BACB

year ended 31 December 2023

ANNUAL REPORT & FINANCIAL STATEMENTS

A UK BANK DELIVERING TRADE FINANCE & INVESTMENT EXPERTISE

to enable clients, countries & communities to prosper.

OUR VISION

Be the preferred international banking partner across Africa and core markets.

OUR STRATEGY

Drive sustainable growth and stay relevant to our clients and markets by leveraging our people, knowledge and relationships.

BACB

winners

GLOBAL FINANCE MAGAZINE AWARDS 2024

BEST TRADE FINANCE BANK IN FRONTIER MARKETS

GTR LEADERS IN TRADE 2023

BEST TRADE FINANCE BANK, NORTH AFRICA

AWARDS

shortlisted

GTR LEADERS IN TRADE 2023

BEST TRADE FINANCE BANK, WEST AFRICA

ICE INTERNAL COMMUNICATIONS AND ENGAGEMENT AWARDS

BEST INTERNAL COMMUNICATIONS FINANCIAL SERVICES SECTOR

CONTENTS

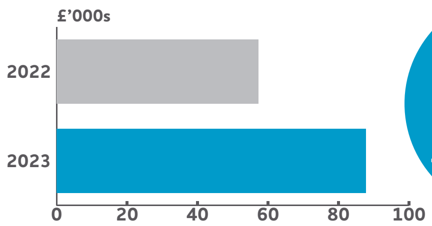
FINANCIAL HIGHLIGHTS 2023 YEAR END RESULTS

£87.9m
2023 OPERATING INCOME
53% year on year increase

profit
£36.4m

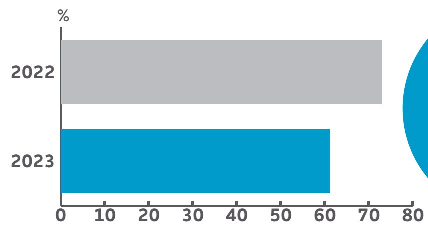
£53.6m
2023 COSTS

OPERATING INCOME[1]



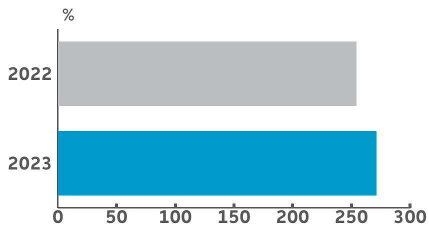
increase in operating income to
£87.9m

COST/INCOME RATIO[2]



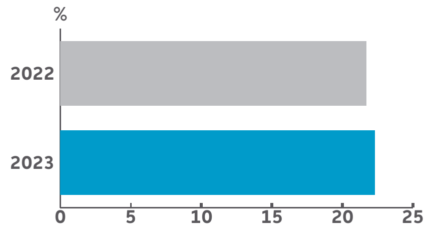
cost/income ratio
61%

LIQUIDITY COVERAGE RATIO[3]



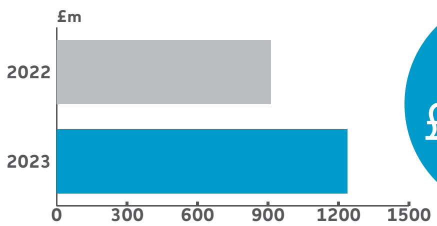
271%
LIQUIDITY
coverage ratio

TOTAL CAPITAL RATIO[4]



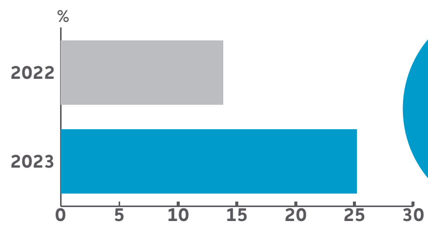
22.3%
CAPITAL
adequacy ratio

DISTRIBUTION VOLUME[5]



distribution volume
£1.24bn

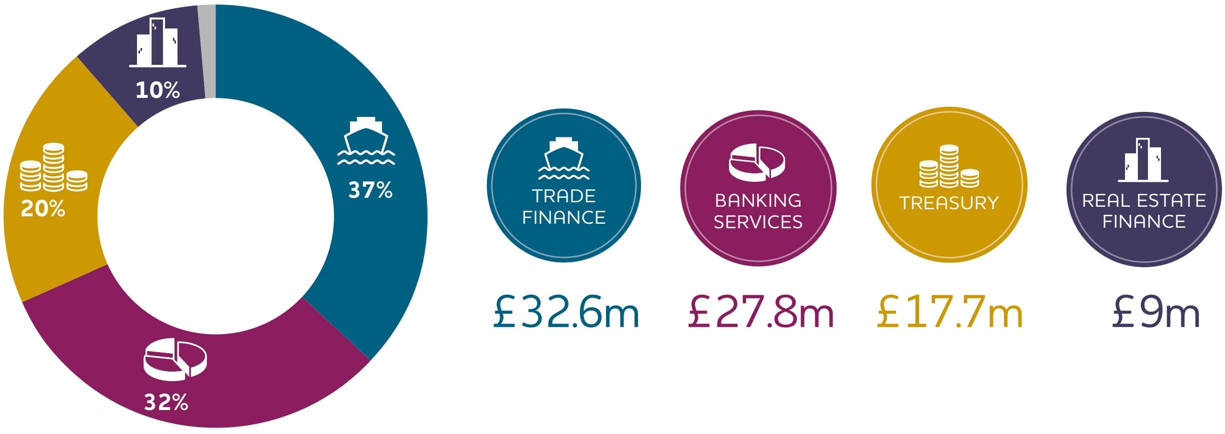
RETURN ON INITIAL INVESTED CAPITAL[6]



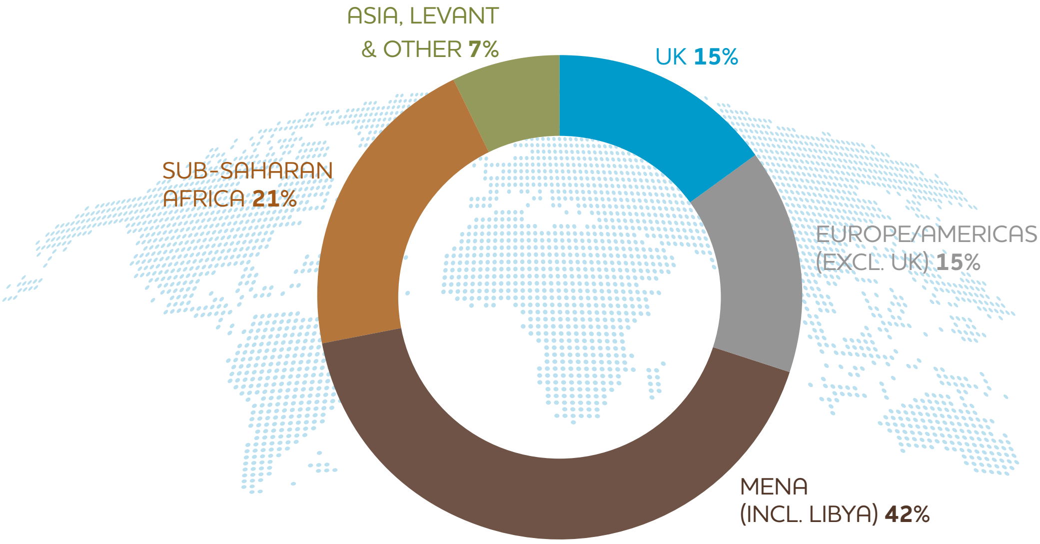
return on initial invested capital
25.2%

1 References to Operating Income on this page refer to operating income before allowance for credit losses as per Statement Of Comprehensive Income.
2 Based on Administrative Expenses divided by Operating Income.
3 Liquidity Coverage Ratio is calculated by dividing high quality liquid assets by stressed net cash outflows over a 30-day time period based on Prudential requirements.
4 Capital ratio is calculated in accordance with Prudential requirements.
5 The volume of assets shared with partners with an aim to manage balance sheet efficiently and create more capacity for business origination.
6 Based on Profit for the year divided by Shareholder's funds (Called up share capital and Capital redemption reserve).

2023 OPERATING INCOME BY BUSINESS[1]

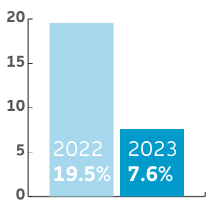


2023 OPERATING INCOME BY REGION[1]

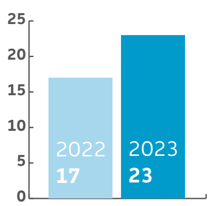


NON-FINANCIAL KPIs

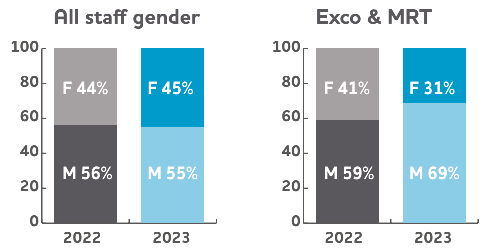
EMPLOYEE TURNOVER %



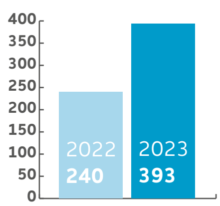
NATIONALITIES EMPLOYED



GENDER RATIO



tCO2e[2]



1 References to Operating Income on this page refer to operating income before allowance for credit losses as per Statement Of Comprehensive Income.
2 tCO2e stands for tonnes (t) of carbon dioxide (CO2) equivalent (e).

STRATEGIC REPORT

CHAIRMAN'S STATEMENT

Dear Shareholders,

I am delighted to present the Annual Report and Audited Financial Statements of British Arab Commercial Bank Public Limited Company ("the Bank" or "BACB"), for the twelve months ending 31st December 2023.

2023 has proved to be a remarkable year for BACB in what has proved to be the most successful in our 51-year history in terms of absolute financial performance, both total revenue and operating profit. The significant growth is as a result of the firm foundations that were put in place last year as we re-positioned the Bank for safe and sustainable growth. Our focus remains unchanged in terms of our product offering and geographic coverage. We have continued our strategic investment in the Bank to ensure we remain relevant to our clients and provide a competitive service.

The ongoing success of our strategy stands testament to the hard work and dedication of both our people and the executive leadership of the organisation. The Board continues to support the strategic change programme which creates a more effective, efficient organisation while focusing on the Bank's traditional strengths and core markets. The successful execution of this strategy has seen notable improvements in all of our key financial metrics which are highlighted below.

These results have been achieved against a backdrop of global economic and political instability which has impacted some of our key markets. Yet despite substantial headwinds, BACB has produced outstanding financial results, highlighting the resilience and robustness of our business model.

LEADERSHIP AND GOVERNANCE

The Bank's success is founded on the principle of good governance. As a UK Bank regulated by the Bank of England's Prudential Regulation Authority and Financial Conduct Authority we are cognisant of the need to apply the highest standards possible and remain up to date with current regulatory requirements.

In September I was delighted to welcome to BACB's Board Mr. Mohammed Ali Addarrat as shareholder representative of Libyan Foreign Bank (LFB) where he serves as Chairman. Mr. Addarrat has joined the Board as Vice-Chairman and Non-Executive Director. Mr. Paul Howard also joined our Board as Chair of the Audit Committee and Independent Non-Executive Director. With many years of experience working across international financial markets, these quality appointments strengthen the foundations of our organisation, paving the way for continued success.

The appointment of Mr. Paul Jennings as Chief Executive Officer in 2023 has proved pivotal in the transformation of the Bank and the outstanding results delivered. Paul was formerly the Bank's Deputy CEO, bringing extensive experience in our markets and products gained throughout a very distinguished banking career.

FINANCIAL PERFORMANCE

Operating income of £88m was achieved in 2023 representing a significant year-on-year increase of 53% resulting in Profit before tax of £36m (161% increase year-on-year). This 53% year-on-year increase led to BACB's cost/income ratio reducing to 61%, as demonstrated on page 5 in the Highlights section. Our capital and liquidity metrics remained healthy throughout the year, and the balance sheet remained stable, standing at £3bn at year end.

The Board commends the Senior Leadership Team and all colleagues across BACB in delivering these historic results.

A LOYAL PARTNER TO OUR CORE MARKETS

As a UK Bank delivering trade finance and investment expertise, BACB highly values its partnership approach with our core clients and in the specialist markets that we operate. The Bank was recognised for the pivotal role it plays in facilitating trade in North Africa, winning the Global Trade Review (GTR) 2023 Leaders in Trade Award for Best Trade Finance Bank in North Africa. This is the fourth time that BACB has received this accolade, reflecting the level of specialist expertise, quality of service and strategically important role that the Bank plays in the region, as well as the loyalty that it shows to its core markets. BACB was also awarded the prestigious Global Finance award for Best Bank for Trade Finance in Frontier Markets for the second year in a row.

As Chairman, I was proud to lead a senior delegation from BACB to Libya during 2023 and meet with all the major financial institutions and corporates with whom BACB has enjoyed long term relationships. This also allowed us to dedicate time to meeting Libyan Foreign Bank, as our majority shareholder, and thank them for their continued and unwavering support. Our strong commitment to the Libyan market was reflected by further visits throughout the year and will be continued under my chairmanship in 2024.

In 2023 the world experienced some catastrophic events which caused loss of life and devastation including natural disasters in two of our shareholder markets namely the earthquake in Morocco and the floods in Eastern Libya. As a loyal partner to our shareholders and strategic partners we will continue to offer steadfast support to our colleagues, clients and stakeholders in both countries. We stand wholeheartedly with the communities affected and look to support the plans for recovering and rebuilding including financial support that we have offered.

LOOKING AHEAD

I would like to thank our colleagues across BACB's offices in London, Tripoli, Algiers, and Abidjan for their hard work and commitment, without which we would not have been able to present such a strong set of results.

I would also like to take the opportunity as Chairman, on behalf of the Board, to thank our three shareholders namely, Libyan Foreign Bank, Banque Centrale Populaire and Banque Extérieure d'Algérie, for their support and trust which has allowed us to achieve these results and for their commitment to our recently approved 3 year strategic plan.

We look forward to 2024 notwithstanding the ongoing geopolitical and macroeconomic headwinds and remain confident that our focus on both the financial and non-financial objectives will continue to deliver safe and sustainable growth.

This Strategic Report was approved by the Board on 14 March 2024.

DR YOUSEF AL AWADI KBE

Chairman

14th March 2024

CHIEF EXECUTIVE OFFICER'S REVIEW

"These exceptional results demonstrate strong business growth, enhanced profitability and a significant return on investment for our shareholders."

It is with great pride that I share with you our financial results for 2023 which are the best in the 51-year history of BACB. These exceptional results demonstrate strong business growth, enhanced profitability and a significant return on investment for our shareholders. The success of our business performance driven by our core Trade Finance business contrasts with a challenging year in the global financial environment whereby many banks have seen Trade Finance activity slowing down.

Since my appointment as CEO, I have worked closely with my Executive Management Team to ensure alignment and collaboration with our colleagues across the organisation to deliver our strategy. This approach has ensured our clients consistently receive a high-quality service, prudent risk management is maintained, and that the highest standards of regulatory compliance are observed. The support of our Board, under the chairmanship of Dr Yousef Al Awadi has been instrumental for the Bank's success during the year.

STRATEGIC DIRECTION

The Board-approved strategy reflects BACB's vision, mission and values by leveraging our people, knowledge and relationships. Our strategy of originating quality assets in our core markets, combined with our future focus on Global Transaction Banking (GTB), incorporating trade finance and banking services, which will be launched in 2024 will ensure the long-term delivery of safe and sustainable revenue streams from our selected geographic focus.

BACB has benefitted from the geographic diversity of our coverage model, with a significant increase in our revenue derived from our well-established markets most notably Libya where we have long standing relationships but also increased our market share in existing markets that were previously less relevant to our client base. Our robust business model has weathered storms that have impacted a number of our geographies whilst our Real Estate and Treasury businesses have performed well, notwithstanding the economic environment, through prudent portfolio management.

DRIVING BUSINESS GROWTH

Throughout the year, our focus has been on maximising revenue from our existing platform. Our strong performance is the culmination of the exceptional service we offer our clients, our capacity to expedite transactions and serving as a trusted partner, our ability to leverage our large network of correspondents to build connections in the specialist markets in which we operate.

Our local market knowledge and presence, coupled with expertise in our products, has served us well with both first and second line functions being visible in our specialised markets providing support, guidance and training where required.

In terms of funding, BACB has maintained its robust fundamentals: our liquidity coverage ratio has averaged a healthy 271%, and our capital ratios throughout the year have remained strong, recording 22.3% at year end. BACB has also demonstrated significant year-on-year operating income growth of 53%, and a record end of year profit before tax of £36m. This record performance was more impressive due to all business lines performing ahead of plan and the absence of any material recoveries to enhance performance. In addition, whilst in previous years the Bank relied on recoveries to bolster its performance, this was not the case in 2023 since all business lines performed ahead of plan.

We recognise the importance of providing a healthy return for our shareholders and for 2023 our Return on Initial Invested Capital stood at 25.2% as can be seen on page 5. Our cost/income ratio has declined dramatically from 73% to 61% over the course of the year, driven by the significant growth in revenue witnessed in 2023.

Measured and proportionate investment are key to the continued development of the business and support us in delivering safe, sustainable growth, while ensuring complete alignment with the evolving regulatory landscape.

A TRUSTED PARTNER FOR OUR CLIENTS

BACB recognises the need to be agile in often challenging conditions and this sets us apart from many of our competitors. As we are by nature a specialist provider with geographic and product expertise, the Bank remains focused on its core markets and continues to carefully monitor economic and political developments which have the potential to impact upon the Bank's strategy. Furthermore, the Bank's ability to structure transactions to mitigate risk in frontier markets gives additional comfort, as does the Bank's strong trade distribution network. Our strategy places us in the right position to achieve safe, sustainable growth even considering the risks inherent to our core markets.

2023 has seen many challenges in our markets most significantly the natural disasters in Libya, Morocco, and Turkey that have caused devastation and huge loss of life. The thoughts of everyone at BACB are with those whose lives have been lost and those impacted.

We have also seen political instability across West Africa and the Sahel region, most notably in Sudan which was historically a significant market for BACB. The resultant market volatility and supply chain disruption has been significant, this in turn has impacted global and regional trade flows.

Our loyalty to the specialist markets in which we operate, despite the challenges faced, is cause for optimism for both BACB and for our clients. Above all, it demonstrates the long-term nature of our commitment to these markets – this is, in our view, the bedrock on which sustainable business relationships are built. We stand shoulder to shoulder with our partners in these markets at their time of need, providing unwavering support and assistance wherever possible.

OUR PEOPLE

Our strong performance is founded on the hard work and dedication of our skilled team, and I want to thank my colleagues for their achievements. As an organisation, we are focused on our people, and I am delighted to see that BACB has continued to attract the best talent in the industry. As shown on the Highlights on page 6, the Bank has demonstrated increased stability in its workforce, lower turnover, and improved engagement through the promotion of a culture founded on openness, transparency and enhanced collaboration. Meanwhile, our investment in talent across the organisation has strengthened the business forming the cornerstone of our strategic plans for the next three years.

Jane Perkin, Chief People Officer and Damian Austin, Chief Banking Officer joined my Executive Management Team during 2023 and have provided further stability and strength to the existing team.

BUSINESS OUTLOOK

BACB's financial and non-financial achievements for 2023 leave us in a strong position for 2024 and beyond. We have delivered our financial results substantially ahead of plan which further endorses our decision to make significant investments for the next three years as we progress our transformation journey.

Our relationships and partnership approach has been integral to our recent success story and in this respect, we are collaborating with our clients to ensure that we are able to provide the services to remain their bank of choice. I remain confident that with the quality of our people, who are our greatest asset, BACB will meet the needs of our clients and we will continue to go from strength to strength.

We are confident in our ability to seize advantage of the growth opportunities that will continue to present themselves in our core markets generating value for our clients and the communities in which we operate. As we look to 2024 and beyond our expectation is that easing inflation is likely to allow major central banks to start cutting rates later in 2024 which could boost international trade flows. However, we recognise that market volatility and geopolitical tensions can still cause headwinds in 2024 and beyond in particular rising nationalism, anti-globalisation and protectionism are threats to long-term growth prospects in emerging and frontier markets. In addition, supply chain issues and negative environmental, agricultural, and economic consequences of adverse climate events still pose a risk to a number of our markets. BACB has a proven track record of agility and market knowledge enabling it to react swiftly to market conditions and I am confident in our teams' ability to rise to the challenge and continue to deliver the Bank's strategy in an effective manner that ensures our success as well as providing our clients and communities with the financial services and support they need to achieve their objectives.

PAUL JENNINGS

Chief Executive Officer

14th March 2024

STRATEGIC REPORT

BUSINESS & PERFORMANCE OVERVIEW

BUSINESS AND PERFORMANCE OVERVIEW

OVERVIEW

BACB is an international wholesale bank with over 50 years' experience providing global trade finance and treasury solutions to clients trading in and out of specialist markets.

With our head office 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. BACB leverages its position in the world's leading financial market to forge close ties with the global banking community.

We are a trusted partner, active across Africa, the Middle East and Asia, supporting trade flows and connecting those markets with the rest of the world.

In addition to our core Trade Finance offering, we provide niche UK Real Estate Finance facilities, and operate a full Treasury function, which is active in foreign exchange, derivative and debt capital markets. The ability to leverage local knowledge and product expertise makes BACB our clients' natural choice as their preferred banking partner for specialist markets.

Our mission is that we are "a UK bank delivering trade finance and investment expertise to enable clients, countries and communities to prosper".

THE STRATEGIC VISION

As outlined in the Chief Executive Officer's Review our objective is to originate prime assets in our core markets which deliver long-term sustainable revenues. Our strategy remains one of measured expansion, based on our heritage in Africa, and expertise across chosen geographies.

Through our extensive network of relationships, we are enabled to offer maximum value to our partners. With client-centricity a core part of our approach and product-specific expertise, we further strengthen our offering by supporting stakeholders across the supply chain.

STRATEGIC OUTLOOK

Challenging worldwide macroeconomic conditions coupled with the geopolitical uncertainty have been and will remain at the forefront of our robust risk management, impacting our consideration of where and how we undertake business. Despite these challenging conditions, we are seeing central banks starting to control inflation, with interest rates forecasted to stabilise, with moderate reductions expected throughout 2024 in the majority of leading markets.

Geopolitical tensions remain heightened across the world. A number of tragic conflicts seen in 2023 reflect this fact and the extent of this suffering caused cannot be understated. The thoughts of everyone at BACB are with those whose lives have been impacted.

The resultant market volatility and supply chain disruption has increased, thus impacting global trade and the regions that we serve. However, we are heartened by the improved stability in Libya following the reunification of the Central Bank and believe this could present upside potential for the Bank.

BACB is a niche provider, with leading geographic and product expertise, and remains focused on its core markets by continuing to carefully monitor economic and political developments which have the potential to impact upon the Bank's strategy.

Our loyalty and steadfast commitment to the specialist markets in which we operate, despite challenging conditions, has proven and will continue to create opportunities for our clients.

Furthermore, the Bank's ability to structure transactions to mitigate risk in frontier markets gives additional comfort as well as the Bank's strong trade distribution channels which allows BACB to be more relevant to its customers and markets.

During 2023 BACB has continued to work closely with core markets, including shareholder countries. Operating income by region can be viewed in the Highlights section on page 6.

BUSINESS OVERVIEW

In 2023, we demonstrated strong business growth, which was the direct result of the successful execution of our strategy: focusing on leveraging our existing expertise and products, enhancing service delivery, and investing in the development of our core markets.

Our balance sheet strategy is intentionally prudent, maintaining a relatively sizable book of liquid assets.

BACB's team of banking professionals based in London and in our representative offices in Algiers, Abidjan and Tripoli, work in partnership with our correspondents to provide high quality service to our clients.

The creation of the Transaction and Client Services Team has enhanced the link between our Front Office relationship team and Back Office transactional delivery teams to significantly increase service quality and the speed of transactional execution.

Over the course of the year our teams' efforts have resulted in a substantial increase in trade transactions across our core markets. Partnering with banking groups and serving some of the largest trading companies in the world, BACB provides a bridge between some of the world's major and developing economies, and the wider international markets. Our work provides security and financial assistance to traders, both large and small, as they expand their reach into the regions that we specialise in.

Despite significant global challenges, the trade flows to and from the Bank's core markets strengthened over the course of the year. Indeed, the support we provide remains critically important in ensuring that traders can mitigate the risks they face. The Bank is proud of the part it plays in facilitating the movement of goods and services, and endeavours to make the financing and provision of international trade solutions as flexible as possible to best meet client needs. The Bank's effort resulted in operating income of £88m in 2023, representing a significant year-on-year increase of 53%.

The Bank's overall increase in net interest income during the year arose due to increased margins across asset balances held by the Bank, the reinvestment rate from our businesses grew at a faster pace than the cost of funding. This was managed proactively through the Treasury balance sheet management and the evolution of cash management techniques between Banking Services and Treasury. The increase in net interest income was also supported by strong relationship management which meant that despite rising rates, we were able to retain client balances. Further details of the Bank's net interest are disclosed in Note 8.

As part of aligning the composition of our business to our strategic vision in 2024 BACB will provide a Global Transaction Banking (GTB) offering which will comprise four key areas:

- Trade Finance
- Trade Lending
- Cash and Liquidity Management
- Supply Chain Solutions

Our Global Transaction Banking and Treasury functions will deliver valuable product offerings to our core markets, while our Real Estate Finance business diversifies income streams, generating

GBP revenue, and providing protection against the cyclical nature of global trade.

BALANCE SHEET COMMENTARY

At 31 December 2023, total assets of £3bn were 6% lower than on a reported basis than December 2022, being impacted by the decline in the USD/GBP FX rate during 2023.

Assets

Reported loans to customers and other banks as a percentage of total assets were 41% compared to 38% in 2022, the movement in this ratio was compensated by a decline in financial assets from 60% of total assets in 2022 to 57% in 2023.

- Loans to other banks and financial institutions increased by £100,436,000 (13%) over 2022 driven by an increase in bills discounted of £174,840,000 (51%) reflecting the increase in trade finance business over the year. This was partly offset by decline in term lending and market placements.
- Loans to customers declined by £75,213,000 (16%) due to the managed reduction over the year, in real estate aligned with our risk appetite in light of the current macro-economic climate.
- Financial investments which are mainly made up of debt securities designated as FVOCI and reverse repurchase agreements have declined by £223,242,000 (12%) as a result of the Bank's balance sheet management activities which resulted in liquidation of positions offset by market-to-market gains on the portfolio.

Liabilities

- Deposits (from banks and other institutions) declined by 7.7%, £222,555,000 over 2023, driven by a decrease in the USD/GBP FX rate and a decrease in Libyan originating deposits driven by maturities.
- Movements in derivative financial instruments are driven by market volatility.

TRADE FINANCE

Working closely with a network of international banking partners, BACB provides an experienced and personalised service. Over the course of 2023, BACB has continued to offer its core trade finance activities across 43 markets, including 21 in Africa, and handled over £3bn (2022: £2.6bn) of trade assets for our clients. Our trade finance offerings help companies to develop their international trading opportunities, by providing solutions across specialist markets.

The Trade Finance business contributed 37% of the Bank's total revenue (2022: 43%) as seen on page 6. The business has been on a significant growth momentum in the last 2 years with a year-on-year increase of 34% in 2023 following a similar year-on-year increase in 2022 of 38% on 2021.

The Bank's overall increase in net interest income during the year arose due to an increase in balance sheet assets as well as increased margins. The business successfully adopted several cash management techniques throughout the year as a result of strong relationship management despite rising rates.

Thanks to over 50 years' experience serving predominantly Middle Eastern and African markets, BACB has developed a comprehensive and award-winning trade finance service designed to give confidence to our clients. Key to this is local market expertise combined with the operational advantages of dealing with a UK-domiciled and regulated bank.

In 2023 BACB won Global Trade Review's Award for the Best Trade Finance Bank in North Africa, having also previously won the award in 2019, 2020 and 2022. BACB is one of the few banks which facilitates transactions from every North

African market, and the award recognised BACB's significant contribution to supporting trade flows across the region. This award follows on from the success of BACB winning the Global Finance Award for the Best Trade Finance Bank in Frontier Markets, an award it has now retained for a second consecutive year - further testaments to the Bank's success.

Building on decades of experience in specialist markets, BACB provides bespoke solutions tailored to individual client needs. BACB offers a broad range of trade finance services and supply chain solutions, 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 and Receivables Discounting. Our well-established reputation enables us to advise and confirm transactions globally, thereby providing enhanced financial security to clients and improved management of international exposures and cash flow.

Although Trade Finance exposures which are Bills Discounted, Term Lending (Note 18) and Financial Guarantees and Commitments (Note 30) have only shown marginal growth from 2022, the reality is a more significant growth profile in Trade Finance exposures which have been originated and distributed to third parties and thus not represented in the Bank's financial position as at 31 December. The Bank continued to develop its trade distribution capability, growing its syndication and distribution platform across bank and non-bank investors, with £1.2bn (2022: £0.9bn) of trade assets distributed in 2023, a year-on-year increase of 36% as seen on page 5. This enables efficient balance sheet usage and enhanced risk appetite, while creating additional liquidity in the international financial markets, underpinned by our commitment to developing trade and promoting financial inclusion in markets often underserved by larger global banks. This capability has been developed as a solution for recognised client needs, enabling us to facilitate their higher value transactions in frontier markets. A prime example in 2023 being the repeated flow of LCs; these transactions in favour of one of the world's largest agricultural commodity traders included the confirmation of numerous high value LCs covering the import of sugar to Mauritania.

The increase in distribution capacity enabled the business to grow the Trade Finance revenue in 2023 even though the Bank's balance sheet remained stable from 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, the majority of the Bank's exposure in Real Estate having loan-to-value of 65% or less (Note 4, page 80).

As at 2023-year end, the Real Estate book stood at £368m (2022: £435m). This represents a managed reduction over the year, in alignment with our risk appetite, and reflective of the current economic climate, that has seen a high inflationary environment, rising interest rates, and increased borrowing costs.

We closely partner with our Real Estate clients, ensuring a proactive dialogue is maintained. This provides us with a deep understanding of the client requirements, and the necessary transactional oversight. The key factors determining success include the maintenance of the appropriate levels of term funding to support the business, with diversification across the sectors and geographies, while continuing to support existing customers.

During the year, some deals matured naturally, with high quality transactions being renewed for a further term, however minimal new to Bank business has been considered, with the priority of the Real Estate team being to maintain a robust approach to risk management and to act in the best interest of the Bank's borrowers.

The Real Estate business remains a key part of the Bank's diversification strategy contributing 10% (2022: 18%) of operating income as seen on page 6, and providing a good risk adjusted GBP denominated annuity income flow.

TREASURY

The Treasury department has two primary functions. Firstly, facilitating client flows by leveraging BACB's access to financial markets, and secondly, managing the Bank's balance sheet.

Continuing from a strong year in 2022, the foreign exchange and fixed income business flows remained healthy in 2023. Treasury facilitated BACB's clients' evolving foreign exchange trading needs. In addition, Treasury supported client activity in Money Markets, including financing solutions under Islamic law, and fixed income markets. This is expected to continue to grow during 2024.

Treasury has also benefitted from generating interest income from investment grade debt securities and money market products, receiving a higher re-investment rate whilst funding costs grew at a slower rate due to the maturity profile of our liabilities.

Treasury balance sheet management ensures the Bank's compliance with regulatory liquidity requirements, including the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) metrics, as well as the Bank's own risk appetite. The average LCR during 2023 was 271% (2022: 254%) compared to an internal trigger of 150%, reflecting the Bank's strong liquidity position, as seen on page 5.

Treasury actively manages the Banks' interest rate risk, FX risk and liquidity risk as well as the Banks's liquid asset buffer consisting of high-quality liquid assets (HQLA).

Several key new staff were recruited during 2023 and embedded into the Treasury function, demonstrating our continued ability to attract and retain talent and meet the ever-changing financial services industry and client's requirements. We look forward to implementing further service enhancements during 2024, future proofing and strengthening the Treasury function.

INTERNAL OPERATIONS

The Bank is committed to continuous enhancement of 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 complies with all applicable anti-bribery and corruption laws in relation to the Bank's operations, it has a dedicated Anti-Bribery and Corruption Policy, and annual training is provided to all employees.

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 2023, BACB continued to strengthen its financial crime risk mitigation abilities by enhancing key components of its financial crime control framework. The United Kingdom's withdrawal from the European Union following the end of the transitional period has created additional complexity due to the new UK regulatory regime; BACB works to ensure compliance with all applicable regimes when undertaking business.

BACB proactively engages with partner institutions to assist their understanding of the regulatory standards to which BACB adheres, organising training events, and providing the necessary information to ensure due diligence requirements are met for all transactions. This work helps to build capacity in the markets in which the Bank operates, enhances transactional oversight, and ultimately makes trade flows run more smoothly.

During the year numerous training events have taken place, including seminars focused on compliance and the risks associated with trade transactions as well as trade finance and treasury. This knowledge sharing, with a key focus on regulatory matters, forms a core component of BACB's strategic partnerships with the institutions based in the specialist markets where the Bank operates, with BACB planning to hold similar capacity-building events in 2024.

Geopolitical tensions have remained high in 2023, with the impact of conflict and the imposition of sanctions constraining global trade and supply chains. Throughout this the Bank has maintained an open line of communication with clients, clearly explaining sanctions and ensuring their complete application, while avoiding unnecessary disruption. BACB's steadfast commitment to its core markets has continued, evidenced by the Bank's ongoing facilitation of strategic trade flows, helping prevent food shortages in some of the world's most deprived regions.

RISK MANAGEMENT

Risk Strategy

BACB defines a risk as the combination of the probability of an event and its consequence. Consequences can range from positive to negative.

Risk management enables the Bank to capitalise on opportunities and achieve its strategy through serving customers and growing the business in line with risk appetite, maintaining the balance between risk and opportunity.

The Risk Management Framework (RMF) is the umbrella document detailing how the Bank manages its risks effectively and robustly. The RMF includes several integrated components providing the foundations for how risks need to be managed throughout the Bank, and outlines its importance in setting strategy, delivering against objectives, and making risk informed decisions.

Approach to risk management

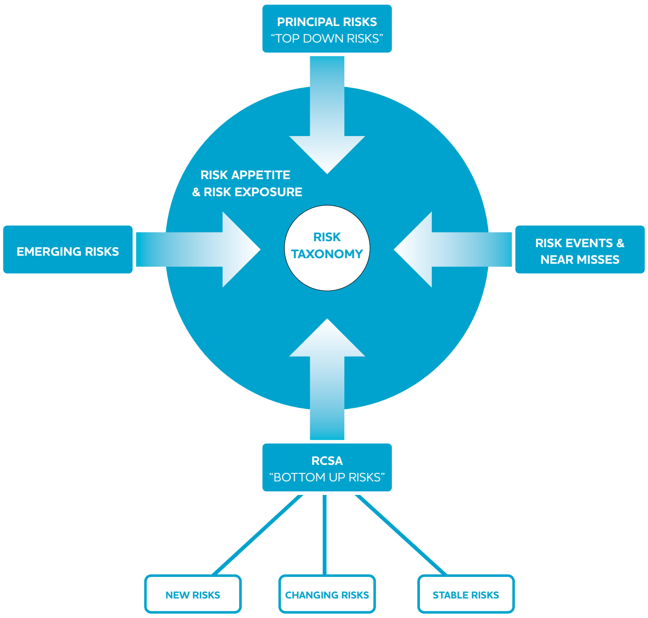
The Bank operates a 'three lines of defence' and enterprise risk model providing strong foundations to ensure the range of risks the Bank is exposed to are well articulated and evidenced. This is supported by building a robust culture and through risk-informed decision making which guide Executive and Board focus.

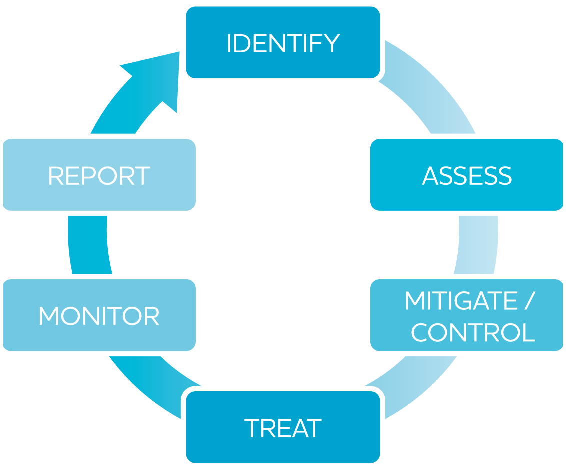
The Bank's risk management function is led by the Chief Risk Officer (CRO), who reports into the Chief Executive Officer (CEO). The CRO is responsible for implementing and overseeing the Bank's Risk Management Framework.

Individual areas of risk management are assigned to specialist areas and overseen by their respective heads. The Bank has a joint Chief Compliance and Money Laundering Reporting Officer who is responsible for Compliance and Regulatory Conduct Risk, and Financial Crime Risk.

Certain EXCO members are individually assigned Prescribed Responsibilities under the Senior Management Function prescribed by the PRA and/or FCA.

The processes for managing risks are aligned to industry standards as demonstrated below.





The Bank's risk universe comprises of the following:

- All risks, risk events are categorised and labelled according to the Risk Taxonomy.
- The Bank sets the level of risk it is willing to take, differentiated by the grouping of the risk: Risk Appetite and Risk Exposure.
- Risk Appetite Statements articulate what this looks like within a specific risk category.
- The Bank measures and talks about its risk environment and issues: Risk Scoring.

Principal Risks are a risk, or combination of risks, which can seriously affect the performance, prospects, or reputation of the Bank. If crystallised, they would have the potential to cause significant disruption to the Bank. These are identified on a top-down basis and are subject to Board debate and scrutiny.

Risk and control self-assessments (RCSAs) are built from the bottom up through individual business units identifying the risks they face. These risks are then collated and analysed for patterns.

Risk events are a risk that has crystalised.

Near misses are risks that have nearly crystalised.

Risk taxonomy and risk appetite

The risk taxonomy is a multi-level labelling system becoming increasingly more granular in nature. The risks are aligned to the Bank's strategy and business plan, and they are sufficiently broad to enable mapping of business function detailed risks.

Each level of the taxonomy is designed to be more adaptive to business requirements and support the early identification and management of trends.

Risk appetite is the amount and type of risk that the Bank is willing to take to meet its strategic objectives. The Bank categorises its Risk Appetite in the following way:

Approach

- Low Appetite - Avoidance of risk where possible.
- Medium Appetite – Willing to accept an expected level of risk to take advantage of an opportunity where appropriate controls can be put in place.
- High Appetite – Willingness to accept high levels of risk.

In relation to Strategic Objectives

- Low Appetite - In exchange for safe delivery options that have a low degree of risk and may only have limited reward.
- Medium Appetite – In exchange for a steady stream of low volatility earnings.
- High Appetite – In exchange for enhanced levels of reward.

Residual Risk

- Low Appetite – Controls are in place with an aim to fully mitigate the level of residual.
- Medium Appetite – Controls are in place to limit the level of risk, balanced against legal and regulatory considerations, in addition to resources required to deliver the controls.
- High Appetite – Controls are designed to balance the residual risk against the expected level of reward.

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 2023 this service was provided by Deloitte.

PEOPLE, CULTURE AND CONDUCT

BACB provides a collaborative, open and inclusive workplace, widely acknowledged for its trade and investment expertise in specialist markets. The Bank's People Strategy is reviewed annually to ensure alignment with the overall business strategy, and is focused on attracting, developing, and retaining talent.

2023 saw further evolution of our hybrid working model, implemented in 2020. This balances the needs of the Bank with the desire to provide flexibility for our colleagues, while continuing to enhance productivity, maintain team cohesion, and create an inclusive working environment.

Our ongoing investment in systems and processes, and the recent renovation of our premises has meant that we continue to improve many aspects of working life, including methods for communication, connectivity and hybrid working. The Bank continues to enhance its methods of communication with colleagues, hosting a series of hybrid town halls and training events, supporting mental health and wellbeing with increased numbers of trained Mental Health First Aiders, and monitoring engagement levels through our online survey tool. Sports and social activities and charity fundraising events continue to be an integral part of life at BACB.

People Development

The Bank recognises the importance of developing colleagues, setting each individual up to succeed, supporting them to reach their potential, add value and contribute to the success of the Bank. During 2023 the Bank continued to focus on people development, hosting regular hybrid "lunch and learn" events, online and in person workshops and a programme of regulatory compliance and risk awareness training.

The Bank also continues to enhance its onboarding framework, introduced in 2022, with the aim of improving the onboarding experience at BACB, supporting new colleagues to reach competence in their roles. Leveraging an agile approach, this programme will continue to be improved into 2024.

Development forms an integral part of our performance management process, 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 colleagues' objectives and development to the overall business strategy.

Over the course of 2023 BACB has continued to demonstrate its ability to not only recruit the best talent available but also to develop the skills and knowledge of our current colleagues, ensuring that the Bank maintains a strong level of expertise across the organisation. 2023 has seen a significant reduction in our rate of attrition, reducing from 19.5% in December 2022 to 7.6% in December 2023 as seen in the financial highlights. Additionally, we have enhanced our succession planning framework to be rolled out across the Bank throughout 2024 supporting our efforts to develop our future leaders into critical roles across the Bank.

Culture And Conduct

'Culture and Conduct' is a key area of focus for BACB, UK regulators, and the banking industry. The Bank's aim is to ensure that colleagues understand good conduct, recognising that process is as important as outcome.

Throughout 2023 we have continued to seek opportunities to embed our values and behaviours established in 2022. 2024 will see a rejuvenation of our Going the Extra Mile (GEM) Awards with a refresh of committee members and a relaunch of the awards across the Bank.

Further work is underway to embed our values with a review of our performance management approach in 2024 for launch in 2025.

Culture continues to be a key focus of colleague surveys, with metrics showing a steady improvement in employee engagement and significant improvements in Colleague Net Promoter score, which measures the willingness of our colleagues to recommend working at BACB.

The Bank has a Whistleblowing Policy, led by the Chair of the Audit Committee, enabling all employees to raise concerns. Throughout 2023 BACB has continued to focus on ensuring that the Whistleblowing framework is up to date and effective through the provision of training and dissemination of information.

BACB is and has always been a diverse and inclusive place to work, reflective of the communities and markets in which we do business. BACB recognises the importance of accurate data to the development of its culture and conduct agenda. Our HR Management Information has evolved during 2023 and is produced and reviewed on a quarterly basis, this is provided to our Executive Committee and the Board Nominations and Remuneration Committee giving a detailed insight into our diversity, inclusivity, and employee engagement. KPIs related to number of nationalities employed and the gender ratio both bank wide and at EXCO and MRT level can be viewed on page 6. These metrics show that in 2023 we were able to retain more colleagues, became more diverse in the nationality composition of our colleagues and overall are maintaining a gender balanced organisation across all levels. Our gender split across out material risk takers has marginally deteriorated during the year and the Bank will focus on this and other diversity KPIs in 2024.

We are committed to our journey towards a 'One team' mentality at BACB.

INFORMATION TECHNOLOGY (IT)

Information Technology is a critical area for BACB, enabling both the delivery of excellent service to our clients, and the efficiency of our internal processes. The Bank has an annually reviewed, Board-approved IT strategy which is backed by open and transparent IT Governance.

The Bank's IT strategy aims to provide cost-effective IT services in support of the Bank's overall strategy of safe, sustainable growth. The IT 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 based on a modern hybrid office and home working model. This success of the IT estate is underpinned by regular cyber security and resilience capability testing, and close collaboration with Risk, Compliance and Audit teams.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG)

The integration of the Bank's values of Loyal, Trusted, Driven and Agile has progressed throughout 2023. These values define both our internal culture and our approach to delivering excellent client service - and have been reflected through internal and external communication channels, training, events and in our performance management process.

ESG Strategy

In November 2023, the Board approved the Bank's ESG Strategy for 2024-2027. The development and approval of this strategy marks a crucial step forward in our ESG journey. In developing this strategy, we have endeavoured to be pragmatic, proportionate, and honest. Accordingly, the ESG strategy recognises not only the Bank's source of funding and our principal shareholder market reliance on hydrocarbons, but the role the Bank plays in supporting development within emerging markets.

Overall, the strategy reflects a balanced approach to ESG giving equal consideration to each of the core Environmental, Social and Governance elements. To provide a true understanding of our current ESG position, and the opportunities available to BACB, our strategic priorities for 2024 will focus on the improvement of ESG data collection, monitoring and internal reporting, enabling the integration of ESG considerations into decision making. This will enable the Bank to establish metrics and targets through which the success of the strategy will be measured going forward.

Office refurbishment and operational carbon footprint

2023 saw the refurbishment of our Mansion House Place office, a project expected to be completed in early 2024. During this project we have adopted numerous green solutions to reduce our operational carbon footprint including:

- Implementation of efficient energy and water use products,
- Targeting 98% of all construction waste to be diverted from landfill,
- Use of materials that have environmental credentials, with a focus on low carbon footprint (e.g., all timber being sustainably sourced),
- Reusing furniture where possible and prioritising UK-based suppliers for new products,
- Choosing finishes with low or zero pollutant levels (VOC's) for a healthier workplace; and
- Being designed to inform and engage, by placing QR codes around the new space to highlight environmentally friendly features.

However, as reflected in the Highlights on page 6 the Bank's carbon emissions have increased during the year due to increased site activity arising from the building refurbishment project as well as the installation of the new heating, ventilation and air conditioning system and related activities which contributed to increased electricity usage. With the introduction of this air conditioning system, the scope of BACB's reported emissions was expanded. This adjustment reflects our commitment to transparent reporting in line with the Streamlined

Energy and Carbon Reporting (SECR) framework. The adoption of this new system will improve our future operational carbon footprint and should result in reduced emissions going forward. Further details of the Bank's SECR reporting requirements are included in the Directors' report on page 42.

Following the refurbishment works BACB's head office is anticipated to achieve an enhanced energy efficiency EPC rating.

Giving back to our communities

Providing capacity building to our core markets is a key priority for BACB. Over the course of 2023, we held training events and seminars for our client markets. Working in partnership with those operating in the regions we serve, BACB has provided workshops focused on international trade finance and treasury best practice, as well as current regulation, compliance, and financial crime standards. This work provides us greater understanding and comfort around how our clients operate, and in turn ensures that our clients have a greater awareness of international standards, helping them to better secure their future trade finance needs.

The Bank provided training events in our core markets, including in early March a Financial Crime and Compliance training event in Nouakchott, Mauritania. The training, led by our Chief Compliance Officer, had representatives from across the Mauritanian banking sector in attendance. The training was undertaken with the support of senior leaders, including the Governor of the Central Bank of Mauritania and the country's Minister of Finance.

In July, trade finance training sessions were held for both the Libyan banking and corporate sector. Hosted by BACB in Tunis, these sessions provided participants with detailed technical understanding of trade finance instruments and the international rules and regulations governing the industry.

Furthermore, in October 2023, a weeklong treasury training seminar was organised in Tunis. Working in association with Académie des Banques et Finances the course welcomed representatives from across the Libyan banking sector, helping to prepare candidates for the ACI dealing certification and included key aspects of treasury management, while forging stronger links with their treasury counterparts at BACB.

Volunteering (BACB Together)

During 2023 BACB has proudly continued our longstanding partnership with Employee Volunteering to organise a series of BACB Together Volunteering Days at community and charitable projects around London and the Southeast region. BACB Together Days provide an opportunity for colleagues from across the organisation to unite, increasing collaboration while engaging with good causes, and giving back to local communities. BACB is also a long-standing supporter of the Lord Mayor's Appeal, promoting philanthropic activity in the City of London. As a result of our work BACB has previously been recognised by industry publication Treasury Management International winning the award for Best Community Engagement in 2022.

STRATEGIC REPORT

MANAGING PRINCIPAL RISKS

PRINCIPAL RISKS

In 2023 the Board approved an updated Risk Taxonomy, Risk Appetite Statement and Principal Risks were refreshed with 10 Principal Risks identified.

DEFINITION

Principal risks are defined as a risk, or combination of risks, which can seriously affect the performance, prospects, or reputation of the Bank. If crystallised, they would have the potential to cause significant disruption to the Bank. These are identified on a top-down basis and are subject to Board debate and scrutiny. These risks are aligned to the Bank's strategy and business plan.

MANAGING PRINCIPAL RISKS

Principal Risks are identified by the Executive and are categorised in line with the Risk Taxonomy which enables an integrated approach to managing Principal Risks and associated bottom-up risks.

The Board Risk and Conduct Committee (RCC) monitors the Bank's Principal Risks in line with the Bank's approved Risk Appetite.

The Board have oversight for the effective determination of the nature and extent of Principal Risks of the Bank.

Work continues to integrate this methodology into BACB's approach to Risk Management, formalised following the approval of the Risk Management Framework by the Board in November 2023. This includes reviewing the Principal Risks (including definitions) on an ongoing basis.

PRINCIPAL RISK 1: CYBER SECURITY RISK

The risk that our systems or those within our service chain are attacked and/or held to ransom, resulting in our inability to provide adequate services or that we are unaware that our core processes have been compromised.

The oversight of Cyber Security Risk falls under Operational Resilience Risk where risk appetite has been agreed as "Low"- the Bank's approach to Cyber Security risk must therefore map to this appetite. Cyber Security must manage risk where possible with controls in place aiming to fully mitigate the level of inherent risk.

In June 2021, the Bank adopted the National Institute of Standards and Technology (NIST) Special Publication 800-53 as the Bank's Cyber Security framework which is recognised internationally as Cyber Security best practice. The framework details Cyber Security controls across five domains: Identify, Detect, Protect, Respond and Recover and each domain contains several elements which in turn relate to more detailed Cyber Security subject.

The Bank follows best practice and a methodical approach to managing Cyber Security Risks. BACB have adopted a layered approach to Cyber Security, defining policies and practices that govern the Bank's Cyber Security culture and operational activities whilst deploying a variety of technical controls across the estate. BACB monitor the effectiveness of these controls, and regularly test them for weaknesses using accredited CREST third parties.

Cyber security is at the heart of technology design and adoption which includes continuous improvement and monitoring the threat landscape to ensure defence against emerging threats. BACB recognises the threat posed to third parties and expect all suppliers of IT services to the Bank to be ISO/27001:2022 accredited.

PRINCIPAL RISK 2: IT RISK

The risk that the wrong IT infrastructure strategy is selected and does not provide stable foundations for growth or efficiently support hybrid working.

The risk definition includes providing stable foundations to BAU operations in addition to growth.

The Board's approved IT strategy has been "Buy not Build" and Cloud services have been introduced across the Bank's IT landscape, where it is prudent and safe to do so, both at a software and infrastructure level. In 2023, the Bank moved its secondary datacentre to a modern "Disaster Recovery as a service" model, providing improved computer facilities and evergreening of infrastructure.

Since 2020 the Bank successfully provided a hybrid working model. In 2023, the Bank completed a Board approved uplift of its entire user computing proposition, delivered alongside a major investment and modernisation programme of our office space. This provides staff with a modern and flexible hybrid working model.

PRINCIPAL RISK 3: PEOPLE RISK

The risk that key person dependencies are not fully identified and/or addressed resulting in the loss of critical institutional knowledge and skills if the person was to leave.

People Risk represents an important risk that the Bank manages closely. Significant work has been undertaken as covered in People, Conduct and Culture section.

BACB communicates and engages with colleagues, to recognise, motivate, and energise the Bank's people to deliver on an ambitious change agenda. Investment in people is important, and the Bank focuses on all areas including individual development plans, Wellbeing, Diversity and Inclusion, Talent, and Learning and Development Programmes.

BACB's remuneration approach remains focused and aligned to the market to ensure the Bank can reward and retain key people based on their performance and behaviours. Annual People Reviews identify successors for ExCo and Material Risk Taker (MRT) roles as well as Key Person Risk, High Potential and Emerging Talent individuals, and actions to mitigate gaps and risks.

The Bank's exposure to people risk in circumstances where available staffing levels could drop below the minimum number required to operate a critical process is managed through the Operational Resilience Framework. Ongoing cross training and automation increases BACB's ability to remain within impact tolerances and to withstand short term periods of high colleague absence. This risk is further mitigated by the ability of colleagues to work from home.

Should there be a need to address short term periods of high colleague absence, plans are in place to redirect focus on processing critical transactions to maintain Important Business Services (IBS) until staffing levels can be restored.

The risk that staffing levels and skills, combined with the business growth agenda, put significant pressure on specific teams and individuals which may impact physical and mental wellbeing has been recognised. Throughout 2023 teams have been resourced to an appropriate level, cross training has been encouraged, and the Bank has seen a reduction in turnover from high teens to below 10%, retaining institutional knowledge. Additionally, 2023 saw positive movements in engagement scores (from 6.9 to 7.4) and Colleague Net Promotor scores (from -1 to +13) indicating that colleagues are more engaged with BACB as a business and are more likely to recommend working at the Bank.

PRINCIPAL RISK 4: DATA RISK

The risk of unclear end to end data governance strategy, unavailability of data architecture and manual processes resulting in data misalignment, inadequate business intelligence and erroneous reporting.

The Bank has a core banking system covering all business areas. It is the primary source of data for MI and reporting purposes. Since its implementation at the end of 2018, it has been continually enhanced to meet business requirements. A catalogue of all reports is available on the Bank's intranet.

An End User Application Policy is in place, designed to implement effective controls where individual departments design and maintain their own tools to further process and report data derived from core systems, or where data is sourced and maintained outside of core systems. This policy and supporting framework is subject to continual review and enhancement as part of the implementation and embedding of the Bank's Operational Resilience Framework.

In response to the increasing demands of reporting requirements and the need for timely and accurate MI, as well as risks identified with the manual nature of many data management processes across the Bank, two Bank-wide priority initiatives are being sponsored by the Executive Committee: (1) Data Classification and Governance, led by the Chief Financial Officer and the Chief Operating Officer and (2) Bank-Wide Consistent MI and Accessible Reporting, led by the Chief Banking Officer and the Chief Risk Officer.

PRINCIPAL RISK 5: REGULATORY RISK

The risk that we inadvertently or knowingly breach any of our regulatory systems and control obligations arising from the behaviours, acts, or omissions of our employees or of our third-party providers which result in reputational damage and increased requirements on capital.

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

During 2023 further key hires were made in the Compliance area, helping to enhance the capacity of the team, and leading to increases in areas of focus and overall potential. The team are viewed as a key stakeholder and partner to the business. This enables the Compliance team to continue its ongoing review of each of the major compliance risks in collaboration across the Bank.

During 2023 the team delivered its Bank-wide monitoring, testing and assurance plan on schedule. This included reviews into key frameworks, solidifying the robustness of the Regulatory Compliance function and aiding the overall safety, soundness and conduct within the Bank. This has created a strong regulatory foundation, ready for the 2024 Regulatory Compliance Strategy.

PRINCIPAL RISK 6: FINANCIAL CRIME RISK

The risk that we are exposed to actual or potential loss due to inadvertently or knowingly facilitating any form of Money Laundering, Tax Evasion, Sanctions, or Bribery and Corruption.

As a UK-regulated financial institution, BACB recognises the importance of maintaining a robust financial crime control framework commensurate with the risks posed by its products and services, client base, and geographic footprint. BACB complies with all applicable anti-bribery and corruption laws in relation to the Bank's operations, it has a dedicated Anti-Bribery and

Corruption Policy, and annual training is provided to all employees.

BACB operates a "three lines of defence" model having 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 2023, BACB continued to strengthen its financial crime risk mitigation abilities by enhancing key components of its financial crime control framework. The United Kingdom's separation from the European Union following the end of the transitional period has created additional complexity due to the new UK regulatory regime; BACB works to ensure compliance with all applicable regimes when undertaking business.

BACB proactively engages with partner institutions to assist their understanding of the regulatory standards to which BACB adheres, organising training events and providing the necessary information to ensure due diligence requirements are met for all transactions. This work helps to build capacity in the markets in which the Bank operates, enhances transactional oversight, and ultimately makes trade flows run more smoothly.

During the year numerous training events including a seminar have taken place. This knowledge sharing, with a key focus on regulatory matters, forms a core component of BACB's strategic partnerships with the institutions based in the specialist markets where the Bank operates, with BACB planning to hold similar capacity building events in 2024.

Geopolitical tensions have remained high during 2023, with the impact of conflict and the imposition of sanctions constraining global trade and supply chains. Throughout this the Bank has maintained an open line of communication with clients, clearly explaining sanctions and ensuring their complete application, while avoiding unnecessary disruption.

The Bank has 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 settlement agreement includes a substantial suspended penalty that could be imposed if the Bank fails to meet the sanctions compliance commitments. As the Bank reached the end of the five year OFAC settlement agreement on 1st March 2024, the Bank is confident that the risk of enforcement action is significantly lowered due to the extensive enhancements to, and further embedding of, the sanctions compliance programme.

PRINCIPAL RISK 7: REPUTATIONAL RISK

The risk that current or future customers and stakeholders do not consider BACB to be an appropriate partner due to a failure to deliver against customer expectations and/or because of adverse media exposure.

The risk definition approved by Board was extended to include service providers or other counterparties. The Bank protects itself from material damage to its reputation by ensuring that any business activity is satisfactorily assessed, managed, and granted an appropriate level of management and governance oversight. The Bank's primary mitigant against reputational risk is its commitment to operating in conformity with all applicable laws and regulations, including sanctions and anti-money laundering requirements.

PRINCIPAL RISK 8: STRATEGY RISK

The risk that available returns decline and/or the costs of delivering those returns increase to the point medium-term earnings do not sustain the business model or strategy for future growth.

The Board approves the Bank's strategy, which in 2023 continued to focus on 3 core product lines of Global Transaction Banking, Real Estate and Treasury. The Bank delivers these products to its Corporate and Financial Institution clients providing wholesale banking services into core markets with short term Trade Finance continuing to be the anchor product of the Bank.

As detailed in the Credit and Country Risk section in Note 4 the Bank recognises that economic risks relating to the markets in which we operate is high. The Bank employs a number of risk mitigants as detailed in Note 4 to manage these risks.

2023 saw exposure across the Real Estate portfolio managed downwards as the rising interest rates environment continued to negatively affect the market. An ongoing evaluation of risk and reward is considered as part of active business planning and all business opportunities are considered through a risk and reward lens, with returns on capital measured both at transactional and portfolio levels. For each of the three core business areas, Trade Finance, Real Estate and Treasury, documented Product Programmes, set out the type and nature of business undertaken, including a defined risk appetite.

PRINCIPAL RISK 9: CHANGE RISK

The risk of not managing risk associated to change, resulting in extended project and programme costs, resource requirements and delay in 'Go live'. Depending on the change it can also lead to Reputational and Regulatory impacts.

BACB has established a Change Delivery Operating Model and Framework which establishes governance through the organisation bringing a proportionate structure to the management of projects, delivery, and change leveraging the three lines of defence structure with a delivery management focus. Differentiation is made between the "Run the Bank" and the "Change the Bank" initiatives.

Budgets and resources are allocated to priority projects with monitoring and control executed to confirm they remain on track or where any deviations are encountered activate an early-stage action plan. Clear guidelines are set on Framework, Documentation and Governance requirements including communication, engagement and in due course embedding.

BACB Change Management Framework safeguards and monitors overall project delivery against the approved project scope. Any deviations to scope must go through an established Change Request process.

PRINCIPAL RISK 10: THIRD PARTY RISK

The risk that that a service/product/activity provided by a supplier will deteriorate, be interrupted, or cease indefinitely, exposing BACB to operational, reputational and/or financial damage.

The Bank has established a Third-Party Management Policy subject to an annual review. Work to meet the PRA SS2/21 regulation has been undertaken and remains ongoing. BACB has classified its Third-Party providers using a materiality measure. Third party service providers including vendors who support the Bank's Important Business Service (IBS) are reviewed on an annual basis, with material vendors submitted for approval by the Operations Committee.

A Vendor criticality checklist has been implemented in Q4 2023 providing an enhanced structure and checklist assessing the materiality before a contract is executed. This includes an assessment of vendors who support an IBS. BACB also holds meetings with stakeholders to determine operational risk and operational resilience ratings associated with vendors.

Management information relating to the Bank's material vendors is presented on a monthly basis. The Bank utilises a contract management system to record its third-party vendors including material vendors. Operational Risk processes are in place and tracked for mitigation and remedial actions. Annual tests, led by IT are conducted across the Bank. A Disaster Recovery Test was completed in October 2023.

Exit plans which are reviewed annually are in place for critical vendors to identify possible risks and ensure service continuity necessary to maintain the Bank's operations.

DIRECTORS' REPORT

FOR YEAR ENDED 31 DECEMBER 2023

BOARD OF DIRECTORS

The Board of Directors led by the Chairman Dr. Yousef Abdullah Al Awadi KBE.

DR YOUSEF ABDULLAH AL AWADI KBE
Chairman
Independent Non-Executive Director

PAUL JENNINGS
Chief Executive Officer
Executive Director

NIGEL BOOTHROYD
Independent
Non-Executive Director

SUNDEEP BHANDARI
Independent
Non-Executive Director

PAUL HOWARD
Independent
Non-Executive Director

MOHAMED ALI ADDARRAT[1]
Vice Chairman
Non-Executive Director

FAESAL OTHMAN[1]
Non-Executive Director

DR AHMED MIHOOB[1]
Non-Executive Director

MOHAMED ZINE[2]
Non-Executive Director

LAZHAR LATRECHE[3]
Non-Executive Director

KEY

Shareholder representation
1 LFB nominated
2 BCP nominated
3 BEA nominated

Committee membership
Chair
Audit Committee
Risk and Conduct Committee
Nomination and Remuneration Committee
Board Credit Committee

CORPORATE GOVERNANCE

A strategic and proportionate approach to governance.

BACB is a UK regulated entity with a head office in London and with representation offices in Algeria, Cote d'Ivoire and Libya. As a boutique bank operating in a range of specialised markets, it is vitally important to have in place a simple yet effective and sound governance framework. The Board is committed to high standards of corporate governance and the Chairman is ultimately responsible for the quality of, and approach to, corporate governance at BACB. To be effective, however, the governance framework needs to be proportionate to the size, scale, and complexity of the Bank and 2023 saw the continued evolution of the Bank's approach.

GOVERNANCE ARRANGEMENTS

In terms of our governance arrangements, the Board is governed by its Articles of Association and its Shareholders Agreement notwithstanding all mandated statutory and regulatory obligations. The Board operates a clearly defined Matters Reserved in respect of its decision making while delegating where relevant to its Board and Executive sub-committees. All Committees are well constituted with a clear mandate provided by approved Terms of Reference outlining each Committee's responsibilities, objectives, and reporting.

The Bank through its Shareholder Agreement has five Non-Executive Directors who have been nominated by each of the respective shareholders represented. This provides a strong set of skills and expertise which the Bank benefits from each nominated directors breadth of experience within our core and international markets.

The Bank has continued to strengthen its "three lines of defence" risk management model. The Executive provides timely reports and data on the principal areas of risk for the Bank including the associated controls framework and risk appetite measures. The Bank's Internal Audit function is outsourced which provides independent assurance to the Audit Committee and the Board on the effectiveness of the internal control environment.

BOARD COMPOSITION

As mentioned earlier in the Chairman's Statement (see page 7) the Board has undergone some changes during the year with the appointments of Paul Jennings as Chief Executive Officer, Paul Howard as Independent Non-Executive Director and Mohammed Ali Addarrat as Non-Executive Vice Chairman. Further details about our Board of Directors and its Committees can be found on page 34. These appointments have further strengthened the Board, its range of skills and expertise. As at 31 December 2023, the Board's memberships included four independent non-executive directors (including the Chairman) and five non-executive directors nominated by the Bank's shareholders. In line with governance best practice, all Board sub-committees are Chaired by an Independent Director except for the Board Credit Committee. The Board met formally on eight occasions during 2023.

BOARD EVALUATION

The Board continued to progress the outcomes arising from the external Board Effectiveness Review carried out in 2021. Significant strides have been made with regards to those outcomes and has created a more robust governance structure. The Bank also conducts internal effectiveness reviews of the Board and its sub committees to continuously enhance the framework and arrangements. In assessing Board member fitness and proprietary, individuals are annually assessed by the Chairman on their performance. These activities are supported by the Company Secretariat and Compliance functions and overseen by the Nominations and Remuneration Committee. The Board has committed to commence a Board effectiveness review during 2024.

GOVERNANCE FRAMEWORK

The Board is the Bank's ultimate decision-making body. To fulfil its role in setting strategy, providing oversight and ensure delivery of long-term sustainable value, its relationship with the Executive is key. The Board and the Executive (including their respective Committees) work in tandem to oversee the Bank's activities to deliver sustainable growth.

Committees meet regularly, and the Board provides robust support and challenge to the Executive Committee to enable it to fulfil its role of implementing business strategy, managing the day-to-day activities of BACB, and providing effective reporting to the Board.

BOARD COMMITTEES

Sub-committees have been established by the Board delegating certain matters (outlined below) to allow the Board to focus more on strategic matters. The Chair and membership of each committee is found in the Board overview on page 32. All committees meet formally a minimum of four times a year although more meetings are held (where relevant) to meet the annual financial and regulatory reporting cycle.

NOMINATIONS AND REMUNERATION COMMITTEE ("NRC")

The NRC has a dual role in that nomination and remuneration responsibilities have been delegated to it by the Board. In its nomination role, the NRC oversees appointments of potential Directors to the Board. In addition to succession planning, reviewing overall composition and diversity of the Board and conducting an annual evaluation process of the Board. Its remuneration responsibilities include to agree the remuneration and employment policies of the Bank in line with business purpose (including values), strategy, risk appetite and regulatory compliance.

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 BCC for consideration and approval. The Committee considers applications on an ad-hoc basis as they arise.

AUDIT COMMITTEE ("AC")

The Audit Committee provides independent oversight of, and challenge to, the integrity of the Bank's financial reporting processes and disclosures. It provides assurance to the Board that the financial statements are fair, balanced, and understandable, and provide the necessary information for stakeholders to assess the Bank's financial performance. The AC further scrutinises the performance and effectiveness of the external audit process, ensuring the Internal Audit function performs against its approved annual plan, assessing the effectiveness of the internal control environment and overseeing the whistleblowing process.

RISK AND CONDUCT COMMITTEE ("RCC")

The Risk and Conduct Committee's key responsibilities include implementing and overseeing the Board-approved risk appetite, reviewing and recommending the risk management framework and challenging risk management information. Additionally, the RCC oversees and advises on the embedding and maintenance of a positive risk management culture. In addition, the RCC advises the Board on risks relating to strategic decisions and transactions considering the current and future macroeconomic, political, and regulatory environment, and other potential emerging risks.

ATTENDANCE OF EXECUTIVE MANAGEMENT

The Board and its Committees outlined above are attended regularly by the Chief Executive Officer, and the Executive Team. The AC and RCC are attended by the Bank's external and outsourced internal audit functions respectively as well as other Executives as required.

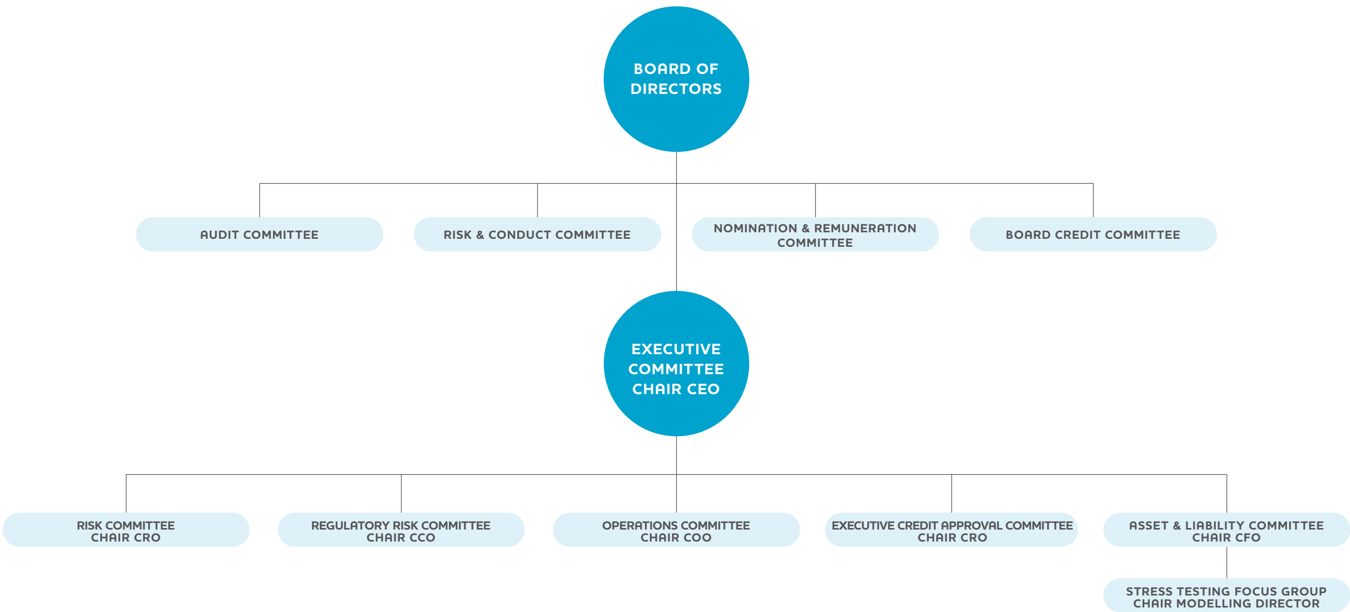
EXECUTIVE GOVERNANCE

The Executive Committee ("ExCo") derives its mandate and operates under delegated authority from the Board through the Chief Executive Officer. 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 business 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 auditors.
- As of December 2023, the Executive Committee membership comprised of:
    - Chief Executive Officer (CEO)
    - Chief Banking Officer (CBO)
    - Chief Financial Officer (CFO)
    - Chief Risk Officer (CRO)
    - Chief Operating Officer (COO)
    - Chief People Officer (CPO)
    - Chief Compliance Officer and Money Laundering Reporting Officer (CCO)

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

BACB's governance framework is outlined below.



EXECUTIVE TEAM

Our executive team leads the business and is responsible for its operational and financial performance. Team members combine experience and expertise across a range of disciplines.

PAUL JENNINGS
Chief Executive Officer

ISABELLA PATEMAN
Chief Risk Officer

PAUL REW
Chief Operating Officer

LOUISE FITZGERALD
Chief Finance Officer

RICHARD SNOOKES
Chief Compliance Officer

DAMIAN AUSTIN
Chief Banking Officer

JANE PERKIN
Chief People Officer

S172(1) STATEMENT

INTRODUCTION

By aligning the Board's decision-making to the strategy, vision, values, and purpose of the Bank, and giving due consideration of all stakeholders, the Directors strive to achieve outcomes that are crucial to the short-, medium- and long-term success of the Bank.

Under section 172(1) of the UK Companies Act 2006, the Directors also have a duty to act in a way that will promote the Bank's success for the benefit of its stakeholders. That's why, in all decisions, the following are considered:

- Likely consequences of any decision.
- Interests of the Bank's staff.
- Need to foster relationships with the Bank's clients, regulators, investors and other key stakeholders.
- Impact of the Bank's operations on our communities and the environment.
- Importance of maintaining the Bank's reputation for high standards of business conduct.
- The need to act fairly as between members of the Bank.

The Board considers the Bank's stakeholders throughout the year when reaching decisions in the running of the Bank's operations. The CEO statement (see page 9) contains a forward-looking component addressing the economic landscape. The strategic report (see page 14) outlines the future business developments. Stakeholders are always considered in these strategic business developments.

KEY DECISIONS

The following summarises some of the key decisions made during 2023, including how the Board considered the interests and needs of key stakeholders.

Key Decisions	Changes made and stakeholder consideration
Appointment of new CEO, Board members and Company Secretary	In April 2023, the Board appointed Paul Jennings as CEO. The Board considered all its stakeholders in its selection and appointment of Paul who has an extensive wholesale banking career spanning 40 years and a deep understanding of BACB's markets. In September 2023, the Board appointed Mohamed Ali Addarrat and Paul Howard who both bring an extensive array of skills and experience across internal markets and risk management. In addition, Akbar Hussain was appointed Company Secretary to bring governance support and advisory services in-house, supporting the Chairman and the Board in delivering strong governance for all our stakeholders.

Refurbishing Mansion House Place

In 2023 a full refurbishment of the Bank's head office building was undertaken. During the refurbishment the Bank was mindful of its operational carbon footprint and took actions to minimise this as much as possible by employing the latest recycling and energy efficient techniques in the building process. Technology across the office was enhanced making working at home or the office a seamless experience for stakeholders. When determining the best approach and objectives for the head office building refurbishment, the Bank's people, energy usage, and impact on the environment were key considerations. More detail around the benefits this has had on our operational carbon footprint can be found on page 22 of the Strategic Report. The Bank recognises that one of its biggest assets is its people and by providing them with modernised facilities, it can increase productivity and engagement to the benefit of all stakeholders.

Progressing our ESG approach and strategy

In 2023, the Bank continued to progress its approach to ESG. The aim has been to take an alternative focus on what matters to BACB, its clients and the markets the Bank operates in. The Bank integrated our values of Loyal, Trusted, Driven and Agile into the ESG journey and embed these into the Bank's decision making. The Bank operates in several specialised, emerging and frontier markets which have a diverse range of stakeholders. These may be customers, distribution partners or regulators. Through the alignment with core strategy and agreed priorities BACB can support its customers and partners through an alternative approach to climate and environment recognising the needs of the markets as they transition to more sustainable energy sources. This ensures the Bank remains relevant to its markets, customers, partners, and suppliers.

Approving the three-year strategic and investment plan for 2024 to 2026

Following the appointment of the CEO, the business has refocused its strategic priorities for 2024 to 2026. The focus of the Bank is to invest in its key service offerings, operational capability, and IT infrastructure to provide the foundation for a longer term and safe sustainable growth. In approving the 3-year strategic plan, the Bank considered the impacts on its people, the current service offerings and the technology required to make it happen. The focused strategic priorities and investment plan ensures that the Bank has the right tools, processes, and frameworks with which our people can succeed in the Bank's next stage of growth. Furthermore, an increased capability and capacity for clients, customers and distribution partners ensures BACB remains relevant and meeting the needs of its core markets. With a controlled approach to investment and managing capital and liquidity requirements, the Bank ensures unnecessary risks are not being taken and that stakeholders are not adversely impacted.

Developing internal capability and technology infrastructure

During 2023 the Board has committed to a number of strategic enhancements. These enhancements were also reinforced in the Banks 3-year strategic plan. Investment has been allocated to improvements such as upgrades to the Temenos Core Banking system and a new regulatory reporting system to ensure compliance with the mandatory Basel 3.1 requirements due in 2025. There has been a focus on further improving operational resilience through enhancements to cyber security and systems architecture. Improving systems and technology not only enhances the tools with which the Bank's people operate but deliver efficiencies to clients and partners.

OUR STAKEHOLDERS

The following section sets out the Bank's key stakeholders and the Board's engagement with them as required under section 172(1) of the Companies Act 2006.

Key Stakeholder	How we engage with Stakeholders
Shareholders	Engagement with shareholders is key to the Bank's success and its aim to create long-term sustainable shareholder value and participation. The Board has five nominated Non-Executive Directors representing shareholders and their interests on the Board. The Bank's nominated directors provide BACB with strong international support and leverage their connections in various markets to BACB's benefit.
People	The Bank's success depends on the people who work for BACB. By fostering a diverse, inclusive, and safe working environment, BACB's people are supported, able to thrive and contribute to the Bank's success. The CEO holds Townhalls periodically throughout the year to communicate important Bank-wide developments. There are Wellness and Wellbeing initiatives to support our people in addition to Diversity, Equity and Inclusion being at the forefront in our engagement with our people. Developmental sessions, including "lunch and learns", are held regularly.
Customers	The Bank's business depends on working together with customers to create value. The Bank actively supports its customers through their economic journey, helping manage external factors such as rising costs, interest rates and macro-economic challenges. Relationship Managers regularly liaise with customers to ensure the Bank is offering them the right support and meeting their needs. The Bank offers training support to customers through on the ground workshops in specialist areas.
Regulators and Government	The Bank works in a highly regulated environment and a strong internal culture supports compliance with our regulatory obligations. The Bank's objective is to always operate in an open, transparent, and cooperative manner with the FCA and PRA and other international bodies where relevant. All colleagues are responsible for ensuring compliance with applicable regulations driving positive conduct and decision making. The Board is apprised of confirmation of compliance with requirements, communications with regulators and horizon scanning to assess impact of forthcoming changes.
Suppliers	The Bank works with key third party vendors across the business who provide essential products and services. Partnering and collaborating with suppliers helps to drive progress on delivering BACB's strategy.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with UK-adopted international accounting standards.

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 Bank and of the profit or loss of the Bank for that period. In preparing the financial statements, the Directors are responsible for:

- Selecting suitable accounting policies and then applying them consistently.
- Stating whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.
- Making judgements and accounting estimates that are reasonable and prudent.
- Assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern.

The Directors are responsible for safeguarding the assets of the Bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the Bank's transactions and disclose with reasonable accuracy at any time the financial position of the Bank and enable them to ensure that the 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 Director's Report that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the Bank's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

DIRECTORS' CONFIRMATION

The Directors consider that the financial statements, taken as a whole, is fair, balanced, and understandable and provides the information necessary for shareholders to assess the Bank's position and performance, business model and strategy.

Each of the Directors, whose names and functions are listed in the Directors' Report, confirm that, to the best of their knowledge:

- the Bank's financial statements, which have been prepared in accordance with UK-adopted international accounting standards, give a true and fair view of the assets, liabilities, financial position and profit of the Bank; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Bank, together with a description of the principal risks and uncertainties that it faces.

In the case of each Director in office at the date the Directors' Report is approved:

- so far as the Director is aware, there is no relevant audit information of which the Bank's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Bank's auditors are aware of that information.

OTHER GOVERNANCE DISCLOSURES

The Directors present their annual report and the audited financial statements for the year ended 31 December 2023.

CORPORATE GOVERNANCE STATEMENT

BACB is an unquoted company incorporated and registered in the United Kingdom (registered company number 01047302). The Bank is governed by its Articles of Association, Shareholders' Agreement and all applicable laws and regulations.

The Board recognise and acknowledge the benefits of adhering to governance best practice and takes a proportionate approach that is aligned to the Bank's size, scale, and complexity.

The principal activities of the Bank can be found on pages 13-18 of the Strategic Report. Where disclosures that would ordinarily form part of the Directors' report have been made elsewhere in this Annual Report, these have been signposts to where that information can be found.

DIRECTORS

The Bank benefits from the 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.

NAME	ROLE	APPOINTED
Dr Yousef Al Awadi	Independent Non-Executive Chairman	20.05.22
Paul Jennings	Chief Executive Officer	11.04.23
Maura Sullivan	Independent Non-Executive Director (resigned 02.09.23)	06.04.23
Nigel Boothroyd	Independent Non-Executive Director	14.10.20
Sundeep Bhandari	Independent Non-Executive Director	06.10.20
Paul Howard	Independent Non-Executive Director	11.09.23
Mohamed Ali Addarrat[1]	Non-Executive Vice Chairman	22.09.23
Faesal Othman[1]	Non-Executive Director	05.02.21
Dr Ahmed Mihoob[1]	Non-Executive Director	20.05.22
Mohamed Zine[2]	Non-Executive Director	30.10.12
Lazar Latreche[3]	Non-Executive Director	07.05.20
Eddie Norton	Chief Executive Officer (resigned 11.04.23)	05.02.21
Aiman Laswad[1]	Non-Executive Director (resigned 22.09.23)	10.09.21

[1] LFB nominated representative

[2] BCP nominated representative

[3] BEA nominated representative.

FINANCIAL STATEMENTS

The financial statements for the Bank have been prepared in accordance with UK-adopted international accounting standards and the requirements of Companies Act 2006.

GOING CONCERN

The Directors have a reasonable expectation that the Bank will have adequate resources to continue to operate for 12 months from the date of the approval of the financial statements. They have therefore adopted the going concern basis to prepare the financial statements presented in this Annual Report. The full process undertaken by the Directors in the going concern assessment is outlined in Note 2a) of the audited financial statements.

DIVIDENDS

The Directors have recommended a final dividend payment for 2023 of £5.5m (2022: £6m), which is subject to approval at the Annual General Meeting to be held 3 May 2024.

POST BALANCE SHEET EVENTS

Details of post balance sheet events are disclosed in Note 34 to the audited financial statements.

COMPANIES ACT 2006 S172 REPORTING AND STAKEHOLDER ENGAGEMENT

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 Governance Report (see pages 37-39). The Board recognises the importance of considering all stakeholder interests, including in the principal decisions taken by the Bank during the financial year. The Board continues to seek feedback from the Bank's customers, colleagues, shareholders and the Board itself. Inclusion of both standing and rolling agenda items in the Board's yearly cycle of meetings enable it to factor these into its decision-making and ensure stakeholders' interests are met.

POLITICAL AND CHARITABLE DONATIONS

During the year, the Company made no political donations (2022: £nil). Charitable donations for 2023 totalled £343,011 the bulk of which was to support the relief efforts following the natural disasters in Libya and Morocco.

ENERGY AND CARBON EMISSIONS

In line with the Streamlined Energy and Carbon Reporting requirements ("SECR"), this report outlines the Bank's Greenhouse Gas ("GHG") emissions covering the period 1st January to 31st December 2023. The scope of the Bank's reporting encompasses electricity associated with the office properties it owns and from which it operates, refrigerant purchases, as well as owned or controlled transport usage.

The total emissions for the reporting period were 393.4 tCO2e, with an intensity ratio of 0.14 tCO2e per square meter. This resulted in 1,222,988 kWh of energy consumed (2022:1,263,000 kWh). Details of energy efficiency measures undertaken in the year can be found on page 22. The largest proportion of GHG emissions is accounted for by office electricity usage which represents 64% of the total emissions, equating to 252.8 tCO2e.

GHG EMISSIONS DISCLOSURE, SCOPES 1-2

LOCATION BASED	**FY23**	**FY22**
Scope 1	Emissions (tCO2e)	
Transport: staff mileage	0.53	0.67
Refrigerant consumed in offices	140.07	N/A
Natural Gas consumed in offices	0	69.74
Total (tCO2e))	**140.60**	**70.41**
Scope 2		
Electricity consumed in offices	252.78	169.82
Total (tCO2e))	**252.78**	**169.82**
Total Scope 1 and 2	**393.38**	**240.23**

MARKET BASED	**FY23**	**FY22**
Scope 1	Emissions (tCO2e)	
Transport: staff mileage	0.53	0.67
Refrigerant consumed in offices	140.07	N/A
Natural Gas consumed in offices	N/A	69.74
Total (tCO2e))	**140.60**	**70.41**
Scope 2		
Electricity consumed in offices	0	0
Total (tCO2e))	**0**	**0**
Total Scope 1 and 2	**140.60**	**70.41**

INDEMNITIES AND INSURANCE

The Bank maintains Directors' and officers' liability insurance for all Directors and officers of the Bank, which gives appropriate cover for legal proceedings brought against them. As far as the law allows, and according to the Banks' Articles of Association, BACB indemnify the Bank's Directors for any loss, liability, or expense they incur in relation to the Bank or its associated companies. The indemnity was in force during the year and up to the date when the financial statements were approved.

SHARE CAPITAL AND SHARE PREMIUM

The Bank has three classes of shares in issue: ordinary shares of £1 GBP each, ordinary shares of $1 USD each and deferred non-voting shares of £1 GBP each. The total number of shares in issue is 152,911,024 with each ordinary share carrying the right to one vote. The total number of voting rights in the Bank is 147,911,024 ordinary shares of £1 GBP and $1 USD respectively. Information about the Bank's share capital can be found in Note 28 to the audited financial statements.

FINANCIAL INSTRUMENTS

Details of the Bank's financial risk management objectives and policies, and risk exposures, can be found in Note 4 of the financial statements.

DIRECTORS' CONFLICTS OF INTEREST

The Board has procedures in place for managing conflicts of interest. Should a Director become aware that they, or a party connected to them, has an interest in an existing or proposed transaction with the Bank or may find themselves in a situation which may conflict with the interests of the Bank, they are required to notify the Board. Internal controls are in place to make sure that any related-party transactions involving Directors, or a party connected to them, are conducted at arm's length. Directors have a continuing duty to keep the Bank up to date as regards conflicts of interest relating to them and those connected to them.

DIRECTORS AND THEIR INTERESTS

A list of the directors who served during the year is outlined earlier in the Directors Report while directors' remuneration is disclosed in Note 14 on page 101. None of the directors holds or has held shares in the Bank.

SUBSTANTIAL SHAREHOLDERS

The Bank's shareholders as at the reporting date and their percentage holding of the total issued share capital of the Bank is listed below:

- Libyan Foreign Bank (86.90%)
- Banque Extérieure d'Algérie (6.55%);
- Banque Centrale Populaire (6.55%).

During 2023 the minority shareholders increased their shareholding following a scrip dividend.

STATUTORY AUDITOR

Mazars LLP was appointed as the auditor of the Bank at its Annual General Meeting on 19 May 2023, to hold office until the conclusion of the next General Meeting at which Financial Statements are laid before the company. In accordance with Section 489 of the Companies Act of 2006, a resolution for the reappointment of Mazars LLP as auditor of the Bank is to be proposed at the forthcoming Annual General Meeting.

By Order of the Board

AKBAR HUSSAIN

Company Secretary

14th March 2024

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF BRITISH ARAB COMMERCIAL BANK PUBLIC LIMITED COMPANY

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF BRITISH ARAB COMMERCIAL BANK PUBLIC LIMITED COMPANY

OPINION

We have audited the financial statements of British Arab Commercial Bank Public Limited Company (the 'Bank') for the year ended 31 December 2023 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 material accounting policy information.

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 31 December 2023 and of its 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.

In addition to those matters set out in the "Key audit matters" section below, we identified going concern of the Bank as a key audit matter.

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's financial statements. *Refer to significant accounting policy (Note 2 (a)) and note 32 of the financial statements.*

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 twelve months from the date of approval of the financial statements.

There are four areas of risks:

Suspended penalty: As explained in Note 32 and Note 2(a), in 2019 the Bank reached a settlement agreement with US regulatory authorities 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 penalty.

Regulatory Capital position: Risk that the Bank's regulatory capital may be insufficient in the event of unprecedented increase in impairment charges or revenue reductions and continued regulatory focus as discussed above.

Correspondent bank relationships: Risk of loss of future trade and inability to continue operating under the current business model should the key correspondent banks decide to cease transacting with the Bank.

Funding concentration: Risk of unavailability 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 which are exposed to uncertainties relating to the situation in Libya.

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 effect of each of the risks individually, or in combination, may impact the Bank's ability to continue as a going concern and therefore requires significant focus in the audit.

Our 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 of assessing the Bank's ability to continue as a going concern including the specific risks areas identified;
- Evaluating the key assumptions used and judgements applied by the directors including consideration of the events after balance sheet date in forming their conclusions on going concern;
- Meeting with the Prudential Regulation Authority (PRA) and inspecting correspondences with regulators; and
- Evaluating the adequacy and appropriateness of the director's disclosure in the financial statements.

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 procedures included but were not limited to:

Suspended penalty:

- Evaluating the directors' assessment of the Bank's compliance commitment as set out in the settlement agreement;
- Assessing adherence to the settlement agreement including the review of annual sanctions compliance programme attested by the Bank's 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; and
- Inspecting board meeting minutes.

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;
- With the assistance of our in-house prudential regulation experts, assessing the regulatory capital stress testing and reverse stress testing scenarios performed by management.

Correspondent bank relationships:

Evaluating the directors' analysis of the Bank's 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.

Funding concentration:

- Assessing ongoing political and economic developments in Libya through independent research;
- 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; and
- With the assistance of our in-house prudential regulation experts, assessing the regulatory liquidity stress testing and reverse stress testing scenarios performed by management.

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 Bank's ability to continue as a going concern for a period of 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 matter in forming our opinion above, together with an overview of the principal audit procedures performed to address this matter and our key observations arising from those procedures. The matter set out below is in addition to going concern which, as set out in the "Conclusions relating to going concern" section above, was also identified as a key audit matter.

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
Allowance for credit losses - Expected Credit Loss *Refer to significant accounting policy (Note 3 (k)) and Note 13 of the financial statements.* *As at 31 December 2023, the Bank has an expected credit loss ('ECL') allowance of £17.8 million (2022: £20.6 million) in the statement of financial position. The ECL reversal recognised in the Bank's statement of comprehensive income for the year ended 31 December 2023 was £2.1 million (2022: £1.5 million charge).* 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	**Our audit procedures included, but were not limited to:** • Assessing the design and implementation, and testing the 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 deterioration

extension of credit to counterparties in countries which are subject to increased levels of political and economic instability.

The estimation of ECL on credit exposures, involves significant judgement and estimation uncertainty.

A model is used to calculate the level of ECL and the model is reliant on a 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; 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

in credit quality and assess the appropriateness of the staging and associated ECL estimate;

- With the assistance of our in-house credit modelling specialists, 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 portfolio and our knowledge of the industry in respect of similar loans;
- With the assistance of our in-house economists, assessing and challenging the reasonableness of economic scenarios and the probability weightings applied in the ECL model;
- Reperforming calculations and agreeing data inputs to supporting documentation where applicable, including collateral valuation reports and PDs;
- Assessing the methodology of the stage 3 ECL for compliance with the requirements of IFRS 9;
- Independently recalculating the ECL for all stage 3 loans including taking into consideration the completeness and accuracy of the key inputs, assumptions and the incorporation of forward-looking information; and
- Evaluating whether the disclosures appropriately reflect and address the uncertainty which exists when determining the expected credit losses, including sensitivity analysis and key judgements.

discounted to present value at the rate inherent in the loan. This is a manual and judgemental process, with numerous 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 and therefore requires significant focus in the audit. The level of risk has remained consistent with the prior year.	**Our observations** We concluded that the allowance for credit losses recognised as at 31 December 2023 was reasonable and the approach taken in respect of ECL was in compliance 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	**£1,820,000 (2022: £1,000,000)**
How we determined it	5% of Profit before tax (2022: 0.5% of net assets)
Rationale for benchmark applied	We set materiality using a benchmark of profit before tax (PBT). PBT is a primary measure used by the shareholder in assessing the performance of the Bank and is a generally accepted benchmark for determining audit materiality. It is the metric in the primary statements which best reflects the focus of the users of the financial statements. This benchmark is standard for financial institutions and consistent with the wider industry.

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 £1,092,000 (2022: £500,000), which represents 60% (2022: 50%) of overall materiality. In determining the performance materiality, we considered a number of factors, including the expected level and nature of uncorrected and corrected misstatements in the current year and the robustness of the control environment, and concluded that an amount in the middle of our normal range was appropriate.
Reporting threshold	We agreed with the directors that we would report to them misstatements identified during our audit above £54,000 (2022: £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, its 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 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 set out on page 40, 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 group or the parent company 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 these 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 its industry, we considered that non-compliance with the following laws and regulations might have a material effect on the financial statements: regulatory and supervisory requirements of the PRA and the Financial Conduct Authority ('FCA'), sanctions requirements by the U.S. Department of the Treasury's Office of Foreign Assets Control (OFAC), and financial crime regulations.

To help us identify instances of non-compliance with these laws and regulations, and in identifying and assessing the risks of material misstatement in respect to non-compliance, 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 regulatory authorities, including PRA, FCA and the US regulatory authorities;
- 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.

Our 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;
- Assessing design and implementation and testing the operating effectiveness over the Bank's transaction monitoring processes
- Discussing amongst the engagement team the risks of fraud;
- Addressing the risks of fraud through management override of controls by performing journal entry testing;
- Being skeptical to the potential of management bias through judgements and assumptions in significant accounting estimates, in particular in relation to allowance for credit losses, and performing the procedures described in the "Key audit matters" section of our report.

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 is available 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 ending 31 December 2021 and subsequent financial periods. The period of total uninterrupted engagement is three years, covering the years ended 31 December 2021 to 31 December 2023.

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

RUDI LANG

(Senior Statutory Auditor) for and on behalf of Mazars LLP

Chartered Accountants and Statutory Auditor

30 Old Bailey

London, EC4M 7AU

14 March 2024

STATEMENTS OF

COMPREHENSIVE INCOME

FINANCIAL POSITION

CHANGES IN EQUITY

CASH FLOW

AND NOTES
TO THE FINANCIAL
STATEMENTS

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2023

	Note	2023	2022
Interest and similar income	8	168,035	71,950
Less: Interest expense and similar charges	8	(103,747)	(38,301)
Net interest income		**64,288**	**33,649**
Fee and commission income	9	24,098	21,653
Less: Fee and commission expense	9	(6,977)	(4,035)
Net fee and commission income		**17,121**	**17,618**
Net trading income	10	5,546	6,522
Other operating income/(expense)	11	901	(356)
Operating income before allowance for credit losses		**87,856**	**57,433**
Allowance for credit losses	13	(479)	(3,306)
Reversal of allowances booked in previous periods	13	2,623	1,825
Recoveries of amounts written off in previous periods	13	1	4
Net allowances for credit losses		**2,145**	**(1,477)**
Net operating income		**90,001**	**55,956**
Administrative expenses	14	(53,594)	(42,031)
Profit before income tax		**36,407**	**13,925**
Income tax (charge)/credit	15	(8,532)	1,175
Profit for the year		**27,875**	**15,100**
Other comprehensive income/(expense):			
Items that will not be reclassified to profit or loss			
Remeasurement of defined benefit liability	26	(1,257)	(4,161)
Equity investments designated at fair value through other comprehensive income	17	(1,048)	(376)
Revaluation of property, plant & equipment	23	(3,359)	7,851
Related Tax	15	1,109	(1,153)
		(4,555)	2,161
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		9,036	(14,178)
Credit loss on debt securities designated at fair value through other comprehensive income transferred to profit and loss		(79)	(57)
Fair value gains attributable to debt securities designated at fair value through other comprehensive income transferred to income upon derecognition		397	(646)
Related Tax	15	(2,163)	3,349
		7,191	(11,532)
Other comprehensive income/(expense) for the year, net of tax		2,636	**(9,371)**
Total comprehensive income for the year		**30,511**	**5,729**

The Notes on pages 61 to 123 form part of these financial statements.

ALL TABLE AMOUNTS ARE £'000s UNLESS OTHERWISE STATED

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2023

	Note	2023	2022
Assets			
Cash, notes and coins		1	-
Derivatives	16	661	*1,344*
Reverse Repurchase agreements		86,937	*236,927*
Financial investments	17	1,621,748	*1,695,000*
Loans and advances to banks	18	855,620	*755,184*
Prepayments, accrued income and other debtors	19	10,424	*3,014*
Corporation tax receivable		947	*223*
Loans and advances to customers	20	388,567	*463,780*
Deferred tax assets	22	-	*3,561*
Property, plant and equipment	23	29,839	*27,271*
Intangible assets	23	4,566	*6,222*
Net pension asset	26	2,617	*2,219*
Total assets		**3,001,927**	***3,194,745***
Liabilities			
Derivatives	16	46	*507*
Deposits from banks	24	1,960,559	*2,144,470*
Other deposits	24	699,119	*737,763*
Other liabilities, accruals and deferred income	25	33,274	*27,080*
Deferred tax liabilities	22	1,797	-
Subordinated liabilities	27	74,554	*77,659*
Total liabilities		**2,769,349**	***2,987,479***
Called up share capital	28	106,377	*105,592*
Capital redemption reserve	29	4,104	*4,104*
Other reserves	29	122,097	*97,570*
Capital and reserves attributable to the Bank's equity holders	29	**232,578**	***207,266***
Total liabilities and equity		**3,001,927**	***3,194,745***

The Notes on pages 61 to 123 form part of these financial statements.

Signed:

Dr Yousef Abdullah Al Awadi KBE
Chairman

Mr Paul Jennings
CEO

14th March 2024

ALL TABLE AMOUNTS ARE £'000s UNLESS OTHERWISE STATED

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2023

	Share capital	Capital redemption reserve	Other reserves				Total equity
			Retained earnings	Revaluation reserve	Fair Value reserve	Total	
Balance at 1 Janaury 2022	**104,357**	**4,104**	**99,295**	**-**	**2,530**	**101,825**	**210,286**
Profit for the year	-	-	15,100	-	-	15,100	15,100
Reclassifcation between FV Reserve and Retained Earnings	-	-	126	-	(110)	16	16
Other comprehensive (expense)/income	-	-	(3,727)	5,888	(11,532)	(9,371)	(9,371)
Total comprehensive income for the period	-	-	11,499	5,888	(11,642)	5,745	5,745
Issue of Share Capital	1,235	-	-	-	-	-	1,235
Dividend	-	-	(10,000)	-	-	(10,000)	(10,000)
Balance at 31 December 2022	**105,592**	**4,104**	**100,794**	**5,888**	**(9,112)**	**97,570**	**207,266**
Balance at 1 Janaury 2023	**105,592**	**4,104**	**100,794**	**5,888**	**(9,112)**	**97,570**	**207,266**
Profit for the year	-	-	27,875	-	-	27,875	27,875
Other Fair Value adjustments	-	-	16	-	-	16	16
Other comprehensive (expense)/income	-	-	(2,035)	(2,520)	7,191	2,636	2,636
Total comprehensive income for the period	-	-	25,856	(2,520)	7,191	30,527	30,527
Issue of Share Capital	785	-		-	-	-	785
Dividend	-	-	(6,000)	-	-	(6,000)	(6,000)
Balance at 31 December 2023	**106,377**	**4,104**	**120,650**	**3,368**	**(1,921)**	**122,097**	**232,578**

The Notes on pages 61 to 123 form part of these financial statements.

ALL TABLE AMOUNTS ARE £'000s UNLESS OTHERWISE STATED

STATEMENT OF CASH FLOW
FOR THE YEAR ENDED 31 DECEMBER 2023

	Note	2023	2022
Cash flows from operating activities			
Profit before taxation		36,407	*13,925*
Adjustments for:			
Allowance for credit losses	13	479	*3,306*
Recoveries of allowance for credit losses	13	(2,623)	*(1,825)*
Depreciation and amortisation	14,23	2,904	*2,753*
Loss on sale or impairment of property, plant and equipment	14	518	*28*
Net interest income and other non cash items included in net profit		115	*366*
Non-cash items included in net profit		**1,393**	***4,628***
Reverse repuchase agreements		149,990	*(21,103)*
Loans, advances other than cash or cash equivalents		(268,285)	*(68,881)*
Debt securities other than cash equivalents		(108,164)	*(221,117)*
Derivatives		683	*(728)*
Other debtors and prepayments		(9,064)	*(1,161)*
Change in operating assets		**(234,840)**	***(312,990)***
Customer accounts and deposits by banks		(94,670)	*165,574*
Other liabilities		10,519	*9,288*
Change in operating liabilties		**(84,151)**	***174,862***
Income tax (paid)		(5,220)	*(1,169)*
Net cash used in operating activities		**(286,411)**	***(120,744)***
Cash flows from investing activities			
Purchase of property, plant and equipment	23	(7,683)	*(552)*
Proceeds from sale of property, plant and equipment	23	-	*42*
Purchase of intangible assets	23	(841)	*(853)*
Proceeds from sale of intangible assets	23	-	*269*
Net cash used in investing activities		**(8,524)**	***(1,094)***
Cash flows from financing activities			
Dividend paid		(5,215)	*(8,765)*
Lease payments for Right of Use assets	21	(202)	*(6)*
Net cash used in financing activities		**(5,417)**	***(8,771)***
Net (decrease)/increase in cash and cash equivalents		**(300,352)**	***(130,609)***
Cash and cash equivalents at the beginning of the year		700,795	*766,720*
Effect of exchange rate change on cash and cash equivalents		(27,503)	*64,684*
Cash and cash equivalents at the end of the year		**372,940**	***700,795***
Cash and cash equivalents comprise:			
Cash, notes and coin		1	-
Loans and advances to banks of original maturity three months or less	18	216,705	*391,580*
Certificates of deposit and other debt securities of three months original maturity or less	17	156,234	*309,215*
Cash and cash equivalents		**372,940**	***700,795***

Interested received was £166,766,00 (2022: £61,945,000) and interest paid was £95,682,000 (2022: £27,090,000).

There has been no financing activities during 2023 and 2022, the changes in the subordinated liabilities relate solely to FX movements as disclosed in Note 27.

The Notes on pages 61 to 123 form part of these financial statements.

ALL TABLE AMOUNTS ARE £'000s UNLESS OTHERWISE STATED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

1. General information

British Arab Commercial Bank plc 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 14th March 2024.

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 and for 12 months from the date of 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, other key risks around our core markets and business model, the Bank's operational resiliency and operational risk.

The political environment in Libya has gradually stabilised in 2023 and is expected to continue to do so in 2024, supporting the country's economic recovery and national reconciliation. The Bank holds historical relationships with Libyan markets. In 2023, oil production has been recovering steadily, reaching 1.24 million barrels and this trend is expected to continue in 2024. Sustained oil production, coupled with relatively high energy prices, has been boosting oil export revenue, supporting government spending on wages and reconstruction needs. The Bank is not wholly reliant on business flows to and from Libya, the Bank's strategy of geographic diversification has diluted the overall impact of a negative situation in Libya and, as and when stability returns to Libya, this market holds significant upside potential.

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.

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 January 2024, the Bank received a legal commitment from LFB confirming its willingness to extend the Bank's subordinated loans (Tier 2 Capital). The Directors remain confident of the ongoing support of LFB, including meeting the Bank's ongoing liquidity and capital needs for at least the next twelve months.

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; the final certification was made to OFAC on 1 March 2024 as disclosed in Note 34.

The settlement agreement includes a substantial suspended penalty that could be imposed if the Bank fails to meet the sanctions compliance commitments. As the Bank reached the end of the five year OFAC settlement agreement on 1st March 2024, the Directors believe it is a low risk that the suspended penalty would be re-imposed as they are confident the risk of enforcement action is significantly lowered due to the extensive enhancements to, and further embedding of, the sanctions compliance programme.

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.

Given the ongoing volatility seen across our markets, BACB has taken steps to ensure it has a risk management infrastructure and culture to allow is to identify, manage, and monitor, risks of this nature. The 2024 to 2026 Business Plan was modelled with an underlying assumption in the Plan economic base case, that the Bank will experience volatility in at least one of its markets. In addition, 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 in severe but plausible 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 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 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 UK-adopted international accounting standards and with the requirements of the Companies Act 2006.

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: leasehold premises and improvements, 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.

c) Developments in Accounting Standards

Amendments to IAS 12 Income Taxes: Deferred Tax relating to assets and liabilities arising from a single transaction became effective from 1 January 2023. As a result of this implementation, BACB has recognise the additional deferred taxes on its right-of-use assets and lease liabilities as at 31st December 2023 as the amendments are now effective.

Changes in IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors applicable from 1 January 2023 have an insignificant impact on the Bank's financial statements. Also, the Bank does not have any contracts within the scope of IFRS 17 Insurance Contracts.

On 14th July 2022, the Bank changed its accounting policy for its leasehold premises from the cost to the revaluation model. As at 31 December 2022 the impact of this change in accounting policy resulted in a revaluation surplus of £7.9m (£5.9m after deferred taxation).

During 2021 the Bank implemented the risk-free rate reform (referred to as IBOR reform). Prior to the cessation of the publication of the USD Libor from 30 June 2023 the Bank has implemented the required processes and system changes for the continued transition if USD Libor contracts and positions. Legacy contract positions are actively being managed down in line with regulatory transition milestones.

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
- 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; 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. Interest income earned from financial assets classified at fair value through profit and loss is included with net interest income under accounting policy 3a). 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.

Temporary differences arising from the Bank's contribution to the Employee Defined Benefit pension scheme are recognised in the income tax on the profit or loss for the year.

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.

Deferred tax assets and liabilities measured at an undiscounted basis.

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 designated 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 2023 or 2022.

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.

The ECL estimate is forward looking and the measurement reflects reasonable and supportable information that is available to the Bank's Management without undue cost or effort at the reporting date.

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 whether there has been significant increase in the forward-looking probability of default (PD) since origination. We compare the residual lifetime PD at the balance sheet date to the residual lifetime PD that was expected at the time of origination for the same point in the term structure and determine whether both the absolute and relative change between the two exceeds predetermined thresholds;
- qualitative indicators including those linked to current credit risk management processes, such as lending placed on non-purely precautionary early alert (and subject to closer monitoring); 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. Further details of the Bank's credit grade system is described in Note 4.

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.

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, determined by multiplying the probability of default (PD) with the loss given default (LGD) with the expected exposure at the time of default (EAD). 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 defaulted 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's model uses forward-looking probability of default models and macro-economic scenario analysis. The scenarios are modelled for each of the Bank's active business lines and formulate forecasted probabilities of default based on various prescribed economic indicators relevant for each business sector and geographical locations. The models incorporate specific forecasted macro-economic factors such as GDP growth, oil prices and other non-oil price indexes for trade finance and treasury exposures, whilst the UK real estate exposures consider factors such as unemployment rate, property price indexes.

The individual weights applied to the type of macro-economic data considered within the models, is adjusted for each of the geographic areas to which BACB is sensitive in accordance with the prevailing trends and near-term outlook for these respective markets. The appropriateness of the type and level of macro-economic factor weightings are formally evaluated for relevance periodically.

The Bank assesses the resulting probabilities based on a the most likely outcome, referred to as the 'BAU scenario', and two less likely scenarios, referred to as 'optimistic' and 'downturn' scenarios.

The weightings for 2023 are applied at the probability of default level for determining the ECL and follow advised standards for calculation using specific metrics such as GDP, unemployment, interest rates, house prices and equity prices that are globally consistent. These are sourced by BACB from independent external providers who have the empirical historical data to provide such probabilities for forecasted scenario weightings given the specific markets and geographical locations in which the Bank operates.

	2023			***2022***		
	Base	Optimistic	Downturn	*Base*	*Optimistic*	*Downturn*
Default/Scenario probability weightings	40%	30%	30%	40%	30%	30%

A loss given default ratio representing the loss that is expected to arise on default, incorporating the impact of forward-looking economic assumptions where relevant, which represents the difference between the contractual cashflows due and those that the Bank expects to receive is calculated on the Bank's portfolios. BACB estimates LGD based on the history of recovery rates and considers the recovery of any collateral that is integral to the financial asset (in respect of property collateral property acquisition and sales data of similar property is taken into account), taking into account forward-looking economic assumptions where relevant.

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

During 2021 the Bank adopted an overlay to reflect the relatively higher risk sectors within Real Estate, where the Bank held external valuations predating the start of the Covid-19 pandemic. This overlay was removed during 2022 as the Bank updated the valuations of its Real Estate portfolio and thus the ECL model had updated data and information and no additional overlays were required.

ALL TABLE AMOUNTS ARE £'000s UNLESS OTHERWISE STATED

The Bank's Risk Committee oversees and reviews management's assessment regarding the origination, measurement, and release of the ECL overlay. During 2023, the Committee reviewed the ECL model output on a regular basis to ensure that the output from the ECL model was consistent with business and market expectations for the Bank's products and markets. Management's awareness of contagion risk in our Trade Finance markets assessed that the macro-economic data as at 31 December 2023 was not sufficiently encapsulating the ongoing volatility seen across our markets caused by amongst other factors geopolitical tensions following the Israel-Gaza conflict, which is expected to continue in 2024. The Bank, therefore, decided to apply an overlay to the ECL of an additional 41% to trade finance exposures (excluding Banking and Lending) for exposures derived from lower credit grade countries (country grade of 16 or higher).

Restructured financial assets

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

- If the 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.

Defaulted 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 or defaulted (referred to as '**Stage 3 financial assets**'). A financial asset is 'defaulted' 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 or defaulted 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 defaulted, a transfer back to Lifetime ECL (stage 2) or 12-month ECL (stage 1) is only permitted where the instrument is no longer considered to be defaulted 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 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

Leasehold premises is accounted for using the revaluation model, all other 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

Management review the residual value and the useful life of assets at each financial year-end and, if expectations differ from previous estimates the changes are accounted for as a change in an accounting estimate.

Leasehold premises and leasehold land comprise the Bank's principal office at 8-10 Mansion House Place, London, EC4N 8BJ which since July 2022 are valued using the revaluation model. Leasehold premises are amortised over the remaining life of the lease, at inception this was a 50 year lease. The premises, but not the land, are categorised as a right of use asset under note 21 and depreciated using the straight-line method from the commencement date to the end of the lease term.

Items of property, plant and equipment under the revaluation model are carried at fair value at the date of revaluation, less any subsequent accumulated depreciation and any subsequent accumulated impairment losses. Land and buildings are recognised at fair value based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation for buildings. The latest independent valuation took place in December 2023. Depreciation is calculated on the basis of revalued amount less residual value over the remaining useful life. Following the refurbishment of Mansion House Place in 2023, as at 31 December 2023 the remaining useful of Mansion House Place is 26 years.

ALL TABLE AMOUNTS ARE £'000s UNLESS OTHERWISE STATED

In 2022 the change in accounting policy to the revaluation model was applied prospectively without the need to restate prior period numbers as per the requirements of IAS 8 and IAS 16. A revaluation surplus has been credited to the revaluation reserve in shareholders' equity.

All other 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.

The Bank is following the IFRIC agenda decision on how to account for configuration or customisation costs associated with software purchased from a supplier in a Software as a Service (SaaS). Customisation and configuration costs of a SaaS arrangement are only capitalised as an intangible if they give rise to software controlled by the Bank. Where an intangible asset is not recognised for the costs of configuration or customisation of the application software, then the costs are recognised as an expense in line with the nature of the contract and based on who performs the services. The costs may therefore be expensed immediately or recognised as a prepayment and expensed over the term of the contract. SaaS licenses are not capitalised as an intangible.

Capitalised intangible assets 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 the probability of occurring is remote.

s) Employee benefits

The Bank provides both a defined benefit and a defined contribution pension scheme for its staff. 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 Bank's defined benefit scheme was closed to future accrual in 2014.

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 less any withholding tax that the Bank would be required to pay on any remaining surplus. 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 profit or loss.

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

Approach to Risk Management

BACB takes a holistic approach to risk management and undertakes continual enhancing its risk management processes to ensure the range of risks the Bank is exposed to are well articulated and evidenced, within the developing environments to support risk informed decision making and areas of Executive and Board focus.

BACB operates a Three Lines of Defence model as summarised below:

- First Line of Defence (1LoD) are the risk and control owners responsible for identifying, mitigating, managing and, monitoring risks. Identifying and establishing controls in line with the Bank's Risk Appetite and within the Operational Risk Management Framework.

- Second Line of Defence (2LoD) provides independent challenge and review of risks, validates and assesses the effectiveness of controls, and provide a holistic view of risks across the Bank.

- Third line of Defence (3LoD) assures process are adequate and complied with, as well as assessing the effectiveness of risk management across the organisation.

CREDIT AND COUNTRY RISK

The Bank's risk management of credit and country risk is aligned and largely managed jointly. The Bank's appetite for credit and country risks is set in response to its business plans and overall risk appetite. Risk Appetite for Financial Risk is medium and for Economic Risk is High, noting the markets in which we operate and the products we provide.

Credit Risk is the possibility of a loss resulting from a borrower's failure to repay a loan or meet contractual obligations in a timely manner. This includes long term risks associated with Environmental or Climate Change factors. 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 residential and commercial, real estate lending.

Country Risk refers to the uncertainty associated with investing in a particular country, and more specifically the degree to which that uncertainty could lead to economic losses. For the Bank, country risk largely arises as a result of the Bank taking credit risk on borrowers or counterparties outside the UK.

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.

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 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 risk appetite recovered gradually post-pandemic, low-rated emerging markets, which are predominantly the focus of our business strategy, have been disproportionately impacted by very challenging backdrop of front-loaded tightening by the Fed, fallout from Russia-Ukraine conflict, growth scarring from the pandemic and more recently the impacts of the conflict in other regions. The Bank continuously re-assesses appetite in line with the ongoing developments, including the current high interest rate environment and has managed its risk exposures 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.
- In its Real Estate business reviewing, stress testing and considering the implications of the increased interest costs.
- Enhancing the level of monitoring and reporting.

Credit risk quantitative disclosures

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

	2023	*2022*
Cash, notes and coins	1	-
Financial investments: debt securities (Note 17)	1,616,887	*1,689,091*
Reverse repurchase agreements	86,937	*236,927*
Loans and advances to banks (Note 18)	855,620	*755,184*
Loans and advances to customers (Note 20)	388,567	*463,780*
Derivatives (Note 16)	661	*1,344*
Total on balance sheet	**2,948,673**	***3,146,326***
Financial guarantees (Note 30)	80,449	*73,580*
Other commitments (Note 30)	485,729	*445,366*
Less: off balance sheet exposures impaired by provision on balance sheet (Note 25)	(2,492)	*(2,488)*
Total off balance sheet	**563,686**	***516,458***
Total	**3,512,359**	***3,662,784***

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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.

Type of credit exposure	Percentage of exposure that is subject to collateral 2023	*2022*	Principal types of collateral held
On-balance sheet:			
Reverse repurchase agreements	**99.8%**	*96.7%*	Debt securities
Loans and advances to banks			
Funds held at correspondent banks	**3.8%**	*1.5%*	Cash and guarantees
Professional market placements	**0.0%**	*0.0%*	
Term lending	**34.0%**	*36.1%*	Cash and guarantees
Bills discounted	**29.0%**	*25.1%*	Cash and guarantees
Overdrafts and other advances	**2.0%**	*6.1%*	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%**	*0.0%*	
Off-balance sheet:			
Credit lines and other commitments	**48.6%**	*46.5%*	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.

31 December 2023	**Maximum exposure**	**Cash collateral ***	**Property collateral**	**Debt securities**	**Guarantees**	**Net exposure to credit risk**
On-balance sheet:						
Cash, notes and coins	1	-	-	-	-	1
Financial investments: debt securities (Note 17)	1,616,887	-	-	-	-	1,616,887
Reverse repurchase agreements	86,937	-	-	(86,740)	-	197
Loans and advances to banks		-	-	-	-	-
Funds held at correspondent banks	11,112	(424)	-	-	-	10,688
Professional market placements	118,159	-	-	-	-	118,159
Term lending	210,404	-	-	-	(71,601)	138,803
Bills discounted	518,969	(10,864)	-	-	(139,411)	368,694
Overdrafts and other advances	497	-	-	-	(10)	487
Less: Provisions for impairments (Note 18)	(3,521)	-	-	-	-	(3,521)
						-
Loans and advances to customers						-
Professional market placements to non banks						-
Term Lending	30,788	-	-	-	-	30,788
Real Estate	367,936	-	(367,936)	-	-	-
Overdrafts and other advances	1,680	-	-	-	-	1,680
Less: Provisions for impairments (Note 20)	(11,837)	-	-	-	-	(11,837)
Derivatives	661	-	-	-	-	661
Total on balance sheet	**2,948,673**	**(11,288)**	**(367,936)**	**(86,740)**	**(211,022)**	**2,271,687**
Off-balance sheet:						
Credit lines and other commitments	563,686	(256,738)	-	-	(17,154)	289,794
Total off balance sheet	**563,686**	**(256,738)**	**-**	**-**	**(17,154)**	**289,794**
Total	**3,512,359**	**(268,026)**	**(367,936)**	**(86,740)**	**(228,176)**	**2,561,481**

ALL TABLE AMOUNTS ARE £'000s UNLESS OTHERWISE STATED

31 December 2022	*Maximum exposure*	*Cash collateral **	*Property collateral*	*Debt securities*	*Guarantees*	*Net exposure to credit risk*
On-balance sheet:						
Financial investments: debt securities (Note 17)	1,689,091	-	-	-	-	1,689,091
Reverse repurchase agreements	236,927			(229,010)		7,917
Loans and advances to Banks						
Funds held at correspondent banks	21,348	(320)	-	-	-	21,028
Professional market placements	132,689	-	-	-	-	132,689
Term lending	259,906	(4,152)	-	-	(89,727)	166,027
Bills discounted	344,129	(20,666)	-		(65,805)	257,658
Overdrafts and other advances	616	(37)	-	-	-	579
Less: Provisions for impairments (Note 18)	(3,504)		-	-	-	(3,504)
Loans and advances to customers						
Term Lending	42,030	-	-	-	-	42,030
Real Estate	435,253	-	(435,253)	-	-	-
Overdrafts and other advances	941	-	-	-	-	941
Less: Provisions for impairments (Note 20)	(14,444)	-	-	-	-	(14,444)
Derivatives	1,344					1,344
Total on balance sheet	**3,146,326**	**(25,175)**	**(435,253)**	**(229,010)**	**(155,532)**	**2,301,356**
Off-balance sheet:						
Credit lines and other commitments	516,458	(227,703)	-	-	(12,611)	276,144
Total off balance sheet	**516,458**	**(227,703)**	**-**	**-**	**(12,611)**	**276,144**
Total	**3,662,784**	**(252,878)**	**(435,253)**	**(229,010)**	**(168,143)**	**2,577,500**

*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.

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 2023 this includes the utilised portion of a £ 196,263,1450 (USD 250,000,000) deposit (2022: £207,623,951 (USD 250,000,000)) 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.

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	2023	2022
LTV ratio		
Less than 55%	114,193	121,358
55 - 65%	134,299	166,329
66 - 75%	81,920	137,965
76 - 85%	23,057	-
86 - 95%	14,467	9,601
More than 95%	-	-
Total	**367,936**	**435,253**

By industry, concentrations of credit risk were as follows:

	2023	2022
Financial institutions (including central banks)		
Banks	1,619,760	1,659,095
Multilateral development banks	506,735	558,695
Other financial intermediaries	8,350	28,385
	2,134,845	**2,246,175**
Corporates		
Commodities	2,922	2,056
Construction and engineering	1,344	1,420
Energy	123,557	135,647
Transport and storage	30,393	28,868
Real estate	313,512	382,268
Other	38,098	37,305
	509,826	**587,564**
Public administration	**869,502**	**832,022**
Others	**16,036**	**17,459**
Impairments	(17,850)	(20,436)
Maximum exposure to credit risk	**3,512,359**	**3,662,784**

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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.

Performance is continually monitored; customers are placed on Watch-list (WL) if there are any concerns. BACB applies the following categories of Watch-list:

Substandard category	Credit Grade	Definition
Watchlist 1 ("WL1")	Applies to all grades	A temporary/cautionary classification for clients who exhibit some unsatisfactory features, however we consider viability sound This should be considered where any amount is overdue by 14 days or more- without prior agreement which has been subject to credit risk assessment and approval.
Watchlist 2 ("WL2")	18	Some concerns over recoverability exists. 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- without prior agreement which has been subject to credit risk assessment and approval.
Watchlist 3 ("WL3")	19	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- without prior agreement which has been subject to credit risk assessment and approval.
Default	20	There has been an actual event of default.

Category	Grade	Probability of Default*	External benchmarks S&P From	S&P To	Moody's From	Moody's To	Fitch From	Fitch To
Investment Grade	1 - 10	0.001% - 0.387%	AAA	BBB-	Aaa	Baa3	AAA	BBB-
Non-Investment Grade	11 - 18	0.388% - 18.793%	BB+	CCC	Ba1	Caa2	BB+	CCC
Grades 15 to 17	15 - 17	2.744% - 12.342%	B	CCC+	B2	Caa1	B	CCC+
Grade 18	18	12.343% - 18.793%	CCC	CCC	Caa2	Caa2	CCC	CCC
Grade 19	19	18.794% - 50.000%	CCC-	CCC-	Caa3	Caa3	CCC-	CCC-
Default	20	100%	CC/D	CC/D	Ca	Ca	DDD-D	DDD-D

Master Rating Scale - 2022

Category	*Grade*	*Probability of Default**	*External benchmarks S&P From*	*S&P To*	*Moody's From*	*Moody's To*	*Fitch From*	*Fitch To*
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 17	*15 - 17*	*2.739% - 12.342%*	*B*	*CCC+*	*B2*	*Caa2*	*B*	*CCC*
Grade 18	*18*	*12.343% - 17.841%*	*CCC*	*CCC*	*Caa2*	*Caa2*	*CCC*	*CCC*
Grade 19	*19*	*17.842% - 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:

31 December 2023 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)	50,248	1,967,113	2,017,361	-	2,017,361
Grades 11 - 17 (Non-Investment Grade)	231,116	836,813	1,067,929	(6,351)	1,061,578
Grades 18 - 19 (Watchlist + Substandard)	282,230	115,896	398,126	(261,675)	136,451
Grade 20 (Default)	2,584	44,209	46,793	-	46,793
	566,178	2,964,031	3,530,209	(268,026)	3,262,183
Loss allowance	(2,492)	(15,358)	(17,850)	-	(17,850)
Carrying amount	563,686	2,948,673	3,512,359	(268,026)	3,244,333

31 December 2022 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)	*49,018*	*2,125,237*	*2,174,255*	*-*	*2,174,255*
Grades 11 - 17 (Non-Investment Grade)	*218,242*	*931,017*	*1,149,259*	*(28,314)*	*1,120,945*
Grades 18 - 19 (Watchlist + Substandard)	*248,971*	*73,171*	*322,142*	*(224,564)*	*97,578*
Grade 20 (Default)	*2,715*	*34,849*	*37,564*	*-*	*37,564*
	518,946	*3,164,274*	*3,683,220*	*(252,878)*	*3,430,342*
Loss allowance	*(2,488)*	*(17,948)*	*(20,436)*	*-*	*(20,436)*
Carrying amount	*516,458*	*3,146,326*	*3,662,784*	*(252,878)*	*3,409,906*

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 £86,937,000 as at 31 December 2023 (2022: £236,927,000).

Equity investments classified at fair value through other comprehensive income not included in the analysis above amount to £4,861,000 as at 31 December 2023 (2022: £5,909,000).

ALL TABLE AMOUNTS ARE £'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 2023

Gross exposure	Stage 1	Stage 2	Stage 3	Total
Grades 1- 10 (Investment Grade)	222,855	-	-	222,855
Grades 11 - 17 (Non-Investment Grade)	592,427	-	-	592,427
Grades 18 - 19 (Watchlist + Substandard)	19,296	24,233	-	43,529
Grade 20 (Default)	-	-	330	330
	834,578	**24,233**	**330**	**859,141**
Loss allowance	**(2,185)**	**(1,291)**	**(45)**	**(3,521)**
Carrying amount	**832,393**	**22,942**	**285**	**855,620**

Loans and advances to customer - 31 December 2023

Gross exposure	Stage 1	Stage 2	Stage 3	Total
Grades 1- 10 (Investment Grade)	41,664	-	-	41,664
Grades 11 - 17 (Non-Investment Grade)	212,696	29,798	-	242,494
Grades 18 - 19 (Watchlist + Substandard)	-	72,367	-	72,367
Grade 20 (Default)	-	-	43,879	43,879
	254,360	**102,165**	**43,879**	**400,404**
Loss allowance	**(229)**	**(2,442)**	**(9,166)**	**(11,837)**
Carrying amount	**254,131**	**99,723**	**34,713**	**388,567**

Off balance sheet - 31 December 2023

Gross exposure	Stage 1	Stage 2	Stage 3	Total
Grades 1- 10 (Investment Grade)	50,248	-	-	50,248
Grades 11 - 17 (Non-Investment Grade)	228,796	-	-	228,796
Grades 18 - 19 (Watchlist + Substandard)	277,658	4,572	-	282,230
Grade 20 (Default)	-	-	2,584	2,584
	556,702	**4,572**	**2,584**	**563,858**
Loss allowance	**(465)**	**(118)**	**(1,909)**	**(2,492)**
Carrying amount (provision)	**556,237**	**4,454**	**675**	**561,366**

Loans and advances to banks - 31 December 2022

Gross exposure	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Grades 1- 10 (Investment Grade)	*158,142*	-	-	*158,142*
Grades 11 - 17 (Non-Investment Grade)	*570,304*	-	-	*570,304*
Grades 18 - 19 (Watchlist + Substandard)	*25,144*	*5,098*	-	*30,242*
	753,590	***5,098***	-	***758,688***
Loss allowance	***(3,473)***	***(31)***	-	***(3,504)***
Carrying amount	***750,117***	***5,067***	-	***755,184***

ALL TABLE AMOUNTS ARE £'000s UNLESS OTHERWISE STATED

Loans and advances to customer - 31 December 2022

Gross exposure	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Grades 1- 10 (Investment Grade)	*42,295*	*-*	*-*	*42,295*
Grades 11 - 17 (Non-Investment Grade)	*336,565*	*21,589*	*-*	*358,154*
Grades 18 - 19 (Watchlist + Substandard)	*37*	*42,889*	*-*	*42,926*
Grade 20 (Default)	*-*	*-*	*34,849*	*34,849*
	378,897	***64,478***	***34,849***	***478,224***
Loss allowance	***(856)***	***(4,048)***	***(9,540)***	***(14,444)***
Carrying amount	***378,041***	***60,430***	***25,309***	***463,780***

Gross exposure	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Grades 1- 10 (Investment Grade)	*49,018*	*-*	*-*	*49,018*
Grades 11 - 17 (Non-Investment Grade)	*215,185*	*3,058*	*-*	*218,243*
Grades 18 - 19 (Watchlist + Substandard)	*53,025*	*195,945*	*-*	*248,970*
Grade 20 (Default)	*-*	*-*	*2,715*	*2,715*
	317,228	***199,003***	***2,715***	***518,946***
Loss allowance	***(244)***	***(220)***	***(2,024)***	***(2,488)***
Carrying amount	***316,984***	***198,783***	***691***	***516,458***

The Bank provides facilities to in excess of 308 counterparties encompassing trade finance exposures in over 41 countries and territories (2022: in excess of 330 counterparties encompassing exposures in over 43 countries and territories).

The trading debt securities measured at FVTPL were completely disposed of in August 2023, as at 31 December 2022, all securities (£4,037,000) were rated AA to A-.

Debt securities which are measured at FVOCI are subject to ECL provisions. As at 31 December 2023 debt securities measured at FVOCI with a fair value of £1,616,887 *(2022: £1,685,054)* are categorised as stage 1.

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

31 December 2023	**Financial guarantees and other commitments**	**Cash, loans and advances, debt securities and derivatives**	**Total**
United Kingdom	14,549	519,241	533,790
Europe excluding UK	44,438	355,750	400,188
Libya	259,740	10,880	270,620
Other Middle East and Africa	234,164	696,673	930,837
United States	7,695	649,414	657,109
Other Countries	5,592	732,073	737,665
Provision for credit losses	(2,492)	(15,358)	(17,850)
Maximum exposure to credit risk	**563,686**	**2,948,673**	**3,512,359**

ALL TABLE AMOUNTS ARE £'000s UNLESS OTHERWISE STATED

31 December 2022	*Financial guarantees and other commitments*	*Cash, loans and advances, debt securities and derivatives*	*Total*
United Kingdom	*7,081*	*416,996*	*424,077*
Europe excluding UK	*48,108*	*492,385*	*540,493*
Libya	*223,543*	*3,909*	*227,452*
Other Middle East and Africa	*225,874*	*531,842*	*757,716*
United States	*6,315*	*855,004*	*861,319*
Other Countries	*8,025*	*864,138*	*872,163*
Provision for credit losses	*(2,488)*	*(17,948)*	*(20,436)*
Maximum exposure to credit risk	***516,458***	***3,146,326***	***3,662,784***

MARKET RISK

Market Risk is the risk of a decline in the Bank's capital or GBP profitability due to a change in market prices principally interest rate risk and FX risk.

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 Market Risk Director, 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.

Risk Mitigation:

The Bank's Treasury function has day-to-day responsibility for managing its market and liquidity exposures. The Bank does not budget for more than 10% of its revenue to be earned from principal position trading exposures to bonds, interest rates or foreign exchange, and profits should be driven where feasible by customer flows. Derivative contracts may be used to modify market risk exposures. In the banking book, derivative contracts are used to hedge market risk exposure arising from banking book positions. 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 counterparties. 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.

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The Bank's overall net open position (on foreign exchange open positions and cash arising on settled trades) at 31 December 2023 (being the Sterling equivalent value of all the currencies where the currency obligations were higher than currency receivables) was £789,099 (*2022: £1,872,278*). Were these currencies to strengthen by 5% against the remaining currencies, then the Bank would lose £39,455 (*2021 (loss): £93,614*).

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

Open Positions

£'000	**2023**	*2022*
Maximum	6,364	*3,878*
Minimum	358	*451*
Average	1,619	*1,491*

As at the reporting date, there was no significant exposure to any one currency representing more than 10% of the Bank's equity. Further details of the Bank's assets and liabilities by foreign currency is provided in Note 31.

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

31 December 2023	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Non-interest bearing**	**Total**
Financial investments	278,714	946,938	327,816	63,419	-	4,861	1,621,748
Reverse repurchase agreements	86,937		-	-	-	-	86,937
Loans and advances to banks	271,007	244,913	339,700	-	-	-	855,620
Loans and advances to customers	93,214	286,542	8,802	6	-	3	388,567
Other assets	8,448	9	131	219	2,473	37,775	49,055
Total assets	**738,320**	**1,478,402**	**676,449**	**63,644**	**2,473**	**42,639**	**3,001,927**
Deposits from banks	1,221,294	558,636	140,237	40,392	-	-	1,960,559
Other deposits	409,952	43,867	33,724	211,576	-	-	699,119
Subordinated liabilities	44,803	29,751	-	-	-	-	74,554
Other liabilities	23,418	-	-	-	-	11,699	35,117
Shareholders' funds*	-	-	-	-	-	232,578	232,578
Total equity and liabilities	**1,699,467**	**632,254**	**173,961**	**251,968**	**-**	**244,277**	**3,001,927**
Overall gap	**(961,146)**	**846,149**	**502,487**	**(188,325)**	**2,473**	**(201,639)**	
Reverse Cumulative gap	**201,637**	**1,162,783**	**316,634**	**(185,853)**	**2,473**	**(201,639)**	

31 December 2022	***Up to 1 month***	***1-3 months***	***3-12 months***	***1-5 years***	***Over 5 years***	***Non-interest bearing***	***Total***
Financial investments	*426,336*	*1,196,900*	*24,993*	*40,862*	-	*5,909*	*1,695,000*
Reverse repurchase agreements	*236,927*	-	-	-	-	-	*236,927*
Loans and advances to banks	*194,190*	*266,920*	*294,074*	-	-	-	*755,184*
Loans and advances to customers	*95,942*	*358,097*	*9,841*	*(104)*	-	*4*	*463,780*
Other assets	*6,049*	-	*283*	*683*	*2,903*	*33,936*	*43,854*
Total assets	***959,444***	***1,821,917***	***329,191***	***41,441***	***2,903***	***39,849***	***3,194,745***
Deposits from banks	*1,238,914*	*554,919*	*309,955*	*40,682*	-	-	*2,144,470*
Other deposits	*453,209*	*37,452*	*24,713*	*222,389*	-	-	*737,763*
Subordinated liabilities	*47,267*	*30,392*	-	-	-	-	*77,659*
Other liabilities	*20,612*	-	-	-	-	*6,975*	*27,587*
*Shareholders' funds**	-	-	-	-	-	*207,266*	*207,266*
Total equity and liabilities	***1,760,002***	***622,763***	***334,668***	***263,071***	-	***214,241***	***3,194,745***
Overall gap	***(800,558)***	***1,199,154***	***(5,477)***	***(221,630)***	***2,903***	***(174,392)***	
Reverse Cumulative gap	***174,392***	***974,950***	***(224,204)***	***(218,727)***	***2,903***	***(174,392)***	

** Shareholders' funds are non-interest bearing.*
Non-interest bearing items comprise share capital, accumulated impairments, tangible and intangible assets and other sundry debtors and creditors not subject to interest.

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The Bank measures the interest rate 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. 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 2023, PVBP amounted to £33,000 (*2022: £28,109*). PVBP (calculated on a daily basis) was as follows:

	2023	*2022*
Maximum	46	41
Minimum	22	16
Average	32	29

The Bank also assesses interest rate risk in respect of net interest income through the Basel Committee on Banking Supervision ("BCBS") prescribed stress tests. As at 31 December 2023, a parallel shock up of 2% in the interest rate would reduce net interest income by £5.0m and a parallel shock down of 2% would have positive impact of £5.2m.

Derivative contracts are used in the banking book 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 2023 include interest rate futures which are used to manage the overall quantum of interest rate risk.

Trading book

In 2022, the Bank had a small trading book; activities were limited to transactions in financial instruments mainly comprising the trading of foreign exchange and interest rate futures. The trading book was completely disposed of in August 2023.

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

The Bank monitors a range of liquidity indicators including net cash flows over 14 days plus HQLA; the 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 table below analyses the remaining contractual maturity of the Bank's assets and liabilities. The table below has been complied on the basis of undiscounted cashflows which include estimated interest payments and has not been adjusted to reflect any behavioural characteristics that may have been observed by the Bank.

ALL TABLE AMOUNTS ARE £'000s UNLESS OTHERWISE STATED

At 31 December 2023	Carrying amount	Gross nominal inflow (outflow)	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Undated
Financial assets by type								
Financial investments	1,621,748	1,815,195	114,541	521,295	405,107	652,721	121,531	-
Reverse repurchase agreements	86,937	86,937	86,937	-	-	-	-	-
Loans and advances to banks	855,620	855,620	251,678	240,529	363,413	-	-	-
Loans and advances to customers	388,567	388,566	1,166	39,600	63,405	284,395	-	-
Other assets	49,055	49,057	8,450	9	131	219	2,473	37,775
Total assets	**3,001,927**	**3,195,375**	**462,772**	**801,433**	**832,056**	**937,335**	**124,004**	**37,775**
Financial liabilities by type								
Deposits from banks	(1,960,559)	(2,072,128)	(1,022,230)	(565,798)	(170,841)	(313,259)	-	-
Other deposits	(699,119)	(856,472)	(415,171)	(53,968)	(106,945)	(280,388)	-	-
Subordinated liabilities	(74,554)	(85,864)	(493)	(955)	(2,997)	(81,419)	-	-
Other liabilities	(35,117)	(35,117)	(23,418)	-	-	-	-	(11,699)
Shareholders' funds*	(232,578)	(232,578)	-	-	-	-	-	(232,578)
Total equity and liabilities	**(3,001,927)**	**(3,282,159)**	**(1,461,312)**	**(620,721)**	**(280,783)**	**(675,066)**	**-**	**(244,277)**

At 31 December 2022	Carrying amount	Gross nominal inflow (outflow)	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Undated
Financial assets by type								
Financial investments	1,695,000	1,828,054	225,582	622,319	119,983	675,333	184,837	-
Reverse repurchase agreements	236,927	236,927	236,927	-	-	-	-	-
Loans and advances to banks	755,184	755,184	194,190	266,920	294,074	-	-	-
Loans and advances to customers	463,780	463,780	22,007	74,238	113,516	254,019	-	-
Other assets	43,854	43,854	6,049	-	674	683	2,903	33,545
Total assets	**3,194,745**	**3,327,799**	**684,755**	**963,477**	**528,247**	**930,035**	**187,740**	**33,545**
Financial liabilities by type								
Deposits from banks	(2,144,470)	(2,228,261)	(1,029,964)	(560,269)	(334,889)	(303,139)	-	-
Other deposits	(737,763)	(859,341)	(457,017)	(44,702)	(92,236)	(265,386)	-	-
Subordinated liabilities	(77,659)	(89,116)	(377)	(732)	(3,411)	(84,596)	-	-
Other liabilities	(27,587)	(27,587)	(20,601)	-	-	-	-	(6,986)
Shareholders' funds*	(207,266)	(207,266)	-	-	-	-	-	(207,266)
Total equity and liabilities	**(3,194,745)**	**(3,411,571)**	**(1,507,959)**	**(605,703)**	**(430,536)**	**(653,121)**	**-**	**(214,252)**

** Shareholders' funds are undated (have no fixed maturity).*

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 the table above the HQLA assets are marketable financial investments that are shown under their contractual maturities but very liquid and can be disposed of on demand when required to meet the Bank's outflows.

5. Critical accounting estimates and judgements in applying accounting policies

The preparation of financial information requires BACB's Management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. 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; revisions to estimates are recognised prospectively.

The key judgements made in applying the Bank's accounting policies were as follows:

Valuation of financial instruments

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

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Impairment losses on loans and advances

The measurement of the ECL for financial assets subject to credit risk measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions, credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses), estimation of the amount and timing of the future cash flows and collateral values. These estimates are driven by several factors, changes in which can result in different levels of allowances.

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 3(k).

At 31 December 2023 11 loans to customers were defaulted (2022: 12 loans to customers). The restructuring of 2 (2022: 2) loans were the subject of continuing negotiations between lending syndicates and the borrowers, the outcomes of which were uncertain at 31 December 2023. 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 3(k). 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. The carrying amount of the assets subject to ECL is disclosed in Notes 18 and 20.

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.

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.

Deferred taxation

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

To the extent that actual outcomes differ from management's estimates, income tax charges or credits, and changes in current and deferred tax assets or liabilities, may arise in future periods.

Recognition and measurement of contingencies

Provisions for legal claims are recognised when the Bank has a legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. In determining whether it is likely that significant liability will arise from legal claims, management take appropriate legal advice. In particular, the OFAC settlement agreement includes a substantial suspended penalty (USD224,840,000), 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, hence the suspended penalty has not been recognised.

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 2023	Assets and liabilities held at amortised cost	Assets and liabilities held at FVOCI	Assets and liabilities designated at FVTPL	Total
Assets				
Cash, notes and coins	1	-	-	**1**
Financial investments	-	1,621,748	-	**1,621,748**
Property, plant and equipment	-	23,750	-	**23,750**
Reverse Repurchase agreements	86,937	-	-	**86,937**
Loans and advances to banks	855,620	-	-	**855,620**
Loans and advances to customers	388,567	-	-	**388,567**
Derivatives			661	**661**
Total financial assets	1,331,125	1,645,498	661	2,977,284
Total non-financial assets				**24,643**
Total assets				**3,001,927**
Liabilities				
Deposits from banks	1,960,559	-	-	**1,960,559**
Other deposits	699,119	-	-	**699,119**
Derivatives	-	-	46	**46**
Subordinated liabilities	74,554	-	-	**74,554**
Total financial liabilities	2,734,232	-	46	**2,734,278**
Total equity and non-financial liabilities				**267,649**
Total equity and liabilities				**3,001,927**

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31 December 2022	*Assets and liabilities held at amortised cost*	*Assets and liabilities held at FVOCI*	*Assets and liabilities designated at FVTPL*	*Total*
Assets				
Financial investments	*-*	*1,712,963*	*4,037*	***1,717,000***
Reverse Repurchase agreements	*236,927*	*-*	*-*	***236,927***
Loans and advances to banks	*755,184*	*-*	*-*	***755,184***
Loans and advances to customers	*463,780*	*-*	*-*	***463,780***
Derivatives	*-*	*-*	*1,344*	***1,344***
Total financial assets	*1,455,891*	*1,712,963*	*5,381*	***3,174,235***
Total non-financial assets				***20,510***
Total assets				***3,194,745***
Liabilities				
Deposits from banks	*2,144,470*	*-*	*-*	***2,144,470***
Other deposits	*737,763*	*-*	*-*	***737,763***
Derivatives	*-*	*-*	*507*	***507***
Subordinated liabilities	*77,659*	*-*	*-*	***77,659***
Total financial liabilities	*2,959,892*	*-*	*507*	***2,960,399***
Total equity and non-financial liabilities				***234,346***
Total equity and liabilities				***3,194,745***

Of the total £661,000 *(2022: £5,381,000)* assets at fair value through the profit and loss account, £661,000 *(2022: £5,381,000)* represents financial assets and derivatives.

Of the total £46,000 *(2022: £507,000)* liabilities at fair value through the profit and loss account, £46,000 (*2022: £*507,000*)* represents derivatives. As at 31 December 2023, there were no financial liabilities designated at fair value through the profit and loss account at inception *(2022: Nil)*.

7. Fair values of 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. In respect of revalued property, plant and equipment the Bank uses an independent external valuer who assesses the market value based on knowledge of market conditions, trend of similar transactions/properties and other inputs such as risk-free and benchmark interest rates and asset yield curves expected by institutional investors that would be buyers for the Bank's property.

ALL TABLE AMOUNTS ARE £'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 2023	**Level 1**	**Level 2**	**Level 3**	**Total**	**Carrying value (Note 6)**
Cash, notes and coins	-	1	-	1	1
Reverse Repurchase agreements	-	86,781	-	86,781	86,937
Loans and advances to banks	-	-	849,246	849,246	855,620
Loans and advances to customers	-	-	388,133	388,133	388,567
Financial assets held at amortised cost	**-**	**86,782**	**1,237,379**	**1,324,161**	**1,331,125**
Deposits from banks	-	-	1,948,106	1,948,106	1,960,559
Other deposits	-	-	706,501	706,501	699,119
Subordinated liabilities	-	-	76,498	76,498	74,554
Financial liabilities held at amortised cost	**-**	**-**	**2,731,105**	**2,731,105**	**2,734,232**

31 December 2022	***Level 1***	***Level 2***	***Level 3***	***Total***	***Carrying value (Note 6)***
Reverse Repurchase agreements	*-*	*236,927*	*-*	*236,927*	*236,927*
Loans and advances to banks	*-*	*-*	*753,912*	*753,912*	*755,184*
Loans and advances to customers	*-*	*-*	*463,777*	*463,777*	*463,780*
Financial assets held at amortised cost	***-***	***236,927***	***1,217,689***	***1,454,616***	***1,455,891***
Deposits from banks	*-*	*-*	*2,135,817*	*2,135,817*	*2,144,470*
Other deposits	*-*	*-*	*742,609*	*742,609*	*737,763*
Subordinated liabilities	*-*	*-*	*74,158*	*74,158*	*77,659*
Financial liabilities held at amortised cost	***-***	***-***	***2,952,584***	***2,952,584***	***2,959,892***

Reverse Repurchase Agreements

As at 31 December 2023 Management deemed it appropriate to move Reverse Repurchase Agreements from Level 3 to Level 2. Valuations of these assets can be made using direct market data on the collateralised underlying instrument which tend to be highly rated securities. As the change was not a transfer, the disclosure for 2022 has also been changed to ensure consistency of presentation.

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.

ALL TABLE AMOUNTS ARE £'000s UNLESS OTHERWISE STATED

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 2023 observed market yields for those indices were higher than those being achieved, and as a result the estimated fair market value of the loans at that date represents an overall discount to their carrying value as shown above. The Bank has no current intention of disposing of any of these loans, and accordingly, in the opinion of the Directors, the amount of the discount is not indicative of an impairment which should be recognised through the Bank's accounts. Loans and advances which are impaired are stated at their book value without further adjustment.

Deposits

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

The market interest 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 2023			*31 December 2022*		
	Sterling	*US Dollars*	*Euro*	*Sterling*	*US Dollars*	*Euro*
Interest rates						
3 month	5.16%	5.28%	3.82%	*3.70%*	*4.54%*	*2.20%*
6 month	5.09%	5.11%	3.63%	*4.04%*	*4.75%*	*2.61%*
1 year	4.68%	4.74%	3.41%	*4.40%*	*4.84%*	*3.22%*
5 year	3.33%	3.50%	2.39%	*4.05%*	*3.68%*	*3.13%*

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 TABLE AMOUNTS ARE £'000s UNLESS OTHERWISE STATED

31 December 2023	Level 1	Level 2	Level 3	(Note 6)
Financial investments	1,616,887	-	4,861	1,621,748
Property, plant and equipment	-	-	23,750	23,750
Derivative assets	640	21	-	661
Total assets held at fair value	**1,617,527**	**21**	**28,611**	**1,646,159**
Derivative liabilities	46	-	-	46
Total liabilities held at fair value	**46**	**-**	**-**	**46**

31 December 2022	*Level 1*	*Level 2*	*Level 3*	*Total fair value (Note 6)*
Financial investments	*1,689,091*	*-*	*5,909*	*1,695,000*
Property, plant and equipment	-	-	*22,000*	*22,000*
Derivative assets	*1,344*	*-*	*-*	*1,344*
Total assets held at fair value	***1,690,435***	***-***	***27,909***	***1,718,344***
Derivative liabilities	*507*	*-*	*-*	*507*
Total liabilities held at fair value	***507***	***-***	***-***	***507***

There were no significant transfers of assets between levels during 2023, 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. In the prior year, 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 17.

Derivative assets and liabilities

The fair values of spot and forward foreign exchange contracts and interest futures are based upon observable market prices and are actively traded 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 2022 and 2023.

Property, Plant and Equipment

The fair value of Mansion House Place was ascertained in December 2023 from an independent valuation report prepared by Montagu Evans, a qualified chartered surveyors familiar with the market for such assets. As such, the asset has been categorised as Level 3 based on third party valuations. The report takes into consideration such factors as economic outlook, investor sentiment, inflationary pressures and comparisons to other similar properties on the market.

ALL TABLE AMOUNTS ARE £'000s UNLESS OTHERWISE STATED

8. Net interest income

Interest income is made up as follows:

	2023	2022
Interest income		
Loans, advances and overdrafts	81,093	*41,935*
Professional market placements and debt securities	86,942	*30,015*
	168,035	***71,950***

The amount recorded in interest arising on financial assets at fair value through profit and loss is £96,000 (2022: £564,000).

Interest expense is made up as follows:

	2023	2022
Interest expense		
Deposits from banks and other deposits	(97,945)	*(34,967)*
Subordinated loans	(5,642)	*(3,147)*
Interest on lease liabilities	(160)	*(187)*
	(103,747)	***(38,301)***

In 2022 the Bank held a portfolio of Euro denominated repurchase agreements for which it is charged negative interest rates (2022: £537,813). In 2023 due to the rise in interest rates this did not occur.

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:

	2023	2022
Fee and commission income		
Trade services:		
Documentary credit and trade finance fees	21,862	*18,704*
Guarantees	676	*626*
Banking payments and services	1,266	*1,553*
Term lending (other than amounts which form part of the effective interest rate)	294	*770*
	24,098	***21,653***
Fee and commission expense		
Brokerage and other fees	**(6,977)**	***(4,035)***

10. Net trading income

Net trading income is made up as follows:

	2023	2022
Foreign exchange dealing	5,972	8,509
Debt securities - Unrealised fair value movements	104	(1,693)
Debt securities - Realised gains / (losses)	67	(76)
Derivative Premium	(597)	(218)
	5,546	**6,522**

ALL TABLE AMOUNTS ARE £'000s UNLESS OTHERWISE STATED

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

Derivative premium relates to fees paid on options held by the Bank to manage FX risk.

11. Other operating income

Other operating income is made up as follows:

	2023	*2022*
Realised (loss)/gains - Debt securities at FVOCI	397	*(646)*
Rental Income	322	*278*
Dividends from equity shares and investment funds measured at FVOCI	-	*108*
Other operating loss	-	*(208)*
Net Interest Income from defined benefit pension scheme	182	*112*
	901	***(356)***

12. Business line review

IFRS 8 Operating Segments is not applicable to BACB, the disclosure below is additional information that BACB believes is useful to the users of the Annual Report and Financial Statements but is not the disclosures required by IFRS 8.

As at 31 December 2023, the Bank has three 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.

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.
- 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.

The Bank also offers Banking Services by acting as a banking correspondent for key clients providing tailored account and international payment services. Banking services compliment trade finance services.

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.

ALL TABLE AMOUNTS ARE £'000s UNLESS OTHERWISE STATED

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:

					Legacy			
31 December 2023	**Trade Finance**	**Real Estate**	**Banking**	**Treasury**	**Commodity Finance**	**Structured Finance**	**Other**	**Total**
Net Interest Income	16,779	8,926	26,653	11,794	1	295	(160)	64,288
Net fee and commission income	15,839	93	1,196	(10)	-	3	-	17,121
Net trading income	-	-	-	5,546	-	-	-	5,546
Other operating income	-	-	-	397	-	-	504	901
Total Operating Income	**32,618**	**9,019**	**27,849**	**17,727**	**1**	**298**	**344**	**87,856**

					Legacy			
31 December 2022	***Trade Finance***	***Real Estate***	***Banking***	***Treasury***	***Commodity Finance***	***Structured Finance***	***Other***	***Total***
Net interest income	*8,445*	*9,799*	*8,617*	*6,449*	*147*	*379*	*(187)*	*33,649*
Net fee and commission income	*15,953*	*283*	*1,323*	*(117)*	*172*	*4*	*-*	*17,618*
Net trading income	*-*	*-*	*-*	*6,522*	*-*	*-*	*-*	*6,522*
Other operating income	*-*	*-*	*-*	*(646)*	*-*	*-*	*290*	*(356)*
Total Operating income	***24,398***	***10,082***	***9,940***	***12,208***	***319***	***383***	***103***	***57,433***

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 42% of the total *(2022: 16%).*

	2023	*2022*
United Kingdom	13,120	*11,479*
Europe / Americas (excl. UK)	12,879	*3,863*
MENA (incl Libya)	36,901	*9,553*
Sub - Saharan Africa	18,511	*13,435*
Asia, Levant and Other	6,445	*18,991*
	87,856	***57,321***

ALL TABLE AMOUNTS ARE £'000s UNLESS OTHERWISE STATED

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 2023.

31 December 2023	**Loans**	**Debt Securities**	**Off-balance sheet positions**	**Other movements**	**Total**
Balance at 1 January	**17,948**	**162**	**2,488**	**-**	**20,598**
Changes in Fx and other Parameters	(694)	(8)	(142)	-	(844)
New allowances	205	-	146	-	351
Administrative expenses associated with impaired loans	-	-	-	128	128
Allowances for credit losses	**205**	**-**	**146**	**128**	**479**
Reversal of Stage 1&2 allowances booked in previous periods	(1,902)	(116)	-	-	(2,018)
Reversal of Stage 3 allowances booked in previous periods	(199)	-	-	-	(199)
Recoveries of interest from impaired loans	-	-	-	(406)	(406)
Recoveries of amounts written off in previous periods	-	-	-	(1)	(1)
Reversals of allowances and recoveries of amounts written off in previous periods	**(2,101)**	**(116)**	**-**	**(407)**	**(2,624)**
Balance at 31 December	**15,358**	**38**	**2,492**	**-**	**17,888**
Credit impaired	9,211		1,909	-	11,120
Not credit impaired	6,147	38	583	-	6,768
Total credit losses allowance against loans, debt securities and off balance positions	**15,358**	**38**	**2,492**	**-**	**17,888**

31 December 2022	*Loans*	*Debt Securities*	*Off-balance sheet positions*	*Other movements*	*Total*
Balance at 1 January	*14,322*	*181*	*2,930*		*17,433*
Changes in Fx and other Parameters	*1,444*	*16*	*391*		*1,851*
New allowances	*3,022*				*3,022*
Administrative expenses associated with impaired loans				*284*	*284*
Allowance for credit losses	*3,022*			*284*	*3,306*
Reversal of Stage 1&2 allowances booked in previous periods		*(35)*	*(65)*		*(100)*
Reversal of Stage 3 allowances booked in previous periods	*(840)*		*(768)*		*(1,608)*
Recoveries of interest from impaired loans				*(117)*	*(117)*
Recoveries of amounts written off in previous periods				*(4)*	*(4)*
Reversals of allowances and recoveries of amounts written off in previous periods	*(840)*	*(35)*	*(833)*	*(121)*	*(1,829)*
Balance at 31 December	*17,948*	*162*	*2,488*		*20,598*
Credit impaired	*9,540*		*2,024*		*11,564*
Not credit impaired	*8,408*	*162*	*464*		*9,034*
Total credit losses allowance against loans, debt securities and off balance positions	*17,948*	*162*	*2,488*		*20,598*

The reconciliation from the opening to the closing balance of the allowance for credit losses by class of financial instrument are showed in Note 18, Note 20 and Note 30 respectively. The basis for determining transfers due to changes in credit risk is set out in our accounting policy Note 3(k). As at 31 December 2023, the reversal of stage 1 and 2 allowances booked in previous period is attributable to changes in risk parameters and account balances driven by active risk management through which the Bank's exposures to higher credit grades were managed proactively.

The contractual amount outstanding on financial assets that were written off during the reporting period and are still subject to enforcement activity was Nil (2022: Nil).

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 3(k).

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 £6,768,000 for 2023 (2022: £9,034,000).

ALL TABLE AMOUNTS ARE £'000s UNLESS OTHERWISE STATED

Further information with regards to impaired and other facilities is shown in the table below. There was a total of 11 impaired facilities at 31 December 2023 (2022: 12 facilities), with new impairment allowances recognised for 2 of those facilities during the year (2022: 5 facilities). Of the 2 new facilities impaired as at 31 December 2023,1 facility had no collateral in place (2022: 4 facilities).

	2023		*2022*	
	Number of Facilities	**Gross Exposure ***	*Number of Facilities*	*Gross Exposure **
Defaulted facilities				
Total impaired facilities	11	46,793	*12*	*37,564*
Impaired facilities against which there was no collateral	3	7,661	*3*	*7,763*
Companies in liquidation. Impairment in respect of these facilities £Nil (*2022: £7,000*)	-	-	*1*	*7*
Waiver on repayments. Impairment in respect of these facilities £6,529,000 (*2022: £6,907,000*)	1	6,529	*1*	*6,907*
Shortfall to be paid on maturing underlying contracts. Impairment in respect of this facility £847,000 (*2022: £849,000*)	2	1,132	*1*	*849*
Non-defaulted facilities subject to forbearance, restructuring or close monitoring				
Amounts past due in respect of unimpaired financial assets at reporting date	1	3,473	-	-
Facilities formally restructured on terms which may be less favourable to the Bank but which do not give rise to an impairment	1	40,902	-	-
Unimpaired facilities in the process of being restructured as at the reporting date	1	8,930	-	-
Watchlist or substandard facilities subject to closer monitoring than normal	12	101,171	*5*	*39,416*
Breach of covenant, which is being addressed	6	62,383	*1*	*5,687*

** Gross exposure net of cash collateral*

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

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

ALL TABLE AMOUNTS ARE £'000s UNLESS OTHERWISE STATED

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:

- A 20% increase in the loss given default (LGD) downturn scenario weighting, coupled with a 10% decrease in the weighting of the BAU scenario and a 10% decrease in the optimistic scenario would result in an increase of £0.7 million in the impairment allowance on stage 1 and 2 exposures.

- A 50% decrease in the effective interest rate (EIR) would result in a decrease of £0.1m in the ECL stage 1 and 2 allowance.

- If loan to value ratios on real estate exposures are 20% higher the amount of the impairment on stage 1 and stage 2 which would have been charged in 2023 in respect of those loans would have been increased by £1.9 million.

- A 20% increase in probability of default (PD) on trade finance exposures would result in an increase in the ECL stage 1 and 2 allowance of £0.7 million. A 20% decrease in probability of default (PD) on trade finance exposures would result in an decrease in the ECL stage 1 and 2 allowance of £0.7 million.

- With respect of credit impaired (stage 3) asset an increase in the worst case scenario to 100% would result in an increase in the ECL stage 3 allowance of £3.2 million.

Management continued to review the performance of the Bank's exposures and its ECL models and in December 2023 determined that due to the ongoing volatility seen across the Bank's markets which is expected to continue decided to apply an overlay to the ECL on trade finance exposures derived from lower credit grade countries, the charge in the income statement in 2023 in respect of this overlay amounted to £583,000. There was no overlay charged in 2022.

14. Administrative expenses

	2023	*2022*
Staff costs:		
Salaries and other emoluments	28,307	*20,905*
Social security costs	3,591	*2,703*
Other pension costs:		
Pension Running costs for both schemes	481	*399*
Defined contribution scheme	2,234	*1,832*
Total staff employment costs	**34,613**	***25,839***
Reorganisation costs	505	*461*
Other employment related costs	1,970	*1,968*
Total staff costs	**37,088**	***28,268***
Fees payable to the Bank's auditors for the audit of the Bank's annual financial statements	666	*669*
Fees payable to the Bank's auditors for other services :		
Other services pursuant to legislation	15	*10*
Depreciation (including amortisation of intangibles)	2,904	*2,753*
Loss on sale of tangible assets	518	*28*
Regulatory supervision fees	127	*94*
Other administrative expenses		
Premises & Technology	6,797	*5,137*
Legal & Professional	2,200	*2,074*
Other	3,279	*2,998*
Administrative expenses	**53,594**	***42,031***

The average number of employees in place during the year was 222 (2022: 195).

The fees payable to the Bank's auditors included above include overrun fees for prior year audits of £40,000 in 2023 and £80,000 in 2022.

Directors' remuneration included above totalled £1,802,100 (*2022: £1,346,274)*. The emoluments of the highest paid director were £606,495.35 *(2022: £596,745)*. There were no pension contributions for any directors during the year*(2022: Nil).* Compensation for loss of office of directors (including amounts payable during contractual notice periods) totalled £360,446 (*2022: nil)*.

ALL TABLE AMOUNTS ARE £'000s UNLESS OTHERWISE STATED

15. Income tax

	2023	2022
Current tax		
Total UK corporation tax charge	4,486	*662*
Current tax adjustment in respect of previous periods	(258)	*(617)*
Deferred tax (Note 22)		
Origination and reversal of timing differences	2,106	*583*
Effect of tax rate change	36	*32*
Deferred tax adjustment in respect of unused losses	2,162	*(1,835)*
	4,304	*(1,220)*
Total income tax charge	**8,532**	*(1,175)*

The tax charge on the profit for the year is based on the average UK corporation tax rate of 25% (2022: 19%). The Finance Act 2021 enacted an increase in corporation tax to 25% with effect from 1 April 2023 resulting in an effective tax rate of 23.5% during the financial year ending 31 December 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.

The tax charge for the year is lower (2022: lower) than the charge resulting from applying the standard rate of UK corporation tax. The differences are explained below:

	2023	2022
Profit on ordinary activities before tax	**36,407**	*13,925*
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK	8,556	*2,646*
Effects of:		
Adjustment in respect of previous periods	(258)	*(617)*
Effect of change in tax rate	36	*32*
Non taxable income	(5)	*(25)*
Non deductible and other items	673	*236*
Losses not recognised in prior year	(470)	-
Prior period losses recognised as a deferred tax asset	-	*(1,835)*
Previously unrecognised losses utilised during the year	-	*(1,612)*
Total income tax charge	**8,532**	*(1,175)*

During 2022 and 2023 all the tax charge is due on transactions recorded and undertaken in the United Kingdom. No public subsidies were received during the reporting year.

ALL TABLE AMOUNTS ARE £'000s UNLESS OTHERWISE STATED

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

	2023			2022		
	Before tax	Tax	Net of tax	Before tax	Tax	Net of tax
Actuarial (loss)/gain on pension fund	-	-	-	(4,161)	731	(3,430)
Change in fair value of equity investments designated at FVOCI	(1,048)	270	(778)	(376)	79	(297)
Change in fair value of debt securities designated at FVOCI	9,036	(2,133)	6,903	(14,178)	3,303	(10,875)
Fair value (gains)/losses attributable to FVOCI financial assets transferred to income	397	(30)	367	(646)	46	(600)
Change in valuation of PPE	(3,359)	839	(2,520)	7,851	(1,963)	5,888
	5,026	(1,054)	3,972	(11,510)	2,196	(9,314)

In respect of the tax liability on pension asset, following independent tax advice received during 2023 the tax as at 31 December 2023 is calculated using a 35% withholding tax charge (2022: 23.5%). The increase in tax rate is reflected within the income tax recognised in other comprehensive income of £727,000 disclosed above.

16. Derivatives

Derivative positions at 31 December were as follows:

	31 December 2023		
	Contract amount	Positive fair values (Assets)	Negative fair values (Liabilities)
Spot and forward foreign exchange contracts held for trading purposes	205,009	303	46
Interest futures held for trading purposes	65,678	337	-
Options on foreign exchange for trading purposes	2,000	21	-
		661	46

	31 December 2022		
	Contract amount	Positive fair values (Assets)	Negative fair values (Liabilities)
Spot and forward foreign exchange contracts held for trading purposes	658,834	378	507
Interest futures held for trading purposes	95,635	966	
		1,344	507

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 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 no XVA adjustment is required.

ALL TABLE AMOUNTS ARE £'000s UNLESS OTHERWISE STATED

Foreign exchange risk

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

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

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

Interest rate risk

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. Financial Investments

	2023	*2022*
Debt issued by governments and multilateral development banks designated as FVOCI	1,371,471	*1,383,707*
Other listed debt securities issued by banks designated as FVOCI	242,430	*278,007*
Other listed debt securities issued by non-banks designated as FVOCI	2,986	*23,340*
Debt securities designated as FVTPL	-	*4,037*
Total debt securities	**1,616,887**	***1,689,091***
Equity shares and investment funds designated at FVOCI	**4,861**	***5,909***
	1,621,748	***1,695,000***

Debt securities with fixed interest rates (other than those with a single interest period less than 1 year) amounted to £57,193,785 (2022: £34,699,000).

Equity shares comprise a participation of 8.64% in the share capital of International Company for Leasing SAE, BACB holds 1,727,999 ordinary shares of Egyptian Pounds 10 each.

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:

	2023	*2022*
Balance at 1 January	5,909	*6,285*
Changes in fair value during the year	(1,048)	*(376)*
Balance at 31 December	**4,861**	***5,909***
Comprising:		
Equity shares	3,568	*2,067*
Investment funds	1,293	*3,842*
	4,861	***5,909***

ALL TABLE AMOUNTS ARE £'000s UNLESS OTHERWISE STATED

As at 31 December 2023 the Bank has a commitment in respect of uncalled capital in one of its investment funds of £2,322,000 (*2022: £2,500,000*).

18. Loans and advances to banks

	2023	*2022*
Funds held at correspondent banks	11,112	*21,348*
Professional market placements	118,159	*132,689*
Term lending	210,404	*259,906*
Bills discounted	518,969	*344,129*
Overdrafts and other advances	497	*616*
Less: Provisions for impairments	(3,521)	*(3,504)*
	855,620	***755,184***

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 2023 and at 31 December 2023.

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 2022 and 2023.

ALL TABLE AMOUNTS ARE £'000s UNLESS OTHERWISE STATED

31 December 2023

Gross exposure	Stage 1	Stage 2	Stage 3	Total
Funds held at correspondent banks	11,112	-	-	11,112
Professional market placements	118,159	-	-	118,159
Term lending	185,871	24,203	330	210,404
Bills discounted	518,969	-	-	518,969
Overdrafts and other advances	467	30	-	497
Total	**834,578**	**24,233**	**330**	**859,141**

Impairment allowance	Stage 1	Stage 2	Stage 3	Total
Funds held at correspondent banks	(1)	-	-	(1)
Professional market placements	(1)	-	-	(1)
Term lending	(2,114)	(1,291)	(45)	(3,450)
Bills discounted	(69)	-	-	(69)
Overdrafts and other advances	-	-	-	-
Total	**(2,185)**	**(1,291)**	**(45)**	**(3,521)**

Net Exposure	Stage 1	Stage 2	Stage 3	Total
Funds held at correspondent banks	11,111	-	-	11,111
Professional market placements	118,158	-	-	118,158
Term lending	183,757	22,912	285	206,954
Bills discounted	518,900	-	-	518,900
Overdrafts and other advances	467	30	-	497
Total	**832,393**	**22,942**	**285**	**855,620**

31 December 2022

Gross exposure	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Funds held at correspondent banks	*21,348*	-	-	*21,348*
Professional market placements	*132,689*	-	-	*132,689*
Term lending	*259,906*	-	-	*259,906*
Bills discounted	*339,031*	*5,098*	-	*344,129*
Overdrafts and other advances	*616*	-	-	*616*
Total	*753,590*	*5,098*	-	*758,688*

Impairment allowance	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Funds held at correspondent banks	*(2)*	-	-	*(2)*
Professional market placements	*(7)*	-	-	*(7)*
Term lending	*(3,370)*	-	-	*(3,370)*
Bills discounted	*(91)*	*(31)*	-	*(122)*
Overdrafts and other advances	*(3)*	-	-	*(3)*
Total	*(3,473)*	*(31)*	-	*(3,504)*

Net Exposure	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Funds held at correspondent banks	*21,346*	-	-	*21,346*
Professional market placements	*132,682*	-	-	*132,682*
Term lending	*256,536*	-	-	*256,536*
Bills discounted	*338,940*	*5,067*	-	*344,007*
Overdrafts and other advances	*613*	-	-	*613*
Total	*750,117*	*5,067*	-	*755,184*

ALL TABLE AMOUNTS ARE £'000s UNLESS OTHERWISE STATED

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

	Provision for impairments			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance as at 31 December 2022	3,473	31	-	3,504
New financial assets originated or purchased	2,181	1,291	45	3,517
Financial assets that have been derecognised	(3,681)	(32)	-	(3,713)
Foreign exchange and other movements	212	1	-	213
Balance as at 31 December 2023	**2,185**	**1,291**	**45**	**3,521**

	Provision for impairments			
	Stage 1	Stage 2	Stage 3	Total
Balance as at 31 December 2021	*1,131*	-	-	*1,131*
New financial assets originated or purchased	*1,927*	*27*	-	*1,954*
Financial assets that have been derecognised	*(1,271)*	-	-	*(1,271)*
Impact of change in PD modelling	*1,545*	*4*	-	*1,549*
Foreign exchange and other movements	*141*	-	-	*141*
Balance as at 31 December 2022	*3,473*	*31*	-	*3,504*

As at 31 December 2023 loans and advances to banks, which are subject to the ECL model overlay, amount to £282 million and the related overlay charged to the income statement amounted to £457,000. As at 31 December 2022 loans and advances to banks are not subject to any ECL model overlay.

19. Prepayments, accrued income and other debtors

	2023	*2022*
Amounts held in repect of collateral	6,115	-
Prepayments and accrued income	1,768	*2,054*
Other debtors	2,541	*960*
	10,424	***3,014***

As at 31 December 2023, amounts of £6.1m relate to collateral due in respect of exchange traded repurchase agreements.

20. Loans and advances to customers

	2023	*2022*
Term and Real Estate lending	398,724	*477,283*
Overdrafts and other advances	1,680	*941*
Less: Provisions for impairments	(11,837)	*(14,444)*
	388,567	***463,780***

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 2022 and at 31 December 2023.

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 2022 and 2023.

ALL TABLE AMOUNTS ARE £'000s UNLESS OTHERWISE STATED

31 December 2023

Gross exposure	Stage 1	Stage 2	Stage 3	Total
Term and Real Estate lending	254,354	102,000	42,370	398,724
Overdrafts and other advances	6	165	1,509	1,680
Total	**254,360**	**102,165**	**43,879**	**400,404**

Impairment allowance	Stage 1	Stage 2	Stage 3	Total
Term and Real Estate lending	(229)	(2,429)	(8,671)	(11,329)
Overdrafts and other advances		(13)	(495)	(508)
Total	**(229)**	**(2,442)**	**(9,166)**	**(11,837)**

Net Exposure	Stage 1	Stage 2	Stage 3	Total
Term and Real Estate lending	254,125	99,571	33,699	387,395
Overdrafts and other advances	6	152	1,014	1,172
Total	**254,131**	**99,723**	**34,713**	**388,567**

31 December 2022

Gross exposure	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Term and Real Estate lending	*378,834*	*64,478*	*33,971*	*477,283*
Overdrafts and other advances	*63*	*-*	*878*	*941*
Total	*378,897*	*64,478*	*34,849*	*478,224*

Impairment allowance	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Term and Real Estate lending	*(856)*	*(4,048)*	*(9,018)*	*(13,922)*
Overdrafts and other advances	*-*	*-*	*(522)*	*(522)*
Total	*(856)*	*(4,048)*	*(9,540)*	*(14,444)*

Net Exposure	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Term and Real Estate lending	*377,978*	*60,430*	*24,953*	*463,361*
Overdrafts and other advances	*63*	*-*	*356*	*419*
Total	*378,041*	*60,430*	*25,309*	*463,780*

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 2022	856	4,048	9,540	14,444
Transfer out of Stage 1	(183)	-	-	(183)
Transfer to Stage 2	-	1,110	-	1,110
Transfer out of Stage 2	-	(622)	-	(622)
Transfer to Stage 3	-	-	160	160
Change in other risk parameter (incl change in account balances)	(323)	(2,071)	(1,039)	(3,433)
New financial assets originated or purchased	55	16	-	71
Financial assets that have been derecognised	(210)	(231)	(4)	(445)
Foreign exchange and other movements	34	192	509	735
Balance as at 31 December 2023	**229**	**2,442**	**9,166**	**11,837**

ALL TABLE AMOUNTS ARE £'000s UNLESS OTHERWISE STATED

	Provision for impairments			
	Stage 1	*Stage 2*	*Stage 3*	*Total*
Balance as at 31 December 2021	*632*	*4,388*	*8,171*	*13,191*
Transfer out of Stage 1	*(174)*	-	-	*(174)*
Transfer to Stage 2	-	*1,409*	-	*1,409*
Transfer out of Stage 2	-	*(551)*	-	*(551)*
Transfer to Stage 3	-	-	*1,370*	*1,370*
Change in other risk parameter (incl change in account balances)	*69*	*(1,436)*	*(275)*	*(1,642)*
New financial assets originated or purchased	*130*	-	-	*130*
Financial assets that have been derecognised	*(68)*	*(7)*	*(571)*	*(646)*
Impact of change in PD modelling	*246*	*(189)*	-	*57*
Foreign exchange and other movements	*21*	*434*	*845*	*1,300*
Balance as at 31 December 2022	*856*	*4,048*	*9,540*	*14,444*

21. Lease commitments

Leases as Lessee

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

In respect to the main office at Mansion House Place a lease premium has been prepaid over the lease term (Note 23). The Bank has obligations to make payments for ground rent in its capacity as lessee and is entitled to rental and service charge receipts in its capacity as sub-lessor. The ground rent is re-negotiated every five years to reflect market rentals and is recognised as a right-of use asset and lease liability.

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

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 23).

Right-of-use assets	**2023**	**2022**
Balance as at 1 January	12,285	12,376
Additions	24	12
Depreciation charge for the year	(110)	(103)
Balance as at 31 December	**12,199**	**12,285**

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

Lease liability	**2023**	**2022**
Balance as at 1 January	4,701	4,645
Additions	24	12
Lease payable	(200)	(143)
Interest on lease liabilities	160	187
Balance as at 31 December	**4,685**	**4,701**

ALL TABLE AMOUNTS ARE £'000s UNLESS OTHERWISE STATED

Amounts recognised in statement of comprehensive income are as follows:

Amounts recognised in the income statement	2023	2022
Depreciation charge for the year	110	103
Interest on lease liabilities	160	187
Total amount recognsided in the income statement	**270**	**290**

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	2023	2022
Right of use payments made in the year	**(202)**	6

Contractual maturity profile of lease payables	2023	2022
Less than 1 year	310	290
Between two and five years	768	385
Over 5 years	22,356	22,731
	23,434	**23,406**

The Bank's lease on Mansion House Place is renewable every 5 years until 2147, the next renewal is due in January 2025. Under the terms of the lease the Bank is committed to pay a minimum rent based on the market rental value of the property as well as a percentage of annual net rents received. The cashflows included above as payable after January 2025 are an estimate based on the undiscounted value of the lease liability, the negotiated terms may differ from this estimate.

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.

Contractual maturity profile of lease receivables	2023	2022
Less than 1 year	237	238
Between two and five years	421	183
	658	**421**

ALL TABLE AMOUNTS ARE £'000s UNLESS OTHERWISE STATED

22. Deferred taxation

	Balance at 1 January 2023	Recognised in Profit or Loss	Recognised in Other Comprehensive Income	Deferred tax assets*	Deferred tax liabilities*
Property, plant and equipment, intangible assets & lease liability	(2,525)	(2,044)	839	-	(3,730)
Unused tax losses loss carried forward	2,163	(2,163)	-	-	-
Debt securities classified at fair value through OCI	2,877	-	(2,164)	713	-
Deferred Bonus Provision	-	78	-	78	-
Equity Investments classified at fair value through OCI	126	-	271	397	-
IFRS 9 Transitional adjustment	920	(175)	-	745	-
		(4,304)	**(1,054)**	**1,933**	**(3,730)**

	Balance at 1 January 2022	*Recognised in Profit or Loss*	*Recognised in Other Comprehensive Income*	*Deferred tax assets**	*Deferred tax liabilities**	*Presented in Pension Surplus*
Property, plant and equipment and intangible assets	*(399)*	*(163)*	*(1,963)*	-	*(2,525)*	-
Unused tax losses loss carried forward	*265*	*1,898*	-	*2,163*	-	-
Tax liability on pension assets (Note 26)	*(1,043)*	*(372)*	*731*	-		*(684)*
Debt securities classified at fair value through OCI	*(472)*	-	*3,349*	*2,877*	-	-
Equity Investments classified at fair value through OCI	*47*	-	*79*	*126*	-	-
IFRS 9 Transitional adjustment	*1,063*	*(143)*	-	*920*	-	-
		1,220	*2,196*	*6,086*	*(2,525)*	*(684)*

*Deferred tax asset and liability balances are off-settable, within the Statement of financial Position the net position is disclosed, as at 31 December 2023 net deferred tax liabilities of £1,797,000 (2022: asset of £3,561,000).

Following the implementation of amendments to IAS 12 Income Taxes, as at 31 December 2023 deferred tax assets for right-of-use assets in respect of leasehold premises and lease liability relating to representative offices of £59,598 is included within the category of property, plant and equipment, intangible assets and lease liability.

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.

ALL TABLE AMOUNTS ARE £'000s UNLESS OTHERWISE STATED

23. 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 or valuation					
At 1 January	38,679	1,703	40,382	13,780	54,162
Additions	6,451	1,232	7,683	841	8,524
Revaluation	(3,359)		(3,359)	-	(3,359)
Disposals	(5,078)	(725)	(5,803)	(551)	(6,354)
Balance at 31 December 2023	**36,693**	**2,210**	**38,903**	**14,070**	**52,973**
Depreciation					
Accumulated at 1 January	(11,758)	(1,353)	(13,111)	(7,558)	(20,669)
Charge for the year	(801)	(157)	(958)	(1,946)	(2,904)
Attributable to assets sold or written off	4,330	675	5,005	-	5,005
Accumulated at 31 December 2023	(8,229)	(835)	(9,064)	(9,504)	(18,568)
Net book amount at 31 December 2023	**28,464**	**1,375**	**29,839**	**4,566**	**34,405**

	Property, plant and equipment			Intangible assets	
	Long leasehold premises and improvements	Other assets	Total	Computer software	Total
Cost or valuation					
At 1 January	30,382	3,035	33,417	13,302	46,719
Additions	466	86	552	853	1,405
Revaluation	7,851		7,851	-	7,851
Disposals	(20)	(1,418)	(1,438)	(375)	(1,813)
Balance at 31 December 2022	**38,679**	**1,703**	**40,382**	**13,780**	**54,162**
Depreciation					
Accumulated at 1 January	(11,074)	(2,624)	(13,698)	(5,720)	(19,418)
Charge for the year	(684)	(125)	(809)	(1,944)	(2,753)
Attributable to assets sold or written off		1,396	1,396	106	1,502
Accumulated at 31 December 2022	(11,758)	(1,353)	(13,111)	(7,558)	(20,669)
Net book amount at 31 December 2022	**26,921**	**350**	**27,271**	**6,222**	**33,493**

The most significant leasehold premises are at 8-10 Mansion House Place, London EC4N 8BJ. The net book value of £28,464,000 *(2022: £26,921,000)*, of long leasehold premises and improvements includes the lease of land, for which a premium has been prepaid and at balance sheet date amounts to £7,754,000 *(2022: £7,818,000)*.

Commencing in May 2023 BACB started works on a total interior refurbishment of Mansion House Place. This was split into 3 phases which are expected to end in February 2024. This refurbishment included modernising and refreshing the floor space in a manner that allows the Bank to adapt to grow and futureproof the building. This project encompassed a mechanical and electrical infrastructure update including a major upgrade of the heating and cooling system. Further to this, technology throughout was modernised as well as the building achieving environmental accreditations and ratings.

The updated independent valuation as at 31 December 2023 estimated that the market value of the property was £23,750,000 (2022: £22,000,000). This updated valuation was adopted by the Bank and is reflected in the net book value above. Under the cost model the carrying value of MHP as at 31 December 2023 would be £19,754,000 (2022: £14,360,000).

ALL TABLE AMOUNTS ARE £'000s UNLESS OTHERWISE STATED

Depreciation is calculated on the basis of revalued amount less residual value over the remaining useful life. The remaining useful life of Mansion House Place as at 31 December 2023 is currently 26 years (based on an original useful life of 50 years). The revaluation has thus increased the depreciation charge to the income statement by £285,000 per annum (2022: £212,000).

Right-of-use assets in respect of leasehold premises and leases relating to representative offices of £12,201,000 *(2022: £12,271,000)* is also included within the category of long leasehold premises and improvements.

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

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 £1,915,000 *(2022: £5,519,235).*

There were commitments for capital expenditure on 31 December 2023 of £449,000 *(2022: £279,000)*.

24. Deposits

	2023	*2022*
Deposits from banks	1,960,559	*2,144,470*
of which deposits with fixed interest rates	4,669	*4,883*
Other deposits	699,119	*737,763*
of which deposits with fixed interest rates	5,631	*1,358*

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

	2023	*2022*
Employment related liabilities	9,984	*4,269*
Accruals and deferred income	4,869	*5,503*
Lease liability	4,636	*4,652*
Loss allowance provision on financial guarantees and other commitments (Note 30)	2,492	*2,488*
Collateral for exchange traded transactions	108	*7,664*
Trade creditors	257	*329*
Other liabilities	10,928	*2,175*
	33,274	***27,080***

As at 31 December 2023 other liabilities include £6.5m which was due in respect of an off balance sheet credit commitment and settled in early January 2024. In order to enhance the disclosure in respect of Bank's employment related liabilities and accruals and deferred income, in 2023 employment related liabilities are being presented separately. To ensure consistency of presentation, the December 2022 disclosures have been amended accordingly.

ALL TABLE AMOUNTS ARE £'000s UNLESS OTHERWISE STATED

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 249 deferred or pensioner members as at 31 December 2023 *(2022: 249 deferred or pensioner members)*. The level of retirement benefit is based on basic salary at 1 April 2014, or on leaving the scheme if earlier than this, and is linked to changes in inflation up to retirement.

The Scheme is subject to the funding legislation, which came into force on 30 December 2005, outlined in the Pensions Act 2004. This, together with documents issued by the Pensions Regulator and Guidance Notes adopted by the Financial Reporting Council, set out the framework for funding defined benefit occupational pension schemes in the UK.

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

A full actuarial valuation was carried out as at 31 December 2022 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 £2,714,000. The Bank agreed to extend its funding arrangements with respect to the Defined Benefit Scheme – the previous recovery plan ran until 30 April 2024 and will now run until 31 December 2024 payable at the rate of £1,472,000 per annum.

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 2022 has been updated on an approximate basis to 31 December 2023. 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

	2023	*2022*
Fair value of Scheme assets	55,317	*55,662*
Present value of defined benefit obligation	(51,290)	*(52,759)*
Related taxes payable on surplus	(1,410)	*(684)*
Net Surplus in the Scheme - net asset	**2,617**	***2,219***

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.

ALL TABLE AMOUNTS ARE £'000s UNLESS OTHERWISE STATED

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 £51,290,000 (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).

In order to enhance the disclosure in respect of Bank's net surplus attributable from the pension scheme, the related taxes payable in respect of the distribution of the pension surplus are being presented together with the scheme's assets and present value of the defined benefit obligation.

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

	2023	*2022*
Defined benefit obligation at start of period	52,759	*79,600*
Interest expense	2,569	*1,399*
Actuarial losses due to scheme experience	(1,494)	*6,663*
Effect of changes in demographic assumptions	(693)	*(59)*
Effect of changes in financial assumptions	907	*(31,093)*
Benefits paid and expenses	(2,758)	*(3,751)*
Defined benefit obligation at end of period	**51,290**	***52,759***

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

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

	2023	*2022*
Fair value of scheme assets at start of period	55,662	*85,080*
Interest income	2,751	*1,511*
Return on scheme assets (excluding amounts included in interest income)	(1,810)	*(28,650)*
Contributions by the Bank	1,472	*1,472*
Benefits paid and expenses	(2,758)	*(3,751)*
Fair value of scheme assets at end of period	**55,317**	***55,662***

The actual return on the Scheme's assets over the year ended 31 December 2023 was negative £941,000 (*2022: £27,139,000)*.

Defined benefit income recognised in Profit and Loss

	2023	*2022*
Net interest income	182	*112*
Defined benefit income recognised in profit and loss	**182**	***112***

ALL TABLE AMOUNTS ARE £'000s UNLESS OTHERWISE STATED

Defined benefit costs recognised in other Comprehensive Income

	2023	2022
Return on scheme assets (excluding amounts included in interest income) - (loss)	(1,810)	*(28,650)*
Experience gains arising on the defined benefit obligation	1,494	*(6,663)*
Effects of changes in the demographic assumptions underlying the present value of the defined benefit obligation - gain	693	*59*
Effects of changes in witholding Tax	(727)	-
Effects of changes in the financial assumptions underlying the present value of the defined benefit obligation - (Loss)/gain	(907)	*31,093*
Total (loss) recognised in other comprehensive income	**(1,257)**	***(4,161)***

Assets

	2023	2022
Liability Driven Investment (LDI)	18,261	*11,202*
Diversified Growth Funds	9,212	*14,715*
Cash	549	*785*
Purchased Annuities	27,295	*28,960*
Total assets	**55,317**	***55,662***

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:

	2023	2022
	% per annum	*% per annum*
Rate of discount	4.80	*5.00*
Inflation (RPI)	3.05	*3.15*
Allowance for revaluation of deferred pensions of RPI or 7.5% p.a. if less	3.05	*3.15*
Allowance for pension in payment increases of RPI or 7.5% p.a. if less	3.05	*3.15*
Allowance for commutation of pension for cash at retirement*	50% of Post A-Day	*75% of Post A-Day*

** Assumption that members take on average 50% (2022: 75%) of the maximum cash lump sum available to them at retirement.*

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. In 2023 the Bank maintained the approach followed in 2022 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 2023 are 90% (males) and 92% (females) of the standard tables S3PMA /S3PFA_M, Year of Birth, no age rating for males and females, projected using CMI_2022 converging to 1.25% p.a. These imply the following life expectancies:

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	2023	*2022*
	Life expectancy at age 60 (years)	*Life expectancy at age 60 (years)*
Male retiring today	26.8	*27.1*
Female retiring today	28.8	*29.1*
Male retiring in 2043	28.4	*28.7*
Female retiring in 2043	30.3	*30.6*

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

Assumption	Change in assumption	Change in liability
Discount rate	Decrease of 0.5% p.a	54,633
Discount rate	Increase of 0.5% p.a.	48,275
Rate of inflation	Increase of 0.25% p.a.	52,912
Rate of mortality	Increase in life expectancy of 1 year	52,875

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 2023 is 13 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 2024 is £1,472,000

Defined contribution scheme

At 31 December 2023 230 employees (2022: 192 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 2023, the Bank paid £2,234,287 (2022: £1,833,036) by way of contributions into that scheme. There were no outstanding or pre-paid contributions to this scheme at 31 December 2023 (2022: nil).

27. Subordinated liabilities

Subordinated loans in issue are denominated in US dollars and Euros and are subordinated in all respects to the claims of other creditors. The loans can only be repaid before their due dates either on liquidation of the borrower after all other claims have been satisfied, or with express permission granted by the Prudential Regulation Authority. The loans, which have been subscribed in full by the Bank's principal shareholder, Libyan Foreign Bank, qualify for inclusion in the Bank's capital base as Tier 2 capital as at 31 December 2023 and bear floating rate interest. The amounts disclosed below include accrued interest.

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	2023	*2022*
Due 29 April 2027	19,699	*20,794*
Due 17 June 2027	29,751	*30,392*
Due 27 October 2027	25,104	*26,473*
	74,554	***77,659***

The change in the subordinated Sterling equivalent loan balance in 2023 compared to 2022 disclosed above, relates solely to EUR and USD FX movements.

28. Called up share capital

Total issued share capital comprises 32,000,000 Ordinary Shares of £1 each, 115,000,000 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	
	2023	*2022*	**2023**	*2022*
Ordinary Shares of £1 each fully paid	32,423	*31,638*	32,423	*31,638*
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*	-	-
	152,911	***152,126***	**106,377**	***105,592***

During 2023, the minority shareholders reinvested their share of the dividend declared by the Bank back into the Bank's share capital. As a result, the Bank's share capital increased by £785,000 (2022: £1,235,000).

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

	2023	*2022*
Called up share capital (Note 28)	106,377	*105,592*
Capital redemption reserve	4,104	*4,104*
Other reserves		
Retained earnings	120,650	*100,794*
Revaluation reserve	3,368	*5,888*
Fair Value reserve	(1,921)	*(9,112)*
	122,097	97,570
	232,578	***207,266***

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

The fair value reserve arises in respect of changes in the market value of assets categorised as being fair value through other comprehensive income (Note 3(g)) and the revaluation reserve arises from the revaluation of property plant and equipment (Note 3(m)). Neither the fair value reserve nor the revaluation reserve are distributable to the Bank's shareholders.

The Directors have recommended a final dividend for the year ended 31 December 2023 of £5.5m *(2022: £6m)* to the Bank's next Annual General Meeting.

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Capital Management

The Bank is subject to the regulatory capital requirements of the Prudential Regulation Authority. The Bank's objectives in the management of capital to meet its regulatory requirements, maximise shareholder value and support its business strategy under business as usual and stress conditions. The Bank has a Capital Framework to ensure appropriate governance on capital management. Capital limits are set for each business area based on the Bank's Board approved Strategic Plan and are set at a level to protect the Bank's Risk Appetite. 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. Capital planning is an effective management tool at BACB, a three-year capital plan is approved annually by the Board to support the Bank's Strategic Plan. In addition, throughout the year reviews are undertaken on both tactical and strategic capital usage, and associated limits and plans. The Bank uses stress testing to inform management of the capital resources needed to withstand internal and external shocks and to inform risk mitigation actions. The Bank remained well above its capital requirements consistently during the year.

Regulatory developments - Future changes to capital requirements will come into force with the implementation of Basel 3.1. The Prudential Regulation Authority has published its consultation paper on the UK's implementation, with a proposed implementation date of 1 July 2025. The PRA has also published a set of near-final rules in relation to some Basel 3.1 elements. The Bank is currently assessing the impact of implementation and preparing to comply with the changes.

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.

	2023	*2022*
Financial guarantees	80,449	73,580
Other commitments comprise:		
Credit lines and other commitments to lend: original maturity		
under one year	8,208	7,945
over one year	3,660	3,660
Documentary credits and short-term trade-related transactions	470,601	427,865
Own acceptances	940	3,440
	563,858	**516,490**
Other Equity commitments*	2,320	2,456
	566,178	518,946

*Equity investment commitment falls out of scope of IFRS9

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 2022 and at 31 December 2023.

ALL TABLE AMOUNTS ARE £'000s UNLESS OTHERWISE STATED

31 December 2023

Contract amount	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Financial guarantees	77,865	-	2,584	80,449
Other commitments	478,837	4,572	-	483,409
Total	**556,702**	**4,572**	**2,584**	**563,858**

Loss allowance provision	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Financial guarantees	(76)	-	(1,909)	(1,985)
Other commitments	(389)	(118)		(507)
Total	**(465)**	**(118)**	**(1,909)**	**(2,492)**

31 December 2022

Contract amount	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Financial guarantees	67,309	3,556	2,715	73,580
Other commitments	247,463	195,447	-	442,910
Total	**314,772**	**199,003**	**2,715**	**516,490**

Loss allowance provision	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Financial guarantees	(74)	(2)	-	(76)
Other commitments	(170)	(218)	(2,024)	(2,412)
Total	**(244)**	**(220)**	**(2,024)**	**(2,488)**

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 2022	244	220	2,024	2,488
Transfer to Stage 1	61	-	-	61
Transfer out of Stage 2	-	(131)	-	(131)
Transfer to Stage 2	-	56	-	56
Change in other risk parameter (incl change in account balances)	(92)	-	(220)	(312)
New positions originated or purchased	370	62	-	432
Financial assets that have been derecognised	(125)	(99)	(7)	(231)
Foreign exchange and other movements	7	10	112	129
Balance as at 31 December 2023	**465**	**118**	**1,909**	**2,492**

	Excepted credit loss provision			
	Stage 1	***Stage 2***	***Stage 3***	***Total***
Balance as at 31 December 2021	*463*	*12*	*2,455*	*2,930*
Transfer out of Stage 1	*(13)*			*(13)*
Transfer to Stage 2	-	*73*	-	*73*
Change in other risk parameter (incl change in account balances)	*(121)*	*(1)*	*1*	*(121)*
New positions originated or purchased	*136*	*193*	-	*329*
Financial assets that have been derecognised	*(304)*	-	*(703)*	*(1,007)*
Impact of change in PD Modelling	*(36)*	*(58)*	-	*(94)*
Foreign exchange and other movements	*119*	*1*	*271*	*391*
Balance as at 31 December 2022	***244***	***220***	***2,024***	***2,488***

As at 31 December 2023 documentary credits and other trade related transactions, which are subject to the ECL model overlay, amount to £355 million and the related overlay charged to the income statement amounted to £126,000. As at 31 December 2022 loans and advances to banks are not subject to any ECL model overlay.

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31. Foreign currency assets/liabilities

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

31 December 2023	**Sterling**	**Dollars**	**Euro**	**Other currencies**	**Total**
Total assets	772,951	1,890,647	331,972	6,357	3,001,927
Total Liabilities	(507,318)	(1,910,758)	(335,214)	(16,059)	(2,769,349)
Derivatives (at contract notional value)	30,083	(15,481)	(3,041)	(11,561)	-
Total Equity	(232,578)	-	-	-	(232,578)
Net exposures	**63,138**	**(35,592)**	**(6,283)**	**(21,263)**	**-**
Contingent liabilities and other commitments	12,050	384,859	162,444	6,825	566,178

31 December 2022	*Sterling*	*Dollars*	*Euro*	*Other currencies*	*Total*
Total assets	*727,846*	*2,126,070*	*320,685*	*20,144*	*3,194,745*
Total liabilities	*(507,774)*	*(2,138,388)*	*(321,719)*	*(19,781)*	*(2,987,662)*
Derivatives (at contract notional value)	*1,936*	*27,631*	*(30,161)*	*594*	*-*
Total Equity	*(207,083)*	*-*	*-*	*-*	*(207,083)*
Net exposures	*14,925*	*15,313*	*(31,195)*	*957*	*-*
Contingent liabilities and other commitments	*12,546*	*317,967*	*179,598*	*8,835*	*518,946*

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 (USD224,840,000 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:

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	Parent & Ultimate Controlling Party		Other Subsidiaries	
	2023	*2022*	**2023**	*2022*
Balances outstanding				
Loans and advances	16	*17*	8,953	*4,237*
Deposits	1,270,745	*1,175,766*	75,369	*296,258*
Subordinated liabilities	74,554	*77,659*	-	-
Contingent liabilities and other commitments	13,777	*12,722*	132,305	*93,562*
Included in income statement				
Interest receivable	207	*209*	55	*1*
Interest payable	(63,545)	*(25,186)*	(4,406)	*(823)*
Fees and commissions receivable	552	*213*	2,964	*2,417*
Fees and commissions payable	-	-	(31)	-
Net trading income	-	*12*	18	-

At 31 December 2023 £2,276 was outstanding in respect of interest free loans or interest bearing loans due from key management personnel of the Bank (2022: £3,576). 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 £651,000 *(2022: £609,000)*.

ii. Key management personnel compensation:

	2023	*2022*
Directors' remuneration	850	*750*
Executive Managers		
Salaries and other short term benefits	3,506	*3,315*
Termination benefits (including amounts payable during contractual notice periods)	360	*154*
Post-employment benefits to non Directors	-	*107*

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	**2023**	*2022*
Libyan Foreign Bank	673,196	*453,554*
Central Bank of Libya	534,845	*712,652*
Total	**1,208,041**	***1,166,206***

Weighted average maturity	***2023***	*2022*
Libyan Foreign Bank	***0.35 years***	*0.53 years*
Central Bank of Libya	***0.10 years***	*0.12 years*

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34. Events after the reporting period

OFAC Attestation
The Bank has made its fifth and final annual certification to OFAC on 1 March 2024 in accordance with its compliance commitments under the 2019 settlement agreement.

Extension of Subordinated Loans
The Bank's principal shareholder, Libyan Foreign Bank, has provided commitment to extend the maturities of the subordinated loans amounting to £74,554,000 (Note 27) to 2031. The Bank expects the documentation required for this extension to be completed by Quarter 2 2024.

Proposed Dividend
The Directors have recommended a final dividend for the year ended 31 December 2023 of £5.5m (equivalent of £0.037 per share). The dividend is subject to approval by the Bank's Annual General Meeting which is scheduled on 3 May 2024.

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

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