BRITISH ARAB COMMERCIAL BANK plc

YOUR PARTNER IN ARAB FINANCE WORLDWIDE

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

Registered Number 1047302

Financial Highlights

12 months ended/as at 31 December Thousands of Pounds Sterling (unless otherwise stated)		**2013**	2012	2011	2010	2009
Profit before provisions		**20,330**	16,914	18,732	23,577	34,311
Impairment losses on loans and advances		**(2,482)**	(3,359)	(18,523)	(4,583)	(29,456)
Profit before tax		**17,848**	13,555	209	18,994	4,855
Income tax		**(4,081)**	(3,332)	29	(5,222)	(1,763)
Profit after tax		**13,767**	10,223	238	13,772	3,092
Dividends declared	†	**0**	7,200	0	0	0
Earnings per share (p)		**12.8**	9.5	0.2	12.8	2.9
Dividends per share (p)		**0.0**	6.7	0.0	0.0	0.0
Shareholders' Funds		**196,828**	189,770	178,887	178,954	169,273
Total Assets		**2,402,148**	2,181,285	2,936,355	3,350,126	3,302,692
Capital / Risk Weighted Assets	#	**21%**	26%	26%	21%	18%
Dollar / sterling exchange rate						
Year end		**$1.65**	$1.62	$1.55	$1.55	$1.61
Average		**$1.57**	$1.60	$1.60	$1.54	$1.56
Numbers of Shares (Actual)		**107,376,884**				

† Dividends are accounted for in the year in which they are paid, not the year in respect of which they are declared.

Unaudited.

In this document the bank’s name is shortened to “BACB” in narrative text. The expression “the Bank” is also used to describe the company.

SHAREHOLDERS

LIBYAN FOREIGN BANK	83.48%
BANQUE EXTÉRIEURE D’ALGÉRIE	8.26%
BANQUE CENTRALE POPULAIRE	8.26%
	100.00%

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BOARD OF DIRECTORS

Mr Robert Douglas Dowie Chairman (independent non-executive director)
Appointed 24 April 2010.

Mr Mohamed Shokri Vice Chairman (non-executive director)
Appointed 26 June 2012

Dr Ezzadin Ashur (non-executive director)
Appointed 17 October 2012

Mr Crispian Denby (executive director)
Appointed 1 March 2013

Mr Sameh Krekshi (non-executive director)
Appointed 17 July 2012

Mr Mohamed Loukal (non-executive director)
Appointed 26 May 2005.

Dr Khaled Kagigi (non-executive director)
Appointed 25 February 2006.

Mr Andrew Martin Chief Executive (executive director)
Appointed 15 April 2013

Mr Michael Stevenson (independent non-executive director)
Appointed 25 March 2011

Mr Mohamed Zine (non-executive director)
Appointed 30 October 2012

Mr Michael Parr ceased to be a director on 15 April 2013.

CHAIRMAN'S STATEMENT

The G3 economies recovered in 2013 with the US shrugging aside fiscal headwinds, the euro zone exiting from recession and Japan's growth being aided by robust exports and consumption. The risk of bank defaults in this region also receded as bank balance sheets were strengthened through capital raisings and, organically, through cost cutting, lower provisioning levels and asset disposals. Borrowing costs continued to stay low due to a combination of policy actions and ample global liquidity.

However euro zone credit risk concerns still have the potential to impede credit growth and in turn threaten what is still a fragile recovery. Similarly there remains significant risk that if global liquidity tightens, or if market sentiment turns abruptly, then funding costs could rise rapidly for countries with weaker fundamentals. Emerging market economies could also come under pressure with implications for G3 corporates and banks with exposures to these regions. New year indications by the US Federal Reserve that it will start tapering its intervention programme led to capital outflows from, and exchange rate volatility in Emerging Market Economies.

Against the still precarious backdrop of the developed economies, the banking sector in BACB's core MENA markets also continued to be very challenging in the context of the continuing difficult regional political and business environment. Despite this I am delighted to report that BACB has been able to deliver a much improved performance in 2013 with an increase in net operating income of 20%.

The year has also been one of rebuilding with the bank investing in intellectual capital, implementing new systems and re-engineering processes. As a consequence I am pleased to report that the bank has successfully introduced a number of new products including real estate finance and a wholesale sharia compliant product offering.

In addition during the year the bank has researched and reviewed a number of new markets in the sub-Saharan Africa region with the intention of utilising our existing product expertise within these markets. We believe sub-Saharan Africa continues to offer significant potential for BACB, both from our traditional trade finance approach and also from participating in syndicated and club structured trade transactions.

We believe that these new initiatives will have a positive affect on the future success of the bank.

During the year, the bank has also continued to enjoy the full support of its shareholders, especially its majority shareholder, the Libyan Foreign Bank.

I would like to thank my fellow directors and all the staff for their valuable contribution to BACB's success in 2013.

R D Dowie
Chairman
14 March 2014

STRATEGIC REPORT

RESULTS (AUDITED)

The results for 2013 represent encouraging progress in the development of the business during the year. Operating income was 20% ahead of the prior year, and profit before tax was 32% ahead:-

	2013 £'000	2012 £'000
Trade finance	19,787	16,167
Banking services	3,116	2,411
Commercial term lending	10,025	7,520
Treasury	13,061	12,892
Other	(1,822)	(1,455)
Total operating income	**44,167**	**37,535**
General and administrative expenses	(23,837)	(20,621)
Net operating income	**20,330**	**16,914**
Impairments	(2,482)	(3,359)
Profit before tax	**17,848**	**13,555**
Cost / Income ratio	54%	55%

Operating income

Starting in 2012, but gathering pace in 2013, the Bank has sought to strengthen its business development activities. It continues to focus on its core North African trade finance franchise, and has taken initiatives to expand into other attractive African markets, in addition to introducing new product expertise. These initiatives have contributed to the improved financial performance in 2013.

The Bank's investment in new business generation has taken place against a background of a challenging environment across the Arab Mediterranean region. In Libya, the country of the Bank's principal shareholder, the political situation continues to settle, meantime, various key projects remain delayed. The Bank has long and well established connections in the country, and it was pleased with the levels of business achieved in 2013. The Bank is well placed to provide further support as the economy of Libya grows.

Good progress has been made in developing business in Morocco, Algeria and Tunisia in 2013. However, the tragic events unfolding in Syria, and the related international sanctions, has removed that country from international financial engagement, and, for the second successive year, the Bank did not undertake any business there. Political events in Egypt also continue to unfold and take an economic toll, increasing risk for those engaged in business in the country.

Our Trade Finance business achieved record levels of new business in 2013, and income (being mostly fee income), was ahead by 22% for the year.

Interest earnings continued to be impacted by the market combination of very low benchmark interest rates across the major currencies, and the need to maintain costly liquid resources. Despite this, interest earnings were higher than the previous year.

Additional revenues derived from new markets enabled the Bank to increase its lending activities, and its overall margins in 2013.

Administrative expenses

At £23.8m (2012: £20.6m) administrative expenses were higher than the previous year by 16%. This planned increase in costs reflects an investment in additional resources during the year. Staff numbers increased by 8% to 153 at end 2013.

The Bank continues to upgrade its technology platforms and software. This project is expected to continue over several years.

Impairments

The level of impairments was about 30% lower than incurred in 2012. Only one new facility was considered to be impaired at the end of 2013.

Balance sheet

Balance sheet totals were as follows:-

	2013 **£'000s**	***2012*** ***£'000s***
Professional market placements, debt securities and derivatives	1,678,710	*1,544,623*
Commercial term lending	587,252	*532,782*
Other	136,186	*103,881*
Balance sheet footings	2,402,148	*2,181,286*
Contingent liabilities	97,193	*94,742*
Other commitments	590,862	*655,082*

Total assets increased by 10% in 2013. The main increase was in Treasury placement and investment activities, with total lending also ahead.

The Bank holds deposits placed with it by its customers, both by way of on-demand current accounts in the Banking department, but also as term deposits in the Treasury. These deposits are placed in professional markets on similar terms, or else invested in liquid and high quality debt securities.

Capital adequacy[1]

At 31 December 2013 and during the year, the Bank held adequate capital as required by the Prudential Regulation Authority (the "PRA").

The Bank's regulatory capital base at 31 December including 2013 retained profits was as follows:

	2013 £'000s	*2012 £'000s*
Tier 1 Capital	192,340	*179,534*
Tier 2 Capital	60,146	*60,661*
Total eligible capital at 31 December	252,486	*240,195*

The amounts of regulatory capital shown above differ from the balances shown in the Bank's Statement of Financial Position after adjustments in respect of certain reserves, which arise on the application of IFRS.

Tier 1 capital comprises share capital and reserves (as adjusted). Tier 2 capital comprises mainly issued term subordinated debt.

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

	2013 £'000	2012 £'000
Credit risk	96,785	73,236
Market risk	2,054	169
Counterparty risk capital component	132	1,634
Operational risk	6,104	6,815
Total Pillar 1 capital requirement	105,075	81,854
Capital in place	252,486	240,195
Excess of capital in place over minimum requirement under Pillar 1	147,411	158,341

Risk Weighted Assets ("**RWAs**") were higher at 31 December 2013 in view of the increase in balance sheet size, together with some increase in the average weightings applied to exposures. This increase in weighted assets led to a reduction in the amount of surplus capital.

Information regarding the Bank's approach to risk management, and its capital adequacy and liquidity are contained in the unaudited disclosures made under the requirements of Basel 2 Pillar 3 (the Pillar 3 disclosures). These disclosures are published on the Bank's website, www.bacb.co.uk.

[1] Unaudited

Liquidity

The Bank maintains sufficient liquidity to meet all known and likely demands which could be made upon it by its customers and ensures that such liquidity is available on a day to day basis in accordance with the liquidity rules as set out in the Regulatory Handbook.

Systemically, most developed financial markets improved throughout 2013. Regrettably, as the year progressed, confidence in emerging markets began to wane particularly as talks of a reduction in quantitative easing in the United States gathered pace.

Notwithstanding, 2013 marked a year of further normalisation for the Bank in its liquidity operations. Conditions in the Bank's traditional markets were by no means benign as evidenced by OPEC oil production statistics from Libya, which indicated 1.4bn barrels per day as at 31st December 2012 against 210,000 barrels per day as at 31st December 2013. The resultant adverse impact on business confidence and political stability negatively influenced the availability of term funding from traditional sources. As a consequence the Bank continues to source liquidity from a concentrated customer base. Efforts continued through 2013 to diversify the depositor base with encouraging success during the fourth quarter of 2013.

The Bank regards itself as a "stand alone" entity, not relying on any related party for future liquidity support in the event of stress. Liquidity is managed by the Bank's Treasury operation, overseen and guided by Management's ALCO committee, and reporting to the Board.

At 31 December 2013 £6,653,000 *(2012: £7,200,000)* had been placed with two other institutions by way of collateral securing derivative and other transactions. The amount of the collateral pledged by the Bank is fixed, though may be varied with the Bank's agreement.

Exposures to the European Union

As disclosed in Note 4, at 31 December 2013, the Bank had exposures to selected institutions and governments of the European Union. The Bank utilises the standardised approach to credit risk described in the Basel II methodology which involves the allocation of credit exposures into credit quality steps, themselves informed by credit ratings awarded by accredited rating agencies. A credit quality step of 1 represents the highest quality credit rating, while a credit quality step of 5 is the lowest. The tables below set out the Bank's exposures in accordance with that Basel II methodology. Specifically, at 31 December 2013, the Bank had no exposures to either the governments of, or institutions or corporates in Greece, Portugal or any other country which would fall to be included in any credit step lower than 3. It may however have exposures to institutions which bear a lower rating than their country of residence.

The Bank's exposures to counterparties resident in the European Union at 31 December 2013 were as follows:-

Credit quality step	Contingent liabilities and other commitments £'000	Cash, loans and advances, debt securities and derivatives £'000	Gross exposure 2013 £'000	*Gross exposure 2012 £'000*
Central Governments or Central Banks				
1	0	122,679	122,679	*35,390*
2	0	0	0	*1,360*
3	0	0	0	*3,251*
	0	122,679	122,679	*40,001*
Institutions				
1	5,860	180,616	186,476	*447,967*
2	2,863	188,187	191,050	*244,475*
3	675	115,835	116,510	*3,628*
4	737	0	737	*49*
5	0	0	0	*5,708*
Unrated	1,800	0	1,800	*579*
	11,935	484,638	496,573	*702,406*
Corporates				
1	0	3,438	3,438	*1,389*
2	0	12,304	12,304	*18,965*
3	0	5,450	5,450	*0*
4	6,312	0	6,312	*23,103*
5	20,133	0	20,133	*0*
Unrated	2,865	0	2,865	*16,865*
	29,310	21,192	50,502	*60,322*
	41,245	**628,509**	**669,754**	***802,729***

The Bank has not considered it necessary to enter into any derivative or other hedging type of arrangements for the purpose of protecting the Bank from credit exposures to borrowers resident in the European Union region.

MANAGEMENT REVIEW

This section, which forms part of the Strategic Report, provides an overview of the activities of the Bank's business departments and support functions during 2013.

Trade Finance

BACB continued to develop its core North African trade finance franchise in 2013. New Letters of Credit and related transactions reached record levels in 2013 increasing by 11%.

Average pricing on risks assumed was also improved, and overall income attributable to trade finance activities was 22% ahead of prior year.

Volumes from Algeria were very strong in 2013, though pricing in this market remains competitive. Volumes from Libya were similar to the prior year, but were below the Bank's targets for 2013 as political events in the country took longer to stabilise. BACB has deep and long established contacts in both the banking and institutional sectors in Libya, and is well placed to work with those entities, and with the international companies who deal with them, in the future.

BACB's plan for 2014 and beyond is to diversify its target countries and thus its sources of income, becoming less dependent on its traditional North African markets. In view of the economic growth in Sub Saharan Africa, BACB has revised its country limits in this wider market, and is developing relationships with the banks and major institutions across this wider region.

Historically BACB was also active in the Eastern Mediterranean area. Some of these markets are now very challenging. When they become available again, the Bank will resume its historic relationships.

Structured Trade and Commodity Finance

Lending balances grew during 2013 by 10%. This expansion was in line with the Bank's decision to broaden its geographic focus to include opportunities in countries in Sub-Saharan Africa. Success was achieved in sourcing new transactions for the Bank at margins which reflected the utilisation of capital and liquidity, and at acceptable risk. Borrowers were either sovereign, quasi-sovereign, trading companies or banks, and transactions financed both imports and exports in the region.

During 2013, the Bank extended facilities to mainly UK based commodity trading companies. These facilities will be either on-demand overdrafts, or short term (30-180 days) for the financing of purchases and sales of commodities by those companies.

The Bank continues to manage its traditional loan book which comprises longer dated facilities to MENA borrowers including oil, gas and power-related project financings, loans to sovereign-related institutions together with holdings of regional sovereign paper. These loans, generally at lower margins than those being achieved on the newer areas referred to above, continue to amortise, and the Bank is currently standing aside from similar longer dated transactions.

	2013 £'000	*2012 £'000*
Project finance	216,464	*134,113*
Asset and Islamic finance	38,848	*52,321*
Other trade and term loans	325,822	*327,690*
Unimpaired loans	581,134	*514,124*
Impaired loans	12,772	*28,256*
Impairments	(6,654)	*(9,598)*
Total term lending	587,252	*532,782*
Comprising:		
Loans and advances to banks	160,982	*199,957*
Loans and advances to customers	432,924	*342,423*
Impairments	(6,654)	*(9,598)*
	587,252	*532,782*

The Bank's 2014 plan envisages further growth in lending to obligors in Sub-Saharan Africa.

Banking Services

Interest rates fell further in 2013 undermining the Bank's ability to generate interest income from on-demand current accounts. Average credit balances were only slightly higher than in the year before, but margins earned on those balances were lower.

Average overdraft balances were also similar to those seen in 2012, though grew in the later part of the year as new facilities under the commodity finance initiative referred to above were drawn down. A re-alignment of margins on these accounts, coupled with good margin income growth on discounted obligations under letter of credit transactions, resulted in overall net interest from banking operations improving by 28%.

As interest rates are predicted to remain low during 2014 we will continue to look to commodity finance and letter of credit discounting to provide the growth in interest income in the short term.

Payment volumes, which are dominated by Libyan originated business, continued to recover with both individual and repetitive payments increasing by 25% over the 2012 figure. This, together with targeted tariff adjustments, helped push up payment commission income by 58%.

Limited sanctions remained in place on selected Libyan parties, which together with the worldwide focus on money laundering and stronger due diligence procedures continue to impact the Bank's traditional payments business.

Treasury

The Treasury department continued to undertake a dual role on behalf of the Bank. The Treasury team provides access for the Bank's customers to the London markets servicing their requirements in interest rate, foreign exchange, derivative and debt markets. This responsibility is combined with the task of managing the Bank's own financial resources, including its balance sheet structure, cashflow and liquidity management, and hedging. The

Treasury department also undertakes own-account (proprietary) trades, taking positions in these markets with a view to earning income for the Bank.

As part of the requirements under the regulatory ILAS, the Bank maintains a primary portfolio of OECD government and related entity fixed and floating rate securities. At 31st December 2013 this portfolio totalled £359,091,000 *(31st December 2012*: *£290,187,000).* These bonds tend to yield a return commensurate to their risk rating which the Bank seeks to supplement by way of a secondary portfolio of bank and corporate debt securities (including bank certificates of deposit) issued by well rated entities.

During 2013 BACB's rating was affirmed by Fitch at BB. While the Bank's access to funded credit lines from large international financial institutions remains limited, its access to derivative and other trading lines is acceptable, and it is able to price transactions on behalf of its customers across the full range of markets on a fully 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.

In 2014 the Treasury department will continue to grow its core business with its institutional clients from the MENA region. Relationships in Sub-Saharan, and wider African markets will also be explored, especially those with some link to the Arab world. The regulatory challenges in the areas of liquidity, capital management and due diligence are not expected to abate.

Risk Management and Compliance

Credit Risk remains the most important risk in the bank, and during 2013 it continued to be an area of major focus in the light of political and social events in the Bank's niche markets, combined with the continuing sovereign debt issues in the Eurozone and elsewhere. The Bank reacted by restricting exposure and tenors to higher risk counterparties whilst continuing to manage challenging credit situations.

The Bank faces a range of other important risks including liquidity, market and operational 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 accounts.

The UK regulatory move into "twin peaks" regulation was a primary focus in 2013, as dual regulation has resulted in a larger compliance burden for the Bank. The detail and potential impacts were continually reviewed as the regulators issued guidance on the new regulations As a result, regulatory compliance continues to be a key area for the Bank and in response to the challenging regulatory environment the Risk & Compliance department was restructured early in 2013 into two separate disciplines.

Other important compliance tasks included the submission of the Bank's Recovery and Resolution Plan, EMIR implementation, work on implementing the Basel 3 accords and new large exposure rules, analysis of the new regulatory reporting (COREP) rules, and assessment of the impact of the US offshore tax reporting under FATCA. Appropriate controls and oversight continued to be exercised in these areas.

Information Technology

In 2013 the Bank continued the programme of investment which had begun in 2011 to refresh its core banking, compliance, regulatory and risk Information Technology ("**IT**") infrastructure. A major upgrade to the Bank's payments system during the year is delivering commercial benefits internally and for the Bank's customers. This upgrade represented the first phase of a major project which will be completed in 2014.

In the second half of 2013, work commenced on the Bank's hardware infrastructure to improve its resilience and scalability and the project is intended to underpin the core banking, compliance, regulatory and risk programs during 2014 and in the future.

In 2014 the Bank will commence a project to install the latest version of its core banking system. The Bank is committed to keeping up to date with technology thereby ensuring that it is able to take advantage of the latest IT capabilities.

Internal Audit

Internal Audit is fully independent of the business and undertakes a risk-based audit programme to review the internal controls, regulatory and risk management processes of the Bank.

During 2013, the Internal Audit programme for the year was completed successfully.

For 2014 the Bank has decided to fully outsource its Internal Audit function. A professional services firm has been appointed in this regard, and their proposed programme of work is being drawn up in agreement with the Audit & Risk Committee.

Facilities Management

The Bank takes seriously its responsibilities for Health and Safety, both for its employees and third parties. The Bank is also committed to reducing the environmental impact of its operations, both through recycling and waste minimisation, and reduced energy consumption.

In January 2014, the Bank received a runner-up Platinum award in its category in the City Corporation Clean City Award competition for its efforts in this area during 2013.

Human Resources

Staff remuneration within the banking industry remained in sharp focus in 2013, particularly the performance related (bonus) element. From a regulatory perspective, in line with the Remuneration Code ("**the Code**"), the Board of the Bank approves a Remuneration Policy Statement annually. Certain disclosures are required by the Code and the Bank has included these in its Pillar 3 disclosures document, available on the Bank's website at www.bacb.co.uk.

The Bank expects all staff to adhere to a set of Core Standards of behaviour in everything they do, from promoting the Bank to co-operating with colleagues, whilst acting with integrity and respect at all times. The Core Standards include an awareness of individual responsibility for understanding, and acting in accordance with, the Bank's Risk and

Compliance frameworks. All employees are assessed against this requirement as part of their annual objective setting and appraisal.

Whilst welcoming new staff, the Bank also continued to retain a high proportion of its experienced employees with low voluntary turnover levels. A planned review of the resource requirements of all departments was conducted over the year to ensure that they had the necessary skills to deliver to the Bank's plans and a small number of redundancies resulted.

Corporate Governance and Committee Structure

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 documents and 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.

Board arrangements

The Board comprises the individuals listed on page 4. It 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 Finance Director are full time employees of the Bank and are regarded as being an Executive Directors. All of the other directors are regarded as being Non-Executive Directors. The Board met six times during 2013.

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

External Credit Committee ("ECC")

The Board has delegated authority to approve the granting of credit applications to the CE subject to certain limits. The CE has constituted an Internal Credit Committee ("ICC") which exercises that authority. Applications above those limits must be referred to the External Credit Committee for their consideration and approval. The committee does not meet, but instead considers applications as they arise. Decisions of the committee must be unanimous to be valid.

The members of the ECC are Mr RD Dowie, Mr S Krekshi and Mr M Loukal.

Audit & Risk Committee ("ARC")

Non-Executive Directors are eligible to sit on the Audit & Risk Committee. The committee meets at least four times a year to consider 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.

The committee met separately from the Board four times during 2013. The ARC is chaired by Mr M Stevenson. Mr RD Dowie, Mr M Shokri, Dr K Kagigi and Mr Zine are members of ARC.

Compensation Committee
The Compensation Committee meets as required to agree the remuneration and employment policies of the Bank.

The Compensation Committee is chaired by Mr RD Dowie. Mr Loukal, Dr E Ashur and Mr M Stevenson are members of the committee.

Nominations Committee
An ad-hoc committee which is formed when the need to make appointments involving the Board arises. During 2013 the committee acted in the matter of the selection of a new CE for the Bank.

Executive Management
Led by the CE, Executive Management comprises the executive managers who are responsible for the day-to-day operations and management of the Bank. The Executive Management meets weekly as a committee ("**ExCo**") and has itself constituted a number of sub-committees to manage particular aspects of the Bank's business, including the Finance & Operations Committee ("**FinOps**"), Asset and Liability Committee ("**ALCO"**), ICC (see above), IT Steering Committee ("**ITSC**"), HR Committee ("**HRC**") and Security Committee. Executive and other managers and staff within the Bank carry authority to bind the Bank under "A and B Signature Authority" arrangements handed down by the Board.

Crispian Denby
Secretary
By order of the Board
14 March 2014

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 IFRSs as adopted by the EU and applicable law.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of 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 judgments 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 2013

The directors present their annual report and the audited financial statements for the year ended 31 December 2013. These financial statements have been prepared in accordance with the Companies Act 2006 and applicable accounting standards.

Activities

The Bank is authorised under the terms of the Financial Services and Markets Act 2000 and is regulated by the Prudential Regulatory Authority, and the Financial Conduct Authority.

The Bank continued to transact its international banking business in the areas of treasury markets, commercial and correspondent banking and medium-term lending.

Financial risk management objectives and policies

The Bank is subject to various operational and market risks in its day-to-day operations.

The Bank's objectives and policies with regard to financial risk, including the policy for hedging, are set out in Note 4 to the financial statements and an indication of the exposure to financial risk is provided both there and in Notes 5, 19, 30 and 31.

Results

The profit after taxation for the year amounted to £13,767,000. The Directors do not recommend any dividend in respect of this profit (2012: £7,200,000), and the profit after taxation will be retained in the Profit and Loss account.

Going concern basis of accounting

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 6 to 16. That review includes a review of the income statement and financial position, and describes the Bank's objectives, policies and processes for managing credit, liquidity and market risk. Further information regarding the risks assumed by the Bank is set out in Note 4.

In addition, the Directors have considered future projections of profitability, cash flows and capital resources in making their assessment.

DIRECTORS' REPORT

for the year ended 31 December 2013 (continued)

Business review
Commentary on the Bank's financial performance in the year is provided in the Strategic Report set out on pages 6 to 16 (the 'Results' section has been audited except where clearly marked).

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

Charitable donations
Charitable donations during the year amounted to £20,000.

Directors and their interests
A list of the directors who served during the year is shown on page 4. None of the directors holds or has held shares in the Bank. All of the directors benefited from qualifying third party indemnity provisions in place during the financial year and at the date of this report.

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.

Auditors
KPMG Audit Plc was appointed to act as the Bank's auditors for the year ended 31 December 2013. KPMG Audit Plc has instigated an orderly wind down of its business. The Board has decided to propose that KPMG LLP be appointed as auditors and a resolution concerning their appointment will be put to the forthcoming annual general meeting of the company.

Crispian Denby
Secretary
By order of the Board
14 March 2014

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 2013 set out on pages 22 to 79. 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 2013 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the EU; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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.

Paul Furneaux
(Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
London
14 March 2014

All amounts in £'000s unless otherwise stated

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2013

	Note	2013	*2012*
Interest and similar income	7	32,643	*30,827*
Less: Interest expense and similar charges	7	(17,379)	*(16,913)*
Net interest income		15,264	*13,914*
Fee and commission income	8	21,084	*17,213*
Less: Fee and commission expense	8	(652)	*(822)*
Net fee and commission income		20,432	*16,391*
Net trading income	9	7,875	*6,598*
Other operating income		596	*632*
Total operating income		44,167	*37,535*
General administrative expenses	10	(23,837)	*(20,621)*
Net charge for impairment losses on loans and advances	11	(2,482)	*(3,359)*
		(26,319)	*(23,980)*
Profit before income tax		17,848	*13,555*
Income tax expense	12	(4,081)	*(3,332)*
Profit for the year		13,767	*10,223*
Other comprehensive income/(expense)			
Items that will never be reclassified to profit or loss			
Actuarial gain/(loss) on pension fund	24	299	*(3,823)*
Related Tax		(166)	*875*
		133	*(2,948)*
Items that are or may be reclassified to profit or loss			
Change in fair value of available for sale financial assets	12	976	*4,741*
Fair value gains attributable to available for sale financial assets transferred to income	12	(588)	*(17)*
Related Tax		*(30)*	*(1,116)*
		358	*3,608*
Other comprehensive gain for the period, net of tax		491	*660*
Total comprehensive gain for the period		14,258	*10,883*

All of the profit for the financial year and the prior year was derived from continuing activities.

The Notes on pages 26 to 79 form part of these financial statements.

All amounts in £'000s unless otherwise stated

STATEMENT OF FINANCIAL POSITION

As at 31 December 2013

	Note	2013	*2012*
Assets			
Cash, notes and coin		223	*509*
Debt securities	13	746,475	*583,233*
Loans and advances to banks	14	1,156,909	*1,205,647*
Loans and advances to customers	15	456,896	*352,551*
Equity shares and investments	16	13,841	*11,853*
Shares in bank undertakings	17	0	*1*
Property, plant and equipment	18	8,875	*8,921*
Intangible assets	18	2,031	*1,887*
Deferred taxation	23	0	*15*
Derivatives	19	1,271	*2,244*
Corporation tax receivable		0	*234*
Prepayments, accrued income and other debtors	20	15,627	*14,191*
Total assets		**2,402,148**	***2,181,286***
Liabilities			
Deposits from banks	21	1,452,278	*1,258,217*
Other deposits	21	674,490	*653,302*
Other liabilities, accruals and deferred income	22	16,281	*16,797*
Deferred taxation	23	179	*0*
Derivatives	20	1,014	*2,452*
Corporation tax payable		1,264	*0*
Net pension liability	24	2,673	*2,484*
Subordinated liabilities	25	57,141	*58,264*
Total liabilities		2,205,320	*1,991,516*
Called up share capital	26	79,453	*79,453*
Capital redemption reserve	27	4,104	*4,104*
Other reserves	27	113,271	*106,213*
Capital and reserves attributable to the Bank's equity holders	27	196,828	*189,770*
Total liabilities and equity		**2,402,148**	***2,181,286***

The Notes on pages 26 to 79 form part of these financial statements.

Signed:

Mr R D Dowie
Chairman

Mr M Shokri
Vice Chairman

Mr A Martin
Chief Executive

14 March 2014

All amounts in £'000s unless otherwise stated

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013

	Share capital	Reserves attributable to equity holders				Total
		AFS reserve	Capital redemption reserve	Retained earnings	Total reserves	
Balance at 31 December 2011	**79,453**	**(445)**	**4,104**	**95,775**	**99,434**	**178,887**
Profit for 2012	0	0	0	10,223	10,223	10,223
Other comprehensive income / (expense) for 2012	0	3,608	0	(2,948)	660	660
Balance at 31 December 2012	**79,453**	**3,163**	**4,104**	**103,050**	**110,317**	**189,770**
Profit for 2013	0	0	0	13,767	13,767	13,767
Other comprehensive income / (expense) for 2013	0	358	0	133	491	491
Dividend relating to 2012	0	0	0	(7,200)	(7,200)	(7,200)
Balance at 31 December 2013	**79,453**	**3,521**	**4,104**	**109,750**	**117,375**	**196,828**

All amounts in £'000s unless otherwise stated

STATEMENT OF CASH FLOW

For the year ended 31 December 2013

	2013	*2012*
Net cash flow from operating activities		
Profit before taxation	17,848	*13,555*
Adjustments for:		
Loan impairment losses	2,482	*3,359*
(Profit)/loss on realisation of equity shares and investments	(309)	*16*
Depreciation and amortisation	1,128	*1,010*
Loss/(profit) on sale of fixed assets	141	*(5)*
Non-cash items included in net profit	3,442	*4,380*
Loans, advances and other debt securities other than cash and cash equivalents	(200,768)	*(173,971)*
Other debtors and prepayments	(606)	*(1,552)*
Change in operating assets	(201,374)	*(175,523)*
Customer accounts and deposits by banks	225,768	*(686,651)*
Other liabilities	(1,491)	*3,447*
Change in operating liabilties	224,277	*(683,204)*
Tax paid	(2,515)	*(1,132)*
Net cash generated from/(used in) operating activities	41,678	*(841,924)*
Cash flow from investing activities:		
Purchases of equity shares and investments	(1,691)	*(1,889)*
Proceeds of redemptions of equity shares and investments	629	*119*
Proceeds on sale of fixed assets	18	*18*
Purchase of tangible assets	(491)	*(195)*
Purchase of intangible assets	(894)	*(1,195)*
Net cash used in investing activities	(2,429)	*(3,142)*
Financing activities: dividends paid	(7,200)	*0*
Net increase/(reduction) in cash and cash equivalents	**32,049**	***(845,066)***
Cash equivalents at the beginning of the year	1,014,858	*1,916,869*
Effect of exchange rate change on cash and cash equivalents	(5,441)	*(56,945)*
Cash and cash equivalents at the end of the year	1,041,466	*1,014,858*
Cash and cash equivalents comprise		
Cash, notes and coin	223	*509*
Loans and advances to banks of original maturity three months or less	1,031,243	*993,932*
Certificates of deposit and other debt securities of three months original maturity or less	10,000	*20,417*
	1,041,466	*1,014,858*

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

1. General information

British Arab Commercial Bank plc ('the Bank') 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, and its worldwide activities are regulated by the Prudential Regulatory Authority ("the PRA"), and the Financial Conduct Authority ("the FCA").

The financial statements were authorised for issue by the board of directors on 14 March 2014.

2. Basis of preparation

The Bank has prepared its financial statements on a going concern basis in accordance with International Financial Reporting Standards ('IFRS') as adopted by the EU and effective for the Bank's reporting for the year ended 31 December 2013. IFRS comprise accounting standards issued by the International Accounting Standards Board ('IASB') and its predecessor body as well 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 6.

The following IFRS standards were adopted by the Bank during 2013:-

IFRS 7 Financial Instruments
This standard requires disclosure of the effect or potential effects of netting arrangements on an entity's financial position. The amendment requires disclosure of recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement. The standard is effective for annual periods beginning on or after 1 January 2013.

IFRS 13 Fair Value Measurement
This standard replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. It explains how to measure fair value when it is required or permitted by other IFRSs. It does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards. The standard also sets out certain specific disclosure requirements which are required to meet the disclosure objective within the standard. The standard is effective for annual periods beginning on or after 1 January 2013.

A number of changes in IFRS are now being proposed by the IASB which are expected to affect the Bank's reporting in future years. The changes of most relevance to the Bank are as follows:-

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 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 annual periods beginning on or after 1 January 2018.

IAS 32 Offsetting Financial Assets and Financial Liabilities
The amendments to the standard address inconsistencies in current practice when applying the offsetting criteria. The amendments clarify the meaning of 'currently has a legally enforceable right of set-off'; and confirms that some gross settlement systems may be considered equivalent to net settlement. The standard is effective for annual periods beginning on or after 1 January 2014.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

a) Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognised in *Interest and similar income* and *Interest expense and similar charges* 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. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but not future credit losses. The calculation includes all amounts paid or received by the Bank that are an integral part of the effective interest rate, including transaction costs and all other premiums or discounts. Interest on impaired financial assets is recognised at the original effective interest rate of the financial asset applied to the carrying amount as reduced by any allowance for impairment.

b) Fee and commission income

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

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

The Bank provides certain guarantee facilities which are dependant 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 rateably 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, which is also the reporting currency of the Bank.

Transactions in foreign currencies are recorded in sterling at the rate of exchange prevailing at the end of the month in 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. 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. 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.

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 directly in shareholders' equity, in which case it is recognised in shareholders' equity.

Current tax is the tax expected to be payable on the taxable profit 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 periods in which the assets will be realised or the liabilities settled.

Deferred tax relating to actuarial gains and losses arising from post-employment benefit plans which are recognised directly in equity, is also credited or charged directly to equity.

Deferred tax relating to fair value re-measurement of available-for-sale investments and cash flow hedges, which are charged or credited directly to equity, is also credited or charged directly to equity and is subsequently recognised in the income statement when the deferred fair value gain or loss is recognised in the income statement.

f) Derivatives and hedge accounting

Derivatives are recognised initially, and are subsequently remeasured, 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 clearly and 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2013

Derivative assets and liabilities on different transactions are only netted if the transactions are with the same counterparty, a legal right of set-off exists, and the cash flows are intended to be settled on a net basis, and assets and liabilities are realised and settled simultaneously.

The method of recognising fair value gains or losses depends on whether the derivative is held for trading, or is designated as a hedging instrument, and if so, the nature of the risk being hedged. All gains and losses from changes in the fair value of derivatives held for trading are recognised in the income statement. Where derivatives are designated as hedges, the Bank classifies them as either: (i) hedges of the change in fair value of recognised assets or liabilities or firm commitments ('fair value hedge'); or (ii) hedges of the variability in highly probable future cash flows attributable to a recognised asset or liability, or a forecast transaction ('cash flow hedge'). Hedge accounting is applied to derivatives designated as hedging instruments provided certain criteria are met.

Hedge accounting
It is the Bank's policy to document, at the inception of a hedging relationship, the relationship between the hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking the hedge. Such policies also require documentation of the assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items attributable to the hedged risks. Interest on designated qualifying hedges is included in Net interest income.

Fair value hedge
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.

If the hedging relationship no longer meets the criteria for hedge accounting, the cumulative adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to the income statement over the residual period to maturity. Where the adjustment relates to the carrying amount of a hedged available-for-sale equity security, this remains in equity until the disposal of the equity security.

Cash flow hedge
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. Any gain or loss relating to an ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled to the income statement in the periods in which the hedged item will affect profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity until the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Hedge effectiveness testing
To qualify for hedge accounting, IAS39 requires that at the inception of the hedge and throughout its life, each hedge must be expected to be highly effective (prospective effectiveness). Actual effectiveness (retrospective effectiveness) must also be demonstrated on an ongoing basis.

The documentation of each hedging relationship sets out how the effectiveness of the hedge is assessed. The method adopted by the Bank for assessing hedge effectiveness will depend on its risk management strategy.

For prospective effectiveness, the hedging instrument must be expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated. For actual effectiveness, the changes in fair value or cash flows must offset each other in the range of 80% to 125% for the hedge to be deemed effective.
Derivatives that do not qualify for hedge accounting
All gains and losses arising from changes in the fair value of any derivative that does not qualify for hedge accounting are recognised immediately in the income statement. These gains and losses are reported in Interest and similar income.

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; held-to-maturity investments; and available-for-sale financial assets. Management has determined the classification of its investments at 1 January 2005, and thereafter on initial recognition.

i. Financial assets at fair value through profit and loss
This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit and loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges.

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. Held-to-maturity
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity. Were the Bank to sell other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available for sale.

The Bank's management has not identified any assets as falling within this category.

iv. 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.

Purchases and sales of financial assets held to maturity and 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. Derivatives and 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 and held-to-maturity investments 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 period 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 (Note 3g) 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.

h) 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 realise the asset and settle the liability simultaneously.

i) 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; or
ii. substantially all the risks and rewards have neither been retained nor transferred but control is not retained.

Financial liabilities are de-recognised when they are extinguished, i.e. when the obligation is discharged or cancelled or expires.

j) 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 reliably 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 cashflows 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 on the assets in the portfolio.

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. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

Once a financial asset or portfolio of similar assets has been written down as a result of an impairment loss, interest income is thereafter recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the loss.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments 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 or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Bank may measure impairment on the basis of an instrument's fair value using an observable market price.

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.

For the purposes of a collective evaluation of impairment, financial assets are Banked on the basis of similar credit risk characteristics (i.e., on the basis of the Bank's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for Banks of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a portfolio of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Bank and historical loss experience for assets with credit risk characteristics similar to those in the Bank. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to

remove the effects of conditions in the historical period that do not exist currently.
Estimates of changes in future cash flows for Banks of assets reflect and are directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the portfolio and their magnitude). These estimates also take into account the extent to which individual assets within the portfolio have been subjected to specific review. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

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. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the income statement.

k) Property, plant and equipment

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

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

Leasehold premises and leasehold land (see Note 3n) comprises the Bank's principal office in London. 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 period 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 determined by comparing proceeds with the carrying amount. These are included in the income statement.

l) 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.

m) Prepayments and accrued income

The cost of leasehold land is amortised as a rental prepayment over the life of the lease (147 years and 1 month) on a straight-line basis. At 31 December 2013, the lease had 134 years and 2 months remaining.

n) 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.

o) Provisions

Provisions for restructuring costs and legal claims 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.

Contingent liabilities are possible obligations whose existence depends on the outcome of

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2013

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.

Where the Bank enters into financial guarantee contracts to guarantee the indebtedness of other companies within the Bank, the Bank considers these to be insurance arrangements and accounts for them as such. In this respect, the Bank treats the guarantee contract as a contingent liability until such time as it becomes probable that the Bank will be required to make a payment under the guarantee.

p) 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 if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The net asset or liability recognised in the statement of financial position in respect of the defined benefit pension plan is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs. 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 retained earnings. Other gains and losses are taken to the income statement.

The IASB published revisions to IAS19 which became effective for the Bank from 1 January 2013. Under the revised standard the expected return on pension fund assets should be determined by reference to the discount rate (and described as interest on scheme assets) rather than to the long term expected return on those assets, and is described as Interest Income. In addition, the expenses of administering the scheme should be recognised separately in the income statement rather than deducted from the expected return on scheme assets. The effect of this change in policy was not material for the Bank in 2012, and the comparative results have not been adjusted.

For 2013 the long term expected return on scheme assets would have been £391,000 higher than the interest on those assets. Accordingly in 2013 the expense included in the income statement has been increased by this amount, and the amount recognised in Other Comprehensive Income correspondingly reduced.

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2013

q) 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.

r) 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 on ordinary shares are recognised in equity in the period in which they are approved by the Company's shareholders.

s) Segmental reporting

An operating segment is a component of the Bank that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Bank's other segments. All operating segments are reviewed regularly by the Bank's Executive Management to make decisions about resources to be allocated to the segment, and to assess its performance, and for which discrete financial information is available.

t) Earnings per share

The Bank presents earnings per share data for its ordinary shares by dividing the profit or loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding in the period.

4. Risk management

The Bank has an established risk management culture, long-standing written policies and procedures, and follows a documented control framework, the maintenance of which falls within the general responsibility of the Bank's Audit & Risk Committee, a sub-committee of the Board of Directors ('the Board').

The Board has overall responsibility for the determination of the risk appetite of the Bank. It determines the high level risk framework, monitors the utilisation of limits and the operation of the control processes. Risks are measured, controlled and limited through clear governance structures, supported by written policies and procedures.

Key elements within these controls are the Internal Audit and the Risk Management departments.

The Internal Audit function undertakes an ongoing risk based review programme covering all areas of the Bank's operations. The Internal Audit function reports to the Audit & Risk Committee and to the Chief Executive.

The Risk Management department is responsible for identifying, monitoring and managing the risks faced by the Bank. The department is also responsible for the implementation of appropriate policies and monitoring programmes to manage the Bank's exposure to potential losses arising in all areas of risk. Risk Management also has responsibility for review and amendment of the Bank's internal credit gradings, market and operational risk management practices.

The principal risks faced by the Bank are described below, together with details of how these risks are managed, and quantitative information indicates the amounts of such risks at the reporting date. The amounts at the reporting date are indicative of the amounts of such risks which have been experienced throughout the period.

CREDIT RISK

The Bank is exposed to credit risk in its on and off-balance sheet activities, and in its daily settlements. The Bank manages credit risk by establishing country and individual counterparty limits and limits for closely related counterparties, based upon an independent assessment by the Bank's Risk Management and Institutional & Corporate Banking departments of relevant political, economic and financial information. Once approved, such limits are subject to annual credit review by these departments and submitted for re-approval under delegated credit authorities.

The Bank takes cash collateral and employs other credit mitigants in appropriate circumstances. The Bank ensures that relevant documentation for such facilities is in place and has obtained opinions from external legal counsel that such documentation is legally enforceable in all relevant jurisdictions. At 31 December 2013 the value of cash collateral held by the Bank on terms under which set off can be applied in the event of default by the counterparty was £213,498,000 (2012: £255,919,000). 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.

The Bank is a third-party member of the Continuous Linked Settlement ('CLS') system, which eliminates counterparty settlement risk on eligible trades.

The Bank also employs a credit grading system, to facilitate monitoring of the quality of the overall portfolio and individual segments thereof, including movements in the portfolio over time. The grading methodology was improved during 2013 with the introduction of the Moodys KMV Risk Analyst

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For the year ended 31 December 2013

system. This system expands the number of grades for banks and for corporates allowing a more detailed and systematic appreciation of the credit risk in the book. Credit risks assessed in accordance with that methodology have been grouped together in the table below to permit a mapping against the previous methodology:

31 December 2013 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 (Prime)	2,980	454,019	456,999	0	456,999
Grade 2 (High)	56	3,278	3,334	0	3,334
Grade 3 (High)	211	81,466	81,677	0	81,677
Grade 4 (High)	9,990	259,162	269,152	(9,236)	259,916
Grade 5 (Upper Medium)	88,552	338,217	426,769	0	426,769
Grade 6 (Upper Medium)	54,922	258,582	313,504	(40,390)	273,114
Grade 7 (Upper Medium)	93,758	327,088	420,846	(57,171)	363,675
Grade 8 (Lower Medium)	208,066	226,403	434,469	(26,120)	408,349
Grade 9 (Lower Medium)	79,184	228,567	307,751	(12,681)	295,070
Grade 10 (Non Investment)	117,665	48,232	165,897	(62,924)	102,973
Grade 11 (Speculative)	22,547	48,842	71,389	(4,823)	66,566
Total acceptable risk	677,931	2,273,856	2,951,787	(213,345)	2,738,442
Grade 12 (Watchlist)	10,124	8,218	18,342	(153)	18,189
Grade 13 (Substandard)	0	9,026	9,026	0	9,026
Grade 14 (Doubtful)	0	25,113	25,113	0	25,113
Less: impairments	0	(18,994)	(18,994)	0	(18,994)
Grade 15 (Loss)	0	0	0	0	0
Total credit exposures	688,055	2,297,219	2,985,274	(213,498)	2,771,776

31 December 2012 Grade	*Contingent liabilities and other commitments*	*Cash, loans and advances, debt securities and derivatives*	*Maximum exposure to credit risk*	*Cash collateral*	*Net credit exposure*
Total acceptable risk	*733,088*	*2,061,437*	*2,794,525*	*(255,259)*	*2,539,266*
Less: impairments	*0*	*(469)*	*(469)*	*0*	*(469)*
Watchlist	*10,092*	*18,337*	*28,429*	*(617)*	*27,812*
Substandard	*0*	*9,259*	*9,259*	*0*	*9,259*
Doubtful	*6,645*	*24,868*	*31,513*	*(43)*	*31,470*
Less: impairments	*0*	*(21,172)*	*(21,172)*	*0*	*(21,172)*
Loss	*0*	*0*	*0*	*0*	*0*
Total credit exposures	*749,825*	*2,092,260*	*2,842,085*	*(255,919)*	*2,586,166*

All amounts in £'000s unless otherwise stated

The Bank's Risk Committee, of which the Chief Executive and other executive managers are members, meets monthly to consider high-level policies and country limits, whilst a monthly Internal Credit Committee reviews individual credit exposures and serves as an additional point of reference and challenge regarding the assumption of additional credit and country risk.

The Bank provides facilities to in excess of 350 counterparties encompassing exposure in over 60 countries and territories *(2012: same as 2013)*. Regional concentrations of credit risk arising from operations were as follows:

31 December 2013	**Contingent liabilities and other commitments**	**Cash, loans and advances, debt securities and derivatives**	**Total**
United Kingdom	35,359	687,497	722,856
Other European Union	41,245	628,509	669,754
Middle East and Africa	583,147	643,336	1,226,483
Other Countries	28,304	356,871	385,175
Impairments	0	(18,994)	(18,994)
Maximum exposure to credit risk	688,055	2,297,219	2,985,274
31 December 2012			
United Kingdom	*26,917*	*603,144*	*630,061*
Other European Union	*117,984*	*684,745*	*802,729*
Middle East and Africa	*570,853*	*551,916*	*1,122,769*
Other Countries	*34,071*	*274,096*	*308,167*
Impairments	*0*	*(21,641)*	*(21,641)*
Maximum exposure to credit risk	*749,825*	*2,092,260*	*2,842,085*

All amounts in £'000s unless otherwise stated

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2013

By industry, concentrations of credit risk were as follows:

	2013	*2012*
Financial institutions		
(including central banks)		
Banks	2,076,689	*2,162,091*
UK building societies	3,149	*92,000*
Multilateral financial institutions	9,434	*2,928*
Other financial intermediaries	21,533	*33,294*
	2,110,805	*2,290,313*
Corporates		
Commodities	32,849	*15,821*
Construction and engineering	31,651	*36,778*
Energy	216,168	*162,572*
Non-bank credit grantors	16,911	*28,827*
Transport and storage	31,741	*37,940*
Other	346,304	*187,200*
	675,624	*469,138*
Public administration	217,839	*104,275*
Impairments	(18,994)	*(21,641)*
Maximum exposure to credit risk	**2,985,274**	***2,842,085***

Maximum exposure to credit risk comprises:

	2013	***2012***
Cash, notes and coin	223	*509*
Debt securities	746,475	*583,233*
Loans and advances to banks	1,156,909	*1,205,647*
Less bills discounted (Note 14) *	(64,555)	*(51,923)*
Loans and advances to customers	456,896	*352,551*
Derivatives (Note 21)	1,271	*2,244*
	2,297,219	*2,092,261*
Contingent liabilities (Note 28)	97,193	*94,742*
Other commitments (Note 29)	590,862	*655,082*
	688,055	*749,824*
	2,985,274	***2,842,085***

* Note: Bills discounted represent a prepayment of Bank obligations and therefore do not give rise to credit risk.

All amounts in £'000s unless otherwise stated

MARKET RISKS

Banking and trading

As part of its banking activities, and for the purpose of providing efficient services to its customers, the Bank holds and issues financial instruments including derivative contracts. The Bank's objectives in holding such instruments, or entering into such contracts, may either be characterised as being in pursuance of its principal banking activities, or as a trading activity carried on as an adjunct to its banking activities.

The Bank's trading activities are accounted for on a mark-to-market basis, and financial assets, financial liabilities and derivatives which form part of such activities are accounted for at fair value through the profit and loss account. In identifying activities to be accounted for on this basis, the Bank takes into consideration the following factors:

- The Bank's motive for trading that instrument, and in particular where the purpose is to sell or repurchase in the short term, or
- where the instruments formed part of a portfolio for which there is evidence of a recent actual pattern of short term profit-taking, or
- where it is a derivative other than a financial guarantee contract, or a designated and effective hedging instrument.

The Bank's trading activities are limited to transactions in financial instruments, mainly comprising the trading of foreign exchange and debt securities. Market risk is primarily to exchange and interest rates. Exposures to those markets, together with a description of the risk management policies arising from both banking and trading activities are set out below. Market risk exposures are measured and monitored daily and are formally reviewed monthly by the Bank's Asset and Liability Committee.

Exchange rate risk

The Bank makes loans, and takes deposits, in a number of currencies. Payments made on behalf of customers in one currency may be met from balances held in another currency. Further, the Bank is active in the international foreign exchange markets, both for own account trading, and for the management of Bank assets and liabilities. Note 31 sets out the concentrations of currency assets and liabilities in the Bank's statement of financial position.

The Bank manages its exposures to foreign exchange risk by way of limits on the size of permitted positions, both intra-day and overnight. Overnight positions are 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's overall net short position at 31 December 2013 (being the sterling equivalent value of all the currencies where the currency obligations were higher than currency receivables) was £549,000 *(2012: £503,000).* Were these currencies to strengthen by 5% against the remaining currencies, then the Bank would lose £27,000 *(2012: £25,000).* Positions as determined daily were as follows:

	2013	*2012*
	£'000	*£'000*
Maximum	5,419	*2,927*
Minimum	275	*241*
Average	854	*962*

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 a methodology called the Present Value of a Basis Point ('PVBP'). Limits are placed on the overall amount of calculated PVBP, and the size of those limits is consistent with the amount of profit that the Bank is prepared to place at risk in the interest rate market. The Bank considers the impact of changes in future interest rates on its future income streams by reference to these interest rate gaps.

All amounts in £'000s unless otherwise stated

As at 31 December 2013, PVBP amounted to £25,849 *(2012: £7,616).* PVBP (calculated on a daily basis) was as follows:

	2013	*2012*
	£	£
Maximum	27,946	*13,565*
Minimum	13,772	*1,131*
Average	20,232	*5,846*

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 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. Hedge accounting is applied in accordance with IAS39, and hedges are not generally entered into which would not qualify as such in accordance with the rules in that standard. The majority of derivative hedges are designated as fair value hedges (see also Note 3g).

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

31 December 2013	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Non- interest bearing**	**Total**
Debt securities	161,597	281,295	187,862	102,994	6,048	6,681	746,477
Loans and advances to banks	838,231	248,306	70,702	0	0	(330)	1,156,909
Loans and advances to customers	151,978	197,933	125,669	302	0	(18,986)	456,896
Other assets	0	0	0	0	0	41,866	41,866
Total assets	**1,151,806**	**727,534**	**384,233**	**103,296**	**6,048**	**29,231**	**2,402,148**
Deposits from banks	789,167	448,307	121,959	92,711	0	134	1,452,278
Other deposits	537,831	102,059	34,219	0	0	381	674,490
Subordinated liabilities	0	57,141	0	0	0	0	57,141
Other liabilities and shareholders' funds	0	0	0	0	0	218,239	218,239
Total equity and liabilities	**1,326,998**	**607,507**	**156,178**	**92,711**	**0**	**218,754**	**2,402,148**
Derivatives (at contract value)							
Receivable	41,574	19,826	4,923	51,064	0	0	
Payable	81,803	0	2,117	27,918	6,048	0	
Overall gap	(215,421)	139,853	230,861	33,731	0	(189,523)	
Reverse Cumulative gap	**189,024**	**404,445**	**264,592**	**33,731**	**0**	**(189,523)**	

All amounts in £'000s unless otherwise stated

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For the year ended 31 December 2013

31 December 2012	*Up to 1 month*	*1-3 months*	*3-12 months*	*1-5 years*	*Over 5 years*	*Non-interest bearing*	*Total*
Debt securities	*85,143*	*122,803*	*302,069*	*67,336*	*0*	*5,882*	*583,233*
Loans and advances to banks	*1,054,520*	*125,392*	*25,579*	*0*	*0*	*156*	*1,205,647*
Loans and advances to customers	*85,411*	*152,049*	*118,619*	*13,936*	*4,505*	*(21,969)*	*352,551*
Other assets						*39,855*	*39,855*
Total assets	***1,225,074***	***400,244***	***446,267***	***81,272***	***4,505***	***23,924***	***2,181,286***
Deposits from banks	*860,150*	*255,611*	*142,456*	*0*	*0*	*0*	*1,258,217*
Other deposits	*500,935*	*46,480*	*72,909*	*32,593*	*0*	*385*	*653,302*
Subordinated liabilities	*0*	*58,264*	*0*	*0*	*0*	*0*	*58,264*
Other liabilities and shareholders' funds	*0*	*0*	*0*	*0*	*0*	*211,503*	*211,503*
Total equity and liabilities	***1,361,085***	***360,355***	***215,365***	***32,593***	***0***	***211,888***	***2,181,286***
Derivatives (at contract value)							
Receivable	*72,506*	*32,074*	*5,606*	*0*	*0*	*0*	
Payable	*67,220*	*12,334*	*0*	*26,229*	*4,403*	*0*	
Overall gap	*(130,725)*	*59,629*	*236,508*	*22,450*	*102*	*(187,964)*	
Reverse Cumulative gap	***187,964***	***318,689***	***259,060***	***22,552***	***102***	***(187,964)***	

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 2014 would reduce the present value of the gaps in the banking book by £557,000. However, earnings from the financial assets associated with the non-interest bearing liabilities would increase during 2014 by £540,000 *(2012: a 0.5% increase in interest rates would have reduced the present value of the gaps by £394,000, but earnings in 2013 would have been increased by £480,000).*

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 repricings, such as typically arise from fixed rate loans or deposits, are converted into shorter periods as can be accommodated within the gap limits.

All amounts in £'000s unless otherwise stated

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OTHER RISKS

Liquidity management

The Bank is exposed to the risk that it will be unable to meet its obligations as they fall due, arising from the differing maturity profiles of its assets and liabilities. The Bank measures that risk by quantifying the mismatches between the maturity of assets and liabilities, and controls the risk by placing limits on those mismatches, and by holding stocks of liquid assets which could be sold at short notice if the need arose. The table below analyses the Bank's assets and liabilities into relevant maturity buckets based on the remaining period at the balance sheet date to the contractual maturity date. The table is derived from an analysis of principal amounts starting from the carrying values of those assets and liabilities at 31 December, and excludes cash flows arising from interest payments or receipts. Management ignores interest flows in the daily management of liquidity risk on the grounds that inflows and outflows will normally result in a net inflow in each maturity timeband, the amount of which is expected to be small in relation to maturing principal amounts.

At 31 December 2013	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Undated	Total
Debt securities	67,482	129,481	257,323	279,461	6,048	6,681	746,476
Loans and advances to banks	814,190	194,834	130,221	17,993	0	(329)	1,156,909
Loans and advances to customers	42,839	37,928	120,406	204,325	70,383	(18,985)	456,896
Other assets	0	0	0	0	0	41,867	41,867
Total assets	**924,511**	**362,243**	**507,950**	**501,779**	**76,431**	**29,234**	**2,402,148**
Deposits from banks	789,167	448,307	91,720	122,951	0	133	1,452,278
Other deposits	537,831	102,059	34,219	0	0	381	674,490
Subordinated liabilities	0	0	0	0	57,141	0	57,141
Other liabilities and							0
shareholders' funds	0	0	0	0	0	218,239	218,239
Total equity and liabilities	**1,326,998**	**550,366**	**125,939**	**122,951**	**57,141**	**218,753**	**2,402,148**
Net liquidity gap	**(402,487)**	**(188,123)**	**382,011**	**378,828**	**19,290**	**(189,519)**	

All amounts in £'000s unless otherwise stated

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2013

At 31 December 2012	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Undated	Total
Debt securities	26,647	29,982	344,538	176,183	0	5,883	583,233
Loans and advances to banks	1,021,688	96,568	62,454	18,501	0	6,436	1,205,647
Loans and advances to customers	28,544	35,846	48,428	160,324	101,378	(21,969)	352,551
Other assets	0	0	0	0	0	39,855	39,855
Total assets	**1,076,879**	**162,396**	**455,420**	**355,008**	**101,378**	**30,205**	**2,181,286**
Deposits from banks	829,315	255,611	142,456	30,835	0	0	1,258,217
Other deposits	500,935	46,480	72,909	32,593	0	385	653,302
Subordinated liabilities	0	0	0	0	58,264	0	58,264
Other liabilities and shareholders' funds	0	0	0	0	0	211,503	211,503
Total equity and liabilities	**1,330,250**	**302,091**	**215,365**	**63,428**	**58,264**	**211,888**	**2,181,286**
Net liquidity gap	**(253,371)**	**(139,695)**	**240,055**	**291,580**	**43,114**	**(181,683)**	

The methodology for analysing cash flows into time bands as set out above is similar to that used by the Bank's Management for the monitoring and control of its daily liquidity requirements except that the Bank regards the main part of its holdings of debt securities as being immediately available funds on the grounds that they can be sold into deep and liquid markets at short notice. The Bank's liquidity risk management processes also involve the undertaking of regular stress tests underpinned by robust assumptions in relation to market conditions and probabilities of retention of deposits with a view to providing reasonable assurance that the Bank's liquid assets are sufficient to meet stressed net cash outflows over a designated time horizon. The principal limits in place relate to the relationship between net cash outflows up to 14 days and up to 3 months, and the balance of holdings of liquid assets. Structural liquidity risk is also controlled by limiting the extent to which assets maturing beyond one year may exceed funding resources of that tenor.

In the tables above, the inclusion of interest cash flows in respect of liabilities would result in a restatement of the cash outflows as shown below. In these latter tables, interest is included at all payment dates to final maturity. In the case of floating rate liabilities, it is assumed that interest payable in future periods will be at the same rate as is applying in the current period:

All amounts in £'000s unless otherwise stated

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2013

At 31 December 2013	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Undated**	**Total**
Deposits from banks	789,237	448,500	92,359	124,379	0	133	1,454,608
Other deposits	537,895	102,079	34,466	0	0	381	674,821
Derivatives	401	132	17	337	3	0	890
Subordinated liabilities	469	0	1,392	7,450	65,203	0	74,514
Total cash outflows	**1,328,002**	**550,711**	**128,234**	**132,166**	**65,206**	**514**	**2,204,833**

At 31 December 2012	***Up to 1 month***	***1-3 months***	***3-12 months***	***1-5 years***	***Over 5 years***	***Undated***	***Total***
Deposits from banks	*830,328*	*256,131*	*143,220*	*31,460*	*0*	*0*	*1,261,139*
Other deposits	*501,423*	*46,524*	*73,735*	*32,104*	*0*	*544*	*654,330*
Derivatives	*96*	*12*	*539*	*968*	*17*	*0*	*1,632*
Subordinated liabilities	*478*	*0*	*1,419*	*7,597*	*68,393*	*0*	*77,887*
Total cash outflows	***1,332,325***	***302,667***	***218,913***	***72,129***	***68,410***	***544***	***1,994,988***

Operational risk

Operational Risk is the risk of loss resulting from inadequate or failed processes, people and systems, or from external events.

The operational risks facing the Bank have been carefully analysed and risk management policies, procedures and controls are in place to minimise their impact. These procedures and controls are documented in formal procedure manuals, accessible by all staff and are regularly updated. Overall management of operational risk falls within the responsibility of the Bank's Risk Management department.

Key elements of the control environment are the strict segregation of duties, clearly defined authority levels and expenditure controls and strict safeguards over the integrity of and access to all types of confidential data. Secure offsite storage arrangements for key magnetic data and paper records are in place.

Underpinning the Bank's operational controls is the existence of an independent Internal Audit function together with contingency planning and disaster recovery arrangements that include the availability of a "warm" site where replicated systems and office facilities are available. These arrangements are the subject of regular testing in accordance with documented procedures.

Operational losses are closely monitored and reported to the Bank's FinOps Committee.

Operational losses in 2013 amounted to £161,000 *(2012: £10,000).*

Reputational risk

Reputational risk is recognised as a key risk area and policies are in place to minimise the potential impact. These include comprehensive Know Your Customer ("**KYC**") requirements, environmental, defence and sectoral lending policies and a risk based due diligence programme. Electronic transaction screening and a behavioural monitoring system are also in place to prevent inadvertent involvement in money laundering, terrorist financing or fraud.

Other risks

The Bank is exposed to a range of other operational risks. In each case various risk mitigation techniques are adopted to control the risk. These risks include the following:

- Sanctions risks. From time to time financial and other sanctions can be imposed by the authorities within whose remit the Bank operates against parties with whom the Bank may have dealings. The Bank has in place staff and systems dedicated to monitoring all transactions with a view to ensuring that any involving sanctioned parties comply with the requirements of the relevant sanctions regulations.
- Legal risks. The Bank enters into contracts both in the course of its ordinary business, but also as part of its banking activities. Specialist staff are employed to review and negotiate contract documents, and external legal counsel is also sought where appropriate.
- Settlement and confirmation risk. The Bank seeks to employ, retain and train its staff to ensure that they are competent to carry out such procedures. Suitable computer systems to support such operations are maintained, and operational procedures are documented, and subject to regular audit.
- Litigation risks. Disputes arise from time to time in the course of the Bank's business. Such disputes are subject to early identification, and escalation to senior executives qualified to manage their resolution. External counsel's opinions and assistance is sought as required.
- Pension fund risk. The Bank offers defined benefit pension arrangements to some of its staff through the BACB Pension Scheme ("the Scheme"). The Scheme exposes the Bank to actuarial risks such as investment risk, interest rate risk, salary growth 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 in scheme liabilities. This would detrimentally impact the balance sheet position and may give rise to increased charges in future income statements. The trustees to the scheme have in part managed these risks by securing pensioner liabilities with insurance policies which exactly match the benefits provided under the Scheme.

All amounts in £'000s unless otherwise stated

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2013

5. Fair values of financial assets and liabilities

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.

Observable market prices are not, however, available for many of the Bank's financial assets and liabilities not measured at fair value. IFRS 7 requires that the fair values of such assets be estimated and disclosed, and the following table 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. Such models are characterised as giving rise to "Level 3" type valuations, including inputs which are unobservable, or based on quoted prices for similar instruments for which significant unoberservable adjustments or assumptions are required to reflect differences between the instruments.

	31 December 2013		***31 December 2012***	
	Carrying value	**Fair value**	***Carrying value***	***Fair value***
Financial Assets				
Cash, notes and coins	223	223	*509*	*509*
Loans and advances to banks	1,156,909	1,156,974	*1,200,505*	*1,192,402*
Loans and advances to customers	436,483	426,730	*329,196*	*305,330*
Prepayments, accrued income and other debtors	18,376	18,376	*16,668*	*16,668*
Financial Liabilities				
Deposits from banks	1,370,935	1,371,590	*1,196,548*	*1,195,386*
Other deposits	674,490	674,650	*653,301*	*652,729*
Subordinated liabilities	57,140	43,863	*58,264*	*46,028*

Loans and advances to banks and customers
Loans and advances to banks includes 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 commercial term 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 2013 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

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2013

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 2013			31 December 2012		
	Sterling	US Dollars	Euro	Sterling	US Dollars	Euro
Interest rates						
3 month	0.50%	0.23%	0.23%	0.48%	0.33%	0.10%
6 month	0.59%	0.31%	0.32%	0.61%	0.52%	0.16%
1 year	0.86%	0.56%	0.47%	0.91%	0.76%	0.41%
5 year	1.83%	1.65%	1.13%	1.37%	1.23%	0.86%
Exchange rates	1.0000	1.6535	1.2005	1.0000	1.6216	1.2264

Debt securities in issue
The aggregate fair values of listed debt securities are calculated based on quoted market prices. Unlisted debt securities are valued by reference to discounted cash flows using market interest rates for debts with similar remaining maturity.

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. In addition, the following table lists those financial instruments where the carrying amount is a reasonable approximation of fair value, for example, because they are either short term in nature or reprice to current market rates frequently.

Assets	**Liabilities**
Cash, notes and coin	Amounts included in Other liabilities, accruals and deferred income
Amounts included in Prepayments, accrued income and other debtors	

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2013

6. Critical accounting estimates and judgements in applying accounting policies

The Bank makes estimates and assumptions that 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 3g.

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 unlisted equity investments valued by reference to published accounts or third party valuations.

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

Valuation techniques include net present value and discounted cashflow 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 premia 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 Bank uses widely recognised valuation models in determining the fair value of common and more simple financial instruments such as interest rate and currency swaps that use only observable market data and require little management judgement and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives such as interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

All amounts in £'000s unless otherwise stated

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2013

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

	Level 1	Level 2	Level 3	Total
31 December 2013				
Debt Securities	746,475	0	0	746,475
Loans and Advances to Customers	6,057	14,356	0	20,413
Derivative Assets	0	1,271	0	1,271
Equity Shares and Investments	0	0	13,841	13,841
	752,532	15,627	13,841	782,000
Deposits from banks	0	81,343	0	81,343
Derivative Liabilities	0	1,014	0	1,014
	0	82,357	0	82,357

	Level 1	*Level 2*	*Level 3*	*Total*
31 December 2012				
Debt Securities	*540,024*	*43,209*	*0*	*583,233*
Loans and Advances to Banks	*5,142*	*0*	*0*	*5,142*
Loans and Advances to Customers	*11,717*	*14,409*	*0*	*26,126*
Derivative Assets	*0*	*2,244*	*0*	*2,244*
Equity Shares and Investments	*0*	*0*	*11,853*	*11,853*
	556,883	*59,862*	*11,853*	*628,598*
Deposits from banks	*0*	*61,669*	*0*	*61,669*
Derivative Liabilities	*0*	*2,452*	*0*	*2,452*
	0	*64,121*	*0*	*64,121*

There were no significant transfers of assets between levels during 2013, and no significant changes in valuation techniques.

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 of the companies in which the Bank is invested. Details of these assets, together with movements in the year are set out in Note 16.

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.

All amounts in £'000s unless otherwise stated

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2013

At 31 December 2013 loans to eight customers were impaired *(2012:* ten *loans).* The Bank is not confident that any future cash flows will arise in respect of six of those loans *(2012:six loans)*, and they are therefore considered to be fully impaired. Any cashflows which do arise in the future will be recognised in income on receipt.

Cashflows in respect of the remaining two loans are the subject of continuing negotiations between lending syndicates and the borrowers, the outcomes of which are uncertain at 31 December 2013. Assumptions have been made regarding the outcome of these negotiations, and hence future cashflows based on information regarding the value of underlying assets and businesses, and on indicative secondary market pricing where available.

If recoveries on the remaining two impaired loan are 10% lower than has been estimated, then the amount of the impairment which would have been charged in 2013 in respect of those loans would have been increased by £430,000 *(2012: £359,000 in respect of one loan)*.

Pension fund
The Bank assesses the value of its defined benefit pension fund assets and obligations in accordance with IAS19. The standard requires that certain assumptions be made which are set out in Note 24.

The table below sets out the sensitivity to the principal assumptions of the present value of the defined benefit obligations. In each case, the sensitivities shown are approximate. Each sensitivity considers one change in isolation. The inflation sensitivity includes the impact of changes to the assumptions for revaluation, pension increases and salary growth. The average duration of the defined benefit obligation at 31 December 2013 was 20 years.

2013	**Change in assumption**	**Change in liabilities**	
		2013	**2012**
Discount Rate	Decrease of 0.25% pa	Increase by 4.8%	Increase by 5.1%
Rate of Inflation	Increase of 0.25% pa	Increase by 4.7%	Increase by 5.0%
Rate of Salary Growth	Increase of 0.25% pa	Increase by 0.5%	Increase by 0.6%
Rate of mortality	Increase in life expectancy of 1 year	Increase by 2.5%	Increase by 2.3%

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

All amounts in £'000s unless otherwise stated

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2013

7. Net interest income

	2013	*2012*
Interest income		
Professional market placements and debt securities	16,906	*17,446*
Loans, advances and overdrafts	15,737	*13,381*
	32,643	*30,827*
Interest income comprises		
Interest arising on financial assets at fair value through the income statement	1,263	*2,053*
Interest recognised on impaired assets (Note 11)	162	*507*
Gains / (losses) arising from the change in fair value of fair value hedges		
- on hedging instruments	34	*(56)*
- on hedged items attributable to the hedged risk	133	*8*
Other interest	31,051	*28,315*
	32,643	*30,827*

The amount reported in the income statement in respect of the ineffectiveness of fair value hedges was £nil in the year ended 31 December 2013 *(Year ended 31 December 2012:£nil)* .

	2013	*2012*
Interest expense		
Banks and customers	15,432	*14,891*
Subordinated loans	1,947	*2,022*
	17,379	*16,913*
Interest expense comprises		
Interest arising on financial liabilities at fair value through the income statement	1,161	*944*
Other interest	16,218	*15,969*
	17,379	*16,913*

All amounts in £'000s unless otherwise stated

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2013

8. Net fee and commission income

	2013	*2012*
Fee and commission income		
Safe custody	275	*246*
Trade services		
Guarantees	1,083	*1,125*
Other trade services income	17,705	*14,510*
Banking payments and services	2,021	*1,332*
	21,084	*17,213*
Fee and commission expense		
Brokerage and other fees	(652)	(822)

9. Net trading income

	2013	*2012*
Foreign exchange dealing	6,659	*5,312*
Debt securities	(87)	*0*
Other	1,303	*1,286*
	7,875	*6,598*

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2013

10. Administrative expenses

	2013	*2012*
Staff costs:		
Salaries and other emoluments	8,953	*7,985*
Social security costs	1,257	*1,133*
Other pension costs:		
- Defined benefit scheme (Note 24)	1,300	*711*
- Defined contribution scheme (Note 24)	736	*553*
Total fixed staff employment costs	**12,246**	***10,382***
Variable staff costs: performance awards	2,118	*2,115*
Total staff employment costs	**14,364**	***12,497***
Reorganisation costs (excluding pension augmentations)	485	*1,117*
Other employment related costs	613	*507*
Total staff costs	**15,462**	***14,121***
Fees payable to the Bank's auditors for the audit of the Bank's annual financial statements	136	*140*
Fees payable to the Bank's auditors for other services :		
- Other services pursuant to legislation	8	*8*
- Taxation advice	10	*21*
- All other services	913	*77*
Depreciation (including amortisation of intangibles)	1,128	*1,010*
Amortisation of prepaid rental on land	63	*63*
Loss on sale of tangible and intangible assets	141	*5*
Regulatory supervision fees	57	*45*
Other administrative expenses	5,919	*5,131*
	23,837	***20,621***

The average number of employees in place during the year was 146 (*2012: 139*).

Directors' remuneration included above totalled £1,396,000 *(2012:* £824,000*)*. The emoluments of the highest paid director were £370,000 *(2012:* £490,000*)* and the amount of his accrued pension as at balance sheet date was £nil *(2012: £nil)*. Directors' remuneration includes amounts due in respect of pension contributions to a defined benefit scheme for one director and to a defined contributions scheme for another director *(2012: There were no pension contributions for any directors during the year)*.

All amounts in £'000s unless otherwise stated

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2013

11. Impairment losses on loans and advances

The movements in impairment provisions were as follows:

	2013	***2012***
Balance at 1 January	21,641	*19,041*
Exchange translation and other movements	356	*(252)*
Effect of discounting (Note 7)	(162)	*(507)*
Provisions written off	(5,323)	*0*
Profit and loss account		
New allowances	2,961	*6,112*
Reversal of allowances no longer required	(479)	*(2,527)*
Recoveries of amounts written off in previous periods	0	*(226)*
	2,482	*3,359*
Balance at 31 December	18,994	*21,641*
Being impairments against		
Loans and advances to banks	0	*0*
Loans and advances to customers	18,994	*21,641*
	18,994	*21,641*

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 3j.

Collective impairments arise in respect of Banks of exposures with similar risk characteristics for which previous experience indicates that impairment has taken place at the balance sheet date, but whose existence has yet to emerge. In light of the extensive individual reviews, and based on previous experience, no evidence was detected that impairments existed at the balance sheet date requiring a collective impairment allowance. Accordingly, all of the impairments set out above are individual impairments.

At 31 December 2013, eight facilities comprising amounts due to the Bank of £25,113,000 were determined to be impaired *(2012: ten facilities comprising £40,299,000 due to the Bank).* No collateral was held by the Bank in respect of these facilities.

£nil was past due at the reporting date in respect of unimpaired financial assets *(31 December 2012: £nil).*

Of the 8 *(2012: ten)* facilities which were impaired at 31 December 2013, none had been formally rescheduled *(2012: 2 facilities amounting to £14,409,000)* on terms which are less favourable to the Bank than the original facility terms.

6 facilities totalling £30,747,000 at 31 December 2013 *(2012: 3 facilities totalling £9,961,000)* had been formally rescheduled on terms which may be less favourable to the Bank, but which did not give rise to

All amounts in £'000s unless otherwise stated

impairment. One further facility at 31 December 2013 totalling £9,025,000 was in the process of being rescheduled.

As part of its banking and trade services business the Bank may from time to time be required, or otherwise agree to provide overdraft or other temporary facilities to its customers beyond the precise terms upon which such facilities have been intended to operate. At 31 December 2013 facilities for 2 customers to whom the Bank's maximum exposure to credit risk was £1,165,000 were subject to such temporary forbearance *(2012: 2 customers to whom the Bank's exposure to credit risk was £8,328,000).*

4 facilities totalling £27,368,000 have been categorised as being either "watchlist" or substandard, as disclosed in note 4 *(2012: 5 facilities totalling £22,658,000).* "Watchlist" items are so designated where there may have been some deterioration in the financial strength of the counterparty. The Bank may have granted forbearance in such cases, or may simply be monitoring the position more closely with no element of forbearance granted.

In the normal course of its lending business, the Bank may from time to time be prepared to waive material financial covenants, or agree to temporary relaxations of repayment terms which are subsequently cured. At 31 December 2013 the Bank had waived material covenants and had agreed such relaxations in respect of a number of the facilities described above, but had not agreed relaxations in respect of other facilities *(2012: No additional facility amounting to £nil).*

12. Income tax expense

	2013	***2012***
Current tax:		
Total UK corporation tax charge/(credit)	3,990	*3,234*
Of which: amount dealt with through reserves	(88)	*(1,102)*
Current tax on items taken through the income statement	3,902	*2,132*
Current tax adjustment in respect of previous periods	23	*(2)*
Deferred tax (Note 23)		
Origination and reversal of timing differences	259	*310*
Effect of tax rate change	18	*67*
Deferred tax adjustment in respect of previous periods	(25)	*1*
Amounts associated with movements in the pension fund	(96)	*824*
	4,081	*3,332*

The charge for tax on the profit for the year is based on the average UK corporation tax rate of 23.25% *(2012: 24.5%)*. Reductions in the UK corporation tax rate from 26% to 24% (effective from 1 April 2012) and to 23% (effective 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively. Further reductions to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. This will reduce the company's future current tax charge accordingly.

The tax charge for the period is lower *(2012: higher)* than the standard rate of corporation tax in the UK as explained below:

All amounts in £'000s unless otherwise stated

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2013

	2013	*2012*
Profit on ordinary activities before tax	17,848	*13,555*
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK	4,149	*3,321*
Effect of loss carried back to prior period	0	*0*
Adjustment in respect of previous periods	(2)	*(1)*
Effect of change in tax rate	18	*67*
Permanently disallowed items	(77)	*(89)*
Other items	(7)	*34*
UK Corporation tax charge	*4,081*	*3,332*

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

	2013			*2012*		
	Before tax	**Tax**	**Net of tax**	***Before tax***	***Tax***	***Net of tax***
Actuarial gain/(loss) on pension fund	299	(60)	239	*(3,823)*	*937*	*(2,886)*
Change in fair value of available for sale financial assets	976	(225)	751	*4,741*	*(1,158)*	*3,583*
Fair value gains attributable to available for sale financial assets transferred to income	(588)	137	(451)	*(17)*	*4*	*(13)*
Effect of change in tax rates	0	(48)	(48)	*0*	*(24)*	*(24)*
	687	(196)	491	*901*	*(241)*	*660*
Dealt with as follows:						
Current tax		(88)			*(1,102)*	
Deferred tax (Note 23)		58			*(14)*	
Adjusted through pension fund liability		(166)			*875*	
		(196)			*(241)*	

All amounts in £'000s unless otherwise stated

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2013

13. Debt securities

	2013	***2012***
Held for investment purposes		
Unlisted certificates of deposit (CDs)	0	*43,209*
OECD government securities	359,091	*290,187*
Other listed debt securities issued by banks	327,882	*224,344*
Other listed debt securities issued by non-banks	30,461	*25,493*
Held for trading	29,041	*0*
	746,475	*583,233*

Debt securities with fixed interest rates (other than those with a single interest period less than 1 year) amounted to £173,119,000 *(2012: £81,066,000).*

14. 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 (*2012: £nil).*

	2013	***2012***
Funds held at correspondent banks	113,572	*52,217*
Professional market placements	805,741	*892,188*
Commercial term lending	160,982	*199,957*
Bills discounted	64,555	*51,923*
Overdrafts and other advances	12,059	*9,362*
Less: Provisions for impairments (Note 11)	0	*0*
	1,156,909	*1,205,647*

Professional market placements includes £120,822,000 *(2012: £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).

Included in commercial term lending is £nil *(2012: £5,142,000)* loans and advances to banks constituted as debt securities, and designated by the Bank at inception as being available for sale.

All amounts in £'000s unless otherwise stated

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2013

15. 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 £20,403,000 *(2012: £23,355,000).*

	2013	***2012***
Professional market placements to non banks	11,651	*14,741*
Commercial term lending	432,924	*342,423*
Overdrafts and other advances	31,315	*17,028*
Less: Provisions for impairments (Note 11)	(18,994)	*(21,641)*
	456,896	*352,551*

Included in commercial term lending is £6,057,000 *(2012: £11,717,000)* loans and advances to customers constituted as debt securities, and designated by the Bank at inception as being available for sale.

16. Equity shares and investments

Equity shares comprise unlisted long-term participations of not more than 10% of the share capital of the following companies:

International Company for Leasing SAE: 1,727,999 ordinary shares of Egyptian Pounds 10

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

The movements on equity shares and investments were as follows:

	2013	***2012***
Balance at 1 January	11,853	*10,050*
Exchange translation	(79)	*(330)*
Changes in fair value during the year	1,005	*363*
Realised gain	(309)	*0*
Additions	1,691	*3,751*
Disposals	(320)	*(1,981)*
Balance at 31 December	13,841	*11,853*
Comprising:		
Equity shares	2,782	*2,782*
Equity investment funds	11,059	*9,071*
	13,841	*11,853*

17. Shares in Bank undertakings

On 19th December 2013 the Bank sold its interests in its two dormant subsidiaries to its Finance Director. At 31st December 2013 there were no subsidiary undertakings of the Bank. See also Note 34.

All amounts in £'000s unless otherwise stated

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2013

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 2013	14,794	2,135	16,929	4,990	21,919
Additions during the year	279	212	491	894	1,385
Disposals during the year	0	(152)	(152)	(195)	(347)
At 31 December 2013	15,073	2,195	17,268	5,689	22,957
Less: accumulated depreciation					
Balance at 1 January 2013	6,343	1,665	8,008	3,103	11,111
Charge for the year	316	204	520	608	1,128
Disposals during the year	0	(135)	(135)	(53)	(188)
At 31 December 2013	6,659	1,734	8,393	3,658	12,051
Net book value at 31 December 2013	**8,414**	**461**	**8,875**	**2,031**	**10,906**
Cost					
Balance at 1 January 2012	*14,757*	*2,110*	*16,867*	*3,838*	*20,705*
Additions during the year	*37*	*158*	*195*	*1,195*	*1,390*
Disposals during the year	*0*	*(133)*	*(133)*	*(43)*	*(176)*
At 31 December 2012	*14,794*	*2,135*	*16,929*	*4,990*	*21,919*
Less: accumulated depreciation					
Balance at 1 January 2012	*6,041*	*1,594*	*7,635*	*2,629*	*10,264*
Charge for the year	*302*	*204*	*506*	*504*	*1,010*
Disposals during the year	*0*	*(133)*	*(133)*	*(30)*	*(163)*
At 31 December 2012	*6,343*	*1,665*	*8,008*	*3,103*	*11,111*
Net book value at 31 December 2012	***8,451***	***470***	***8,921***	***1,887***	***10,808***

Other assets comprise furniture, fixtures and fittings, office equipment and motor vehicles.

There were commitments for capital expenditure of £593,000 *(2012: £421,000).*

All the land and buildings are owned by the Bank for the purposes of occupation in connection with its business. The carrying book value of the land and buildings at 31 December 2013 was £16,798,000 *(2012: £16,899,000).* 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.

The original cost of fully depreciated tangible and intangible assets still in use by the Bank at year-end was £7,124,000 *(2012: £6,536,000).*

Additions to computer software include £104,000 *(2012: £175,000)* in respect of internal costs directly associated with the testing and implementation of purchased software applications.

All amounts in £'000s unless otherwise stated

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2013

19. Derivatives

The following were outstanding:

	31 December 2013		
	Contract notional amount	**Positive fair values**	**Negative fair values**
Spot and forward foreign exchange contracts held for trading purposes	256,429	540	(73)
Interest rate swaps qualifying as fair value hedges	36,083	14	(867)
Interest rate swaps at fair value through the profit and loss account	51,064	123	0
Interest rate cap, collar and floor contracts at fair value through the profit and loss account	30,240	521	0
Interest futures held for trading purposes	76,809	0	0
Foreign exchange options at fair value through the profit and loss account			
Purchased	21,016	74	0
Sold	21,016	0	(74)
		1,271	(1,014)

	31 December 2012		
	Contract notional amount	***Positive fair values***	***Negative fair values***
Spot and forward foreign exchange contracts held for trading purposes	*288,449*	*525*	*(248)*
Interest rate swaps qualifying as fair value hedges	*36,182*	*0*	*(1,621)*
Interest rate swaps at fair value through the profit and loss account	*12,334*	*98*	*(98)*
Interest rate cap, collar and floor contracts at fair value through the profit and loss account	*61,669*	*1,136*	*0*
Foreign exchange options at fair value through the profit and loss account			
Purchased	*87,661*	*485*	*0*
Sold	*87,661*	*0*	*(485)*
		2,244	*(2,452)*

Foreign exchange contracts are agreements by which an amount of one currency is exchanged for a different amount of a different currency at a specified future date. The contract amount in the table above is the amount receivable.

Interest rate swaps are agreements by which interest on an agreed amount is paid at various dates in the future on a specified basis, and in exchange interest is received on the same amount, but on a different basis.

All amounts in £'000s unless otherwise stated

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 cap contracts are option contracts under which the buyer of the contract will pay the difference between a periodic floating market rate and a fixed rate of interest (the cap rate), but only where that periodic market rate exceeds the cap rate.

Interest rate floor contracts are option contracts under which the buyer of the contract will receive the difference between a fixed rate of interest (the floor rate) and the periodic floating market rate, but only where that periodic market rate is below the floor rate.

Interest rate collar contracts are combinations of interest rate caps and interest rate floors.

Foreign exchange options are agreements to enter into a foreign exchange contract at a rate which has been fixed at the outset, at a specified date in the future if the market rate ruling at a future date is more (or less) than the fixed rate.

Interest rate swaps qualifying as fair value hedges comprise synthetic alterations whereby interest bearing assets or liabilities with fixed or extended re-pricing periods have been converted into shorter re-pricing periods which can be more easily accommodated within the Bank's risk management policies.

Interest rate swaps at fair value through the profit and loss account represent either speculative market positions or are 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.

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 speculative market positions.

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

20. Prepayments, accrued income and other debtors

	2013	***2012***
Prepaid rental for land	8,384	*8,447*
Prepayments and accrued income	6,659	*5,086*
Other debtors	584	*658*
	15,627	*14,191*

The Bank is obliged to pay ground rent in respect of its leasehold land interest over the remaining life of the lease; currently £160,000 p.a. *(2012: £160,000 p.a.).*

21. Deposits

Deposits from banks with fixed interest rates (other than those with a single interest period less than 1 year) amounted to £92,711,000 *(2012: £nil).*

All amounts in £'000s unless otherwise stated

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2013

Other deposits with fixed interest rates (other than those with a single interest period less than 1 year) amounted to £47,910,000 *(2012: £31,306,000).*

The Bank has not had any defaults of principal, interest or other breaches with respect to its liabilities during 2013 *(2012: £nil).*

22. Other liabilities, accruals and deferred income

	2013	***2012***
Other liabilities	9,450	*11,988*
Accruals and deferred income	6,831	*4,809*
	16,281	*16,797*

23. Deferred taxation

	Balance at 1 January 2013	Recognised in Profit or Loss	Recognised in Other comprehensive income	Balance at 31 December 2013	Deferred tax assets	Deferred tax liabilities
Property, plant and equipment and intangible assets	(498)	101	0	(397)	0	(397)
Staff benefits	720	(227)	0	493	493	0
IFRS adjustments	238	(126)	0	112	112	0
Investments	(445)	0	58	(387)	0	(387)
Tax assets (liabilities)	15	(252)	58	(179)	605	(784)

	Balance at 1 January 2012	*Recognised in Profit or Loss*	*Recognised in Other comprehensive income*	*Balance at 31 December 2012*	*Deferred tax assets*	*Deferred tax liabilities*
Property, plant and equipment and intangible assets	*(534)*	*36*	*0*	*(498)*	*0*	*(498)*
Staff benefits	*983*	*(263)*	*0*	*720*	*720*	*0*
IFRS adjustments	*388*	*(150)*	*0*	*238*	*238*	*0*
Investments	*(431)*	*0*	*(14)*	*(445)*	*0*	*(445)*
Tax assets (liabilities)	*406*	*(377)*	*(14)*	*15*	*958*	*(943)*

All amounts in £'000s unless otherwise stated

24. Pension fund

Defined benefit scheme

23 *(2012: 30)* of the Bank's employees are active members of the BACB Pension Scheme ("the Scheme"), which is a defined benefits scheme. The contributions are determined by a qualified actuary, based on triennial valuations using the Attained Age method. The scheme is closed to new entrants with the result that the overall age profile of the active membership is rising. This valuation method is designed to smooth contributions over the remaining working lives of the members. A full actuarial valuation was carried out at 1 January 2011. This valuation showed that the market value of the assets at that date was sufficient to cover 88.4% of the actuarial value of the future benefits that had accrued to members: a deficit of £6,058,000. Additional payments were made by the Bank during 2011 and 2012 to discharge this deficit.

The ordinary contributions to the scheme have been made at a rate of 36.6% of pensionable salaries *(2012: 36.6%)*. Contributions paid by the employer in the year ended 31 December 2013 amounted to £885,000 being £528,000 by way of ordinary contributions, £177,000 by way of augmentations and £180,000 by way of contribution towards the scheme expenses. *(2012:£4,072,000).* A further £54,000 *(2012:£47,000)* was paid by the employees.

The Bank is closing the Scheme to future accrual for the remaining active members from 1 April 2014 at which point ordinary contributions by the employer and the members will cease. The Bank expects to contribute £286,000 by way of ordinary contributions and expenses in 2014.

The assumptions in the 1 January 2011 full actuarial valuation which had the most significant effect on the results of that valuation were those relating to the annual rate of return on investments and the annual rates of increase in salaries and pensions and were as follows:

Rate of increase in salaries		4.00%
Rate of increase in pensions in payment		3.50%
Discount rate:	Pre-retirement liabilities	6.50%
	Post-retirement liabilities	5.00%
Inflation assumption		3.50%
Mortality assumptions		
- Pre retirement		None
- Post retirement		SIPMA Light Long cohort 1% pa improvement underpin

The full valuation of the scheme as at 1 January 2011 has been updated to 31 December 2013 by a qualified independent actuary, using approximate actuarial techniques and available information, and using the Projected Unit method as required by IAS19. The current service cost determined under this method is expected to rise in future years. The following major actuarial assumptions, which are aligned as far as is permitted under the requirements of IAS19 with those which will be used in the scheme were made:

All amounts in £'000s unless otherwise stated

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2013

	At 31 December 2013	***At 31 December 2012***
Rate of increase in salaries	4.00%	*3.60%*
Rate of increase in pensions in payment	3.50%	*3.10%*
Discount rate	4.60%	*4.30%*
Inflation assumption (RPI)	3.50%	*3.10%*
Mortality assumptions		
- Pre retirement (male/female)	*None*	*None*
- Post retirement (male/female)	*S1PxA_L year of birth projected using CMI_2013 converging to 1.25% pa*	*SIPM/FA "Light" Birth Year LC 1%pa minimum improvement*
Life expectancy from age 60 for non pensioner members now aged 50 (male/female)	29.6/30.9 years	*30.6/32.0 years*
Life expectancy for pensioner members now aged 60 (male/female)	28.6/29.9 years	*29.5/30.9 years*

The sensitivity of the valuation to changes in these assumptions is set out in Note 6.

The assets in the Scheme were:

	Value at 31 December 2013	***Value at 31 December 2012***
Growth assets	20,532	*18,568*
Index linked LDI	9,079	*9,041*
Corporate bonds	10,309	*9,958*
Purchased annuities	22,146	*22,884*
Cash and other assets	134	*205*
Total market value of assets at 31 December	62,200	*60,656*
Adjustment due to pensioner buy-in settling after balance sheet date		
Cost of annuity contract	(11,755)	*0*
Value of liabilities annuitised	10,744	*0*
Value of assets adjusted for effect of buy-in settling after the balance sheet date	61,189	*60,656*

The Scheme does not hold any securities issued by the Bank, nor does it own any property occupied by the Bank. The assets of the scheme, with the exception of the purchased annuities and cash, are valued by reference to quoted prices in active markets.

Annuities have been purchased from prime insurance providers in respect of pensioners' liabilities with a view to reducing mortality and investment risk in the fund. The terms of those annuities substantially mirror the terms of the fund's obligations to the pensioner members, and the value of the annuities has been estimated using the same discount rates as has been used to calculate the associated liability.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2013

Payments received from these annuities have been included in the actual return on plan assets, with the matching payments to pensioners included in benefits paid. On 23 December 2013 the Trustees entered into a new annuity contract in respect of previously uninsured liabilities. Settlement of that contract took place on 13 January 2014. The premium paid for that contract exceeded the value of liabilities assessed under IAS 19 at 31 December 2013 by £1,011,000 and this difference has been reflected as an adjustment to the value of the scheme assets at that date.

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

Index linked Liability Driven Investment (LDI) assets comprise short term cash investments linked to long term index linked swaps which are intended to deliver cash flows in the future which will match the expected future obligations for pension payments. These assets are similar to index linked annuities, but do not take account of mortality risk.

The pension cost for the defined benefit scheme was as follows:

All amounts in £'000s unless otherwise stated

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2013

	2013	***2012***
Analysis of defined benefit obligations		
Present value of defined benefit obligations	64,530	*63,881*
Fair value of plan assets	(61,189)	*(60,656)*
	3,341	*3,225*
Related deferred tax asset	(668)	*(741)*
Net liability in balance sheet	**2,673**	***2,484***
Income statement impact		
Employer's current service cost	762	*669*
Past service costs	177	*0*
Expenses	220	*180*
Net interest cost/(*net expected return)*	141	*(138)*
Total included in employee benefits expense	1,300	*711*
Change in present value of defined benefit obligations		
Defined benefit obligations at start of period	63,881	*56,785*
Employer's current service cost (including augmentations)	762	*669*
Past service costs	177	*0*
Contributions by employees	54	*47*
Interest on pension scheme liabilities	2,717	*2,702*
Actuarial (gains)/losses on obligations		
due to scheme experience	71	*820*
due to changes in financial assumptions	1,167	*4,556*
due to changes in demographic assumptions	(2,093)	*0*
Benefits paid	(2,206)	*(1,698)*
Defined benefit obligations at end of period	64,530	*63,881*
Change in fair value of plan assets		
Opening fair value of plan assets	60,656	*54,022*
Actual return on plan assets		
Interest income/*expected return on plan assets*	2,576	*2,840*
Return on scheme assets (excluding amounts included in interest income or expected return)	(556)	*1,553*
Contributions by plan employer	885	*4,072*
Contributions by plan employees	54	*47*
Benefits paid and expenses	(2,426)	*(1,878)*
Fair value of plan assets at end of year	61,189	*60,656*
Analysis of the amounts to be included in other comprehensive income		
(Loss)/gain on scheme assets (excluding amounts included in net interest cost/*expected return*)	(556)	*1,553*
Experience (losses) on defined benefit obligations	(71)	*(820)*
Actuarial gains/(losses)		
effect of changes in demographic assumptions	2,093	*0*
effect changes in financial actuarial assumptions	(1,167)	*(4,556)*
Net cumulative actuarial gains/*(losses)*	299	*(3,823)*

All amounts in £'000s unless otherwise stated

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2013

As explained in note 3p the accounting policy in respect of defined benefit pension obligations has changed with effect from 1 January 2013. The Bank has reflected the change in policy in its 2013 accounts, but has not re-stated the results for 2012 on the grounds of materiality. Had the results for 2012 been restated, then the total included in employee benefit expense in 2012 would have been £943,000 instead of £711,000, and the amount included in other comprehensive income would have been £3,591,000 instead of £3,823,000.

Defined contribution scheme

At 31 December 2013, 121 employees were members of that scheme *(2012:* 105 *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 2013, the Bank paid £736,000 *(2012: £553,000)* by way of contributions into that scheme. There were no outstanding or pre-paid contributions to this scheme at 31 December 2013 *(2012: £nil).*

25. Subordinated liabilities

Subordinated loans in issue are denominated in US Dollars 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 Regulatory 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.

	2013	*2012*
Due 29th October 2020	19,047	*19,422*
Due 29th April 2023	19,047	*19,421*
Due 29th October 2025	19,047	*19,421*
	57,141	*58,264*

All amounts in £'000s unless otherwise stated

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:

	Number of shares ('000)		Paid up amount	
	2013	*2012*	**2013**	*2012*
Ordinary Shares of £1 each fully paid	30,403	*30,403*	30,403	*30,403*
Ordinary Shares of US$1 each fully paid	76,974	*76,974*	49,050	*49,050*
Deferred Non-Voting Shares of £1 each nil paid	5,000	*5,000*	0	*0*
	112,377	*112,377*	79,453	*79,453*

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

	2013	*2012*
Called up share capital	79,453	*79,453*
Capital redemption reserve	4,104	*4,104*
Other reserves		
Retained earnings	109,750	103,050
AFS Reserve	3,521	3,163
	113,271	106,213
	196,828	189,770

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, the AFS reserve and the cash flow hedging reserve are available for distribution subject to the maintenance of adequate capital resources.

The directors have not declared a dividend in respect of the profits for the year ended 31 December 2013 *(2012: £7,200,000).*

All amounts in £'000s unless otherwise stated

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2013

28. 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 £97,193,000 at 31 December 2013 *(2012: £94,742,000).*

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 2013 *(2012: Nil).*

29. Other commitments

	2013	*2012*
Other commitments comprise:		
Credit lines and other commitments to lend: original maturity		
under one year	2,920	*4,994*
over one year	4,897	*15,599*
Documentary credits and short-term trade-related transactions	567,756	*605,843*
Own acceptances	15,289	*28,646*
	590,862	*655,082*

All amounts in £'000s unless otherwise stated

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2013

30. 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 polices 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 2013	Loans and receivables	Available for sale	At fair value through profit and loss	Derivatives designated as fair value hedging instruments	Financial assets and liabilities at amortised cost	Total
Assets						
Cash, notes and coin	0	0	0	0	223	223
Debt securities	0	717,434	29,041	0	0	746,475
Loans and advances to banks	1,156,909	0	0	0	0	1,156,909
Loans and advances to customers	436,483	6,057	14,356	0	0	456,896
Equity shares and investments	0	13,841	0	0	0	13,841
Prepayments, accrued income and other debtors	0	0	0	0	15,627	15,627
Derivatives	0	0	1,257	14	0	1,271
Total financial assets	**1,593,392**	**737,332**	**44,654**	**14**	**15,850**	**2,391,242**
Total non-financial assets						10,906
Total assets						**2,402,148**
Liabilities						
Deposits from banks	0	0	81,343	0	1,370,935	1,452,278
Other deposits	0	0	0	0	674,490	674,490
Other liabilities, accruals and deferred income	0	0	0	0	17,547	17,547
Derivatives	0	0	147	867	0	1,014
Subordinated liabilities	0	0	0	0	57,141	57,141
Total financial liabilities	**0**	**0**	**81,490**	**867**	**2,120,113**	**2,202,470**
Total non-financial liabilities						199,678
Total equity and liabilities						**2,402,148**

All amounts in £'000s unless otherwise stated

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2013

31 December 2012	Loans and receivables	Available for sale	At fair value through profit and loss	Derivatives designated as fair value hedging instruments	Financial assets and liabilities at amortised cost	Total
Assets						
Cash, notes and coin	0	0	0	0	509	509
Debt securities	0	583,233	0	0	0	583,233
Loans and advances to banks	1,200,505	5,142	0	0	0	1,205,647
Loans and advances to customers	326,424	11,717	14,409	0	0	352,550
Equity shares and investments	0	11,853	0	0	0	11,853
Prepayments, accrued income and other debtors	0	0	0	0	14,424	14,424
Derivatives	0	0	2,244	0	0	2,244
Total financial assets	***1,526,929***	***611,945***	***16,653***	***0***	***14,933***	***2,170,460***
Total non-financial assets						10,826
Total assets						***2,181,286***
Liabilities						
Deposits from banks	0	0	61,669	0	1,196,548	1,258,217
Other deposits	0	0	0	0	653,302	653,302
Other liabilities, accruals and deferred income	0	0	0	0	16,797	16,797
Derivatives	0	0	831	1,621	0	2,452
Subordinated liabilities	0	0	0	0	58,264	58,264
Total financial liabilities	***0***	***0***	***62,500***	***1,621***	***1,924,911***	***1,989,032***
Total non-financial liabilities						192,254
Total equity and liabilities						***2,181,286***

Of the total £44,654,000 *(2012: £16,653,000)* assets at fair value through the profit and loss account, £29,655,000 *(2012: £1,108,000)* represents financial assets and derivatives held for trading purposes, and £14,999,000 *(2012: £15,545,000)* financial assets designated as such at inception. Of the total £81,490,000 *(2012: £62,500,000)* liabilities at fair value through the profit and loss account, £147,000 *(2012: £831,000)* represents financial liabilities and derivatives held for trading purposes, and £101,129,000 *(2012: £61,669,000)* financial liabilities designated as such at inception.

All amounts in £'000s unless otherwise stated

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2013

31. Foreign currency assets / liabilities

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

31 December 2013	**Sterling**	**Dollars**	**Euro**	**Other curencies**	**Total**
Total assets	393,770	1,692,759	273,928	41,691	2,402,148
Total equity and liabilities	(399,580)	(1,542,202)	(398,167)	(62,199)	(2,402,148)
Derivatives (at contract notional value)	5,702	(150,600)	124,091	20,807	0
Net exposures	**(108)**	**(43)**	**(148)**	**299**	
Contingent liabilities and other commitments	15,906	328,101	302,413	41,635	688,055

31 December 2012	***Sterling***	***Dollars***	***Euro***	***Other curencies***	***Total***
Total assets	*416,127*	*1,197,608*	*527,967*	*39,584*	*2,181,286*
Total equity and liabilities	*(409,973)*	*(1,316,195)*	*(401,235)*	*(53,883)*	*(2,181,286)*
Derivatives (at contract notional value)	*(6,193)*	*118,319*	*(126,785)*	*14,659*	*0*
Net exposures	***(39)***	***(268)***	***(53)***	***360***	
Contingent liabilities and other commitments	*34,286*	*332,344*	*341,607*	*41,586*	*749,823*

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

The Bank does not consider that the outcomes of any proceedings against it, either individually or in aggregate, are likely to have a material effect on its financial position.

33. Segmental report

The Bank has five reportable segments 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 reportable segments:-

- Trade Finance. The provision of secured 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.
- Commercial 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.

All amounts in £'000s unless otherwise stated

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2013

- 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 segments. The principal item is the interest earned on assets which have been funded from non interest bearing sources such as equity capital (described as earnings on free capital), less the difference between the cost of deposits and other sources of longer term funding (such as issued subordinated debt), and the income earned from the assets funded by those sources (described as net infrastructure costs).

Information regarding the results of each reportable segment is included below. Performance is measured based on net segment profit as included in the internally generated management information utilised by the board of directors, and by executive management. Segment profit is stated after charging (or crediting) interest between the segments in respect of the segment assets or liabilities which either require or generate funding. There are no other significant transactions between segments.

2013	Trade Finance	Banking Services	Commercial term lending	Treasury	Other	Total
Net interest income	1,000	1,276	10,085	5,262	(2,359)	15,264
Net fee and commission income	18,787	1,840	(60)	(91)	(44)	20,432
Net trading income	0	0	0	7,875		7,875
Other operating income	0	0	0	15	581	596
Total Operating income	19,787	3,116	10,025	13,061	(1,822)	44,167
Directly attributable segment expenses	(5,046)	(2,093)	(1,635)	(1,864)	0	(10,638)
Net charge for impairment losses	185		(2,667)	0	0	(2,482)
Net segment profit / (loss)	14,926	1,023	5,723	11,197	(1,822)	31,047
Common costs not attributable to segments						(13,199)
Profit before income tax						**17,848**
BALANCE SHEET						
Segment assets	64,555	31,257	587,252	1,678,710	40,374	2,402,148
Segment liabilities	0	624,968	0	1,502,814	274,366	2,402,148
Contingent liabilities and other commitments	680,238	0	7,817	0	0	688,055

All amounts in £'000s unless otherwise stated

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2013

2012	*Trade Finance*	*Banking Services*	*Commercial term lending*	*Treasury*	*Other*	*Total*
Net interest income	*525*	*1,252*	*7,528*	*6,499*	*(1,890)*	*13,914*
Net fee and commission income	*15,642*	*1,159*	*(8)*	*(205)*	*(197)*	*16,391*
Net trading income	*0*	*0*	*0*	*6,598*	*0*	*6,598*
Other operating income	*0*	*0*	*0*	*0*	*632*	*632*
Total Operating income	*16,167*	*2,411*	*7,520*	*12,892*	*(1,455)*	*37,535*
Directly attributable segment expenses	*(4,195)*	*(1,616)*	*(1,279)*	*(1,537)*	*0*	*(8,627)*
Net charge for impairment losses	*245*	*0*	*(3,604)*	*0*	*0*	*(3,359)*
Net segment profit / (loss)	*12,217*	*795*	*2,637*	*11,355*	*(1,455)*	*25,549*
Common costs not attributable to segments						*(11,994)*
Profit before income tax						***13,555***
BALANCE SHEET						
Segment assets	*51,923*	*14,856*	*532,782*	*1,544,623*	*37,101*	*2,181,285*
Segment liabilities	*0*	*602,397*	*0*	*1,311,573*	*267,315*	*2,181,285*
Contingent liabilities and other commitments	*729,231*	*0*	*20,593*	*0*	*0*	*749,824*

Substantially all of the assets of the Bank are held in the United Kingdom. However, many of the Bank's customers are domiciled overseas. Directors and Executive Management monitor the Bank's sources of revenue by reference to the geographic location of the customer. The analysis of total operating income below is based on the location of the customer giving rise to the revenue. As for the segmental information shown above, customer income is stated after charging (or crediting) interest in respect of assets that either require or generate income.

	2013	*2012*
United Kingdom	5,432	*6,286*
Other European Union	1,134	*1,344*
Libya	11,821	*8,862*
Other Middle East and Africa	23,794	*19,533*
Other	1,986	*1,510*
	44,167	*37,535*

34. Related parties

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

i. 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.

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

All amounts in £'000s unless otherwise stated

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2013

Transactions with related parties were as follows:

	Significant influence	Key management personnel	
Balances at 31 December 2013			
Loans and advances	11,527	15	*
Deposits	1,162,313	0	
Subordinated liabilities	57,140	0	
Contingent liabilities and other commitments	101,250	0	
Volumes executed during 2013			
Loans and advances	204,770	10	
Deposits	73,427,080	0	
Derivatives (contract amount)	6,756,798	0	
Contingent liabilities and other commitments	166,959	0	
Included in income statement			
Interest receivable	176	0	
Interest payable	13,242	0	
Fees and commissions receivable	3,348	0	

	Significant influence	*Key management personnel*	
Balances at 31 December 2012			
Loans and advances	*0*	*8*	*
Deposits	*1,030,118*	*0*	
Subordinated liabilities	*58,581*	*0*	
Contingent liabilities and other commitments	*132,134*	*0*	
Volumes executed during 2012			
Loans and advances	*116,043*	*10*	
Deposits	*93,707,550*	*0*	
Derivatives (contract amount)	*6,407,065*	*0*	
Contingent liabilities and other commitments	*246,388*	*0*	
Included in income statement			
Interest receivable	*62*	*0*	
Interest payable	*14,198*	*0*	
Fees and commissions receivable	*3,975*	*0*	

* At 31 December 2013 £10,000 was outstanding by way of interest free loans due from four Executive Managers of the Bank and £5,000 was outstanding by way of an interest bearing loan due from one Executive Manager of the Bank. No amount was outstanding from any director. *(At 31 December 2012 £8,000 was outstanding by way of interest free loans due from three Executive Managers of the Bank, and no amount was outstanding from any director).*

All amounts in £'000s unless otherwise stated

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2013

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 £270,000 *(2012:£ 381,000).*

ii. Key management personnel compensation:

	2013	***2012***
Directors attendance and standing fees	431	*333*
Executive Managers		
Salaries and other short term benefits	2,462	*1,548*
Post-employment benefits	184	*146*
	3,077	*2,027*

iii. As disclosed in Note 17, on 17th December 2013 the Bank sold its interests in its two dormant subsidiaries to the Bank's Finance Director at a price equal to their book values at that date: £1,001. The Finance Director has subsequently arranged for the companies to be wound up.

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