BACB ANNUAL REPORT AND FINANCIAL STATEMENTS

year ended 31 December 2015

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British Arab Commercial Bank plc
registered number 1047302

'International bankers striving to make a difference in developing markets'

CONTENTS

CHAIRMAN'S STATEMENT

While 2015 has been a year of considerable change for BACB, the results for 2015 represent a solid performance in turbulent market conditions which have necessitated a prudent increase in the level of impairment provisions.

Expansion initially into West Africa and other new markets will provide the Bank with a platform for future growth, with plans at an advanced stage to establish representative offices in the Côte d'Ivoire and Dubai.

Market environment

The global financial system was challenged on several fronts in 2015. Most notably, higher political risks surfaced surrounding negotiations about a new Greek financial assistance programme while, later in the year, global and euro area stock markets suffered a spillover from a correction in Chinese stock prices. China experienced a slowdown in economic growth and revised its GDP forecasts downward. Oil, gas and base metals experienced declines.

Financial stability concerns increased across a number of emerging market economies. In contrast to the Asian crisis in the late 1990s, most emerging market economies now have smaller macro-financial imbalances, stronger macro-economic policy frameworks, more flexible exchange rate regimes and larger buffers (particularly substantial foreign exchange reserves). However, macro-economic fragilities are still present and there are signals about increased risks for the financial system in the future. Highly indebted foreign-currency borrowers may be vulnerable to financial conditions in the United States and other advanced economies.

Global financial markets experienced intermittent bouts of volatility. Related sell-offs were linked to emerging market concerns, which impacted several market segments including equities, currencies and commodities. Equity markets, in particular, have witnessed high volatility and losses as investors have reassessed their risk appetites and sought safer investments.

Adding to this widespread market instability, BACB's core markets presented their own challenges, not least in the context of the continuing difficult political and business environment in the Bank's target markets. This is particularly true of our majority shareholder's home market of Libya, where unrest continues to create political uncertainty and certain economic sanctions remain in place. 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 its willingness to be transparent in sharing economic and other information which added much needed clarity to Board level debates. The underlying message that has come across quite clearly in this difficult year is that further efforts are needed both in Libya and internationally to secure the best interests of the Libyan people.

2015 Performance

2015 was always intended to be a year when we focused on **Strengthening the Bank**. Following one-off investments in a number of areas, substantial enhancements were delivered in the areas of governance, control, risk management and regulatory compliance.

The Bank's overall performance has been adversely impacted by a combination of volatile market conditions which have challenged revenue growth, one-off investment and, like many banks exposed to the energy sector, elevated levels of credit provisions, in part triggered by the collapse of the oil price.

Future Prospects

The current market conditions are challenging and much uncertainty exists about future trading conditions. However, we plan to deliver sustainable growth in targeted geographies and market sectors.

BACB has a long, well established trade finance franchise and we continue to believe there are significant opportunities to build this business. In support of our core trade finance business, we are expanding our geographic footprint by opening new representative (marketing) offices in West Africa (Côte d'Ivoire) and the Middle East (Dubai). These offices will support both our Francophone West Africa initiative and will enhance our access to the significant trade flows between Africa, the Middle East and Asia.

We continue to develop our product portfolio and build on the significant growth already achieved in both our real estate and commodity finance businesses.

We will continue to enhance the efficiency of the Bank's internal operations and ensure an appropriate balance between enhancing the Bank's revenue generating capabilities and the equally important management of our cost base. A key measure of success will be a reversal of the recent upward trend in the cost to income ratio, following a year of significant one-off costs.

In summary, the focus for 2016 is on driving the business forward and building strong and sustainable revenue growth, complemented by efficient and controlled internal operations.

Shareholder support for BACB

During the year, the Bank has continued to enjoy the full support of its shareholders.

The Bank's capital and liquidity positions remain strong. Our capital was further strengthened in June 2015 when the Bank received £24.7mn of additional capital from the Libyan Foreign Bank. We also benefit from a continuing statement of support from the Libyan Foreign Bank confirming continued provision of financial and liquidity support through at least mid-2017.

Commitment to the BACB franchise is further evidenced by the decision to invest in an upgrade of the Bank's underlying IT systems architecture. This initiative will contribute to the delivery of an increasingly efficient operating environment which, along with the initiatives in progress to deliver future revenue growth, positions the Bank to deliver strong and sustainable profit growth.

I would like to thank my fellow directors and all the staff for their valuable contribution in 2015.

R D Dowie
Chairman
18 March 2016

STRATEGIC REPORT: BUSINESS STRATEGY AND MARKET ENVIRONMENT

2015 was a year of significant change for BACB, one in which we refocused the business and built a platform for future sustainable growth.

It was also a year in which the continued uncertainty in Libya gave rise to a challenging business environment for a number of the Bank's clients, as well as general operational difficulties in a financial market that is continuing to 'de-risk'.

The 2015 result was adversely impacted by the challenging market conditions generally and impairment provisions specifically, the latter being in large part due to the current uncertainty in the energy sector.

Strengthening the Bank

BACB is a bank with over 40 years' experience specialising in providing finance to clients in developing markets who want to trade and invest internationally. Our clients are often of a size or in a location easily ignored by bigger banks. In 2015, and as part of a broader diversification strategy to offset the impact of the geopolitical risk attributable to some of our traditional North African markets, we deliberately focused our diverse and talented range of international staff on developing new client relationships in Francophone West Africa, one of the fastest growing economic regions on the African continent. BACB's expertise in cross-border trade and commodity finance, allied to a commitment to provide client-centric solutions, enabled the Bank to quickly establish itself in the region. In early 2016 we will be opening a new regional representative (marketing) office in Abidjan, Côte d'Ivoire.

The Bank continues to operate more widely across sub-Saharan Africa, including the key economies of East Africa. Increasingly, the trade and capital flows out of Africa (typically raw commodities and foodstuff) and into Africa (typically value-added commercial goods) are routed through trading hubs in the Middle East.

In 2016, we will also open a regional representative (marketing) office in Dubai in order to intercept these trade and capital flows.

By expanding our geographic footprint and delivering added-value solutions to clients we aim to become an international bank of choice for trade finance and treasury services in our target markets.

International trade volumes are, of course, susceptible to changes in global economic conditions and, therefore, in the context of building a portfolio of complementary revenue streams it is important there is a degree of insulation from market volatility. In this regard, we have also grown our client-driven commodity finance and UK real estate businesses to provide pools of sustainable, predictable and secured revenues. For the same reason, we have discontinued the Bank's participation in other institutions' syndicated transactions unless it provides clear and direct access to the underlying client and the purpose of the financing is congruent with our strategic objectives.

The Bank's Treasury operation, the primary responsibility of which is the safe and effective management of its capital and liquidity, has had another good year in what have been difficult trading conditions for emerging markets. BACB does not take material proprietary risk positions. Our experience and knowledge of the financial markets enable us to provide bespoke funding and hedging solutions to our clients, often linked with cross-border trading activity.

Libya

BACB's principal direct shareholder is Libyan Foreign Bank and, therefore, indirectly the Central Bank of Libya from both of which it enjoys considerable support. BACB is of strategic importance to Libya insofar as it provides direct access to the London and international capital markets to facilitate the safe placement of the country's oil dollars with the reassurance of dealing with a UK regulated bank.

BACB is one of the few London based banks which has 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.

Financial Resources

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

At 31 December 2015 the Bank's capital adequacy ratio was 20%. The Bank's liquidity coverage ratio has been consistently around 200%, 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. Access to long-term funding remains challenging, particularly given the situation in Libya.

The support from our shareholders is evidenced by the recent capital injection, extension of term loan facilities and the continuing provision of medium and short-term deposits.

Corporate Governance

BACB continues to uphold the highest levels of corporate governance and embedded a revised framework in 2015 that is aligned with the latest guidelines (published by the Basel Commission on Banking Supervision) on corporate governance in banks, specifically the need for the Board to take more direct ownership of and responsibility for the effectiveness of the system of internal control. We have implemented and embedded a new committee structure in the Bank, introduced new governance standards and supporting policies, changed a number of delegated authorities and enhanced the level and quality of management and Board reporting.

We will continue to ensure that our activities are conducted in accordance with all relevant regulations and laws and that the Bank remains an operating environment that is safe, secure and appropriate for our clients.

Building the Bank for the Future

2016 will present a number of business and operational challenges for banks, particularly for those operating in developing and emerging markets. Foreign direct investment in these markets is now at its lowest level since 2007 and the indigenous capital markets have become less liquid and more volatile. The slowdown in the Chinese economy has negatively impacted global trade volumes. Commodity and oil prices were at 10-year lows at the end of December 2015. Developing and emerging market debt, which is mostly in US dollars, may therefore become more burdensome.

It is in these conditions that BACB's knowledge of its target markets, its risk management capabilities, 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 many years dealing in difficult markets and economic conditions, will enable it to offer its clients valuable access to important markets and position itself for future sustained growth.

Furthermore, if the geopolitical situation in Libya stabilises and improves, the Bank is very well placed to take advantage of deep-rooted relationships that have been forged in difficult times in a market that has significant growth potential.

P.A. Hartwell
Chief Executive Officer

STRATEGIC REPORT: FINANCIAL PERFORMANCE AND BUSINESS OVERVIEW

The 2015 result was adversely impacted by the challenging market conditions generally and allowances for credit losses specifically, the latter being in large part due to the current uncertainty in the energy sector.

The Bank invested in non-recurring "Strengthen the Bank" initiatives which impacted the cost base.

OVERVIEW

BACB is a London-based international commercial bank. It is an established provider of trade services principally to Africa and the Middle East through its trading partners in these regions. The Bank's strategy is to build long-term added value relationships within its chosen markets.

BACB transacts its international banking business in the areas of trade finance, treasury markets, commercial and correspondent banking and structured medium-term lending. Complementary commodity finance and UK real estate lending business lines were established during 2014 and performed strongly in 2015.

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

Results

The 2015 result is a Loss after Tax of £14.5mn *(2014: Profit after tax £4.7mn)*. The result is largely driven by a £18.8mn charge in the year related to allowances for credit losses.

Administrative Expenses include £3.2mn of largely one-off costs which should not recur in future years.

BUSINESS OVERVIEW

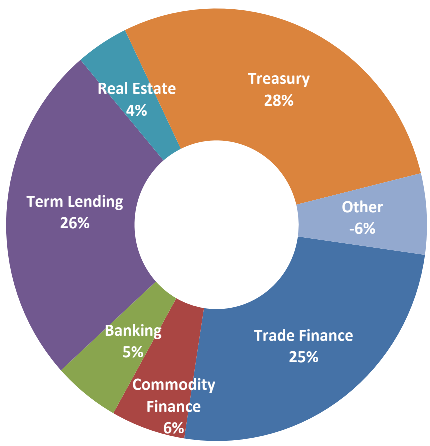
Operating income for the year was £38.5mn, a reduction of £9.6mn compared to 2014. This year on year reduction reduces to £3.1mn when revenues from markets from which the Bank has withdrawn are excluded. This financial performance reflects the difficult market conditions as the Bank continues to rebuild sustainable revenue streams.

Our aim is to be the bank of choice for financial institutions and corporations who wish to trade with and invest in our target markets.

Core to BACB's franchise is its Trade Finance business, which contributed 25% of operating income. The Bank's other business lines which comprise structured term lending, commodity finance, treasury and banking services are all complementary to its core franchise. The development of the commodity and real estate finance businesses form part of the Bank's strategy to diversify its income stream.

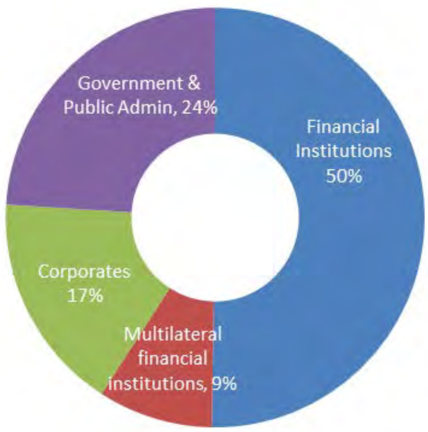
The Bank maintains a modest risk appetite by mainly lending short-term and secured through the underlying asset.

Operating Income by Business Area



The Bank's revenue stream continues to be largely derived from financial counterparties including multi-lateral 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 finance instruments in developing markets. The Bank's multi-lingual staff ensures that client needs are met prudently and in accordance with local and international requirements. The Bank is also able to leverage a wide network of sister banks, correspondents and existing representative offices in Algiers and Tripoli, soon to be augmented by new representative offices in Côte d'Ivoire and Dubai.

Trade Finance volumes were lower in 2015 compared to 2014. This reduction is due to a combination of lower global trade volumes, a strategic decision to withdraw from some markets and geopolitical unrest in some of the Bank's traditional North African markets.

Global trade volumes are expected to remain subdued and conditions are anticipated to remain challenging in the coming year.

Lending

The Bank's lending activity comprises:

- Term Lending: mainly structured loan facilities to institutions and corporates and vanilla loans principally where these are complementary to our core trade finance business;
- Commodity Finance: short-term structured facilities to commodity traders;
- Real Estate: term lending facilities secured against assets (both residential and commercial properties).

Overall term lending balances grew 16% during 2015 to £695m by December 2015, largely due to continued growth in the real estate business and sourcing new transactions during the year.

2015 saw continued growth in our Commodity Finance business. These are 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.

2015 was the first full year of activity for the UK real estate lending business, which focuses on prime Central London residential as well as commercial opportunities throughout England. This business is a key part of the Bank's diversification strategy and provides a strong annuity income flow.

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, generally at lower margins than those being achieved on the newer areas referred to above, continue to run off.

Banking Services

BACB provides a range of banking services to clients and correspondent banks. Services provided 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 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 combine the aforementioned mandate with the management of the Bank's own financial resources, including its balance sheet structure, cash flow, liquidity management and hedging.

As part of the requirements under the UK regulatory liquidity rules, the Bank maintains a High Quality Liquid Asset Portfolio comprising a portfolio of OECD government and related entities 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 with efficient settlement and competitive pricing.

OPERATING EXPENSES

At £34.8mn *(2014: £37.6mn)* administrative expenses are 8% down year-on-year, notwithstanding a significant investment in non-recurring costs. Exceptional costs include £3.3mn *(2014: £10.6mn)* related to the review of historic business activities. As anticipated, the 2015 result reflects an investment in "Strengthen the Bank" initiatives in a number of areas and a relatively sizable element of cost incurred in 2015 will not recur in future years.

The Bank's cost income ratio has increased during the last year largely due to reduced revenues from discontinued businesses and as already discussed, a 2015 focus on strengthening the Bank which has driven up costs in a number of areas.

Efforts are underway to manage the Bank's cost income ratio down. The main focus will be to grow income via enhancing the front office revenue generating capability and to reduce costs by streamlining middle and back office processes and staffing levels.

The average number of employees during 2015 was 167 *(2014: 158).*

ALLOWANCES FOR CREDIT LOSSES

The 2015 allowance for credit losses of £18.8mn *(2014: £5.0mn)* has increased due to market conditions and, in particular, the continued pressure on oil prices. A significant part of the impairment charge relates to one specific exposure. Overall, only a very small number of the Bank's facilities are impaired.

In recognition of the stress on the market and in accordance with industry norms, the Bank has increased its collective impairment provision to £6mn *(2014: £0.8mn reflecting Libya specific risks)*.

The markets remain unsettled and we continue to monitor this situation closely.

FINANCIAL POSITION

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

	2015	2014
	£'000s	£'000s
Financial investments	1,399,383	1,122,262
Loans and advances to banks	910,561	1,293,790
Loans and advances to customers	685,680	471,375
Property, plant and equipment	8,678	8,993
Other	16,993	19,998
Balance sheet footings	**3,021,295**	**2,916,417**
Contingent liabilities	65,736	93,687
Other commitments	301,207	463,896

Totals assets increased by 3.60% year-on-year. The main increases were in term and real estate lending and high quality liquid assets, offset by a reduction in professional market placements.

The Bank holds deposits placed by its clients, both by way of on-demand current accounts and also as term deposits in Treasury. These deposits are placed in professional markets on similar terms, or invested in high quality liquid assets issued by AAA or AA rated governments and AAA rated multi-lateral development banks.

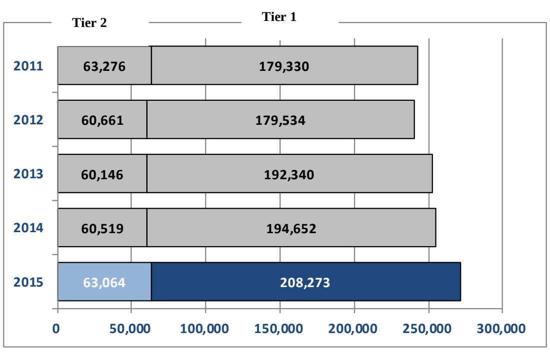
Capital Adequacy

The Bank's capital position was further strengthened by the provision of additional capital of £24.7mn, which was drawn down in June 2015.

As at 31 December 2015 the Bank's capital adequacy ratio was a healthy 20% *(2014: 24%)*.

The year-on-year reduction in the capital adequacy ratio is in large part due to the "equivalence" requirements of CRR Article 107, which became effective from 1 January 2015. This change led to the reclassification of some exposures from institutions to corporates for capital adequacy purposes, resulting in an increase in the Bank's Risk Weighted Assets.

Tier 1 and Tier 2 Capital



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

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:

	2015	2014
	£'000	£'000
Credit, Counterparty, CVA risk	100,628	78,160
Market risk	1,424	1,093
Operational risk	6,849	6,135
Total Pillar 1 capital requirement	**108,901**	**85,388**
Capital in place	271,337	255,171
Excess of capital in place over minimum requirement under Pillar 1	**162,436**	**169,783**

Liquidity

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

The Bank sources most of its liquidity from its major 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 has assisted the longer-term nature of the real estate lending business.

Liquidity is managed by the Bank's Treasury operation, overseen and guided by the Asset and Liability Committee (ALCO) and reporting 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 2015 included preparation for the introduction of the Senior Management Regime and enhancements to the Bank's regulatory reporting capabilities.

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.

An Enterprise Architecture project was mobilised in late 2014 in order to define the Bank's technology strategy over a 5-year planning horizon, fully aligned to the strategic business plan.

During the course of 2015, a number of enhancements have been delivered to the Bank's technology platforms, including systems underpinning the Bank's regulatory reporting activities.

In addition and further evidencing the long-term commitment and support of the Bank's shareholders, funding to replace the Bank's core banking system was approved by the Board in January 2016. It is envisaged that this project will be completed before December 2017.

The strategic intent is to enhance our client service capabilities and to deliver a technology platform to further enhance data integrity, quality and sharing across the Bank, with systems that support quality decision making and efficient processing in a controlled and compliant manner.

Internal Audit

Internal Audit is fully independent of the business and the function was outsourced to PricewaterhouseCoopers on 1 January 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 2015, the senior management team embedded a number of changes across the Bank. 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.

Performance Management: the Bank has introduced a refreshed and simplified performance review process, which aligns with salary and performance award recommendations, and is in line with our overarching People Strategy. We also designed and introduced job competencies and employee job banding, in order to better align the skills of our employees to the needs of the Bank.

Performance Awards: This discretionary scheme has been realigned. Key criteria considered are: the needs of the Bank; performance against the Business Plan; and individual behaviours and contribution towards the achievement of their objectives. This is also in line with our overarching People Strategy.

The level of performance awards reduced in 2015 to £1.5mn *(2014: £2.5mn)* in recognition of the Bank's reduced profitability, but also the need to reward and retain key talent.

Values: the Bank has embedded six core Values which apply to all employees. Employees are measured on their behaviours, as well as their delivery of objectives.

Leadership Development: employee development is critical to any high performing organisation and this remains a priority. A Relationship Manager Development Programme has been delivered in order to support our Relationship Managers – our key client-facing resource - as we have embedded the new "client-centric" operating model. In addition, 15 high potential employees are participating in a wide-ranging 15 month bespoke "Future Leaders" Development Programme, to assist in our succession planning.

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.

To demonstrate its commitment to maintaining a positive approach towards diversity, behaviour and culture, the Bank has set up a Culture Forum made up of employees at different staff bands, gender and ethnicity, which represents all parts of the Bank.

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: At BACB we are all committed to conducting business in a responsible way and, for this reason, the Bank restricts itself from certain types of business for ethical and legal reasons.

Environment: The Bank remains committed to reducing the environmental footprint of its operations through initiatives to recycle and reduce waste, minimise energy consumption and invest in environmentally efficient technologies; delivering both environmental benefits as well as cost savings for the Bank in the short, medium and long-term.

BACB has once again been recognised as a leading company committed to recycling and environmental best practice within the City of London. At the annual Clean City Awards 2015, BACB was presented with the prestigious Platinum Award for Environmental Sustainability, demonstrating the Bank's on-going commitment to corporate social responsibility and the conservation of the environment.

Charitable support: In 2015, The Bank made charitable donations of £6,000 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.

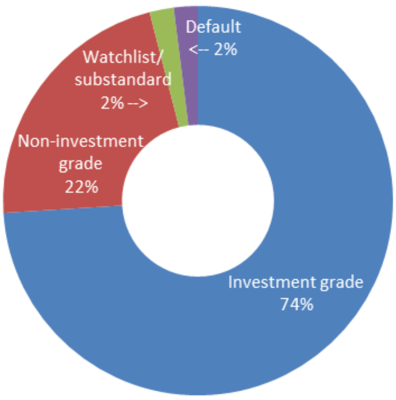
STRATEGIC REPORT: PRINCIPAL RISKS AND UNCERTAINTIES

Credit Risk

Acceptance of Credit Risk remains the Bank's principal source of revenue and, in consequence, its principal source of financial risk. During 2015, credit risk has been an area of challenge in the light of 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.

Credit Exposure by Grade
Rated by Fitch and internal grading system



Of the Bank's £3.0bn total assets, 1.6% by value are on the “watch-list” and 1.7% are classified as impaired. The individually assessed impairment charge in 2015 related largely to one exposure.

Recognising the challenging market conditions and the sector-wide trend to utilise collective impairments, the Bank has increased the collectively assessed impairment provision to £6mn in 2015 *(2014: £0.8mn)* which covers all the Bank's exposures with increased emphasis on sectors which are currently under a greater level of stress.

In late 2014, the Bank made a strategic decision to withdraw from some markets. This exit has been completed without credit loss.

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 are continuing in the best interests of the people of Libya. These challenges have impacted international business with Libya.

The key considerations for BACB are as follows:

i. Elements of BACB's banking business with Libya have declined and are not expected to return to historical levels in the short term. The Bank's net exposure to Libya after risk mitigation is manageable at less than 1% of total exposures and, 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 ongoing support from our majority shareholder, Libyan Foreign Bank, remains steadfast. In June 2015, Libyan Foreign Bank injected £25mn of additional capital into the Bank and in March 2016, refreshed its annual Statement of Support, which confirms continued provision of financial support, including meeting the Bank's ongoing liquidity needs, through May 2017;
iii. 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;
iv. 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 a number of deposits and longer term loans. 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.

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

Counterparty Banks

As noted last year, the Directors monitor relationships with BACBs 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 that these concerns are 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 and is committed to ensuring and demonstrating the robustness of its procedures and controls. The significant progress made during 2015 in strengthening the Bank's governance and control procedures demonstrate the strength of that commitment and will assist in providing the necessary comfort to ensure that BACB remains attractive to counterparties.

Other Important Risks

The Bank faces a range of other risks including regulatory, market, operational and pension risk. 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 substantially 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 nine Principal Risk Types.

In 2016, the Bank will commence a project to upgrade its core IT systems. These matters will continue to be closely monitored by the Executive 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 above risks and uncertainties have been fully considered by the Directors as part of the Bank's going concern assessment.

STRATEGIC REPORT: CORPORATE GOVERNANCE

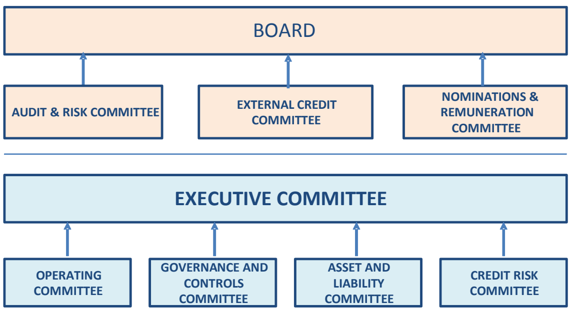
Shareholders

The Bank's shareholders as at the reporting date were: Libyan Foreign Bank (87.8% shareholding); Banque Extérieure d'Algérie (6.1% shareholding); and Banque Centrale Populaire (6.1% shareholding).

Governance

The governance arrangements followed by the Bank's board of directors (the "Board") are mandated in a formal agreement between its shareholders (the "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. A Schedule of Reserved Matters specifies matters which must be decided by the Board (rather than by Executive Management), with a separate schedule detailing matters reserved for approval and decision by shareholders. The Shareholders' Agreement sets out the arrangements for changes in shareholding.

During 2015, a number of enhancements to the Governance arrangements were implemented and embedded, especially in relation to the Executive Committees. The Bank's key Committees are as noted below:



Board arrangements

The Board comprises the individuals listed on page 16 and includes two independent non-executive directors, one of whom is the Chairman of the Board and the other the Chairman 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 seven times during 2015.

The Board has appointed a number of committees consisting of certain directors and senior executives. The following are the principal committees:-

i. External Credit Committee ("ECC")

The Board has delegated authority to approve the granting of credit applications to the executive management subject to certain limits. Applications above those limits must be referred to the External Credit Committee for their consideration and approval. The Committee considers applications as they arise. Decisions of the committee must be unanimous to be valid.

ii. 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 together with the senior financial, risk and compliance executives attend meetings of the Audit & Risk Committee, which met eight times during 2015.

iii. Nominations and Remuneration Committee ("NRC")

The Nominations and Remuneration Committee meets as required in order to agree the remuneration and employment policies of the Bank and to make key appointments.

Executive Management

Led by the Chief Executive, the Executive team comprises the executive managers responsible for the day-to-day operations and management of the Bank. The executive team met fortnightly as an Executive Committee (ExCo) during 2015. The Bank's ExCo comprises the Chief Executive (Chair) and ten senior executives covering front office, risk and compliance, finance, control and infrastructure functions.

In late 2014, following a review of the Bank's Governance arrangements, the Committee structure reporting into ExCo was rationalised into four Committees, namely the Operating Committee, the Asset and Liability Committee, the Credit Risk Committee and the Governance and Control Committee. This enhanced Governance framework has been embedded during the course of 2015 and has delivered enhanced delegated authority, along with increased transparency and accountability for decision making.

Board of Directors

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 members of the Board, the capacity in which they sit on the Board and the Committees of which they are a member, are noted below:

Mr Robert Douglas Dowie[1] (Chairman) **[ARC/NRC/ECC]**
Mr Mohamed Shokri (Vice Chairman) **[ARC / NRC]**
Mr Ahmed Aburkhis [ARC / NRC]
Dr Ezzeddin Ashur [NRC/ ECC]
Mr Akram Grew [ECC]
Mr Paul Hartwell
Dr Khaled Kagigi [ARC]
Mr Mohamed Loukal [NRC/ ECC]
Mr Mark Norris
Mr Michael Stevenson[1] **[ARC Chair, NRC]**
Mr Mohamed Zine [ARC]

Directors appointed during the year
Mr Mark Norris (1 April 2015)
Mr Paul Hartwell (13 May 2015)
Mr Akram Grew (14 December 2015)

Directors appointed after 31 December 2015
Mr Abdullah Naama (2 February 2016)

Directors resignations during the year
Mr Sameh Krekshi (11 June 2015)

The Strategic Report was approved by the Board of Directors on 18 March 2016.

Susannah L. Aliker
Secretary
18 March 2016

[1] Independent Non-Executive Director

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 2015

The directors present their annual report and the audited financial statements for the year ended 31 December 2015. 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 loss after taxation for the year amounted to £14,505,000 (2014: *profit of £4,729,000*). 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.

Share capital and subordinated liabilities

The Bank's majority shareholder, Libyan Foreign Bank, acquired new equity share capital of £24,696,500 on 17 June 2015. On the same date, the following transactions occurred:

i. cancellation and redemption of existing subordinated debt of £24,696,500 ($38,250,000 of which $31,492,500 related to the subordinated debt due 29 October 2020 and $6,757,500 of the subordinated debt due 29 April 2023);
ii. issue of new subordinated debt denominated in Euros of €34,200,000 (£24,795,000 equivalent) with an expiry date of 17 June 2025.

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 16. 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 2015.

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
18 March 2016

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 2015 set out on pages 22 to 77. 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 17, 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 2015 and of its loss 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.

Emphasis of matter

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in Note 2 to the financial statements concerning the risks faced by the Bank in relation to the political situation in Libya. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Bank's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Bank was unable to continue as a going concern.

All amounts in £'000s unless otherwise stated

INDEPENDENT AUDITORS' 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 for which the financial statements are prepared is consistent with the financial statements.

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
18 March 2016

All amounts in £'000s unless otherwise stated

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2015

	Note	2015	2014
Interest and similar income	8	36,234	*35,464*
Less: Interest expense and similar charges	8	(18,362)	*(14,195)*
Net interest income		**17,872**	***21,269***
Fee and commission income	9	13,658	*18,880*
Less: Fee and commission expense	9	(443)	*(643)*
Net fee and commission income		**13,215**	***18,237***
Net trading income	10	6,226	*6,958*
Other operating income		1,197	*1,612*
Operating income before allowance for credit losses		**38,510**	***48,076***
Allowance for credit losses	12	(18,804)	*(4,962)*
Net operating income		**19,706**	***43,114***
Administrative expenses	11	(34,777)	*(37,603)*
(Loss)/profit before income tax		**(15,071)**	***5,511***
Income tax credit/(expense)	13	566	*(782)*
(Loss)/profit for the year		**(14,505)**	***4,729***
Other comprehensive income/(expense):			
Items that will not be reclassified to profit or loss			
Remeasurement of defined benefit liability	24	141	*(1,060)*
Related Tax	13	(28)	*(14)*
		113	*(1,074)*
Items that are or may be reclassified to profit or loss			
Change in fair value of available for sale financial assets		(3,571)	*(358)*
Fair value losses/(gains) attributable to available for sale financial assets transferred to income		690	*2,461*
Related Tax	13	578	*(417)*
		(2,303)	*1,686*
Other comprehensive (loss)/gain for the year, net of tax		**(2,190)**	***612***
Total comprehensive (loss)/gain for the year		**(16,695)**	***5,341***

All of the profit for the financial year and the prior year was derived from continuing activities. The Notes on pages 26 to 77 form part of these financial statements.

All amounts in £'000s unless otherwise stated

STATEMENT OF FINANCIAL POSITION

As at 31 December 2015

	Note	2015	*2014*
Assets			
Cash, notes and coins		323	*633*
Financial investments	14	1,399,383	*1,122,262*
Loans and advances to banks	15	910,561	*1,293,790*
Loans and advances to customers	16	685,680	*471,375*
Property, plant and equipment	18	8,678	*8,993*
Intangible assets	18	1,897	*2,310*
Derivatives	19	181	*567*
Corporation tax receivable		4,030	*2,610*
Prepayments, accrued income and other debtors	20	10,562	*13,877*
Total assets		**3,021,295**	***2,916,417***
Liabilities			
Deposits from banks	21	2,107,305	*1,938,136*
Other deposits	21	627,581	*686,071*
Other liabilities, accruals and deferred income	22	10,295	*24,383*
Deferred tax liabilities	23	-	*529*
Derivatives	19	806	*1,342*
Net pension liability	24	1,831	*3,268*
Subordinated liabilities	25	63,307	*60,519*
Total liabilities		**2,811,125**	***2,714,248***
Called up share capital	26	104,149	*79,453*
Capital redemption reserve	27	4,104	*4,104*
Other reserves	27	101,917	*118,612*
Capital and reserves attributable to the Bank's equity holders	27	**210,170**	***202,169***
Total liabilities and equity		**3,021,295**	***2,916,417***

The Notes on pages 26 to 77 form part of these financial statements.

Signed:

Mr R D Dowie
Chairman

Mr M Shokri
Vice Chairman

Mr P Hartwell
Chief Executive

18 March 2016

All amounts in £'000s unless otherwise stated

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015

	Share capital	Total reserves				Total equity
		Capital redemption reserve	Retained earnings	AFS reserve	Total	
Balance at 31 December 2013	***79,453***	***4,104***	***109,750***	***3,521***	***117,375***	***196,828***
Profit for the year	*-*	*-*	*4,729*	*-*	*4,729*	*4,729*
Other comprehensive income / (expense)	*-*	*-*	*(1,074)*	*1,686*	*612*	*612*
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)
Total comprehensive income for the period	-	-	(14,392)	(2,303)	(16,695)	(16,695)
Transactions with owners, recorded directly in equity						
Issue of ordinary shares	24,696				-	24,696
Total contributions by and distributions to owners	**24,696**	**-**	**-**	**-**	**-**	**24,696**
Balance at 31 December 2015	**104,149**	**4,104**	**99,013**	**2,904**	**106,021**	**210,170**

All amounts in £'000s unless otherwise stated

STATEMENT OF CASH FLOW

For the year ended 31 December 2015

	Note	2015	2014
Cash flows from operating activities			
(Loss)/profit before taxation		(15,071)	5,511
Adjustments for:			
Allowance for credit losses	12	18,804	4,962
Profit on realisation of equity shares and investments	14	-	-
Depreciation and amortisation	11,18	1,477	1,355
Loss on sale or impairment of property, plant and equipment	11	95	676
Non-cash items included in net profit		**20,376**	**6,993**
Loans, advances and other debt securities other than cash and cash equivalents		9,045	2,673
Other debtors and prepayments		3,701	4,335
Change in operating assets		**12,746**	**7,008**
Customer accounts and deposits by banks		64,151	418,975
Other liabilities		(16,061)	5,487
Change in operating liabilties		**48,090**	**424,462**
Income tax paid		(796)	(4,065)
Net cash generated from operating activities		**65,345**	**439,909**
Cash flows from investing activities			
Purchases of equity shares and investments	14	-	(555)
Proceeds of redemptions of equity shares and investments	14	515	513
Proceeds on sale of property, plant and equipment		-	-
Purchase of property, plant and equipment	18	(451)	(691)
Purchase of intangible assets	18	(510)	(1,737)
Net cash used in investing activities		**(446)**	**(2,470)**
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		**89,188**	**437,439**
Cash and cash equivalents at the beginning of the year		1,514,842	1,041,466
Effect of exchange rate change on cash and cash equivalents		***19,963***	35,937
Cash and cash equivalents at the end of the year		**1,623,993**	**1,514,842**
Cash and cash equivalents comprise:			
Cash, notes and coin		323	633
Loans and advances to banks of original maturity three months or less		767,850	1,058,934
Certificates of deposit and other debt securities of three months original maturity or less		855,820	455,275
Cash and cash equivalents		**1,623,993**	**1,514,842**

All amounts in £'000s unless otherwise stated

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

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 2010, 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 18 March 2016.

2. Basis of preparation

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 13-14. That review 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. During the period under review, these challenges impacted the Bank's business emanating from the Libyan market. The continuing lack of resolution of the political issues in Libya is of concern to the Directors in two regards. Firstly, given the funding model of the Bank which is concentrated and dependent on its principal shareholder, Libyan Foreign Bank, and the Central Bank of Libya. The provision of liquidity remains strong and, based upon shareholder assurances, the Directors are confident that this will continue. However, the political situation in Libya could worsen and threaten this funding in the longer-term. 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 especially over the last two years for counterparty banks to review such relationships due to the potential reputational and legal risks associated with clearing transactions initiated by other banks. The Directors acknowledge these concerns are heightened due to the Bank's connections with Libya.

While the Directors remain confident, they do, as in the last period of unrest in Libya around 2010, consider it is important to note that the above matters taken together represent a material uncertainty linked to the ongoing political uncertainty in Libya, which may cast significant doubt on the future ability of the Bank to continue as a going concern.

The Director's review is ongoing and also takes into account the positive support from the Bank's parent and the highly liquid nature of the majority of BACB's assets, together with the provision of additional capital amounting to £24,696,500 in June 2015. In addition, the Libyan Foreign Bank continues to provide a formal statement of their intent to provide financial support including meeting the Bank's ongoing liquidity needs for at least the next twelve months.

All amounts in £'000s unless otherwise stated

The Bank has prepared its financial statements in accordance with IFRS as adopted by the EU and effective for the Bank's reporting for the year ended 31 December 2015. 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 IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. The results form the basis for making judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

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

IFRS standards which were adopted by the Bank during 2015, or which are expected to affect the Bank's reporting in future years, are shown below.

a) Standards adopted during the year

The Bank did not adopt any new IFRS standards.

b) Future accounting developments

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. This Standard 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 recognition of fair value adjustments in the Statement of Other Comprehensive Income (OCI). The Standard 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. The Standard will be applied retrospectively (subject to the Standard's transitional provisions). The impact on the annual financial statements has not yet been fully determined. The standard is expected to be effective for periods beginning on or after 1 January 2018, subject to EU endorsement.

All amounts in £'000s unless otherwise stated

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. The impact on the annual financial statements has not yet been fully determined. The Standard is expected to be effective for periods beginning on or after 1 January 2018, subject to EU endorsement.

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.

c) Changes to the presentation of the financial statements and notes to the financial statements

During the year, the following changes were made:

i. The allowance for credit losses (Note 12) has been analysed between on and off balance sheet exposures. This is considered to be more appropriate as it is more in line with the current presentation by other financial institutions.
ii. A small number of loans have step up or variable margin features. These increased margins were recognised in the determination of the effective interest rate. These features were not recognised in previous financial statements.
iii. The presentation of deferred tax asset arising from pensions (Note 24) has been amended. This asset is now presented within deferred taxation rather than offset against the pension liability. This is considered to be more appropriate and is in line with best practice.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all 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);

All amounts in £'000s unless otherwise stated

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.

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 is subsequently recognised in the income statement when the related investment is realised.

All amounts in £'000s unless otherwise stated

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 held for risk management purposes 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.

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.

All amounts in £'000s unless otherwise stated

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.

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract, the embedded derivative meets the definition of a derivative, and the combined contract is not designated at fair value through profit and loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement.

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.

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.

All amounts in £'000s unless otherwise stated

i) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is 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 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.

All amounts in £'000s unless otherwise stated

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.

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

All amounts in £'000s unless otherwise stated

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. 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.

All amounts in £'000s unless otherwise stated

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 plan for its staff. In each case, the assets of the schemes are held separately from those of the Bank. A defined benefit plan 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 plan is a pension plan under which the Bank pays fixed contributions into a separate entity, and where the Bank has no legal or constructive obligations to pay further contributions.

The net asset or liability recognised in the statement of financial position in respect of the defined benefit pension plan is the fair value of the plan assets less the present value of the defined benefit obligation at the 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 plan, 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.

All amounts in £'000s unless otherwise stated

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; or
- action is taken promptly and effectively if that is not the case; and
- there is timely, complete, accurate and relevant risk reporting within the Bank and to the Board.

b) Approach to Risk Management

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

- **1st LINE**: Each business area and function within the Bank is responsible for identifying, understanding and managing their risks and maintaining 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.

In addition to the above, the Chief Executive is required to prepare and submit to each meeting of the Audit & Risk Committee an 'Enterprise Wide Risk Assessment' that identifies those risks which may present a franchise risk to the bank. This assessment must include details of:

- The scope of the risk;
- Nature of the risk;
- Stakeholders;

All amounts in £'000s unless otherwise stated

- Risk evaluation;
- Loss experience / potential;
- Risk appetite and tolerance;
- Risk response and controls;
- Direction of risk tendency; and
- Strategy and policy developments.

c) Principal Risks

The Bank's principal risks and uncertainties as at the reporting date are referenced in the Strategic Report on pages 13 – 14 and these specific risks are being addressed by management.

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

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

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

REPUTATIONAL RISK

Definition:
Reputational Risk is the risk arising from negative perception on the part of customers, counterparties, shareholders, investors, debt-holders, market analysts or other relevant parties or regulators 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, including but not limited to:

- public knowledge of a failure of the Bank's compliance and risk management controls, for example regulatory fine;
- entering into transactions involving higher risk or sensitive industries, jurisdictions or counterparties.

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;
- 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 AND CONDUCT RISKS

Definitions:
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;
- failure to implement adequately existing and new regulatory requirements; and
- monitoring a range of conduct risk KRIs.

Conduct Risk is the risk that detriment is caused to the Bank, its customers, clients or counterparties because of the inappropriate execution of its business activities. Conduct Risk comprises a wide variety of activities and types of behaviour which fall outside the other main categories of risk, such as market, credit, liquidity and operational risk. In essence it refers to risks attached to the way in which the bank and its staff conduct themselves. Although there is no official definition, it is generally agreed to incorporate matters such as how customers are treated, remuneration of staff and how the bank deals with conflicts of interest.

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.

All amounts in £'000s unless otherwise stated

Compliance risk is overseen by the Audit and Risk Committee with a risk based plan submitted at least annually. 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; and
- undertaking a risk-based monitoring programme aimed at detecting shortcomings in, or failures of, compliance controls or processes.

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 liquid asset buffer;
- 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 other Countries, 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 risks is aligned and largely managed alongside and together with each other.

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

- development and oversight of the credit and country risk management frameworks;
- developing credit and country risk policies, tools and frameworks across the business, including 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.

All amounts in £'000s unless otherwise stated

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.

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
At 31 December 2015 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 £100,353,000 (*2014: £230,220,000*). 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.

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

	2015	***2014***
Cash, notes and coins	323	*633*
Financial investments: debt securities (note 14)	1,383,853	*1,106,581*
Loans and advances to banks	910,561	*1,293,790*
Loans and advances to customers (note 16)	685,680	*472,735*
Derivatives	181	*567*
Total on balance sheet	**2,980,598**	***2,874,306***
Contingent liabilities (note 29)	65,736	*93,687*
Other commitments (note 30)	301,207	*412,601*
Less: off balance sheet exposures impaired by provision on balance sheet	(1,431)	*(1,360)*
Total off balance sheet	**365,512**	***504,928***
Total	**3,346,110**	***3,379,234***

The disclosure for 2014 included discounted bills as part of the off balance sheet exposure. For 2015 they have been reclassified as balance sheet loans to reflect the underlying exposure.

All amounts in £'000s unless otherwise stated

By industry, concentrations of credit risk were as follows:

	2015	2014
Financial institutions (including central banks)		
Banks	1,505,596	*1,734,322*
UK building societies	-	*3,032*
Multilateral financial institutions	300,860	*200,856*
Other financial intermediaries	190,353	*57,943*
	1,996,809	***1,996,153***
Corporates		
Commodities	118,804	*60,680*
Construction and engineering	12,942	*14,899*
Energy	235,970	*273,165*
Non-bank credit grantors	-	*10,626*
Transport and storage	7,767	*11,955*
Other	192,536	*142,470*
	568,019	***513,795***
Public administration	**711,595**	***858,872***
Other Entities	**97,478**	***34,529***
Impairments	(27,791)	*(24,115)*
Maximum exposure to credit risk	**3,346,110**	***3,379,234***

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 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
Total acceptable risk	**57,606**	**2,393,399**	**2,451,005**	**(562)**	**2,450,443**
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**

31 December 2014 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)	*506*	*487,778*	*488,284*	*-*	*488,284*
Grade 2 (Investment Grade)	*-*	*339,441*	*339,441*	*-*	*339,441*
Grade 3 (Investment Grade)	*6,456*	*219,266*	*225,721*	*(111)*	*225,611*
Grade 4 (Investment Grade)	*5,830*	*133,094*	*138,925*	*-*	*138,925*
Grade 5 (Investment Grade)	*3,944*	*186,768*	*190,713*	*-*	*190,713*
Grade 6 (Investment Grade)	*31,202*	*310,591*	*341,793*	*-*	*341,793*
Grade 7 (Investment Grade)	*1,315*	*90,400*	*91,714*	*(378)*	*91,336*
Grade 8 (Investment Grade)	*5,187*	*9,778*	*14,965*	*-*	*14,965*
Grade 9 (Investment Grade)	*741*	*245,152*	*245,893*	*-*	*245,893*
Grade 10 (Investment Grade)	*16,185*	*325,217*	*341,402*	*-*	*341,402*
Total acceptable risk	***71,367***	***2,347,485***	***2,418,852***	***(489)***	***2,418,362***
Grade 11 (Non-Investment Grade)	*3,719*	*72,764*	*76,483*	*(1,571)*	*74,912*
Grade 12 (Non-Investment Grade)	*112,076*	*49,147*	*161,223*	*(657)*	*160,566*
Grade 13 (Non-Investment Grade)	*15,636*	*47,062*	*62,698*	*-*	*62,698*
Grade 14 (Non-Investment Grade)	*4,638*	*140,682*	*145,320*	*-*	*145,320*
Grade 15 (Non-Investment Grade)	*16,562*	*22,488*	*39,050*	*-*	*39,050*
Grade 16 (Non-Investment Grade)	*34,977*	*54,072*	*89,049*	*(887)*	*88,162*
Grade 17 (Non-Investment Grade)	*6,548*	*24,447*	*30,995*	*(5,695)*	*25,301*
Grade 18 (Watchlist)	*235,657*	*94,455*	*330,112*	*(220,920)*	*109,192*
Grade 19 (Sub-Standard)	*5,108*	*44,459*	*49,567*	*-*	*49,567*
Grade 20 (Default)	*-*	*-*	*-*	*-*	*-*
Less: impairments	*(1,360)*	*(22,755)*	*(24,115)*	*-*	*(24,115)*
Total credit exposures	***504,928***	***2,874,306***	***3,379,234***	***(230,220)***	***3,149,014***

All amounts in £'000s unless otherwise stated

The Bank provides facilities to in excess of 290 counterparties encompassing exposures in over 54 countries and territories (*2014: in excess of 350 counterparties encompassing exposures in over 70 countries and territories*).

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

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**

31 December 2014	***Contingent liabilities and other commitments***	***Cash, loans and advances, debt securities and derivatives***	***Total***
United Kingdom	*30,198*	*485,492*	*515,690*
Europe excluding UK	*33,649*	*914,993*	*948,642*
Libya	*169,259*	*15,040*	*184,299*
Other Middle East and Africa	*298,881*	*595,956*	*894,837*
Other Countries	*25,596*	*832,715*	*858,311*
Less: provision for credit losses	*(1,360)*	*(21,185)*	*(22,545)*
Maximum exposure to credit risk	***556,223***	***2,823,011***	***3,379,234***

Other Countries includes for 2015 USA (£333mn) and multi-lateral development banks (£301mn).

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.

All amounts in £'000s unless otherwise stated

Risk Management:
The Bank's appetite for market and liquidity risks is set in response to its business plans and overall risk appetite. The Chief Risk Officer and his direct report, the Market Risk Manager, are responsible for:

- development and oversight of the market and liquidity risk management frameworks;
- developing market and liquidity risk policies, tools and frameworks across the business;
- 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 has not historically been routinely hedged.

The Bank's overall net short position (on foreign exchange open positions and cash arising on settled trades) at 31 December 2015 (being the sterling equivalent value of all the currencies where the currency obligations were higher than currency receivables) was £375,000 (*2014: £814,000*). Were these currencies to strengthen by 5% against the remaining currencies, then the Bank would lose £19,000 (*2014: £41,000*).

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

	2015	*2014*
Maximum	25,715	*5,335*
Minimum	301	*272*
Average	2,033	*985*

The maximum exposure during 2015 reflects a briefly held position relating to the timing of share capital and subordinated debt which took place in June. As at the reporting date, there was no significant exposure to any one currency representing more than 10% of the Bank's equity.

All amounts in £'000s unless otherwise stated

Interest rate risk

The Bank is exposed to changes in interest rates in various currencies arising from gaps in the future dates of repricing of assets, liabilities and derivative instruments. The Bank manages that risk by calculating sensitivity of changes in the present value of committed future cash flows to a 0.01% change in interest rates using the 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 2015, PVBP amounted to £15,911 (*2014: £19,156*). PVBP (calculated on a daily basis) was as follows:

	2015	*2014*
	£	*£*
Maximum	32,619	*33,074*
Minimum	7,869	*8,396*
Average	16,908	*16,768*

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 transactions are documented as such at inception, and the positions being hedged are clearly identified at the outset. Hedges are not generally entered into which would not qualify as such in accordance with accounting rules, and all such derivative hedges are designated as fair value hedges (see also Note 3f).

Changes in the fair value of derivatives that are designated and qualify as fair value hedging instruments are recorded in the income statement 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 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**	**200,666**	**(453,277)**	**702**	**4,297**	**(181,003)**	

All amounts in £'000s unless otherwise stated

31 December 2014	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non- interest bearing	Total
Financial investments	398,862	440,870	184,323	82,526	-	15,681	1,122,262
Loans and advances to banks	1,016,212	272,592	4,986	-	-	-	1,293,790
Loans and advances to customers	218,457	163,737	80,565	8,616	-	-	471,375
Other assets	-	-	-	-	-	28,990	28,990
Total assets	**1,633,531**	**877,199**	**269,874**	**91,142**	**-**	**44,671**	**2,916,417**
Deposits from banks	1,454,924	245,452	207,957	29,803	-	-	1,938,136
Other deposits	577,124	92,268	3,869	12,810	-	-	686,071
Subordinated liabilities	60,519	-	-	-	-	-	60,519
Other liabilities and shareholders' funds	-	-	-	-	-	231,691	231,691
Total equity and liabilities	**2,092,567**	**337,720**	**211,826**	**42,613**	**-**	**231,691**	**2,916,417**
Derivatives (at contract value)	-	-	-	-	-	-	
Receivable	48,523	17,304	24,356	1,160	-	-	
Payable	52,650	-	17,625	21,070	-	-	
Overall gap	(463,163)	556,783	64,779	28,619	-	(187,020)	
Reverse Cumulative gap	**187,018**	**650,181**	**93,398**	**28,619**	**-**	**(187,020)**	

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 2016 would increase earnings from the financial assets associated with the non-interest bearing liabilities during 2016 by £609,000 (*2014: a 0.5% increase in interest rates in all currencies would increase earnings in 2015 by £595,000*).

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 risks deriving from maturity transformation.

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

All amounts in £'000s unless otherwise stated

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)**	

At 31 December 2014	*Up to 1 month*	*1-3 months*	*3-12 months*	*1-5 years*	*Over 5 years*	*Undated*	*Total*
Financial investments	*225,408*	*297,689*	*236,562*	*354,986*	*-*	*7,617*	*1,122,262*
Loans and advances to banks	*988,402*	*169,301*	*119,162*	*9,608*	*-*	*7,317*	*1,293,790*
Loans and advances to customers	*58,023*	*27,944*	*116,067*	*210,853*	*58,488*	*-*	*471,375*
Other assets	*-*	*-*	*-*	*-*	*-*	*28,990*	*28,990*
Total assets	***1,271,833***	***494,934***	***471,791***	***575,447***	***58,488***	***43,924***	***2,916,417***
Deposits from banks	*1,258,509*	*213,355*	*308,289*	*157,915*	*-*	*68*	*1,938,136*
Other deposits	*577,124*	*92,268*	*3,869*	*12,810*	*-*	*-*	*686,071*
Subordinated liabilities	*-*	*-*	*-*	*-*	*60,519*	*-*	*60,519*
Other liabilities and shareholders' funds	*-*	*-*	*-*	*-*	*-*	*231,691*	*231,691*
Total equity and liabilities	***1,835,633***	***305,623***	***312,158***	***170,725***	***60,519***	***231,759***	***2,916,417***
Net liquidity gap	***(563,800)***	***189,311***	***159,633***	***404,722***	***(2,031)***	***(187,835)***	

OPERATIONAL AND PROJECT RISKS

Definitions:

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. It includes People Risk, which is the risk associated with inappropriate employee behaviour and the risk that the Bank does not have employees with the relevant skills to support the business strategy.

Project Risk 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 has identified Project Risk as a principal risk type as a result of the significant amount of projects that it is undertaking to achieve its strategic objectives. Project risk management falls within the overall operational risk framework.

The Bank's appetite for operational and project risks 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, 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

All amounts in £'000s unless otherwise stated

- reporting and performance monitoring, including recording operational risk incidents, independent root cause evaluation and monitoring the adequacy and timeliness of remedial action.

The Bank's Chief Controls Officer is in Line 1 and reports to the Chief Operating Officer. The Chief Controls Officer has day to day responsibility for assuring the completeness and performance of the Bank's operational risk control processes. He also has responsibility for Project Risk and establishing policies, protocols and the Enterprise Project Management Office to assure the effective delivery of projects.

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 and Project Risk Standards as approved by the Board from time to time.

Operational risk losses in the year to 31 December 2015 amounted to £10,000 (*2014: £458,000*).

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;
- 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.

All amounts in £'000s unless otherwise stated

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 an annual 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 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 2015 loans to five customers were impaired (*2014: nine loans*). The restructuring of three loans were the subject of continuing negotiations between lending syndicates and the borrowers, the outcomes of which are uncertain at 31 December 2015. 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 loan are 10% lower than has been estimated, then the amount of the impairment which would have been charged in 2015 in respect of those loans would have been increased by £5,067,000 *(2014: £2,419,000 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. To the extent that actual outcomes differ from management's estimates,

All amounts in £'000s unless otherwise stated

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.

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 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**

31 December 2014	*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	-	*633*	***633***	-	-	-	-	***633***
Financial investments	-	-	-	*1,103,769*	*18,493*	-	***1,122,262***	***1,122,262***
Loans and advances to banks	*1,293,790*	-	***1,293,790***	-	-	-	-	***1,293,790***
Loans and advances to customers	*461,238*	-	***461,238***	-	*10,137*	-	***10,137***	***471,375***
Derivatives	-	-	-	-	*552*	*15*	***567***	***567***
Total financial assets	*1,755,028*	*633*	***1,755,661***	*1,103,769*	*29,182*	*15*	***1,132,966***	***2,888,627***
Total non-financial assets								***27,790***
Total assets								***2,916,417***
Liabilities								
Deposits from banks	-	*1,890,095*	***1,890,095***	-	*48,041*	-	***48,041***	***1,938,136***
Other deposits	-	*686,071*	***686,071***	-	-	-	-	***686,071***
Derivatives	-	-	-	-	*784*	*558*	***1,342***	***1,342***
Subordinated liabilities	-	*60,519*	***60,519***	-	-	-	-	***60,519***
Total financial liabilities	-	*2,636,685*	***2,636,685***	-	*48,825*	*558*	***49,383***	***2,686,068***
Total non-financial liabilities								***230,349***
Total equity and liabilities								***2,916,417***

Of the total £18,285,000 (*2014: £29,182,000*) assets at fair value through the profit and loss account, £14,159,000 (*2014: £19,405,000*) represents financial assets and derivatives held for trading purposes, and £4,126,000 (*2014: £10,137,000*) financial assets designated as such at inception.

Of the total £586,000 *(2014: £48,825,000)* liabilities at fair value through the profit and loss account, £586,000 (*2014: £784,000)* represents financial liabilities and derivatives held for trading purposes. As at 31 December 2015, there were no financial liabilities designated at fair value through the profit and loss account at inception *(2014: £48,041,000)*.

All amounts in £'000s unless otherwise stated

7. Fair values of financial assets and liabilities

a) Financial assets and liabilities held at amortised cost

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

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 2015	Level 1	Level 2	Level 3	Total	Carrying value (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
	-	**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
	-	**-**	**2,780,095**	**2,780,095**	**2,798,193**

31 December 2014	*Level 1*	*Level 2*	*Level 3*	*Total*	*Carrying value (note 6)*
Cash, notes and coins		*633*		*633*	*633*
Loans and advances to banks			*1,293,586*	*1,293,586*	*1,293,790*
Loans and advances to customers			*458,775*	*458,775*	*461,238*
	-	***633***	***1,752,361***	***1,752,994***	***1,755,660***
Deposits from banks			*1,890,312*	*1,890,312*	*1,890,095*
Other deposits			*685,937*	*685,937*	*686,071*
Subordinated liabilities			*48,108*	*48,108*	*60,519*
	-	***-***	***2,624,357***	***2,624,357***	***2,636,685***

Cash and cash equivalents are measured at amortised cost (and not fair value), and therefore are classified above as Level 2.

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 2015 observed market yields for those indices were higher than those being achieved, and as a result the estimated fair market value of the loans at that date represents an overall discount to their carrying value as shown above. The Bank has no current intention of disposing of any of these loans, and accordingly, in the opinion of the directors, the amount of the discount is not indicative of an impairment which should be recognised through the Bank's accounts. Loans and advances which are impaired are stated at their book value without further adjustment.

All amounts in £'000s unless otherwise stated

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

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

	31 December 2015			*31 December 2014*		
	Sterling	**US Dollars**	**Euro**	***Sterling***	***US Dollars***	***Euro***
Interest rates						
3 month	0.58%	0.68%	-0.09%	*0.55%*	*0.32%*	*0.02%*
6 month	0.83%	0.94%	-0.08%	*0.74%*	*0.48%*	*0.09%*
1 year	1.05%	1.28%	0.01%	*1.01%*	*0.60%*	*0.26%*
5 year	1.60%	1.76%	0.33%	*1.45%*	*1.79%*	*0.36%*
Exchange rates	1.0000	1.4829	1.3601	*1.0000*	*1.5612*	*1.2845*

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 rating.

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 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
	1,383,983	**4,177**	**15,530**	**1,403,690**
Deposits from banks	-	-	-	-
Derivative Liabilities	399	407	-	806
	399	**407**	**-**	**806**

31 December 2014	*Level 1*	*Level 2*	*Level 3*	*Total fair value (Note 6)*
Financial Investments	*1,106,582*	*-*	*15,680*	*1,122,262*
Loans and Advances to Customers	*-*	*10,137*	*-*	*10,137*
Derivative Assets	*352*	*215*	*-*	*567*
	1,106,934	***10,352***	***15,680***	***1,132,966***
Deposits from banks	*-*	*48,041*	*-*	*48,041*
Derivative Liabilities	*532*	*810*	*-*	*1,342*
	532	***48,851***	***-***	***49,383***

There were no significant transfers of assets between levels during 2015, 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:

	2015	*2014*
Interest income		
Professional market placements and debt securities	15,063	*13,676*
Loans, advances and overdrafts	21,180	*21,709*
Other	(9)	*79*
	36,234	***35,464***
Interest income comprises		
Interest arising on financial assets at fair value through the income statement	2,278	*2,279*
Interest recognised on impaired assets (note 12)	-	-
Gains / (losses) arising from the change in fair value of fair value hedges		
- on hedging instruments	26	*(165)*
- on hedged items attributable to the hedged risk	95	*234*
Other interest	33,835	*33,116*
	36,234	***35,464***

The amount recorded in the income statement in respect of the ineffectiveness of fair value hedges was £nil in the year ended 31 December 2015 *(2014:£nil)*

Interest expense is made up as follows:

	2015	*2014*
Interest expense		
Deposits from banks and other deposits	(16,416)	*(12,369)*
Subordinated loans	(1,946)	*(1,826)*
	(18,362)	***(14,195)***
Interest expense comprises		
Interest arising on financial liabilities at fair value through the income statement	(80)	*(995)*
Other interest	(18,282)	*(13,200)*
	(18,362)	***(14,195)***

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:

	2015	*2014*
Fee and commission income		
Safe custody	184	*215*
Trade services:		
Guarantees	1,132	*1,132*
Other trade services income	10,242	*14,949*
Term lending (other than amounts which form part of the effective interest rate)	215	*396*
Banking payments and services	1,885	*2,188*
	13,658	**18,880**
Fee and commission expense		
Brokerage and other fees	**(443)**	***(643)***

10. Net trading income

Net trading income is made up as follows:

	2015	*2014*
Foreign exchange dealing	4,748	*5,705*
Debt securities	(899)	*79*
Other	2,377	*1,174*
	6,226	***6,958***

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

	2015	*2014*
Staff costs:		
Salaries and other emoluments	11,640	*9,790*
Social security costs	1,544	*1,362*
Other pension costs:		
- Defined benefit scheme (note 24)	356	*(117)*
- Defined contribution scheme (note 24)	1,305	*1,049*
Total fixed staff employment costs	**14,845**	***12,084***
Variable staff costs: performance awards	1,544	*2,465*
Total staff employment costs	**16,389**	***14,549***
Reorganisation costs (excluding pension augmentations)	454	*361*
Other employment related costs (see below)	3,568	*2,090*
Total staff costs	**20,411**	***17,000***
Fees payable to the Bank's auditors for the audit of the Bank's annual financial statements	276	*185*
Fees payable to the Bank's auditors for other services :		
- Other services pursuant to legislation	12	*10*
- Taxation advice	27	*93*
- All other services	65	*505*
Depreciation (including amortisation of intangibles)	1,414	*1,355*
Amounts payable in respect of operating leases:		
- Amortisation of prepaid rental on land	63	*63*
- Ground rental	130	*160*
Loss on sale or impairment of tangible and intangible assets	95	*676*
Regulatory supervision fees	82	*55*
Other administrative expenses	8,952	*6,234*
General administrative expenses	**31,527**	***26,336***
Professional fees relating to management reorganisation	-	***704***
Review of historic activities	**3,250**	***10,563***
Administrative expenses	**34,777**	***37,603***

The average number of employees in place during the year was 167 (*2014: 158*).

Other employment related costs include contractors and outsourced services, including internal audit.

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 2015 amount to £3,250,000 (2014: £10,563,000).

Directors' remuneration included above totalled £1,530,000 *(2014:* £912,000*)*. The emoluments of the highest paid director were £553,000 *(2014:* £215,000*)* 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 *(2014: contributions totalling £25,000* in respect of pension contributions to a defined contribution scheme for one director*)*.

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 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**

31 December 2014	***Loans***	***Off balance sheet positions***	***Total***
Balance at 1 January	***18,994***	-	***18,994***
Exchange translation and other movements	*1,685*		*1,685*
Allowances written off	*(1,526)*		*(1,526)*
New allowances	*4,234*	*1,360*	*5,594*
Reversal of allowances no longer required	*(524)*		*(524)*
Recoveries of amounts written off in previous periods	*(108)*		*(108)*
Allowance for credit losses	***3,602***	***1,360***	***4,962***
Balance at 31 December	***22,755***	***1,360***	***24,115***
Individually assessed	*22,230*	*1,101*	*23,331*
Collectively assessed	*525*	*259*	*784*
Total credit losses allowance against loans and off balance positions	***22,755***	***1,360***	***24,115***

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.

Collective impairments arise in respect of the Banks exposures with similar risk characteristics for which previous experience indicates that impairment has taken place at the balance sheet date, but whose existence

All amounts in £'000s unless otherwise stated

has yet to emerge. In light of extensive individual reviews and recognising the challenging market conditions, in particular impacting the Oil and Gas sector, and the sector-wide trend to utilise collective impairments, the Bank has increased the collective impairment to £6,000,000 in 2015 (*2014: £784,000*). This covers all of the Bank's exposures 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. Of the five facilities impaired at year end, new impairment allowances were recognised for four facilities.

	2015		***2014***	
	Number of Facilities	**Gross Exposure**	***Number of Facilities***	***Gross Exposure***
Impaired facilities				
Impaired facilities against which there was no collateral	5	50,672	*9*	*38,000*
Of the above:				
Facilities formally restructured on terms which may be less favourable to the Bank (impairment in respect of this facility £1,625,545)	1	16,300	*1*	*5,310*
Facilities in the process of being restructured as at the reporting date (impairment in respect of this facilities £18,941,055)	3	33,213	*1*	*4,844*
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*	*9,608*
Unimpaired facilities in the process of being restructured as at the reporting date	-	-	*1*	*5,899*
Overdrafts in excess of originally agreed limits subject to temporary forbearance as at the reporting date	3	1,997	*1*	*2,485*
Watchlist or substandard facilities subject to close management (which may include some of the unimpaired balances above)	5	17,750	*28*	*92,205*
Relaxations of material covenants or temporary relaxations of repayment terms at the reporting date	3	14,877	-	-
Facilities being restructured post reporting date	-	-	*3*	*40,717*

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

All amounts in £'000s unless otherwise stated

revised terms may include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants.

"Watch list" 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

	2015	***2014***
Current tax		
Total UK corporation tax (credit)/charge	-	*587*
Of which: amount recognised in other comprehensive income	-	*(227)*
Current tax on items taken through the income statement	-	*360*
Current tax adjustment in respect of previous periods	(587)	*(396)*
Deferred tax (note 23)		
Origination and reversal of timing differences	326	*284*
Effect of tax rate change	25	*29*
Deferred tax adjustment in respect of unused losses in the year	(330)	
Deferred tax adjustment in respect of previous periods		*501*
	21	*814*
Amounts associated with movements in the pension fund		*4*
Total income tax (credit)/charge	**(566)**	*782*

The tax credit on the loss for the year is based on the average UK corporation tax rate of 20.25% *(2014: 21.5%)*. A reduction in the UK corporation tax rate to 19% (effective from 1 April 2017) and to 18% (from 1 April 2020) was substantively enacted on 26 October 2015. Deferred tax as at 31 December 2015 has been calculated taking into account the impact of these rates.

The tax credit on the loss for the year £566,000 *(2014: tax charge £782,000)* has been set to an amount at which the Bank's deferred tax asset and deferred tax liability net down to a nil balance (Note 23).

The tax credit for the year is lower *(2014: lower)* than that resulting from applying the standard rate of UK corporation tax. The differences are explained below:

All amounts in £'000s unless otherwise stated

	2015	*2014*
(Loss)/profit on ordinary activities before tax	**(15,071)**	*5,511*
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK	(3,052)	*1,185*
Effects of:		
Adjustment in respect of previous periods	(587)	*104*
Effect of change in tax rate	25	*28*
Non taxable income	(261)	*(574)*
Non deductible items	119	*40*
Losses on which no deferred tax has been recognised	3,190	
Other items	-	*(1)*
Total income tax (credit)/charge	**(566)**	*782*

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

	2015			*2014*		
	Before tax	Tax	Net of tax	*Before tax*	*Tax*	*Net of tax*
Actuarial gain/(loss) on pension fund	141	(28)	113	*(1,060)*	*(14)*	*(1,074)*
Change in fair value of available for sale financial assets	(3,571)	686	(2,885)	*(358)*	*99*	*(259)*
Fair value losses/(gains) attributable to available for sale financial assets transferred to income	690	(133)	557	*2,461*	*(529)*	*1,932*
Effect of change in tax rates	-	25	25	*-*	*13*	*13*
	(2,740)	**550**	**(2,190)**	***1,043***	***(431)***	***612***

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

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

2014

Nature of activities	*Geographical location*	*Turnover*	*Profit before tax*	*Corporation tax paid*	*Average number of employees*
Banking	*United Kingdom*	*43,114*	*5,511*	*4,065*	*158*

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.

All amounts in £'000s unless otherwise stated

14. Financial investments

	2015	*2014*
Debt issued by governments and multilateral financial institutions	966,567	*793,001*
Other listed debt securities issued by banks	393,260	*291,308*
Other listed debt securities issued by non-banks	10,032	*3,779*
Debt securities held for trading	13,994	*18,493*
Total debt securities	**1,383,853**	***1,106,581***
Equity shares and investment funds	**15,530**	***15,681***
	1,399,383	***1,122,262***

Debt securities with fixed interest rates (other than those with a single interest period less than 1 year) amounted to £104,556,000 *(2014: £177,469,000).*

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.

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:

	2015	*2014*
Balance at 1 January	15,681	*13,841*
Exchange translation	293	*314*
Changes in fair value during the year	71	*1,484*
Realised gain	-	*-*
Additions	-	*555*
Disposals	(515)	*(513)*
Balance at 31 December	**15,530**	***15,681***
Comprising:		
Equity shares	3,299	*3,232*
Investment funds	12,231	*12,449*
	15,530	***15,681***

All amounts in £'000s unless otherwise stated

15. Loans and advances to banks

Loans and advances to banks with fixed interest rates (other than those with a single interest period less than 1 year) amounted to £nil (*2014: £nil).*

	2015	*2014*
Funds held at correspondent banks	55,424	*65,295*
Professional market placements	603,830	*1,017,921*
Term lending	212,501	*158,435*
Bills discounted	38,048	*51,295*
Overdrafts and other advances	1,925	*844*
Less: Provisions for impairments (note 12)	(1,167)	-
	910,561	***1,293,790***

Professional market placements includes £80,877,000 *(2014: £213,744,000)* 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).

16. Loans and advances to customers

Loans and advances to customers with fixed interest rates (other than those with a single interest period less than 1 year) amounted to £8,543,000 (*2014: £15,328,000).*

	2015	*2014*
Professional market placements to non banks	137,545	*10,626*
Term and Real Estate lending	488,445	*442,158*
Overdrafts and other advances	84,883	*42,706*
Less: Provisions for impairments (note 12)	(25,193)	*(24,115)*
	685,680	***471,375***

Professional market placements comprises £137,545,000 *(2014: nil)* lent to other institutions against the security of OECD government debt securities by way of sale and repurchase transactions executed in accordance with market standard terms (reverse repo transactions).

All amounts in £'000s unless otherwise stated

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 the Bank as lessor during 2014, assuming only the minimum amounts receivable up to a break clause in May 2017.

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**

31 December 2014	*Less than one year*	*Between one and five years*	*More than five years*	*Total*
Operating lease payments due	*87*	*320*	*10,213*	*10,620*
Operating lease receipts due	*(238)*	*(277)*	*-*	*(515)*
Net payment / (receipt) commitment	***(151)***	***43***	***10,213***	***10,105***

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 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**
Cost					
Balance at 1 January 2014	*15,073*	*2,195*	*17,268*	*5,689*	*22,957*
Additions during the year	*121*	*570*	*691*	*1,737*	*2,428*
Disposals during the year	*-*	*(94)*	*(94)*	*(770)*	*(864)*
At 31 December 2014	*15,194*	*2,671*	*17,865*	*6,656*	*24,521*
Less: accumulated depreciation					
Balance at 1 January 2014	*6,659*	*1,734*	*8,393*	*3,658*	*12,051*
Charge for the year	*331*	*241*	*572*	*783*	*1,355*
Disposals during the year	*-*	*(93)*	*(93)*	*(198)*	*(291)*
Impairment loss				*103*	*103*
At 31 December 2014	*6,990*	*1,882*	*8,872*	*4,346*	*13,218*
Net book value at 31 December 2014	***8,204***	***789***	***8,993***	***2,310***	***11,303***

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 £8,016,000 *(2014: £8,204,000)*, 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 £8,258,000 *(2014: £8,321,000)*, making a total asset value of £16,274,000 *(2014: £16,525,000)*. 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.

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

The original cost of fully depreciated tangible and intangible assets still in use by the Bank at year-end was £7,419,000 (*2014: £7,486,000*).

There were commitments for capital expenditure on 31 December 2015 of £76,000 (*2014: £54,000*).

All amounts in £'000s unless otherwise stated

19. Derivatives

Derivative positions at 31 December were as follows:

	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	4,451	-	155
Interest rate swaps qualifying as fair value hedges	21,619	16	220
Interest rate futures	128,667	-	32
Interest futures held for trading purposes	78,902		123
Foreign exchange options	-	-	-
Purchased	3,416	35	-
Sold	-	-	-
		181	**806**

	31 December 2014		
	Contract amount	*Positive fair values (Assets)*	*Negative fair values (Liabilities)*
Spot and forward foreign exchange contracts held for trading purposes	*224,727*	*293*	*532*
Interest rate swaps	*56,064*	*135*	*187*
Interest rate swaps qualifying as fair value hedges	*35,280*	*15*	*558*
Interest futures held for trading purposes	*65,977*	*59*	*-*
Foreign exchange options			
Purchased	*79,443*	*65*	*-*
Sold	*79,443*	*-*	*65*
		567	***1,342***

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.

All amounts in £'000s unless otherwise stated

Interest rate risk

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

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

Interest rate 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.

As at 31 December 2015, there were no interest rate cap, floor or collar derivatives.

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

20. Prepayments, accrued income and other debtors

	2015	*2014*
Prepaid rental for land	8,258	*8,321*
Prepayments and accrued income	-	*4,193*
Other debtors	2,304	*1,363*
	10,562	***13,877***

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 £2,107,305 (*2014 £1,938,136*) of which deposits with fixed interest rates (other than those with a single interest period less than 1 year) amounted to £nil *(2014: £90,415,000).*

Other deposits totalled £627,581 (*2014: £686,071*) of which with fixed interest rates (other than those with a single interest period less than 1 year) amounted to £16,906,000 *(2014: £nil).*

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

All amounts in £'000s unless otherwise stated

22. Other liabilities, accruals and deferred income

	2015	***2014***
Other liabilities	8,527	*7,049*
Accruals and deferred income	1,768	*17,334*
	10,295	***24,383***

23. Deferred taxation

	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)	-	-	-	-
Investments	(1,084)		(23)	(1,107)	-	(1,107)
Deferred tax assets (liabilities)	**(529)**	**3**	**526**		**1,438**	**(1,438)**

	Balance at 1 January 2014	*Recognised in Profit or Loss*	*Recognised in Other Comprehensive Income*	*Balance at 31 December 2014*	*Deferred tax assets*	*Deferred tax liabilities*
Property, plant and equipment and intangible assets	*(397)*	*106*	*-*	*(291)*	*-*	*(291)*
Staff benefits	*494*	*(316)*	*-*	*178*	*178*	*-*
IFRS adjustments (see below)	*111*	*(111)*		*-*	*-*	*-*
Tax assets on pension liabilities (note 24)	*668*	*-*	*(14)*	*654*	*654*	*-*
Capital loss in investments	*-*	*14*	*-*	*14*	*14*	*-*
Investments	*(387)*	*(507)*	*(190)*	*(1,084)*	*-*	*(1,084)*
Deferred tax assets (liabilities)	***489***	***(814)***	***(204)***	***(529)***	***846***	***(1,375)***

Deferred tax asset and liability balances are off-settable.

In 2015, the Bank has been prudent and only recognised a tax credit on the loss up to the amount at which the deferred tax asset equals the deferred tax liability. The Bank has unused tax losses of £12,872,000 (2014: nil) 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 289 deferred or pensioner members as at 31 December 2015 *(2014: 292 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

All amounts in £'000s unless otherwise stated

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 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 / 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 £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.

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 2015. 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

	2015	***2014***
Fair value of Scheme assets	69,258	*69,658*
Present value of defined benefit obligation	(71,089)	*(72,926)*
Deficit in the Scheme - net liability	**(1,831)**	***(3,268)***

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 £71,089,000 (i.e. the same as the defined benefit obligation).

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

All amounts in £'000s unless otherwise stated

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

	2015	*2014*
Defined benefit obligation at start of period	72,926	*64,530*
Current service cost	-	*138*
Expenses	323	*197*
Interest expense	2,583	*2,890*
Contributions by scheme participants	-	*14*
Actuarial losses due to scheme experience	-	*2,450*
Actuarial gains due to changes in demographic assumptions	(703)	*(1,394)*
Actuarial losses due to changes in financial assumptions	(1,358)	*7,902*
Benefits paid and expenses	(2,682)	*(3,224)*
Past service costs	-	*-*
Gains on curtailments	-	*(577)*
Defined benefit obligation at end of period	**71,089**	***72,926***

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

	2015	*2014*
Fair value of scheme assets at start of period	69,658	*61,189*
Interest income	2,490	*2,765*
Return on scheme assets (excluding amounts included in interest income)	(1,920)	*7,898*
Contributions by the Bank	1,712	*1,016*
Contributions by scheme participants	-	*14*
Benefits paid and expenses	(2,682)	*(3,224)*
Fair value of scheme assets at end of period	**69,258**	***69,658***

The actual return on the Scheme's assets over the year ending 31 December 2015 was £570,000.

Defined benefit costs recognised in Profit and Loss

	2015	*2014*
Service cost:		
Current service cost	-	*138*
Past service cost and (gain)/ loss from settlements	-	*(577)*
Expenses	323	*197*
Net interest cost	93	*125*
Defined benefit costs recognised in profit and loss	**416**	***(117)***

All amounts in £'000s unless otherwise stated

Defined benefit costs recognised in other Comprehensive Income

	2015	***2014***
Return on scheme assets (excluding amounts included in interest income) - gain/(loss)	(1,920)	*7,898*
Experience losses arising on the defined benefit obligation	-	*(2,450)*
Effects of changes in the demographic assumptions underlying the present value of the defined benefit obligation - gains	703	*1,394*
Effects of changes in the financial assumptions underlying the present value of the defined benefit obligation - gains	1,358	*(7,902)*
Total amount recognised in other comprehensive income - (loss)/gain	**141**	***(1,060)***

Assets

	2015	***2014***
Corporate Bonds	-	-
Liability Driven Investment (LDI)	9,550	*13,246*
Diversified Growth Funds	20,833	*20,814*
Cash	133	*546*
Purchased Annuities	38,742	*35,052*
Adjustment due to a pensioner buy-in	-	-
Total assets	**69,258**	***69,658***

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 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 2015.

The Scheme has purchased insurance policies to match the liabilities in relation to some pensioner members.

Significant Actuarial Assumptions

	2015 % per annum	***2014 % per annum***
Rate of discount	3.90	*3.60*
Inflation (RPI)	3.35	*3.15*
Salary increases	-	*3.15*
Allowance for revaluation of deferred pensions of RPI or 7.5% p.a. if less	3.35	*3.15*
Allowance for pension in payment increases of RPI or 7.5% p.a. if less	3.35	*3.15*
Allowance for commutation of pension for cash at retirement	No allowance	*No allowance*

All amounts in £'000s unless otherwise stated

The mortality assumptions adopted at 31 December 2015 are 100% of the standard tables S2PxA_L, Year of Birth, no age rating for males and females, projected using CMI_2015 converging to 1.25% p.a. These imply the following life expectancies:

	Life expectancy at age 60 (years)
Male retiring in 2015	28.1
Female retiring in 2015	29.2
Male retiring in 2025	28.9
Female retiring in 2025	30.2

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 3.1%*
Rate of mortality	Mortality improvement - long term rate 1%	*Decrease by 1.3%*
Cash commutation	50% of post A-day maximum using current factors	*Decrease by 1.2%*

The sensitivities shown above are approximate. Each sensitivity calculation considers one change in isolation. The inflation sensitivity includes the impact of changes to the assumptions for revaluation and pension increases. The average duration of the defined benefit obligation at the year ending 31 December 2015 is 19 years.

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

The best estimate of contributions to be paid by the Bank to the plan for the year commencing 1 January 2016 is £1,712,000.

The Bank has changed the presentation of the deferred tax asset related to the defined benefit pension liability. In 2014 this asset was presented within pension liabilities. For 2015 this asset is presented within deferred taxation. The Bank believes that this is a more appropriate presentation.

Defined contribution scheme
At 31 December 2015, 149 employees were members of that scheme *(2014: 152 employees)*. Contributions to the BACB Defined Contribution Retirement Benefit Scheme are made by both employer and employee in accordance with a fixed formula. In the year ended 31 December 2015, the Bank paid £1,227,000 *(2014: £1,049,000)* by way of contributions into that scheme. There were no outstanding or pre-paid contributions to this scheme at 31 December 2015 *(2014: £nil)*.

All amounts in £'000s unless otherwise stated

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 deposits.

	2015	*2014*
Due 29th October 2020	-	*20,173*
Due 29th April 2023	16,775	*20,173*
Due 29th October 2025	21,358	*20,173*
Due 17th June 2025	25,174	-
	63,307	***60,519***

On 17 June 2015, the Bank cancelled subordinated debt of US$31,492,500 due 29 October 2020 and US$6,757,500 of the subordinated debt due 29 April 2023. On the same date, the Bank issued new subordinated debt denominated in Euros of €34,200,000 with an expiry date of 17 June 2025.

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.

Issued share capital comprises:

On 17 June 2015, the Bank issued 38,250,000 US Dollar ordinary shares of $1 each, creating £24,696,500 of new equity capital.

	Number of shares ('000)		**Paid up amount**	
	2015	*2014*	**2015**	*2014*
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	*76,974*	73,746	*49,050*
Deferred Non-Voting Shares of £1 each nil paid	5,000	*5,000*	-	-
	150,627	***112,377***	**104,149**	***79,453***

All amounts in £'000s unless otherwise stated

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

	2015	*2014*
Called up share capital (note 26)	104,149	*79,453*
Capital redemption reserve	4,104	*4,104*
Other reserves		
Retained earnings	99,013	*113,405*
AFS Reserve	2,904	*5,207*
	101,917	118,612
	210,170	**202,169**

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 2015 *(2014: £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 £65,736,000 at 31 December 2015 *(2014: £93,687,000).*

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. No losses arose from such contracts in the year ended 31 December 2015 *(2014: £nil).*

All amounts in £'000s unless otherwise stated

30. Other commitments

	2015	*2014*
Other commitments comprise:		
Credit lines and other commitments to lend: original maturity		
under one year	103,290	*12,370*
over one year	2,685	*5,187*
Documentary credits and short-term trade-related transactions	193,280	*419,387*
Own acceptances	1,952	*26,952*
	301,207	***463,896***

31. Foreign currency assets / liabilities

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

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

31 December 2014	***Sterling***	***Dollars***	***Euro***	***Other currencies***	***Total***
Total assets	*524,157*	*1,655,618*	*668,904*	*67,738*	*2,916,417*
Total equity and liabilities	*(586,465)*	*(1,615,520)*	*(634,060)*	*(80,372)*	*(2,916,417)*
Derivatives (at contract notional value)	*62,054*	*(40,523)*	*(34,544)*	*13,013*	*-*
Net exposures	***(254)***	***(425)***	***300***	***379***	***-***
Contingent liabilities and other commitments	*12,331*	*322,915*	*195,681*	*26,656*	*557,583*

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. The Bank continues to cooperate with U.S. and U.K. authorities to resolve any potential issues arising from this review. No civil or criminal enforcement proceedings are pending or threatened.

33. Business line review

The Bank has seven business lines as described below, 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:-

All amounts in £'000s unless otherwise stated

- 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. The majority of these customers are located in the countries of North Africa and the Eastern Mediterranean which form the Bank's geographic niche.
- Banking Services. The Bank acts as an important banking correspondent for its customers providing tailored account and international payment services.
- 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 Central London residential properties 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 includes 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 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**

31 December 2014	*Trade Finance*	*Banking Services*	*Commodity Finance*	*Term Lending*	*Real Estate Lending*	*Treasury*	*Other*	*Total*
Net interest income	*806*	*842*	*929*	*13,500*	*536*	*6,241*	*(1,585)*	*21,269*
Net fee and commission income	*15,915*	*1,693*	*505*	*174*	*171*	*(180)*	*(41)*	*18,237*
Net trading income	*-*	*-*	*-*	*-*	*-*	*6,958*	*-*	*6,958*
Other operating income	*-*	*-*	*-*	*-*	*-*	*12*	*1,600*	*1,612*
Total Operating income	***16,721***	***2,535***	***1,434***	***13,674***	***707***	***13,031***	***(26)***	***48,076***

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.

	2015	*2014*
United Kingdom	8,211	*10,931*
Europe excluding UK	1,346	*1,164*
Libya	10,936	*9,648*
Other Middle East and Africa	17,097	*24,926*
Other	920	*1,407*
	38,510	***48,076***

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.

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

The following table quotes the balances outstanding.

	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	-

	Significant influence	*Key management personnel*
Balances at 31 December 2014		
Loans and advances	*25,843*	*3*
Deposits	*1,588,256*	-
Subordinated liabilities	*60,519*	-
Contingent liabilities and other commitments	*123,726*	-
Volumes executed during 2015		
Loans and advances	*277,978*	*3*
Deposits	*65,993,708*	-
Derivatives (contract amount)	*10,226,839*	-
Contingent liabilities and other commitments	*201,680*	-
Included in income statement		-
Interest receivable	*104*	-
Interest payable	*10,301*	-
Fees and commissions receivable	*3,242*	-

All amounts in £'000s unless otherwise stated

At 31 December 2015 £24,000 was outstanding by way 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 two Executive Managers of the Bank. No amount was outstanding from any Director.
(At 31 December 2014 £3,000 was outstanding by way of interest free loans due from one Executive Managers of the Bank and no amount was outstanding by way of interest bearing loans due from Executive Managers of the Bank. No amount was outstanding from any Director).
In addition, the Bank has entered into the following further related party transactions.

i. The Bank meets the employment costs of executives seconded to it by related parties. The costs of these secondments were £302,000 (2014: £312,000).
ii. Key management personnel compensation:

	2015	*2014*
Directors' attendance and standing fees	668	461
Executive Managers		
Salaries and other short term benefits	2,525	2,356
Post-employment benefits	154	161
	3,347	**2,978**

35. Collateral

By a Security Deed dated 24 June 2014, the Bank has granted a charge to Deutsche Bank AG London Branch over its collateral pledge account held there, in which it holds securities with a minimum value of €30,000,000. The Bank charges the collateral with full title guarantee and by way of first fixed charge, in favour of Deutsche Bank AG London branch, as continuing security for the payment and discharge of secured obligations.

The carrying value as at 31 December 2015 was £29,198,000 (*2014: £27,915,000*).

36. Events after the reporting period

The Bank has received regulatory approvals to establish representative offices in Côte d'Ivoire and Dubai.

All amounts in £'000s unless otherwise stated

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British Arab Commercial Bank plc
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Telex: 22961
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Website: www.bacb.co.uk

Algiers Representative Office
British Arab Commercial Bank plc
25 Rue des Pins
Hydra
Algiers, Algeria

Telephone: [213] (21) 691 961
Facsimile: [213] (21) 692 007

Abidjan Representative Office
(Temporary Office)
British Arab Commercial Bank plc
7 Avenue Nogues
Abidjan Plateau
01 BP 5754
Côte d'Ivoire

Tripoli Representative Office
British Arab Commercial Bank plc
Tripoli Tower
Floor 11, Office No. 111
PO Box 91051
Tripoli, Libya

Telephone: [218] (21) 335 1489
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Dubai Representative Office
Contact details available at bacb.co.uk in due course

British Arab Commercial Bank plc
Incorporated in England with limited liability
Registered in England Number 1047302