the cash collateral, loan receivables in respect of securities purchased under commitments to resell ("reverse repos") are secured on AAA securities amounting to £215,824,000 as at 31 December 2021 (2020: £179,067,000).

Equity investments classified at fair value through other comprehensive income not included in the analysis above amount to £6,082,000 as at 31 December 2020 (2020: £6,423,000).

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

Credit quality analysis

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

Loans and advances to banks - 31 December 2021

Gross exposure	Stage 1	Stage 2	Stage 3	Total
Grades 1- 10 (Investment Grade)	231,029	-	-	231,029
Grades 11 - 17 (Non-Investment Grade)	303,240	-	-	303,240
Grades 18 - 19 (Watchlist + Substandard)	55,705	-	-	55,705
	589,974	**-**	**-**	**589,974**
Loss allowance	**(1,131)**	**-**	**-**	**(1,131)**
Carrying amount	**588,843**	**-**	**-**	**588,843**

Loans and advances to customer - 31 December 2021

Gross exposure	Stage 1	Stage 2	Stage 3	Total
Grades 1- 10 (Investment Grade)	39,663	-	-	39,663
Grades 11 - 17 (Non-Investment Grade)	377,712	35,801	-	413,513
Grades 18 - 19 (Watchlist + Substandard)	-	33,513	-	33,513
Grade 20 (Default)	-	-	11,038	11,038
	417,375	**69,314**	**11,038**	**497,727**
Loss allowance	**(632)**	**(4,388)**	**(8,171)**	**(13,191)**
Carrying amount	**416,743**	**64,926**	**2,867**	**484,536**

Off balance sheet - 31 December 2021

Gross exposure	Stage 1	Stage 2	Stage 3	Total
Grades 1- 10 (Investment Grade)	81,446	-	-	81,446
Grades 11 - 17 (Non-Investment Grade)	197,349	2,860	-	200,209
Grades 18 - 19 (Watchlist + Substandard)	188,044	590	-	188,634
Grade 20 (Default)	-	-	3,082	3,082
	466,839	**3,450**	**3,082**	**473,371**
Loss allowance	**(463)**	**(12)**	**(2,455)**	**(2,930)**

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

Loans and advances to banks - 31 December 2020

Gross exposure	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Grades 1- 10 (Investment Grade)	*190,983*	*-*	*-*	*190,983*
Grades 11 - 17 (Non-Investment Grade)	*179,143*	*17,357*	*-*	*196,500*
Grades 18 - 19 (Watchlist + Substandard)	*51,638*	*-*	*-*	*51,638*
Grade 20 (Default)	*-*	*-*	*900*	*900*
	421,764	***17,357***	***900***	***440,021***
Loss allowance	***(1,600)***	***(25)***	***(900)***	***(2,525)***
Carrying amount	***420,164***	***17,332***	***-***	***437,496***

Loans and advances to customer - 31 December 2020

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

Off balance sheet - 31 December 2020

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

The Bank provides facilities to in excess of 320 counterparties encompassing exposures in over 64 countries and territories (*2020: in excess of 340 counterparties encompassing exposures in over 65 countries and territories*).

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

	2021	*2020*
Rated AA to A-	3,158	*736*
Rated BBB+ and below	5,396	*14,228*
	8,554	***14,964***

Debt securities which are measured at FVOCI are subject to ECL provisions. As at 31 December 2021 debt securities measured at FVOCI with a fair value of £1,441,449,000 (2020: £1,284,893,000) are categorised as stage 1.

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

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

31 December 2021	Financial guarantees and other commitments	Cash, loans and advances, debt securities and derivatives	Total
United Kingdom	47,099	366,134	413,233
Europe excluding UK	82,356	448,962	531,318
Libya	175,165	36,445	211,610
Other Middle East and Africa	131,471	429,424	560,895
United States	4,353	444,322	448,675
Other Countries	32,927	1,029,075	1,062,002
Provision for credit losses	(2,930)	(14,322)	(17,252)
Maximum exposure to credit risk	**470,441**	**2,740,040**	**3,210,481**

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

MARKET RISK

Market Risk is the risk that the Bank's capital base or GBP denominated profit and loss decline and remain below acceptable and/or planned levels.

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

The Chief Risk Officer and their direct report, the Director, Market Risk, are responsible for:
- development and oversight of the market risk management framework;
- developing the market risk policy, tools and framework across the business;
- managing effective market risk assessment strategies and independent challenge of requests from the first line for new, increased or extended limits;
- oversight of market 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 reporting and performance monitoring.

ALL AMOUNTS IN £’000s UNLESS OTHERWISE STATED

Market risk management is overseen at an executive level by the Asset and Liability Committee which reviews and makes recommendations via the Executive Committee to the Risk and Conduct Committee at least annually on the Bank's market risk appetite and policy, or approves where within delegated authority, having regard to the Bank's business plans and market risk policy as approved by the Risk and Conduct Committee from time to time.

Risk Mitigation:
The Bank's Treasury function has day-to-day responsibility for managing its market and liquidity exposures. The Bank does not budget for more than 15% 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 to modify market risk exposures in the light of perceptions about future movements in those markets. In the banking book, derivative contracts are used to hedge market risk exposure arising from banking book positions, which in the absence of those contracts, would result in unwanted exposures, or excesses to market risk limits. The Bank does not deal in complex derivative transactions.

Exchange rate risk

The Bank manages its exposures to traded foreign exchange risk by way of limits on the size of permitted positions. Overnight trading positions should be protected by stop-loss orders placed with reputable correspondent banks. The size of the position limits is consistent with the amount of profit that the Bank is prepared to place at risk in the foreign exchange markets. The Bank also accepts a degree of structural FX risk in its balance sheet as the majority of its risk weighted assets are denominated in US dollars or Euros whilst its share capital is denominated in Sterling, which is its reporting currency. With the exception of revenues deriving from its real estate activity, the Bank earns the majority of its revenues in currencies other than Sterling but incurs the majority of its operating costs in Sterling.

The Bank's overall net open position (on foreign exchange open positions and cash arising on settled trades) at 31 December 2021 (being the Sterling equivalent value of all the currencies where the currency obligations were higher than currency receivables) was £1,304,000 (*2020: £1,629,000*). Were these currencies to strengthen by 5% against the remaining currencies, then the Bank would lose £65,000 (*2020 (loss): £81,000*).

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

	2021	*2020*
Maximum	2,966	*5,021*
Minimum	206	*385*
Average	1,090	*1,070*

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

Interest rate risk

The Bank is exposed to changes in interest rates in various currencies arising from gaps in the future dates of repricing of assets, liabilities and derivative instruments. The Bank measures that risk by calculating sensitivity of changes in the present value of committed future cash flows to a 0.01% change in interest rates using the Price Value of a Basis Point ("PVBP") methodology (this is a common method of measuring the price sensitivity of a bond by measuring the absolute value of the change in the price of a bond for a one basis point change in yield). Limits are placed on the overall amount of calculated PVBP for the banking book, with separate limits 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 2021, PVBP amounted to £29,654 (*2020: £38,319*). PVBP (calculated on a daily basis) was as follows:

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

	2021	*2020*
Maximum	40	*54*
Minimum	10	*29*
Average	27	*39*

Economic hedges

Derivative contracts are used in the banking books to modify market risk exposures in the light of perceptions about future movements in those markets. Derivative contracts are used to reduce market risk exposure arising from interest rates. Derivatives in respect of the banking book as at 31 December 2021 include interest rate futures whose purpose is to reduce economic exposure to interest rate risk. Futures are used to manage the overall quantum of interest rate risk, with swaps having been used in the past as hedges against specific transactions.

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

31 December 2021	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Non-interest bearing**	**Total**
Financial investments	254,396	1,098,350	26,913	68,029	2,315	6,285	1,456,288
Reverse repurchase agreements	215,824	-	-	-	-	-	215,824
Loans and advances to banks	283,761	167,286	137,796	-	-	-	588,843
Loans and advances to customers	115,892	366,126	2,451	67	-	-	484,536
Other assets	3,835	99	50	71	5,480	27,517	37,052
Total assets	**873,708**	**1,631,861**	**167,210**	**68,167**	**7,795**	**33,802**	**2,782,543**
Deposits from banks	858,192	482,527	312,657	223,380	-	-	1,876,756
Other deposits	342,578	41,315	24,252	196,605	-	-	604,750
Subordinated liabilities	41,758	28,756	-	-	-	-	70,514
Other liabilities and shareholders' funds	12,034	441	146	-	-	217,902	230,523
Total equity and liabilities	**1,254,562**	**553,039**	**337,055**	**419,985**	**-**	**217,902**	**2,782,543**
Overall gap	**(380,854)**	**1,078,822**	**(169,845)**	**(351,818)**	**7,795**	**(184,100)**	
Reverse Cumulative gap	**184,100**	**564,954**	**(513,868)**	**(344,023)**	**7,795**	**(184,100)**	

31 December 2020	***Up to 1 month***	***1-3 months***	***3-12 months***	***1-5 years***	***Over 5 years***	***Non-interest bearing***	***Total***
Financial investments	*309,564*	*806,946*	*86,809*	*86,644*	*9,894*	*6,423*	*1,306,280*
Reverse repurchase agreements	*179,067*						*179,067*
Loans and advances to banks	*22,289*	*296,570*	*118,637*	*-*	*-*	*-*	*437,496*
Loans and advances to customers	*214,198*	*359,329*	*8,216*	*786*	*-*	*-*	*582,529*
Other assets	*739*	*337*	*49*	*-*	*756*	*35,645*	*37,526*
Total assets	***725,857***	***1,463,182***	***213,711***	***87,430***	***10,650***	***42,068***	***2,542,898***
Deposits from banks	*967,463*	*500,123*	*187,156*	*37,111*	*-*	*-*	*1,691,853*
Other deposits	*271,116*	*40,293*	*41,157*	*197,263*	*-*	*-*	*549,829*
Subordinated liabilities	*41,378*	*30,658*	*-*	*-*	*-*	*-*	*72,036*
Other liabilities and shareholders'							*-*
funds	*14,357*	*71*	*619*	*-*	*-*	*214,133*	*229,180*
Total equity and liabilities	***1,294,314***	***571,145***	***228,932***	***234,374***	***-***	***214,133***	***2,542,898***
Overall gap	***(568,457)***	***892,037***	***(15,221)***	***(146,944)***	***10,650***	***(172,065)***	
Reverse Cumulative gap	***-***	***568,457***	***(323,580)***	***(308,359)***	***(161,415)***	***(172,065)***	

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

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

Trading book

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

- limits on 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 the risk that funding is unavailable or is available only on terms which are inconsistent with the strategic goals, regulatory requirements, or reporting obligations of the Bank.

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

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

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

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

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

At 31 December 2021	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Undated	Total
Financial investments	59,817	390,179	185,529	651,524	169,239	-	1,456,288
Reverse repurchase agreements	215,824	-	-	-	-	-	215,824
Loans and advances to banks	283,764	167,283	137,796	-	-	-	588,843
Loans and advances to customers	47,726	9,763	153,612	268,070	5,365	-	484,536
Other assets	3,835	99	50	71	5,480	27,517	37,052
Total assets	**610,966**	**567,324**	**476,987**	**919,665**	**180,084**	**27,517**	**2,782,543**
Deposits from banks	858,808	482,527	312,657	222,764	-	-	1,876,756
Other deposits	342,577	41,315	52,344	168,514	-	-	604,750
Subordinated liabilities	-	-	-	-	70,514	-	70,514
Other liabilities and shareholders' funds	12,034	441	146	-	-	217,902	230,523
Total equity and liabilities	**1,213,419**	**524,283**	**365,147**	**391,278**	**70,514**	**217,902**	**2,782,543**
Net liquidity gap	**(602,453)**	**43,041**	**111,840**	**528,387**	**109,570**	**(190,385)**	

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

At 31 December 2020	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Undated	Total
Financial investments	83,607	229,566	300,181	660,241	32,685	-	1,306,280
Reverse repurchase agreements	179,067						179,067
Loans and advances to banks	22,141	296,570	118,633	148	4	-	437,496
Loans and advances to customers	111,007	28,652	122,321	313,744	6,805	-	582,529
Other assets	735	337	48	-	757	35,649	37,526
Total assets	**396,557**	**555,125**	**541,183**	**974,133**	**40,251**	**35,649**	**2,542,898**
Deposits from banks	783,923	500,123	298,127	109,680	-	-	1,691,853
Other deposits	271,116	40,293	70,458	167,962	-	-	549,829
Subordinated liabilities	-	-	-	-	72,036	-	72,036
Other liabilities and shareholders' funds	14,354	71	619	156	-	213,980	229,180
Total equity and liabilities	**1,069,393**	**540,487**	**369,204**	**277,798**	**72,036**	**213,980**	**2,542,898**
Net liquidity gap	**(672,836)**	**14,638**	**171,979**	**696,335**	**(31,785)**	**(178,331)**	

5. Critical accounting estimates and judgements in applying accounting policies

The Bank makes estimates and assumptions that may affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Valuation of financial instruments

The Bank's accounting policy on fair value measurements is discussed in Notes 3h and 3i. The estimates 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 non credit-impaired financial assets is made up by 12 month ECL (Stage 1) and lifetime ECL (Stage 2) as described in Note 3k.

At 31 December 2021 8 loans to customers were credit impaired (*2020: loans to 13 customers*). The restructuring of three loans were the subject of continuing negotiations between lending syndicates and the borrowers, the outcomes of which were uncertain at 31 December 2021. 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 3k. The ECL provision is sensitive to judgements and assumptions made regarding formulation of forward-looking scenarios and as at reporting date by the judgements used in determining the overlay to the modelled ECL. Significant judgement is also made in establishing the criteria for determining whether credit risk on the financial assets has increased significantly since initial recognition. The sensitivity analysis of the ECL outcomes to different assumptions are carried out and are disclosed in Note 13.

Pension fund

The Bank assesses the value of its defined benefit pension fund 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.

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

IAS19 allows an employer to recognise a surplus as an asset to the extent that it is able to recover a surplus either through reduced contributions in the future or through refunds from the plan, even if the refunds may only be available at some distant time in the future, such as after the last benefit has been paid. IFRIC14 provides a detailed interpretation of this provision of IAS19, and the potential impact of any statutory funding requirements. The Directors' view is that, under the scheme rules although not expressly stated, the Bank has an unconditional right to any surplus assuming the gradual settlement of liabilities over time until all members have left the scheme. Furthermore, in the ordinary course of business the Trustee has no rights to unilaterally wind up, or otherwise augment the benefits due to members of the scheme. Therefore, under IFRIC 14 the Bank is neither required to reflect any additional liabilities in relation to deficit funding commitments, nor restrict any scheme surplus that arises.

Software

Capitalised cost of the Enterprise Architect software is included in intangible assets. Management considered the deterioration of the Bank's operating results in the last 2 years, to be an indicator of intangible asset impairment during the period. The impairment test was performed by comparing the net carrying amount of the capitalised software with its recoverable amount determined by calculating an estimated value-in-use. The Bank's forecasts were compiled taking into account the current economic situation and the Bank's risk appetite. The discount rate applied was based on the Bank's cost of funding as used by the Bank's FTP process. The analysis performed indicates that there is no impairment in respect of the capitalised software.

Deferred taxation

The Bank has carry forward tax losses that are available to offset against future taxable profit. However, deferred tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the unused tax losses or tax credits can be utilised. Management judgement is exercised in assessing whether this is the case, taking into account future profitability expectations. Temporary differences are calculated based on the rates applicable in the period, as management has reasonable expectation that they will be reversed in. Temporary differences, for which management have no certainty when they will be reversed, are calculated at the current tax rate.

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.

Discontinued operations

The Bank assessed that the exit of its Commodity Finance product offering does not represent a discontinued operation under IFRS 5. Commodity Finance was managed by the Bank as part of its core Trade Finance business and the withdrawal from this product does not change the Bank's business or operating model nor the geographical markets the Bank specialises and services.

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. In particular, the OFAC settlement agreement includes a substantial suspended penalty that could be imposed if the Bank fails to meet the sanctions compliance commitments. The Directors having considered legal advice believe it is a low risk that the suspended penalty would be re-imposed as they are confident that the Bank has put in place appropriate processes and controls to meet its obligations under the settlement agreement.

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 2021	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	218	-	-	-	**218**
Financial investments	-	1,441,449	6,285	8,554	**1,456,288**
Reverse Repurchase agreements	215,824	-	-	-	**215,824**
Loans and advances to banks	588,843	-	-	-	**588,843**
Loans and advances to customers	484,536	-	-	-	**484,536**
Derivatives	-	-	-	616	**616**
Total financial assets	1,289,421	1,441,449	6,285	9,170	**2,746,325**
Total non-financial assets					**36,218**
Total assets					**2,782,543**
Liabilities					
Deposits from banks	1,876,756	-	-	-	**1,876,756**
Other deposits	604,750	-	-	-	**604,750**
Derivatives	-	-	-	1,268	**1,268**
Subordinated liabilities	70,514	-	-	-	**70,514**
Total financial liabilities	2,552,020	-	-	1,268	**2,553,288**
Total equity and non-financial liabilities					**229,255**
Total equity and liabilities					**2,782,543**

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

31 December 2020	Assets and liabilities held at amortised cost	Debt securities held at FVOCI	Equity Investments held at FVOCI	Assets and liabilities manditorily designated at FVTPL	Total
Assets					
Cash, notes and coins	219	-	-	-	**219**
Financial investments	-	1,284,893	6,423	14,964	**1,306,280**
Reverse Repurchase agreements	179,067	-	-	-	**179,067**
Loans and advances to banks	437,496	-	-	-	**437,496**
Loans and advances to customers	582,529	-	-	-	**582,529**
Derivatives	-	-	-	1,081	**1,081**
Total financial assets	1,199,311	1,284,893	6,423	16,045	**2,506,672**
Total non-financial assets					**36,226**
Total assets					**2,542,898**
Liabilities					
Deposits from banks	1,691,853	-	-	-	**1,691,853**
Other deposits	549,829	-	-	-	**549,829**
Derivatives	-	-	-	5,582	**5,582**
Subordinated liabilities	72,036	-	-	-	**72,036**
Total financial liabilities	2,313,718	-	-	5,582	**2,319,300**
Total equity and non-financial liabilities					**223,598**
Total equity and liabilities					**2,542,898**

Of the total £9,170,000 (*2020: £*16,045,000) assets at fair value through the profit and loss account, £9,170,000 (*2020: £*16,045,000) represents financial assets and derivatives.

Of the total £1,268,000 *(2020: £*5,582,000*)* liabilities at fair value through the profit and loss account, £1,268,000 (*2020: £*5,582,000*)* represents derivatives. As at 31 December 2021, there were no financial liabilities designated at fair value through the profit and loss account at inception *(2020: nil)*.

7. Fair values of financial assets and liabilities

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.

In respect of level 3 assets and liabilities valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist, Black-Scholes and polynomial option pricing models and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other data used in estimating discount rates, bond prices and foreign currency exchange rates. The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

a) Financial assets and liabilities held at amortised cost

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

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

31 December 2021	**Level 1**	**Level 2**	**Level 3**	**Total**	**Carrying value (Note 6)**
Cash, notes and coins	-	218	-	218	218
Reverse Repurchase agreements	-	-	215,824	215,824	215,824
Loans and advances to banks	-	-	588,843	588,843	588,843
Loans and advances to customers	-	-	484,112	484,112	484,536
Financial assets held at amortised cost	**-**	**218**	**1,288,779**	**1,288,997**	**1,289,421**
Deposits from banks	-	-	1,921,802	1,921,802	1,876,756
Other deposits	-	-	612,169	612,169	604,750
Subordinated liabilities	-	-	69,121	69,121	70,514
Financial liabilities held at amortised cost	**-**	**-**	**2,603,092**	**2,603,092**	**2,552,020**

31 December 2020	***Level 1***	***Level 2***	***Level 3***	***Total***	***Carrying value (Note 6)***
Cash, notes and coins	*-*	*219*	*-*	*219*	*219*
Reverse Repurchase agreements	*-*	*-*	*179,067*	*179,067*	*179,067*
Loans and advances to banks	*-*	*-*	*437,458*	*437,458*	*437,496*
Loans and advances to customers	*-*	*-*	*582,313*	*582,313*	*582,529*
Financial assets held at amortised cost	***-***	***219***	***1,198,838***	***1,199,057***	***1,199,311***
Deposits from banks	*-*	*-*	*1,721,671*	*1,721,671*	*1,691,853*
Other deposits	*-*	*-*	*558,017*	*558,017*	*549,829*
Subordinated liabilities	*-*	*-*	*75,078*	*75,078*	*72,036*
Financial liabilities held at amortised cost	***-***	***-***	***2,354,766***	***2,354,766***	***2,313,718***

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. On 31 December 2021 observed market yields for those indices were higher than those being achieved, and as a result the estimated fair market value of the loans at that date represents an overall discount to their carrying value as shown above. The Bank has no current intention of disposing of any of these loans, and accordingly, in the opinion of the Directors, the amount of the discount is not indicative of an impairment which should be recognised through the Bank's accounts. Loans and advances which are impaired are stated at their book value without further adjustment.

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

Deposits

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

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

	31 December 2021			*31 December 2020*		
	Sterling	***US Dollars***	***Euro***	***Sterling***	***US Dollars***	***Euro***
Interest rates						
3 month	0.29%	0.04%	-0.62%	*0.02%*	*0.26%*	*-0.55%*
6 month	0.45%	0.14%	-0.62%	*0.03%*	*0.20%*	*-0.53%*
1 year	0.71%	0.34%	-0.53%	*0.01%*	*0.19%*	*-0.53%*
5 year	1.00%	1.07%	-0.03%	*0.19%*	*0.44%*	*-0.46%*

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

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

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

31 December 2021	**Level 1**	**Level 2**	**Level 3**	**Total fair value (Note 6)**
Financial investments	1,435,205	14,798	6,285	1,456,288
Derivative assets	616	-	-	616
Total assets held at fair value	**1,435,821**	**14,798**	**6,285**	**1,456,904**
Derivative liabilities	1,268	-	-	1,268
Total liabilities held at fair value	**1,268**	**-**	**-**	**1,268**

31 December 2020	*Level 1*	*Level 2*	*Level 3*	*Total fair value (Note 6)*
Financial investments	*1,233,999*	*65,858*	*6,423*	*1,306,280*
Derivative assets	*1,081*	*-*	*-*	*1,081*
Total assets held at fair value	***1,235,080***	***65,858***	***6,423***	***1,307,361***
Derivative liabilities	*5,582*	*-*	*-*	*5,582*
Total liabilities held at fair value	***5,582***	***-***	***-***	***5,582***

There were no significant transfers of assets between levels during 2021, 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. The Bank has a small portfolio of certificate of deposits that are valued using inputs other than quoted prices included within Level 1 that are observable either directly or indirectly and are classified as Level 2.

Equity shares and investment funds

Assets categorised as Level 3 comprise the Bank's investments in equity shares and investment funds. These assets are valued by reference to reports from fund managers, and from the audited annual reports (which may be a year in arrears) of the companies in which the Bank is invested. The sensitivity of value of these assets is therefore directly related to the movements in the value of the net assets of the investee entities, subject to currency fluctuations. Given the bespoke nature of the analysis in respect of each equity holding, it is not practical to quote a range of key unobservable inputs. Movements during the year of these assets are set out in Note 19.

Derivative assets and liabilities

The fair values of spot and forward foreign exchange contracts and interest futures are based upon observable market data and are all categorised accordingly as Level 1. The fair values of interest rate swaps and foreign exchange options are derived from net present value and discounted cash flow models, with interest rates derived from yield curves derived from market data. These instruments are categorised as Level 2, the Bank did not hold such instruments as at 31 December 2020 and 2021.

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

8. Net interest income

Interest income is made up as follows:

	2021	*2020*
Interest income		
Loans, advances and overdrafts	26,598	*33,693*
Professional market placements and debt securities	6,558	*14,051*
Other	-	*2*
	33,156	***47,746***

The amount recorded in interest arising on financial assets at fair value through profit and loss is £770,000 (2020: £1,120,000).

Interest expense is made up as follows:

	2021	*2020*
Interest expense		
Deposits from banks and other deposits	(9,924)	*(21,515)*
Subordinated loans	(2,137)	*(2,498)*
Other	(187)	*(183)*
	(12,248)	***(24,196)***

As at 31 December 2021 the Bank held a portfolio of Euro denominated repurchase agreements for which it is charged negative interest rates. The amount of £1,469,500 is being classified as interest expense for the year.

9. Net fee and commission income

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

	2021	*2020*
Fee and commission income		
Trade services:		
Documentary credit and trade finance fees	13,641	*13,641*
Guarantees	676	*563*
Banking payments and services	2,396	*2,593*
Term lending (other than amounts which form part of the effective interest rate)	789	*122*
Safe custody	-	*52*
	17,502	***16,971***
Fee and commission expense		
Brokerage and other fees	**(1,599)**	***(1,269)***

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

10. Net trading income

Net trading income is made up as follows:

	2021	*2020*
Foreign exchange dealing	4,068	*3,771*
Debt securities - Realised losses	(195)	*(1,069)*
Debt securities - Unrealised fair value movements	(409)	*158*
Other	(71)	*(63)*
	3,393	***2,797***

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

11. Other operating income

Other operating income is made up as follows:

	2021	*2020*
Gains on debt securities at fair value through other comprehensive income	1,115	*2,117*
Rental Income	273	*278*
Dividends from equity shares and investment funds measured at FVOCI	227	*347*
Other operating loss	(96)	*-*
	1,519	***2,742***

12. Business Line review

As at 31 December 2021, the Bank has four active 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.

During 2021 the Bank announced its exit from the Commodity Finance product, which is expected to be completed by Q2 2022. Although Commodity Finance is presented as a separate reporting line below, as set out in Note 5 the exit of Commodity Finance does not represent a discontinued operation under IFRS 5.

The summary below describes the operations of each of the Bank's business lines:

Active 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.
- 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, 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.

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

Legacy business:

- Commodity Finance: the provision of short-term secured facilities to commodity companies supporting trading activities.
- Structured finance: relates to legacy transactions which are being run off.

Other:

- This represents items not specifically allocated to the Bank's business lines, principally rental income, returns on investments, foreign exchange revaluation.

The wind-down of the Bank's Commodity Finance, which commenced in 2021 and is expected to be completed by Q2 2022, does not meet the criteria of discontinued operations under IFRS 5.

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 2021	**Trade Finance**	**Real Estate**	**Commodity Finance**	**Structured Finance**	**Banking**	**Treasury**	**Other**	**Total**
Net Interest Income	5,309	9,326	1,633	946	479	3,402	(187)	20,908
Net fee and commission income	12,394	713	1,410	37	1,399	(50)	-	15,903
Net trading income	-	-	-	-	-	3,393	-	3,393
Other operating income	-	-	-	-	-	1,115	404	1,519
Total Operating Income	**17,703**	**10,039**	**3,043**	**983**	**1,878**	**7,860**	**217**	**41,723**

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

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 20% of the total *(2020: 18%)*.

	2021	*2020*
United Kingdom	11,337	*10,404*
Europe / Americas (excl. UK)	3,809	*7,563*
MENA (incl Libya)	9,378	*11,007*
Sub - Saharan Africa	10,320	*13,451*
Asia, Levant and Other	6,879	*2,366*
	41,723	***44,791***

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

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

13. Allowance for credit losses

The below table shows the movement in impairment provisions on loans and advances to banks and customers at amortised cost, debt securities at fair value though other comprehensive income, and on financial guarantees and other commitments for the year ended 31 December 2021.

31 December 2021	Loans	Debt Securities	Off-balance sheet positions	Other movements	Total
Balance at 1 January	**60,845**	**420**	**4,479**	**-**	**65,744**
Exchange translation	59	(24)	(44)	-	(9)
New allowances	571	-	416	-	987
Administrative expenses associated with impaired loans	-	-	-	258	258
Allowances for credit losses	571	-	416	258	**1,245**
Reversal of Stage 1&2 allowances booked in previous periods	(2,563)	(215)	(176)	-	(2,954)
Reversal of Stage 3 allowances booked in previous periods	(7,471)		(1,745)	-	(9,216)
Recoveries of interest from impaired loans	-	-	-	(271)	(271)
Recoveries of amounts written off in previous periods	(547)	-	-	-	(547)
Reversals of allowances and recoveries of amounts written off in previous periods	(10,581)	(215)	(1,921)	(271)	**(12,988)**
ECL allowances relating to loans written off in the current year	(36,572)	-	-	-	(36,572)
Balance at 31 December	**14,322**	**181**	**2,930**		**17,433**
Credit impaired	8,171	-	2,455	-	10,626
Not credit impaired	6,151	181	475	-	6,807
Total credit losses allowance against loans, debt securities and off balance positions	**14,322**	**181**	**2,930**	**-**	**17,433**

31 December 2020	*Loans*	*Debt Securities*	*Off-balance sheet positions*	*Other movements*	*Total*
Balance at 1 January	***80,138***	***179***	***1,342***	***-***	***81,659***
Exchange translation	*(1,445)*	*(41)*	*(184)*	*-*	*(1,670)*
New allowances	*3,008*	*282*	*3,321*	*-*	*6,611*
Loans reclassed from Stage 3 to Stage 2					*-*
Administrative expenses associated with impaired loans	*-*	*-*	*-*	*291*	*291*
Allowance for credit losses	*3,008*	*282*	*3,321*	*291*	*6,902*
Reversal of Stage 3 allowances booked in previous periods	*(13,460)*	*-*	*-*	*-*	*(13,460)*
Recoveries of interest from impaired loans	*-*	*-*	*-*	*(294)*	*(294)*
Recoveries of amounts written off in previous periods	*-*	*-*	*-*	*(1,293)*	*(1,293)*
Reversals of allowances and recoveries of amounts written off in previous periods	*(13,460)*	*-*	*-*	*(1,587)*	*(15,047)*
Reclassification of exposure from off balance sheet to on balance sheet		*-*		*-*	*-*
ECL allowances relating to loans written off in the current year	*(7,396)*	*-*	*-*	*-*	*(7,396)*
Balance at 31 December	***60,845***	***420***	***4,479***		***65,744***
Credit impaired	*52,114*	*-*	*3,787*	*-*	*55,901*
Not credit impaired	*8,731*	*420*	*692*	*-*	*9,843*
Total credit losses allowance against loans, debt securities and off balance positions	***60,845***	***420***	***4,479***	***-***	***65,744***

The reconciliation from the opening to the closing balance of the allowance for credit losses by class of financial instrument are showed in Note 17, Note 18 and Note 30 respectively. The basis for determining transfers due to changes in credit risk is set out in our accounting policy Note 3k.

An increased impairment provision of £8.1m was booked in December 2020 to provide fully for an impaired exposure. However, the 2020 results include a significant receipt of £6.9m between January and March 2021 which reduced the provision. A further £2.6m was received later in 2021 in respect of this exposure which is recognised as a recovery in the 2021 results.

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

The contractual amount outstanding on financial assets that were written off during the reporting period and are still subject to enforcement activity was £5,644,000 (*2020: £*7,396,000).

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 £6,807,000 for 2021 (*2020: £*9,843,000*)*.

Further information with regards to impaired and other facilities is shown in the table below. There were a total of 8 impaired facilities at 31 December 2021 (*2020: 13 facilities*), with new impairment allowances recognised for 1 of those facilities during the year (*2020: 4 facilities*). Of the 8 facilities impaired as at 31 December 2021, 3 facilities had no collateral in place (*2020: 8 facilities*).

	2021		*2020*	
	Number of Facilities	**Gross Exposure ***	*Number of Facilities*	*Gross Exposure **
Impaired facilities				
Total impaired facilities	8	14,120	*13*	*63,970*
Impaired facilities against which there was no collateral	3	7,529	*8*	*60,341*
Of the above:				
Facilities in the process of being restructured as at the reporting date. Impairment in respect of these facilities £0 (*2020: £11,784,383*)	-	-	*2*	*11,784*
Companies in liquidation. Impairment in respect of these facilities £6,000 (*2020: £2,667,737*)	1	6	*2*	*3,264*
Waiver on repayments. Impairment in respect of these facilities £6,143,000 (*2020: £34,554,418*)	1	6,143	*2*	*41,440*
Shortfall to be paid on maturing underlying contracts. Impairment in respect of this facility £1,380,000 (*2020: £3,510,565*)	1	1,380	*2*	*3,853*
Unimpaired facilities subject to forbearance, restructuring or close monitoring				
Watchlist or substandard facilities subject to closer monitoring than normal	1	12,270	*1*	*13,812*
Breach of covenant, which is being addressed	10	40,433	*7*	*48,159*

* Gross exposure net of cash collateral

Forbearance: as part of its banking and trade services business the Bank may renegotiate loans to customers in financial difficulties (referred to as 'forbearance' activities) to maximise collection opportunities and minimise the risk of default. Loan forbearance may be granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

under the original contractual terms and the debtor is expected to be able to meet the revised terms. The revised terms may include extending the maturity, changing the timing of interest payments, and amending the terms of loan covenants.
'Watchlist' items are so designated where there may have been some deterioration in the financial strength of the counterparty. The Bank may have granted forbearance in such cases or may simply be monitoring the position more closely with no element of forbearance granted.

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

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

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

- As described in Note 3(k) 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 3k, coupled with a 10% decrease in the weighting of the BAU scenario would result in an increase of £0.8 million in the impairment allowance (*2020: £0.8 million*). Applying a weighting of 100% to the downside scenario would result in an increase of £6.8 million in the impairment allowance (*2020: £6.3 million*).
- A 10% increase in loss given default (LGD) assumption would result in an increase of £1.7 million *(2020: £3.5 million)* in the ECL stage 1 and 2 allowance and a 20% increase in LGD assumption would increase it by £3.3 million *(2020: £7 million).*
- If LGDs on the stage 3 (credit impaired) exposures are 10% higher than has been estimated, then the amount of the impairment which would have been charged in 2021 in respect of those loans would have been increased by £0.5 million (2020: £0.6 million in respect of 13 loans).
- A 2-notch downgrade in probability of default (PD) (without changing stage allocation of the exposures) would result in an increase in the ECL stage 1 and 2 allowance of £3.0 million (2020: £10.3 million).

As noted in Note 3(k), during 2020 management assessed how unprecedented movement in economic and market drivers caused by the Covid-19 crisis impacted the performance of ECL model and concluded at the time that the use of compensating controls such as overlays and overrides on top of model outputs would ensure the ECL charge is true and fair. The total overlay in the ECL model charged to the income statement for 2020 amounted to £1,048,883. During 2021 management reviewed the management continued to review the performance of the Bank's exposures and its ECL models and determined that the modelling uncertainty resulting from the Covid-19 pandemic had been reduced in the Bank's ECL model hence the overlay charged in 2021 was reduced to £132,769, reflecting the real estate position outlined above. The decrease in ECL model overlay has been released to the income statement in 2021.

14. Administrative expenses

	2021	*2020*
Staff costs:		
Salaries and other emoluments	18,385	*18,208*
Social security costs	2,355	*2,149*
Other pension costs:		
Pension Running costs for both schemes	252	*359*
Defined contribution scheme	1,799	*1,848*
Total staff employment costs	**22,791**	***22,564***
Reorganisation costs	792	*994*
Other employment related costs	1,401	*1,921*
Total staff costs	**24,984**	***25,479***
Fees payable to the Bank's auditors for the audit of the Bank's annual financial statements	494	*604*
Fees payable to the Bank's auditors for other services :		
Other services pursuant to legislation	10	*28*
Depreciation (including amortisation of intangibles)	2,544	*2,540*
Loss on sale of tangible assets	9	*81*
Regulatory supervision fees	103	*104*
Other administrative expenses		
Premises & Technology	5,205	*5,048*
Legal & Professional	2,581	*1,261*
Other	2,833	*1,869*
Administrative expenses	**38,763**	***37,014***

The average number of employees in place during the year was 201 (*2020: 215*).

The fees payable to the Bank's auditors included above include overrun fees for prior year audits of £66,000 in 2021 and £115,000 in 2020.

Directors' remuneration included above totalled £1,285,042 *(2020: £952,534)*. The emoluments of the highest paid director were £545,656 *(2020: £330,681)*. There were no pension contributions for any directors during the year *(2020: £nil)*. During 2020 compensation for loss of office of directors (including amounts payable during contractual notice periods) totalled £181,530.

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

15. Income tax

	2021	*2020*
Current tax		
Total UK corporation tax charge	1,167	*929*
Current tax adjustment in respect of previous periods	14	*(136)*
Deferred tax (Note 22)		
Origination and reversal of timing differences	565	*476*
Effect of tax rate change	(213)	*(165)*
Deferred tax adjustment in respect of unused losses	135	*390*
	487	*701*
Total income tax charge	**1,668**	*1,494*

The tax charge on the profit for the year is based on the average UK corporation tax rate of 19% (2020: 19%). The Finance Act 2021 enacted an increase in corporation tax to 25% with effect from 1 April 2023. This change was enacted by the reporting date and hence is applied to temporary differences in the relevant periods in which management has reasonable expectation that they will reverse. Temporary differences, for which management have no certainty when they will be reversed, are calculated at management's best estimate.

The tax charge for the year is lower *(2020: lower)* than the charge resulting from applying the standard rate of UK corporation tax. The differences are explained below:

	2021	*2020*
Profit on ordinary activities before tax	**14,703**	*15,922*
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK	2,794	*3,025*
Effects of:		
Adjustment in respect of previous periods	14	*(136)*
Effect of change in tax rate	(213)	*(165)*
Non taxable income	(47)	*(70)*
Non deductible items	1,054	*308*
Prior period losses recognised as a deferred tax asset	135	*390*
Previously unrecognised losses utilised during the year	(2,069)	*(1,858)*
Total income tax charge	**1,668**	*1,494*

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

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

	2021			2020		
	Before tax	**Tax**	**Net of tax**	*Before tax*	*Tax*	*Net of tax*
Actuarial gain/(loss) on pension fund	3,231	(614)	2,617	*298*	*(44)*	*254*
Change in fair value of equity investments designated at FVOCI	(138)	26	(112)	*(48)*	*10*	*(38)*
Change in fair value of debt securities designated at FVOCI	(3,924)	620	(3,304)	*2,575*	*(145)*	*2,430*
Fair value (gains)/losses attributable to FVOCI financial assets transferred to income	1,130	(69)	1,061	*2,117*	*(129)*	*1,988*
	299	**(37)**	**262**	***4,942***	***(308)***	***4,634***

During 2020 and 2021 all the tax charge is due on transactions recorded and undertaken in the United Kindom. No public subsidies were received during the reporting year.

16. Derivatives

Derivative positions at 31 December were as follows:

	31 December 2021		
	Contract amount	**Positive fair values (Assets)**	**Negative fair values (Liabilities)**
Spot and forward foreign exchange contracts held for trading purposes	265,372	540	1,123
Interest futures held for trading purposes	152,336	76	145
		616	**1,268**

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

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.

The Bank monitors derivative portfolios, and based upon the credit quality of counterparties, and the short-term maturity profile of contracts has concluded that applicable XVA is immaterial.

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.

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

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

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

Interest rate risk

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.

17. Loans and advances to banks

	2021	*2020*
Funds held at correspondent banks	19,334	*14,398*
Professional market placements	149,449	*155,976*
Term lending	68,643	*51,642*
Bills discounted	346,214	*216,897*
Overdrafts and other advances	6,334	*1,108*
Less: Provisions for impairments	(1,131)	*(2,525)*
	588,843	***437,496***

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 2021 and at 31 December 2021.

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 2020 and 2021.

31 December 2021

Gross exposure	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Funds held at correspondent banks	19,334	-	-	19,334
Professional market placements	149,449	-	-	149,449
Term lending	68,643	-	-	68,643
Bills discounted	346,214	-	-	346,214
Overdrafts and other advances	6,334	-	-	6,334
Total	**589,974**	**-**	**-**	**589,974**

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

Impairment allowance	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Funds held at correspondent banks	(2)	-	-	(2)
Professional market placements	(12)	-	-	(12)
Term lending	(385)	-	-	(385)
Bills discounted	(728)	-	-	(728)
Overdrafts and other advances	(4)	-	-	(4)
Total	**(1,131)**	**-**	**-**	**(1,131)**

Net Exposure	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Funds held at correspondent banks	19,332	-	-	19,332
Professional market placements	149,437	-	-	149,437
Term lending	68,258	-	-	68,258
Bills discounted	345,486	-	-	345,486
Overdrafts and other advances	6,330	-	-	6,330
Total	**588,843**	**-**	**-**	**588,843**

31 December 2020

Gross exposure	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Funds held at correspondent banks	*14,398*	*-*	*-*	*14,398*
Professional market placements	*141,976*	*14,000*	*-*	*155,976*
Term lending	*51,642*	*-*	*-*	*51,642*
Bills discounted	*213,540*	*3,357*	*-*	*216,897*
Overdrafts and other advances	*208*	*-*	*900*	*1,108*
Total	*421,764*	*17,357*	*900*	*440,021*

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

Net Exposure	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Funds held at correspondent banks	*14,393*	*-*	*-*	*14,393*
Professional market placements	*141,958*	*13,995*	*-*	*155,953*
Term lending	*51,003*	*-*	*-*	*51,003*
Bills discounted	*212,603*	*3,337*	*-*	*215,940*
Overdrafts and other advances	*207*	*-*	*-*	*207*
Total	*420,164*	*17,332*	*-*	*437,496*

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

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

	Provision for impairments			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance as at 31 December 2020	1,600	25	900	2,525
Change in other risk parameter (incl change in account balances)	1	-	-	1
New financial assets originated or purchased	1,132	-	-	1,132
Financial assets that have been derecognised	(1,579)	(25)	-	(1,604)
Write-offs	-	-	(908)	(908)
Foreign exchange and other movements	(23)	-	8	(15)
Balance as at 31 December 2021	**1,131**	**-**	**-**	**1,131**

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

As at 31 December 2021 loans and advances to Bank are not subject to any ECL model overlay. As at 31 December 2020 all the exposures within loans and advances to banks were subject to the ECL model overlay as described in Note 3(k), the related overlay charged to the income statement amounted to £169,000.

18. Loans and advances to customers

	2021	*2020*
Term and Real Estate lending	459,528	*509,879*
Bills discounted	-	*11,225*
Overdrafts and other advances	38,199	*119,745*
Less: Provisions for impairments	(13,191)	*(58,320)*
	484,536	***582,529***

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 31 December 2020 and at 31 December 2021.

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 2021 and 2020.

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

31 December 2021

Gross exposure	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Term and Real Estate lending	379,176	69,314	11,038	459,528
Overdrafts and other advances	38,199	-	-	38,199
Total	**417,375**	**69,314**	**11,038**	**497,727**

Impairment allowance	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Term and Real Estate lending	(599)	(4,388)	(8,171)	(13,158)
Overdrafts and other advances	(33)	-	-	(33)
Total	**(632)**	**(4,388)**	**(8,171)**	**(13,191)**

Net Exposure	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Term and Real Estate lending	378,577	64,926	2,867	446,370
Overdrafts and other advances	38,166	-	-	38,166
Total	**416,743**	**64,926**	**2,867**	**484,536**

31 December 2020

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

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

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

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 2020	1,342	5,764	51,214	58,320
Transfer out of Stage 2	87	(601)	-	(514)
Transfer to Stage 3	-	-	571	571
Change in other risk parameter (incl change in account balances)	(605)	(511)	(7,080)	(8,196)
New financial assets originated or purchased	10	-	-	10
Financial assets that have been derecognised	(200)	(302)	-	(502)
Write-offs	-	-	(36,572)	(36,572)
Foreign exchange and other movements	(2)	38	38	74
Balance as at 31 December 2021	**632**	**4,388**	**8,171**	**13,191**

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

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

As at 31 December 2021 loans and advances to customers, which are subject to the ECL model overlay, amount to £38.9 million and the related overlay charged to the income statement amounted to £133,000. As at 31 December 2020 all the exposures within loans and advances to customers were subject to the ECL model overlay as described in Note 3(k), the related overlay charged to the income statement amounted to £880,000. The decrease in ECL model overlay in 2021 has been released to the income statement during the year. Transfers out of Stage 2 during 2021 of £601,000 relate to exposures of £324k in the legacy portfolio and £277k in real estate and occurred due to the change in the ECL model overlay. The transfer in Stage 3 in 2021 relates to a real estate exposure which defaulted during the year.

During 2020 14 loan exposures amounting to £110,211,000 were granted payment moratoria due to the Covid-19 pandemic, 3 of which have deferred interest outstanding which was still due to be repaid as at 31 December 2021.

19. Financial investments

	2021	*2020*
Debt issued by governments and multilateral development banks designated as FVOCI	1,036,703	*909,297*
Other listed debt securities issued by banks designated as FVOCI	401,151	*372,533*
Other listed debt securities issued by non-banks designated as FVOCI	3,595	*3,063*
Debt securities designated as FVTPL	8,554	*14,964*
Total debt securities	**1,450,003**	***1,299,857***
Equity shares and investment funds designated at FVOCI	**6,285**	***6,423***
	1,456,288	***1,306,280***

Reversal of impairment allowances of £215,000 (*2020: charge of £282,000*) related to debt securities is shown in other comprehensive income.

Debt securities with fixed interest rates (other than those with a single interest period less than 1 year) amounted to £61,655,000 *(2020: £96,537,000).*

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

	2021	2020
Balance at 1 January	6,423	*6,471*
Changes in fair value during the year	(138)	*(48)*
Balance at 31 December	**6,285**	***6,423***
Comprising:		
Equity shares	2,849	*2,617*
Investment funds	3,436	*3,806*
	6,285	***6,423***

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 2021	21,031	2,891	23,922	13,375	37,297
Reclassified from prepayments	9,261	-	9,261	-	9,261
Additions during the year	90	184	274	540	814
Disposals during the year	-	(40)	(40)	(613)	(653)
At 31 December 2021	30,382	3,035	33,417	13,302	46,719
Less: accumulated depreciation and amortisation					
Balance at 1 January 2021	9,290	2,512	11,802	4,395	16,197
Reclassified from prepayments	1,318	-	1,318	-	1,318
Charge for the year	466	140	606	1,938	2,544
Disposals during the year	-	(28)	(28)	(613)	(641)
At 31 December 2021	11,074	2,624	13,698	5,720	19,418
Net book value at 31 December 2021	**19,308**	**411**	**19,719**	**7,582**	**27,301**

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

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).

ALL AMOUNTS IN £’000s UNLESS OTHERWISE STATED

The net book value of £19,308,000 *(2020: £19,684,000)*, including improvements, includes the lease of land, for which a premium has been prepaid and at balance sheet date amounts to £7,880,000 *(2020: £7,943,000)* which was previously classified within “prepayments, accrued income and other debtors”. Upon the implementation of IFRS 16, in 2019 the Bank recognised a lease liability and related right of use asset within “long leasehold premises and improvements”. This liability was in respect of the Bank’s obligations to make payments for ground rent in relation to its principal office at 8-10 Mansion House Place, London, EC4N 8BJ. The disclosure of the cost of the prepaid premium in respect of the land remained unchanged and was classified within “prepayments, accrued income, and other debtors”. Such a disclosure was informative in that it allowed users of the financial statements to fully appreciate the impact of the new standard on the Bank’s financial position which was the recognition of the lease liability until 2147 and the related right of use asset which increased the Bank’s financial position by £3.9m. The classification of the prepaid premium was deemed of lesser importance to the user’s understanding of the Bank’s lease commitments. Thus, management was satisfied that the classification adopted achieved a fair portrayal of the Bank’s financial position. However, the classification and disclosure requirements of IFRS 16 were not fully applied. In order to amend and enhance the disclosure, the prepaid premium in respect of the land has been transferred to property, plant and equipment, and reflected as a right of use asset within “long leasehold premises and improvements”.

Right-of-use assets in respect of leasehold premises and leases relating to representative offices of £12,376,000 (2020: £12,477,000) is included within the category of long leasehold premises and improvements.

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 of: technology hardware; furniture, fixtures and fittings; and motor vehicles.

Additions during the year of £724,000 (2020: £477,000) including expenditure of £150,000 (2020: £15,000) related to Enterprise Architecture intangible assets for the 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 £6,676,000 (2020: £6,658,000).

There were commitments for capital expenditure on 31 December 2021 of £573,000 (2020: £206,000).

21. Lease commitments

Leases as Lessee

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

The Bank has obligations to make payments for ground rent in its capacity as lessee and is entitled to rental and service charge receipts in its capacity as sub-lessor. The ground rent is re-negotiated every five years to reflect market rentals and is recognised as a right-of use asset and lease liability.

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

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

Right-of-use assets

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

Right-of-use assets	2021	2020
Balance as at 1 January	12,477	11,702
Lease adjustments during the year	-	942
Depreciation charge for the year	(101)	(167)
Balance as at 31 December	**12,376**	**12,477**

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

Lease liability	2021	2020
Balance as at 1 January	4,696	3,696
Lease adjustments during the year	-	942
Lease payable	(237)	(125)
Interest on lease liabilities	187	183
Balance as at 31 December	**4,646**	**4,696**

Amounts recognised in statement of comprehensive income are as follows:

Amounts recognised in the income statement	2021	2020
Depreciation charge for the year	101	167
Interest on lease liabilities	187	183
Loss on ROU modifications	-	45
Expenses relating to short term leases	-	144
Total amount recognsided in the income statement	**288**	**476**

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

Amounts recognised in the cashflow statement	2021	2020
Right of use payments made in the year	191	156

Contractual maturity profile of lease payables	2021	2020
Less than 1 year	279	270
Between one and five years	376	564
	655	**834**

The cash flows above only include the contractual commitments until the renegotiation of the lease.

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.

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

Contractual maturity profile of lease receivables	2021	2020
Less than 1 year	170	223
Between one and two years	-	170
	170	**393**

22. Deferred taxation

	Balance at 1 January 2021	Recognised in Profit or Loss	Recognised in Other Comprehensive Income	Balance at 31 December 2021	Deferred tax assets	Deferred tax liabilities
Property, plant and equipment and intangible assets	(275)	(124)	-	(399)	-	(399)
Staff benefits	14	(14)	-	-	-	-
Unused tax losses loss carried forward	400	(135)	-	265	265	-
Tax assets on pension liabilities (Note 26)	(144)	(285)	(614)	(1,043)	-	(1,043)
Debt securities classified at fair value through OCI	(1,023)	-	551	(472)	-	(472)
Equity Investments classified at fair value through OCI	21	-	26	47	47	-
IFRS 9 Transitional adjustment	992	71	-	1,063	1,063	-
Deferred tax assets (liabilities)	**(15)**	**(487)**	**(37)**	**(539)**	**1,375**	**(1,914)**

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

Deferred tax asset and liability balances are off-settable.

The Bank recognises deferred tax asset for unused tax losses to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised. Based on this criterion, the Bank has recognised a deferred tax asset of £265,000 (*2020:* £400,000). The estimate of future taxable profit has been compiled taking into account the current economic situation and the Bank's risk appetite and thus is reflective of management's best estimates. The Bank has unused tax losses of £14,723,624 (*2020*: £25,202,893) for which no deferred tax asset is recognised in the Statement of Financial Position. These losses do not have a fixed expiry date.

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

23. Prepayments, accrued income, and other debtors

	2021	*2020*
Prepaid rental for land	-	*7,943*
Amounts held in repect of collateral	831	*3,592*
Prepayments and accrued income	1,579	*1,419*
Other debtors	1,027	*1,416*
	3,437	***14,370***

24. Deposits

	2021	*2020*
Deposits from banks	1,876,756	*1,691,853*
of which deposits with fixed interest rates	55,943	*234,995*
Other deposits	604,750	*549,829*
of which deposits with fixed interest rates	924	*6,109*

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

	2021	*2020*
Accruals and deferred income	6,012	*4,800*
Lease liability	4,645	*4,696*
Loss allowance provision on financial guarantees and other commitments (Note 30)	2,930	*4,479*
Unsettled trades - payable	764	*7,319*
Employment related liabilities	731	*1,011*
Collateral for exchange traded transactions	605	*956*
Trade creditors	133	*170*
Other liabilities	1,710	*2,151*
	17,530	***25,582***

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 256 deferred or pensioner members as at 31 December 2021 *(2020: 267 deferred or pensioner members)*. The level of retirement benefit is based on basic salary at 1 April 2014, or on leaving the scheme if earlier than this, and is linked to changes in inflation up to retirement.

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

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

by the Financial Reporting Council, set out the framework for funding defined benefit occupational pension schemes in the UK.
The trustees of the Scheme are required to act in the best interest of the Scheme's beneficiaries. The appointment of the trustees is determined by the Scheme's trust documentation. It is policy that at least one third of all trustees should be nominated by the members.

A full actuarial valuation was carried out as at 31 December 2019 in accordance with the scheme funding requirements of the Pensions Act 2004 and the funding of the plan is agreed between the company and the trustees in line with those requirements. These in particular require the surplus / deficit to be calculated using prudent, as opposed to best estimate actuarial assumptions. This actuarial valuation showed a deficit of £7,805,000. The company has agreed with the trustees that it will aim to eliminate the deficit over a period of 4 years and 4 months from 31 December 2019 by the payment of annual contributions of £1,472,000, in monthly instalments, from 1 November 2020 until 30 April 2024.

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

For the purposes of IAS19 the actuarial valuation as at 31 December 2019 has been updated on an approximate basis to 31 December 2021. 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

	2021	*2020*
Fair value of Scheme assets	85,080	*84,836*
Present value of defined benefit obligation	(79,600)	*(84,080)*
Surplus in the Scheme - net asset	**5,480**	***756***

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 asset 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 £79,600,000 (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

	2021	*2020*
Defined benefit obligation at start of period	84,080	*77,226*
Interest expense	1,148	*1,549*
Actuarial losses due to scheme experience	(1,287)	*(845)*
Effect of changes in demographic assumptions	(161)	*142*
Effect of changes in financial assumptions	(50)	*9,356*
Benefits paid and expenses	(4,130)	*(3,373)*
Past service costs	-	*25*
Defined benefit obligation at end of period	**79,600**	***84,080***

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

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

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

	2021	*2020*
Fair value of scheme assets at start of period	84,836	*76,485*
Interest income	1,169	*1,546*
Return on scheme assets (excluding amounts included in interest income)	1,733	*8,951*
Contributions by the Bank	1,472	*1,227*
Benefits paid and expenses	(4,130)	*(3,373)*
Fair value of scheme assets at end of period	**85,080**	***84,836***

The actual return on the Scheme's assets over the year ended 31 December 2021 was £2,902,000 (*2020:* £10,497,000).

Defined benefit costs recognised in Profit and Loss

	2021	*2020*
Past service cost	-	*25*
Net interest cost	21	*3*
Defined benefit costs recognised in profit and loss	**21**	***28***

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

Defined benefit costs recognised in other Comprehensive Income

	2021	*2020*
Return on scheme assets (excluding amounts included in interest income) - gain	1,733	*8,951*
Experience gains arising on the defined benefit obligation	1,287	*845*
Effects of changes in the demographic assumptions underlying the present value of the defined benefit obligation - (loss)/gain	161	*(142)*
Effects of changes in the financial assumptions underlying the present value of the defined benefit obligation - (loss)	50	*(9,356)*
Total gain recognised in other comprehensive income	**3,231**	***298***

Assets

	2021	*2020*
Liability Driven Investment (LDI)	17,877	*16,722*
Diversified Growth Funds	27,103	*25,822*
Cash	194	*282*
Purchased Annuities	39,906	*42,010*
Total assets	**85,080**	***84,836***

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

The weighted-average assumptions used to determine the defined benefit obligation are summarised below:

	2021	*2020*
	% per annum	*% per annum*
Rate of discount	1.80	*1.40*
Inflation (RPI)	3.35	*2.95*
Allowance for revaluation of deferred pensions of RPI or 7.5% p.a. if less	3.35	*2.95*
Allowance for pension in payment increases of RPI or 7.5% p.a. if less	3.35	*2.95*
Allowance for commutation of pension for cash at retirement	75% of Post A-Day	*75% of Post A-Day*

During 2020, the Bank has updated its approach to setting RPI and CPI inflation assumptions in light of the RPI reform proposals published on the 4th September 2019 by the UK Government and UK Statistics Authority. The Bank continues to set RPI inflation in line with the market break-even expectations less an inflation risk premium.

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

The estimated impact of the change in the methodology in 2020 was approximately a £430,000 increase in the defined benefit obligation. In 2021 the Bank maintained the approach followed in 2020 of adjusting the gilt market implied RPI inflation rate by an inflation premium of 0.3% p.a.

The mortality assumptions adopted at 31 December 2021 are 96% of the standard tables S3PMA /S3PFA_M, Year of Birth, no age rating for males and females, projected using CMI_2020 converging to 1.25% p.a. These imply the following life expectancies:

	2021	*2020*
	Life expectancy at age 60 (years)	*Life expectancy at age 60 (years)*
Male retiring in 2019	27.1	*27.1*
Female retiring in 2019	29.0	*28.9*
Male retiring in 2029	27.7	*27.7*
Female retiring in 2029	29.8	*29.7*

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

	Change in assumption	**Change in liabilities**
Discount rate	Increase of 0.25% p.a.	Decrease by 4.1%
Rate of inflation	Increase of 0.25% p.a.	Increase by 4.3%
Rate of mortality	Increase in life expectancy of 1 year	Increase by 4.1%
Rate of mortality	Mortality improvement - long term rate 1%	Decrease by 0.9%
Cash commutation	50% of post A-day maximum using current factors	Increase by 1.1%

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 2021 is 17 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 2022 is £1,472,000.

Defined contribution scheme

At 31 December 2021 183 employees *(2020: 193 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 2021, the Bank paid £1,798,720 *(2020: £1,847,347)* by way of contributions into that scheme. There were no outstanding or pre-paid contributions to this scheme at 31 December 2021 *(2020: nil)*.

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

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 2021 and bear interest based on inter-bank offered rates for dollar and Euro deposits. The amounts disclosed below include accrued interest.

	2021	*2020*
Due 29 April 2027	18,370	*18,202*
Due 27 October 2027	23,388	*23,175*
Due 17 June 2027	28,756	*30,659*
	70,514	***72,036***

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**	
	2021	*2020*	**2021**	*2020*
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

	2021	*2020*
Called up share capital (Note 28)	104,357	*104,357*
Capital redemption reserve	4,104	*4,104*
Other reserves		
Retained earnings	99,253	*83,751*
FVOCI reserve	2,572	*4,995*
	101,825	88,746
	210,286	***197,207***

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

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

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

The Directors have recommended a final dividend for the year ended 31 December 2021 of £10m (2020: nil) to the Bank's next Annual General Meeting.

The Bank 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. In accordance with the parameters set out in the PRA Rulebook, the Internal Capital Adequacy Assessment Process ("ICAAP") is embedded in the Bank's risk management framework. The Bank did not breach any capital requirements during the year. Further details with respect to the Bank's capital management is detailed in the Strategic Report on page 1.21.

30. Financial guarantees and other commitments

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

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

	2021	*2020*
Financial guarantees	96,032	*120,387*
Other commitments comprise:		
Credit lines and other commitments to lend: original maturity		
under one year	51,668	*24,655*
over one year	1,350	-
Documentary credits and short-term trade-related transactions	322,122	*246,418*
Own acceptances	2,199	*1,523*
	473,371	***392,983***

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 2020 and at 31 December 2021.

Contract amount	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Financial guarantees	89,942	3,008	3,082	96,032
Other commitments	376,897	442	-	377,339
Total	**466,839**	**3,450**	**3,082**	**473,371**

Loss allowance provision	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Financial guarantees	(172)	-	(2,455)	(2,627)
Other commitments	(291)	(12)	-	(303)
Total	**(463)**	**(12)**	**(2,455)**	**(2,930)**

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

31 December 2020

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

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

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

	Excepted credit loss provision			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance as at 31 December 2020	650	42	3,787	4,479
Transfer (out)/from Stage 2	(2)	3	-	1
Change in other risk parameter (incl change in account balances)	(237)	(8)	457	212
New positions originated or purchased	251	-	-	251
Financial assets that have been derecognised	(173)	(24)	(1,772)	(1,969)
Foreign exchange and other movements	(26)	(1)	(17)	(44)
Balance as at 31 December 2021	**463**	**12**	**2,455**	**2,930**

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

31. Foreign currency assets / liabilities

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

31 December 2021	**Sterling**	**Dollars**	**Euro**	**Other currencies**	**Total**
Total assets	653,972	1,786,154	312,937	29,480	2,782,543
Total equity and liabilities	(626,463)	(1,808,152)	(316,485)	(31,443)	(2,782,543)
Derivatives (at contract notional value)	61,747	(26,829)	(30,389)	(4,529)	-
Net exposures	**89,256**	**(48,827)**	**(33,937)**	**(6,492)**	**-**
Contingent liabilities and other commitments	60,846	254,941	151,033	6,551	473,371

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

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

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

32. Legal proceedings

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 2019 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.

33. Related parties

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

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

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

The analysis below sets outs balances with the Bank's parent company and its subsidiaries:

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

	Parent & Ultimate Controlling Party		Other Subsidiaries	
	2021	*2020*	**2021**	*2020*
Balances outstanding				
Debt securities	-	*-*	14,811	*14,673*
Loans and advances	15	*15*	38,922	*8,730*
Deposits	1,160,887	*1,223,348*	238,924	*230,134*
Subordinated liabilities	70,514	*72,036*	-	*-*
Contingent liabilities and other commitments	2,419	*14,754*	76,823	*28,452*
Included in income statement				
Interest receivable	-	*1*	137	*206*
Interest payable	(8,276)	*(16,066)*	(873)	*(2,847)*
Fees and commissions receivable	459	*423*	1,996	*1,740*
Fees and commissions payable	-	*-*	(12)	*(103)*
Net trading income	-	*(14)*	(34)	*95*

At 31 December 2021 no amount was outstanding in respect of interest free loans or interest bearing loans due from key management personnel of the Bank (*2020: £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 £702,735 *(2020: £760,809)*.

ii. Key management personnel compensation:

Key management personnel compensation:

	2021	*2020*
Directors' attendance and standing fees	739	*622*
Executive Managers		
Salaries and other short term benefits	2,769	*2,095*
Termination benefits (including amounts payable during contractual notice periods)	886	*393*
Post-employment benefits to non Directors	118	*133*

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 (excluding subordinated liabilities) at year end:

Funding received	**2021**	*2020*
Libyan Foreign Bank	480,024	*477,708*
Cental Bank of Libya	678,397	*743,903*
Total	**1,158,421**	***1,221,611***

Weighted average maturity	*2021*	*2020*
Libyan Foreign Bank	***0.51 years***	*0.39 years*
Cental Bank of Libya	***0.14 years***	*0.13 years*

ALL AMOUNTS IN £'000s UNLESS OTHERWISE STATED

34. Events after the reporting period

Defaulted Real Estate Exposure
In early 2022 the Bank received an offer for the purchase of a property that that has been accepted and is progressing. If completed, the sale will result in a recovery of an approximate amount of £0.6million on a real estate exposure. This will be recognised as a gain in the income statement in 2022.

OFAC Attestation
The Bank has made its third annual certification to OFAC on 1 March 2022 in accordance with its compliance commitments under the 2019 settlement agreement. The remaining U.S. Attorney's Office in the Southern District of New York (DANY) in scope transactions roll off from the statute of limitation in April 2022.

Russia and Ukraine Conflict
The evolving conflict between Russia and Ukraine is being closely monitored. Based on our current assessment, we do not have material concerns over our exposure, impact on future business or ability to act in line with regulatory and legal requirements. BACB has zero appetite for transactions with Russia, Ukraine, or Belarus, irrespective if such entities fall outside of formal restrictions and sanctions.

Proposed Dividend
During a Board meeting in March 2022 the Directors have recommended a final dividend for the year ended 31 December 2021 of £10m. The dividend is subject to approval by the Bank's Annual General Meeting which is scheduled for May 2022.

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

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