BACB

ANNUAL REPORT AND FINANCIAL STATEMENTS

year ended 31 December 2016

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year ended 31 December 2016

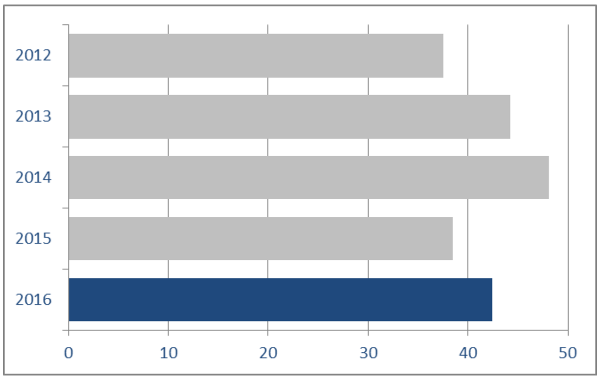
British Arab Commercial Bank plc
registered number 1047302

striving to make a difference

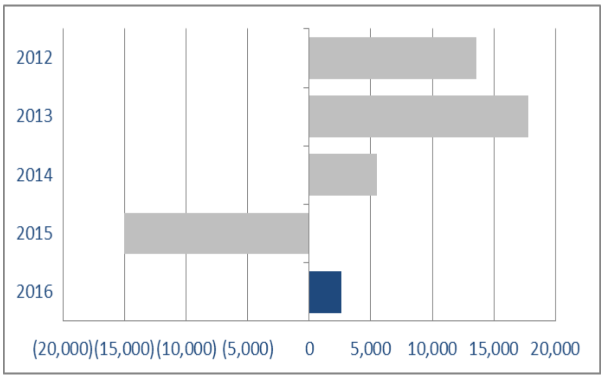
CONTENTS

FINANCIAL HIGHLIGHTS

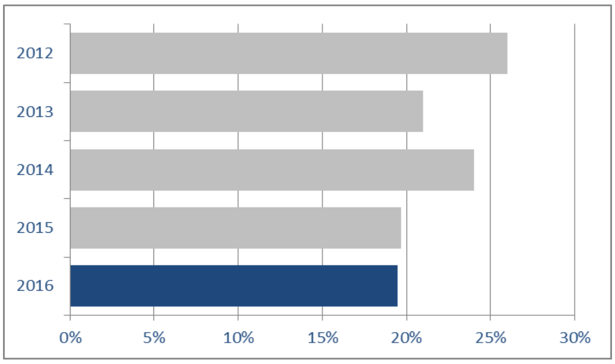
Operating Income
£42.7m
Operating income increased 11%



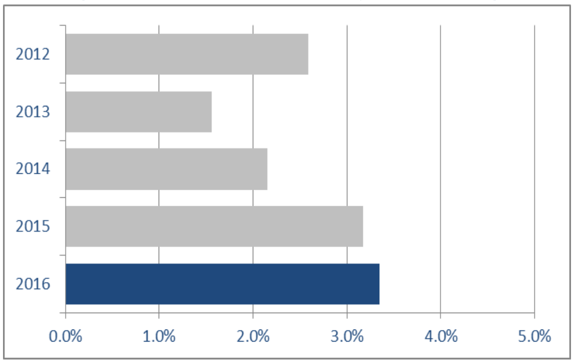
Profit/ (Loss) before tax
£2.6m
Profit up £18m



Capital Strength
19.6%
Significantly above regulatory minimum



Non-Performing Loans
3.4%
No significant increase despite book growth



	2016 £m	2015 £m	2014 £m	2013 £m	2012 £m
Financial Position					
Operating Income before loan impairments	42.7	38.5	48.1	44.2	37.5
Profit/(Loss) before income tax	2.6	(15.1)	5.5	17.8	13.6
Profit/(Loss) for the year	2.7	(14.5)	4.7	13.8	10.2
Total Assets	2,939	3,021	2,916	2,402	2,181
Total Loans	1,624	1,596	1,765	1,608	1,558
Total Equity	208	210	202	197	190
Tier 1&2 Capital (Eligible Capital)	278	271	255	252	240
Ratios %					
Capital Adequacy	20%	20%	24%	21%	26%
Cost Income Ratio*	73%	82%	55%	54%	55%
Return on Tier 1 Capital	1%	-7%	3%	9%	8%
Return on Tier 1&2 (Total Eligible Capital)	1%	-6%	2%	7%	6%
Non Performing Loans %	3.4%	3.2%	2.2%	1.6%	2.6%

**Based on Operating Income before credit provisions and excluding cost of historic activities*

CHAIRMAN'S STATEMENT

We enter 2017 with a clear strategy and a plan for its implementation well underway

Market environment

2016 was marked by some significant shifts in global economic and political conditions.

The capital markets were unpredictable and the year started with tumbling oil prices, interest rates and stock markets; shrinking corporate profits and elevated recession fears. The UK BREXIT vote in June caused uncertainty regarding the future of European trade and British financial institutions. The pound Sterling reacted with a 20% devaluation. However, global confidence indicators rose through the latter part of 2016, particularly driven by an improvement in OECD economies and a positive impulse from financial conditions in the US and parts of the emerging world. The markets finished the year with a sustained rally on both sides of the Atlantic. The oil price rebounded from sub-$30 per barrel to above $50.

The economic landscape is still uncertain. It remains to be seen how the relationship between the UK and Europe will evolve and how increasing protectionist tendencies around the world will impact global trade and, particularly relevant for BACB, prosperity for emerging markets. The World Bank predicts a moderate recovery for 2017. Weak investment continues to weigh on medium-term prospects across many emerging economies, although fiscal stimulus in major economies may boost global growth.

While the volume of global trade finance continues to grow steadily, falls in commodity prices have impacted the value of global trade flows. Retrenching by some of the larger players can create opportunities for niche players such as BACB.

Libya

BACB's traditional markets present their own challenges, as well as future opportunities. This is particularly true of our majority shareholder's home market of Libya, where political uncertainty continues to create unrest. The situation has improved over the past year and there is both increasing clarity and a continuing will to resolve the internal issues.

Positive developments in Libya include increased momentum towards agreeing a stable and lasting political solution and a much improved economic situation, in part due to a significant increase in oil and gas production. Due to successful geographic diversification, Libya represents a much reduced share of total revenues and a return to stability in Libya offers a significant opportunity to the Bank.

Thanks in no small part to the support we have received from my fellow Directors and our principal shareholder, BACB has risen to these challenges in a robust and timely manner. Through its representatives on the Board, the Central Bank of Libya has been particularly supportive in sharing information which added clarity to Board level debates. Efforts continue both in Libya and internationally to secure a solution in the best interests of the Libyan people.

Strategic direction and 2016 performance

The Bank's strategy is to build long-term value leveraging our core competency in facilitating cross border trade. During 2016, we embedded enhancements in the Bank's internal governance, control, risk and regulatory management frameworks and the focus has shifted to building the business. The strategic direction is clear:

We aim to build a sustainable revenue base leveraging the Bank's core competency in facilitating cross-border trade

We will continue to extend our trade based strategy selectively into new markets, initially focusing on our newly opened Representative Offices in Dubai and Côte d'Ivoire. Our geographic diversification efforts are complemented by product diversification via growth of our UK real estate and commodity finance businesses.

The 2016 result delivers a return to profitability following elevated levels of credit provisioning in 2015. Levels of non-performing loans across the sector remain an area of focus. We believe these risks have been prudently assessed in the Bank's results.

During the year, we have attracted some high calibre staff to further boost our already strong management team, with a particular focus on revenue generating staff.

Future Prospects

The Bank remains financially strong, with healthy levels of capital and liquidity. Our prudent financial positioning will help us to deal with continued uncertainty about future trading conditions. We are in a strong position to build on BACB's long and well established trade franchise and the significant opportunities to build a truly client-centric business, developing solutions for our clients which will deliver long-term, sustainable relationships.

We continue to enhance the efficiency of the Bank's operating environment. Most notably, the Bank is investing in an upgrade of the core banking system which will be implemented during 2017. This investment further evidences shareholder support for the BACB franchise and will help deliver a scalable business to support future growth and enhance the quality of service delivery to our clients.

The Board has considered the impact of the UK BREXIT vote on the Bank and the assessment is the impact will be limited.

Our focus for 2017 is on driving the business forward and building strong and sustainable revenue growth, complemented by efficient internal operations and governed by a clear risk appetite. The business is scalable and the currently elevated cost to income ratio is expected to normalise as the business grows.

The Bank continues to enjoy the full support of its shareholders and we benefit from a continuing statement of support from the Libyan Foreign Bank which confirms continued provision of financial and liquidity support.

I thank my fellow directors and all the staff for their valuable contributions to BACB in 2016.

R D Dowie
Chairman
6 April 2017

STRATEGIC REPORT: BUSINESS STRATEGY AND MARKET ENVIRONMENT

2016 was a year of transformation for BACB

Throughout its 45-year history BACB has built a solid reputation for delivering trade finance solutions to clients that operate in and between some of the world's more challenging markets and, at the same time, to make a sustainable difference to the lives of people in these countries.

We are based in multicultural London, banking capital of the world, which provides our clients with the reassurance of dealing with a UK-regulated bank. It also enables us to tap into a diverse, talented range of international staff who understand our clients' countries and cultures, this talent pool is complemented by staff in our local offices.

Despite the demanding economic and geo-political problems which materialised during the past twelve months, 2016 was a year of transformation for BACB, one in which we completed the refocusing of the Bank's trade finance franchise by opening new offices in Côte D'Ivoire and Dubai as well as continuing to build out to critical mass a number of new and important business streams. We have attracted into the Bank some very talented and experienced individuals who share the same ambition of not only delivering value to our shareholders but also helping to change lives for the better in the markets we support.

International trade finance remains our principal business focus

International trade finance is the lifeblood of growing economies and of the global economy. Without it, the economies of exporting countries cannot grow and the needs of importing countries cannot be satisfied. Ultimately, constrained trade means constrained economic development and we know that this can lead to increased instability across sectors, populations and countries.

The smooth lifecycle of trade and capital flows between developed markets rests on predictable and institutionalised financial, legal and cultural infrastructure. This predictability is founded on banks and insurance companies that have long-established processes for dealing with high volumes of business with standard documentation. The system is by no means perfect, but it is dependable.

But this approach does not work well in high growth, developing markets which the larger universal banks perceive to be difficult, or not yet sufficiently developed to be financially attractive. What is even more troubling is that, according to the World Trade

Organisation, more than fifty per cent of trade finance requests by small and medium sized enterprises (SMEs) are denied, against just 7 per cent for multinational companies.

Larger banks cite increasing compliance and regulatory burdens, a lack of profitability, a focus on their own ‘core’ markets as well as low country and local bank credit ratings as reasons why they are no longer prepared to support international trade, particularly for SME businesses. In Africa alone this continued trend of de-risking by the big banks has led to a USD 120 billion funding gap for SME businesses which are principal drivers of economic growth.

When the scale or complexity of the business opportunities are not aligned to the strategies of the larger and more established financial institutions, BACB has still been able to support the growth of local economies and to establish a model benefitting clients, employees and shareholders. The de-risking trend presents an opportunity to leverage the Bank’s knowledge of developing markets generally, but more specifically the African continent, and our ability to support the trade and capital flows into and out of Africa. We combine our exceptional understanding of cross-border trade finance and first-rate management expertise with a bespoke client-centric focus to doing business. For us, the client comes first and working together to solve our clients’ problems, overcome their challenges and to make a difference in the markets in which we operate are the factors which drive BACB forward.

But we also need to be mindful that for BACB to thrive, we must continue to protect the strategic partnerships we have with our principal correspondent banks, with which we enjoy a stable and mutually beneficial relationship. BACB will always strive to ensure complete adherence to any relevant legal, regulatory or economic business constraints and, in this regard, make sure that the Bank’s internal compliance policies and procedures for client on-boarding and transaction monitoring are as effective as possible.

BACB is one of the few London-based banks having direct access to the Libyan financial markets, through which it is able to continue to support the vital cross-border trade finance activity which is essential to the Libyan economy. This requires BACB to process payments for and on behalf of its Libyan clients which, at a time when participants in the financial markets are de-risking, can cause operational challenges. To mitigate this risk and to provide reassurance to our correspondent banks, we employ stringent enhanced due diligence checks on all Libyan payments.

The importance of a balanced business model

A business model focused solely on trade finance, particularly in developing or emerging markets, will always be vulnerable to global economic cycles and/or geopolitical risk. BACB has witnessed this first-hand as a result of the continued conflict and uncertainty in Libya, the home of its principal shareholder. For this reason we have carefully and selectively developed complementary businesses that will provide a degree of insulation from any disturbance or volatility in global trade flows.

In 2014 we made a strategic decision to accelerate the growth and scale of our Commodity Finance and Real Estate businesses. The Commodity Finance business focuses on providing financial solutions to the traders that deal in both hard and soft commodities. Although most of these traders are domiciled in Western Europe, quite often they also deal with our clients in Africa and the Gulf Region. The underlying transactions are generally short-term (normally less than six months to maturity), secured and self-liquidating. Commodity Finance is, therefore, a business which generates stable and predictable revenue flows with low levels of credit risk.

The Bank's Real Estate business focuses on providing financial lending solutions for terms of up to five years to support high net worth investors principally in London's residential 'golden postcodes' or in commercial property for pre-designated business sectors in England. All loans are fully secured against the underlying property, require a pre-payment of interest and have the ability to call for increased margin, with, other than on an exceptional basis, a maximum loan to value ratio at origination of 65% (which compares well to the maximum 'peak-to-trough' price volatility over the past ten-years). Once again, these term assets provide sustainable and predictable revenue flows over an extended period of time.

The Bank's Treasury business, the primary responsibility of which is the safe and effective management of its capital and liquidity, has had an excellent year in what have been difficult trading conditions caused by economic uncertainty at the start of 2016 followed by market volatility in response to the outcome of the BREXIT and the US Presidential election. BACB does not take material proprietary risk positions but our experience and knowledge of the financial markets in which we operate enable us to provide bespoke funding and hedging solutions to our clients, often linked with cross-border trading activity.

Overall, therefore, the Bank's revenue base now comprises a much better balanced range of business streams with a significant proportion of its fixed costs now covered by stable and predictable revenue flows. We will continue to build our Commodity Finance and Real Estate businesses but within a predefined risk appetite in order to manage risk concentration on the balance sheet. Our expectations for growth in our Trade Finance business remain high, particularly leveraging our offices in Abidjan, Algiers and Dubai. A return to normality in Libya will be an added bonus.

BACB continues to operate with a strong balance sheet and ample liquidity

At 31 December 2016 the Bank's capital adequacy ratio was 20%. The Bank's liquidity coverage ratio has been consistently significantly in excess of the minimum regulatory requirement.

The Bank's sources of funding from Libya are stable and have remained so for a number of years. However, wider access to long-term funding remains challenging, particularly given the situation in Libya. Consequently, the Bank has a preference for growing those businesses that are self-liquidating and have relatively short-term transaction life cycles, and has a limited appetite for term lending, outside its niche real estate lending proposition.

As a British bank regulated by the PRA and FCA, BACB is of strategic importance to its principal shareholders and to the Central Bank of Libya insofar as it is one of the principal offshore balance sheets, the conduit through which a significant proportion of Libya's oil and gas Dollars are placed into the International banking market and a primary supporter of Libyan payment and trade finance flows.

We continue to enjoy considerable support from our shareholders as evidenced by the extension of term loan facilities, the continuing provision of medium and short-term deposits and a Letter of Support.

Although the political situation in Libya remains fluid, there is clear evidence of: increasing momentum towards finding a stable and lasting solution; an improving economic profile (as evidenced by higher oil and gas production); and, an emergent interest from external parties to invest in the country. The Bank is not reliant on business flows to / from Libya but, as the position in Libya becomes more stable, we are seeing more opportunities to support the growing trade and capital flows.

BACB's risk management capabilities, strong balance sheet and client-centric focus can really make a difference

2016 was a good year for BACB – although the international capital markets experienced a degree of uncertainty and volatility, it is precisely in these conditions that BACB's knowledge of its target markets, its risk management capabilities, its strong balance sheet and its client-centric focus can really make a difference. The cultural diversity of the Bank's staff, coupled with the experience gained over 45 years of dealing in difficult markets and challenging economic conditions, will enable it to offer its clients valuable access to important markets and to position itself for future sustainable growth.

P.A. Hartwell
Chief Executive Officer

STRATEGIC REPORT: FINANCIAL PERFORMANCE AND BUSINESS OVERVIEW

OVERVIEW

BACB is a London-based international commercial bank. It is an established provider of trade services principally to Africa and the Middle East. The Bank is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

Strategic Direction

The Bank aims to build long-term added value relationships and solid growth in revenues, leveraging its core competency in facilitating cross border trade with its target clients and markets. BACB's strength is in its client-centric approach and complementary, largely trade-related, products and services. The Bank also offers a niche UK real estate lending business.

The Bank's strategic plan, as approved by the Board, aspires to the delivery of strong and sustainable business growth and optimal utilisation of the Bank's balance sheet, underpinned by robust risk management, governance and control structures and increased efficiency in the Bank's operations.

Summary of 2016 Result

The 2016 result is a Profit after Tax of £2.7mn *(2015: Loss after Tax £14.5mn)*.

The result is driven by a robust increase in operating income and reductions in allowances for credit losses and administrative expenses, the latter notwithstanding an increase in staff numbers.

The 2016 result reflects considerable success as the Bank builds sustainable and complementary revenue streams. The Bank has a clear strategy for driving future business growth and a scalable business model to support this growth. The Bank's key performance indicators (KPIs) are shown on page 2.

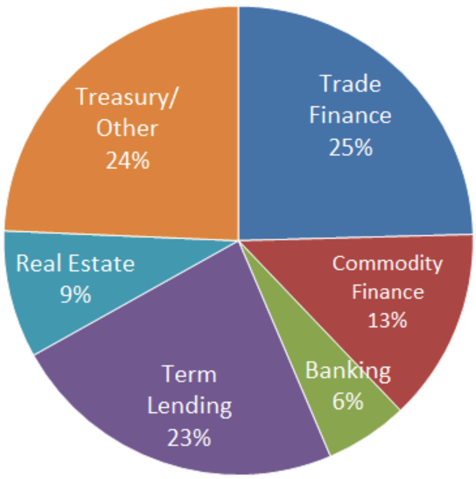
BUSINESS OVERVIEW

Trade-related revenue contributed some 57% of operating income, made up of trade finance, commodity finance and trade-related lending. The Bank's business lines - trade finance, structured short and medium-term lending, commodity finance, treasury and banking services - are all complementary to its core trade franchise. The development of the real estate finance business forms part of the Bank's strategy to diversify its income streams in order to deliver sustainable revenue growth and provide some level of protection against the cyclical nature of global trade.

Core to BACB's franchise is its trade related business

The Bank maintains a modest risk appetite by mainly lending short-term and secured through the underlying asset.

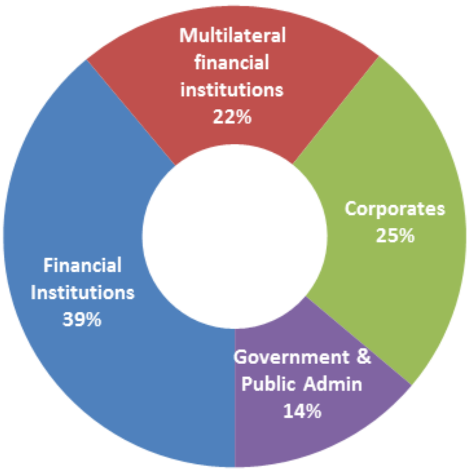
Operating Income by Business line



The Business mix demonstrates a healthy balance across the Bank's key business lines as well as the geographies from where the Bank's revenues derive. A significantly reduced portion of the Bank's revenues emanate from Libya (18% in 2016 compared to, for example, 28% three years ago in 2013) and most of the Libyan exposures are cash collateralised. These steps mitigate the idiosyncratic risk posed to the business by a still unstable Libya – the home market of the Bank's principal shareholder. While Libya currently represents a reduced share of the Bank's business, it offers a significant opportunity to BACB when this strategically important country returns to stability.

The Bank's revenues continue to be largely derived from financial counterparties, including multilateral development banks, followed by governmental bodies and carefully targeted corporates.

Credit Exposure by Counterparty type



The following analysis provides an overview by business line.

Trade Finance

BACB is an experienced facilitator of trade for developing markets. The Bank's risk appetite and trade finance expertise, coupled with multi-lingual staff and a deep understanding of our target markets ensures that client needs are met in accordance with local and international requirements. The Bank is able to leverage a wide network of sister banks, correspondents and its representative offices in Algiers, Tripoli, Abidjan and Dubai.

Trade finance volumes globally have been under pressure in recent years and trade flows have also been subject to price pressure due to low commodity prices. The Bank's traditional North African markets have also suffered some level of geopolitical unrest.

Global trade volumes are expected to remain subdued and conditions are anticipated to remain challenging in the coming year. The recently opened offices in Abidjan and Dubai are expected to be key contributors to the Bank's future growth plans.

Going forward, the Bank will further develop its trade finance business with an increased focus on exporter-driven business where our corporate clients have trade flows with developing markets, thus enabling us to capture the business by leveraging our network and capabilities from both a buyer and a seller perspective.

Lending

The Bank's lending strategy requires that new lending is linked to direct client relationships, principally in support of the core trade and commodity finance businesses.

We only participate in syndicated transactions where the business is trade-related and promotes the development of bilateral client relationships.

The Bank's lending activity comprises:

- *Term Lending*: mainly structured loan facilities to institutions and corporates and vanilla loans, principally where complementary to our core trade finance business;
- *Real Estate*: term lending facilities secured against high quality UK real estate assets, both residential and commercial;
- *Commodity Finance*: short-term structured facilities to commodity traders.

Term lending balances (including real estate) increased by £179m (+26%) during 2016 and stood at £880m as at December 2016.

The movement in the lending book during 2016 has involved a considerable shift in the quality of new lending activity, in line with the Bank's lending strategy and risk appetite.
The Bank continues to manage its historic loan book, which comprises longer-dated primarily oil, gas and power-related project facilities to MENA sovereign-related borrowers. These loans, some of which are at lower margins than those being achieved on the newer areas referred to above, continue to run off.

As at 2016 Year End the **UK real estate** book stood at £308m (36% of total lending) and revenues more than doubled in the year. This book is secured on high quality residential and commercial assets, with strong loan to value ratios. This business is a key part of the Bank's diversification strategy and provides a reliable annuity income flow, secured by the quality of the underlying assets.

2016 saw continued strong growth in our **Commodity Finance** business. This business provides bilateral financing facilities, principally to UK and European trading companies. The facilities are either on-demand overdrafts or short-term (30-180 days) for the financing of purchases and sales of commodities by those companies. Facilities are secured by title to the underlying predominantly pre-sold goods.

Banking Services

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

Treasury

The Treasury department continued to undertake the dual role of serving the needs of our clients in the global markets and acting as corporate treasury on behalf of the Bank.

It provides the Bank's clients with access to the London financial markets, servicing their requirements in the interest rate, foreign exchange, derivative and debt capital markets. The Bank offers a discrete range of structured products and Islamic banking services.
Treasury combines the aforementioned mandate with the management of the Bank's own financial resources, including its balance sheet structure, cash flow, liquidity management and hedging.

Under the requirements of the UK regulatory liquidity rules, the Bank maintains a High Quality Liquid Asset Portfolio comprising OECD government and multilateral development bank fixed and floating rate securities. These instruments tend to yield a return commensurate to their risk rating which the Bank seeks to supplement by way of an investment portfolio of bank and corporate debt securities issued principally by investment grade rated entities.

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

FINANCIAL RESULT

Operating Income

Operating income for the year was £42.7mn, an increase of £4.2mn (11%) compared to 2015. This financial performance reflects considerable success as the Bank continues to rebuild sustainable and complementary revenue streams, with strong growth in the Treasury, Commodity Finance and Real Estate Lending businesses in particular. Continuing difficult market conditions impacted the Trade Finance business with global trade flows remaining suppressed.

A significant proportion of the Bank's revenue streams are in US Dollars and the 2016 result benefitted from the weakness of Sterling during the second half of the year after the UK BREXIT vote.

Allowances for Credit Losses

The 2016 allowance for credit losses of £7.1mn *(2015: £18.8mn)* has reduced considerably year-on-year.

The Bank's approach to provisioning continues to reflect tough market conditions and a desire to ensure that all known and emergent risks are adequately provided for.

Overall, only a very small number of the Bank's facilities are impaired and non-performing loans represent only 3.4% of total loans *(2015: 3.2%).*

In recognition of the stress on the market and in accordance with industry norms, the Bank has maintained its collective impairment provision at £5.8mn *(2015: £6.0mn)* notwithstanding considerable de-risking of the overall loan book, including reduced exposure to the Oil and Gas sector.

The collective provision is expected to mitigate a substantial component of the one-off impact on transition to an IFRS9 compliant 'Expected Loss' approach to credit provisions which comes into effect from January 2018.

Administrative Expenses

At £33.0mn *(2015: £34.8mn)* administrative expenses are 5% down year-on-year. This includes 'exceptional' costs of £1.7mn *(2015: £3.2mn)* related to the review of historic business activities. These costs are not expected to recur in future years.

The average number of employees during 2016 was 181 *(2015: 167).* Staff costs have increased by 7% to £17.5mn, which reflects an investment in revenue generating staff in order to grow the business. Other Administrative Expenses have reduced by £1.7mn during the year, mainly related to prior year investments in the areas of governance and regulatory compliance which are now largely embedded.

The Bank's cost income ratio has reduced by 8% during the year to 74% but remains at an elevated level.

The Bank has invested in a number of initiatives to strengthen the operating environment and to position for future growth, while keeping the cost base largely stable. This will be further supported by the Bank's investment in the core banking technology platform. It is anticipated this ratio will reduce from its currently elevated level due to non-recurring expenditure and the increased scalability of the business, coupled with future business growth not requiring a commensurate increase in costs.

FINANCIAL POSITION

The key components of the Bank's assets were as follows:-

	2016	*2015*
	£'000s	*£'000s*
Financial investments	1,288,442	*1,399,383*
Loans and advances to banks	759,716	*910,561*
Loans and advances to customers	864,311	*685,680*
Property, plant and equipment	8,488	*8,678*
Other	18,307	*16,993*
Balance sheet footings	**2,939,264**	***3,021,295***
Contingent liabilities	57,123	*65,736*
Other commitments	308,915	*301,207*

Totals assets decreased by 2.7% year-on-year.

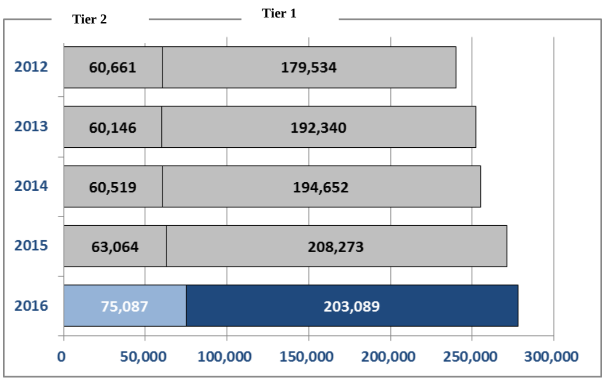
Growth in loans and advances to customers was more than offset by reductions in liquid assets and inter-bank placements, driven by lower deposits at the year end.

Capital Adequacy

As at 31 December 2016 the Bank's capital adequacy ratio was stable at 20%.

Tier 1 capital comprises share capital and reserves (adjusted as required by regulations) less intangible assets. Tier 2 capital comprises issued term subordinated debt.

Tier 1 and Tier 2 Capital



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

Capital Requirement and Capital in Place

	2016	*2015*
	£'000	*£'000*
Credit, Counterparty, CVA risk	106,612	*100,628*
Market risk	194	*1,424*
Operational risk	6,518	*6,849*
Total Pillar 1 capital requirement	**113,324**	***108,901***
Capital in place	278,176	*271,337*
Excess of capital in place over minimum requirement under Pillar 1	**164,852**	***162,436***

The year-on-year increase in capital requirement derives largely from growth in Risk Weighted Assets in the Bank's target markets.

Liquidity

BACB benefits from strong and stable liquidity, consistently significantly exceeding all UK regulatory requirements.

The Bank sources most of its liquidity from its principal shareholder, Libyan Foreign Bank, and the Central Bank of Libya and, as a consequence, its funding base remains concentrated. The Bank has extended the weighted average tenor of these funding sources during the year, which supported growth in the longer-term real estate lending business.

Liquidity is managed by the Bank's Treasury department, overseen and guided by the Asset and Liability Committee (ALCO) which reports via the Executive Committee to the Board. As a general principle and in recognition of its concentrated funding base, the Bank intentionally maintains liquidity ratios well in excess of the UK regulatory requirements.

INTERNAL OPERATIONS

The Bank aims to operate in an efficient and compliant manner in all its activities, key aspects are considered below.

Regulatory Compliance

Regulatory compliance is of the utmost importance. The detail and impact of new regulations are continually reviewed.

Significant regulatory and compliance tasks in 2016 included the implementation of the Senior Management and Certification Regime and a Supervisory Review of the Bank's Individual Capital Adequacy Assessment Process (ICAAP). Enhancements to the Bank's regulatory reporting and risk management capabilities have been fully embedded and independently assessed.

Information Technology

Information Technology remains a critical area for the Bank, both to ensure the delivery of excellent service to our clients and to ensure that internal processes are efficient and effectively controlled.

Our technology strategy aims to enhance our client service capabilities and to deliver a technology platform which will further enhance data integrity, quality and security across the Bank, with systems that support sound decision making and efficient processing in a controlled and compliant manner.

An Enterprise Architecture review was completed in 2015 in order to define the Bank's technology requirements over a 5-year planning horizon, in full alignment with the Bank's strategic business plan.

This review culminated in a decision to invest in an upgrade of the core banking platform, as well as continuing to deliver incremental enhancements in the Bank's technology systems. The decision to replace the core banking system further evidences the long-term commitment and support of the Bank's shareholders.

The first phase, a major upgrade to the IT infrastructure was completed in 2016 providing increased stability, reliability and productivity to the general IT and end user working environment. It is envisaged the second phase, the upgrade to our core banking system, will be completed during 2017.

Progress was made during 2016 to further strengthen systems and controls to protect the Bank from cyber and other data security risks, with additional plans in 2017 to implement a fully autonomous 'immune system' for cyber and data security defence.

Internal Audit

Internal Audit is fully independent of the business. The function was outsourced to PricewaterhouseCoopers in 2014.

The Internal Audit function undertakes a risk-based audit programme to review the internal controls, regulatory and risk management processes of the Bank and reports directly to the Bank's Audit and Risk Committee (ARC).

Human Resources

During the course of 2016, the senior management team progressed a number of changes across the Bank to further embed the overarching People Strategy. Our aim is to attract, develop and retain high calibre staff. The Bank continued to retain a high proportion of its experienced employees, with low voluntary turnover levels.

Our people are our most important asset

Performance Management: The Bank-wide performance review process aligns salary and performance award recommendations, in line with our People Strategy. We further embedded job competency and employee job banding changes which were introduced in late 2014 with the aim of optimally aligning the skills of our employees to the needs of the Bank. Employees are measured on their behaviours, as well as delivery of their objectives.

Performance Awards: This discretionary scheme was realigned in 2015. Key considerations are: the needs of the Bank; performance against the Business Plan; and individual behaviours, conduct and contribution towards the achievement of objectives.

The level of performance awards increased in 2016 to £2.0mn *(2015: £1.6mn)* as a result of the increase in headcount and in recognition of the need to reward and retain key talent.

Leadership Development: Employee development is critical to any high performing organisation. Following the success of our inaugural programme, we have recently commenced with a second cohort in our bespoke career and management development programme. During 2017, we plan to further develop capabilities, skills and competencies across the Bank.

Culture: BACB strives to be a workplace where individuals can thrive whilst contributing to business growth and to be an organisation to which clients are naturally drawn. In early 2015 the Bank introduced and then embedded new core values which apply to all employees. During 2016, the Bank undertook a culture survey which was followed by a series of interviews and focus groups, the results of which provide the foundation for planning the next stage of the Bank's cultural evolution.

During 2017, the Bank will refocus on two of its core values, namely, Client Centricity and Teamwork and key themes of internal and external communication and personal development.

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

BACB is dedicated to employing local staff in the Bank's Representative Offices, giving added reassurance to clients that BACB employees have the cultural as well as technical knowledge to understand their business and to support not only the sustainable growth of BACB, but the local business and country economy.

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

Corporate Social Responsibility

Business standards and conduct: BACB is committed to conducting business responsibly and ethically. The Bank aims to maintain the highest standards with regards to human rights, diversity and inclusion, and to turn business down if it does not meet our strict ethical and legal criteria.

Environment and Sustainability: BACB is passionate about building a sustainable future and to be a responsible business in our non-financial activities. The Bank is committed to achieving environmental best practice, and we have policies, practices and targets in place to help us succeed.

Sustainability, part of our ethos

Since our establishment, the policy of reduce, reuse and recycle has been encouraged across our operations. A number of initiatives have been progressed via our sustainability working group, including recycling and waste reduction, minimising energy consumption and investing in environmentally efficient technologies, thus delivering cost savings for the Bank as well as environmental benefits.

We have participated in the Corporation of London's Clean City Award scheme since it was launched. In 2016 we were again recognised as a leading company committed to recycling, environmental best practice and sustainability, and were rewarded with the Platinum Award.

Charitable support: In 2016, the Bank made charitable donations of £2,000 including support for employee fundraising through the Bank's "£ for £" scheme, matching fund raising up to £500 per employee per year.

The Bank also facilitates "Give As You Earn" charitable giving by employees, as well as matching holiday days for staff who undertake volunteer work in the UK or overseas.

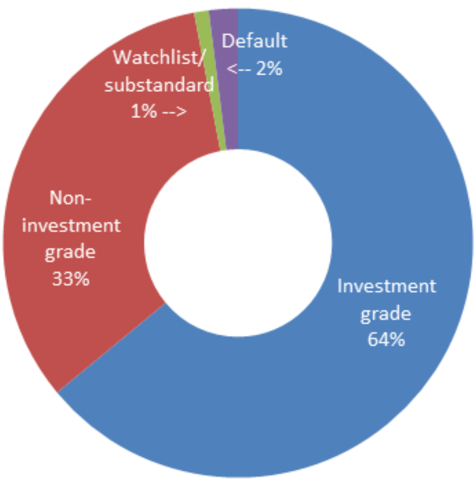
STRATEGIC REPORT: PRINCIPAL RISKS AND UNCERTAINTIES

Credit Risk

Acceptance of credit risk remains the Bank's principal source of revenue and, in consequence, its principal source of financial risk. As in 2015, credit risk has been an area of continued challenge in 2016 given political and economic events globally, and in the Bank's core markets specifically.

The Bank manages this risk by only offering products, exposures and tenors that are proportionate to the risk profile of the underlying counterparties and the markets in which they operate, whilst maintaining an active focus on a small number of watch-list or impaired loans. The Bank's clearly defined risk appetite and the focus of new exposures in accordance with this strategy, has contributed to an overall de-risking of the Balance Sheet.

Credit Exposure by Grade
Rated by BACB internal grading system



Of the Bank's total credit exposures, 1.2% by value are on the 'watchlist' and 1.7% are classified as impaired. The individually assessed impairment charge in 2016 relates to a small number of exposures which are outside of the Bank's current risk appetite.

Recognising the challenging market conditions, the Bank maintained a collectively assessed impairment provision of £5.8mn in 2016 *(2015: £6.0mn)* which covers all the Bank's exposures with an increased emphasis on sectors that are currently under a greater level of stress.

Libya related risk

Political challenges

The political challenges in Libya continue to be the subject of much international interest.

Significant efforts by the international community to resolve the issues in the best interests of the people of Libya are continuing. The Board is encouraged by the positive developments which have taken place during the year and increased momentum towards finding a stable and lasting solution. This is evidenced by an improving economic profile with increased oil and gas production and a higher selling price, further steps towards a unified and internationally recognised government and an emergent interest from external parties to invest in Libya. While most of the Bank's funding comes from Libya, the Bank is not reliant on business flows to / from Libya. As the position in Libya becomes more stable, we expect to see more opportunities to support the growing trade and capital flows.

The key considerations for BACB are as follows:

i. Elements of BACB's banking business with Libya have declined. The Bank's net exposure to Libya after risk mitigation is manageable at less than 1% of total exposures. While Libya continues to be a key market for the Bank, the Bank's strategy of geographic diversification has reduced the overall impact of the current situation;
ii. The Bank continues to rely for liquidity on its parent, Libyan Foreign Bank, and the Central Bank of Libya. Current funding levels remain both stable and strong and

progress has been made during the year to increase the tenor of the deposit base. The current unrest presents a possibility that Libyan Foreign Bank could in future, for political reasons, struggle to continue such support. However, the Directors consider this scenario to be unlikely, particularly given the strategic importance of BACB to Libya as a conduit for its oil and gas revenues into the international banking market;

iii. The ongoing support from our principal shareholder, Libyan Foreign Bank, remains steadfast. In June 2015, Libyan Foreign Bank injected £25mn of additional capital into the Bank and in March 2017, refreshed its annual Statement of Support, which confirms continued provision of financial support, including meeting the Bank's ongoing liquidity needs, through at least May 2018;

iv. Support for BACB is also evident from the Central Bank of Libya. Senior Libyan officials have noted the key role BACB performs in the interaction of Libya with the global economy;

v. Furthermore, if, as happened in 2011, the Libyan political situation results in the imposition of international sanctions, the funding would be expected to become permanent for the duration of the sanctions.

Funding Concentration

In recognition of the funding model of the Bank, which is concentrated and dependent on Libyan Foreign Bank and the Central Bank of Libya, the Directors have also considered and are confident of the Bank's ability to meet repayment of its deposits were that funding to reduce materially or cease.

This is due to the highly liquid nature of the majority of the Bank's assets and the relatively short-term nature of much of its lending.

The Bank's dependency, in this situation, is on key assumptions around factors such as the timing of the lifting of Libyan sanctions, the impact of property prices on its UK real estate lending portfolio, future credit losses and the Bank's ability to raise new secured funding at a reasonable haircut.

The Directors also note that the majority of the Bank's business does not emanate from Libya.

Counterparty Banks

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

The Board monitors the impact and level of de-risking by its counterparties but cannot control the actions of the market. Recognising this, the Bank maintains a dialogue with its counterparties. The significant progress made in strengthening the Bank's governance and control procedures and continued investment in sanctions, Ant-Money Laundering and Counter Terrorist Financing controls demonstrates the strength of the Bank's commitment to ensuring the robustness of its operations and assists in providing the necessary comfort to ensure that BACB remains attractive to counterparties.

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

Other Important Risks

The Bank faces a range of other non-financial risks including reputational and operational risks. The approach to managing these risks, together with a description of the full range of risks faced by the Bank, is set out in Note 4 to the Financial Statements.

Governance enhancements initiated in 2014 are now embedded and include a refined approach to assessing and monitoring Risk Appetite, which has been revised to reflect the Bank's strategic objectives and policy updates across each of the 8 principal risk types.

The Bank-wide project to upgrade its core IT systems continues with a target implementation during 2017. Key projects continue to be closely monitored by the Executive management and the Board.

The Board recognises the criticality of due diligence over our client and payment approval processes and has strengthened this function during the course of the year.

The impact of the UK decision to leave the European Union is being monitored. In the short-term, the weakening of Sterling enhanced revenues in the second half of 2016. Longer-term, the assessment is that BREXIT will have a minimal impact, given the Bank's market focus.

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

STRATEGIC REPORT: CORPORATE GOVERNANCE

SHAREHOLDERS

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

- Libyan Foreign Bank (87.8%);
- Banque Extérieure d'Algérie (6.1%); and
- Banque Centrale Populaire (6.1%).

Libyan Foreign Bank ('LFB') has a substantial international portfolio of investments, involving over 40 participations in 25 countries. In its latest accounts (unaudited), LFB reported net assets of approximately $5bn, including significant cash reserves. LFB reported significant levels of 2016 profit, representing a year on year increase in excess of 50%.

GOVERNANCE

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

These agreements provide that certain shareholders of the Bank may appoint directors in accordance with their shareholdings. They also provide for the appointment of the Chairman and the Chief Executive, and for the formation of certain committees to oversee the day-to-day running of the Bank. Schedules of Reserved Matters specify matters which must be decided by the Board (as opposed to Executive Management) and those matters reserved for approval and decision by Shareholders.

The Board governance arrangements are complemented by an executive governance structure which has been strengthened significantly in recent years. The executive governance structure benefits from clearly articulated governance principles and risk management objectives, underpinned by principal risk types and a robust framework for the management thereof.

Board arrangements

The Bank benefits from the skills and experience of its Board members. Shareholder appointees bring a wealth of experience of BACB core markets and complement the skills of the independent non-executives and the executive Board members. A truly diverse Board will include and make effective use of differences in the skills, regional and industry experience, background, race, gender and other distinctions between Directors. These differences are considered in shaping the optimum composition of the Board.

The following individuals served on the Board during 2016:

Board Member	Sub-Committee Member	Status
Mr Robert D. Dowie CHAIRMAN	ARC/NRC/ECC	INED
Mr Mohamed Shokri VICE-CHAIRMAN	ARC / NRC	NED
Mr Ahmed Aburkhis	ARC / NRC	NED
Dr Ezzeddin Ashur	NRC/ ECC	NED
Mr Akram Grew	ECC	NED
Mr Paul Hartwell		EXEC
Dr Khaled Kagigi [1]	ARC	INED
Mr M Loukal [2]		
Mr Abdullah Naama [3]		NED
Mr Mark Norris		EXEC
Mr Michael Stevenson	ARC (Chair)/ NRC	INED
Mr Mohamed Zine	ARC	NED

Note 1: Dr K.Kagigi was reclassified as an Independent Non-Executive Director on 27th January 2017.
Note 2:Mr M.Loukal resigned from the Board on 8th August 2016.
Note 3: Mr A.Naama was appointed to the Board on 2nd February 2016.

The Board includes three independent non-executive directors, one of whom is the Chair of the Board and one of whom is the Chair of the Audit and Risk Committee. The Chief Executive and the Chief Operating Officer are full time employees of the Bank and are regarded as Executive Directors. All of the other directors are regarded as being Non-Executive Directors.

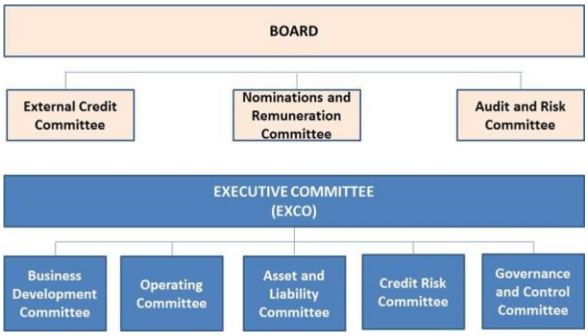
The Board met on six occasions during 2016.

OVERVIEW OF GOVERNANCE

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

The Board has appointed a number of Sub-Committees in order to enhance and streamline its decision making. This is further complemented by clearly defined Executive Governance arrangements.

Effective January 2017, the Board and Executive Sub-Committee structure is as outlined below.



BOARD SUB-COMMITTEES

External Credit Committee ("ECC")

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 External Credit Committee for consideration and approval. The Committee considers applications as they arise.

Nominations and Remuneration Committee ("NRC")

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

Audit & Risk Committee ("ARC")

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

The Bank's external auditors, its outsourced internal auditors, as well as senior financial, risk and compliance executives attend meetings of the Audit & Risk Committee, which met eight times during 2016.

EXECUTIVE GOVERNANCE

Led by the Chief Executive, the Executive Committee (ExCo) comprises the executive managers responsible for the day-to-day operations and management of the Bank. The ExCo met monthly throughout 2016 and has a business and prudential oversight remit.

In January 2017, the Bank's ExCo was re-focused and its membership reduced. This change coincided with the formation of a 'Business Development Committee', which becomes a fifth executive management committee, complementing the risk management, governance and operating responsibilities of the other Committees.

ExCo receives reports from the Sub-Committee Chairs at each meeting in order to ensure appropriate oversight over key matters.

STRATEGIC PLANNING AND OVERSIGHT

The Board is fully engaged in agreeing the strategic direction of the Bank. The Business Plan aspires to the delivery of strong business growth in the Bank's target markets and products, underpinned by robust risk management and governance, and increased efficiency in the Bank's operations. The Board consider the Bank is strongly positioned to deliver on these goals.

The Strategic Report was approved by the Board of Directors on 6 April 2017.

Susannah L. Aliker
Secretary to the Board
6 April 2017

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and applicable law.

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

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

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

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

DIRECTORS' REPORT

For the year ended 31 December 2016

The directors present their annual report and the audited financial statements for the year ended 31 December 2016. These financial statements have been prepared in accordance with the Companies Act 2006 and applicable accounting standards.

Financial risk management objectives and policies

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

Results

The profit after taxation for the year amounted to £2,719,000 (2015: *loss of £14,505,000*). The Directors do not recommend a dividend.

Going concern

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

Company name and number

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

Directors and their interests

A list of the directors who served during the year is shown on page 19. None of the directors holds or has held shares in the Bank. All of the directors benefited from qualifying third party indemnity insurance in place during the financial year and at the date of this report.

Auditors

KPMG LLP was appointed to act as the Bank's auditors for the year ended 31 December 2016.

Directors' representation

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

Susannah L. Aliker
Secretary
By order of the Board
6 April 2017

All amounts in £'000s unless otherwise stated

INDEPENDENT AUDITOR'S REPORT

To the members of British Arab Commercial Bank plc

We have audited the financial statements of British Arab Commercial Bank plc for the year ended 31 December 2016 set out on pages 26 to 80. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU.

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

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 22, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Bank's affairs as at 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the EU; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

All amounts in £'000s unless otherwise stated

INDEPENDENT AUDITOR'S REPORT (continued)

Opinion on other matter prescribed by the Companies Act 2006

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

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic report and the Directors' report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

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

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

David Todd
Senior Statutory Auditor

for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square, London, E14 5GL
6 April 2017

All amounts in £'000s unless otherwise stated

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Note	2016	2015
Interest and similar income	8	47,872	*36,234*
Less: Interest expense and similar charges	8	(25,397)	*(18,362)*
Net interest income		**22,475**	***17,872***
Fee and commission income	9	12,335	*13,658*
Less: Fee and commission expense	9	(357)	*(443)*
Net fee and commission income		**11,978**	***13,215***
Net trading income	10	6,157	*6,226*
Other operating income		2,129	*1,197*
Operating income before allowance for credit losses		**42,739**	***38,510***
Allowance for credit losses	12	(7,122)	*(18,804)*
Net operating income		**35,617**	***19,706***
Administrative expenses	11	(33,038)	*(34,777)*
Profit/(loss) before income tax		**2,579**	***(15,071)***
Income tax credit	13	140	*566*
Profit/(loss) for the year		**2,719**	***(14,505)***
Other comprehensive income/(expense):			
Items that will not be reclassified to profit or loss			
Remeasurement of defined benefit liability	24	(3,250)	*141*
Related Tax	13	494	*(28)*
		(2,756)	*113*
Items that are or may be reclassified to profit or loss			
Change in fair value of available for sale financial assets		3,522	*(3,571)*
Fair value losses/(gains) attributable to available for sale financial assets transferred to income		(5,279)	*690*
Related Tax	13	17	*578*
		(1,740)	*(2,303)*
Other comprehensive (loss)/gain for the year, net of tax		**(4,496)**	***(2,190)***
Total comprehensive (loss)/gain for the year		**(1,777)**	***(16,695)***

All of the profit for the financial year and the prior year was derived from continuing activities. The Notes on pages 30 to 80 form part of these financial statements.

All amounts in £'000s unless otherwise stated

STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Note	2016	*2015*
Assets			
Cash, notes and coins		87	*323*
Financial investments	14	1,288,442	*1,399,383*
Loans and advances to banks	15	759,716	*910,561*
Loans and advances to customers	16	864,311	*685,680*
Property, plant and equipment	18	8,488	*8,678*
Intangible assets	18	4,008	*1,897*
Derivatives	19	769	*181*
Corporation tax receivable		1,358	*4,030*
Deferred tax assets	23	1,069	-
Prepayments, accrued income and other debtors	20	11,016	*10,562*
Total assets		**2,939,264**	***3,021,295***
Liabilities			
Deposits from banks	21	2,019,036	*2,107,305*
Other deposits	21	622,896	*627,581*
Other liabilities, accruals and deferred income	22	7,959	*10,295*
Derivatives	19	1,960	*806*
Net pension liability	24	3,607	*1,831*
Subordinated liabilities	25	75,413	*63,307*
Total liabilities		**2,730,871**	***2,811,125***
Called up share capital	26	104,149	*104,149*
Capital redemption reserve	27	4,104	*4,104*
Other reserves	27	100,140	*101,917*
Capital and reserves attributable to the Bank's equity holders	27	**208,393**	***210,170***
Total liabilities and equity		**2,939,264**	***3,021,295***

The Notes on pages 30 to 80 form part of these financial statements.

Signed:

Mr R D Dowie
Chairman

Mr M Shokri
Vice Chairman

Mr P Hartwell
Chief Executive

All amounts in £'000s unless otherwise stated

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Share capital	Total reserves				Total equity
		Capital redemption reserve	Retained earnings	AFS reserve	Total	
Balance at 31 December 2014	***79,453***	***4,104***	***113,405***	***5,207***	***122,716***	***202,169***
Loss for the year	*-*	*-*	*(14,505)*	*-*	*(14,505)*	*(14,505)*
Other comprehensive income / (expense)	*-*	*-*	*113*	*(2,303)*	*(2,190)*	*(2,190)*
Issue of ordinary shares	*24,696*	*-*	*-*	*-*	*-*	*24,696*
Balance at 31 December 2015	**104,149**	**4,104**	**99,013**	**2,904**	**106,021**	**210,170**
Profit for the year	-	-	2,719	-	2,719	2,719
Other comprehensive income / (loss)	-	-	(2,756)	(1,740)	(4,496)	(4,496)
Total comprehensive income / (loss) for the period	-	-	(37)	(1,740)	(1,777)	(1,777)
Balance at 31 December 2016	**104,149**	**4,104**	**98,976**	**1,164**	**104,244**	**208,393**

All amounts in £'000s unless otherwise stated

STATEMENT OF CASH FLOW

For the year ended 31 December 2016

	Note	2016	*2015*
Cash flows from operating activities			
Profit/(Loss) before taxation		2,579	*(15,071)*
Adjustments for:			
Allowance for credit losses	12	7,122	*18,804*
Profit on realisation of equity shares and investments	14	(3,822)	*-*
Depreciation and amortisation	11,18	1,694	*1,477*
Loss on sale or impairment of property, plant and equipment	11	(50)	*95*
Other non-cash items included in net profit	11	(332)	*-*
Non-cash items included in net profit		**4,612**	***20,376***
Loans, advances and other debt securities other than cash and cash equivalents		(129,256)	*9,045*
Other debtors and prepayments		(1,042)	*3,701*
Change in operating assets		**(130,298)**	***12,746***
Customer accounts and deposits by banks		(483,032)	*64,151*
Other liabilities		595	*(16,061)*
Change in operating liabilties		**(482,437)**	***48,090***
Income tax received/(paid)		2,256	*(796)*
Net cash (used in)/generated from operating activities		**(603,288)**	***65,345***
Cash flows from investing activities			
Purchases of equity shares and investments	14	-	*-*
Proceeds of redemptions of equity shares and investments	14	4,058	*515*
Proceeds on sale of property, plant and equipment		-	*-*
Purchase of property, plant and equipment	18	(493)	*(451)*
Purchase of intangible assets	18	(3,014)	*(510)*
Net cash used in investing activities		**551**	***(446)***
Cash flows from financing activities			
Non-cash effect of share capital issuance	26	-	*24,697*
Net subordinated debt issued/(redeemed)		-	*(408)*
Net cash generated from financing activities		**-**	***24,289***
Net increase in cash and cash equivalents		**(602,737)**	***89,188***
Cash and cash equivalents at the beginning of the year		1,623,993	*1,514,842*
Effect of exchange rate change on cash and cash equivalents		***204,969***	*19,963*
Cash and cash equivalents at the end of the year		**1,226,225**	***1,623,993***
Cash and cash equivalents comprise:			
Cash, notes and coin		87	*323*
Loans and advances to banks of original maturity three months or less		427,449	*767,850*
Certificates of deposit and other debt securities of three months original maturity or less		798,689	*855,820*
Cash and cash equivalents		**1,226,225**	***1,623,993***

All amounts in £'000s unless otherwise stated

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

1. General information

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

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

The financial statements were authorised for issue by the board of directors on 6 April 2017.

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.

In making this assessment, the Directors have considered a wide range of information relating to present and future conditions. Information relevant to this assessment regarding the Bank's principal activities, strategic direction and challenges and uncertainties are described in the Strategic Report on pages 16-18. This assessment includes a review of current and future projections of profitability, capital resources and liquidity, which the Directors have subjected to stress testing.

Libya continues to face not insignificant political challenges. The continuing lack of resolution of the political situation in Libya presents a degree of risk given the funding model of the Bank, which is concentrated and dependent on its principal shareholder, Libyan Foreign Bank (LFB), and LFB's shareholder, the Central Bank of Libya (CBL). The Directors are of the opinion that the situation has improved since 2015. The key parties in Libya have co-operated in the production of oil with the proceeds flowing into CBL and LFB, which place deposits with the Bank. The situation remains volatile, however, and ongoing developments can be negative as well as positive. The greatest risk to the Bank appears to be either the breakdown of co-operation between the key parties or a sustained worsening of the flow of oil revenues, which could result in a severe reduction in the Bank's funding.

The Directors have received positive assurances and evidence of support from LFB, including (i) the provision of additional capital in June 2015; (ii) a formal statement from LFB which confirms their intent to provide financial support, including meeting the Bank's ongoing liquidity needs for at least the next twelve months and (iii) assurances of the strategic importance of BACB to the country of Libya. However, whilst the provision of liquidity has remained steadfast during the period since the current instability commenced in 2011, it does represent a potential uncertainty linked to the ongoing political situation in Libya.

The Directors have, therefore, also considered, and are confident of, the Bank's ability to meet repayment of its deposits were the renewal of funding from Libya to reduce materially or cease. This is due to the highly liquid nature of the majority of the Bank's assets and the relatively short-term nature of much of its lending. The Bank's dependency, in this situation, is on key assumptions around factors such as the timing of the lifting of Libyan sanctions, the impact of property prices on its UK real estate lending portfolio, future credit losses and

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the Bank's ability to raise new secured funding at a reasonable haircut. The Directors further note that the majority of the Bank's business is not Libyan based.

Taking all this into account, the Directors have considered the Bank's funding risk and are confident of the Bank's continuing positive liquidity.

In addition, the Directors have considered the need for counterparty banks to continue to operate with BACB, to provide critical facilities. This review has specifically considered a sector-wide trend in recent years for counterparty banks to review such relationships due to the potential reputational and legal risks associated with clearing transactions initiated by other banks, particularly those who operate with clients linked to countries perceived as higher risk. The Directors acknowledge the dependency of the Bank on preserving these essential correspondent banking relationships.

b) Compliance with International Financial Reporting Standards

The Bank has prepared its financial statements in accordance with IFRS as adopted by the EU (Adopted IFRS) and effective for the Bank's reporting for the year ended 31 December 2016. IFRS comprise accounting standards issued by the International Accounting Standards Board (IASB) and its predecessor body or adopted as interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and its predecessor body.

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

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

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

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

c) Accounting Standards adopted during the year

The Bank did not adopt any new IFRS standards during the reporting period.

d) Future developments in Accounting Standards

IFRS 9 Financial Instruments

This Standard forms part of the International Accounting Standard Board's project to replace the existing Standard on the recognition and measurement of financial instruments. It requires all financial assets to be classified and measured on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The Standard also differs from existing requirements for accounting for financial assets in various other areas, such as embedded derivatives and the

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recognition of fair value adjustments in the Statement of Other Comprehensive Income (OCI). It also introduces an expected credit loss model for calculating impairment on financial assets and revises the general hedge accounting requirements to align these to risk management.

Based on financial assets held as at 31st December 2016 and expectations around changes to balance sheet composition, the Bank expects that:

i. Loans and receivables to banks and to customers that are classified as loans and receivables under IAS 39 will be measured at amortised cost under IFRS 9;
ii. Financial assets designated at fair value through profit and loss (FVTPL) will continue to be classified at FVTPL under IFRS 9;
iii. Debt securities classified as available for sale under IAS 39 will be measured at fair value through OCI (FVOCI) under IFRS 9;
iv. Equity investments classified as available for sale under IAS 39 will be measured at FVOCI under IFRS 9. Although equity investments fail the solely payments of principal and interest test (SPPI test), meaning that they need to be measured at FVTPL, the Bank will avail of the option within IFRS 9 to make an irrevocable election to classify as FVOCI.

The expected credit loss model will apply to all financial assets measured at amortised cost and FVOCI, and certain loan commitments and financial guarantee contracts. Under this approach, if there has been a significant deterioration in credit risk, lifetime expected credit losses would be recognised, or if there has not been significant credit deterioration, a 12-month expected credit loss would be recognised. Moving from an incurred loss approach to an expected loss approach will require management to incorporate forward-looking information into the Bank's impairment models. The Bank is in the process of assessing the impact on the level of provisioning as a result of the change from an incurred to an expected credit loss model.

IFRS 9 also includes revised requirements on hedge accounting which attempt to more closely align an entity's risk management strategies and risk management objectives. The IASB is working on a separate project to address the accounting for open portfolios. Until this project is complete entities can choose between applying the hedge accounting requirements of IFRS 9 or continuing to apply to the existing hedge accounting requirements under IAS 39. The Bank has not yet decided whether to elect to continue to apply IAS 39 hedging requirements.

The Standard has an effective date of 1st January 2018. The Bank plans to take advantage of exemptions allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and liabilities resulting from adoption of IFRS 9 will generally be recognised in retained earnings and reserves as at 1 January 2018.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. Adoption of the Standard is not expected to have a significant impact on the Bank. The Standard has an effective date of 1st January 2018, and must be applied retrospectively.

IFRS 16 Leases

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer (lessee) and the supplier (lessor). The Bank is assessing the potential impact on its financial statements resulting from the application of IFRS 16. The Standard is expected to be effective for periods beginning on or after 1 January 2019, subject to EU endorsement.

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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 income statement using the effective interest rates of the financial assets or financial liabilities to which they relate. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability.

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

b) Fee and commission income

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

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

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

c) Foreign currencies

The Directors regard Sterling as the currency of the primary economic environment in which the Bank operates. Accordingly, Sterling is regarded as being the functional currency of the Bank 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 balance sheet date. Any resulting exchange differences are included in the income statement or, for available for sale assets, in other comprehensive income. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated into the functional currency using the rate of exchange at the date of the initial transaction.

d) Net trading income

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

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e) Income tax

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

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

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

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

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

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

f) Derivatives and hedge accounting

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

Hedge accounting

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

Fair value hedges

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

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

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

g) Financial assets

The Bank has classified its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables and available-for-sale financial assets. Management has determined the classification of its investments on adoption of IFRS, and thereafter on initial recognition.

i. Financial assets at fair value through profit and loss

This category comprises three sub-categories:

- financial assets held for trading;
- financial assets designated at fair value through profit and loss at inception as part of a fair value hedge;
- derivatives

ii. Loans and receivables

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

iii. Available-for-sale

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

h) Fair value measurement

Derivatives

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

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

Financial assets

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

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

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

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

i) Offsetting financial instruments

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

j) De-recognition of financial assets and liabilities

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

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

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

i significant financial difficulty of the issuer or obligor;
ii a breach of contract, such as default or delinquency in interest or principal payments;
iii the Bank granting to the borrower, for economic or legal reasons relating to the borrower's financial

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difficulty, a concession that the lender would not otherwise consider;

iv it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

v the disappearance of an active market for that financial asset because of financial difficulties; or

vi observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:

- adverse changes in the payment status of borrowers in the portfolio; or
- national or local economic conditions that correlate with defaults in the portfolio of assets.

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

The Bank closely monitors and actively manages receivables which are not paid on their due date (past due amounts). If the reasons for the delay are indicative of difficulty being experienced by the counterparty, then, even if it is decided not to recognise impairment, all of the balances due from that counterparty will be classified as being on "watch list", resulting in increased management scrutiny and action.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

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

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

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

Available-for-sale assets

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

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l) Reverse repos

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

m) Property, plant and equipment

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

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

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

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

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

n) Intangible assets

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

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

o) Leases

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

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

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

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

p) Cash and cash equivalents

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

q) Provisions

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

r) Contingent liabilities

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

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

s) Employee benefits

The Bank provides both a defined benefit and a defined contribution pension scheme for its staff. The defined benefit scheme was closed to future accrual in 2014. In each case, the assets of the schemes are held separately from those of the Bank. A defined benefit scheme is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. A defined contribution scheme is a pension plan under which the Bank

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pays fixed contributions into a separate entity, and where the Bank has no legal or constructive obligations to pay further contributions.

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

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

For the defined contribution 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) Debt securities in issue

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

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

u) Share capital

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

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

4. Risk management

a) Risk Management Objectives

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

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

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b) Approach to Risk Management

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

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

The Chief Executive submits to each meeting of the Audit & Risk Committee an 'Enterprise Risk Assessment' that identifies those risks which may present a franchise risk to the Bank. This assessment includes details of:

▪ The scope of the risk	▪ Risk appetite and tolerance
▪ The nature of the risk	▪ Risk response and controls
▪ Stakeholders	▪ Direction of risk tendency
▪ Risk evaluation	▪ Strategy and policy developments
▪ Loss experience / potential	

c) Principal Risks

The Bank's principal risks and uncertainties as at the reporting date are referenced in the Strategic Report on pages 16 – 18 and these risks are each subject to ongoing active review by management and the Board.

The Bank has identified eight Principal Risk Types across three overarching risk categories which might adversely impact its ability to achieve its strategic objectives, and defines its risk appetite through a range of scope and scale measures across these risk types that define the level of acceptable risk. The summary below outlines the risk categories as currently adopted by the Bank. During the reporting period, Project Risk was identified as a separate risk category and, effective January 2017, has been included within Operational Risk.

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

A brief description of each of the principal risk types and the framework for managing them is set out below.

All amounts in £'000s unless otherwise stated

REPUTATIONAL RISK

Definition:
Reputational Risk is the risk arising from negative perception on the part of customers, counterparties, shareholders, investors, debt-holders, market analysts regulators or other third-parties that can adversely affect the Bank's ability to maintain existing, or establish new, business relationships and continued access to sources of funding. The Bank's reputation is an important asset and Reputational Risk is the risk of damage to that asset.

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

- Controllable Reputational Risks relate to the way that we do business and could result from a failure of the Bank's compliance and risk management controls leading to, for example regulatory fine and / or entering into transactions involving higher risk or sensitive industries, jurisdictions or counterparties;
- Non-Controllable Reputational Risks arise from external events, for example, the imposition of sanctions.

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

Risk Mitigation:
The Bank has implemented a range of qualitative steps to mitigate its exposure to reputational risks. These include:

- building a high performance organisation with a clearly understood strategy and risk appetite;
- focusing on mainly non-complex products and a wholesale customer base;
- embedding a sound corporate culture built on target behaviours and values which have been developed at grass roots level; and
- restricting its appetite for sensitive types of business.

COMPLIANCE RISK

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

The Bank's principal sources of Compliance Risk are:

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

All amounts in £'000s unless otherwise stated

Risk Management:
The Bank's objective is to comply with the letter and spirit of all applicable regulations and laws, and to embed a robust risk and compliance culture throughout the organisation which recognises the higher level of risk attaching to many of the countries with which the Bank transacts.

The Compliance team is responsible for:
- developing applicable principles, standards and guidelines for compliance, communicating them and verifying adherence;
- providing advice to individual business units on applicable laws, directives, standards, and regulations as well as providing compliance support;
- monitoring trades, transactions and business processes in order to identify any potential compliance risks;
- implementing any measures arising from the anti-money laundering program;
- ensuring that any occurrences which give reason to suspect money laundering or the financing of terrorism are identified and reported to the relevant authorities;
- providing regular training and education for staff on the applicable regulations, rules and internal standards;
- communicating with regulators.

Compliance risk is overseen by the Audit and Risk Committee, to whom the Head of Compliance provides a report at least four times a year. Mitigation controls along with action and remediation plans are overseen by the Governance and Control Committee.

Risk Mitigation:
The Bank seeks to minimise the risk of compliance or conduct failure by:
- ensuring an up-to-date understanding of regulatory requirements which need to be complied with;
- ensuring that procedures and controls are in place and designed to minimise the risk of breaching those requirements;
- providing training for staff throughout the organisation aimed at promoting a good understanding of Compliance issues;
- in respect of regulatory requirements relating to sanctions, anti-money laundering and terrorist financing in particular, the Bank has enhanced both the quantity and calibre of resources in the first line who are responsible for ensuring compliance, subject to oversight and in the case of higher risk cases additional due diligence by the second line compliance team; and
- undertaking a risk-based monitoring programme aimed at detecting shortcomings in, or failures of, compliance controls or processes.

CULTURE AND CONDUCT RISK

Definition:
Culture and Conduct Risk is the risk that detriment is caused to the Bank, its customers, clients or counterparties because of the inappropriate execution of its business activities. This Risk area comprises a wide variety of activities and types of behaviour which fall outside the other main categories of risk. In essence it refers to risks attached to the way in which the Bank and its staff conduct themselves and is generally agreed to incorporate matters such as how customers are treated, remuneration of staff and how the bank deals with conflicts of interest. It includes the risk of inappropriate employee behaviour and the risk that the Bank does not have the relevant skills to support the business strategy.

Risk Management:
The Chief Executive Officer has primary responsibility for managing Culture and Conduct Risk. The Bank has established a set of values and behaviours which it expects all staff to display in their interactions with clients,

All amounts in £'000s unless otherwise stated

competitors and each other, such behaviours being designed to drive a client-centric business model characterised by the levels of teamwork required to operate as a high performance organisation. These expectations are encapsulated in the Bank's Code of Conduct with which all staff are expected to comply, with the overall framework for management of this risk set out in the Culture and Conduct Risk Standard and Policy, Compliance with this Policy is overseen by the Executive Committee of the Bank, with regular reporting to the Board.

Risk Mitigation:

- The Bank has conducted a culture survey to establish how well the target values and behaviours are understood and embedded and is putting in place action plans to drive change where this is required;
- The Bank's staff performance appraisal system requires that all staff are appraised in terms of their behaviours and compliance with the Code of Conduct, which informs in part levels of fixed and variable compensation;
- The Chief Executive Officer carries out a regular risk assessment under the heading of Culture and Conduct Risk, which is considered by the Executive Committee and by the Audit and Risk Committee of the Board. Culture and Conduct Risk is a standing agenda item for the Executive Committee;
- Culture and Conduct MI has been developed, which continues to evolve and draws inter alia on Operational Risk, Compliance and HR Metrics;
- The Nominations and Remuneration Committee has regard to compliance with the Bank's values and behaviours when assessing the levels of individual compensation for executive management.

CREDIT AND COUNTRY RISKS

Definitions:
Credit Risk is the risk of the Bank suffering financial loss if any of its customers, clients or market counterparties fails to fulfil their contractual obligations to the Bank. The Bank's principal sources of credit risk are:

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

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

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

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

- development and oversight of the credit and country risk management frameworks;

All amounts in £'000s unless otherwise stated

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

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

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

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

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

	2016	2015
Cash, notes and coins	87	323
Financial investments: debt securities (note 14)	1,279,652	1,383,853
Loans and advances to banks	759,716	910,561
Loans and advances to customers (note 16)	864,311	685,680
Derivatives	769	181
Total on balance sheet	**2,904,535**	**2,980,598**
Contingent liabilities (note 29)	57,123	65,736
Other commitments (note 30)	308,915	301,207
Less: impairment provisions on off balance sheet exposures	(250)	(1,431)
Total off balance sheet	**365,788**	**365,512**
Total	**3,270,323**	**3,346,110**

All amounts in £'000s unless otherwise stated

Real estate lending is collateralised with residential or commercial property. In certain cases cash collateral is held against other forms of lending and off-balance sheet exposures. At 31 December 2016 the value of cash collateral held and utilised by the Bank on terms under which set off can be applied in the event of default by the counterparty was £129,199,421 (*2015: £100,353,000*). This includes the utilised portion of a US$250,000,000 deposit placed by Libyan Foreign Bank as collateral for the obligations of itself and affiliated entities. Collateral may also be taken in the form of personal guarantees given by individuals associated with the obligating counterparty, but no value is ascribed in these circumstances. Other mitigants include credit insurance and back-to-back commitments from financial institutions of acceptable quality, or security.

By industry, concentrations of credit risk were as follows:

	2016	*2015*
Financial institutions (including central banks)		
Banks	1,157,077	*1,505,596*
Multilateral development banks	721,590	*300,860*
Other financial intermediaries	132,024	*190,353*
	2,010,691	***1,996,809***
Corporates		
Commodities	266,002	*118,804*
Construction and engineering	12,652	*12,942*
Energy	194,690	*235,970*
Transport and storage	2,482	*7,767*
Other	365,631	*192,536*
	841,457	***568,019***
Public administration	**366,889**	***711,595***
Other Entities	**92,255**	***97,478***
Impairments (note 12)	(40,969)	*(27,791)*
Maximum exposure to credit risk	**3,270,323**	***3,346,110***

All amounts in £'000s unless otherwise stated

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

31 December 2016 Grade	Contingent liabilities and other commitments	Cash, loans and advances, debt securities and derivatives	Maximum exposure to credit risk	Cash collateral	Net credit exposure
Grade 1 (Investment Grade)	11	793,053	793,064	-	793,064
Grade 2 (Investment Grade)	-	320,078	320,078	-	320,078
Grade 3 (Investment Grade)	-	242,314	242,314	-	242,314
Grade 4 (Investment Grade)	6,423	75,171	81,594	(140)	81,454
Grade 5 (Investment Grade)	252	48,844	49,096	-	49,096
Grade 6 (Investment Grade)	5,569	85,133	90,702	-	90,702
Grade 7 (Investment Grade)	-	16,797	16,797	-	16,797
Grade 8 (Investment Grade)	3,592	84,910	88,502	-	88,502
Grade 9 (Investment Grade)	176	10,312	10,488	-	10,488
Grade 10 (Investment Grade)	32,673	326,345	359,018	(294)	358,724
Grade 11 (Non-Investment Grade)	14,110	103,083	117,193	(943)	116,250
Grade 12 (Non-Investment Grade)	36,198	228,421	264,619	-	264,619
Grade 13 (Non-Investment Grade)	18,236	37,321	55,557	-	55,557
Grade 14 (Non-Investment Grade)	37,543	65,830	103,373	(14)	103,359
Grade 15 (Non-Investment Grade)	17,213	161,874	179,087	-	179,087
Grade 16 (Non-Investment Grade)	39,221	181,039	220,260	(10,277)	209,983
Grade 17 (Non-Investment Grade)	57,602	59,545	117,147	(7,044)	110,103
Grade 18 (Watchlist)	94,597	49,229	143,826	(110,487)	33,339
Grade 19 (Sub-Standard)	-	4,055	4,055	-	4,055
Grade 20 (Default)	2,622	51,899	54,521	-	54,521
Less: impairments	(250)	(40,718)	(40,968)	-	(40,968)
Total credit exposures	**365,788**	**2,904,535**	**3,270,323**	**(129,199)**	**3,141,124**

31 December 2015 Grade	Contingent liabilities and other commitments	Cash, loans and advances, debt securities and derivatives	Maximum exposure to credit risk	Cash collateral	Net credit exposure
Grade 1 (Investment Grade)	-	564,788	564,788	-	564,788
Grade 2 (Investment Grade)	-	283,463	283,463	-	283,463
Grade 3 (Investment Grade)	7,635	345,147	352,782	(116)	352,666
Grade 4 (Investment Grade)	6,035	127,281	133,316	-	133,316
Grade 5 (Investment Grade)	142	61,497	61,639	-	61,639
Grade 6 (Investment Grade)	4,148	310,056	314,204	-	314,204
Grade 7 (Investment Grade)	205	114,279	114,484	-	114,484
Grade 8 (Investment Grade)	2,597	31,977	34,574	(202)	34,372
Grade 9 (Investment Grade)	1,329	162,258	163,587	-	163,587
Grade 10 (Investment Grade)	35,515	392,653	428,168	(244)	427,924
Grade 11 (Non-Investment Grade)	304	71,084	71,388	(216)	71,172
Grade 12 (Non-Investment Grade)	47,658	148,325	195,983	-	195,983
Grade 13 (Non-Investment Grade)	23,925	22,791	46,716	-	46,716
Grade 14 (Non-Investment Grade)	16,475	117,875	134,350	-	134,350
Grade 15 (Non-Investment Grade)	4,672	71,464	76,136	-	76,136
Grade 16 (Non-Investment Grade)	37,005	74,998	112,003	(1,308)	110,695
Grade 17 (Non-Investment Grade)	74,639	8,090	82,729	(1,806)	80,923
Grade 18 (Watchlist)	101,721	47,852	149,573	(94,624)	54,949
Grade 19 (Sub-Standard)	1,837	408	2,245	(1,837)	408
Grade 20 (Default)	1,101	50,672	51,773	-	51,773
Less: impairments	(1,431)	(26,360)	(27,791)	-	(27,791)
Total credit exposures	**365,512**	**2,980,598**	**3,346,110**	**(100,353)**	**3,245,757**

All amounts in £'000s unless otherwise stated

The Bank provides facilities to in excess of 370 counterparties encompassing exposures in over 60 countries and territories (*2015: in excess of 290 counterparties encompassing exposures in over 54 countries and territories*).

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

31 December 2016	**Contingent liabilities and other commitments**	**Cash, loans and advances, debt securities and derivatives**	**Total**
United Kingdom	51,896	606,449	658,345
Europe excluding UK	72,649	532,564	605,213
Libya	66,319	9,439	75,758
Other Middle East and Africa	144,653	756,686	901,339
Other Countries	30,521	1,040,116	1,070,637
Impairments	(250)	(40,719)	(40,969)
Maximum exposure to credit risk	**365,788**	**2,904,535**	**3,270,323**

31 December 2015	**Contingent liabilities and other commitments**	**Cash, loans and advances, debt securities and derivatives**	**Total**
United Kingdom	65,901	480,669	546,570
Europe excluding UK	44,537	959,607	1,004,144
Libya	89,616	1,924	91,540
Other Middle East and Africa	124,883	654,832	779,715
Other Countries	42,006	909,926	951,932
Impairments	(1,431)	(26,360)	(27,791)
Maximum exposure to credit risk	**365,512**	**2,980,598**	**3,346,110**

MARKET AND LIQUIDITY RISKS

Definitions:

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

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

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

Risk Management:

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

All amounts in £'000s unless otherwise stated

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

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

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

Risk Mitigation:

The Bank's Treasury function has day-to-day responsibility for managing its market and liquidity exposures. The Bank does not look to profit other than to a small extent from principal position trading exposures to bonds, interest rates or foreign exchange. Derivative contracts are used in both the banking and trading books to modify market risk exposures in the light of perceptions about future movements in those markets. In the banking book, in particular, derivative contracts are used to hedge market risk exposure (interest rate risk) arising from banking book positions, which in the absence of those contracts, would result in unwanted exposures, or excesses to market risk limits. The Bank does not deal in complex derivative transactions.

Exchange rate risk

The Bank manages its exposures to foreign exchange risk by way of limits on the size of permitted positions. Overnight trading positions must be protected by stop-loss orders placed with reputable correspondent banks. The size of the position limits is consistent with the amount of profit that the Bank is prepared to place at risk in the foreign exchange markets. The Bank earns the majority of its revenues in currencies other than sterling, but incurs the majority of its operating costs in sterling. This mismatch is hedged at the discretion of the Bank's Asset and Liability Committee.

The Bank's overall net short position (on foreign exchange open positions and cash arising on settled trades) at 31 December 2016 (being the sterling equivalent value of all the currencies where the currency obligations were higher than currency receivables) was £504,000 (*2015: £375,000*). Were these currencies to strengthen by 5% against the remaining currencies, then the Bank would lose £25,000 (*2015: £19,000*).

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

	2016	*2015*
Maximum	5,546	*25,715*
Minimum	3	*301*
Average	1,108	*2,033*

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

Interest rate risk

The Bank is exposed to changes in interest rates in various currencies arising from gaps in the future dates of repricing of assets, liabilities and derivative instruments. The Bank manages that risk by calculating sensitivity of changes in the present value of committed future cash flows to a 0.01% change in interest rates using the

All amounts in £'000s unless otherwise stated

Present Value of a Basis Point ("PVBP") methodology. Limits are placed on the overall amount of calculated PVBP with sub-limits for the overall banking book and for the Bank's trading books. The Bank considers the impact of changes in future interest rates on its future income streams by reference to these interest rate gaps.

As at 31 December 2016, PVBP amounted to £32,074 (*2015: £15,911*). PVBP (calculated on a daily basis) was as follows:

	2016	*2015*
Maximum	37	*33*
Minimum	3	*8*
Average	18	*17*

Hedges

Derivative contracts are used in both the banking and trading books to modify market risk exposures in the light of perceptions about future movements in those markets. In the banking book, in particular, derivative contracts are used to reduce market risk exposure arising from banking book interest rate and currency positions, which in the absence of those contracts, would result in unwanted exposures, or excesses to market risk limits. Such contracts are described as hedges. Hedge accounting transactions are documented as such at inception, and the positions being hedged are clearly identified at the outset.

Changes in the fair value of derivatives that are designated and qualify as fair value hedging instruments are recorded in the Statement of comprehensive income in Interest and similar income, together with changes in the fair value of the asset or liability or portfolio thereof that are attributable to the hedged risk.

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

31 December 2016	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Non-interest bearing**	**Total**
Financial investments	438,650	611,917	136,427	92,658	-	8,790	1,288,442
Loans and advances to banks	449,585	138,509	171,510	112	-	-	759,716
Loans and advances to customers	441,974	334,713	81,508	143	5,380	593	864,311
Other assets	848	434	22	17	-	25,474	26,795
Total assets	**1,331,057**	**1,085,573**	**389,467**	**92,930**	**5,380**	**34,857**	**2,939,264**
Deposits from banks	898,550	485,647	598,463	36,376	-	-	2,019,036
Other deposits	340,180	79,605	11,385	191,726	-	-	622,896
Subordinated liabilities	45,970	29,443	-	-	-	-	75,413
Other liabilities and shareholders' funds	9,410	-	-	-	-	212,509	221,919
Total equity and liabilities	**1,294,110**	**594,695**	**609,848**	**228,102**	**-**	**212,509**	**2,939,264**
Derivatives (at contract value)	-	-	-	-	-	-	
Receivable	14,215	4,061	5,361	-	-	-	
Payable	-	-	-	(23,637)	-	-	
Overall gap	51,162	494,939	(215,020)	(111,535)	5,380	(177,652)	
Reverse Cumulative gap	**224,926**	**173,764**	**(321,175)**	**(106,155)**	**5,380**	**(177,652)**	

All amounts in £'000s unless otherwise stated

31 December 2015	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
Financial investments	541,045	622,212	141,886	78,524	-	15,716	1,399,383
Loans and advances to banks	675,154	188,555	46,852	-	-	-	910,561
Loans and advances to customers	350,344	246,847	83,809	296	4,297	87	685,680
Other assets	3	159	12	7	-	25,490	25,671
Total assets	**1,566,546**	**1,057,773**	**272,559**	**78,827**	**4,297**	**41,293**	**3,021,295**
Deposits from banks	1,231,176	275,488	551,807	48,834	-	-	2,107,305
Other deposits	316,675	124,735	172,683	13,488	-	-	627,581
Subordinated liabilities	38,133	25,174	-	-	-	-	63,307
Other liabilities and shareholders' funds	92	185	53	476	-	222,296	223,102
Total equity and liabilities	**1,586,076**	**425,582**	**724,543**	**62,798**	**-**	**222,296**	**3,021,295**
Derivatives (at contract value)	-	-	-	-	-	-	
Receivable	18,248	21,753	59,594	134,045	-	-	
Payable	18,381	-	61,589	153,669	-	-	
Overall gap	(19,663)	653,944	(453,979)	(3,595)	4,297	(181,003)	
Reverse Cumulative gap	**181,003**	**200,667**	**(453,277)**	**702**	**4,297**	**(181,003)**	

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

A simultaneous increase in interest rates of 0.5% in all currencies, and in all maturities on 1 January 2017 would increase earnings from the financial assets associated with the non-interest bearing liabilities during 2017 by £589,000 (*2015: a 0.5% increase in interest rates in all currencies would increase earnings in 2016 by £609,000*).

Derivatives include interest rate and currency swap transactions, the purpose of which are to reduce economic exposure to interest rate risk, whether formally qualifying as hedges or otherwise. The purpose of such hedges is to ensure that longer dated interest rate re-pricings, such as typically arise from fixed rate loans or deposits, are converted into shorter periods as can be accommodated within the gap limits.

Trading book

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

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

Liquidity risk

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

All amounts in £'000s unless otherwise stated

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

At 31 December 2016	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Undated	Total
Financial investments	165,724	114,230	169,911	836,671	1,807	99	1,288,442
Loans and advances to banks	439,861	91,017	228,726	112	-	-	759,716
Loans and advances to customers	287,537	40,489	87,461	411,125	37,198	501	864,311
Other assets	848	434	22	17	-	25,474	26,795
Total assets	**893,970**	**246,170**	**486,120**	**1,247,925**	**39,005**	**26,074**	**2,939,264**
Deposits from banks	643,452	382,917	793,834	198,833	-	-	2,019,036
Other deposits	340,180	79,605	11,385	191,726	-	-	622,896
Subordinated liabilities	-	-	-	-	75,413	-	75,413
Other liabilities and shareholders' funds	9,410	-	-	-	-	212,509	221,919
Total equity and liabilities	**993,042**	**462,522**	**805,219**	**390,559**	**75,413**	**212,509**	**2,939,264**
Net liquidity gap	**(99,072)**	**(216,352)**	**(319,099)**	**857,366**	**(36,408)**	**(186,435)**	

At 31 December 2015	*Up to 1 month*	*1-3 months*	*3-12 months*	*1-5 years*	*Over 5 years*	*Undated*	*Total*
Financial investments	*249,089*	*361,876*	*255,257*	*529,676*	*3,299*	*186*	*1,399,383*
Loans and advances to banks	*636,955*	*96,250*	*172,165*	*5,191*	-	-	*910,561*
Loans and advances to customers	*234,678*	*16,473*	*63,538*	*330,707*	*40,284*	-	*685,680*
Other assets	*83*	*185*	*62*	*476*	-	*24,865*	*25,671*
Total assets	***1,120,805***	***474,784***	***491,022***	***866,050***	***43,583***	***25,051***	***3,021,295***
Deposits from banks	*1,197,458*	*208,050*	*518,088*	*183,709*	-	-	*2,107,305*
Other deposits	*316,675*	*124,735*	*172,683*	*13,488*	-	-	*627,581*
Subordinated liabilities	-	-	-	-	*63,307*	-	*63,307*
Other liabilities and shareholders' funds	*92*	*185*	*53*	*476*	-	*222,296*	*223,102*
Total equity and liabilities	***1,514,225***	***332,970***	***690,824***	***197,673***	***63,307***	***222,296***	***3,021,295***
Net liquidity gap	***(393,420)***	***141,814***	***(199,802)***	***668,377***	***(19,724)***	***(197,245)***	

OPERATIONAL RISK

Definitions:

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. It includes Project Risk, which is the risk that a project does not provide the agreed functionality and/or complete within budget and/or complete on time.

Risk Management:

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

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

All amounts in £'000s unless otherwise stated

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

Operational risk management is overseen by the Governance and Control Committee which reviews and makes recommendations via the Executive Committee to the Audit and Risk Committee at least annually on the Bank's operational risk appetite and policies, or approves where within delegated authority, having regard to the Bank's business plans and Operational Risk Standards as approved by the Audit and Risk Committee.

Operational risk losses in the year to 31 December 2016 amounted to £60,000 (*2015: £10,000*).

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

- identification of mission critical processes and potential points of failure, and ensuring that adequate controls are in place;
- IT technical standards and change control procedures;
- HR policies, processes and controls;
- project management policies and procedures;
- implementing an information security management system framework, consistent with the ISO 27000 family of standards;
- business continuity planning;
- escalation and reporting of operational incidents to ensure that timely actions are taken to resolve the incident and root cause analysis performed to mitigate the likelihood of recurrence; and
- insurance policies to cover relevant risk exposures. Insurance is viewed as complementary to and not a replacement for a robust control environment.

5. Critical accounting estimates and judgements in applying accounting policies

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

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

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

In assessing collective impairment, the Bank uses default rates and loss rates based on historical trends for assets with credit risk characteristics similar to those in the portfolio. Management makes an adjustment if

All amounts in £'000s unless otherwise stated

current economic and credit conditions are such that the actual loses are likely to be greater or lesser than is suggested by historical trends.

At 31 December 2016 loans to five customers were impaired (*2015: loans to five customers*). The restructuring of two loans were the subject of continuing negotiations between lending syndicates and the borrowers, the outcomes of which were uncertain at 31 December 2016. 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.

If recoveries on the five impaired loans are 10% lower than has been estimated, then the amount of the impairment which would have been charged in 2016 in respect of those loans would have been increased by £1,231,000 *(2015: £5,067,000 in respect of five loans)*.

Pension fund

The Bank assesses the value of its defined benefit pension fund assets and obligations in accordance with IAS 19. The standard requires that certain assumptions be made which are set out in Note 24. Note 24 also sets out an analysis of the sensitivity of the defined benefit obligations to changes in certain assumptions.

Software

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

Deferred taxation

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

Other

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

All amounts in £'000s unless otherwise stated

6. Analysis of financial assets and liabilities by measurement basis

Financial assets and financial liabilities are measured on an ongoing basis either at fair value or at amortised cost. The summary of significant accounting policies in Note 3 describes how the classes of financial instruments are measured, and how income and expense, including fair value gains and losses, are recognised.

The following table analyses the financial assets and liabilities in the statements of financial position by the class of financial instrument to which they are assigned and therefore by the measurement basis.

31 December 2016	Loans and receivables	Financial assets and liabilities at amortised cost	Total assets and liabilities held at amortised cost	Available for sale	At fair value through profit and loss	Derivatives designated as fair value hedging instruments	Total assets and liabilties held at fair value	Total
Assets								
Cash, notes and coins	-	87	87	-	-	-	-	87
Financial investments	-	-	-	1,288,442	-	-	1,288,442	1,288,442
Loans and advances to banks	759,716	-	759,716	-	-	-	-	759,716
Loans and advances to customers	864,311	-	864,311	-	-	-	-	864,311
Derivatives	-	-	-	-	752	17	769	769
Total financial assets	1,624,027	87	1,624,114	1,288,442	752	17	1,289,211	2,913,325
Total non-financial assets								25,939
Total assets								2,939,264
Liabilities								
Deposits from banks	-	2,019,036	2,019,036	-	-	-	-	2,019,036
Other deposits	-	622,896	622,896	-	-	-	-	622,896
Derivatives	-	-	-	-	1,834	126	1,960	1,960
Subordinated liabilities	-	75,413	75,413	-	-	-	-	75,413
Total financial liabilities	-	2,717,345	2,717,345	-	1,834	126	1,960	2,719,305
Total equity and non-financial liabilities								219,959
Total equity and liabilities								2,939,264

31 December 2015	*Loans and receivables*	*Financial assets and liabilities at amortised cost*	*Total assets and liabilities held at amortised cost*	*Available for sale*	*At fair value through profit and loss*	*Derivatives designated as fair value hedging instruments*	*Total assets and liabilties held at fair value*	*Total*
Assets								
Cash, notes and coins	-	323	323	-	-	-	-	323
Financial investments	-	-	-	1,385,389	13,994	-	1,399,383	1,399,383
Loans and advances to banks	910,561	-	910,561	-	-	-	-	910,561
Loans and advances to customers	681,554	-	681,554	-	4,126	-	4,126	685,680
Derivatives	-	-	-	-	165	16	181	181
Total financial assets	1,592,115	323	1,592,438	1,385,389	18,285	16	1,403,690	2,996,128
Total non-financial assets								25,167
Total assets								3,021,295
Liabilities								
Deposits from banks	-	2,107,305	2,107,305	-	-	-	-	2,107,305
Other deposits	-	627,581	627,581	-	-	-	-	627,581
Derivatives	-	-	-	-	586	220	806	806
Subordinated liabilities	-	63,307	63,307	-	-	-	-	63,307
Total financial liabilities	-	2,798,193	2,798,193	-	586	220	806	2,798,999
Total equity and non-financial liabilities								222,296
Total equity and liabilities								3,021,295

Of the total £752,000 (*2015: £18,285,000*) assets at fair value through the profit and loss account, £752,000 (*2015: £14,159,000*) represents financial assets and derivatives held for trading purposes.

Of the total £1,833,000 *(2015: £586,000)* liabilities at fair value through the profit and loss account, £1,833,000 (*2015: £586,000)* represents derivatives held for trading purposes. As at 31 December 2016, there were no financial liabilities designated at fair value through the profit and loss account at inception *(2015: nil)*.

All amounts in £'000s unless otherwise stated

7. Fair values of financial assets and liabilities

a) Financial assets and liabilities held at amortised cost

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

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

31 December 2016	Level 1	Level 2	Level 3	Total	Carrying value (note 6)
Cash, notes and coins	-	87	-	87	87
Loans and advances to banks	-	-	760,160	760,160	759,716
Loans and advances to customers	-	-	858,214	858,214	864,311
Financial assets held at amortised cost	**-**	**87**	**1,618,374**	**1,618,461**	**1,624,114**
Deposits from banks	-	-	2,019,906	2,019,906	2,019,036
Other deposits	-	-	622,931	622,931	622,896
Subordinated liabilities	-	-	59,059	59,059	75,413
Financial liabilities held at amortised cost	**-**	**-**	**2,701,896**	**2,701,896**	**2,717,345**

	Level 1	Level 2	Level 3	Total	Carrying value
31 December 2015					(note 6)
Cash, notes and coins	-	323	-	323	323
Loans and advances to banks	-	-	908,370	908,370	910,561
Loans and advances to customers	-	-	679,075	679,075	681,554
Financial assets held at amortised cost	**-**	**323**	**1,587,445**	**1,587,768**	**1,592,438**
Deposits from banks	-	-	2,108,005	2,108,005	2,107,305
Other deposits	-	-	627,583	627,583	627,581
Subordinated liabilities	-	-	44,507	44,507	63,307
Financial liabilities held at amortised cost	**-**	**-**	**2,780,095**	**2,780,095**	**2,798,193**

Loans and advances to banks and customers

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

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

The estimated fair value of term and real estate lending is derived by comparing the actual yields being received on loans advanced by the Bank with observed yields from corporate and financial bond indices considered to be of similar credit quality and duration. At 31 December 2016 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

All amounts in £'000s unless otherwise stated

discount is not indicative of an impairment which should be recognised through the Bank's accounts. Loans and advances which are impaired are stated at their book value without further adjustment.

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

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

	31 December 2016			***31 December 2015***		
	Sterling	**US Dollars**	**Euro**	***Sterling***	***US Dollars***	***Euro***
Interest rates						
3 month	0.55%	1.52%	-0.32%	*0.58%*	*0.68%*	*-0.09%*
6 month	0.68%	1.26%	-0.26%	*0.83%*	*0.94%*	*-0.08%*
1 year	0.83%	1.80%	-0.12%	*1.05%*	*1.28%*	*0.01%*
5 year	0.86%	2.01%	0.07%	*1.60%*	*1.76%*	*0.33%*
Exchange rates	1.0000	1.2311	1.1627	*1.0000*	*1.4829*	*1.3601*

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

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

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

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

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

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

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

All amounts in £'000s unless otherwise stated

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

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

31 December 2016	**Level 1**	**Level 2**	**Level 3**	**Total fair value (Note 6)**
Financial investments	1,279,652	-	8,790	1,288,442
Loans and advances to customers	-	-	-	-
Derivative assets	675	94	-	769
Total assets held at fair value	**1,280,327**	**94**	**8,790**	**1,289,211**
Deposits from banks	-	-	-	-
Derivative liabilities	1,646	314	-	1,960
Total liabilities held at fair value	**1,646**	**314**	**-**	**1,960**

31 December 2015	***Level 1***	***Level 2***	***Level 3***	***Total fair value (Note 6)***
Financial investments	*1,383,853*	*-*	*15,530*	*1,399,383*
Loans and advances to customers	*-*	*4,126*	*-*	*4,126*
Derivative assets	*130*	*51*	*-*	*181*
Total assets held at fair value	***1,383,983***	***4,177***	***15,530***	***1,403,690***
Deposits from banks	*-*	*-*	*-*	*-*
Derivative liabilities	*399*	*407*	*-*	*806*
Total liabilities held at fair value	***399***	***407***	***-***	***806***

There were no significant transfers of assets between levels during 2016, and no significant changes in valuation techniques.

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

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

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

All amounts in £'000s unless otherwise stated

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

8. Net interest income

Interest income is made up as follows:

	2016	*2015*
Interest income		
Professional market placements and debt securities	17,952	*15,063*
Loans, advances and overdrafts	29,910	*21,180*
Other	10	*(9)*
	47,872	***36,234***
Interest income comprises		
Interest arising on financial assets at fair value through the income statement	588	*2,278*
Interest recognised on impaired assets (note 12)	-	-
Gains / (losses) arising from the change in fair value of fair value hedges		
- on hedging instruments	73	*26*
- on hedged items attributable to the hedged risk	(63)	*95*
Other interest	47,274	*33,835*
	47,872	***36,234***

The amount recorded in the income statement in respect of the ineffectiveness of fair value hedges was £nil in the year ended 31 December 2016 *(2015:£nil)*

Interest expense is made up as follows:

	2016	*2015*
Interest expense		
Deposits from banks and other deposits	(23,109)	*(16,416)*
Subordinated loans	(2,288)	*(1,946)*
	(25,397)	***(18,362)***
Interest expense comprises		
Interest arising on financial liabilities at fair value through the income statement	-	*(80)*
Other interest	(25,397)	*(18,282)*
	(25,397)	***(18,362)***

All amounts in £'000s unless otherwise stated

9. Net fee and commission income

Fee and commission income less fee and commission expense is made up as follows:

	2016	*2015*
Fee and commission income		
Safe custody	153	*184*
Trade services:		
Guarantees	821	*1,132*
Other trade services income	8,266	*10,242*
Term lending (other than amounts which form part of the effective interest rate)	664	*215*
Banking payments and services	2,431	*1,885*
	12,335	**13,658**
Fee and commission expense		
Brokerage and other fees	**(357)**	***(443)***

10. Net trading income

Net trading income is made up as follows:

	2016	*2015*
Foreign exchange dealing	4,090	*4,748*
Debt securities	35	*(899)*
Other	2,032	*2,377*
	6,157	***6,226***

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

All amounts in £'000s unless otherwise stated

11. Administrative expenses

	2016	2015
Staff costs:		
Salaries and other emoluments	12,190	*11,640*
Social security costs	1,801	*1,544*
Other pension costs:		
- Defined benefit scheme (note 24)	240	*416*
- Defined contribution scheme (note 24)	1,354	*1,305*
Total fixed employment costs (Permanent Staff)	**15,585**	***14,905***
Variable staff costs: performance awards	1,946	*1,544*
Total staff employment costs	**17,531**	***16,449***
Reorganisation costs	432	*454*
Other employment related costs (see below)	3,073	*2,175*
Total staff costs	**21,036**	***19,078***
Fees payable to the Bank's auditors for the audit of the Bank's annual financial statements	200	*276*
Fees payable to the Bank's auditors for other services :		
- Other services pursuant to legislation	20	*12*
- Taxation advice	-	*27*
- All other services	16	*65*
Depreciation (including amortisation of intangibles)	1,631	*1,414*
Amounts payable in respect of operating leases:		
- Amortisation of prepaid rental on land	63	*63*
- Ground rental	131	*130*
Loss/(gain) on sale or impairment of tangible and intangible assets	(50)	*95*
Regulatory supervision fees	94	*82*
Other administrative expenses		
- Premises & Technology	4,028	*3,808*
- Legal & Professional	1,217	*1,986*
- Other	2,916	*4,491*
General administrative expenses	**31,302**	***31,527***
Review of historic activities	**1,736**	***3,250***
Administrative expenses	**33,038**	***34,777***

The average number of employees in place during the year was 181 (*2015: 167*).

Other employment related costs include contractors. Internal Audit has been reclassified as Professional fees and the prior year comparatives have also been adjusted for this reclassification.

Charges for the review of historic activities (also refer Note 32) comprises legal costs incurred and include a provision for additional costs committed as at 31 December 2016.

Directors' remuneration included above totalled £1,646,000 *(2015:* £1,530,000*)*. The emoluments of the highest paid director were £584,000 *(2015:* £553,000*)* and the amount of his accrued pension as at balance sheet date was £nil *(2014: £nil)*. There were no pension contributions for any directors during the year *(2015: £nil).*

All amounts in £'000s unless otherwise stated

12. Allowance for credit losses

The allowance for credit losses consists of an allowance for loan losses and an allowance for off-balance sheet positions.

The movements in the allowance for credit losses were as follows:

31 December 2016	**Loans**	**Off-balance sheet positions**	**Total**
Balance at 1 January	**26,360**	**1,431**	**27,791**
Exchange translation and other movements	4,472	106	4,578
Allowances recovered/(written off)	2,498	(1,020)	1,478
New allowances	13,909	(80)	13,829
Reversal of allowances no longer required	(4,022)	(187)	(4,209)
Recoveries of amounts written off in previous periods	(2,498)	-	(2,498)
Allowance for credit losses	**7,389**	**(267)**	**7,122**
Balance at 31 December	**40,719**	**250**	**40,969**
Individually assessed	35,169	-	35,169
Collectively assessed	5,550	250	5,800
Total credit losses allowance against loans and off balance positions	**40,719**	**250**	**40,969**

31 December 2015	***Loans***	***Off-balance sheet positions***	***Total***
Balance at 1 January	***22,755***	*1,360*	***24,115***
Exchange translation and other movements	*81*	*-*	*81*
Allowances written off	*(15,209)*	*-*	*(15,209)*
New allowances	*24,053*	*71*	*24,124*
Reversal of allowances no longer required	*(3,031)*	*-*	*(3,031)*
Recoveries of amounts written off in previous periods	*(2,289)*	*-*	*(2,289)*
Allowance for credit losses	***18,733***	***71***	***18,804***
Balance at 31 December	***26,360***	***1,431***	***27,791***
Individually assessed	*20,690*	*1,101*	*21,791*
Collectively assessed	*5,670*	*330*	*6,000*
Total credit losses allowance against loans and off balance positions	***26,360***	***1,431***	***27,791***

The Bank is active in wholesale markets. Accordingly, its portfolio of financial assets comprises a relatively small number of individually significant claims, rather than a large number of individually insignificant claims as would be the case for similar companies acting in retail markets. This means that each claim due to the Bank is subject to individual impairment review at the reporting date taking account of the factors described in Note 3k.

All amounts in £'000s unless otherwise stated

Collective impairments arise in respect of the Bank's exposures with similar risk characteristics for which previous experience indicates that impairment has taken place at the balance sheet date, but whose existence has yet to emerge. Recognising the challenging market conditions, the Bank has assessed its collective impairment at £5,800,000 in 2016 (*2015: £6,000,000*). This covers all of the Bank's exposures (other than those which are individually provided for) with an increased emphasis on sectors which are currently under a greater level of stress.

Further information with regard to impaired and other facilities is shown in the table below. There were a total of 5 impaired facilities at 31 December 2016 (*2015: 5 facilities*), with new impairment allowances recognised for 4 of those facilities during the year (*2015: 4 facilities*). Of the 5 facilities impaired as at 31 December 2016, 3 facilities had no collateral in place (*2015: 5 facilities*).

	2016		***2015***	
	Number of Facilities	**Gross Exposure**	***Number of Facilities***	***Gross Exposure***
Impaired facilities				
Total impaired facilities	5	51,899	*5*	*50,672*
Impaired facilities against which there was no collateral	3	37,457	*5*	*50,672*
Of the above:				
Facilities formally restructured on terms which may be less favourable to the Bank (impairment in respect of these facilities £1,463,854)	1	7,333	*1*	*16,300*
Facilities in the process of being restructured as at the reporting date (impairment in respect of this facilities £27,007,580)	1	27,008	*3*	*33,213*
Unimpaired facilities subject to forbearance, restructuring or close monitoring				
Amounts past due in respect of unimpaired financial assets	-	-	-	-
Facilities formally restructured on terms which may be less favourable to the Bank but which do not give rise to an impairment	1	4,055	-	-
Unimpaired facilities in the process of being restructured as at the reporting date	-	-	-	-
Overdrafts in excess of originally agreed limits subject to temporary forbearance as at the reporting date	-	-	*3*	*1,997*
Watchlist or substandard facilities subject to close management (which may include some of the unimpaired balances above)	4	44,793	*5*	*17,750*
Relaxations of material covenants or temporary relaxations of repayment terms at the reporting date	2	8,990	*3*	*14,877*
Facilities being restructured post reporting date	-	-	-	-

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

All amounts in £'000s unless otherwise stated

under the original contractual terms and the debtor is expected to be able to meet the revised terms. The revised terms may include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants.

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

13. Income tax

	2016	***2015***
Current tax		
Total UK corporation tax (credit)/charge	418	-
Of which: amount recognised in other comprehensive income	-	-
Current tax on items taken through the income statement	418	-
Current tax adjustment in respect of previous periods	-	*(587)*
Deferred tax (note 23)		
Origination and reversal of timing differences	129	*326*
Effect of tax rate change	79	*25*
Deferred tax adjustment in respect of unused losses	(766)	*(330)*
	(558)	*21*
Amounts associated with movements in the pension fund	-	-
Total income tax (credit)/charge	**(140)**	*(566)*

The tax credit on the loss for the year is based on the average UK corporation tax rate of 20% *(2015: 20.25%)*. A reduction in the UK corporation tax rate to 19% (effective from 1 April 2017) and to 17% (from 1 April 2020) was substantively enacted on 6 September 2016. Deferred tax as at 31 December 2016 has been calculated taking into account the impact of these rates.

The tax credit for the year is lower *(2015: lower)* than the charge resulting from applying the standard rate of UK corporation tax. The differences are explained below:

	2016	***2015***
Profit/(Loss) on ordinary activities before tax	**2,579**	*(15,071)*
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK	516	*(3,052)*
Effects of:		
Chargeable gains	763	-
Adjustment in respect of previous periods	-	*(587)*
Effect of change in tax rate	79	*25*
Non taxable income	(820)	*(261)*
Non deductible items	88	*119*
Losses on which no deferred tax has been recognised	-	*3,190*
Prior period losses recognised as a deferred tax asset	(766)	-
Other items	-	-
Total income tax (credit)/charge	**(140)**	*(566)*

All amounts in £'000s unless otherwise stated

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

	2016			2015		
	Before tax	**Tax**	**Net of tax**	***Before tax***	***Tax***	***Net of tax***
Actuarial gain/(loss) on pension fund	(3,250)	494	(2,756)	*141*	*(28)*	*113*
Change in fair value of available for sale financial assets	3,522	(1,120)	2,402	*(3,571)*	*686*	*(2,885)*
Fair value losses/(gains) attributable to available for sale financial assets transferred to income	(5,279)	1,087	(4,192)	*690*	*(133)*	*557*
Effect of change in tax rates	-	50	50	*-*	*25*	*25*
	(5,007)	**511**	**(4,496)**	***(2,740)***	***550***	***(2,190)***

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

			2016		
Nature of activities	**Geographical location**	**Turnover**	**Profit before tax**	**Corporation tax refund**	**Average number of employees**
Banking	United Kingdom	35,617	2,579	(2,256)	181

			2015		
Nature of activities	*Geographical location*	*Turnover*	*Loss before tax*	*Corporation tax paid*	*Average number of employees*
Banking	*United Kingdom*	*19,706*	*15,071*	*796*	*167*

Turnover above has been defined as net operating income. No public subsidies were received during the reporting year. This disclosure has been prepared in accordance with the Capital Requirements (Country-by-Country Reporting) Regulations 2014.

14. Financial investments

	2016	***2015***
Debt issued by governments and multilateral development banks	1,081,179	*966,567*
Other listed debt securities issued by banks	178,667	*393,260*
Other listed debt securities issued by non-banks	19,806	*10,032*
Debt securities held for trading	-	*13,994*
Total debt securities	**1,279,652**	***1,383,853***
Equity shares and investment funds	**8,790**	***15,530***
	1,288,442	***1,399,383***

Debt securities with fixed interest rates (other than those with a single interest period less than 1 year) amounted to £130,688,165 *(2015: £104,556,000).*

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

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

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

	2016	***2015***
Balance at 1 January	15,530	*15,681*
Changes in fair value during the year	1,140	*364*
Realised (gain)/loss	(3,822)	-
Disposals	(4,058)	*(515)*
Balance at 31 December	**8,790**	***15,530***
Comprising:		
Equity shares	1,807	*3,299*
Investment funds	6,983	*12,231*
	8,790	***15,530***

15. Loans and advances to banks

	2016	***2015***
Funds held at correspondent banks	31,080	*55,424*
Professional market placements	322,254	*603,830*
Term lending	228,421	*212,501*
Bills discounted	168,639	*38,048*
Overdrafts and other advances	10,461	*1,925*
Less: Provisions for impairments (note 12)	(1,139)	*(1,167)*
	759,716	***910,561***

Loans and advances to banks with fixed interest rates (other than those with a single interest period less than 1 year) amounted to £nil (*2015: £nil).*

Professional market placements includes £214,972,000 *(2015: £80,877,000)* lent to other institutions against the security of OECD government debt securities by way of sale and repurchase transactions executed in accordance with market standard terms (reverse repo transactions).

All amounts in £'000s unless otherwise stated

16. Loans and advances to customers

	2016	*2015*
Professional market placements to non banks	78,394	*137,545*
Term and Real Estate lending	651,679	*488,445*
Overdrafts and other advances	173,818	*84,883*
Less: Provisions for impairments (note 12)	(39,580)	*(25,193)*
	864,311	***685,680***

Loans and advances to customers with fixed interest rates (other than those with a single interest period less than 1 year) amounted to £5,503,072 (*2015: £8,543,000).*

Professional market placements comprises £78,394,000 *(2015: £137,545,000)* lent to other institutions against the security of OECD government debt securities by way of sale and repurchase transactions executed in accordance with market standard terms (reverse repo transactions).

17. Operating lease commitments

The leasehold land at the Bank's main office is categorised as an operating lease, as is a sub-lease of part of the premises (see Note 18). The Bank has obligations to make payments for ground rent in its capacity as lessee, and is entitled to rental and service charge receipts in its capacity as sub-lessor.

The amounts shown below are the minimum non-cancellable amounts payable and receivable. They take account of a long-term basic rent obligation up to August 2147, as well as short-term additional obligations, in the Bank's position as lessee. They also take account of receivables in respect of a sub-lease entered into by the Bank as lessor during 2014 for five years. The lease premium (prepaid over the lease term), are disclosed in Note 20.

31 December 2016	Less than one year	Between one and five years	More than five years	Total
Operating lease payments due	148	541	9,973	10,662
Operating lease receipts due	(173)	(271)	-	(444)
Net payment / (receipt) commitment	**(25)**	**270**	**9,973**	**10,218**

31 December 2015	*Less than one year*	*Between one and five years*	*More than five years*	*Total*
Operating lease payments due	*148*	*553*	*10,053*	*10,754*
Operating lease receipts due	*(238)*	*(39)*	*-*	*(277)*
Net payment / (receipt) commitment	***(90)***	***514***	***10,053***	***10,477***

All amounts in £'000s unless otherwise stated

18. Property, plant and equipment and intangible assets

	Property, plant and equipment			Intangible assets	
	Long leasehold premises and improvements	Other assets	Total	Computer software	Total
Cost					
Balance at 1 January 2016	15,351	2,376	17,727	7,022	24,749
Additions during the year	82	411	493	3,014	3,507
Disposals during the year	-	(105)	(105)	(1,643)	(1,748)
At 31 December 2016	15,433	2,682	18,115	8,393	26,508
Less: accumulated depreciation	-	-	-	-	-
Balance at 1 January 2016	7,334	1,715	9,049	5,125	14,174
Charge for the year	346	329	675	956	1,631
Disposals during the year	-	(97)	(97)	(1,593)	(1,690)
Impairment loss	-	-	-	(103)	(103)
At 31 December 2016	7,680	1,947	9,627	4,385	14,012
	-	-	-	-	-
Net book value at 31 December 2016	**7,753**	**735**	**8,488**	**4,008**	**12,496**
Cost					
Balance at 1 January 2015	*15,194*	*2,671*	*17,865*	*6,656*	*24,521*
Additions during the year	*157*	*294*	*451*	*510*	*961*
Disposals during the year		*(589)*	*(589)*	*(144)*	*(733)*
At 31 December 2015	*15,351*	*2,376*	*17,727*	*7,022*	*24,749*
Less: accumulated depreciation					
Balance at 1 January 2015	*6,990*	*1,882*	*8,872*	*4,346*	*13,218*
Charge for the year	*344*	*255*	*599*	*815*	*1,414*
Disposals during the year		*(422)*	*(422)*	*(36)*	*(458)*
Impairment loss			-		-
At 31 December 2015	*7,334*	*1,715*	*9,049*	*5,125*	*14,174*
Net book value at 31 December 2015	***8,017***	***661***	***8,678***	***1,897***	***10,575***

The long leasehold premises are at 8-10 Mansion House Place, London EC4N 8BJ. No future lease payments are due in respect of these premises (although they are in respect of land, see Note 17).

The net book value of £7,753,000 *(2015: £8,017,000)*, including improvements, excludes the lease of land, which is accounted for as an operating lease, and which has a balance sheet value represented by a prepayment (see Note 20) of £8,195,000 *(2015: £8,258,000)*, making a total asset value of £15,948,000 *(2015: £16,275,000)*. On 10 May 2012, the Bank received a valuation report in connection with this asset prepared by qualified chartered surveyors familiar with the market for such assets estimating that the market value of the Bank's interest at that time amounted to £17,850,000. This valuation will typically be repeated on a 5-yearly cycle.

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

Additions during the year of £3,507,000 include costs related to the ongoing Enterprise Architect project. Of these costs £2,976,000 relates to intangible assets and £209,000 relates to tangible assets which are not yet in use, and therefore have not been depreciated.

The original cost of fully depreciated tangible and intangible assets still in use by the Bank at year-end was £6,722,000 (*2015: £7,419,000*).

There were commitments for capital expenditure on 31 December 2016 of £762,000 (*2015: £76,000*), of which £735,000 related to the Enterprise Architect project.

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19. Derivatives

Derivative positions at 31 December were as follows:

	31 December 2016		
	Contract amount	Positive fair values (Assets)	Negative fair values (Liabilities)
Spot and forward foreign exchange contracts held for trading purposes	216,861	672	1,646
Interest rate swaps held for trading	5,361	-	111
Interest rate swaps qualifying as fair value hedges	18,276	17	126
Interest futures held for trading purposes	50,000	3	-
Foreign exchange options			
Purchased	43,944	77	-
Sold	43,944	-	77
		769	**1,960**

	31 December 2015		
	Contract amount	*Positive fair values (Assets)*	*Negative fair values (Liabilities)*
Spot and forward foreign exchange contracts held for trading purposes	*42,096*	*130*	*276*
Interest rate swaps held for trading	*4,451*	*-*	*155*
Interest rate swaps qualifying as fair value hedges	*21,619*	*16*	*220*
Interest futures held for trading purposes	*78,902*	*-*	*155*
Foreign exchange options			
Purchased	*3,416*	*35*	*-*
Sold	*-*	*-*	*-*
		181	***806***

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

Foreign exchange risk

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

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

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

Interest rate risk

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

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

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

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.

20. Prepayments, accrued income and other debtors

	2016	*2015*
Prepaid rental for land	8,195	*8,258*
Prepayments and accrued income	118	*-*
Other debtors	2,703	*2,304*
	11,016	***10,562***

The prepaid rental for land arises from its treatment as an operating lease and represents the lease premium in respect of land being expensed over the lease term. The Bank is also obliged to pay ground rent in respect of its leasehold land interest over the remaining life of the lease. Both of these expenses for the year are disclosed in Note 11. Future commitments in respect of ground rent are disclosed in Note 17.

21. Deposits

Deposits from banks totalled £2,019,036,000 (*2015 £2,107,305,000*) of which deposits with fixed interest rates (other than those with a single interest period less than 1 year) amounted to £nil *(2015: £nil).*

Other deposits totalled £622,896,000 (*2015: £627,581,000*) of which with fixed interest rates (other than those with a single interest period less than 1 year) amounted to £5,159,000 *(2015: £16,906,000).*

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

22. Other liabilities, accruals and deferred income

	2016	*2015*
Other liabilities	6,420	*8,527*
Accruals and deferred income	1,539	*1,768*
	7,959	***10,295***

All amounts in £'000s unless otherwise stated

23. Deferred taxation

	Balance at 1 January 2016	Recognised in Profit or Loss	Recognised in Other Comprehensive Income	Balance at 31 December 2016	Deferred tax assets	Deferred tax liabilities
Property, plant and equipment and intangible assets	(331)	117	-	(214)	-	(214)
Staff benefits	165	(57)	-	108	108	-
Unused tax losses loss carried forward	907	748	(703)	952	952	-
Tax assets on pension liabilities (note 24)	366	(250)	494	610	610	-
Equity Investments	(1,107)	-	720	(387)	-	(387)
Deferred tax assets (liabilities)	**-**	**558**	**511**	**1,069**	**1,670**	**(601)**

	Balance at 1 January 2015	*Recognised in Profit or Loss*	*Recognised in Other Comprehensive Income*	*Balance at 31 December 2015*	*Deferred tax assets*	*Deferred tax liabilities*
Property, plant and equipment and intangible assets	*(291)*	*(40)*	*-*	*(331)*	*-*	*(331)*
Staff benefits	*178*	*(13)*	*-*	*165*	*165*	*-*
Unused tax losses loss carried forward		*330*	*577*	*907*	*907*	*-*
Tax assets on pension liabilities (note 24)	*654*	*(260)*	*(28)*	*366*	*366*	*-*
Capital loss in investments	*14*	*(14)*	*-*	*-*	*-*	*-*
Equity Investments	(1,084)	-	(23)	(1,107)	-	(1,107)
Deferred tax assets (liabilities)	**(529)**	**3**	**526**	**-**	**1,438**	**(1,438)**

Deferred tax asset and liability balances are off-settable.

The Bank has recognised a deferred tax asset of £952,000 in respect of tax losses brought forward. The Bank has unused tax losses of £6,312,000 (2015: £12,872,000) for which no deferred tax asset is recognised in the statement of financial position. These losses do not have a fixed expiry date.

24. Pension funds

Defined benefit scheme

The Bank sponsors the Scheme which is a funded defined benefit arrangement, closed to future accrual during 2014. This is a separate trustee administered fund holding the pension scheme assets to meet long-term pension liabilities for 285 deferred or pensioner members as at 31 December 2016 *(2015: 289 deferred or pensioner members)*. The level of retirement benefit is principally based on basic salary prior to leaving active service and is linked to changes in inflation up to retirement.

The Scheme is subject to the funding legislation outlined in the Pensions Act 2004 which came into force on 30 December 2005. This, together with documents issued by the Pensions Regulator and Guidance Notes adopted 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 2013 in accordance with the Scheme funding requirements of the Pensions Act 2004 and the funding of the Scheme is agreed between the Bank and the trustees in line with those requirements. These in particular require the surplus or deficit to be calculated using prudent, as opposed to best estimate actuarial assumptions.

This actuarial valuation showed a deficit of £6,328,000. The Bank has agreed with the trustees that it will aim to eliminate the deficit over a period of 5 years from 1 August 2014 by the payment of annual contributions of

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£1,472,000, payable in monthly instalments, in respect of the deficit. In addition and in accordance with the actuarial valuation, the Bank has agreed with the trustees that it will pay monthly contributions of £20,000 in respect of the expenses of the Scheme and will also meet the levies to the Pension Protection Fund. 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 2013, which was carried out by a qualified independent actuary, has been updated on an approximate basis to 31 December 2016. 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

	2016	***2015***
Fair value of Scheme assets	81,708	*69,258*
Present value of defined benefit obligation	(85,315)	*(71,089)*
Deficit in the Scheme - net liability	**(3,607)**	***(1,831)***

The present value of Scheme liabilities is measured by discounting the best estimate of future cash flows to be paid out by the Scheme using the projected unit credit method. The value calculated in this way is reflected in the net liability in the balance sheet as shown above. Consistent with the Bank's strategy to reduce future risk, the Scheme has purchased insurance policies to match the liabilities in relation to the pensioner members. A further buy-in was completed in 2015 and the liabilities related to all pensioner members as at that time were fully insured.

The projected unit credit method is an accrued benefits valuation method in which allowance is made for projected earnings increases. The accumulated benefit obligation is an alternative actuarial measure of the Scheme liabilities, whose calculation differs from that under the projected unit credit method in that it includes no assumption for future earnings increases. In assessing this figure for the purpose of these disclosures, allowance has been made for future statutory revaluation of benefits up to retirement. At the balance sheet date the accumulated benefit obligation was £85,315,000 (i.e. the same as the defined benefit obligation).

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

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

	2016	***2015***
Defined benefit obligation at start of period	71,089	*72,926*
Current service cost	-	-
Expenses	198	*323*
Interest expense	2,733	*2,583*
Contributions by scheme participants	-	-
Actuarial losses due to scheme experience	(1,286)	-
Actuarial losses due to changes in demographic assumptions	(2,697)	*(703)*
Actuarial gains/(losses) due to changes in financial assumptions	17,496	*(1,358)*
Benefits paid and expenses	(2,218)	*(2,682)*
Past service costs	-	-
Gains on curtailments	-	-
Defined benefit obligation at end of period	**85,315**	***71,089***

All amounts in £'000s unless otherwise stated

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

	2016	*2015*
Fair value of scheme assets at start of period	69,258	*69,658*
Interest income	2,693	*2,490*
Return on scheme assets (excluding amounts included in interest income)	10,263	*(1,920)*
Contributions by the Bank	1,712	*1,712*
Contributions by scheme participants	-	-
Benefits paid and expenses	(2,218)	*(2,682)*
Fair value of scheme assets at end of period	**81,708**	***69,258***

The actual return on the Scheme's assets over the year ending 31 December 2016 was £12,954,000.

Defined benefit costs recognised in Profit and Loss

	2016	*2015*
Service cost:		
Current service cost	-	-
Past service cost and (gain)/ loss from settlements	-	-
Expenses	198	*323*
Net interest cost	42	*93*
Defined benefit costs recognised in profit and loss	**240**	***416***

Defined benefit costs recognised in other Comprehensive Income

	2016	*2015*
Return on scheme assets (excluding amounts included in interest income) - gain/(loss)	10,263	*(1,920)*
Experience losses arising on the defined benefit obligation	1,286	-
Effects of changes in the demographic assumptions underlying the present value of the defined benefit obligation - gains	2,697	*703*
Effects of changes in the financial assumptions underlying the present value of the defined benefit obligation - gains	(17,496)	*1,358*
Total amount recognised in other comprehensive income - (loss)/gain	**(3,250)**	***141***

Assets

	2016	*2015*
Corporate Bonds	-	-
Liability Driven Investment (LDI)	15,454	*9,550*
Diversified Growth Funds	22,198	*20,833*
Cash	386	*133*
Purchased Annuities	43,670	*38,742*
Adjustment due to a pensioner buy-in	-	-
Total assets	**81,708**	***69,258***

All amounts in £'000s unless otherwise stated

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 trustee's bank account balance.

It is the policy of the trustees and the Bank to review the investment strategy at the time of each funding valuation. The trustees' investment objectives and the processes undertaken to measure and manage the risks inherent in the Scheme investment strategy are documented in the Scheme's Statement of Investment Principles as at 31 December 2016.

Significant Actuarial Assumptions

	2016 % per annum	***2015 % per annum***
Rate of discount	2.70	*3.90*
Inflation (RPI)	3.40	*3.35*
Allowance for revaluation of deferred pensions of RPI or 7.5% p.a. if less	3.40	*3.35*
Allowance for pension in payment increases of RPI or 7.5% p.a. if less	3.40	*3.35*
Allowance for commutation of pension for cash at retirement	75% of Post A-Day	*No allowance*

The mortality assumptions adopted at 31 December 2016 are 100% of the standard table known as S2PxA_L, Year of Birth, no age rating for males and females, projected using CMI_2015 (CMI Mortality Projection Model) converging to 1.25% p.a. These imply the following life expectancies:

	Life expectancy at age 60 (years)
Male retiring in 2016	28.2
Female retiring in 2016	29.3
Male retiring in 2026	29.0
Female retiring in 2026	30.3

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

	Change in assumption	***Change in liabilities***
Discount rate	Decrease of 0.25% p.a.	*Increase by 4.5%*
Rate of inflation	Increase of 0.25% p.a.	*Increase by 4.3%*
Rate of mortality	Increase in life expectancy of 1 year	*Increase by 3.5%*
Rate of mortality	Mortality improvement - long term rate 1%	*Decrease by 1.6%*
Cash commutation	50% of post A-day maximum using current factors	*Increase by 1.1%*

The sensitivities shown above are approximate. Each sensitivity calculation considers one change in isolation. The inflation sensitivity includes the impact of changes to the assumptions for revaluation and pension

All amounts in £'000s unless otherwise stated

increases. The average duration of the defined benefit obligation at the year ending 31 December 2016 is 18 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 2017 is £1,712,000.

Defined contribution scheme

At 31 December 2016, 150 employees *(2015: 149 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 2016, the Bank paid £1,233,000 *(2015: £1,227,000)* by way of contributions into that scheme. There were no outstanding or pre-paid contributions to this scheme at 31 December 2016 *(2015: £nil)*.

25. 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 full in the Bank's capital base as Lower Tier 2 capital and bear interest based on inter-bank offered rates for dollar and euro deposits.

	2016	*2015*
Due 29th April 2023	20,223	*16,775*
Due 29th October 2025	25,748	*21,358*
Due 17th June 2025	29,442	*25,174*
	75,413	***63,307***

26. Called up share capital

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

All amounts in £'000s unless otherwise stated

Issued share capital comprises:

	Number of shares ('000)		Paid up amount	
	2016	*2015*	**2016**	*2015*
Ordinary Shares of £1 each fully paid	30,403	*30,403*	30,403	*30,403*
Ordinary Shares of US$1 each fully paid	115,224	*115,224*	73,746	*73,746*
Deferred Non-Voting Shares of £1 each nil paid	5,000	*5,000*	-	-
	150,627	***150,627***	**104,149**	***104,149***

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

	2016	*2015*
Called up share capital (note 26)	104,149	*104,149*
Capital redemption reserve	4,104	*4,104*
Other reserves		
Retained earnings	98,976	*99,013*
AFS Reserve	1,164	*2,904*
	100,140	101,917
	208,393	**210,170**

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

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

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

The Directors have not declared a dividend in respect of the year ended 31 December 2016 *(2015: £nil).*

28. Capital maintenance

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

29. Contingent liabilities

The Bank extends commercial facilities to customers which provide for the issuance of performance guarantees, bid and bail bonds, and other types of guarantees. Such transactions amounted to £57,123,000 at 31 December 2016 *(2015: £65,736,000).*

The Bank's practice is to extend such facilities against a counter-indemnity. Accordingly, the Bank's risk in such transactions is a failure of both the party providing the counter-indemnity, and a failure under the underlying contract resulting in the guarantee being called. Losses totalling £1,020,000 arose from such contracts in the year ended 31 December 2016 *(2015: £nil).*

All amounts in £'000s unless otherwise stated

30. Other commitments

	2016	*2015*
Other commitments comprise:		
Credit lines and other commitments to lend: original maturity		
under one year	72,192	*103,290*
over one year	-	*2,685*
Documentary credits and short-term trade-related transactions	234,986	*193,280*
Own acceptances	1,737	*1,952*
	308,915	***301,207***

31. Foreign currency assets / liabilities

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

31 December 2016	**Sterling**	**Dollars**	**Euro**	**Other currencies**	**Total**
Total assets	837,914	1,630,433	468,167	2,750	2,939,264
Total equity and liabilities	(860,453)	(1,734,659)	(328,388)	(15,764)	(2,939,264)
Derivatives (at contract notional value)	22,177	103,972	(139,698)	13,549	-
Net exposures	**(362)**	**(254)**	**81**	**535**	-
Contingent liabilities and other commitments	13,049	308,694	116,588	16,930	455,261

31 December 2015	***Sterling***	***Dollars***	***Euro***	***Other currencies***	***Total***
Total assets	*618,468*	*1,579,452*	*801,326*	*22,049*	*3,021,295*
Total equity and liabilities	*(625,446)*	*(1,588,414)*	*(783,563)*	*(23,872)*	*(3,021,295)*
Derivatives (at contract notional value)	*7,088*	*8,798*	*(17,769)*	*1,883*	-
Net exposures	***110***	***(164)***	***(6)***	***60***	-
Contingent liabilities and other commitments	*56,683*	*188,017*	*107,712*	*14,531*	*366,943*

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

32. Legal proceedings

In late 2014, the Bank initiated a review of certain historical activities and no civil or criminal enforcement proceedings are pending or threatened.

33. Business line review

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

- Trade Finance. The provision of payment and other guarantee type facilities in support of the international trade ambitions of its customers represents the Bank's principal franchise.
- Banking Services. The Bank acts as a banking correspondent for its customers providing tailored account and international payment services.

All amounts in £'000s unless otherwise stated

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

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 utilised by the board of directors, and by executive management. Business line profit 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.

31 December 2016	Trade Finance	Banking Services	Commodity Finance	Term Lending	Real Estate Lending	Treasury	Other	Total
Net interest income	2,735	841	3,406	9,563	3,412	7,703	(5,185)	22,475
Net fee and commission income	7,687	1,577	2,239	310	320	(143)	(13)	11,977
Net trading income	-	-	-	-	-	6,157	-	6,157
Other operating income	-	-	-	-	-	11	2,119	2,130
Total Operating income	**10,422**	**2,418**	**5,645**	**9,873**	**3,732**	**13,728**	**(3,079)**	**42,739**

31 December 2015	Trade Finance	Banking Services	Commodity Finance	Term Lending	Real Estate Lending	Treasury	Other	Total
Net interest income	361	584	1,638	11,268	1,648	6,213	(3,840)	17,872
Net fee and commission income	10,734	1,652	870	(34)	124	(122)	(9)	13,215
Net trading income						6,226		6,226
Other operating income						39	1,158	1,197
Total Operating income	**11,095**	**2,236**	**2,508**	**11,234**	**1,772**	**12,356**	**(2,691)**	**38,510**

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

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

	2016	*2015*
United Kingdom	12,447	*8,211*
Europe excluding UK	6,386	*2,262*
Libya	7,736	*10,936*
Other Middle East and Africa	11,254	*15,670*
Other	4,916	*1,431*
	42,739	***38,510***

All amounts in £'000s unless otherwise stated

34. Related parties

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

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

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

	Significant influence	Key management personnel
Balances at 31 December 2016		
Loans and advances	25,415	-
Deposits	1,742,532	-
Subordinated liabilities	75,413	-
Contingent liabilities and other commitments	88,250	-
Volumes executed during 2016		
Loans and advances	143,984	-
Deposits	118,249,439	-
Derivatives (contract amount)	13,893,273	-
Contingent liabilities and other commitments	168,111	-
Included in income statement		
Interest receivable	386	-
Interest payable	21,407	-
Fees and commissions receivable	4,093	-
Fees and commissions payable	14	-

	Significant influence	*Key management personnel*
Balances at 31 December 2015		
Loans and advances	*12,825*	*34*
Deposits	*1,886,562*	-
Subordinated liabilities	*63,065*	-
Contingent liabilities and other commitments	*58,397*	-
Volumes executed during 2015		
Loans and advances	*220,596*	*34*
Deposits	*130,782,108*	-
Derivatives (contract amount)	*11,679,561*	-
Contingent liabilities and other commitments	*124,855*	-
Included in income statement		-
Interest receivable	*300*	-
Interest payable	*17,736*	-
Fees and commissions receivable	*4,901*	-

At 31 December 2016 no amount was outstanding in respect of interest free loans or interest bearing loans due from Executive Managers of the Bank. No amount was outstanding from any Director.
(At 31 December 2015 £24,000 was outstanding in respect of interest free loans due from fourteen Executive Managers of the Bank and £10,000 was outstanding by way of interest bearing loans due from Executive Managers of the Bank. No amount was outstanding from any Director).

All amounts in £'000s unless otherwise stated

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 £342,000 *(2015: £302,000)*.
ii. Key management personnel compensation:

	2016	*2015*
Directors' attendance and standing fees	564	668
Executive Managers		
Salaries and other short term benefits	3,442	2,525
Post-employment benefits	146	154

35. Collateral

By a Security Deed dated 13 September 2016, Deutsche Bank AG London Branch granted the Bank a release over its collateral pledge account, in which it had held securities with a minimum value of €30,000,000.

The carrying value as at 31 December 2016 was therefore £nil (*2015: £29,198,000*).

36. Events after the reporting period

There are no matters that have taken place since the Year End that require disclosure.

All amounts in £'000s unless otherwise stated

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