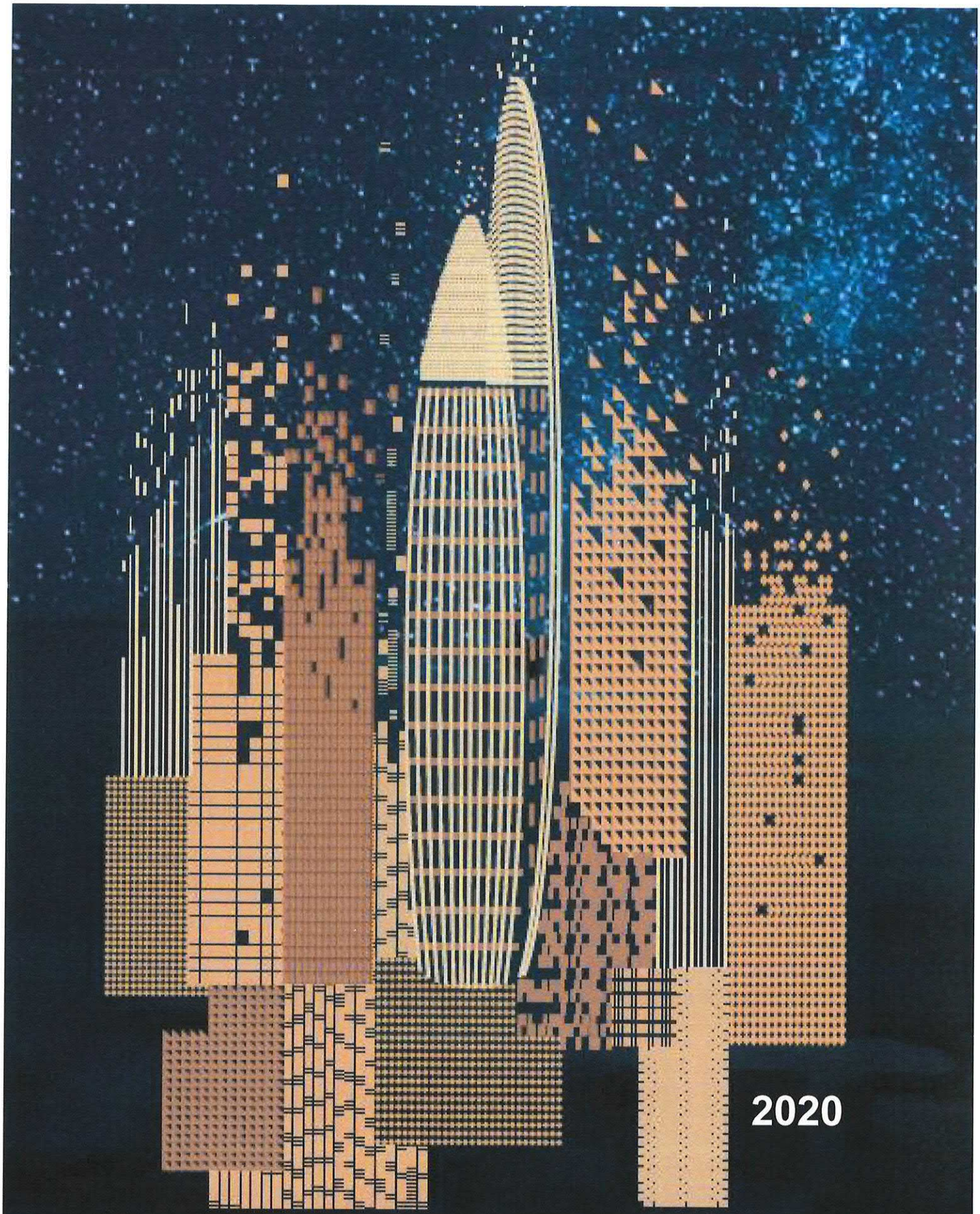

2020

ANNUAL REPORT AND FINANCIAL STATEMENTS

BANK OF AFRICA UNITED KINGDOM

Contents

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Part II

Part I

BOARD

David SURATGAR
Non-executive Director - Chairman

Houssam EL HAK MORSSI BARAKAT
Executive Director – Chief Executive Officer

Mohammed AGOUMI (resigned 1 June 2021)
Non-executive Director

Brahim BENJELLOUN-TOUIMI
Non-executive Director

Richard PARRY
Independent Non-executive Director

Ralph SNEDDEN
Independent Non-executive Director

Mohammed AFRINE
Non-executive Director

Timothy George Plews (appointed 31 March 2021)
Independent Non-executive Director

SECRETARY

TMF Corporate Administration Services Limited

AUDITOR

BDO LLP
Chartered accountants and statutory auditor
55 Baker Street
London
W1U 4EB

REGISTERED OFFICE

26 Upper Brook Street
London
W1K 7QE

BANKERS

Barclays Bank plc
1st Floor
99 Hatton Gardens
London
EC1N 8DN

Chairman's statement

David Suratgar

2020 was an unprecedented year for the World due to the COVID-19 pandemic coupled with the protracted affects of BREXIT negotiations which dragged on. The resultant upheaval and effects across the UK and the globe has had a detrimental effect on all aspects of life. Yet BMCE managed to weather the storms and come out relatively unscathed, I am please to be able to report the Bank was able to achieve profitability.

Despite the challenges created by the COVID-19 pandemic and associated restrictions on movement and the health and safety measure introduced by the Government, the Bank managed to overcome this significant challenge to its operations. The transition from working from home rather than the office were seamless. The underlying commercial impact on the Bank was not as severe as we first anticipated, however origination capability particularly in our Trade Finance business and in particular transactions originated from markets that were oil producing is where we saw most of the impact.

Additionally, the Bank was acutely impacted for a period of time by certain African country down grades which also impacted our Capital Markets business during the year.

Nevertheless, we saw a relatively quick rebound in the latter months of 2020, which has provided for a solid commercial footing for 2021.

The Bank continued to meet all of its Regulatory obligations in terms of Capital and Liquidity during this turbulent period.

The Financial Reporting Council (FRC) carried out a review of the 2019 Audit performed by Mazar's which revealed some areas where improvement was required. The Chairman of the Audit Committee took note of these comments, particularly in relation to Expected Credit Loss and communicated them to the new auditors who performed the 2020 audit, and they took account of the FRC review in their audit scope.

Finally, I would like to express, on behalf of the Board my gratitude to all the staff at the Bank for their dedication and agility in these unprecedented times. I would also express my gratitude to the unwavering support of our Shareholder, the Bank of Africa Group and my Board colleagues.

On the 20th July 2021 , the banks board passed a resolution to change the name from BMCE Bank International United Kingdom Plc to Bank Of Africa United Kingdom Plc

Chief Executive Officer's review

Houssam El Hak Morssi Barakat

2020 was an unprecedented year and was extremely challenging not only for the Bank but for the world as a whole. The Covid-19 pandemic has had a significant impact, to name just a few examples:

- Since mid-March, contingency work from home plans were invoked resulting in most of the employees working from home and this including Paris, Dubai and Zurich offices.
- The business flow, mainly trade finance, have significantly decreased
- Our portfolio experienced a significant increase in expected credit losses, principally as a result of specific African country downgrades

Despite the difficult environment which led to a drop in net operating income by 13% and increase in expected credit losses, which almost doubled relative to pre-pandemic levels, the Bank has been resilient and managed to stay profitable.

More importantly, the Bank laid the foundations for getting the best from 2021. The strategy put in place in repositioning the customer at the heart of everything helped to absorb the shock of the pandemic in 2020 and provided for the bank to have strong commercial footing at the start of 2021.

We continue to secure our foundations and resolve legacy operational issues to unleash our full potential and execute our strategic priorities.

We have also undertaken several actions on Governance and Firm's Culture to strength our organisation. We have also achieved to be one of the few banks where the numbers of female and male senior managers are equal.

We have also, of course, still have much to do but as an organization we have become more open to change and nimble in our approach. A sustained and consistent execution is paramount to improving our productivity, streamlining our processes, controlling our operating expenses, attract talent and ultimately improve our cost of funds and our profitability.

Conclusion and outlook

We are making strides in improving the way we operate and preparing our institution to achieve its target being a full Commercial Investment Bank . There is still much to be done and external conditions are likely to be more challenging in the near-term considering: inflation, market expectations of higher interest rates and the Covid-19 pandemic which still comes with unpredictable human and economic consequences.

The Covid-19 pandemic had a significant impact on our forecast for 2021 in terms of Return on Equity target and income growth.

As an institution, we are playing a key role and we continue to support our core clients and finance international trade during these volatile times. We also support our employees and community as evidenced by the latest financial contribution of circa USD 100 million equivalent by our Parent company, BMCE Bank Group, to assist the most vulnerable impacted by Covid-19.

Against this backdrop, our strength, our resilience coupled by the opportunities post pandemic the Bank will continue to thrive and meet its strategic objectives.

Strategic Report

The Directors present their Strategic Report for BANK OF AFRICA United Kingdom plc ("the Bank" or "BoA UK", formerly known as BMCE Bank International UK PLC) for the year ended 31 December 2020.

Our Strategic priorities and progress

1 *Organisation of governing bodies*

The governance structure of the Bank remains unchanged and is represented by the following bodies:

- The Board of Directors consisting of six Non-Executive Directors of which three are independent Non-Executives and the Chief Executive Officer, and others regularly attended including the CFO, CRO, COO and the Head of Internal Audit. The Board approves the overall strategy and the broad guidelines of BoA UK.

- On 31 March 2021, Timothy George Plews was appointed as an independent non-executive director. On 1 June 2021, Mohammed Agoumi resigned.

- The Risk Committee consists of two non-executive Directors. The CRO has a standing invitation. Other members of the Board, the Chief Executive Officer, the Chief Financial Officer and the Head of Internal Audit are invited. The Risk Committee monitors and assesses the adequacy and effectiveness of risk management policies and processes. It monitors the full range of risks, financial and non-financial, including credit, market, liquidity, funding, capital, operational and regulatory risks.

- The Audit Committee consists of two Non-Executive Directors. The Head of Internal Audit has a standing invitation. The Chairman of the Board, the Chief Executive Officer, other members of the Board, and Departmental Heads, example, the CFO, the CRO , the Head of compliance are regularly invited. The committee monitors the adequacy and effectiveness of controls, processes, governance, integrity of financial statements and objectivity of internal and external auditors.

- The Remuneration Committee is headed by a non-executive Director. According to best practices, this committee is established to ensure that remuneration arrangements support our business strategic aims and enable the recruitment, motivation and retention of senior executives, whilst also complying with the requirements of regulation.

- Other committees involved in the decision-making processes of BoA UK are:
  - Executive Committee
  - Asset and Liability Committee
  - Credit Committee
  - Compliance Committee

2 *Post Brexit Plan*

The United Kingdom finally withdrew from the European Union on 31 January 2020 and entered an Implementation Period which ended on 31 December 2020. As part of the contingency plans the Bank applied and received a third country licence for its Paris Branch.

3 *Compliance Remediation Plan*

BoA UK has successfully established an improved and effective KYC process and revisited its new account opening procedures.

3 *Dubai & Zurich Licences*

The Bank obtained a licence for the Dubai branch in March 2020, while Zurich's licence to convert to a branch is still ongoing.

4 *Achievement of business objectives*

- Our long-term success relies on generating value through:

1. Continuing sales-oriented efforts towards Africa.
2. Protecting our business with improved controls and strong compliance & risk management processes.

- Commercial efforts: The Bank, due to the Covid-19 pandemic ceased all sponsorship and in person attendance of meetings related to business in Africa.
- Group Synergies: Capitalising on the BMCE Bank of Africa brand for the acquisition of new customers and continually being a key player for creating synergies within the BMCE Bank of Africa Group. Several successful combined transactions with other entities of the Group generated substantial revenues at Group level. We are still developing our network and co-financing projects with other subsidiaries of BMCE Bank of Africa. We are still expecting strong benefits from Group synergies for both of the components "Buy Side" and "Sell Side".

5 *Achievement of business objectives*

- Diversification: Emphasising the geographic and sectoral diversification of our "Target Market". BoA UK diversified its sources of funding including other banks outside the BMCE Group and in taking more deposits from corporate customers.

- Risks: Maintaining the level of "Risk Appetite" as approved by the Board. BoA UK Risk Appetite remains unchanged, and we have kept strong risk management practices with risk limits aligned to a carefully considered business strategy.

- Focusing on continuous enhancement of our system of governance and control to ensure that we are operating in an efficient manner.

Directors' Duties and Engagement with Stakeholders - *Section 172 Statement*

The Directors present the statement describing how they have complied with the matters set out in section 172 of Companies Act 2006 when performing their duty to promote the success of the company. This statement considers how the directors have managed with and had regard to the interest of stakeholders.

The directors have acted in good faith to promote the success of the company for the benefit of its shareholders as a whole whilst having regard to the following requirements:

- the likely consequences of any decision in the long term;
- the interests of the company's employees;
- the need to foster the company's business relationships with suppliers, customers and others;
- the impact of the company's operations on the community and the environment;
- the desirability of the company maintaining a reputation for high standards of business conduct; and
- the need to act fairly as between members;

The directors also took into consideration the views and interest of a wider stakeholders including customers, employees, regulators and the broader society. The following section summarises how the Directors fulfil these duties.

Decision making in the Long term

The Board considers and discusses information from across the organisation in order to help it understand the impact of BoA UK operation and the interests and views of our key stakeholders. It reviews strategy, financial and operational performance as well as information covering areas such as key risks, legal and regulatory compliance. The board gets this information through reports sent in advance of each board meeting and presentations at board meetings.

As a result of this, the Board has a broader overview of engagement with stakeholders, and other indices that enables the Directors to comply with their legal duty under section 172 of the Companies act.

Employees

Our people are at the heart of our business and BoA UK behavior is aligned with the expectation of our staff, In order for our business to thrive, the Bank manages its people's performance, develops talents and maintains highest level of culture, engagement and inclusiveness. The Bank regularly provides employees with information on matters of concern to them especially update on Covid-19 pandemic and the support the Bank could offer where necessary. Also, employees were provided resources to work remotely in light of government restrictions and to safeguard their health. The Bank is also an equal opportunities employer and committed to equality and diversity.

Customers

The Bank adopts a relationship-based banking mode with a team of highly experienced relationship managers that interact with our customers regularly. This underpins the fact that our customers are considered as being at the center of everything we do. As part of this customers were informed on the LIBOR transition initiatives. Also, the Bank complies with requirements of treating customers fairly as provided by FCA, providing them with adequate information and excellent service.

Business Relationship

The Bank business model is focused on maintaining a strong and efficient client relationship. The Bank equally values its suppliers and contractors and the important role they play in delivering services to the Bank. Also, in furtherance of the Bank's outsourcing and operational resilience guidelines, senior management maintained regular engagement with key strategic partners and suppliers to perform due diligence and ensure that a good standard service delivery is ensured, and report of these engagements are reported to appropriate committees and the board.

Also, in order to consolidate its position post Brexit, the Bank has obtained a third country licence for its Paris branch and has got a licence for its Dubai representative office which has now been upgraded to a branch while Zurich representative branch licence application is in progress.

Strategic Report (continued)

Community and Environment

The Bank strategy is to always create positive change for the people and communities it interacts with while taking into consideration the impact of its action on the environment. Despite the challenges posed by Covid-19, the Bank still maintained good relationship with the environment by acting responsibly, meeting all its obligations.

Maintaining a reputation for high standards of business conduct

BoA UK creates an environment of good culture, values and high standard of good conduct. This has always guided the Bank in managing its success and measures the likely consequences of any decision in the long term and on stakeholders.

Regulators

Members of the Board and senior management have been meeting with FCA and PRA on regular basis during the year 2020 especially in the wake of Covid-19 Pandemic. The Board has taken steps to make the Bank comply with the Senior managers Regime. In addition, the board provides regular report to the regulators on the Bank's position and performance.

Economic overview

1 *African Environment*

According to the World Bank Africa report, driven by the economic fallout of the COVID-19 pandemic, growth in Sub-Saharan Africa contracted by 2% in 2020, reflecting a slower-than-expected spread of the virus and lower COVID-19-related mortality in the region, strong agricultural growth, and a faster-than-expected recovery in commodity prices. However, the pandemic has plunged the region into its first recession in 25 years with activity contracting by nearly 5% on a per capita basis. In East and Southern Africa, the growth contraction in 2020 is estimated at –3%, 0.9 percentage point less than projected in October 2020, mostly driven by South Africa and Angola—its two largest economies. Growth in Western and Central Africa contracted by 1.1% in 2020, less than projected in October 2020 partly due to a less severe contraction in Nigeria, the subregion's largest economy, in the second half of the year. Real gross domestic product in the subregion is projected to grow by 2.1% in 2021 and 3.0% in 2022.

2 ***International and Local Environment***

According to the Organization for Economic Co-operation and Development (OECD), the world economy fell by - 6% due to the Covid-19 pandemic, compared to a growth of 2.9% in 2019.

High policy uncertainty, ongoing trade tensions/protectionism, and a further erosion of business and consumer confidence are all contributing to the slowdown.

UK Gross Domestic Product shrank by 9.9% in 2020 compared to a growth of 1.4% in 2019, driven by the Covid-19 pandemic, as per the Office for National Statistics (ONS). Nationwide lockdown measures continued to weigh on activity.

Weaker global growth and Corona virus uncertainties weighed on spending.

Climate Change

The Bank is aware of its sustainability and has been analyzing how climate change will impact its business and how its activities will impact the environment. The Bank will continue to identify and assess its exposure to risk from climate change and has put in place robust governance and risk management processes to mitigate its exposure to the emergence of climate change risk.

Risk Management Framework

BoA UK adopts the risk management model known as the 'three lines of defence' governance model. This is the model of risk management that allows the Board to implement and control the decisions on strategy, risk and capital.

This model allows BoA UK to implement effective risk management and an embed risk culture.

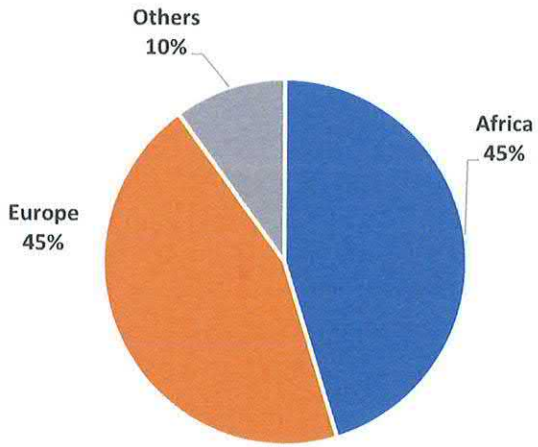
The Board of Directors, through the Board Risk Committee, has ultimate responsibility for risk management. Together with the Risk Management Function, Credit Committee, Large Exposures Committee, Provisions Committee, ALCO, various risk policies, Risk Appetite Statement, Enterprise Risk Framework and various other governance documents are an integral part of BoA UK's Risk management framework.

BoA UK is committed to ensure that its risk management framework is robust, up to date and in line with best practice.

BoA UK periodically reviews its risk appetite and ensures that it is in line with the current environment, the strategy of BoA UK and budgets. This is provided in both business as usual and stressed conditions.

BoA UK Lending portfolio continues to be well diversified in terms of counterparty, business unit and country risk. The below graph shows :

Total exposition per region



Despite the diversity of the Bank's portfolio, certain sectors and regions have experienced some difficulties that mainly resulted to the contraction of our Commodity Finance portfolio.

However, BoA UK's portfolio continued to perform well in the four main business lines where it operates :

- Treasury & Capital Markets;
- Loan Solutions;
- Commodities Trade Finance; and
- Trade Finance.

Strategic Report (continued)

1 *Credit Risk*

Credit risk is the current or prospective risk to earnings or capital arising from an obligor's failure to meet the terms of a contract with BoA UK or its failure to perform as agreed.

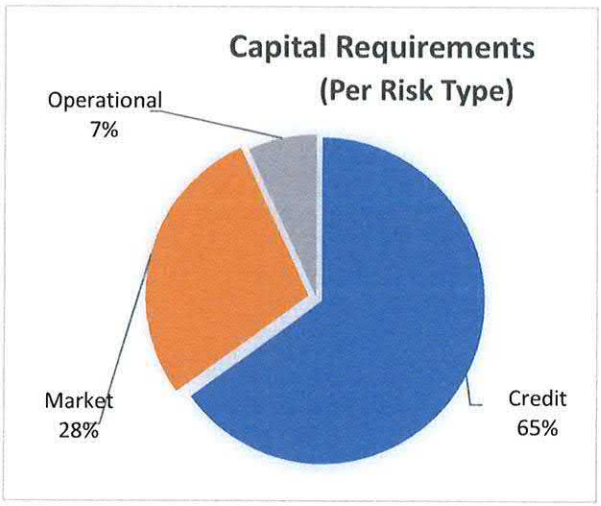
The credit risk includes counterparty risk, settlement risk and concentration risk.

BoA UK faces credit risk on its exposure to sovereigns and corporates from its capital markets, corporate banking and project finance businesses, and from its exposure to financial institutions and corporates from its trade finance and treasury activities.

BoA UK has a detailed credit policy and procedures manual providing an operating model and information on how the credit risk management processes are embedded in the business and overseen at the highest level within BoA UK.

BoA UK continues to act on the financial market, providing solutions, products and services accordingly with the defined risk appetite and within the governance in place for approving any credit risk.

Credit risk is the main risk in BoA UK as shown here below:



The lending portfolio of BoA UK increased significantly during the last four years, whilst the non performing-loans have managed to stay at a reasonable level.

BoA UK do not have significant open positions on derivative products. The results coming from these products are mainly due to commercial transactions. BoA UK do only FX swaps or interest rate swaps. The Capital requirement related to counterparty exposure for these products is calculated based on the standard approach and is not material.

2 *Market Risk*

Market risk covers the risks that arise from fluctuations in the values of, or income from tradable assets, in particular arising from changes in interest rates, foreign currency exchange rates, and the market prices of equities and commodities.

BoA UK is exposed to interest rate risk on its holdings of treasury and corporate bonds portfolio and the risk from trading foreign exchange.

The financial instruments (bond) portfolio is treated as asset held at fair value through other comprehensive Income (FVOCI) for the purpose of capital calculations.

The fixed income portfolio represents 21% of the total balance-sheet.

The Bank did not hold any bonds in the High Quality Liquid Assets (HQLA) as at year end. Instead the Bank held its cash reserves in a Banque de France account.

Minimal currency risk will arise from BoA UK's fixed income activity as the purchase of most securities denominated in foreign currency will be funded on a matched basis.

Currency risk will arise, however, from BoA UK's trading in vanilla foreign exchange (mainly spot and forwards). BoA UK manages an open position within its risk appetite.

Market risk in the banking book may arise from corporate banking activities; all market risk arising from this business will be passed to the trading book for active management and will therefore attract the additional capital requirements for interest rate and foreign exchange risk set out above.

3 *Operational Risk*

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events such as covid-19 which necessitated remote working. The Covid 19 induced remote working has elevated operational risk as the system is exposed to cyber attacks while processing of banking transactions is prone to posting errors and or delays.

BoA UK currently uses the Basic Indicator Approach(BIA) to calculate it's Operational Risk requirements. BoA UK continue to have a sound reputation and to steer its operational risk carefully and according to best practices.

BoA UK is dedicated to the management of operational risks. The framework aims to:

- Minimise losses generated by operational risk;
- Improve control of operations where necessary;
- Put in place adequate performance measurement and early warning signals; and
- Enhance operational risk awareness and culture.

4 *Liquidity Risk*

Liquidity risk is the risk that a firm, although solvent, either does not have available sufficient financial resources to enable it to meet its obligations as they fall due, or can secure such resources only at excessive cost. The liquidity ratios of BoA UK has continued to be above the regulatory requirement and also above the internal constraint, showing a comfortable liquidity position.

BoA UK monitors its liquidity very closely and within the Risk Tolerance approved by the Board. These internal limits are benchmarked against the Individual Liquidity Guidance to ensure they are at least as stringent.

Principal risks and uncertainities

The table below summarizes the principal risks and uncertainties.

Risks and Uncertainties	Description/Component/Impact	Mitigation	Change 2020/2019
Risks			
Credit Risk	• Description:Non-investment grade direct lending • Component: Sub-Saharan area • Impact: Losses in notional. Increase in credit risk due to rating down grades of key markets including Nigeria and Angola on the back of falling oil prices	Country/counterparty analysis, Credit committee approval. Some country limits like Angola, Zambia , Mali and Turkey were frozen together with new exposures to upstream energy production. Some risk was transferred via insurance	↗
Market Risk	• Description:Interest rate hikes/Currency volatility • Component: USD rates • Impact: Market losses (% of notional) due to falling bond prices	Stop Loss Limit in place and potential hedge with Interest rate swap and FX swaps. Active management of the fixed income portfolio minimised adverse impact.	→
Regulatory	• Heightened regulation/oversight – Driven by Covid-19 and volatility in Eurobonds and Mark to market position. • Component: Basel III • Impact: Regulatory breach of capital adequacy ratio due to negative impact of MtM losses on Capital	Regulatory updates and internal control. Effective internal systems were able to manage the risk.	↗
Liquidity	• Description:Long term assets not covered by wholesale funding • Component: Funding diversification • Impact: Reputational risk	Application and implementation of ILAA (Individual Liquidity Adequacy Assessment)	→
Compliance	• Description:AML/KYC (Anti-Money Laundering / Know Your Customer) related issues • Impact: Reputational risk	AML Officer, AML systems, AML policy	→
Operational	• Description: Remote Working: • Component: risk of miss-booking/errors in corporate banking transactions/Cyber attacks/ System down times. • Impact: accounting of BoA UK assets /Data leaks/reputation damage	• System security improvements • Staff awareness training • Restructuring of Back Office	↗
Uncertainties			
Economic difficulties in African countries	• Description: Lower growth in Africa • Component: Bearish commodities market; low oil market. • Impact: Lower banking income	Exploring new market opportunities in Asia and Middle East	→
Post Brexit	• Description: Uncertainties about the impact of Brexit • Impact: operational risk	Monitoring impacts of Brexit	→
COVID-19	• Risk of deterioration of the financial position of counterparties and breach of credit covenants .	Reducing activities in Oil linked business Vaccine roll out to reduce impact	↗

5 *Significant accounting judgements*

The audit committee has considered the key areas of estimation and judgement applied in the financial statements as set out in note 3. The considerations for the most significant areas for 2020 included:

Key area	Action taken
IFRS 9 standards (business models, probability of default, loss given default, etc.)	• The audit committee considered management's key judgements used to establish the appropriate level of expected credit loss allowances on the Bank's portfolio. The audit committee considered the range of estimates as disclosed in notes 35 – credit risk.
Revenue recognition – Fee income	• The audit committee considered the nature of fees for loans to be recognised as an adjustment to the effective interest on loans and the output from the process for monitoring effective interest rate adjustments.
Deferred Tax Asset	• The audit committee considered the recoverability of deferred tax assets by reviewing forecast profitability and considering the sensitivities to those forecasts on the period to recover the deferred tax asset.
Estimating the incremental borrowing rate	• The Bank uses incremental borrowing rate ('IBR') to measure lease liabilities. The IBR is the rate of interest that the Bank would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment
Impairment test of the Goodwill	• The audit committee considered the contribution of "Corporate & Investment Banking" and "Treasury & Capital Markets" the two Cash Generating Units (CGUs) for the valuation of the Goodwill and consequently concluded that no additional impairment was necessary.

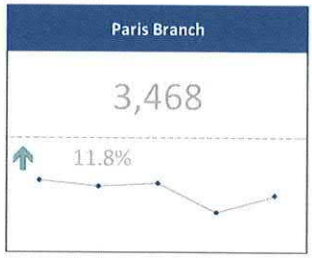
6 *Post - Brexit*

The Bank's business model continues to focus on doing business with Africa, European Economic Area (EEA) restrictions on certain services should have a limited impact in the Bank's business plan.
The Paris branch has obtained a third country licence, which allows the Bank to conduct business activities in the EU.

Development and performance by business lines for the year 2020

£'000	2020	2019 Restated
Profit/(Loss) on FX	1,092	360
Profit on bonds	4,508	7,403
Money Market	74	834
Treasury – Capital Market	**5,674**	**8,597**
Loan Solutions	6,821	6,456
Commodities & Trade Finance	3,000	2,716
Paris branch	3,468	3,097
Corporate Banking	**13,289**	**12,269**
Other income not allocated	71	978
Subordinated debt interest not allocated	(325)	(421)
Net operating income	**18,709**	**21,424**

Graphs below show the 5 years trend.



Treasury – Capital Market (TCM)

Revenue net of funding generated by TCM in 2020 decreased by 34% amidst of the Covid -19 pandemic.

This result was mainly driven by the bonds profits which fell by 39%.

Overall, TCM performance remains positive and resilient with a strong £5.7M revenue.

Corporate Banking

- **Loan solutions** – 2020 was a stellar year for Loan solutions as it generated another record year for income; 2020 income, despite the lockdown/Covid-19, broke the £6.5M mark at £6,821k compared to the previous record of GBP 6,456k in 2019. The team's strategy to generate more of its income via Fees also started to yield positive results in 2020.
- **Commodities and Trade (CTF)** CTF's 2020 performance was up by 10% to £3,000K (2019: £2,715K). CTF will continue to have a dynamic and diversified strategy in 2021 driven by the increase in the portfolio. Trade Finance UK, particularly grew its book by 53%. This was achieved by both on-boarding new clients as well as deepening existing relationships. We continue to rely on the contributions of our representative offices in Zurich and Dubai as well as our Sister Banks namely Shanghai, Casablanca and Madrid. The aim of the desk is to form strategic partnerships with both existing and new clients in order to achieve further growth in 2021.
- **Paris branch** – Despite the specific context in 2020 and the strong competition, Paris branch reinforced its contribution to BoA UK's revenue through the support of its Corporate & Financial institutions Clients as part of its strategic Trade Finance and Correspondent banking activities on African markets.

Strategic Report (continued)

Income analysis

The net operating income decreased by 13% to £18,709k. The decrease in net operating income compared to the prior year resulted mainly from the impact of Covid-19 outbreak to the level of provisions, despite resilient overall performance in the banking activities.

Net interest income grew by 8% to £17,968k (2019: £16,669k).

The level of interest expenses went down by 52%.

Net fees and commissions remained negative net result of £-80k (2019: £-485k) mainly driven by the slowdown on commodities trade business.

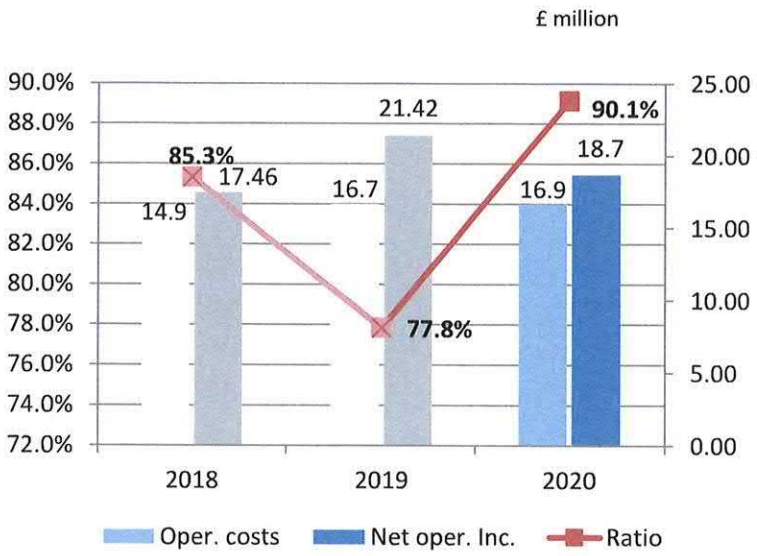
Net trading income declined from £4,261k in 2019 to £750k in 2020 mainly due to a fall of £4,005k on gains on disposal, which was partially offset by gains on foreign exchange.

Operating expenses remains flat in 2020 (compared to 2019 figures) at 16,853k. Operating expenses were incurred primarily on Personnel expenses at £8,236k, other operating expenses at £6,519k and depreciation of property & equipment at £1,246k.

Personnel expenses increased significantly by 16.2% to reach £8,236k (2019: £7,082k). The Bank kept its on-going commitment to invest in human capital resources by strengthening teams and retaining talented people.

Amortisation and depreciation rose by 33.6% (£2,098k VS £1,570k in 2019) because of a full year depreciation charge in 2020 on Property ,Plant and Equipment and Right-of-use Assets additions capitalised at the end of 2019.

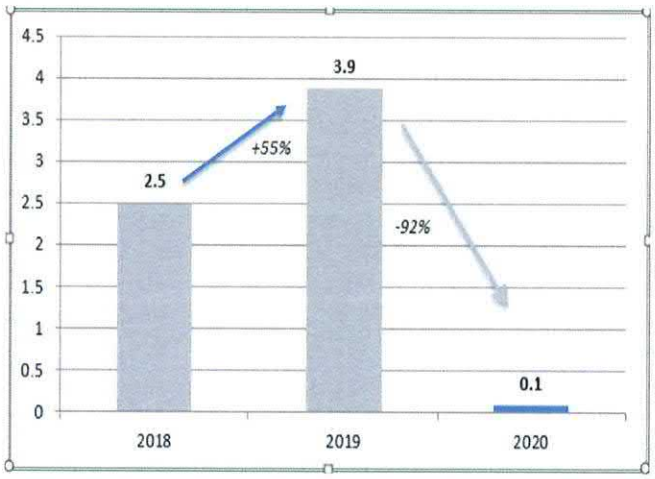
The cost to income ratio increase from 76.7% in 2019 to 90.1% in 2020.



The increase in expected credit loss allowances rose to reach £1,759k in 2020 mainly due to an increase in provision of stage 1 assets which was partially offset by an appreciation of stage 2 assets for £1,055k.

Profit before tax recorded a sharp drop of £3,785k to £97k vs £3,882k in 2019.

Profit before tax – Evolution:



Amid unfavourable market conditions and Brexit uncertainties, the Bank remains profitable and continues to recognise deferred tax assets in full.

Consequently, BANK OF AFRICA United Kingdom plc recorded a net profit before taxation of £97k for the year ended 31 December 2020 (2019: £3,882k).

Strategic Report (continued)

Balance sheet analysis

The total assets increased by 4.1% to £485,372k (2019 restated : £466,247k). Earning assets increased by £18,251k to £455,197k (2019: £436,905k). Due from banks increased by £52,491k to £138,092k (2019: £ 85,601k); whereas loans to customers decreased by £42,879k to £173,173k (2019: £216,052k).

Deposit liabilities increased by 4.9% to £375,972k (2019: £358,475k). The increase was mainly from the Group entities and deposits coming from corporate customers.

Total shareholder's equity increased by 0.9% to £81,755k (2019: £80,820k), which is broadly in line with 2019. BoA UK continued to operate a profitable business model based on its funding and its good quality assets portfolio held.

Capital management

. Definition

The Bank's regulatory capital consists of the sum of the following elements:

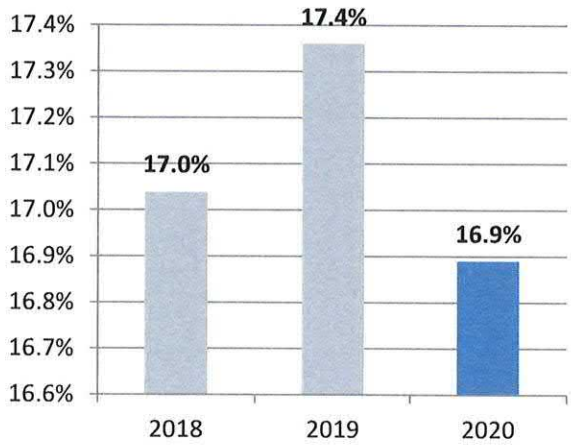
- **Tier 1 capital** (all qualifies as Common Equity Tier 1 (CET1) capital) - it includes ordinary share capital, retained earnings, reserves and other comprehensive income (OCI) after adjustment for deductions for goodwill and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.
- **Tier 2 capital** - it includes qualifying subordinated liabilities.

£'000	2020
Tier 1 Capital	69,581
Subordinated debt (principal)	15,853
Own funds	**85,434**
Required capital	**68,942**
Surplus capital	16,491
Risk weighted assets	505,809
Tier 1 capital ratio	13.76%
Solvency ratio	16.89%

As at 31 December 2020, BoA UK recorded a capital adequacy ratio of 16.9% (2019: 17.4%) with a core tier 1 capital ratio of 13.7% (2019: 14.1 %). The capital ratios remained in excess of regulatory requirements as at the reporting date and demonstrated the robust capital position of the BoA UK.

Risk weighted assets increased by 7.6% to £505,809k (2019: £469,702k).

Solvency ratio Evolution:



Liquidity and funding

BoA UK's funding strategy continued to rely on funding from the Group. However, the continuous profitable performance recorded for the last 5 years allowed BoA UK to diversify its source of funding outside the ultimate parent company; with the ultimate objective of diversification and reducing its cost of funding. BoA UK continued to maintain a reserve account with the Banque de France and to hold high-quality, unencumbered liquid assets in line with the regulatory buffer asset requirements. In addition, highly liquid money market instruments were held to support liquidity requirements.

BoA UK is committed to meet strong levels of regulatory requirements both LCR and NSFR.

Strategic Report (continued)

Key performance indicator

Return on shareholders' equity has declined to 1.86% (2019: 3.65%).

Return on Equity (RoE): is profit after tax divided by equity for the year. The decrease was primarily driven by a reduction in net trading income and other operating income, which was partially offset by an increase in net interest income recorded in the year.

Return on Assets has declined to 0.37% (2019: 0.56%).

Return on Assets (RoA): is profit after tax divided by average total assets for the year, the decrease was due to a reduction in profitability, and an increase in average assets mainly driven by increases in cash and balances with central banks and due from banks, which were partially offset by falls in Loans and advances to customers and Financial investments – FVOCI / AFS.

Liquidity Coverage Ratio (LCR): This represents the ability of the Bank to maintain an adequate level of unencumbered assets that can meet its liquidity needs for a 30- day period under a severe stress. The Bank maintained an LCR ratio of average of 179% throughout the year, which is above the regulatory requirement of 100%.

Capital Adequacy Ratio (CAR): is a measure of the Bank's total available capital to its risk weighted assets (RWA). The RWA in 2020 were £36.1m higher than prior year and total available capital also improved by £4.4m to £85.4m leading to a reduction in CAR from 17.36% to 16.89%.

Signed on behalf of the Board

31/1/2022

Ralph Snedden
Chairman of the audit committee

Houssam El Hak Morssi Barakat
Chief Executive Officer and Director

Date: 31/1/2022

Statement of Directors' responsibilities

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

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

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether applicable international accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- provide additional disclosures when compliance with specific requirements in international accounting standards is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Bank will continue in business or unless they intend either to liquidate the Bank or to cease operations or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Bank's transactions and disclose with reasonable accuracy at any time the financial position of the Bank and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.They are also responsible for safeguarding the assets of the Bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors' statement of disclosure to auditors

Each of the Directors confirms that:

- to the best of each Director's knowledge and belief, there is no information relevant to the preparation of their report of which the Bank's auditor is unaware; and
- each Director has taken all the steps a Director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Bank's auditor is aware of that information.

- This confirmation is given in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006

Signed on behalf of the Board

Houssam El Hak Morssi Barakat
Chief Executive Officer and Director

Date: 31/1/2022

31/1/2022

Ralph Snedden
Chairman of the audit committee

Directors' report

The Directors of BANK OF AFRICA United Kingdom plc present their Directors' report for the year ended 31 December 2020. As permitted by Paragraph 1A of Schedule 7 to the Large and Medium sized Companies and Groups (Accounts and Reports) Regulations 2008 certain matters which are required to be disclosed in the Directors' Report have been included in the Strategic Report on pages 7-17. These matters relate to Future Developments; and Financial Risk Management

Principal activities

The Bank is authorised and regulated by the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA).

The Bank's principal activities are Corporate and Investment Banking, focusing on trade, structured and project finance and corporate lending for target customers based in Africa or with an interest in the region and Treasury and Capital Markets, focusing on currency and interest rate markets of the region.

The Bank operates in the United Kingdom, in branches in France and Dubai and had a rep office in which is in the process of being converted to a branch.

Business review

BANK OF AFRICA United Kingdom plc is an authorised credit institution and provides a range of banking and financial services. There have not been any significant changes in the Bank's main activities in the year under review.

The Directors are not aware, at the date of this report, of any likely changes in the Bank's activities in the forthcoming period.

BANK OF AFRICA United Kingdom plc invests significantly in human capital and its IT systems with the objective of improving its business and financial performances. The Directors regard such investment as necessary for shifting expectations on the future of the business.

Results and dividend

The Bank's profit for the year before taxation amounted to £97k (2019: £3,882k).

No dividend was paid during the year (2019: £Nil). The Directors do not recommend the payment of a final dividend for the financial year 2020 (2019: £Nil)

Capital structure

The Bank's capital structure remains unchanged. However, the accumulated losses have decreased due to profits being fully reinvested in the business.

As at 31 December 2020, the maturity of €17,700k subordinated debt remained until 2026.

Pillar 3 disclosures

Further information regarding the Bank's approach to risk management and its capital adequacy is contained in the unaudited Pillar 3 disclosures made under the current regulatory capital requirements.

These disclosures will be published on the Bank's website shortly after the approval of these financial statements at http://www.bmce-intl.co.uk/finance.

Directors

The Directors, who all served throughout the year, unless otherwise shown are as listed on page 4 of the report.

Directors' interests

None of the Directors has, or had during the year under review, any beneficial interest in the shares of the Company.

Directors' insurance and indemnities

The Directors have the benefit of the indemnity provisions contained in the Company's Articles of Association ('Articles'), and the Company has maintained throughout the year Directors' liability insurance for the benefit of the Company and the Directors.

The Company has entered into qualifying third party indemnity arrangements for the benefit of all its Directors in a form and scope which comply with the requirements of the Companies Act 2006 and which were in force throughout the year and remain in force.

COVID-19

The Directors are closely monitoring the impact of the global pandemic from the outbreak of Covid-19 which became significant in March 2020 and is causing widespread disruption to normal patterns of business activity across the world, including the UK. This pandemic has created unprecedented challenges for individuals, economies, financial markets, financial institutions and governments.

In response to this evolving situation, the Bank keeps reviewing its business activities so as to adapt to the ongoing situation and has put in place contingent plans to enable staff to work remotely which has been working successfully.

Going concern basis of accounting

The Directors have a reasonable expectation that the Bank has adequate resources to continue in operational existence for the foreseeable future and for at least 12 months from the date of approval of the financial statements.

The directors consider that there is no material uncertainty on going concern.

In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including the current state of the balance sheet, future projections of profitability, cash flows and capital resources, support from its parent company and the longer-term strategy of the business.

The Bank has taken into considering the current and potential impacts of Covid-19, including on its business plans.

The Bank's capital and liquidity plans have been stress tested under a range of stressed scenarios and have been reviewed by the Directors.

The Directors assessed a range of scenarios including stressed scenarios and the results indicated that the Bank would have sufficient capital and liquidity to fund its balance sheet for each reasonably possible scenario.

The Directors also concluded that both capital and liquidity forecasts remained within present regulatory requirements, over the period assessed.

The Directors therefore believe that it remains appropriate to continue to adopt the going concern basis in preparing these Bank's financial statements.

Signed on behalf of the Board - Date:
Houssam El Barakat Morsi
CEO and Board Director
31/1/2022

Signed on behalf of the Board - Date:
Ralph Snedden
Chairman of the audit committee
31/1/2022

Independent auditor's report to the members of Bank of Africa UK plc

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the Company's affairs as at 31 December 2020 and of the Company's profit for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006: and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Bank of Africa UK plc (the 'Company') for the year ended 31 December 2020 which comprise Statement of Profit or Loss, the Statement of Other Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and international accounting standards in conformity with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our audit opinion is consistent with the additional report to the audit committee.

Independence

Following the recommendation of the audit committee, we were appointed by the Board of Directors on 17 December 2019 to audit the financial statements for the year ending 31 December 2020. The period of total uninterrupted engagement including retenders and reappointments is 1 year, covering the year ended 31 December 2020. We remain independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services prohibited by that standard were not provided to the Company.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included:

- Obtaining the Directors' assessment of the going concern, which includes the going concern assumptions, applied in the financial statements. For key assumptions included in the forecasts and stress scenarios, we have obtained an understanding of the Directors' rational for the assumptions made and agreed these where possible to relevant supporting documentation.
- In understanding the capital and liquidity of the Company, we have reviewed the ICAAP and capital adequacy ratio with the help of our regulatory experts. We have used this understanding to assess the Directors' capital and liquidity position.
- Enquiring with the Directors about the implications of COVID-19 on the business and the impact of this on the forecasts. Checking that this has been appropriately reflected in the forecasts.
- Assessing the forecast used to support the Going Concern assessment for arithmetical accuracy. Challenge of the various stress scenarios.
- Considered the adequacy of the disclosures in the financial statements based on our knowledge gained as a result of the above procedures.

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

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

Independent auditor's report to the members of Bank of Africa UK plc (continued)

		2020
Key audit matters	• Risk of Fraud in revenue recognition • Loan loss Provisioning • Due from banks, • Loans and advances to customer & Balances due from banks • Risk of error in FX revaluation	• ☑ • ☑ • ☑ • ☑ • ☑
Materiality	Company financial statements as a whole • £413,000 based on 0.5% of net assets.	

An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the Company and its environment, including the Company`s system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Directors that may have represented a risk of material misstatement.

There have been a number of challenges during the financial statement preparation and audit processes which have resulted in the company being unable to submit signed audited accounts to Companies House and the PRA within the required timeframe. A number of matters arose during the audit which required further consideration by the management team and ultimately led to a significant number of adjustments to the financial statements being necessary, including prior period adjustments. The Company hired a previous incumbent CFO as a contractor for most of 2021 and early 2022 to assist with the preparation of the 2020 accounts.

As a consequence of the matters identified and the additional level of risk assessed in certain areas, we increased the size of the audit team, carried out additional consultations on certain matters and performed additional audit procedures where this was considered necessary to obtain sufficient audit evidence to support our opinion. This resulted in an adjustment to our original planned audit approach and timetable becoming necessary.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter		How the scope of our audit addressed the key audit matter
Revenue recognition – Effective interest rate accounting Management's associated accounting policies are detailed in note 2.3 on page 35 with detail about judgements in applying accounting policies and critical accounting estimates on page 45.	The Bank's interest income is recognised on an effective interest rate ("EIR") method in accordance with the requirements of applicable accounting standards. This method involves adjusting fee and interest income to ensure it complies with the EIR method. The approach used to achieve this is reliant on the completeness and accuracy of input data. Revenue recognition is therefore considered to be an area of significant risk in respect of the EIR calculations and contractual interest income adjustments.	We obtained assurance over the calculations performed by the client's core banking system, testing the operating effectiveness of automated interest income calculations with assistance from our IT specialist team. For a sample of contractual interest income, we manually re-calculated the contractual interest income. We verified key inputs into these calculations, such as interest rate and principal balances, to supporting documentation such as client agreements. We manually re-calculated the contractual bond interest income for a sample of counterparties. We verified key inputs into these calculations, such as interest rate and principal balances, to supporting agreements. We agreed a sample of fees to agreements and tested that these are recognised in accordance with the EIR method and the relevant financial reporting framework, including checking a sample of client agreements to ensure that all fees that meet the criteria for spreading under EIR are included within the model. We reviewed the stated revenue recognition policies to check compliance with IFRS 9 and IFRS 15, and corroborate the application throughout our testing approach, which included an assessment of whether management includes the appropriate fee cash flows within the calculation of the effective interest rate. **Key Observations:** Based on our audit work performed, we consider that the effective interest rate accounting is appropriate.

Key audit matter		How the scope of our audit addressed the key audit matter
Loan loss Provisioning-assumptions used in the estimate Management's associated accounting policies are detailed in note 2.11 on page 38 with detail about judgements in applying accounting policies and critical accounting estimates on page 45.	The principal activity of the Bank is the provision of credit services (loans and advances) to corporates, banks and individual customers. Commensurate with the activities of the Bank, the total loan loss provision is a material balance subject to management judgement and estimation. Under IFRSs, the Bank is required to assess the recoverability of all facilities, not just those specifically identified as impaired. Therefore, the Bank needs to assess the Expected Credit Loss (ECL) provision for the loan book as a whole, taking into account macroeconomic factors (including PD's, LGD's and EAD's) along with the staging, to ensure compliance with IFRS 9. A number of the Bank's current facilities are exposed to business activities, which may be negatively affected by the coronavirus pandemic. There is a risk that a loss event has occurred given the impact of the pandemic on economic activities.	We evaluated whether the definition of default used by the Bank is in accordance with the accounting standard. All key inputs used in the modelling were agreed to relevant internal or external support. This included PDs and LGDs rates. We evaluated and challenged the Bank's determination of what constitutes a Significant Increase in Credit Risk (SICR), by reference to the requirements of IFRS 9 and the approach taken by the Bank. We selected a sample of Stage 1 and Stage 2 loans to test the application of SICR and the adequacy of the ECL by reference to the performance of the loan, collateral, and potential recovery strategy. We assessed the appropriateness of using third parties such as S&P for calculating internal risk parameters. This was assessed by our credit risk experts. With the support of our economics experts, we assessed the appropriateness of the macroeconomic variables, such as GDP and Corporate insolvency rates for the loan portfolios. We assessed the reasonability of multiple economic scenarios used, including the number, weighting and probability changes, by obtaining the Bank's support for these judgements and performing sensitivity analysis. For Stage 3 loans, we tested the default trigger and management strategy for recoverability. We challenged management on stage 3 loans around the adequacy of ECL, considering multiple economic scenarios and probabilities of realisation of these scenarios in relation to the stage 3 loans. We tested the compliance of the disclosures in the financial statements with IFRS. **Key Observations:** Based on our audit work performed, we consider the estimates made by the Bank in the calculation of the ECL provision to be reasonable, and in line with the requirements of IFRS 9.

Key audit matter		How the scope of our audit addressed the key audit matter
Due from bank, Loans and advances to customer & Due to customers. Note 15 for Due from banks, Note 16 for Loans and advances to customer and Note 23 Due to customers. PPA page 86 and 87.	The Bank deals with customers and other banks in the normal course of business. These transactions need to be reconciled for accurate representation of balances in financial statements. There can be procedural delays in performing these reconciliations which can then have an impact on cash balances and loans or other amounts. A delay can result in the need for material correcting adjustments to these balances. The Bank has three main lending products: loan solutions, trade finance and commodity trade finance. These products were recognised as either loans & advances to customers or balances due from banks depending on the nature of the counterparty.	We obtained a comprehensive understanding of Bank's reconciliation process. Our testing approach on cash and due from bank balances included the testing of all bank reconciliations as at 31 December 2020. We obtained external confirmations to confirm the existence and accuracy of the external balances. We agreed the year end balance to the general ledger and checked reconciling items to supporting documentation where available. We identified two accounts with aged unreconciled items. We requested management to investigate all these items and adjust or reconcile as appropriate. We sent external loan confirmations to obtain evidence over the existence and accuracy of a sample of lending balances. We identified a number of discrepancies between the loan confirmations per the external party and the balance recorded by the Bank. We sent out additional confirmations to confirm certain balances that were not included in our original sample. The Bank investigated all aged unreconciled items on the bank reconciliations and discrepancies on the lending loan confirmations. This resulted in a Prior period adjustment as reflected in the accounts on page 86 and 87. We tested all material resulting adjustments to appropriate external and internal supporting evidence. **Key Observations:** Based on our audit work performed, we consider the amounts reflected in Due from bank, Loans and advances to customer & Due to customers have been appropriately stated after the adjustments noted above.

Key audit matter		How the scope of our audit addressed the key audit matter
Risk of error in FX revaluation Management's associated accounting policies are detailed in note 2.2 on page 35.	During the closing process of the 2020 books, significant revaluation differences were identified by management mainly due to: • migration of the loan books from Paris to London; • matters derived from clearing suspense accounts; and • matters related to the revaluation process. There is risk of material misstatement due to error in calculation and recognition of FX revaluation.	We obtained a detailed breakdown of all balances and transactions for the year ended 31 December 2020 and reconciled this with the amount relating to FX in the trial balance to check the completeness of listing. We disaggregated the total population into balance sheet items and profit and loss items in order to test homogeneous items together as balance sheet items are translated at closing rate while income statement items are translated at the spot rate in line with IAS 21. We performed the re-computation on a sample basis and agreed results with the FX revaluation recognised by management. We compared rates used by the bank with an independent source to check the reasonableness of rates used. The Bank used an independent external party to re-perform the FX revaluation. We considered the methodology used by external party in conjunction with our internal experts. We audited the adjustments made by management by obtaining the underlying supporting documents and recalculating the FX revaluation for the sample selected. Key Observations: Based on our audit work performed, we consider that the net FX valuation gain/loss recognised is appropriate.

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

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

Group financial statements	2020
Materiality	£413,000
Basis for determining materiality	5% of net assets. This low percentage has been selected considering the entity and the execution of the audit.
Rationale for the benchmark applied	The majority of the stakeholders' interests in the bank are asset focused. This is also the key metric indicated by management and the group auditors of most importance when group reporting.
Performance materiality	£268,000
Basis for determining performance materiality	Performance materiality was set at 65% of materiality as this our first audit of the entity. We considered if this should be reduced further as the audit progressed but concluded not to change this as it was already felt to be at a low level.

Reporting threshold

We agreed with the Audit Committee that we would report to them all individual audit differences in excess of £8,000. We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual Report and Financial Statements, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Independent auditor's report to the members of Bank of Africa UK plc (continued)

Other Companies Act 2006 reporting

Based on the responsibilities described below and our work performed during the course of the audit, we are required by the Companies Act 2006 and ISAs (UK) to report on certain opinions and matters as described below.

Strategic report and Directors' report	In our opinion, based on the work undertaken in the course of the audit: • the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and • the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements. In the light of the knowledge and understanding of Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the Directors' report.
Matters on which we are required to report by exception	We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion: • adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or • the Company financial statements are not in agreement with the accounting records and returns; or • certain disclosures of Directors' remuneration specified by law are not made; or • we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

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

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

Extent to which the audit was capable of detecting irregularities, including fraud.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

Independent auditor's report to the members of Bank of Africa UK plc (continued)

We gained an understanding of the legal and regulatory framework applicable to the company and the industry in which it operates, and considered the risk of acts by the company which were contrary to applicable laws and regulations, including fraud. These included, but were not limited to, compliance with Companies Act 2006 and international accounting standards in conformity with the Companies Act 2006. We also considered the company's compliance with licence conditions and supervisory requirements of the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA), and relevant tax legislation.

We focused on laws and regulations that could give rise to a material misstatement in the Company financial statements. Our tests included, but were not limited to :

- We identified two nostro reconciliations with aged items. We requested management to investigate and adjust these items. This has resulted in adjustments to the trial balance including a Prior Period Adjustment. We have vouched key information for material adjustments to appropriate support;
- We requested management prepare a detailed paper to the Audit Committee to ensure that the Audit Committee had visibility over the number of adjustments that were identified as necessary and to facilitate effective governance over the completeness and accuracy of the financial statements and the financial statement preparation process;
- Made enquiries in respect of fraud of management, internal audit and the audit committee;
- Read minutes of meetings of those charged with governance, reviewing internal audit reports and correspondence with the Financial Conduct Authority and the Prudential Regulation Authority. In addition we had a number of discussions with the Prudential Regulation Authority in respect of the delays in signing the accounts;
- In addressing the risk of fraud through management override of controls, tested the appropriateness of a sample journal entries and other adjustments to appropriate supporting documentation;
- Assessed whether the judgements made in making accounting estimates are indicative of a potential bias

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members, including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit. As part of this discussion, we noted the potential for fraud to arise within accounting estimates such as the loan loss provision.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

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

Use of our report

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

DocuSigned by:
Ariel Grosberg
6314B688DC384B1...

Ariel Grosberg (Senior Statutory Auditor)

For and on behalf of BDO LLP, Statutory Auditor

London, UK

31 January 2022

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Part II

Statement of profit or loss for the year ended 31 December 2020

£'000	Note	2020	2019 - Restated
Interest and similar income	6	22,036	25,094
Interest expense and similar charges	6	(4,068)	(8,425)
Net interest income		**17,968**	**16,669**
Fee and commission income	7	2,149	1,622
Fee and commission expense	7	(2,229)	(2,107)
Net fee and commission expense		**(80)**	**(485)**
Net trading income	8	750	4,261
Other operating income		69	979
Net operating income		**18,707**	**21,424**
Personnel expenses	9	(8,236)	(7,082)
Depreciation of Property ,Plant and Equipment and Right-of-use Assets	18	(1,244)	(809)
Amortisation of intangible assets	19	(852)	(761)
Other operating expenses	10	(6,519)	(8,025)
Total operating expenses before impairment losses		**(16,851)**	**(16,677)**
Net impairment losses	11	(1,759)	(865)
Profit before taxation		**97**	**3,882**
Taxation	12	1,000	(1,260)
Profit for the year		**1,097**	**2,622**

The profits for the current year and preceding year are derived from continuing operations.
2019 income statement has been restated.

Changes to prior year figures are explained in Note 38.

Statement of other comprehensive income for the year ended 31 December 2020

£'000	Note	2020	2019 - Restated
Profit for the year after tax		**1,097**	**2,622**
Items that will not be reclassified to profit or loss			
Realised FV (gains) on disposal of debts classified as FVOCI		(400)	(1,519)
Items that may qualify for reclassification			
Foreign currency translation differences for foreign operations		(227)	118
Unrealised gains on debt instruments at FVOCI		1,289	4,323
Tax on Unrealised gains		56	(212)
Other comprehensive income for the year	**13**	**718**	**2,710**
Total comprehensive income for the year		**1,815**	**5,332**

Changes to prior year figures are explained in Note 38.

Statement of financial position as at 31 December 2020

£'000	Note	2020	2019 - Restated
Assets			
Cash and balances with central banks	14	42,930	3,108
Due from banks	15	138,092	85,493
Derivative financial instruments		433	254
Loans and advances to customers	16	173,173	215,391
Financial investments – FVOCI	17	100,569	131,889
Property ,Plant and Equipment and Right –of-use Assets	18	3,687	5,363
Goodwill and other intangible assets	19 – 20	10,904	11,182
Deferred tax assets	12	6,626	5,851
Other assets	21	8,958	7,717
Total assets		**485,372**	**466,248**
Liabilities and equity			
Due to banks	22	276,280	263,150
Derivative financial instruments		135	34
Due to customers	23	99,556	95,291
Other liabilities	24	10,641	11,722
Subordinated debt	25	16,117	15,231
Total liabilities		**402,729**	**385,428**
Equity attributable to equity holders			
Share capital	26	102,173	102,173
Other reserves	26	1,890	1,172
Accumulated losses	26	(21,420)	(22,525)
Total equity		**82,643**	**80,820**
Total liabilities and equity		**485,372**	**466,248**

Changes to prior year figures are explained in Note 38.

31/1/2022

Houssam El Hak Morssi Barakat
Chief Executive Officer and Director

31/1/2022

Ralph Snedden
Chairman of the audit committee

Statement of Changes in Equity

£'000	Note	Share capital	Other reserves	Accumula-ted losses	Total
Balance as at 1 January 2019 as previously stated		**102,173**	**(1,538)**	**(25,181)**	**75,454**
Impact of correction of errors	*i*	-	-	34	34
Restated Balance as at 1 January 2019		*102,173*	*(1,538)*	*(25,147)*	*75,488*
Profit for the year as previously stated				2,852	2,852
Impact of correction of errors	*ii*			(230)	(230)
Other comprehensive income	**13**	-	2,710		2,710
Total comprehensive income		-	*2,710*	*2,622*	*5,332*
Balance as at 31 December 2019		**102,173**	**1,172**	**(22,525)**	**80,820**
Balance as at 1 January 2020		**102,173**	**1,172**	**(22,525)**	**80,820**
Profit for the year		-		1,097	1,097
Impact of correction of errors	*iii*			8	8
Other comprehensive income	**13**	-	718		718
Total comprehensive income		-	*718*	*1,105*	*1,823*
Balance as at 31 December 2020		**102,173**	**1,890**	**(21,420)**	**82,643**

Other reserves category in the table above relates to changes in the fair value of financial instruments measured at fair value through other comprehensive income and the effects of foreign currency retranslation on a foreign operation.

Changes to prior year figures are explained in Note 38.

Note
i: impact of corrections due to adjustments (net of tax) prior 2019;
ii: impact of corrections due to 2019 adjustments (net of tax);
iii: change due to adjustment on deferred tax asset opening balance 2020.

Statement of cash flows for the year ended 31 December 2020

£'000	note	2020	2019 - Restated
Cash flows from continuing operating activities			
Profit before tax		97	3,882
Adjustments for:			
Net interest income		(17,968)	(16,669)
Interest received		22,440	24,090
Interest paid		(2,905)	(9,691)
Change in operating assets	**28**	(29,407)	42,218
Change in operating liabilities	**28**	18,426	(119,601)
Other items included in profit before tax	**28**	5,209	(1,549)
Corporation tax		(97)	(436)
Net cash flows used by continuing operating activities		**(4,205)**	**(77,756)**
Cash flows from investing activities			
Purchase of financial investments		(17,350)	(151,190)
Proceeds from sales of financial investments		48,166	186,750
Purchase of Property ,Plant and Equipment and Right –of-use Assets		(60)	(81)
Purchase of intangible assets		(63)	(333)
Net cash flows generated by investing activities		**30,693**	**35,146**
Cash flows from financing activities			
Repayment of lease principal		(1,107)	(877)
Net cash flows used by financing activities		**(1,107)**	**(877)**
Net increase / (decrease) in cash and cash equivalents		25,381	(43,487)
Cash and cash equivalents as at 1 January		**47,408**	**90,895**
Cash and cash equivalents as at 31 December	**28**	**72,789**	**47,408**

Changes to prior year figures are explained in Note 38.

1. Corporate Information

In these financial statements, BANK OF AFRICA United Kingdom plc is referred to as the "Bank"or as "BoA UK". The statements comprise the financial statements of BANK OF AFRICA United Kingdom plc as an individual entity. The Bank also maintains a foreign branches that is located in Paris and Dubai.

The Bank provides Corporate and Investment Banking and Treasury services in Europe as well as North, East, West and Central Africa. The principal activities of the Bank are described in the strategic and Directors' reports.

BANK OF AFRICA United Kingdom plc is incorporated and domiciled in England and Wales and is authorised and regulated by the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA). Its registered office is at 26 Upper Brook Street, London, W1K 7QE, United Kingdom.

The ultimate parent undertaking and ultimate controlling party is Banque Marocaine du Commerce Exterieur S.A. (BMCE Bank of Africa Group), a Company incorporated in Morocco. BMCE International (Holdings) plc, a Company incorporated in the United Kingdom and registered in England and Wales, is the immediate holding Company for the Bank.

Copies of the consolidated financial statements prepared in respect of Banque Marocaine du Commerce Exterieur S.A. may be obtained by request on the following address: 140 Avenue Hassan II 2100 Casablanca or on the website: http://www.bmcebank.ma/.

2. Significant accounting policies

2.1. Basis of preparation

The accounts are prepared on a going concern basis and in accordance with prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

The Bank's Directors have made an assessment of the Bank's ability to continue as a going concern as described in the Director's Report on page 19 and are satisfied that it has the adequate resources to continue in business for the foreseeable future, and for a period of at least 12 months from the approval date of the financial statements. Furthermore, there are no material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on a going concern basis.

The financial statements have been prepared on a historical cost basis, except for derivative financial instruments, financial assets and financial liabilities held at fair value through profit or loss investments in debt instruments measured at FVOCI that have been measured at fair value.

The Bank presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) is presented in note 35.

2.2 Foreign currency translation

The financial statements are presented in British Pound, which is the Bank's functional and presentation currency. The functional currency of the foreign branch in Paris is Euro.

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the dates of the transactions. The foreign exchange gains and losses resulting from the settlement of such transactions are recognised in the statement of profit and loss. Unrealised gains and losses on unsettled transactions are also taken to the statement of profit and loss.

Non-monetary items measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. The results of the foreign branch are translated into the Bank's presentational currency on a monthly basis at the month end market exchange rate. All balances at the end of the period are converted at the period end rate. Any foreign exchange differences arising are accounted through other comprehensive income and accumulated in 'other reserves' in equity.

2.3 Net interest income

Interest income and expense for all financial instruments except for those classified as held for trading or those measured or designated as at FVTPL are recognised in 'Net interest income' as 'Interest income' and 'Interest expense' in the statement of profit or loss account using the effective interest method. Interest on financial instruments measured as at FVTPL is included within the fair value movement during the period, see 'Net trading income'.

The effective interest rate (EIR) is the rate that exactly discounts estimated future cash flows of the financial instrument through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. The future cash flows are estimated taking into account all the contractual terms of the instrument.

The calculation of the EIR includes all fees paid or received between parties to the contract that are incremental and directly attributable to the specific lending arrangement, transaction costs, and all other premiums or discounts. For financial assets at FVTPL transaction costs are recognised in profit or loss at initial recognition.

2. Significant accounting policies (continued)

The interest income/ interest expense is calculated by applying the EIR to the gross carrying amount of non-credit impaired financial assets (i.e. at the amortised cost of the financial asset before adjusting for any expected credit loss allowance), or to the amortised cost of financial liabilities. For credit-impaired financial assets the interest income is calculated by applying the EIR to the amortised cost of the credit-impaired financial assets (i.e. the gross carrying amount less the allowance for expected credit losses (ECLs)).

2.4 Net fee and commission income

The Bank earns fee and commission income from a diverse range of services it provides to its customers in connection with its principal activities, and providing corporate advisory services. Fees and commission such as upfront fees and trade finance fees are recognised at point in time. However, some fees earned for the provision of services over a period of time such as commitment fees are accrued over that period. These fees include commission income and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan.

Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

2.5 Net trading income

Net trading income includes all gains and losses from changes in the fair value of financial assets and financial liabilities held for trading as well as foreign exchange gains and losses. The Bank has elected to present the full fair value movement of trading assets and liabilities in trading income, including any related interest income, expense and dividends.

2.6 Financial instruments

Financial assets and financial liabilities are recognised in the Bank's balance sheet when the Bank becomes a party to the contractual provisions of the instrument. Recognised financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss. If the transaction price differs from fair value at initial recognition, the Bank will account for such difference as follows:

- if fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets, then the difference is recognised in profit or loss on initial recognition (i.e. day 1 profit or loss);
- in all other cases, the fair value will be adjusted to bring it in line with the transaction price (i.e. day 1 profit or loss will be deferred by including it in the initial carrying amount of the asset or liability).

After initial recognition, the deferred gain or loss will be released to profit or loss on a rational basis, only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the asset or liability.

2.7 Financial assets

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at FVTPL.

Transaction costs directly attributable to the acquisition of financial assets classified as at FVTPL are recognised immediately in profit or loss. For all financial assets the amount presented on the statement of financial position represent all amounts receivable including interest accruals.

All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

2. Significant accounting policies (continued)

Specifically:

- debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI), are subsequently measured at amortised cost;
- debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are SPPI, are subsequently measured at FVTOCI; all other debt instruments (e.g., debt instruments managed on a fair value basis or held for sale) and equity investments are subsequently measured at FVTPL.

2.8 Debt instruments at amortised cost or at FVTOCI

The Bank assesses the classification and measurement of a financial asset based on the contractual cash flow characteristics of the asset and the Bank's business model for managing the asset. For an asset to be classified and measured at amortised cost or at FVTOCI, its contractual terms should give rise to cash flows that are SPPI.

For the purpose of SPPI test, principal is the fair value of the financial asset at initial recognition. That principal amount may change over the life of the financial asset (e.g. if there are repayments of principal). Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin. The SPPI assessment is made in the currency in which the financial asset is denominated.

Contractual cash flows that are SPPI are consistent with a basic lending arrangement. Contractual terms that introduce exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement, such as exposure to change in equity prices or commodity prices, do not give rise to contractual cash flows that are SPPI. An originated or an acquired financial asset can be a basic lending arrangement irrespective of whether it is a loan in its legal form.

The Bank determines the business models at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The Bank's business model depends on management's intentions for an individual instrument.

The Bank has more than one business model for managing its financial instruments which reflect how the Bank manages its financial assets in order to generate cash flows. The Bank's business models determine whether cash flows will result from collecting contractual cash flows, selling financial assets or both.

When a debt instrument measured at FVTOCI is derecognised, the cumulative gain/loss previously recognised in OCI is reclassified from equity to profit or loss. In contrast, for an equity investment designated as measured at FVTOCI, the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss but transferred within equity.

Debt instruments that are subsequently measured at amortised cost or at FVTOCI are subject to impairment.

2.9 Financial assets at FVTPL

Financial assets at FVTPL are:

- assets with contractual cash flows that are not SPPI; or/and
- assets that are held in a business model other than held to collect contractual cash flows or held to collect and sell; or
- assets designated at FVTPL using the fair value option.

For the current period, the Bank has not booked any Financial assets at FVTPL other than derivatives.

2.10 Reclassifications

If the business model under which the Bank holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that results in reclassifying the Bank's financial assets.

2. Significant accounting policies (continued)

2.11 Impairment

The Bank recognises loss allowances for Expected Credit Losses ("ECL") on the following financial instruments that are not measured at FVTPL:

- loans and advances to banks;
- loans and advances to customers;
- debt investment securities;
- lease receivables;
- loan commitments issued; and
- financial guarantee contracts issued.

No impairment loss is recognised on equity investments.

ECLs are required to be measured through a loss allowance at an amount equal to:

- 12-month ECL, i.e. lifetime ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- full lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).

A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL.

ECLs are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Bank under the contract and the cash flows that the Bank expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's EIR.

- for undrawn loan commitments, the ECL is the difference between the present value of the difference between the contractual cash flows that are due to the Bank if the holder of the commitment draws down the loan and the cash flows that the Bank expects to receive if the loan is drawn down; and
- for financial guarantee contracts, the ECL is the difference between the expected payments to reimburse the holder of the guaranteed debt instrument less any amounts that the Bank expects to receive from the holder, the debtor or any other party.

The Bank measures ECL on exposures at default (EAD) on individual transaction. The measurement of the loss allowance is based on the present value of the asset's expected cash flows using the asset's original EIR, regardless of whether it is measured on an individual basis.

2.12 Credit-impaired financial assets

A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Credit-impaired financial assets are referred to as Stage 3 assets. Evidence of credit-impairment includes observable data about the following events:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- the disappearance of an active market for a security because of financial difficulties; or
- the purchase of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event—instead, the combined effect of several events may have caused financial assets to become credit-impaired. The Bank assesses whether debt instruments that are financial assets measured at amortised cost or FVTOCI are credit-impaired at each reporting date. To assess if sovereign and corporate debt instruments are credit impaired, the Bank considers factors such as bond yields, credit ratings and the ability of the borrower to raise funding .

A loan is considered credit-impaired when a concession is granted to the borrower due to a deterioration in the borrower's financial condition, unless there is evidence that as a result of granting the concession the risk of not receiving the contractual cash flows has reduced significantly and there are no other indicators of impairment. For financial assets where concessions are contemplated but not granted the asset is deemed credit impaired when there is observable evidence of credit-impairment including meeting the definition of default.

2. Significant accounting policies (continued)

2.13 Definition of default

Critical to the determination of ECL is the definition of default. The definition of default is used in measuring the amount of ECL and in the determination of whether the loss allowance is based on 12-month or lifetime ECL, as default is a component of the probability of default (PD) which affects both the measurement of ECLs and the identification of a significant increase in credit risk.

The Bank considers the following as constituting an event of default when the borrower is unlikely to pay its credit obligations to the Bank in full and/or customers who are late in payment by more than 90 days .

This definition of default is used by the Bank for accounting purposes as well as for internal credit risk management purposes. The definition of default is appropriately tailored to reflect different characteristics of different types of assets.

When assessing if the borrower is unlikely to pay its credit obligation, the Bank takes into account both qualitative and quantitative indicators. The information assessed depends on the type of the asset. Quantitative indicators are also key inputs in this analysis. The Bank uses a variety of sources of information to assess default which are either developed internally or obtained from external sources.

As noted in the definition of credit impaired financial assets above, default is evidence that an asset is credit impaired. Therefore credit impaired assets will include defaulted assets, but will also include other non-defaulted given the definition of credit impaired is broader than the definition of default.

2.14 Significant increase in credit risk

The Bank monitors all financial assets, issued loan commitments and financial guarantee contracts that are subject to the impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk the Bank will measure the loss allowance based on lifetime rather than 12-month ECL.

The Bank's accounting policy is not to use the practical expedient that financial assets with 'low' credit risk at the reporting date are deemed not to have had a significant increase in credit risk. As a result the Bank monitors all financial assets, issued loan commitments and financial guarantee contracts that are subject to impairment for significant increase in credit risk.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Bank compares the risk of a default occurring on the financial instrument at the reporting date based on the remaining maturity of the instrument with the risk of a default occurring that was anticipated for the remaining maturity at the current reporting date when the financial instrument was first recognised. In making this assessment, the Bank considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort, based on the Bank's historical experience and expert credit assessment including forward-looking information.

For corporate lending, forward-looking information includes the future prospects of the industries in which the Bank's counterparties operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various internal and external sources of actual and forecast economic information.

The Bank allocates its counterparties to a relevant internal credit risk grade depending on their credit quality. The quantitative information is a primary indicator of significant increase in credit risk and is based on the change in lifetime PD.

The PDs used are forward-looking and the Bank uses the same methodologies and data used to measure the loss allowance for ECL.

The qualitative factors that indicate significant increase in credit risk are reflected in PD models on a timely basis. However the Bank still considers separately some qualitative factors to assess if credit risk has increased significantly. For corporate lending there is particular focus on assets that are included on a 'watch list' given an exposure is on a watch list once there is a concern that the creditworthiness of the specific counterparty has deteriorated.

Covid-19 triggered increase in 2020 PD that led to significant increase in credit risk (SICR) across the economy.

2.15 Modification and derecognition of financial assets

A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. A modification affects the amount and/or timing of the contractual cash flows either immediately or at a future date. In addition, the introduction or adjustment of existing covenants of an existing loan would constitute a modification even if these new or adjusted covenants do not yet affect the cash flows immediately but may affect the cash flows depending on whether the covenant is or is not met (e.g. a change to the increase in the interest rate that arises when covenants are breached).

2. Significant accounting policies (continued)

The Bank renegotiates loans to customers in financial difficulty to maximise collection and minimise the risk of default. The revised terms in most of the cases include an extension of the maturity of the loan, changes to the timing of the cash flows of the loan (principal and interest repayment), reduction in the amount of cash flows due (principal and interest forgiveness) and amendments to covenants.

When a financial asset is modified the Bank assesses whether this modification results in derecognition. A modification results in derecognition when it gives rise to substantially different terms. To determine if the modified terms are substantially different from the original contractual terms the Bank considers the following:

- Qualitative factors, such as contractual cash flows after modification are no longer SPPI, change in currency or when rights to cash flows between the original counterparties expire because a new debtor replaces the original debtor (unless both debtors are under common control), the extent of change in interest rates, and maturity. If these do not clearly indicate a substantial modification, then;
- A quantitative assessment is performed to compare the present value of the remaining contractual cash flows under the original terms with the contractual cash flows under the revised terms, both amounts discounted at the original effective interest.

If the difference in present value is greater than 10% the Group deems the arrangement is substantially different leading to derecognition. When performing a quantitative assessment of a modification or renegotiation of a credit-impaired financial asset or a purchased or originated credit-impaired financial asset that was subject to a write-off, the group considers the expected (rather than the contractual) cash flows before modification or renegotiation and compares those with the contractual cash flows after modification or renegotiation.

In the case where the financial asset is derecognised the loss allowance for ECL is remeasured at the date of derecognition to determine the net carrying amount of the asset at that date. The difference between this revised carrying amount and the fair value of the new financial asset with the new terms will lead to a gain or loss on derecognition. The new financial asset will have a loss allowance measured based on 12-month ECL except in the rare occasions where the new loan is considered to be originated credit impaired. This applies only in the case where the fair value of the new loan is recognised at a significant discount to its revised par amount because there remains a high risk of default which has not been reduced by the modification. The Bank monitors credit risk of modified financial assets by evaluating qualitative and quantitative information, such as if the borrower is in past due status under the new terms.

When the contractual terms of a financial asset are modified and the modification does not result in derecognition, the Bank determines if the financial asset's credit risk has increased significantly since initial recognition by comparing:

- the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms; with
- the remaining lifetime PD at the reporting date based on the modified terms.

Where a modification does not lead to derecognition the Bank calculates the modification loss by comparing the gross carrying amount before and after the modification (excluding the ECL allowance). Modification losses for financial assets are included in the profit or loss account in 'Losses on modification of financial assets'. Then the Group measures ECL for the modified asset, where the expected cash flows arising from the modified financial asset are included in calculating the expected cash shortfalls from the original asset.

The Bank derecognises a financial asset only when the contractual rights to the asset's cash flows expire (including expiry arising from a modification with substantially different terms), or when the financial asset and substantially all the risks and rewards of ownership of the asset are transferred to another entity. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain/loss that had been recognised in OCI and accumulated in equity is recognised in profit or loss, with the exception of equity investment designated as measured at FVTOCI, where the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss.

2.16 Write-off

Loans and debt securities are written off when the Bank has no reasonable expectations of recovering the financial asset (either in its entirety or a portion of it). This is the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. A write-off constitutes a derecognition event. The Bank may apply enforcement activities to financial assets written off. Recoveries resulting from the Bank's enforcement activities will result in impairment gains.

2. Significant accounting policies (continued)

2.17 Presentation of allowance for ECL in the statement of financial position

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

- for financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;

- for debt instruments measured at FVOCI: as a deduction from the carrying amount of the assets

- for loan commitments and financial guarantee contracts: as a provision; and

- where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision.

2.18 Financial liabilities and equity

Debt and equity instruments that are issued are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

A financial liability is a contractual obligation to deliver cash or another financial asset or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Bank or a contract that will or may be settled in the Bank's own equity instruments and is a non-derivative contract for which the Bank is or may be obliged to deliver a variable number of its own equity instruments, or a derivative contract over own equity that will or may be settled other than by the exchange of a fixed amount of cash (or another financial asset) for a fixed number of the Group's own equity instruments.

2.19 Financial liabilities

Financial liabilities are classified as 'other financial liabilities'. For all financial liabilities the amount presented on the statement of financial position represent all amounts payable including interest accruals. For the current period, the Bank has not recorded any financial liabilities being classified as financial liabilities at FVTPL.

Other financial liabilities, including deposits and borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

2.20 Modification and derecognition of financial liabilities

The Bank derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

2.21 Derivative financial instruments

The Group enters into a variety of derivative financial instruments some of which are held for trading while others are held to manage essentially its exposure to foreign exchange rate risk. Derivative held include foreign exchange forward contracts, interest rate swaps, cross currency interest rate swaps and credit default swaps. Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain/loss is recognised in profit or loss immediately.

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability.

2.22 Hedge accounting

During the current period, the Bank has not recorded any hedge relationship (fair value hedge, cash flow hedge, hedge of net investments in foreign operations).

2.23 Financial guarantee

The Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements at fair value, in 'Other liabilities' being the premium received. Subsequently, the FGC is measured at the 'higher of:

- the IFRS 9 Expected Credit Loss (ECL) allowance;
- the amount initially recognised (i.e. fair value) less any cumulative amount of income/ amortisation recognised.

2. Significant accounting policies (continued)

2.24 'Day 1' profit

Where the transaction price in a non-active market is different to the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Bank immediately recognises the difference between the transaction price and fair value (a Day 1 profit) in the statement of profit and loss in 'Net trading income'.

In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognised in the statement of profit and loss when the inputs become observable, or when the instrument is derecognised.

2.25 Subordinated debt

These are long-term debt liabilities carried at amortised cost.

2.26 Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

2.27 Leasing

The Bank assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Bank as a lessee - The Bank applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Bank recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

- **Right-of-use assets** - The Bank recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term. The right-of-use assets are presented within Property, equipment and right-of-use assets and are subject to impairment in line with the Bank's policy on Impairment of non-financial assets.

- **Lease liabilities** - At the commencement date of the lease, the Bank recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (less any lease incentives receivable), variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Bank and payments of penalties for terminating the lease, if the lease term reflects exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs.

Bank as a lessor - As a lessor BoA UK classifies its leases as either operating or finance leases. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of the underlying asset and classified as an operating lease if it does not. Leases in which the Bank does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in "other operating income" line in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as other operating income in the period in which they are earned.

2.28 Cash and cash equivalents

Cash and cash equivalents as referred to in the cash flow statement comprise cash on hand, balances with central Banks and amounts due from Banks on demand or with an original maturity of three months or less. Cash and cash equivalent are carried at amortised cost in the statement of financial position.

For the purpose of the cash flow statement the Bank's operating activities include cash flows from loans and advances, customer deposits and derivative financial instruments. The Bank's financing activities comprise movements in issued share capital and subordinated debt.

2. Significant accounting policies (continued)

2.29. Business combinations and goodwill

Business combinations are accounted for using the purchase method of accounting. This involves recognising identifiable assets (including previously unrecognised intangible assets) and liabilities (including contingent liabilities and excluding future restructuring) of the acquired business at fair value. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill.

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the Bank's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Bank's cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities acquired are assigned to those units. Each unit or group of units to which the goodwill is allocated:

- represents the lowest level within the Bank at which the goodwill is monitored for internal management purposes; and
- is not larger than an operating segment as defined under IFRS 8 Operating Segments.

2.30 Property, equipment and right-of-use assets

Property ,Plant and Equipment and Right –of-use Assets, which consist of computer hardware and furniture and equipment are stated at cost less accumulated depreciation. Depreciation is calculated using the straight-line method to write down the cost of Property ,Plant and Equipment and Right –of-use Assets to their residual values over their estimated useful lives. The residual estimated useful lives from 1 January 2020 are as follows:

- Computer hardware - 3 to 5 years; and
- Furniture and equipment - 5 years to 9 years.

Right-of-use assets are presented together with Property ,Plant and Equipment and Right –of-use Assets in the statement of financial position – refer to the accounting policy 2.27. Right-of-use assets are depreciated on a straight-line basis over the lease term.

2.31 Other intangible assets

Intangible assets include the value of development costs and computer software. Expenditure on internally developed intangible assets, excluding development expenditure, is taken to the statement of profit and loss in the year in which it is incurred. Development expenditure is recognised as an intangible asset only after its technical feasibility and commercial viability can be demonstrated. Intangible assets acquired separately are measured on initial recognition at cost. Following the initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Amortisation is calculated using the straight-line method to write down the cost of intangible assets to their residual values over their estimated useful lives.

The residual estimated useful lives from 1 January 2020 are as follows:

- Licences: 5 to 10 years;
- Computer software - 3 to 10 years; and
- Development costs - 3 to 5 years.

2.32 Impairment of non-financial assets

The Bank assesses at each reporting date, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired, whether there is an indication that a non-financial asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Bank makes an estimate of the asset's recoverable amount (which is the greater of an asset 's fair value less costs to sell, or its value in use). Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

2.33 Pension benefits

The Bank operates a defined contribution pension plan. The contribution payable to a defined contribution plan is in proportion to the services rendered to the Bank by the employees and is recorded as an expense under 'Personnel expenses'.

2.34 Provisions

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

2. Significant accounting policies (continued)

2.35 Taxes

Current tax and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted, or substantively enacted, by the reporting date.

Deferred tax is provided on temporary differences at the reporting date between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. Detailed plans are produced for the next financial year, and using this as a basis, forecasts are produced for the following years.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Current tax and deferred tax relating to items recognised directly in other comprehensive income are also recognised in other comprehensive income and not in the statement of profit and loss.

2.36 Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders.

Interim dividends are deducted from equity when they are declared and are no longer at the discretion of the Bank.

Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

3. Critical accounting judgements and key sources of estimation uncertainty

The directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. 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.

3.1 Critical judgements in applying the Bank's accounting policies

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the directors have made in the process of applying the Bank's accounting policies and that have the most significant effect on the amounts recognised in financial statements:

- **Business model assessment** - Classification and measurement of financial assets depends on the results of the SPPI and the business model test (please see financial assets sections of note 2). The Bank determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective.

- **Significant increase of credit risk** - As explained in note 2, ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. In assessing whether the credit risk of an asset has significantly increased the Bank takes into account qualitative and quantitative reasonable and supportable forward-looking information.

- **Models and assumptions used** - The Bank uses various models and assumptions in measuring fair value of financial assets as well as in estimating ECL. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk.

- **Determination of the lease term for lease contracts with renewal and termination options (Bank as a lessee)** - The Bank determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Bank has several lease contracts that include extension and termination options. The Bank applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination.

3.2 Key sources of estimation uncertainty

The following are key estimations that the directors have used in the process of applying the Bank's accounting policies and that have the most significant effect on the amounts recognised in financial statements:

- **Probability of default** - PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

- **Loss Given Default** - LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

- **Fair value measurement and valuation process** - In estimating the fair value of a financial asset or a liability, the Bank uses market-observable data to the extent it is available. Where such Level 1 inputs are not available the Bank uses valuation models to determine the fair value of its financial instruments.

- **Deferred tax assets** – The Bank produces a business plan that is used in order to assess deferred tax assets. The business plan forecast future taxable profitability in using various assumptions subject to estimation.

- **Impairment of goodwill** – Goodwill is tested at each reporting date for impairment and the evaluation requires significant management judgement in estimating the present value of future estimated cash flows expected to be derived from the cash generating units (CGU) to which goodwill has been allocated. Goodwill arising from business combination is allocated to CGU or group of CGU's that are expected to benefit from the synergies of the combination. Assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that is largely independent of the cash inflows of other assets or CGUs. Refer to note 20.

- **Estimating the incremental borrowing rate** – The Bank cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate ('IBR') to measure lease liabilities. The IBR is the rate of interest that the Bank would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Bank 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Bank estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific adjustments (such as the subsidiary's stand-alone credit rating, or to reflect the terms and conditions of the lease).

- **Revenue recognition – Fee income**
  The audit committee considered the nature of fees for loans to be recognised as an adjustment to the effective interest on loans and the output from the process for monitoring effective interest rate adjustments.

4. New and revised IFRSs in issue

The standards, amendments, and interpretations, which are relevant to the Company, and may have a material effect on the Company's forthcoming financial statements are as follows. The adoption of all other standards, amendments, and interpretations are not expected to have a material impact.

Below is a list of new and revised IFRSs that are adopted for the year ending 31 December 2020:

- The following standards were reviewed and applied where necessary in 2020.

- Amendments to IFRS 9, IAS 39 and IFRS17: Interest Rate Benchmark Reform ;
- Amendments to IAS 1 and IAS 8: Definition of Material;
- Amendments to References to the Conceptual Framework in IFRS Standards; and
- Amendment to IFRS 3 Business Combinations.
- COVID-19-Related Rent Concessions (Amendments to IFRS 16)

Effective 1 June 2020, IFRS 16 was amended to provide a practical expedient for lessees

accounting for rent concessions that arise as a direct consequence of the COVID-19 pandemic

and satisfy the following criteria:

(a) The change in lease payments results in revised consideration for the lease that is

substantially the same as, or less than, the consideration for the lease immediately

preceding the change;

(b) The reduction is lease payments affects only payments originally due on or before 30 June

2021; and

(c) There are is no substantive change to other terms and conditions of the lease.

Rent concessions that satisfy these criteria may be accounted for in accordance with the

practical expedient, which means the lessee does not assess whether the rent concession meets

the definition of a lease modification. Lessees apply other requirements in IFRS 16 in

accounting for the concession.

During the year, BoA UK received rent concessions, but they do not meet the criteria for the practical expedient but rather this resulted in lease modification.

5. New standards, interpretations and amendments not yet effective

There are a number of standards, amendments to standards, and interpretations which have been issued by the IASB that are effective in future accounting periods that the Bank has decided not to adopt early.

The following amendments are effective for the period beginning 1 January 2021:

- Amendments to IFRS 4 Insurance contracts – deferral of IFRS 9
- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest rate benchmark reform – Phase 2
- Amendments to IFRS 16 for Covid – 19 rent concessions beyond 30 June 2021

The following amendments are effective for the period beginning 1 January 2022:

• Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37);

• Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16);

• Annual Improvements to IFRS Standards 2018-2020 (Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41); and

• References to Conceptual Framework (Amendments to IFRS 3).

None of them are significantly impacting BoA UK PLC 2020 Financial statements.

The Bank does not expect any other standards issued by the IASB, but not yet effective, to have a material impact on the Bank.

6. Net interest income

£'000	2020	2019 Restated
Due from banks	6,706	4,057
Loans and advances to customers	9,625	14,030
Financial investments – Fair value through OCI	5,705	3,629
Financial investments – Amortised cost – Capital Market	-	3,378
Interest and similar income	**22,036**	**25,094**
Due to banks	(3,743)	(8,004)
Subordinated debt	(325)	(421)
Interest and similar charges	**(4,068)**	**(8,425)**
Net interest income	**17,968**	**16,669**

7. Net fees and commission income

£'000	2020	2019
Credit related fees and commissions	628	146
Corporate banking fees	1,521	1,476
Fees and commission income	**2,149**	**1,622**
Fees and commission expense	-	(1)
Other fees paid	(2,229)	(2,106)
Fees and commission expense	**(2,229)**	**(2,107)**
Net fees and commission expense	**(80)**	**(485)**

8. Net trading income

£'000	2020	2019
Foreign exchange	(1,561)	(468)
Foreign exchange - derivative foreign exchange	1,863	276
Gain on disposal - FVOCI	448	1,519
Gain on disposal – Amort. Cost.	-	2,934
Net trading income	**750**	**4,261**

9. Personnel expenses

£'000	2020	2019 Restated
Wages and salaries	(5,766)	(5,290)
Social security costs	(1,095)	(960)
Pension costs - defined contribution plans	(587)	(478)
Other benefits	(788)	(354)
Personnel expenses	**(8,236)**	**(7,082)**
Number of employees	**71**	**79**
The average monthly number of employees (including Directors) during the year was:		
Board	7	7
Corporate and Investment Banking	19	12
Treasury and Capital Markets	3	6
Operations and support	42	54
Paris Branch	**28**	**24**
Total BoA UK all locations	**99**	**103**

Directors emoluments, remunerations and pensions are disclosed under note 30.

10. Other operating expenses

£'000	2020	2019 Restated
Marketing expense	(68)	(54)
Administrative	(3,308)	(3,762)
Professional fees	(1,555)	(1,945)
Statutory audit fees	(628)	(293)
Other expenses	(960)	(1,971)
Other operating expenses	**(6,519)**	**(8,025)**

11. Net impairment (losses) / recoveries

£'000	2020	2019
IFRS 9		
Stage 1 – Performing – 12 months ECL	(1,435)	(8)
Stage 2 – Performing – Life time ECL	1,055	390
Stage 3 – Non performing – Life time ECL	(1,379)	(1,247)
Net impairment losses	**(1,759)**	**(865)**

12. Taxation

£'000	2020	2019
Analysis of tax credit / (charge) for the period		
Current Income tax at 19%	-	(387)
Over / (under) provision from prior year.	289	(292)
Current tax credit / (charge)	**289**	**(679)**
Deferred Tax Origination and reversal of temporary differences	(33)	(324)
Change in tax rate	711	(771)
Prior period deferred tax adjustments	33	514
Derecognition of deferred tax assets	-	-
Deferred tax credit / (charge)	**711**	**(581)**
Tax on profit on ordinary activities	**1,000**	**(1,260)**
Provision for deferred tax		
Fixed asset temporary differences	674	609
Short term temporary differences	18	(39)
Losses and other deductions	5,934	5,281
Total deferred tax asset	**6,626**	**5,851**
Movement in provision:		
Provision at start of period	5,851	6,640
Correction provision at start	8	4
Deferred tax charged in the OCI for the period	56	(212)
Deferred tax charged in the Income statement for the period	711	(581)
Provision at end of period	**6,626**	**5,851**
Reconciliation of the total tax credit / (charge)		
Profit before tax	97	3,882
Tax on profit on ordinary activities at standard UK Corporation Tax rate of 19.00%	(19)	(738)
Effects of:		
Fixed asset differences	-	(9)
Expenses not deductible for tax purposes	(14)	-
Adjustments to brought forward values	-	-
Group relief (surrendered)/claimed	-	36
Adjustments to tax charge in respect of previous periods	322	222
Remeasurement of deferred tax for changes in tax rates	711	(699)
Rate change OCI	-	(72)
Tax credit / (charge) for the period	**1,000**	**(1,260)**

12. Taxation (continued)

Deferred tax has been measured at the historical 19% corporation tax rate.

The deferred tax asset (DTA) recognised as at 31 December 2020 has been recognised on the basis that the Directors believe it is probable that sufficient future taxable profits will be generated against which it can be utilised.

In arriving at this conclusion the Directors have estimated the future profit performance for the Bank which is subject to a number of variables. If forecast profit before tax reduces by 10% the Directors would still deem recognition of the deferred tax assets as appropriate.

The Directors are satisfied the calculation of the deferred tax asset will be utilised with future taxable profits.

A sensitivity analysis has been applied to the initial scenario described previously. A range of +10% - 3% change in the forecast income of the Bank would change the period over which the losses will be fully utilised by 0 - 1 year.

Any futures changes in tax law could have a significant effect on the use of losses, including the period over which the losses are utilised.

13. Other comprehensive income

£'000	Before tax 2020	Tax 2020	Net of tax 2020	Net of tax 2019***
Unrealised gain on Financial Investments*	889	56	945	2,592
Exchange differences on translating foreign operations**	(227)	-	(227)	118
Total other comprehensive income	**662**	**56**	**718**	**2,710**

*This relates to fair value reserves for investments carried at FVOCI (Note 27)

** this relates to foreign currency reserves. (Note 27)

* This is the net of £1.2 million unrealised gain on investments and £0.4 m unrealised reserves recycled to income statement for the year.

***The tax effect for 2019 is presented in other comprehensive income.

14. Net cash and cash equivalent position

£'000	2020	2019 Restated
Balances with central banks	42,930	3,108
Cash and cash equivalent with central banks	**42,930**	**3,108**
Current accounts with other banks	29,859	44,300
Money market placements with other banks		-
Cash and cash equivalent due from banks	**29,859**	**44,300**
Net cash and cash equivalent position	**72,789**	**47,408**
Loans and advances to banks	108,233	38,085
Due from banks	**138,092**	**85,493**

15. Due from banks

£'000 - 2020	Gross carrying amount	Loss allowance	Carrying amount
Stage 1 – Performing – 12 months ECL	139,004	(912)	138,092
Due from banks	**139,004**	**(912)**	**138,092**

£'000 – 2019 restated	Gross carrying amount	Loss allowance	Carrying amount
Stage 1 – Performing – 12 months ECL	85,930	(437)	85,493
Due from banks	**85,930**	**(437)**	**85,493**

16. Loans and advances to customers

£'000 - 2020	Gross carrying amount	Loss allowance	Carrying amount
Stage 1 – Performing – 12 months ECL	156,737	(950)	155,787
Stage 2 – Performing – Life time ECL	6,734	(70)	6,664
Stage 3 – Non performing – Life time ECL	15,668	(4,946)	10,722
Loans and advances to customers	**179,139**	**(5,966)**	**173,173**

£'000 - 2019 restated	Gross carrying amount	Loss allowance	Carrying amount
Stage 1 – Performing – 12 months ECL	186,857	(432)	186,425
Stage 2 – Performing – Life time ECL	13,317	(636)	12,681
Stage 3 – Non performing – Life time ECL	20,340	(4,055)	16,285
Loans and advances to customers	**220,514**	**(5,123)**	**215,391**

17. Financial investments – Fair value through other comprehensive income

£'000	Carrying amount 2020	2019
Stage 1 – Performing – 12 months ECL	100,569	131,889
Stage 2 – Performing – Life time ECL	-	-
Financial investments - FVOCI	**100,569**	**131,889**

18. Property ,Plant and Equipment and Right –of-use Assets

£'000	2020	2019
Cost as at 1 January	6,839	1,121
Additions - Right of use assets on initial application of IFRS 16	-	1,472
Restated cost as at 1 January	**6,839**	**2,593**
Additions - other Property ,Plant and Equipment	60	81
Additions - Right of use assets	-	4,196
Disposals - other Property ,Plant and Equipment	(13)	-
Disposals - Right of use assets	(484)	-
Exchange adjustments	35	(31)
Cost as at 31 December	**6,437**	**6,839**
Depreciation as at 1 January	(1,476)	(695)
Charge for the year - Property ,Plant and Equipment	(119)	(657)
Charge for the year - Right –of-use Assets	(1,125)	(151)
Disposals	-	-
Exchange adjustments	(30)	27
Depreciation as at 31 December	**(2,750)**	**(1,476)**
Net book value Right of Use Asset	**3,402**	**5,011**
Net book value PPE	**285**	**352**
Net book value	**3,687**	**5,363**

£'000 – 2020 Breakdown	Furniture & Fixtures	IT Hardware	Right-of-use Asset	Total
			Lands and buildings	
Cost as at 1 January	**1,141**	**30**	**5,668**	**6,839**
Additions	42	18	-	60
Disposals	(13)	-	(484)	(497)
Exchange adjustments	33	2		35
Cost as at 31 December	**1,203**	**50**	**5,184**	**6,437**
Depreciation as at 1 January	**(795)**	**(24)**	**(657)**	**(1,476)**
Charge for the year	(112)	(7)	(1,125)	(1,244)
Disposals	-	-	-	-
Exchange adjustments	(29)	(1)	-	(30)
Depreciation as at 31 December	**(936)**	**(32)**	**(1,782)**	**(2,750)**
Net book value 31/12/2020	**267**	**18**	**3,402**	**3,687**
Net book value 31/12/2019	**346**	**6**	**5,011**	**5,363**

19. Intangible assets – computer software

£'000	2020	2019
Cost as at 1 January	4,786	**4,453**
Additions	63	333
Disposals	-	-
Cost as at 31 December	**4,849**	**4,786**
Amortisation as at 1 January	**(2,144)**	**(1,383)**
Charge for the year	(852)	(761)
Disposals	-	-
Amortisation as at 31 December	(2,996)	**(2,144)**
Net book value	**1,853**	**2,642**

The remaining useful life of the Bank's intangible asset is between 3 to 5 years

20. Goodwill

£'000	2020	2019
As at 1 January	13,393	13,898
Impairment brought forward	(4,854)	(4,854)
As at 31 December	**8,539**	**9,044**
Exchange adjustments	512	(504)
Net book value	**9,051**	**8,540**

A. Information about geographical areas

Goodwill acquired through business combinations has been allocated to two individual cash-generating units (CGUs) for impairment testing as follows:

- Corporate and Investment Banking; and
- Treasury and Capital Markets.

£'000	2020	2019
Corporate and Investment Banking	5,815	5,486
Treasury and Capital Markets	3,236	3,054
Net book value	**9,051**	**8,540**

- In 2020, the Bank assessed the impairment of Goodwill by considering the recoverable amounts of the CGUs.

Key assumptions used in value in use calculations
The recoverable amounts of the above CGUs have been determined based on a value in use calculation, using cash flow projections in perpetuity based on business plans approved by senior management for 5 years with an assumption of steady 2-3% growth in future years after the 5 years period and then discounted at a rate of 11%. These assumptions are considered by management to be reasonable. These business plans, which also form the basis of the assessment of the deferred tax recognition (see note 13), assume adequate capital to cover asset growth.

The calculation of value in use for both of the CGUs does not lead to any indication of additional impairment.
The sensitivity to the key assumptions before a write down is required (assuming other factors remain constant), are as follows:

- The discount rate would need to exceed 18%.
- Average growth rate would need to fall below negative 3.6% over the forecast period

Net operating income : Net operating income are based on management assessments and are in line with values achieved prior 2019. These are maintained over the budget period for anticipated market conditions.

Discount rates: Discount rates reflect management's estimated return on the Bank's capital employed (ROCE).

Projected growth rates: Projected growth rates are based on the Bank's ability to fully utilise its capital, together with its assessment of market conditions in Africa.

21. Other assets

£'000	2020	2019 Restated
VAT recoverable	285	251
Prepayments	1,974	529
Rent deposit	233	236
Due from ultimate parent undertaking	4,771	4,246
Other sundry receivables	378	592
Lease receivables	1,317	1,863
Other assets	**8,958**	**7,717**

22. Due to banks

£'000	2020	2019
Current accounts	21,730	11,134
Term deposits due to banks	52,402	3,795
Due to fellow group undertakings less than 1 year	12,827	3,441
Due to ultimate parent undertaking	189,321	244,780
Due to banks	**276,280**	**263,150**

Due to fellow group undertakings are money market deposits from subsidiaries of BMCE Bank of Africa Group other than the ultimate parent company (Banque Marocaine du Commerce Exterieur S.A).

These deposits are at commercial arms length rates.

23. Due to customers

£'000	2020	2019 Restated
Current accounts	99,556	94,685
Term deposits	-	606
Due to customers	**99,556**	**95,291**

24. Other liabilities

£'000	2020	2019 Restated
Accounts payable	1,267	966
Accruals	2,834	2,074
Other taxes and social security costs	(226)	(55)
Contracts Liabilities *("Deferred income")*	1,951	2,058
Other payables	261	29
Liabilities relating to sublease	1,317	1,863
Lease liabilities	3,237	4,787
Other liabilities	**10,641**	**11,722**

Lease liabilities details

£'000	2020	2019 Restated
As at 1 January	4,787	-
Additions	-	5,664
Interest expense	111	72
Lease payments	(1,217)	(725)
Effect of modification of lease	(490)	-
Exchange differences and advance rent	46	(224)
As at 31 December	**3,237**	**4,787**

The Lease liabilities of the Bank are related solely to property rent (as per IFRS16).

25. Subordinated debt

£'000	2020	2019
Principal	15,924	15,052
Accrued Interest	193	179
Subordinated debt	**16,117**	**15,231**

Subordinated debt represent subordinated loans of €17,700k 2% fixed rate notes granted by the parent company with a redemption date of 2026.

25. Subordinated debt - Continued

£'000	2020	Cash flows	Fx change	Other	Total
Group subordinated debt	15,231	(323)	884	325	**16,117**

£'000	2019	Cash flows	Fx change	Other	Total
Group subordinated debt	16,294	(617)	(867)	421	**15,231**

26. Share capital and reserves

£'000	2020	2019 As Restated
Share capital		
Authorised 150,000,000 ordinary shares of £1 each	-	-
Issued, called up and fully paid 102,173,000 shares ordinary shares of £1 each	102,173	102,173
Share capital as at 31 December	**102,173**	**102,173**
All shares rank equally with one vote per share. There is no entitlement to fixed income		
Reserves		
Reserves - FVOCI	2,188	1,243
Foreign currency translation	(298)	(71)
Accumulated losses	(21,420)	(22,525)
Reserves as at 31 December	**(19,530)**	**(21,353)**
Share capital and reserves	**82,643**	**80,820**

27. Events after the reporting date

Taxation

The Government announced in the Spring 2021 budget of their intention to increase the corporation tax to 25% on 1 April 2023. as the rate is not substantively enacted yet at the year end, the Bank still uses 19% ruling rate in calculating the deferred tax assets.

Name Change

On the 20th July 2021 , the board of the Bank passed a resolution to change the name from BMCE Bank International United Kingdom Plc to Bank Of Africa United Kingdom Plc

The Directors confirm, aside from the above taxation and name change, that there are no other significant events since 31 December 2020 that require disclosure.

28. Additional cash flow information

£'000	2020	2019 - Restated
Cash and balances with central banks	42,930	3,108
Current accounts with other banks	29,859	44,300
Cash and cash equivalent (note 14)	**72,789**	**47,408**
Net (increase) / decrease in:		
Due from banks	(66,056)	43,128
Derivative Financial Instruments	(178)	(23)
Loans and advances to customers	38,575	(1,770)
Other assets	(1,748)	883
Change in operating assets	**(29,407)**	**42,218**
Net increase / (decrease) in:		
Due to banks	12,182	(103,272)
Derivative financial instruments	102	33
Due to customers	4,742	(14,948)
Other liabilities	1,400	(1,414)
Change in operating liabilities	**18,246**	**(119,601)**
Depreciation and amortisation	2,098	1,569
Amortisation of premium and discount for FVOCI instruments	1,546	1,515
Impairment provisions	1,759	865
Gain on disposal of FVOCI instruments	(448)	(4,452)
Finance lease expense	111	72
Net foreign exchange gains / (losses)	143	(1,118)
Other items included in profit before tax	**5,209**	**(1,549)**

29. Contingent liabilities and commitments

These are credit-related instruments which include guarantees and commitments to extend credit. The contractual amounts represent the amount at risk should the contract be fully drawn upon and the client defaults.

Since a significant portion of guarantees and commitments are expected to expire without being drawn upon, the total of the contract amounts is not representative of future cash requirements.

These obligations are not recognised on the balance sheet but they contain credit risk and are therefore part of the overall risk of the Bank.

The total outstanding commitments and contingent liabilities are as follows:

£'000	2020	2019
Financial guarantees	16,779	6,882
Contingent liabilities	**16,779**	**6,882**
Letters of credit	60,371	52,448
Undrawn commitments to lend	50,337	3,859
Commitments	**110,708**	**56,307**
Contingent liabilities and commitments	**127,487**	**63,189**

Finance lease commitments

Bank as lessee

The Bank contracted non-cancellable leases for its offices in London, Paris, Zurich and Dubai.

The lease in Paris is shared with other group companies.

As from January, 1st 2019, the Bank applied IFRS 16 to its lease contracts.

Non-cancellable lease payments as at 31 December 2020 were as follows:

£'000	2020	2019
Within one year	1,726	1,407
After one year but not more than five years	2,970	77
Lease commitments expiring	**4,696**	**1,484**

29. Contingent liabilities and commitments (continued)

Bank as lessor –

The Bank subleased a portion of its Paris premises.

The Bank monitors regularly the collection of the rentals.

Future minimum rentals receivable under the non-cancellable operating leases as at 31 December 2020 are as follows:

£'000	2020	2019
Within one year	696	643
Lease commitments receivable	**696**	**643**

30. Compensation and transactions with key management personnel of the Bank

The non-executive Directors do not receive pension entitlements from the Bank.

Key management personnel include CEO, CFO, COO and MD of Treasury and Capital Markets along with the directors of the Bank.

One director was a member of the defined contribution scheme in 2020 with a total contribution of 25k. No other key management personnel was paid a pension contribution. The non–executive Directors do not receive pension entitlements from the Bank.

The Bank did not enter into transactions, arrangements and agreements involving Directors, senior management and their business associates, or close family members.

£'000	2020	2019
Short-term employee benefits	914	795
Compensation of (CEO; CFO, COO; MD)	**914**	**795**
Short-term employee benefits	585	545
Compensation of Directors other than highest paid director	**585**	**545**
Aggregate emoluments and benefits	325	285
Highest paid Director	**325**	**285**
Total compensation of key management personnel	**1,824**	**1,625**

Only 3 directors (2019: 4 directors) received remuneration from BoA UK during the year.

31. Related party transactions

The Bank is a wholly owned subsidiary of BMCE International (Holdings) plc. The ultimate parent company of the Bank is Banque Marocaine du Commerce Exterieur S.A. (BMCE).

During the year there have been transactions between the Bank, its parent company, the ultimate parent company and other related parties. The Bank receives and provides a range of services from the parent and related parties, including funding, comfort letter (from Group parent), and various administrative services. The funding from the group parent can only be terminated with a notice of 367 days.

31. Related party transactions (continued)

The outstanding balances at the year end arose from the ordinary course of business and are unsecured and are all payable within a year. The interest, fees and commissions paid to or received from related parties are at normal commercial rates. In addition to entities within the scope of BMCE Group, key management personnel are also considered as related parties. Compensations are disclosed in note 30.

£'000 - 2020	BMCE	BOA	Total
Interest charged by	(4,011)	(23)	**(4,034)**
Interest received from	152	151	**303**
Fees and commission paid to	-	-	**-**
Fees and commission received from	77	56	**133**
Net trading income/(expense)	209	2,210	**2,419**
Other operating expenses paid to	3	-	**3**
Amounts owed to	206,844	12,904	**219,748**
Amounts owed by	(4,633)	(331)	**(4,964)**
Financial guarantees and commitments given	(135)	-	**(135)**
Financial guarantees received	5,552	9,508	**15,060**

£'000 - 2019	BMCE	BOA	Total
Interest charged by	(7,372)	(460)	**(7,832)**
Interest received from	-	161	**161**
Fees and commission paid to	(1)	-	**(1)**
Fees and commission received from	105	121	**226**
Net trading income/(expense)	355	(1,041)	**(686)**
Other operating expenses paid to	764	171	**935**
Amounts owed to	269,244	5,649	**274,893**
Amounts owed by	(4,751)	(959)	**(5,710)**
Financial guarantees and commitments given	(140)	454	**314**
Financial guarantees received	14,589	6,806	**21,395**

BMCE = Banque Marocaine du Commerce Exterieur S.A and related subsidiaries
BOA = Bank of Africa Group (*)

(*) Company owned and controlled directly by Banque Marocaine du Commerce Exterieur S.A

32. Risk management

A. Introduction

Effective risk management is an ongoing fundamental strategy for the Bank. Whilst it is in general a key capability for a successful financial services provider, risk management also plays a significant role in the Bank's current stage of development and is critical to the Bank's target of sustainable profitability. The key components of the Bank's risk management infrastructure are:

- Governance; and
- Risk management processes.

The main risks facing the Bank are:

- Credit risk;
- Liquidity risk;
- Market risk; and
- Operational risk.

B. Governance

The Board of Directors is responsible for the overall risk management approach and for approving the risk policies. It is supported by a number of committees as follows:

- **Risk Management Department (RMD) and Risk Committee:**

✓ The Credit Risk Committee approves all credit applications within its delegated lending authority and recommend to the Risk Committee those applications outside of its delegated authority.

✓ The Board Risk Committee assists the Board in monitoring the adequacy and effectiveness of the Bank's risk management policies and processes..

- **Asset and Liability Committee (ALCO)** is responsible for assisting the board and senior management in the oversight of policies, strategies and processes. The role of ALCO is to assist the Bank in fulfilling its responsibilities relating to the oversight of the Bank's market risk management policies, strategies and processes that have the potential to impact significantly on the Bank's earnings performance and capital. ALCO's responsibilities include management and review of:
  - the Bank's exposure to market risk and its hedging strategy;
  - the Bank's liquidity;
  - the usage of capital including ensuring external regulatory requirements are met;
  - other categories of risk linked to market risk (country risk, counterparty risk);
  - regulatory developments and their impact on the prices of marketable assets;
  - the valuation of market assets and the measurement of market risk; and
  - market risk limits.

- **Audit Committee:**

  The Audit Committee consists of independent non-executive Directors (including the Chairman of the Audit Committee). The Audit Committee meets quarterly, or as frequently as is required to carry out properly its functions. The Audit Committee's responsibility is one of oversight and review. It does not provide expert advice nor exercise any executive role. The Audit Committee's role is to assist the Board in monitoring:
  - the integrity of the financial statements of the Bank;
  - the adequacy and effectiveness of the systems of internal controls of the Bank;
  - the qualifications and independence of the Bank's external auditors and the performance of the Bank's internal and external auditors; and
  - any other relevant issue.

C. Measuring and reporting systems

The monitoring and controlling of risk is primarily performed against limits established by the Bank. These limits are established using an approved 'Credit Policies and Procedures Manual', 'Market Risk Policies and Procedures Manual' and 'Operational Risk Policies and Procedures Manual'. Additionally, some limits are set via the Bank's Risk Appetite Statement (RAS).

The Bank's policy is to generate reports on a daily basis from information compiled from all business systems, then analysed to identify control risks appropriately and promptly. These reports include (but are not limited to) exposure reports (counterparty exposure, country exposure, sector exposure), excess reports and concentration risks across all counterparties, countries and industries.

Other more detailed reports are compiled and reported to the Board on a quarterly basis.

D. Mitigation

As part of its overall risk management strategy the Bank may use derivatives and other financial instruments to manage exposures to interest rates, foreign currencies, credit risks and to pre-hedge those expected from future transactions

33. Credit risk

Credit risk is one of the major risk areas for the Bank and is defined as the risk of loss from default by debtors (including bond issuers) or trading counterparties.

All such risks taken by the Bank must have been approved at the appropriate levels, and must adhere to the policies and procedures contained within the Credit Risk Policy. Monitoring credit risk on a day-to-day basis, and making sure that exposures are within approved limits, a key responsibility of the Risk Management Department.

The Bank has an established credit review process to provide a periodic assessment of the creditworthiness of counterparties. An internal credit risk classification system is used to assess and allocate a credit risk grade notwithstanding the external rating assigned.

Other assets and other liabilities have been excluded from tables below as impacts on credit risk notes have been deemed not material.

A. Risk concentrations of the maximum exposure to credit risk

Risk concentrations arise when a number of counterparties are engaged in similar business activities or activities in the same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentration of risk the Bank's policies and procedures include specific guidelines regarding the importance of portfolio diversification. Identified concentrations of credit risk are controlled and managed accordingly. Selective hedging may be used within the Bank to manage risk concentrations at both the relationship and industry levels.

The Bank has country limits, sector limits and counterparty limits set in place and monitored accordingly in order that the Bank's portfolio is maintained at a level that is appropriately diversified.

Concentrations of risks are managed by client/counterparty, by geographical region and by industry sector.

B. Geographical analysis

The Bank's concentration of maximum exposure to credit risk, before taking into account any collateral held or other credit enhancements can be analysed by the following geographical regions:

£'000 - 2020	Total
Europe	135,161
United Kingdom	55,240
Africa	205,621
Others	59,174
Total	**455,196**

The total amount here above include only book assets (and does not include PPE, Goodwill and other intangible assets, Deferred tax asset and other assets).

£'000 – 2019 Restated	Total
Europe	114,465
United Kingdom	85,749
Africa	147,688
Others	88,233
Total	**436,135**

33. Credit risk (continued)

The general credit worthiness of a corporate customer tends to be the most relevant determinant of credit limit extended to it. However, collateral provides additional security and the Bank generally requests that corporate borrowers provide it. The Bank may take collateral in the form of floating charges over all corporate assets and other lines, credit insurance and guarantees.

Because of the Bank's focus on corporate credit worthiness, the Bank does not routinely update the valuation of the collateral held against all loans to corporate customers. Valuation of collateral is updated when the credit risk of a loan deteriorates significantly and the loan is monitored more closely. For impaired loans, the Bank obtains an appraisal of collateral because the current value of the collateral is an input to the impairment measurement.

C. Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

The table below shows the maximum exposure to credit risk for the components of the statement of financial position, including derivatives.

The maximum exposure is shown gross, before the effect of mitigation through the use of collateral agreements:

£'000	2020	2019 Restated
Cash and balances with central banks	42,930	3,108
Due from banks	138,092	85,493
Derivative financial instruments	433	254
Loans and advances to customers	173,173	215,391
Financial investment - FVOCI	100,569	131,889
Total	**455,197**	**436,135**
Contingent liabilities	71,311	86,946
Commitments	25,209	3,859
Total	**96,520**	**90,805**
Contingent liabilities and commitments	**551,717**	**526,940**

33. Credit risk (continued)

An industry sector analysis of the Bank's financial assets, before and after taking into account collateral held or other credit enhancements, is as follows:

£'000	2020 Gross maximum exposure	2020 Net maximum exposure	2019 Gross maximum exposure	2019 Net maximum exposure
A - Agriculture, forestry and fishing	-	-	-	-
B - Mining and quarrying	11,935	11,935	13,509	13,509
C – Manufacturing	6,330	-	13,191	4,679
D - Electricity, gas, steam and air supply	5,205	-	6,907	650
F – Construction	32,841	29,854	33,646	29,757
G - Wholesale and retail trade	82,939	72,606	44,460	30,524
H -Transport and storage	27,795	25,598	34,077	32,368
J - Information and communication	25,888	13,053	31,184	18,415
K - Financial and insurance activities	159,880	99,936	163,401	144,971
L - Real estate activities	51	51	54	54
M - Professional, scientific and technical activities	1	-	205	196
N - Administrative and support service activities	-	-	7,866	7,866
O - Public administration and defence, compulsory social security	181,286	133,997	162,422	124,536
Q - Human health services and social work activities		-	15	15
S - Other services	17,566	17,566	16,003	16,003
Total	**551,717**	**404,596**	**526,940**	**423,543**

D. Carrying amount per class of financial assets whose terms have been renegotiated

No loans have been restructured in 2020, same as 2019.

E. Credit quality per class of financial assets

The credit quality of financial assets is managed by the Bank using internal credit ratings. Credit Risk Grades (CRG) generally apply to clients, but can also be applied to specific transactions where considered appropriate. All facilities are considered to have the CRG of the client unless specifically stated otherwise. The latter will occur only where the transactions are considered to have a credit risk different to the legal entity concerned, an example being where some facilities or transactions are guaranteed by a stronger entity, or where the source of repayment is from a stronger entity in a ring-fenced structured finance transaction (both guarantee and third party repayment should be integral to the contract).

33. Credit risk (continued)

E. Credit quality per class of financial assets

The following table shows the credit quality by class of asset for loan-related balance sheet lines, based on the Bank's credit rating system, using the industry standard credit rating agency definition of investment grade, e.g. Moody's Investors Service Baa3 or better, Fitch Ratings BBB- or better:

£'000 - 2020	Investment grade	Non investment grade	Impairment Allowances	Total
Due from banks	17,406	121,598	(912)	138,092
Derivative financial instruments	-	433	-	433
Loans and advances to customers	-	179,138	(5,965)	173,173
Financial instruments – FVOCI	13,592	86,977	-	100,569
Total	**30,998**	**388,146**	**(6,877)**	**412,267**

£'000 - 2019	Investment grade	Non investment grade	Impairment Allowances	Total
Due from banks	39,774	46,156	(437)	85,493
Derivative financial instruments	69	185	-	254
Loans and advances to customers	-	220,513	(5,122)	215,391
Financial instruments – FVOCI	51,830	80,059	-	131,889
Total	**91,673**	**346,913**	**(5,559)**	**433,027**

Focus on Financial Instruments – FVOCI ratings

£'000	2020	2019
Rated AAA	-	38,020
Rated BBB+ to BBB-	-	-
Rated BB+ and Below	53,630	55,395
Government Bonds and Treasury Bills	**53,630**	**93,415**
Rated A-		-
Rated BBB+ to BBB-	5,564	5,700
Rated BB+ and Below	33,347	24,662
Financial Institution Bonds	**38,911**	**30,362**
Rated BBB+ to BBB-	8,028	8,112
Corporate Bonds	**8,028**	**8,112**
Total	**100,569**	**131,889**

33. Credit risk (continued)

F. Credit risk ratings – IFRS 9 expected loss model

The Bank uses credit risk grades as a primary input into the determination of the term structure of the PD for exposures. The Bank collects performance and default information about its credit risk exposures analysed by jurisdiction or region and by type of product and borrower as well as by credit risk grading. The information used is both internal and external depending on the portfolio assessed. The table below provides the Bank's internal credit risk rating scale and their mappings to PiT PD ranges.

2020	Grade	Meaning	1Y PD range%
AAA	Investment	Excellent	0.000 - 0.030
AA+ to AA-	Investment	Excellent to strong	0.000 - 0.120
A+ to A-	Investment	Strong to good	0.000- 0.310
BBB+ to BBB-	Investment	Good to satisfactory	0.002 - 0.744
BB+ to BB-	Non investment	Satisfactory to acceptable higher risk	0.014 – 2.760
B+ to B-	Non investment	Acceptable higher risk to marginal	0.244 – 12.196
CCC+	Unsatisfactory	Unsatisfactory	5.795– 19.652
CCC	Unsatisfactory	Substandard	17.441 – 31.555
CCC-	Unsatisfactory	Doubtful or bad	51.180 – 52.369
Below CCC-	Unsatisfactory	Loss / Liquidation	Insolvency

2020	EAD (£'m)	Average PD	Average LGD
AAA	2.65	0.000%	45.50%
AA+ to AA-	59.03	0.000%	41.85%
A+ to A-	96.52	0.000%	21.36%
BBB+ to BBB-	16.8	0.070%	34.46%
BB+ to BB-	54.85	0.17%	41.87%
B+ to B-	274.12	2.730%	42.94%
CCC+ to CCC-	7.36	19.74%	78.95%
D	4.96	100%	92.5%

33. Credit risk (continued)

G. Forward looking information – IFRS 9 expected loss model

The IFRS 9 Standard is built upon a forward-looking ECL model that results in more timely recognition of loan losses. The amount of ECLs is updated at each reporting date to reflect changes in credit risk since initial recognition and, consequently, more timely information is reflected in ECL calculations.

As the reflection of multiple scenarios is a requirement under the IFRS9 standard, the BoA UK model is configured to allow multiple scenario inputs. The data is sourced from multiple sources (i.e., IMF, S&P, and World Bank) and input under different scenarios. Each scenario is assigned a weight.

The BoA UK Model incorporates the following forward-looking information projected at 5 years.

1.GDP Growth (%)
2.Change in Unemployment (% total lab force) (%)
3.Change in Equity Index (%)
4.Change in Energy Index (%)
5.Change in Non-Energy Index (%)
6.Change in the Proportion of Downgrades (%)

These factors have got different weights depending on the type of economy that is classified as standard or energy exporting as shown below.

Standard weights for risk factors

Risk Factor	Standard Weight
GDP Growth %	30%
Change in Unemployment (%)	12%
Change in S&P 500 (%)	12%
Change in Energy Index (%)	5%
Change in Non-Energy Index (%)	11%
Change in the Proportion of Downgrades (%)	30%

Energy Commodity Exporters weights for risk factors

Risk Factor	Energy Exporter Weight
GDP Growth %	22%
Change in Unemployment (%)	9%
Change in S&P 500 (%)	9%
Change in Energy Index (%)	30%
Change in Non-Energy Index (%)	8%
Change in the Proportion of Downgrades (%)	22%

The forward-looking information is incorporated accordingly on top of market pre-defined benchmarks, i.e. the S&P Long Term cumulative PD.

The Bank's model calculates ECL under a two-step process:
i) Estimate the forward-looking PiT PD term structure of the obligor,
ii) Estimate the forward-looking PiT loss given default (LGD) term structure for the financial instrument.

'he model uses 3 economic scenarios in estimating the PiT PD's. The scenarios and relative weights are given below.

Scenario	Weight
Base	75%
Base-Negative	15%
Base-Positive	10%

n order to gain some level of comfort on the weights attributed on each scenario, Management carried out some sensitivity ınalysis using different weights for each scenario as shown in the table below:

Scenario	Weighting			
	Upside	Base	Downside	ECL GBP
1	15%	70%	15%	**7,553,243.46**
2	25%	40%	35%	**7,607,891.94**
3	30%	40%	30%	**7,564,017.96**
4	10%	75%	15%	**7,550,153.60**
5	30%	40%	30%	**7,543,783.87**
6	10%	75%	15%	**7,624,636.22**
7	30%	40%	30%	**7,635,040.60**

33. Credit risk (continued)

G. Forward looking information – IFRS 9 expected loss model - Continued

The Bank implemented the IFRS 9 solution by employing recognised models and historical information from a reputable rating agency.

The Bank uses publicly available forecasted information to generate the Probability of Default (PD) Points in Time (Pit) for different economies.

To capture the sector risk, BoA UK included the change in the proportion of downgrades for the three main sectors: Corporates, Financial Institutions and Sovereigns. Therefore, the probability of default through the cycle is defined at a granular level for each counterparty, based on country fundamentals (macro data), sector data, financial market performance and commodities fundamentals.

H. Measurement of ECL

The key inputs used for measuring ECL are:

- probability of default (PD);
- loss given default (LGD); and
- exposure at default (EAD).

PD is an estimate of the likelihood of default over a given time horizon. It is estimated as at a point in time. The calculation is based on statistical rating models and assessed using rating tools tailored to the various categories of counterparties and exposures.

These statistical models are based on market data (where available), as well as internal data comprising both quantitative and qualitative factors. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates. The estimation is based on current conditions, adjusted to take into account estimates of future conditions that will impact PD.

LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the Bank would expect to receive, taking into account cash flows from any collateral. The LGD models for secured assets consider forecasts of future collateral valuation. LGD models for unsecured assets consider time of recovery, recovery rates and seniority of claims. The calculation is on a discounted cash flow basis, where the cash flows are discounted by the original EIR of the loan.

EAD is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities. The Bank's modelling approach for EAD reflects expected changes in the balance outstanding over the lifetime of the loan exposure that are permitted by the current contractual terms, such as amortisation profiles, early repayment or overpayment, changes in utilisation of undrawn commitments and credit mitigation actions taken before default.

The Bank measures ECL considering the risk of default over the maximum contractual period (including extension options) over which the entity is exposed to credit risk and not a longer period, even if contract extension or renewal is common business practice. However, for financial instruments such as overdraft facilities that include both a loan and an undrawn commitment component, the Bank's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Bank's exposure to credit losses to the contractual notice period.

For such financial instruments the Bank measures ECL over the period that it is exposed to credit risk and ECL could be mitigated by credit risk management action.

The measurement of ECL is based on probability weighted average credit loss and it is measured on an individual basis. The Bank does not apply collective basis measurement of ECL.

33. Credit risk (continued)

I. Credit quality – IFRS 9 expected loss model

The Bank monitors credit risk per class of financial instrument. The table below outlines the classes identified, as well as the financial statement line item and the note that provides an analysis of the items included in the financial statement line for each class of financial instrument.

An analysis of the Bank's credit risk concentrations per class of financial asset is provided in the following tables. The amounts in the table represent net carrying amounts.

Cash and cash equivalent with central banks

£'000	2020	2019
Concentration per sector		
K - Financial and insurance activities	42,930	3,108
Total	**42,930**	**3,108**
Concentration by region		
Europe	42,930	3,108
Total	**42,930**	**3,108**

Due from banks

£'000	2020	2019 As Restated
Concentration per sector		
K - Financial and insurance activities	138,092	85,493
Total	**138,092**	**85,493**
Concentration by region		
Europe	45,448	29,654
United Kingdom	38,733	22,597
Africa	48,178	26,649
Others	5,733	6,593
Total	**138,092**	**85,493**

33. Credit risk (continued)

I. Credit quality – IFRS 9 expected loss model

Loans and advances to customers

£'000	2020	2019
Concentration per sector		
A – Agriculture, forestry and fishing	78	-
B - Mining and quarrying	28	1,499
C – Manufacturing	8,201	11,551
D - Electricity, gas, steam and air conditioning supply	4,836	7,004
F – Construction	14,793	16,656
G - Wholesale and retail trade	66,150	52,327
H - Transport and storage	14,761	23,911
J - Information and communication	8,961	15,157
K - Financial and insurance activities	-	35,432
L - Real estate activities	59	61
N - Administrative and support service activities	3	8,508
O - Public administration and defence, compulsory social security	55,303	42,188
S - Other services	-	1,097
Total	**173,173**	**215,391**
Concentration by region		
Europe	30,381	47,096
United Kingdom	16,152	38,247
Africa	86,244	89,063
Others	40,396	40,985
Total	**173,173**	**215,391**

33. Credit risk (continued)

I. Credit quality – IFRS 9 expected loss model

Financial investments – Fair value through other comprehensive income

£'000	2020	2019
Concentration per sector		
B - Mining and quarrying	8,028	8,111
K - Financial and insurance activities	38,911	68,384
O - Public administration and defence, compulsory social security	27,106	31,735
S - Other services	26,524	23,659
Total	**100,569**	**131,889**
Concentration by region		
Europe	16,396	39,282
Africa	71,130	71,280
Others	13,043	21,327
Total	**100,569**	**131,889**

33. Credit risk (continued)

I. Credit quality – IFRS 9 expected loss model

Below is an analysis of the Bank's credit risk exposure per class of financial asset, internal rating and "stage" without taking into account the effects of any collateral or other credit enhancements is provided in the following tables. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

Due from banks

£'000	Stage 1	Stage 2	Stage 3	Total
AAA to A-	15,161	-	-	15,161
BBB+ to B-	117,183	-	-	117,183
Unrated	6,660			6,660
Total gross carrying amount	**139,004**	**-**	**-**	**139,004**
Loss allowance	(912)	-	-	(912)
Carrying amount as at 31 December 2020	**138,092**	**-**	**-**	**138,092**

Loans and advances to customers

£'000	Stage 1	Stage 2	Stage 3	Total
AAA to A-	2,648	-	-	2,648
BBB+ to B-	143,860	6,734		150,594
CCC+ to C-	10,223	-	10,328	20,551
D			5,340	5,340
Unrated	5			5
Total gross carrying amount	**156,736**	**6,734**	**15,668**	**179,138**
Loss allowance	(950)	(70)	(4,945)	(5,965)
Carrying amount as at 31 December 2020	**155,786**	**6,664**	**10,723**	**173,173**

Financial investments – fair value through other comprehensive income

£'000	Stage 1	Stage 2	Stage 3	Total
AAA to A-	-	-	-	
BBB+ to B-	101,242			101,242
Total gross carrying amount	**101,242**			**101,242**
Loss allowance	(673)			(673)
Carrying amount as at 31 December 2020	**100,569**			**100,569**

Y2019

Due from banks

£'000	Stage 1	Stage 2	Stage 3	Total
AAA to A-	25,139	-	-	25,139
BBB+ to B-	60,791	-	-	60,791
Total gross carrying amount	**85,930**	**-**	**-**	**85,930**
Loss allowance	(437)	-	-	(437)
Carrying amount as at 31 December 2019	**85,493**	**-**	**-**	**85,493**

Loans and advances to customers

£'000	Stage 1	Stage 2	Stage 3	Total
AAA to A-	-	-	-	-
BBB+ to B-	186,857	13,317	14,509	214,683
Impaired	-	-	5,831	5,831
Total gross carrying amount	**186,857**	**13,317**	**20,340**	**220,514**
Loss allowance	(432)	(636)	(4,055)	(5,123)
Carrying amount as at 31 December 2019	**186,425**	**12,681**	**16,285**	**215,391**

Financial investments – fair value through other comprehensive income

£'000	Stage 1	Stage 2	Stage 3	Total
AAA to A-	38,087	-	-	38,087
BBB+ to B-	94,034	-	-	94,034
Total gross carrying amount	**132,121**	**-**	**-**	**132,1211**
Loss allowance	(232)		-	(232)
Carrying amount as at 31 December 2019	**131,889**		**-**	**131,889**

J. Collateral held as security and other credit enhancements

The Bank holds collateral or other credit enhancements to mitigate credit risk associated with financial assets. The main types of collateral and the types of assets these are cash collateral, insurances, guarantees and tangible assets independently valued. Collaterals relate to instruments that are measured at amortised cost.

33. Credit risk (continued)

K. Loss allowances – IFRS 9 expected loss model

The tables below analyse the movement of the loss allowance during the year per class of assets.

Due from banks

£'000	Stage 1	Stage 2	Stage 3	Total
Loss allowance as at 1 January 2020	(437)	-	-	(437)
Movement with P&L impact				
New financial asset originated or purchased	(762)	-	-	(762)
Changes in PDs/LGDs/EADs	287	-	-	287
Loss allowance as at 31 December 2020	**(912)**	**-**	**-**	**(912)**

Loans and advances to customers

£'000	Stage 1	Stage 2	Stage 3	Total
Loss allowance as at 1 January 2020	(173)	(1,391)	(3,559)	(5,123)
Movement with P&L impact				
New financial asset originated or purchased	(415)	-	-	(415)
Changes in PDs/LGDs/EADs	(362)	1,321	(1,360)	(401)
FX and other movements	-	-	(26)	(26)
Loss allowance as at 31 December 2020	**(950)**	**(70)**	**(4,945)**	**(5,965)**

Financial investments – fair value through other comprehensive income

£'000	Stage 1	Stage 2	Stage 3	Total
Loss allowance as at 1 January 2020	(232)	-	-	(232)
Movement with P&L impact				
New financial asset originated or purchased	(440)	-	-	(440)
Changes in PDs/LGDs/EADs	(1)	-	-	(1)
Loss allowance as at 31 December 2020	**(673)**	**-**	**-**	**(673)**

2019

Due from banks

£'000	Stage 1	Stage 2	Stage 3	Total
Loss allowance as at 1 January 2019	(304)	-	-	(304)
Movement with P&L impact				
New financial asset originated or purchased	(196)	-	-	(196)
Changes in PDs/LGDs/EADs	73	-	-	73
Changes to model assumptions and methodologies	(10)	-	-	(10)
Loss allowance as at 31 December 2019	**(437)**	**-**	**-**	**(437)**

Loans and advances to customers

£'000	Stage 1	Stage 2	Stage 3	Total
Loss allowance as at 1 January 2019	(516)	(1,475)	(2,340)	(4,331)
Movement with P&L impact				
New financial asset originated or purchased	(339)	-	(36)	(375)
Changes in PDs/LGDs/EADs	684	84	(1,207)	(439)
Changes to model assumptions and methodologies	(2)	-	-	(2)
FX and other movements		-	25	25
Loss allowance as at 31 December 2019	**(173)**	**(1,391)**	**(3,558)**	**(5,122)**

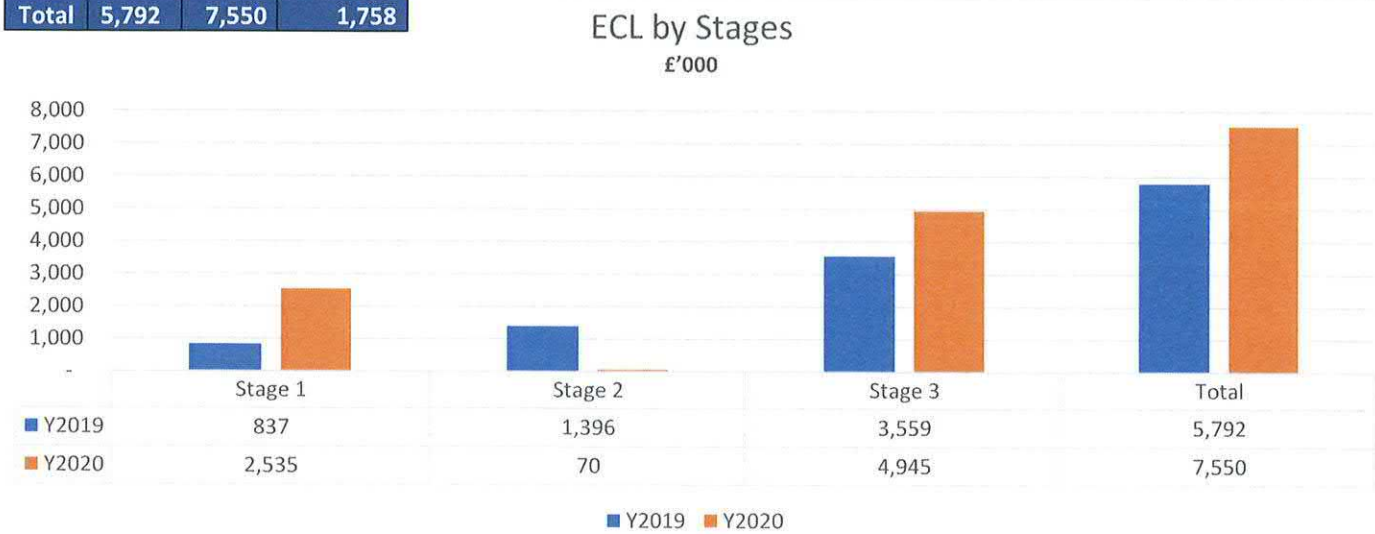
Financial investments – fair value through other comprehensive income

£'000	Stage 1	Stage 2	Stage 3	Total
Loss allowance as at 1 January 2019	(90)	-	-	(90)
Movement with P&L impact				
New financial asset originated or purchased	(51)	-	-	(51)
Changes in PDs/LGDs/EADs	(91)	-	-	(91)
Loss allowance as at 31 December 2019	**(232)**	**-**		**(232)**

Financial investments – amortised cost

£'000	Stage 1	Stage 2	Stage 3	Total
Loss allowance as at 1 January 2019	**(201)**	**-**	**-**	**(201)**
Movement with P&L impact				
Changes in PDs/LGDs/EADs	201	-	-	201
Loss allowance as at 31 December 2018	**-**	**-**	**-**	**-**

£'000	Y2019	Y2020	Differences	Comments/Main Changes
Stage 1	837	2,535	**1,698**	Many Ratings have been affected due to Covid, I.e. countries such as Angola, Ethiopia, Nigeria, Turkey, Ghana
Stage 2	1,396	70	**(1,326)**	Full repayment of the Simec Exposure, SHT Chad has been moved to stage 1, while SNPC has been moved stage 3. The decreases were partially offset by moving Profert to stage 2
Stage 3	3,559	4,945	**1,386**	More ECL has been booked on Little Rose and SNPC has been moved to Stage 3
Total	**5,792**	**7,550**	**1,758**	



34. Liquidity risk

Liquidity risk is the risk that the Bank may encounter difficulty in meeting obligations associated with financial liabilities when they fall due under normal and stressed conditions.

The Bank has obtained funding, with appropriate maturities, from its ultimate parent in order to meet its liquidity needs.

In stressed situations, the Bank will utilise funding arrangements under market repurchase agreements and deposits from the parent Company. This funding will be provided on an arms-length basis. The liquidity position is assessed and managed under a variety of scenarios.

The most important of these is to maintain limits on the ratio of net liquid assets to customer liabilities, set to reflect market conditions.

The liquidity reserves consist of cash with central banks and any other high quality liquid assets securities being sold immediately. The Bank focuses on exposures due to mature within the next month. However the Bank also monitors all assets and liabilities over their contractual maturities.

Other assets and other liabilities have been excluded from tables below as impacts on liquidity risk notes have been deemed not material.

A. Liquidity reserves

The table below shows the liquidity reserves:

£'000	2020 Carrying amount	2019 Carrying amount
Balances with central banks	42,930	3,108
Unencumbered debt securities issued by sovereigns	-	38,020
Total	42,930	**41,128**

B. Maturity profile

The table below summarises the maturity profile of the Bank's assets and liabilities at 31 December 2020 based on contractual repayment obligations.

£'000 - 2020	Less than 1 month	1 to 3 months	Over 3 to 12 months	1 to 5 years	Over 5 years	Total
Assets						
Balances with central banks	42,930	-	-	-	-	42,930
Due from banks	64,257	19,638	38,637	15,560	-	138,092
Derivative financial instrument	433	-	-	-	-	433
Loans and advances to customers	3,437	28,478	48,229	70,755	22,274	173,173
Financial Investments – FVOCI	437	664	6,255	78,624	14,589	100,569
Total Assets	**111,494**	**48,780**	**93,121**	**164,939**	**36,863**	**455,197**
Liabilities						
Due to banks	38,187	41		238,052	-	276,280
Derivative financial instrument	135	-	-	-	-	135
Due to customers	98,623	933	-	-	-	99,556
Subordinated debt	-	193	-	-	15,924	16,117
Total Liabilities	**136,946**	**1,167**	**-**	**238,052**	**15,924**	**392,088**

34. Liquidity risk (continued)

The table below summarises the maturity profile of the Bank's assets and liabilities at 31 December 2019 based on contractual discounted repayment financial obligations.

£'000 – 2019	Less than 1 month	1 to 3 months	Over 3 to 12 months	1 to 5 years	Over 5 years	Total
Assets						
Balances with central banks	3,108	-	-	-	-	3,108
Due from banks	58,094	9,608	14,008	3,783	-	85,493
Derivative financial instrument	254	-	-	-	-	254
Loans and advances to customers	11,546	43,777	41,600	100,330	18,138	215,391
Financial Investments AFS	455	15,513	23,599	58,388	33,934	131,889
Financial Investments HTM	-	-	-	-	-	-
Total Assets	**73,457**	**68,898**	**79,207**	**162,501**	**52,072**	**436,135**
Liabilities						
Due to banks	24,012	791	-	238,347	-	263,150
Derivative financial instrument	34	-	-	-	-	34
Due to customers	94,005		1,286			95,291
Subordinated debt	-	180	-	-	15,051	15,231
Total Liabilities	**118,051**	**971**	**1,286**	**238,347**	**15,051**	**373,706**

34. Liquidity risk (continued)

The table below summarises the split of the statement of the financial position between current and non-current assets and liabilities:

£'000	2020 Less than 1 year	2020 More than 1 year	2019 Less than 1 year	2019 More than 1 year
Assets				
Cash and balances with central banks	42,930	-	3,108	-
Due from banks	122,532	15,560	81,710	3,783
Derivative financial instruments	433	-	254	-
Loans and advances to customers	80,143	93,030	96,923	118,468
Financial Investments – FVOCI	7,357	93,212	39,567	92,322
Total assets	**253,395**	**201,802**	**221,562**	**214,573**
Liabilities				
Due to banks	38,229	238,051	24,803	238,347
Derivative financial instruments	135	-	33	-
Due to customers	99,556	-	95,291	-
Subordinated debt	193	15,924	180	15,051
Total liabilities	**138,113**	**253,975**	**120,307**	**253,398**

The above analysis shows the Bank has treated all demand customer deposits as repayable immediately, however long term business relationships means that this is not the case in practice. The Bank has adequate arrangements to meet its liquidity requirements.

The majority of the inter bank funding is comprised of a series of term deposits from the ultimate parent Company with staggered maturities.

35. Market risk

Market risk is defined as the risk of losses on financial instruments arising from changes in market factors. The Bank is currently exposed to changes in interest rate risk , foreign exchange rate risk and price risk.

Market risk may be propagated by other forms of financial risk such as credit and market liquidity risks, prices potentially moving adversely for a number of reasons, including credit downgrading of securities held, general negative economic factors, and reduced liquidity. The key specific types of market risk relevant to the Bank are:

- Interest rate risk;
- Foreign exchange risk; and
- Price risk on investments in debt securities.

The Bank's control framework has been designed using a risk-based approach i.e. to address the business risks which have been identified as being the most relevant to the Bank as a result of the type of business undertaken and according to the way its operations have been organised.

The other specific market type risks are managed and have the following potential financial impacts as follows:

A. Interest rate risk

- **Banking book**: Interest rate risk is the risk to earnings or capital arising from movement of interest rates. It arises from differences between the timing of rate changes and the timing of cash flows (re-pricing risk); from changing rate relationships among yield curves that affect Bank activities (basis risk); from changing rate relationships across the spectrum of maturities (yield curve risk); and, from interest-rate-related options embedded in Bank products (option risk). The evaluation of interest rate risk must consider the impact of complex, illiquid, hedging strategies or products, and also the potential impact on fee income that is sensitive to changes in interest rates.
- **Trading book:** The Bank does not have a trading book.

The total sensitivity of all assets and liabilities held has been calculated as follows:

£'000 - Gain / (Loss) in profit or loss	2020	2019 Restated
Parallel shift in interest rates -2%	(972)	(1,068)
Parallel shift in interest rates +2%	766	818

35. Market risk (continued)

B. Foreign exchange risk

Foreign exchange risk is the risk that the value of a financial instrument denominated in foreign currency will fluctuate in domestic currency terms due to changes in exchange rates.

The Bank's policy is to monitor market exposures by the risk team on a daily basis.

£'000 - 2020	USD	EUR	Other Currencies
Net foreign currency exposures	20,113	(1,971)	519
Impact of 5% increase in foreign currency : GBP rate	(1,006)	99	(26)
Impact of 5% decrease in foreign currency : GBP rate	1,006	(99)	26

£'000 - 2019	USD	EUR	Other Currencies
Net foreign currency exposures	14,795	(823)	516
Impact of 5% increase in foreign currency : GBP rate	(740)	41	(26)
Impact of 5% decrease in foreign currency : GBP rate	740	(41)	26

C. Price risk on investments in debt securities

The Bank holds investments in debt securities, which in accordance with International Accounting Standards are marked to market through other reserves. The unrealised gains and losses on these bonds are monitored by the Treasury and Capital Markets traders and reported to the ALCO committee which makes decisions on whether or not to dispose of these assets. The policy is to hold assets with a maximum residual maturity of 7 years and only in markets where the Bank has experience in order to minimise risk. A 1% price change would result in approximately £697K (2019: £1,319K) change in fair value of debt instruments.

36. Fair Value

A. Fair Value Hierarchy

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and offer price for short positions), without any deduction for transaction costs.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value, comparison to similar instruments for which market observable prices exist and other relevant valuation models.

Derivatives are measured at Level 2, where the fair value is determined by applicable market forward rates.

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- **Level 1**: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
- **Level 2**: inputs other than quoted prices included within Level 1 that are observable directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- **Level 3**: inputs that are unobservable. This category includes all instruments for which valuation technique includes inputs not based on observable data and the unobservable inputs have significant effect on the instruments valuation.

The accounting policy for determining fair values is detailed on page 41 under "Fair value measurement and valuation process ". Financial assets included in Level 3 are carried at amortised cost which approximate their fair values.

£'000 - 2020	Level 1	Level 2	Level 3	Total fair values
Assets				
Cash and balances with central banks	-	42,930	-	**42,930**
Amortised cost				
Due from banks	-	14,456	123,636	**138,092**
Loans and advances to customers	-	-	173,173	**173,173**
Fair value through profit & Loss				
Derivative financial instrument	-	433	-	**433**
Fair value through Other Comprehensive Income				
Investment securities - FVOCI	100,569	-	-	**100,569**
Amortised cost				
Investment securities – Amort. Cost	-	-	-	**-**
Liabilities				
Amortised cost				
Deposits from banks	-	32,663	243,617	**276,280**
Deposits from customers	-	-	99,556	**99,556**
Subordinated liabilities	-	-	16,117	**16,117**
Fair value through profit & Loss				
Derivative financial instrument	-	135	-	**135**

36. Fair Value (continued)

£'000 - 2019	Level 1	Level 2	Level 3	Total fair values
Assets				
Cash and balances with central banks	-	3,108	-	**3,108**
Amortised cost				
Due from banks	-	31,966	53,484	**85,493**
Loans and advances to customers	-	-	215,391	**215,391**
Fair value through profit & Loss				
Derivative financial instrument	-	254	-	**254**
Fair value through Other Comprehensive Income				
Investment securities - FVOCI	131,889	-	-	**131,889**
Amortised cost				
Investment securities – Amort. Cost	-	-	-	**-**
Liabilities				
Amortised cost				
Deposits from banks	-	20,924	242,226	**263,150**
Deposits from customers	-	-	95,291	**95,291**
Subordinated liabilities	-	-	15,231	**15,231**
Fair value through profit & Loss				
Derivative financial instrument	-	34	-	**34**

All financial assets and liabilities carried at amortised cost approximate their fair values
The carrying amount approximate its FV and includes only those assets/liabilities measured in FV in the table

36. Fair Value (continued)

Derivative financial instruments and investment in debt securities at fair value. All other financial assets and financial liabilities are held at historic or amortised cost.

In the opinion of management the value of these assets in the financial statements represents their fair value.

Assumptions and inputs used in valuation techniques include risk-free and Libor benchmark interest rates , discount rate, bond and equity prices.

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which observable market price exist and other valuation models.

The objective of the 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.

Where available, the fair value of loans and advances is based on observable market transactions. Where market transactions are not available, fair value is based on reasonable approximation of market values. For collateral-dependent impaired loans, the fair value is measured based on the value of underlying collateral.

The carrying amount of deposits taken from financial institutions and non-bank customers are based on reasonable approximation of market value.

B. Derivative financial instruments

The table below shows the fair values of derivative financial instruments, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the reporting date and are indicative of neither the market risk nor the credit risk.

For the valuation techniques used, please see above.

£'000 - 2020	Fair value of assets	Fair value of liabilities	Notional amount
Forward foreign exchange	101	96	27,331
Foreign exchange swaps	332	-	76,033
Derivatives held for trading	**433**	**96**	**103,364**

£'000 - 2019	Fair value of assets	Fair value of liabilities	Notional amount
Forward foreign exchange	35	34	4,390
Foreign exchange swaps	219	-	76,564
Derivatives held for trading	**254**	**34**	**80,954**

37. Capital management

A. Approach

The Bank's policy is to maintain a sufficient capital base to maintain stakeholders' confidence and to sustain the future development of the business. The impact of the level of the capital on shareholders' return is also considered and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

B. Regulatory capital

The Bank and its individually regulated operations have not reported any breaches on externally imposed regulatory capital requirements during the year and have been in compliance with the regulatory capital requirements throughout the year.

Tier 1 capital £67,951 (all qualifies as Common Equity Tier 1 (CET1) capital) - it includes ordinary share capital, retained earnings, reserves and other comprehensive income (OCI) after adjustment for deductions for goodwill and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.

TIER 1 CAPITAL (£000's)	67,951
Paid up capital instruments	102,173
Retained earnings	(21,420)
Other reserves	1,890
Value adjustments due to the requirements for prudent valuation	(101)
Goodwill and other intangible asset	(10,904)
Property, plant and equipment and ROU	(3,687)

C. Monitoring

Management uses regulatory capital ratios to monitor its capital base. The allocation of capital between specific operation and activities is, to a large extent, driven by optimisation of the return achieved and the capital allocated. The amount of capital allocated to each operation or activity is based primarily on regulatory capital requirements, but in some cases the regulatory requirements do not fully reflect the varying degree of risk associated with different activities. In such cases, the capital requirements may be flexed to reflect differing risk profiles, subject to the overall level of capital to support a particular operation or activity not falling below the minimum required for regulatory purposes. The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the operation by the Credit and Risk Committees and is subject to review by the ALCO.

Although maximisation of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Bank to particular operations or activities, it is not the sole basis used for decision making. Account is also taken of synergies with other operations and activities, the availability of management and other resources, and the fit of the activity with the Bank's long-term strategic objectives. The Bank's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors.

38. Changes in prior year figure

The Bank has restated its 31 December 2019 statement of profit and loss, statement of other comprehensive income, statement of financial position, statement of changes in equity and statement of cash flows. This is due to errors identified primarily from the clearing of aged unreconciled items on nostro reconciliations and the accrual for certain expenses. The Bank has also restated its 31 December 2019 statement of financial position due to an error in the treatment of prepayments for credit risk insurance. The portion that was not amortised was previously credited to due to customers instead of offsetting with prepayment. This has not impact on the statement of profit or loss. The impact of the restatement on the results of 31 December 2019 is to reduce other assets by £807k and reduced due to customers by £807k.

The impact of the restatement on the results of 31 December 2019 is: Profit for the period is £230k lower, Total assets are £1,530k lower, Total liabilities are £1,334K lower and Total equity is £196K lower.

A. Statement of profit and loss – prior year adjustments

	2019 Audited	Correction of prior year	2019 Restated
£'000	Audited	Impact	Restated
Interest and similar income	25,268	(174)	25,094
Interest expense and similar charges	(8,413)	(12)	(8,425)
Net interest income	**16,855**	**(186)**	**16,669**
Fee and commission income	1,622	-	1,622
Fee and commission expense	(2,106)	(1)	(2,107)
Net fee and commission income	**(484)**	**(1)**	**(485)**
Net trading income	4,261	-	4,261
Other operating (expenses) income	979	-	979
Net operating income	**21,611**	**(188)**	**21,424**
Personnel expenses	(7,082)	-	(7,082)
Depreciation of property, plant and equipment and right-of-use assets	(809)	-	(809)
Amortisation of intangible assets	(761)	-	(761)
Other operating expenses	(7,928)	(97)	(8,025)
Total operating expenses before impairment losses	**(16,580)**	**(97)**	**(16,677)**
Impairment and provisions	(865)	-	(865)
Profit before taxation	**4,166**	**(284)**	**3,882**
Taxation	(1,314)	54	(1,260)
Profit for the period	**2,852**	**(230)**	**2,622**

38. Changes in prior year figures (continued)

B. Statement of Financial position - prior year adjustments

	2019 Audited	Correction of prior year	2019 Restated
£'000	Audited	Impact	Restated
Assets			
Cash and balances with central banks	3,108	-	3,108
Due from banks	85,601	(108)	85,493
Derivative financial instruments	254	-	254
Loans and advances to customers	216,052	(661)	215,391
Investments securities – FVOCI	131,889	-	131,889
Property ,Plant and Equipment and Right –of-use Assets	5,363	-	5,363
Goodwill and other intangible assets	11,182	-	11,182
Deferred tax assets	5,851	-	5,851
Other assets	8,478	(761)	7,717
Total assets	**467,778**	**(1,530)**	**466,248**
Liabilities and equity			
Due to banks	263,150	-	263,150
Derivative financial instruments	34	-	34
Due to customers	96,774	(1,483)	95,291
Other liabilities	11,574	148	11,722
Subordinated debt	15,231	-	15,231
Total liabilities	**386,763**	**(1,335)**	**385,428**
Equity attributable to equity holders of parent			
Share capital	102,173	-	102,173
Other reserves	1,172	-	1,172
Accumulated losses	(22,329)	(196)	(22,525)
Total equity	**81,016**	**(196)**	**80,820**
Total liabilities and equity	**467,778**	**(1,530)**	**466,248**

38. Changes in prior year figures (continued)

C. Statement of cash flow - prior year adjustments

£'000	X-ref	Audited 2019	Amendments	Restated 2019
Cash flows from continuing operating activities				
Profit before tax	A	4,166	(284)	3,882
Adjustments for:				
Net interest income	B	16,855	(33,524)	(16,669)
Interest received	B	(4,130)	28,220	24,090
Interest paid	C	8,944	(18,635)	(9,691)
Change in operating assets	B, H	10,809	31,409	42,218
Change in operating liabilities	B, H	(112,605)	(6,996)	(119,601)
Other items included in profit before tax	B, E, F	870	(2,419)	(1,549)
Corporation tax paid	D	(1,314)	878	(436)
Net cash flows generated by continuing operating activities		**(76,405)**	**(1,351)**	**(77,756)**
Cash flows from investing activities				
Purchase of financial investments		(151,190)	-	(151,190)
Proceeds from sales of financial investments	E	185,231	1,519	186,750
Purchase of property and equipment		(81)	-	(81)
Purchase of intangible assets		(333)	-	(333)
Net cash flows generated by investing activities		**33,627**	**1,519**	**35,146**
Cash flows from financing activities				
Group subordinated debt	F	(617)	617	-
Repayment of lease principal	G	-	(877)	(877)
Net cash flows generated by financing activities		**(617)**	**(260)**	**(877)**
Net increase/(decrease) in cash and cash equivalents		(43,395)	(92)	(43,487)
Cash and cash equivalents as at 1 January		90,895		90,895
Cash and cash equivalents as at 31 December		**47,500**	**(92)**	**47,408**

The Bank has restated its 31 December 2019 statement of cash flows. This is due to errors identified as the presentation did not comply with the requirements of IAS7. The presentation in the 2020 cash flow has been updated to comply with IAS 7.

Further detail is provided below:

A. This reconciles to the prior period adjustments in the Statement of Profit or Loss as disclosed on page 86 of the financial statements.

B. To disclose separately cash interest received. To include in other items included in profit before tax foreign exchange changes.

C. To disclose separately cash interest paid.

D. To disclose the actual corporation tax paid.

E. To exclude the amortization for the premium and discount as proceeds from sale of investments, included now in other items included in profit before tax.

F. To exclude the impact of foreign exchange on subordinated debt, included now in other items included in profit before tax.

G. To disclose in financing cash flows the actual lease payments under IFRS 16.

H. To correct for the treatment of prepayments for credit risk insurance. The portion that was not amortised was previously credited to due to customers instead of offsetting with prepayment.. .

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