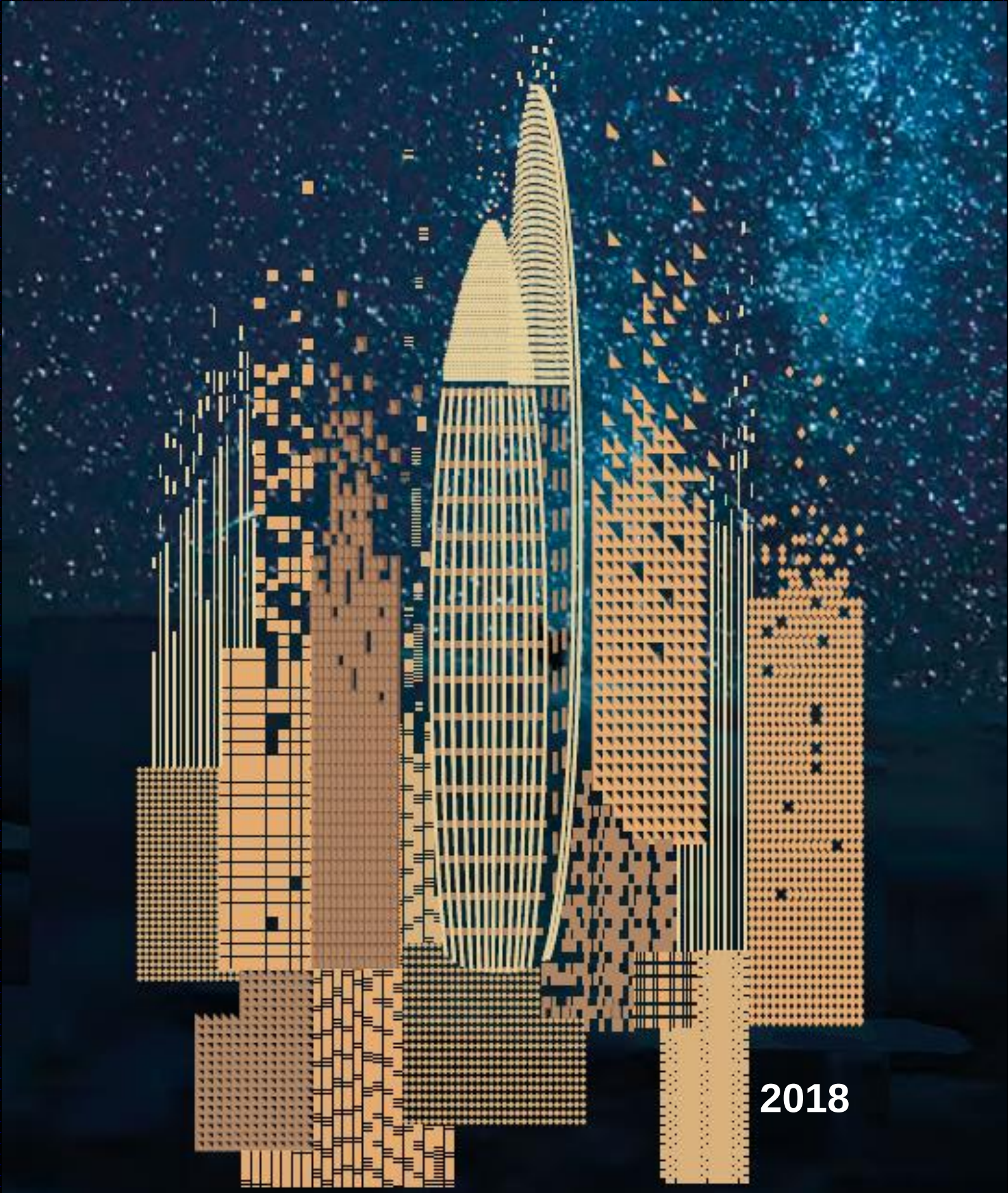


2018

ANNUAL REPORT AND FINANCIAL STATEMENTS

BMCE BANK INTERNATIONAL

Company Registration N°5321714 (England and Wales)

Contents

Part I

Part II

Part I

BOARD

David SURATGAR
Independent Non-executive Director - Chairman

Houssam EL HAK MORSSI BARAKAT
Executive Director – Chief Executive Officer

Mohammed AGOUMI
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

SECRETARY

TMF Corporate Administration Services Limited

AUDITOR

Mazars LLP
Chartered accountants and statutory auditor
Tower Bridge House
St. Katharine's Way
London
E1W 1DD

REGISTERED OFFICE

26 Upper Brook Street
London
W1K 7QE

BANKERS

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

Chairman's statement

The uncertainty surrounding the United Kingdom's process of implementing the decision to leave the European Union and the world trading outlook have created a difficult setting for international banks present in London. Emerging markets have also faced uncertainties over foreign exchange markets and interest rate policies.

As a bank positioned to act as bridge between international capital markets and African borrowers and trade and project financing in Africa – BMCE Bank International has continued to build on the synergies created by serving as a key partner of the BMCE Bank of Africa Group. This has recently been fortified by the Group's establishment of a branch in Shanghai.

BMCE Bank International has also taken initiatives to establish its own presence in key markets such as Switzerland and the Middle East, establishing offices in Zurich and Dubai – key locations for trade and commodity finance. We continue to be active in Treasury and Capital Markets.

The United Kingdom's departure from the EU has also required reconfiguration of the BMCE Bank of Africa Group's presence in Europe, establishing an EU "passport" base in Spain and moving to transfer the branch in Paris to the Group's bank in Madrid.

In keeping with these changes, our bank here in London has devoted attention to the need to review and strengthen our ability to adhere fully with the heightened regulatory regime in the United Kingdom. Our Board has been refreshed and fully engaged in ensuring that corporate governance and senior management are up to the high standards expected.

The BMCE Bank of Africa Group have also adopted the UK standards as those to be sought throughout the Group's international network.

The plan to transfer the business of our Paris branch to our sister branch in Madrid has demanded review of our back-office and core supporting systems (IT, Internal Audit, Compliance and Risk Management) and we have undertaken a full programme of fortifying our team.

We look forward to playing a major role in the City of London as the key financial market for the future economic development of Africa.

Chief Executive Officer's review

Houssam El Hak Morssi Barakat

Throughout a year of change and volatile political and economic configurations, BMCE Bank International has made a strong progress in its core fundamentals/foundations. Our structural fortes remained unchanged: our group, BMCE Bank of Africa, along with its deep geographic reach in Africa, and our long-lasting synergies with our sister companies within the pan-African network of our group.

As we look to the year ahead of us, Africa's performance has been slow due to various political and economic patterns. The continent appears to be steadying and sustains its potential to add substantial value and revenue diversity to us investors. Overall, our revenue streams have evolved in a less resilient market environment, and the recovery was gentle to come in a less dynamic market in sub-Saharan Africa. Not to mention, lower fixed income margins observed across our portfolio counting all our asset classes.

On another hand, and because of the growing scrutiny on the financial services sector in Europe and the United Kingdom, crucial changes had to be initiated and sustained in order to continue to operate with outstanding standards, scrupulously complying with laws and regulations in place.

At BMCE Bank International, we have consistently applied regulatory changes and acted in full support of compliance high standards principles and when it comes to values and behaviour, we aim at being ahead of the change for the coming years. The control framework has been given our unfailing support. All the corporate governance structure components (first, second and third lines of defence) are playing their role effectively. The introduction of a new code of conduct and ethics, in line with market's best practices, announcing an updated approach to our internal culture and behaviour will benefit our business and our organisation for years to come.

The United Kingdom historic vote to leave the European Union affected 2018 with the negotiations about the exit and the new relationship with the EU. BMCE Bank International has started its reconfiguration and restructuring process.

2018 year was for BMCE Bank International a year of consolidation introducing a new strategy and approach. Our strategy forward is based on four pillars: continue to grow in terms of size and reach, maintain our strong capital structure, transform our governance-operating model while mitigating our risks and uniting our people. We will continue our strong consolidation phase with clear objectives around delivering outstanding services and better serving our partners and shareholders.

BMCE Bank International has fully opened its two representative offices in both Zurich and Dubai, reaching a new set of partners, growing our geographical footprint and strengthening our core international dimension, serving all of our core business lines: Capital Markets, Debt and Trade Finance. Likewise, we are continuing to equip our businesses and support functions with key profiles and investments in terms of systems and technologies.

Our ambition is to stay a UK pan-African bank as a "gateway for Africa" from the prominent financial place that is London and become a reference bank in the United Kingdom linking investors with the growing opportunities arising from Africa. Our African DNA is what we strive to build upon.

I am very pleased with where BMCE Bank International is today and that is in large part in view of our dedicated staff and their sustained energy, always thriving to serve our clients and partners

Strategic Report

The Directors present their Strategic Report for BMCE Bank International plc ("the Bank") for the year ended 31 December 2018.

Our Strategic priorities and progress

1 *Organisation of governing bodies*

Corporate Governance remains a key area focus. Its goal is to ensure an effective decision making process throughout the business. The Governance within the Bank is achieved by the following bodies:

- The Board of Directors consisting of six Non-Executive Directors of which three are independent Non-Executive and the Chief Executive Officer, and others regularly attended including the Managing Director and Head of Risk, the Chief Financial Officer and the Head of Internal Audit. The Board approves the overall strategy and the broad guidelines of BBI plc.

- The Risk Committee consists of two non-executive Directors. The Managing Director and Head of Risk 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 Chief Financial Officer, the Head of Risk 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 BBI plc are:
  - Executive Committee
  - Asset and Liability Committee
  - Credit Committee
  - Steering and Control Committee for Paris branch
  - Human Capital and Communication Committee
  - Compliance Committee

2 *Upgrading of information technology system*

Our constant goal is to improve our IT system.

In 2018, the Bank continued to strengthen its IT system. The IT system is still seen as a strategic investment for us, for achieving a sustainable growth of our business model. It is an Information System oriented and used essentially for the Regulatory Reporting intended for the PRA. Beyond regulatory reporting, this IT system continuous to be our leverage to build new opportunities, for enhancing quality, reliability and the management of our reporting.

3 *Diversification of our investment bank*

- BBI plc focuses its continuous efforts to transition towards becoming an investment bank with a particular focus on developing African business.

- BBI set up two representative offices in Zurich and Dubai to develop successful relationship with financial places that count in African businesses.

4 *Achievement of business objectives*

- Achieving our goals was undoubtedly a result of continuing our sales oriented efforts with on-going cost control and further optimisation of the risk return.

- Commercial efforts: Remaining dynamic on marketing and communication by sponsoring several events, attending many meetings and conferences 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".

Strategic Report (continued)

4 *Achievement of business objectives*

- Diversification: Emphasising the geographic and sectoral diversification of our "Target Market". BBI plc 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. BBI plc Risk Appetite has been reviewed and we have delivered enhanced risk management practices with risk limits aligned to a carefully considered business strategy.

- Focusing in working to enhance our system of governance and control to ensure that we are operating in an efficient manner.

Economical overview

1 *Sub Sahara Environment*

The aggregate picture is showing multispeed growth: while most non-resource intensive countries—half of the countries in the region—continue to perform well, as they benefit from lower oil prices, an improved business environment, continued strong infrastructure investment and most commodity exporters are under severe economic strain. This is particularly the case for oil exporters whose near-term prospects have worsened significantly in recent months and have seen their ratings being downgraded. Sub-Saharan Africa remains a region of immense economic potential, but policy adjustment in the hardest-hit countries needs to be enacted promptly to allow for a growth rebound.

2 *International and Local Environment : Brexit…*

In 2018, the UK market continued to fluctuate amid high uncertainties about the output of Brexit negotiations. Despite improving macro-economic indicators across Europe, the lack of confidence remained high. The US interest rates were raised twice and 2019 policy outlook remained unchanged.

.

Risk Management Framework

BBI plc 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 that are taken by the Board.

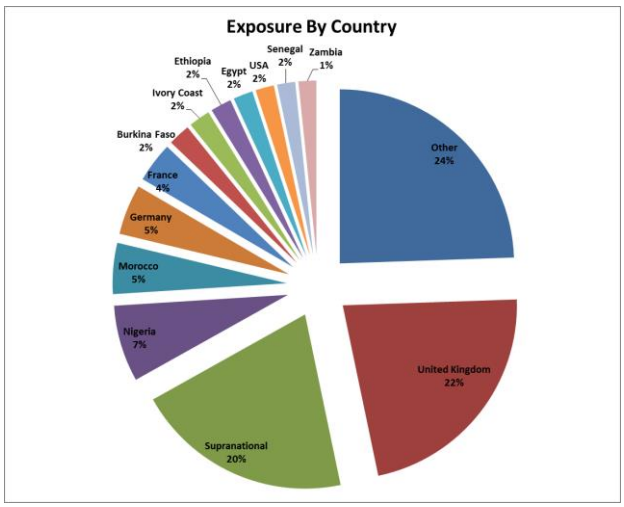
This model allows BBI plc to implement effective risk management and a risk culture.

The Board of Directors has ultimate accountability for risk management. Together, with various committees within BBI plc and risk policies , they are an integral part of BBI plc's Risk management framework.

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

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

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



Even with a diverse portfolio, certain sectors and regions have experienced some difficulties relating to commodity price reductions, political tensions and pandemics during the year.

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

- Treasury & Capital Markets;
- Loan Solutions;
- Commodities Trade Finance; and
- Corporate Banking 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 BBI plc or its failure to perform as agreed.

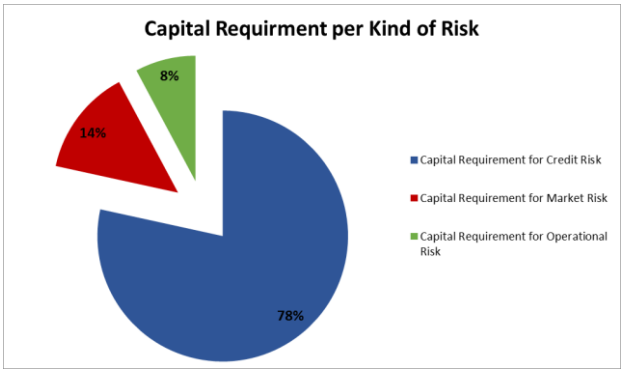
The credit risk includes counterparty risk, settlement risk and concentration risk.

BBI plc 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.

BBI plc 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 BBI plc.

BBI plc 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 BBI plc as shown here below:



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

In 2018, BBI plc applied for the first time the IFRS 9 standard that lead the Bank to record an adjustment of GBP 1,480k expected credit losses.

BBI plc do not have significant open positions on derivative products. The results coming from these products are mainly due to commercial transactions. BBI 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.

BBI is exposed to specific and general interest rate risk on its holdings of treasury and corporate bonds in the AFS book and the risk from trading foreign exchange.

The financial instruments (bond) portfolio is treated as an AFS book position for capital calculations.

The fixed income portfolio represents 28% of the total balance-sheet.

31% is High Quality Liqud Assets and rated above AA-.

Only minimal currency risk will arise from BBI plc'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 BBI plc's trading in foreign exchange (mainly spot, forwards and at a later stage options). BBI plc manages an open position accordingly with 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.

BBI plc currently uses the Basic Indicator Approach(BIA) to calculate it's Operational Risk requirements. Following the Basel III Committee recommendations, BBI will replace the BIA calculation with the new 'Standardised Measurement Approach' as soon as this revised calculation method is finalised and implemented by the regulator.

BBI plc continue to have a sound reputation and to steer its operational risk carefully and according to best practices.

BBI plc is fully dedicated to the management of operational risks. The framework aims to:

- Master 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.

Strategic Report (continued)

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 ratio of BBI plc has continued to be well above the regulatory requirement and also well above the internal constraint, showing a comfortable liquidity position.

BBI plc 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 uncertainties

The table below summarizes the principal risks and uncertainties.

Risks and uncertainties	Description/Component/Impact	Mitigation	Change 2018/2017
Risks			
Credit Risk	• Description:Non-investment grade direct lending • Component: Sub-saharian area • Impact: Losses in notional	Country/counterparty analysis, Credit committee approval	↗
Market Risk	• Description:Interest rate hikes/Currency volatility • Component: USD rates • Impact: Market losses (% of notional)	Limit in place and potential hedge with Interest rate swap and Fx swaps	→
Regulatory	• Description:Heightened regulation • Component: Basel III • Impact: Regulatory breach	Regulatory updates and internal control	→
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 related issues • Component: High percentage of PEPs and SDNs in our client base, in particular the oil business • Impact: Reputational risk	AML Officer, AML systems, AML policy	→
Operational	• Description:Migration to Delta platform • Component: Inadequate performance of Delta • Impact: Reputational risk	Steering committee Full testing of Delta planned. IT Support, Manual workaround	→
Uncertainties			
Economic difficulties in African countries	• Description: Lower growth in Africa • Component: Bearish commodities market; low oil market. • Impact: Lower banking income		→
Brexit	• Description: Uncertainties about the final ouput (deal, no deal, .) • Impact: operational risk		↗

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 2018 included:

Key area	Action taken
Implementation of IFRS 9 standards (business models, probability of default, loss given default, etc.)	• The audit committee considered management's key judgements used to establish the approriate level of expected credit loss allowances on the Bank's portfolio. The audit committee considered the range of estimates as disclosed in notes 38 – 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. See note 2.3 and 2.4.
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.
Impairment test of the Goodwill	• The audit committee considered the valuation of the Paris Branch performed independently by an external firm to conclude consequently that no additional impairment was necessary.

6 *Brexit*

The United Kingdom is due to withdraw from the European Union on 31 October 2019. As a result of Brexit, currently it is possible that BBI PLC could face restrictions in providing certain services in the European Economic Area (EEA). However, the Bank's business model focus on doing business with Africa, such restrictions should have a limited impact in the Bank's business plan (in case of Brexit without any agreement between the EU and the UK).

As far as the Paris branch is concerned and subject to the review of the terms and conditions of the transfer of the Paris Branch, the Board agreed earlier in 2019 to the sale of the Branch to its sister company incorporated and regulated as financial institutions in Spain would be in the best interests of the both parties but also at the Group as a whole (Group approved in principle). This is awaiting regulatory approval.

The Bank set up in 2018 , two representative offices in located in Zurich and Dubai . The aim is to mitigate the potential loss of business due to Brexit by bringing more business linked to our business model and risk appetite to the Bank.

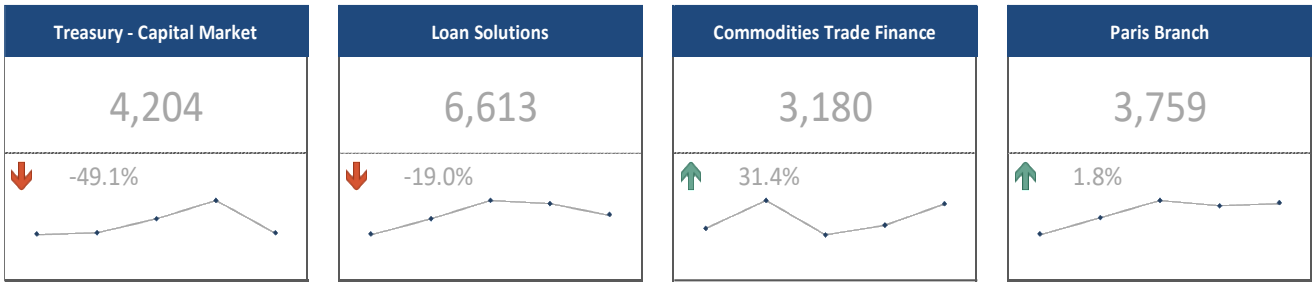
Strategic Report (continued)

Development and performance by business lines for the year 2018

£'000	2018	2017 - Restated*
(Loss)/profit on FX	(143)	430
Profit on bonds	2,390	5,503
Money Market	1,957	2,319
Treasury – Capital Market	**4,204**	**8,252**
Loan Solutions	6,613	8,161
Commodities Trade Finance	3,180	2,420
Paris branch	3,759	3,691
Corporate Banking	**13,552**	**14,272**
Other income / (expenses) not allocated	347	(2,273)
Subordinated debt interest not allocated	(635)	(629)
Net operating income	**17,468**	**19,622**

*See Note 32.

Graphs below show the 5 years trend.



Treasury – Capital Market (TCM)

The TCM business 2018 closed the year-end with a £4,204k (2017: 8,252k) net operating income. This represented a 49.1% decrease compared to 2017. TCM suffered about a difficult bond market amid market uncertainties driven by the Brexit negotiations process and US and China commercial battles.

Corporate Banking

- **Loan solutions** – Loan solutions recorded a resistant performance this year despite some deals being postponed due to some political upheavals in Africa. The department decrease by 19% to £6,613k (2017: £8,161k) . Management still aims to generate more origination and structuring transactions thanks to the two representative offices in Zurich and Dubai.

- **Commodities and Trade Finance (CTF)** – The 2018 performance was up by 31.4% to £3,180k compared to 2017. This performance was done amid difficult conditions on the commodities market combined with a revision of CTF exposures and significant commercial efforts were made to reshape the client portfolio. On a positive note the level of profitability of live deals remained high. CTF will continue to have a dynamic and diversified commercial strategy in 2019 thanks to two representative offices in Zurich and Dubai.

- **Paris branch** – The Paris branch continued to contribute to BBI plc's revenues. In line with the global commercial strategy of BBI plc, the Paris Branch continued to generate business on Trade Finance despite strong competition.

Strategic Report (continued)

Income analysis

The net operating income decreased by -11% to £17,468k. The decrease in net operating income compared to the prior year resulted from a combined shortfall of the performance of the corporate banking activities generating interest and fees and capital markets activities generating interest and trading income. BBI plc's portfolio earning assets was low but bounced back during the third quarter of 2018 to finish with a 18.3% increase at the year-end (2018: £549,145k vs 2017: £464,251k).

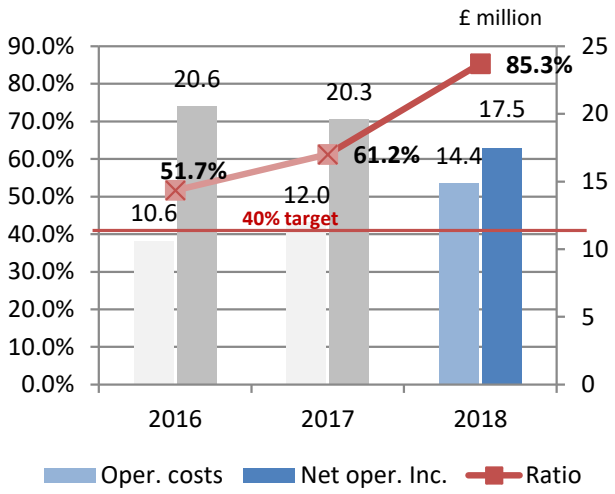
Net interest income grew by 1.9% to £16,765k (2017: £16,448k) resulting from additional mixed interest income from customer lending activities and the bond portfolios. For the third consecutive year, the interest margin suffered due to the increase in the cost of funding provided by the Group as a consequence of two US rates increase by the FED in 2018. The level of interest expenses reflected also BBI plc's willingness to hold strong liquidity level to meet regulatory requirements.

Total fees and commissions income increased by 89% to £581k (2017: £307). The new commercial strategy focusing on fees business put in place in 2016 slowed down amid difficult economic climate in the African market. However, the Bank remains confident in this strategy as it will be supported by the two representative offices in Zurich and Dubai. This strategy is planned to increase in years to come.

Net trading income decreased sharply by -96.4% to £105k (2017: £2,898k) largely due to activities on BBI plc's bond portfolios..

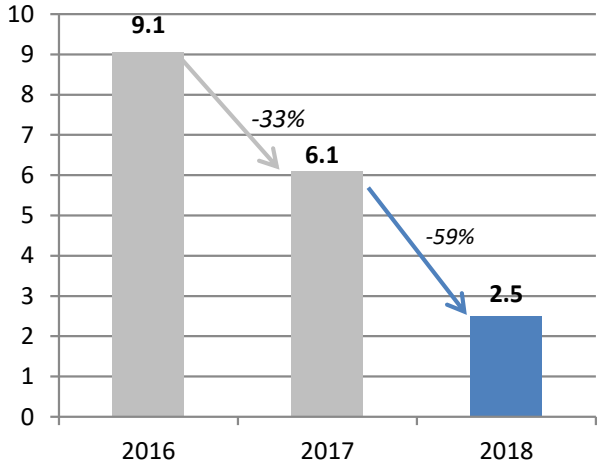
Operating costs reached £14,900k up by 24% (2017: £12,012k). The other operating expenses were up by 49.5% to £7,820k (2017: £5,231) reflecting the continous and significant effort from BBI to invest in its IT infrastructure. The signicant investment made in for the last three years generated an additional £260k on amortisation and depreciation.

Personnel expenses remained stable at £6,201k (+0.6%; 2017: £6,163k). The Bank kept its on-going commitment to invest in human capital resources by strengthening teams and retaining talented people. The cost income ratio deteriorated by 23.4 pts from 59.1% in 2017 to 82.5% in 2018.



Expect credit loss allowances resulting from the application of the IFRS 9 standards was maintained to a reasonnable level at £104k (2017 under IAS 39 incurred losses : £1,510k).

Profit before tax recorded a decrease to £2,464k (2017: £6,100k).



Amid difficult market conditions and Brexit uncertainties, the bank remains profitable and continues to recognise deferred tax assets in full. Deferred tax assets are expected to be recovered over 10 years.

Consequently, BMCE Bank International plc recorded a net profit of £2,169k for the year ended 31 December 2018 resulting in a 56% decrease compared to last year (2017: £4,933k)

Strategic Report (continued)

Balance sheet analysis

The total assets increased by £84,516k to £575,063k (2017: £490,547k). Earning assets increased by £84,894k to £549,145k (2017: £464,251k). Loans to Banks increased by £37,924k to £157,397k (2017: £ 120,104k) whereas loans to customers increased by £3,632k to £211,596k (2017: £207,964k).

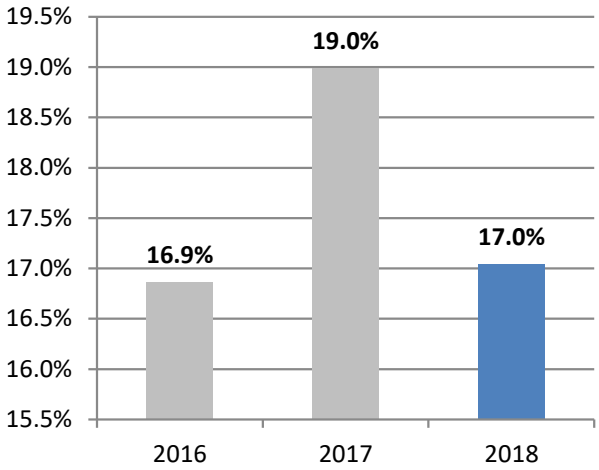
The new IFRS 9 standards introducing the expected credit loss model lead the Bank to record a total of £4,927k as credit loss allowances.

Deposit liabilities increased by 21.6% to £476,862k (2017: £392,088k). The increase was mainly from the Group entities and deposits coming from corporate customers.

Total shareholder's equity decreased by 1.3% to £75,454k (2017: £76,434k) mainly due to a mix of net fair value loss on FVOCI financial assets (-£1,668k), the opening impact of the new IFRS 9 standards on the opening balance 2018 (-£1,472k) and the net profit fully reinvested by the shareholder (no dividend distributed). BBI plc continued to operate a profitable business model based on its funding and its good quality assets portfolio held.

Capital management

As at 31 December 2018, BBI plc recorded a capital adequacy ratio of 17.0% (2017: 19.0 %) with a core tier 1 capital ratio of 13.5% (2017: 15.1 %). The capital ratios remained in excess of regulatory requirements as at the reporting date and demonstrated the robust capital position of the BBI plc.



Risk weighted assets increased by 13.6% to £456,561k (2017: £401,388k; see note 42). It is expected that with the strength of our current capital ratios, the shareholder's decision to waive dividends until 2020 and the rigourous BBI plc's approach to find the right risk/return mix, BBI plc will be able to meet its regulatory capital requirements in the future.

Liquidity and funding

BBI plc's funding strategy continued to rely on funding from the Group. However, the continuous profitable performance recorded for the last 7 years allowed BBI plc to diversify its source of funding outside the ultimate parent company; and with the same aim to get alternative funding sources to manage costs and guard against funding disruption. BBI plc continued to maintain a reserve account with the Banque de France and to hold high-quality, unemcumbered liquid assets in line with the regulatory buffer asset requirements. In addition, highly liquid money market instruments were held to support liquidity requirements.

BBI plc will continue to do its best for meeting any regulatory requirements both LCR and NSFR.

Key performance indicator

Return on shareholders' equity felt to 2.9% (2017: 6.5%).

Signed on behalf of the Board

Houssam El Hak Morssi Barakat
Chief Executive Officer and Director

David Suratgar
Chairman

22 May 2019

Directors' report

The Directors of BMCE Bank International plc present their Directors' report for the year ended 31 December 2018. 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 omitted as they are included in the Strategic Report on pages 7-14. These matters relate to

- Future Developments (including within "our strategic priorities and progress"); 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 France (Branch) and has 2 representative offices in Switzerland and Dubai.

Business review

BMCE Bank International 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. Changes will occur following the agreement to sel the Paris Branch to a company from the Group approved in March 2019.

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

BMCE Bank International plc invests significantly in human capital and its IT systems which will improve 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 after taxation amounted to £2,169k (2017: £4,933k).

No dividend was paid during the year (2017: £Nil). The Directors do not recommend the payment of a final dividend for this financial year (2017: £Nil).

Capital structure

The Bank's capital structure remains unchanged. However, the negative retained earnings have been decreased due to the shareholder's commitment made during the Board held in December 2015 to waive dividend until 2020 to allow the Bank to reinvest in its business.

As at 31 December 2018, the maturity of €17,700k subordinated debt remained 2023.

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 are 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.

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.

Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Signed on behalf of the Board – 22 May 2019

Houssam El Hak Morssi Barakat
Chief Executive Officer and Director

David Suratgar
Chairman

Statement of Directors' responsibilities

This statement should be read in conjunction with the responsibilities of the auditor set out in their report on page 17.

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 Financial Reporting Standards (IFRSs) as adopted by the European Union. Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and 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 judgments and accounting estimates that are reasonable and prudent;
- state whether applicable International Financial Reporting Standards (IFRSs) have been followed, subject to any material departures disclosed and explained in the financial statements;
- provide additional disclosures when compliance with specific requirements in IFRS 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 Company will continue in business.

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 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 and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Signed on behalf of the Board

Houssam El Hak Morssi Barakat
Chief Executive Officer and Director

David Suratgar
Chairman

22 May 2019

Independent auditor's report to the members of BMCE Bank International plc

We have audited the financial statements of BMCE Bank International plc ("the Bank") for the year ended 31 December 2018 which comprise the 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 Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion the financial statements:

- give a true and fair view of the Bank's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union;
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the bank in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, as applied to public interest entities and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

The impact of uncertainties due to United Kingdom exiting the European Union on our audit

The directors' view on the impact of Brexit is disclosed on page 11.

The terms on which the United Kingdom may withdraw from the European Union, are not clear, and it is therefore not currently possible to evaluate all the potential implications to the Bank's trade, customers, suppliers and the wider economy.

We considered the impact of Brexit on the Bank as part of our audit procedures, applying a standard firm wide approach in response to the uncertainty associated with the Bank's future prospects and performance.

However, no audit should be expected to predict the unknowable factors or all possible implications for the Bank and this is particularly the case in relation to Brexit.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Bank's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Key audit matters

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

We summarise below the key audit matters in forming our audit opinion above, together with an overview of the principal audit procedures performed to address each matter and, where relevant, key observations arising from those procedures.

These matters, together with our findings, were communicated to those charged with governance through our Audit Completion Report.

Area of focus	How our audit addressed the area of focus
Credit Risk in relation to loan loss provisions The impairment provision relating to the Bank's loan portfolio requires the directors to make judgements over the ability of the banks' customers to make future loan repayments. The implementation of IFRS 9 has changed the focus of the impairment provisions from an incurred loss model to an expected loss model. The directors have used a model designed by a third party to determine the expected losses to which they apply judgement to some of input parameters. Additionally judgement is required to determine which of the IFRS 9 loss categories the exposure falls into, which in turn determines the appropriate expected loss metric to be used.	We designed and tested the operating effectiveness of the key controls operating in the Bank in relation to credit processes. Our substantive audit procedures included but were not limited to: • We reviewed the credit files for all significant watch list loans and a sample of performing loans; • Considered the methodology used by management in the preparation of their IFRS9 provisions; • Tested the data inputs used in applying the methodology adopted and assess for reasonableness; • Tested the completeness of the loan portfolio applied to the model; • Tested the process in place at the bank to allocate loans to the IFRS 9 risk categories; and • Using third party data we recalculated the Expected Credit Losses and compared to management position for reasonableness using sensitivity analysis where appropriate. *We found that the approach taken in respect of loan loss provisions to be consistent with the requirements of IFRS 9 and judgements made were reasonable.*
Risk of fraud in revenue recognition As the majority of the Bank's revenue is system generated, the risk of fraud in revenue recognition specifically relates to the recognition of fees and commission income which are manually identified and recognised on an effective interest rate method. Amortised cost takes into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate (EIR). Judgment is required to determine whether fees are recognised as EIR or recognised when a service has been performed. Furthermore, effective interest rate adjustments are estimated and monitored manually.	We assessed the design and tested the operation of the controls in place at the bank relating to revenue recognition. With respect to EIR calculation, we: • Re-performed the EIR calculations; • Verified details to underlying agreements; • Assessed the period over which yield adjustments are applied; • Tested the appropriateness of fees being included or excluded from the calculations; and • Considered the appropriateness of judgement applied in determining the basis of revenue recognition *We found that the judgements and estimates applied in determining the basis for revenue recognition relation to fees and commission income were reasonable.*
Recoverability of Deferred Tax Assets DTA's of £6,640k are recognised on balance sheet in respect of tax losses carried forward. As set out in note 15 within financial statements, this is recognised on the basis the directors believe it is probable that sufficient future taxable profits will be generated against which it can be utilised. Whilst the Bank has a profitable track record, there remains subjectivity in assessing reliably, the amount of future taxable income that will be available for offset. Furthermore, given the restriction on the utilisation of tax losses for banks, there is further uncertainty over the forecasting period.	Our audit procedures included but were not limited to: • We assessed and evaluated the accuracy of underlying deferred tax calculations; • We considered the key assumptions underpinning future taxable profit projections used in the Directors' recoverability assessment; • We considered the consistency of these forecasts with Board approved financial plans and analysed historical budgeting accuracy; and • We reviewed the sensitivity analysis looking at the impact of recovery of the deferred tax assets under varying scenarios. *We found that the methodology and assumptions used in assessing the recoverability of the deferred tax asset to be reasonable.*

Independent auditor's report to the members of BMCE Bank International plc (continued)

Our application of materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole. Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall materiality	£ 374k
How we determined it: Rationale for benchmark applied	• 0.5% of net assets • We have used net assets as the benchmark to calculate materiality. In determining this threshold, we have taken into consideration that the bank is a public interest entity. • We have used Net Assets on the basis that profitability measures for the bank are variable and no longer representative of the size of the bank. • Maintaining regulatory capital (as represented by net assets) is a key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark.
Performance materiality	• Performance materiality is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the financial statements exceeds materiality for the financial statements as a whole. Performance materiality of £280k was applied in the audit.
Reporting threshold	• We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £11k as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Independent auditor's report to the members of BMCE Bank International plc (continued)

An overview of the scope of our audit

As part of designing our audit, we determined materiality and assessed the risk of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements such as making assumptions on significant accounting estimates.

We gained an understanding of the legal and regulatory framework applicable to the Bank, the structure of the Bank and the industry in which it operates. We considered the risk of acts by the Bank which were contrary to the applicable laws and regulations including fraud. We designed our audit procedures to respond to those identified risks, including non-compliance with laws and regulations (irregularities) that are material to the financial statements.

We focused on laws and regulations that could give rise to a material misstatement in the financial statements, including, but not limited to, the Companies Act 2006. We tailored the scope of our audit to ensure that we performed sufficient work to be able to give an opinion on the financial statements as a whole. We used the outputs of a risk assessment, our understanding of the Bank's accounting processes and controls and its environment and considered qualitative factors in order to ensure that we obtained sufficient coverage across all financial statement line items.

Our tests included, but were not limited to, obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by irregularities including fraud, review of minutes of directors' meetings in the year and enquiries of management. As a result of our procedures, we did not identify any Key Audit Matters relating to irregularities, including fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are discussed under "Key audit matters" within this report.

The primary responsibility for the prevention and detection of irregularities including fraud rests with both Those Charged with Governance and management. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, 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.

In connection with our audit of the financial statements, 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 audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Bank and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

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

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

Independent auditor's report to the members of BMCE Bank International plc (continued)

Responsibilities of Directors

As explained more fully in the directors' responsibilities statement set out on page 16, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Bank 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.

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

Other matters which we are required to address

Following the recommendation of the audit committee, we were appointed by Audit Committee on 4 October 2018 to audit the financial statements for the year ending 31 December 2018 and subsequent financial periods. The period of total uninterrupted engagement is 6 years, covering the years ending 31 December 2013 to 31 December 2018.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Bank and we remain independent of the Bank in conducting our audit.

Our audit opinion is consistent with the additional report to the audit committee.

Use of the audit report

This report is made solely to the Bank'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 Bank'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 Bank and the Bank's members as a body for our audit work, for this report, or for the opinions we have formed.

Greg Simpson (Senior Statutory Auditor)
for and on behalf of Mazars LLP
Chartered Accountants and Statutory Auditor
Mazars LLP
Tower Bridge House
St. Katharine's Way
London
E1W 1DD
22 May 2019

Part II

Statement of profit or loss for the year ended 31 December 2018

£'000	Note	2018	2017 - Restated*
Interest and similar income	8	23,532	21,034
Interest expense and similar charges	8	(6,766)	(4,586)
Net interest income		**16,766**	**16,448**
Fee and commission income	9	2,728	2,668
Fee and commission expense	9	(2,147)	(2,361)
Net fee and commission income		**581**	**307**
Net trading income	10	105	2,898
Other operating income	11	16	(31)
Net operating income		**17,468**	**19,622**
Personnel expenses	12	(6,201)	(6,163)
Depreciation of property and equipment	22	(172)	(111)
Amortisation of intangible assets	23	(707)	(508)
Other operating expenses	13	(7,820)	(5,230)
Total operating expenses before impairment losses		**(14,900)**	**(12,012)**
Net impairment (losses)	14	(104)	(1,510)
Profit before taxation		**2,464**	**6,100**
Taxation	15	(295)	(1,167)
Profit for the year		**2,169**	**4,933**

*See Note 32.

The notes on pages 28 – 85 form part of these financial statements.

Statement of other comprehensive income for the year ended 31 December 2018

£'000	Note	2018	2017 - Restated*
Profit for the year (before taxation)		**2,464**	**4,933**
Items that may quality for reclassification			
Foreign currency translation differences for foreign operations		(23)	(77)
Net fair value gain / (loss) on available for sale financial assets		N/A	2,469
Reclassification of available for sale investments to profit or loss		N/A	(1,570)
Net losses on investments in debt instruments measured at FVOCI		(1,645)	N/A
Net gains on financial assets measured at FVOCI reclassified to profit or loss disposal		-	N/A
Other comprehensive income for the year	**16**	**(1,668)**	**822**
Total comprehensive income for the year		**796**	**5,755**

*See Note 32.

The notes on pages 28- 85 form part of these financial statements.

Statement of financial position as at 31 December 2018

£'000	Note	2018	2017 - Restated*
Assets			
Cash and balances with central banks	**17**	17,698	17,489
Due from banks	**18**	157,397	120,104
Derivative financial instruments	**41**	231	1,140
Loans and advances to customers	**19**	211,596	207,964
Financial investments – FVOCI / AFS	**20.a) - b)**	113,678	117,555
Financial investments – Amort. Cost / HTM	**21**	48,545	-
Property and equipment	**22**	426	333
Goodwill and other intangible assets	**23 - 24**	12,115	11,371
Deferred tax assets	**15**	6,640	6,561
Other assets	**25**	6,737	8,032
Total assets		**575,063**	**490,547**
Liabilities and equity			
Due to banks	**26**	367,631	279,739
Derivative financial instruments	**41**	-	74
Due to customers	**27**	109,231	112,349
Other liabilities	**28**	6,453	5,879
Subordinated debt	**29**	16,294	16,072
Total liabilities		**499,609**	**414,113**
Equity attributable to equity holders of parent			
Share capital	**30**	102,173	**102,173**
Other reserves	**30**	(1,538)	**130**
Accumulated losses	**30**	(25,181)	**(25,869)**
Total equity		**75,454**	**76,434**
Total liabilities and equity		**575,063**	**490,547**

*See Note 32.

The notes on pages 28 – 85 form part of these financial statements.
Approved by the Board and authorised for issue on 22 May 2019.

Houssam El Hak Morssi Barakat
Chief Executive Officer and Director

David Suratgar
Chairman

Statement of changes in equity for the year ended 31 December 2018

£'000	Note	Share capital	Other reserves	Accumula-ted losses	Total
Balance as at 1 January 2017		**102,173**	**(692)**	**(29,924)**	**71,557**
Impact of correction of errors	**32**			(879)	(879)
Restated balance as at 1 January 2017		**102,173**	**(692)**	**(30,803)**	**70,678**
Profit for the year as previously stated		-	-	5,510	5,510
Impact of correction of errors	**32**			(577)	(577)
Other comprehensive income		-	822	-	822
Total comprehensive income		-	822	4,933	5,755
Restated balance as at 31 December 2017		**102,173**	**130**	**(25,869)**	**76,434**
Balance as at 1 January 2018		**102,173**	**130**	**(25,869)**	**76,434**
Change on initial application of IFRS 9	**6.D**	-	-	(1,480)	(1,480)
Restated balance as at 1 January 2018		**102,173**	**130**	**(27,349)**	**74,954**
Profit for the year		-	-	2,169	2,169
Other comprehensive income	**16**	-	(1,668)	-	(1,668)
Total comprehensive income	***30***		(1,668)	2,169	501
Balance as at 31 December 2018		**102,173**	**(1,538)**	**(25,181)**	**75,454**

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.

The notes on pages 28 - 85 form part of these financial statements.

Statement of cash flow for the year ended 31 December 2018

£'000	note	2018	2017 – Restated*
Cash flows from continuing operating activities			
Profit before tax		2,464	6,100
Adjustments for:			
Net interest income		16,765	16,448
Interest received		(5,245)	(5,704)
Interest paid		6,295	4,711
Change in operating assets	**33**	(42,081)	(64,434)
Change in operating liabilities	**33**	85,298	(41,412)
Other items included in profit before tax		882	(890)
Corporation tax paid		(295)	(1,167)
Net cash flows generated by continuing operating activities		**64,083**	**(86,348)**
Cash flows from investing activities			
Purchase of financial investments		(87,875)	(72,258)
Proceeds from sales of financial investments		41,262	115,811
Purchase of property and equipment		(267)	(135)
Purchase of intangible assets		(1,325)	(1,244)
Net cash flows generated by investing activities		**(48,205)**	**42,174**
Cash flows from financing activities			
Group subordinated debt		635	629
Net cash flows generated by financing activities		**635**	**629**
Net increase/(decrease) in cash and cash equivalents		16,513	(42,968)
Cash and cash equivalents as at 1 January		74,382	117,350
Cash and cash equivalents as at 31 December	**33**	**90,895**	**74,382**

*See Note 32.

Net foreign exchange difference on cash is immaterial because foreign currency cash positions are settled and matured on a daily basis, hence foreign currency cash would only be revalued from the previous day.

The notes on pages 28 – 85 form part of these financial statements.

1. Corporate Information

In these financial statements, BMCE Bank International plc is referred to as the "Bank". The statements comprise the financial statements of BMCE Bank International plc as an individual entity. The Bank also maintains a foreign branch that is located in Paris.

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 and note 7.

BMCE Bank International 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 (see the Directors' report on page 15) and in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) and interpretations issued by the IFRS Interpretations Committee of the IASB as adopted by the European Union (EU) (together IFRS).

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 39.

2.2 Foreign currency translation

The financial statements are presented in British Pound, which is the Bank's functional and presentational 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 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)). For financial assets originated the EIR reflects the ECLs in determining the future cash flows expected to be received from the financial asset.

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 are recognised at point in time. However, some fees earned for the provision of services over a period of time 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. 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.

Net income from other financial instruments at FVTPL includes all gains and losses from changes in the fair value of financial assets and financial liabilities at FVTPL. The Bank has elected to present the full fair value movement of assets and liabilities at FVTPL in this line, 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.

During the current financial year, there was no change in the business model under which the Bank holds financial assets and therefore no reclassifications were made.

2. Significant accounting policies (continued)

2.10 Foreign exchange gains and losses

The carrying amount of financial assets that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. Any gains and losses on foreign exchange are recorded in trading income.

2.11 Impairment

The Bank recognises loss allowances for ECLs 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 an individual basis. 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.

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.

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 FVTOCI: 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. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required settling any financial obligation arising as a result of the guarantee.

Any increase in liability relating to financial guarantees would be taken to the statement of profit and loss in 'Credit loss expense'. The premium received is recognised in the statement of profit and loss in 'Net fees and commission income' on a straight line basis over the life of the guarantee.

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

Bank as a lessee – The leases entered into by the Bank as lessee are operating leases. Any rentals payable are charged to the statement of profit and loss on a straight line basis over the lease term and included in 'Operating expenses'.

Bank as a lessor – Leases where the Bank does not transfer substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease receipts are recognised as income in the statement of profit and loss on a straight line basis over the leased term. All leases where the Bank is a lessor are sub-leases of operating leases where the Bank is the lessee.

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.

2.29. 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.

Previously and 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.

During the current period, the Bank appointed a firm to consider the value of the Branch which was used to assess if any additional impairment was deemed necessary.

2.30 Property and equipment

Property and equipment, 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 and equipment to their residual values over their estimated useful lives. The residual estimated useful lives from 1 January 2018 are as follows:

- Computer hardware - 3 to 5 years; and

- Furniture and equipment - 5 years to 9 years.

2. Significant accounting policies (continued)

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 2018 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. 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.

2.35 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 equity are also recognised in equity 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.

2. Significant accounting policies (continued)

2.37 Accounting policies applied to financial statements prior to 1 January 2018

- **Initial recognition and subsequent measurement of available for sale financial investments** – Available for sale financial investments which consist of bond instruments are those which are designated as available for sale or do not qualify to be classified as designated at fair value through profit or loss, held-to-maturity or loans and receivables.

  After initial measurement, available for sale investments are subsequently measured at fair value. Unrealised gains and losses are recognised in other comprehensive income and are accumulated in 'other reserves' in equity. When the security is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the statement of profit and loss in 'net trading income'. Where the Bank holds more than one investment in the same security they are deemed to be disposed of on a first-in-first-out basis. Interest earned whilst holding available for sale financial investments is reported as interest income using the effective interest rate. Dividends earned whilst holding available for sale financial investments are recognised in the statement of profit and loss as 'Other operating income' when the right of the payment has been established. The losses arising from impairment of such investments are recognised in the statement of profit and loss in 'Impairment losses on financial investments' and removed from the available for sale reserve.
- **Impairment of financial assets -** The Bank assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

  Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter Bankruptcy or other financial reorganisation and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

2.38 Significant accounting judgements and estimates applied to to financial statements prior to 1 January 2018

- **Impairment of financial assets** – Available for sale investments, are reviewed at each reporting date to assess whether an allowance for impairment should be recorded in the statement of profit and loss. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance. The method used to calculate impairment provisions is to estimate future cash flows and then discount these at the original effective interest rate for the loans and advances and financial instruments being considered. The impairment provision is calculated as the difference between the net present value and the carrying value.

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 group'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 1). 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 1, 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.

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. See note 38 for more details, including analysis of the sensitivity of the reported ECL to changes in PD resulting from changes in economic drivers.
- **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 profitability in using various assumptions subject to estimation.
- **Impairment of goodwill** – The Bank uses internal approach or external firm to assess the value of the goodwill at each reporting period. Valuations use assumptions subject to estimation.

4. Application of new and revised International Financial Reporting Standards (IFRSs)

In the current year, the Group has applied IFRS 9 Financial Instruments and the related consequential amendments to other IFRS Standards that are effective for an annual period that begins on or after 1 January 2018. Please refer to note 6 for details.

In the current year, the Bank has also applied a number of amendments to IFRSs and new interpretations issued by the International Accounting Standards Board (IASB) as endorsed by European Union that are mandatorily effective for an accounting period that begins on or after 1 January 2018.

Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

- IFRS 15 Revenue from contracts with customers;
- Clarification to IFRS 15;
- Amendments to IFRS 4: applying IFRS9 Financial instrument with IFRS 4 insurance contracts ;
- Amendments to IFRS 2: clarification and measurement of share based payment transactions; and
- Amendement to IAS 40: transfers of investment property.
- IFRIC 22 Foreign currency transactions and advance consideration;

5. New and revised IFRSs in issue but not yet effective

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 (IFRS 16 excluded see dedicated paragraph hereafter).

Below is a list of new and revised IFRSs that are not yet mandatorily effective (but allow early application) for the year ending 31 December 2018:

- Standards effective date: 01/01/2019

- IFRS 16 Leases;
- Amendments to IFRS 9: Prepayment Features with Negative Compensation;
- IFRIC 23 Uncertainty over Income Tax Treatments;
- Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures;
- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement; and
- Annual Improvements to IFRS Standards 2015-2017 Cycle.

- Standards effective date: 01/01/2020 or later

- Amendments to References to the Conceptual Framework in IFRS Standards;
- Amendment to IFRS 3 Business Combinations;
- Amendments to IAS 1 and IAS 8: Definition of Material; and
- IFRS 17 Insurance Contracts.

IFRS 16 Leases - January 2016, the IASB issued IFRS 16 'Leases' with an effective date for annual periods beginning on or after 1 January 2019. IFRS 16 results in lessees accounting for most leases within the scope of the standard in a manner similar to the way in which finance leases are currently accounted for under IAS 17 'Leases'. Lessees will recognise a 'right of use' asset and a corresponding financial liability on the balance sheet. The asset will be amortised over the length of the lease, and the financial liability measured at amortised cost. Lessor accounting remains substantially the same as under IAS 17. The bank will reassess in 2019 the impact of IFRS 16 as it is not practicable to quantify the effect at the date of the publication of these financial statements as in early 2019 the Bank gave its notification to not renew the existing lease contract for their current offices. The assessment will be performed once a new contract is identified. Existing operating lease commitments are set out in Note 34.

.

6. Changes in accounting policies

In the current year, the Bank has applied IFRS 9 Financial Instruments (as revised in July 2014) and the related consequential amendments to other IFRS Standards that are effective for an annual period that begins on or after 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. The Bank did not early adopt any of IFRS 9 in previous periods.

As permitted by the transitional provisions of IFRS 9, the Bank elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings and reserves of the current period. The Bank does not apply hedge accounting.

Consequently, for notes disclosures, the consequential amendments to IFRS 7 disclosures have been applied to the current period. The comparative period notes disclosures repeat those disclosures made in the prior year.

The adoption of IFRS 9 has resulted in changes in the Bank's accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 also signficantly amends other standards dealing with financial instruments such as IFRS 7 'Financial instruments: disclosures '.

Set out below are disclosures relating to the impact of the adoption of IFRS 9 in the Bank.

A. Classification and measurement

The measurement category and the carrying amount of financial assets and liablities in accordance with IFRS 9 and IAS 39 at 1 January 2018 are compared as follows:

£'000	IFRS 9		IAS 39	
	Measurement category	**Carrying amount**	**Measurement category**	**Carrying amount**
Financial assets				
Cash and balances with central banks	Amortised cost	17,489	Amortised cost (Loans and receivables)	17,489
Due from banks	Amortised cost	119,787	Amortised cost (Loans and receivables)	120,104
Derivative financial instruments	FVPL (Designated)	1,140	FVPL (Designated)	1,140
Loans and advances to customers	Amortised cost	206,688	Amortised cost (Loans and receivables)	207,964
Financial investments	FVOCI	117,356	FVOCI (Available for sale)	117,555
Financial liabilities				
Due to banks	Amortised cost	279,739	Amortised cost	279,739
Derivative financial instruments	FVPL (Designated)	74	FVPL (Designated)	74
Due to customers	Amortised cost	112,349	Amortised cost	112,349
Subordinated debt	Amortised cost	16,072	Amortised cost	16,072

6. Changes in accounting policies (continued)

B. Reconciliation of statement of financial posiiton balances from IAS 39 and IFRS 9

The following table reconciles the carrying amounts of financial assets, from their previous measurement category in accordance with IAS 39 to their new measurement categories upon transition to IFRS 9 on 1 January 2018.

All the values in the table below for remeasurements purpose are from remeasurement for ECL allowance.

No reclassifications between IFRS 9 categories have been deemed relevant.

No investment securities previsously classified as available for sale which fail the SPPI test have been identified.

£'000	IAS 39 carrying amount 31 December 2017	Reclas-sifications	Remeasu-rement	IFRS 9 carrying amount 1 January 2018
Assets				
Amortised cost				
Cash and balances with central banks	17,489	-	-	**17,489**
Due from banks	120,104	-	(317)	**119,787**
Loans and advances to customers	207,964	-	(1,276)	**206,688**
Fair value through profit & Loss				
Derivative financial instrument	1,140	-	-	**1,140**
Fair value through comprehensive income				
Available for sale investment securities	117,555	-	(199)	**117,356**

C. Reconciliation of impairment allowance balance from IAS 39 and IFRS 9

The following tables reconciles prior period's closing impairment allowance measured in accordance with IAS 39 incurred loss model to the new impairment allowance measured in accordance with the IFRS 9 expected loss model at 1 January 2018.

£'000	IAS 39 loss allowance 31 December 2017	Reclas-sifications	Remeasu-rement	IFRS 9 loss 1 January 2018
Assets				
Amortised cost				
Due from banks	-	-	(317)	**(317)**
Loans and advances to customers	(3,023)	-	(1,276)	**(4,299)**
Fair value through comprehensive income				
Available for sale investment securities	-	-	(199)	**(199)**

6. Changes in accounting policies (continued)

D. Statement of the financial position - opening balance impacts on 1 January 2018

The Bank performed an analysis of changes occured on 1 January 2018 on the statement of the financial position following the first time application of IFRS 9.

£'000	Closing balance 31 December 2017	Reclas-sifications	Remeasu-rement	Opening balance 1 January 2018
Assets				
Financial assets				
Due from banks	120,104	-	(317)	**119,787**
Loans and advances to customers	207,964	-	(1,276)	**206,688**
Available for sale investment securities	117,555	-	(199)	**117,356**
Non financial assets				
Deferred tax assets	6,561	-	312	**6,873**
Liabilities				
Accumulated losses	(25,869)	-	(1,480)	**(27,349)**

7. Segment reporting

The primary segment reporting format is determined to be business segments as the Bank's risks and rates of return are affected predominantly by differences in the products and services provided. The operating businesses are organised and managed according to the nature of the products and services, with each segment representing a strategic business unit that offers different products and serves different markets.

For management purposes, the Bank is organised into three business segments:

- **Treasury and Capital Markets (TCM)** – Principally engaged in sales and market making activities in the treasury sector. Provides market and product access for a range of corporate and institutional customers and trading on our own account. Provides internal cash funding at market rates for Corporate and Investment Banking activities.
- **Corporate and Investment Banking (CIB)** – Principally providing Investment Banking services including structured and project finance, corporate finance, loan advisory and structuring services and other credit facilities for corporate and institutional customers.
- **Other** – Other central functions which are not directly attributable to Corporate and Investment Banking nor Treasury and Capital Markets and which are managed and controlled centrally are presented as 'other'.

The Bank's geographical segments are based on the location of the clients with whom business has been conducted for Corporate and Investment Banking and for the individual markets accessed for Treasury and Capital Markets activities.

7. Segment reporting (continued)

The following tables present income and certain asset and liability information regarding the Bank's operating segments for the years ended 31 December 2018 and 31 December 2017.

£'000	TCM	CIB	Other	Total 2018
Operating income				
Net interest income	4,366	12,833	(433)	16,766
Net fees and commission income	-	696	(115)	581
Net trading income	(162)	-	267	105
Other operating income	-	23	(7)	16
Total operating income	**4,204**	**13,552**	**(288)**	**17,468**
Operating expenses				
Personnel expenses	(335)	(1,425)	(4,441)	(6,201)
Depreciation	-	-	(172)	(172)
Amortisation	-	-	(707)	(707)
Other operating expenses	-	-	(7,820)	(7,820)
Net impairment losses	(102)	(17)	15	(104)
Total operating expenses	**(437)**	**(1,442)**	**(13,125)**	**(15,004)**
Segment results	**3,767**	**12,110**	**(13,413)**	**2,464**
Income tax expense	-	-	(295)	(295)
Profit for the year	**3,767**	**12,110**	**(13,708)**	**2,169**
Other comprehensive income				
Items that may qualify for reclassification	(1,645)	-	(23)	(1,668)
Total other comprehensive income	**(1,645)**	**-**	**(23)**	**(1,668)**
Assets and liabilities				
Segment assets	320,114	211,333	43,616	**575,063**
Segment liabilities	(278,906)	(150,040)	(70,663)	**(499,609)**
Capital expenditure				
Tangible assets	-	-	426	**426**
Intangible assets	-	-	3,070	**3,070**

7. Segment reporting (continued)

£'000	TCM	CIB	Other	Total 2017 – Restated*
Operating income				
Net interest income	7,822	14,353	(5,727)	16,448
Net fees and commission income	-	(91)	398	307
Net trading income	(2,448)	29	2,439	20
Realised gain on disposal of investment securities	2,878	-	-	2,878
Net operating income from other segments	-	(126)	126	-
Other operating income	-	(19)	(12)	(31)
Total operating income	**8,252**	**14,146**	**(2,776)**	**19,622**
Operating expenses				
Personnel expenses	(418)	(563)	(5,182)	(6,163)
Depreciation	-	-	(111)	(111)
Amortisation	-	-	(508)	(508)
Other operating expenses	-	(126)	(5,104)	(5,230)
Impairment recoveries	-	(1,510)	-	(1,510)
Total operating expenses	**(418)**	**(2,199)**	**(10,905)**	**(13,522)**
Segment results	**7,834**	**11,947**	**(13,681)**	**6,100**
Income tax expense	-	-	(1,298)	(1,298)
Profit for the year	**7,834**	**11,947**	**(14,849)**	**4,933**
Other comprehensive income				
Items that may qualify for reclassification	899	-	(77)	822
Total other comprehensive income	**899**	-	**(77)**	**822**
Assets and liabilities				
Segment assets	220,825	225,937	43,785	**490,547**
Segment liabilities	(224,095)	(168,067)	(21,951)	**(414,113)**
Capital expenditure				
Tangible assets	-	-	135	**135**
Intangible assets	-	-	1,244	**1,244**

*See Note 32.

7. Segment reporting (continued)

Information about geographical areas

The bank operates in four geographical locations: UK, Africa, Europe and the rest of the world.

The Bank's external net operating income is allocated based on accounting figures and on the location of the transaction counterparty.

£'000 - 2018	United Kingdom	Africa	Europe	Rest of the World
External net operating income	1,879	9,198	2,004	4,387
Total of non current assets	6,750	2,702	9,729	-

£'000 – 2017	United Kingdom	Africa	Europe	Rest of the World
External net operating/(expenses) income	18,946	13,650	(15,273)	2,299
Total of non current assets	4,516	4,832	8,917	-

8. Net interest income

£'000	2018	2017
Due from banks	3,262	2,108
Loans and advances to customers	14,455	13,907
Financial investments - FVOCI	4,295	N/A
Financial investments - AFS	N/A	4,641
Financial investments – Amort. cost.	1,520	N/A
Financial investments – HTM	N/A	378
Interest and similar income	**23,532**	**21,034**
Due to banks	(6,131)	(3,957)
Subordinated debt	(635)	(629)
Interest and similar charges	(6,766)	**(4,586)**
Net interest income	**16,766**	**16,448**

9. Net fee and commission income

£'000	2018	2017 - Restated*
Credit related fees and commissions	95	181
Corporate banking fees	2,633	2,487
Fee and commission income	**2,728**	**2,668**
Fees and commission expense	(13)	-
Other fees paid	(2,134)	(2,361)
Fees and commission expense	**(2,147)**	**(2,361)**
Net fee and commission income	**581**	**307**

*See Note 32.

10. Net trading income

£'000	2018	2017
Foreign exchange	417	(5,806)
Foreign exchange - derivative foreign exchange	(293)	5,825
Gain on disposal - FVOCI	(19)	N/A
Gain on disposal - AFS	N/A	1,571
Gain on disposal – Amort. Cost.	-	N/A
Gain on disposal of held to maturity securities	N/A	1,308
Net trading income	**105**	**2,898**

No income derived from other financial instruments are recognised at fair value through profit and loss.

11. Other operating income

£'000	2018	2017
Other income / (expenses)	16	(31)
Other operating income	**16**	**(31)**

12. Personnel expenses

£'000	2018	2017
Wages and salaries	(4,616)	(4,439)
Social security costs	(980)	(952)
Pension costs - defined contribution plans	(424)	(469)
Other benefits	(181)	(303)
Personnel expenses	**(6,201)**	**(6,163)**
Directors' remuneration and disclosure of highest paid director are disclosed in note 35.		
Number of employees	**74**	**57**
The average monthly number of employees (including Directors) during the year was:		
Board	5	4
Corporate and Investment Banking	17	12
Treasury and Capital Markets	4	4
Operations and support	48	37

13. Other operating expenses

£'000	2018	2017
Marketing expense	(66)	(109)
Operating leases expenses (premises)	(1,278)	(1,037)
Administrative	(4,453)	(2,763)
Professional fees	(1,279)	(850)
Statutory audit fees*	(198)	(148)
Other expenses	(546)	(323)
Other operating expenses	**(7,820)**	**(5,230)**

*Amount includes interim report of £20k and overruns in respect of prior year of £20k.

14. Net impairment (losses) / recoveries

£'000	Note	2018	2017
IFRS 9			
Stage 1 – Performing – 12 months ECL		(66)	N/A
Stage 2 – Performing – Life time ECL		55	N/A
Stage 3 – Non performing – Life time ECL		(94)	N/A
IAS 39			
Non performing		N/A	(1,510)
		(104)	**(1,510)**

15. Taxation

£'000	2018	2017 - Restated*
Current Income tax	(65)	(717)
Prior period current tax adjustments	(5)	(26)
Current tax	**(70)**	**(743)**
Relating to origination and reversal of temporary differences	-	(189)
Change in tax rate	(26)	(34)
Prior period deferred tax adjustments	171	(43)
Derecognition of deferred tax assets	(350)	(157)
Deferred tax	**(224)**	**(424)**
Taxation	**(295)**	**(1,167)**

Reconciliation of the total tax charge		
Profit before tax	2,464	6,100
Income tax calculated at a tax rate of 19.00% (2017: 19.27%)	(468)	(1,176)
Other non-deductible items	(23)	(34)
Other deductible items	201	-
Depreciation in excess of capital allowances	(167)	(119)
Capital allowances in excess of depreciation	371	373
Effect of change in tax rate	(26)	(34)
Adjustment in respect of prior years	166	(70)
Derecognition of tax effect of previously recognised deferred tax	(349)	(107)
Income tax benefit reported in the statement of profit and loss	**(295)**	**(1,167)**

The deferred tax asset is due to temporary differences on the following:		
Tax losses available	5,533	5,605
Property and equipment	829	956
IFRS 9 impact	278	-
Total	**6,640**	**6,561**

*See Note 32.

Deferred tax has been provided at the rates being in force when the temporary differences reverse, in accordance with the accounting policy. This has been calculated using the tax rate ranging from 19% to 17% . As a result of the change in bank loss relief utilisation, the deferred tax asset is expected to be realised over 10 years.

The deferred tax asset (DTA) recognised as at 31 December 2018 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.

15. Taxation (continued)

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 +10% - 6% changes 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.

16. Other comprehensive income

£'000	Before tax 2018	Tax 2018	Net of tax 2018	Net of tax 2017
Unrealised gain / (loss) on Financial Investments	(1,645)	-	(1,645)	899
Exchange differences on translating foreign operations	(23)	-	(23)	(77)
Total other comprehensive income / (loss)	**(1,668)**	**-**	**(1,668)**	**822**

17. Net cash and cash equivalent position

£'000	2018	2017
Balances with central banks	17,698	17,489
Cash and cash equivalent with central banks	**17,698**	**17,489**
Current accounts with other banks	71,612	46,247
Money market placements with other banks	1,585	10,646
Cash and cash equivalent due from banks	**73,197**	**56,893**
Net cash and cash equivalent position	**90,895**	**74,382**
Loans and advances to banks	84,200	63,211
Due from banks	**157,397**	**120,104**

18. Due from banks

£'000	Gross carrying amount	Loss allowance	Carrying amount 2018	2017
IFRS 9				
Stage 1 – Performing – 12 months ECL	157,701	(304)	**157,397**	N/A
IAS 39				
Performing	N/A	N/A	N/A	120,104
Due from banks	**157,701**	**(304)**	**157,397**	**120,104**

19. Loans and advances to customers

£'000	Gross carrying amount	Loss allowance	Carrying amount 2018	2017
IFRS 9				
Stage 1 – Performing – 12 months ECL	172,960	(503)	171,983	N/A
Stage 2 – Performing – Life time ECL	37,903	(1,475)	36,428	N/A
Stage 3 – Non performing – Life time ECL	5,065	(2,354)	3,185	N/A
IAS 39				
Performing	N/A	N/A	N/A	189,146
Non performing	N/A	N/A	N/A	18,818
Loans and advances to customers	**215,927**	**(4,331)**	**211,596**	**207,964**

20.a) Financial investments – Fair value through other comprehensive income

£'000	Gross carrying amount	Loss allowance	Carrying amount 2018	2017
IFRS 9				
Stage 1 – Performing – 12 months ECL	113,311	(85)	113,226	N/A
Stage 2 – Performing – Life time ECL	458	(5)	453	N/A
IAS 39				
Performing	N/A	N/A	N/A	117,555
Financial investments - FVOCI	**113,769**	**(90)**	**113,678**	**117,555**

20.b) Financial investments – Available for sale

£'000	2018	2017
Financial investments – Available of sale		
Government debt securities	N/A	7,646
Other debt securities	N/A	109,909
Financial investments - carrying value		**117,555**
Financial instruments	N/A	117,258
Cumulative valuation	N/A	297
Less impairment provision	N/A	-
Financial investments - carrying value		**117,555**
Maturity		
less than three months	N/A	7,396
one year or less but over three months	N/A	24,099
between one year and five years	N/A	86,060
more than five years	N/A	-
Financial investments - carrying value		**117,555**

21. Financial investments – Amortised cost

£'000	Gross carrying amount	Loss allowance	Carrying amount 2018	2017
IFRS 9				
Stage 1 – Performing – 12 months ECL	48,746	(201)	**48,545**	N/A
IAS 39				
Performing	N/A	N/A	N/A	-
Financial investments – Amort. cost	**48,746**	**(201)**	**48,545**	**-**

22. Property and equipment – computer hardware, furniture & equipment

£'000	2018	2017
Cost as at 1 January	846	691
Additions	267	135
Disposals	-	-
Exchange adjustments	8	20
Cost as at 31 December	**1,121**	**846**
Depreciation as at 1 January	(513)	(391)
Charge for the year	(175)	(111)
Disposals	-	-
Exchange adjustments	(7)	(11)
Depreciation as at 31 December	**(695)**	**(513)**
Net book value	**426**	**333**

23. Intangible assets – computer software

£'000	2018	2017
Cost as at 1 January	**3,128**	1,885
Additions	1,325	1,243
Disposals	-	-
Cost as at 31 December	**4,453**	**3,128**
Amortisation as at 1 January	(674)	(165)
Charge for the year	(709)	(508)
Disposals	-	-
Amortisation as at 31 December	**(1,383)**	**(674)**
Net book value	**3,070**	**2,454**

24. Goodwill

£'000	2018	2017
As at 1 January	13,771	13,445
Exchange adjustments	127	326
As at 31 December	**13,898**	**13,771**
Impairment	(4,854)	(4,854)
Net book value	**9,044**	**8,917**

A price has been agreed for the sale of the branch. The fair value less costs to sell is higher than the carrying amount of £9.04m.(see note 31 for more detail). Following this assessment, no additional impairment was deemed necessary.

25. Other assets

£'000	2018	2017 – Restated*
VAT recoverable	272	269
Prepayments	2,063	1,850
Rent deposit	231	181
Due from ultimate parent undertaking	3,558	4,830
Other sundry receivables	613	900
Other assets	**6,737**	**8,030**

*See Note 32.

26. Due to banks

£'000	2018	2017
Current accounts	66,924	39,974
Term deposits due to banks	-	11,084
Due to fellow group undertakings less than 1 year	71,961	6,784
Due to ultimate parent undertaking	228,746	221,897
Due to banks	**367,631**	**279,739**

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.

27. Due to customers

£'000	2018	2017
Current accounts	105,720	104,480
Term deposits	3,511	7,869
Due to customers	**109,231**	**112,349**

28. Other liabilities

£'000	2018	2017 – Restated*
Accounts payable	1,352	817
Accruals	2,856	3,102
Other taxes and social security costs	164	365
Deferred income	2,041	1,147
Other payables	40	448
Other liabilities	**6,453**	**5,879**

*See Note 32.

29. Subordinated debt

£'000	2018	2017
Principal	15,912	15,695
Accrued Interest	382	377
Subordinated debt	**16,294**	**16,072**

Subordinated debt represent subordinated loans of €17,700k 4% fixed rate notes granted by the parent company on 31st May 2010 with original redemption date of 2020. In 2015, the maturity of €17,700k subordinated debt was extended from 2020 to 2023.

£'000 - 2018	2017	Cash flows	Fx change	Other	Total
Group subordinated debt	16,072	635	(31)	(382)	**16,294**

£'000 – 2017	2016	Cash flows	Fx change	Other	Total
Group subordinated debt	15,503	629	303	(363)	**16,072**

See note 30, issued Share capital, for movement in the banks reserves which also represent the Banks funding sources.

30. Share capital and reserves

£'000	2018	2017 – 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	(1,349)	N/A
Reserves - AFS	N/A	297
Foreign currency translation	(189)	(167)
Accumulated losses	(25,181)	(25,869)
Reserves as at 31 December	(26,719)	(25,739)
Share capital and reserves	**75,454**	**76,434**

31. Events after the reporting date

In February 2019, the Board of Director decided to sell the Paris Branch following the Group's decision to reorganize its European activities amid the United Kingdom's decision to leave the European Union. A valuation has been performed by an external firm. No provisions has been deemed necessary at this stage. In 2019, the Paris branch activities will be considered as discontinued activities as per IFRS 5. The Paris Branch activities belongs to the Corporate and Investment Banking segment (see note 7).

The sale was agreed on March 2019 with a company within the wider Group.

32. Correction of errors

During the current year, the Bank discovered that some interbranch transactions of £443k should not have been recognised on the balance sheet and insurance costs were incorrectly recognised.

The errors have been corrected and results are disclosed as follows:

£'000	2017 - Disclosed	Adjustments	2017 - Restated
Statement of profit and loss			
Fee and commission expense	(1,653)	(708)	(2,361)
Net fee and commission income	**1,015**	**(708)**	**(307)**
Net operating income	**20,330**	**(708)**	**19,622**
Profit before taxation	**6,808**	**(708)**	**6,100**
Taxation	(1,298)	131	(1,167)
Profit for the year	**5,510**	**(577)**	**4,933**

£'000	2017 - Disclosed	Adjustments		2017 - Restated
Statement of financial position		Prior 2017	For 2017	
Assets				
Deferred tax assets	6,531	-	30	6,561
Other assets	8,473	(443)	-	8,030
Total assets	**490,960**	**(443)**	**30**	**490,547**
Liabilities				
Other liabilities	4,837	436	606	5,879
Accumulated losses	(24,414)	(879)	(577)	(25,869)
Total liabilities	**490,960**	**(443)**	**30**	**490,547**

33. Additional cash flow information

£'000	2018	2017
Cash and balances with central banks	17,698	17,489
Current accounts with other banks	71,612	46,247
Money market placements with other banks	1,585	10,646
Cash and cash equivalent (note 15)	**90,895**	**74,382**
Net decrease / (increase) in:		
Due from banks	(20,911)	(18,217)
Derivative Financial Instruments	909	(1,108)
Loans and advances to customers	(4,957)	(32,019)
Other assets	1,166	1,798
Interest	(18,288)	(15,330)
Change in operating assets	**(42,081)**	**(64,876)**
Net (decrease) / increase in:		
Due to banks	87,892	(25,338)
Derivative financial instruments	(74)	(1,224)
Due to customers	(3,118)	(17,357)
Other liabilities	126	3,674
Interest	472	(125)
Change in operating liabilities	**85,298**	**(40,370)**
Depreciation and amortisation	884	619
Impairment provisions	104	1,510
Gains on securities	19	(2,878)
Net foreign exchange gain	(125)	(141)
Other items included in profit before tax	**882**	**(890)**

34. 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	2018	2017
Financial guarantees	1,993	1,285
Letters of credit	72,063	49,448
Bills for collection	12,179	79
Contingent liabilities	**86,235**	**50,812**
Undrawn commitments to lend	10,924	8,342
Commitments	**10,924**	**8,342**
Contingent liabilities and commitments	**97,159**	**59,154**

Operating lease commitments

Bank as lessee

The Bank was committed to making the following cumulative payments under non-cancellable operating leases in the year. Operating leases are for the Bank's offices in London and Paris.

The lease is to be shared with other group companies, the Bank's committed share is to pay £823k per annum.

Future non-cancellable operating lease payments as at 31 December are as follows:

£'000	2018	2017
Within one year	1,407	1,395
After one year but not more than five years	77	1,276
Lease commitments expiring	**1,484**	**2,671**

34. Contingent liabilities and commitments (continued)

Bank as lessor

The Bank subleased a portion of its Paris premises. Future minimum rentals receivable under the non-cancellable operating leases as at 31 December are as follows:

£'000	2018	2017
Within one year	584	520
Lease commitments receivable	**584**	**520**

35. 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 senior management of the Bank.

One director was a member of the defined contribution scheme in 2018. 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	2018	2017
Short-term employee benefits	623	1,071
Compensation of key management personnel (including executive directors)	**623**	**1,071**

Short-term employee benefits	724	645
Compensation of Directors	**724**	**645**

Aggregate emoluments and benefits	226	404
Highest paid Director	**226**	**404**

36. Related party transactions

The Bank is a wholly owned subsidiary of BMCE International (Holdings) plc. The ultimate parent undertaking and 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 loans and guarantees and various administrative services.

36. Related party transactions (continued)

The outstanding balances at the year end arose from the ordinary course of business and are unsecured. 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 35.

£'000 - 2018	BMCE	BOA	ITIS	ES	Total
Interest charged	5,686	664	-	-	**6,350**
Interest received	462	158	-	-	**619**
Fees and commission paid	13	-	-	-	**13**
Fees and commission received	366	81	-	-	**447**
Net trading income/(expense)	397	85	-	485	**967**
Other operating expenses paid	1018	-	-	-	**1018**
Amounts owed to	277,035	50,419	-	170	**327,623**
Amounts owed by	6,598	8,821	-	-	**15,419**
Financial guarantees and commitments given	237	11,152	-	-	**11,389**
Financial guarantees received	31,175	3,655	-	-	**34,830**

£'000 - 2017	BMCE	BOA	ITIS	ES	Total
Interest charged	4,292	94	-	-	**4,386**
Interest received	670	(139)	-	-	**531**
Fees and commission paid	11	0	-	-	**11**
Fees and commission received	608	128	-	-	**736**
Net trading income/(expense)	6	2	-	-	**8**
Other operating expenses paid	368	3,074	-	365	**3,807**
Amounts owed to	225,685	3,593	73	-	**229,278**
Amounts owed by	23,950	14,170	-	-	**38,120**
Financial guarantees and commitments given	8,384	3,764	-	-	**12,148**
Financial guarantees received	11,797	5,246	-	-	**17,043**

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

IT IS = IT Information Services (*)
ES = Euroservices SA (*)

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

37. 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 reaching 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 strategies. It is supported by a number of committees as follows:

- **Risk Management Department (RMD) and Risk Committee:**
  - The RMD is organised along traditional risk functions: Market/Liquidity, Credit, and Operational risks. The RMD is responsible for implementing, measuring and maintaining risk related procedures to ensure that an independent control process is present.
  - The Risk Committee assists the Board in monitoring the adequacy and effectiveness of the Bank's risk management policies and processes. The Credit Risk Committee approves all credit applications.
- **Treasury Asset and Liability Committee (TALCO) -** TALCO is responsible for assisting the board and senior management in the oversight of risk policies, strategies and processes. The role of TALCO 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. TALCO'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;
  - risk management processes;
  - 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, a qualitative and quantitative approach within this framework is used.

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.

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, equity price risks, credit risks and to pre-hedge those expected from future transactions

38. 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 Manual. Monitoring credit risks on a day-to-day basis, and making sure that exposures are within approved limits, is 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.

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 concentrations of risk the Bank's policies and procedures include specific guidelines regarding the importance of portfolio diversification. Identified concentrations of credit risks 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 and sector 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.

The maximum gross credit exposure to one counterparty, other than to related parties disclosed in note 36, by risk concentration as of 31 December 2018 was £27,307k (2017: £23,662k).

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 - 2018	CIB	TCM	Total
Europe	36,756	111,284	148,040
United Kingdom	43,790	33,271	77,061
Africa	129,067	80,824	209,891
Others	65,762	55,128	120,890
Total	**275,375**	**280,507**	**555,882**

£'000 - 2017	CIB	TCM	Total
Europe	123,300	29,483	152,783
United Kingdom	34,452	5,360	39,812
Africa	116,274	68,600	184,874
Others	47,417	47,398	94,814
Total	**321,443**	**150,841**	**472,284**

38. Credit risk (continued)

The general creditworthiness of a corporate customer tends to be the most relevant indicator or credit quality of a loan 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 following table 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	2018	2017
Cash and balances with central banks	17,698	17,489
Due from banks	157,397	120,104
Derivative financial instruments	231	1,140
Loans and advances to customers	211,596	207,964
Financial investment - FVOCI	113,678	N/A
Financial investment - AFS	N/A	117,555
Financial investment – Amort. cost	48,545	N/A
Other assets	6,737	8,032
Total	**555,882**	**472,284**
Contingent liabilities	86,235	50,812
Commitments	10,924	8,342
Total	**97,159**	**59,154**
Contingent liabilities and commitments	**653,041**	**531,438**

38. 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	2018 Gross maximum exposure	2018 Net maximum exposure	2017 Gross maximum exposure	2017 Net maximum exposure
A - Agriculture, forestry and fishing	986	685	-	-
B - Mining and quarrying	10,663	10,663	344	344
C – Manufacturing	17,590	8,773	11,861	11,861
D - Electricity, gas, steam and air supply	9,175	843	9,782	-
F – Construction	8,696	8,696	9,150	9,150
G - Wholesale and retail trade	36,065	22,040	56,194	38,764
H -Transport and storage	19,151	10,879	10,442	1,575
J - Information and communication	22,652	14,125	22,018	14,038
K - Financial and insurance activities	409,020	349,488	318,344	275,348
L - Real estate activities	56	56	1,650	-
M - Professional, scientific and technical activities	362	-	5,600	4,947
O - Public administration and defence, compulsory social security	100,687	44,170	84,694	40,325
Q - Human health services and social work activities	15	15	-	-
S - Other services	17,923	17,893	1,359	1,359
Total	**653,041**	**488,326**	**531,438**	**397,711**

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

No loans have been restructured in 2018. In 2017, one loan was restructured with the carrying amount of £14,506k.

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.

38. 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 - 2018	Investment grade	Non investment grade	Impaired	Total
Due from banks	45,685	112,016	(304)	157,397
Derivative financial instruments	224	7	-	231
Loans and advances to customers	20	215,907	(4,331)	211,596
Financial instruments – FVOCI	81,894	31,874	(90)	113,678
Financial instruments – amortised cost	19,206	29,540	(201)	48,545
Total	**147,029**	**389,344**	**(4,929)**	**531,444**

£'000 - 2017	Investment grade	Non investment grade	Impaired	Total
Due from banks	44,192	75,912	-	120,104
Derivative financial instruments	225	915	-	1,140
Loans and advances to customers	-	189,146	18,818	207,964
Financial instruments – available for sale	87,583	29,972	-	117,555
Financial instruments – held to maturity	-	-	-	-
Total	**132,000**	**287,793**	**26,970**	**446,763**

Credit quality about financial investments (FI).
2018: FI at fair value through other comprehensive income and FI at amortised cost.
2017: FI on available for sale.

£'000	2018	2017
Rated AAA	50,326	45,658
Rated BBB+ to BBB-	-	-
Rated BB+ and Below	40,631	7,646
Government Bonds and Treasury Bills	**90,958**	**53,303**
Rated A-	11,704	11,478
Rated BBB+ to BBB-	31,597	19,045
Rated BB+ and Below	27,964	33,728
Financial Institution Bonds	**71,266**	**64,251**
Total	**162,223**	**117,555**

38. 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 credit risk grades to external rating.

2018	Grade	Meaning	PD range
AAA	Investment	Excellent	0 - 0.004
AA+ to AA-	Investment	Excellent to strong	0.004 - 0.027
A+ to A-	Investment	Strong to good	0.027 - 0.094
BBB+ to BBB-	Investment	Good to satisfactory	0.094 - 0.294
BB+ to BB-	Non investment	Satisfactory to acceptable higher risk	0.294 - 1.209
B+ to B-	Non investment	Acceptable higher risk to marginal	1.209 - 8.48
CCC+	Unsatisfactory	Unsatisfactory	8.48 - 15.713
CCC	Unsatisfactory	Substandard	15.713 - 29.117
CCC-	Unsatisfactory	Doubtful or bad	29.117 - 53.959
Below CCC-	Unsatisfactory	Loss / Liquidation	Insolvency

2018	EAD (£'000)	Average PD	Average LGD
AAA	50,481	-	39.007
AA+ to AA-	56,649	0.000	29.114
A+ to A-	123,398	0.003	26.542
BBB+ to BBB-	66,712	0.031	24.957
BB+ to BB-	51,510	0.100	27.762
B+ to B-	235,924	2.102	37.795
Below CCC-	4,227	100.000	66.667

38. Credit risk (continued)

G. Forward looking information – IFRS 9 expected loss model

The Bank uses forward-looking information that is available without undue cost or effort in its assessment of significant increase of credit risk as well as in its measurement of ECL. The Banks uses external credit rating firm which use external and internal information to generate a 'base case' scenario of future forecast of relevant economic variables along with a representative range of other possible forecast scenarios.

The table below summarises the principal macroeconomic indicators included in the economic scenarios used at 31 December 2018 for the years 2019 to 2023, for countries Nigeria, Chad, Congo, UAE, France which are the countries where the Bank operates and therefore are the countries that have material impacts in ECLs.

	2019	2020	2021	2022	2023
GDP Growth					
Base scenario	2.4%	2.9%	2.9%	2.3%	2.8%
Range of upside scenarios	2.2%	2.5%	3.0%	2.4%	2.9%
Range of downside scenarios	2.0%	2.8%	2.4%	2.4%	2.9%
Change in unemployment					
Base scenario	-1.1%	0.8%	0.9%	-1.0%	-0.4%
Range of upside scenarios	-0.7%	0.1%	0.0%	-0.2%	-0.2%
Range of downside scenarios	-0.1%	-0.1%	0.3%	0.1%	0.1%
Change in equity Index					
Base scenario	-12.3%	-	-	-	-
Range of upside scenarios	-12.3%	-	-	-	-
Range of downside scenarios	-12.3%	-	-	-	-
Change in energy Index					
Base scenario	4.1%	4.2%	1.5%	1.7%	1.7%
Range of upside scenarios	4.1%	4.2%	1.5%	1.7%	1.7%
Range of downside scenarios	4.1%	4.2%	1.5%	1.7%	1.7%
Change in non energy Index					
Base scenario	0.6%	0.8%	1.3%	1.3%	1.3%
Range of upside scenarios	0.6%	0.8%	1.3%	1.3%	1.3%
Range of downside scenarios	0.6%	0.8%	1.3%	1.3%	1.3%
Change in the Proportion of Downgrades					
Base scenario	18.1%	-	-	-	-
Range of upside scenarios	18.1%	-	-	-	-
Range of downside scenarios	18.1%	-	-	-	-

38. Credit risk (continued)

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 lender 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 contact 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 ECL calculation for accounting purposes is different to the ECL calculation for regulatory purposes, although many inputs used are similar. The Bank has ensured that the appropriate methodology is used when calculating ECL for both accounting and regulatory purposes.

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.

38. 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	2018
Concentration per sector	
K - Financial and insurance activities	17,698
Total	**17,698**
Concentration by region	
Europe	17,698
Total	**17,698**

Due from banks

£'000	2018
Concentration per sector	
K - Financial and insurance activities	157,397
Total	**157,397**
Concentration by region	
Europe	46,693
United Kingdom	48,459
Africa	42,921
Others	19,325
Total	**157,397**

38. Credit risk (continued)

I. Credit quality – IFRS 9 expected loss model

Loans and advances to customers

£'000	2018
Concentration per sector	
B - Mining and quarrying	21
C – Manufacturing	9,908
D - Electricity, gas, steam and air conditioning supply	9,334
F – Construction	8,828
G - Wholesale and retail trade	52,935
H - Transport and storage	14,027
J - Information and communication	20,659
K - Financial and insurance activities	22,939
L - Real estate activities	63
O - Public administration and defence, compulsory social security	72,881
Total	**211,596**

Concentration by region	
Europe	38,365
United Kingdom	23,033
Africa	120,158
Others	30,040
Total	**211,596**

38. Credit risk (continued)

I. Credit quality – IFRS 9 expected loss model

Financial investments – Fair value through other comprehensive income

£'000	2018
Concentration per sector	
K - Financial and insurance activities	105,843
O - Public administration and defence, compulsory social security	7,836
Total	**113,678**
Concentration by region	
Europe	15,597
Africa	47,110
Others	50,971
Total	**113,678**

Financial investments – Amortised cost

£'000	2018
Concentration per sector	
B - Mining and quarrying	7,802
K - Financial and insurance activities	7,947
O - Public administration and defence, compulsory social security	14,871
Other	17,925
Total	**48,545**
Concentration by region	
Europe	7,802
Africa	36,812
Others	3,931
Total	**48,545**

38. Credit risk (continued)

I. Credit quality – IFRS 9 expected loss model

Below 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-	33,472	-	-	33,472
BBB+ to B-	124,228	-	-	124,228
Total gross carrying amount	**157,701**	**-**	**-**	**157,701**
Loss allowance	(304)			(304)
Carrying amount as at 31 December 2018	**157,397**	**-**	**-**	**157,397**

Loans and advances to customers

£'000	Stage 1	Stage 2	Stage 3	Total
AAA to A-	172,486	37,903	-	210,389
BBB+ to B-	-	-	5,538	5,538
Impaired	172,486	37,903	-	210,389
Total gross carrying amount	**172,486**	**37,903**	**5,538**	**215,927**
Loss allowance	(503)	(1,475)	(2,353)	(4,331)
Carrying amount as at 31 December 2018	**171,983**	**36,428**	**3,185**	**211,596**

38. Credit risk (continued)

I. Credit quality – IFRS 9 expected loss model

Financial investments – fair value through other comprehensive income

£'000	Stage 1	Stage 2	Stage 3	Total
AAA to A-	62,031	-	-	62,031
BBB+ to B-	51,280	458	-	51,738
Total gross carrying amount	**113,311**	**458**	**-**	**113,769**
Loss allowance	(85)	(5)	-	(90)
Carrying amount as at 31 December 2018	**113,226**	**453**	**-**	**113,678**

Financial investments – amortised cost

£'000	Stage 1	Stage 2	Stage 3	Total
BBB+ to B-	48,746	-		48,746
Total gross carrying amount	**48,746**	**-**	**-**	**48,746**
Loss allowance	(201)	-	-	(201)
Carrying amount as at 31 December 2018	**48,545**	**-**	**-**	**48,545**

J. 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 2018	(382)	-	-	(382)
Movement with P&L impact				
New financial asset originated or purchased	(69)	-	-	(69)
Changes in PDs/LGDs/EADs	147	-	-	147
Loss allowance as at 31 December 2018	**(304)**	**-**	**-**	**(304)**

38. Credit risk (continued)

J. Loss allowances – IFRS 9 expected loss model

Loans and advances to customers

£'000	Stage 1	Stage 2	Stage 3	Total
Loss allowance as at 1 January 2018	(455)	(1,518)	(2,253)	(4,226)
Movement with P&L impact				
Transfers:				
Transfer from Stage 1 to Stage 2	-	(30)	-	(30)
New financial asset originated or purchased	(173)	-	-	(173)
Changes in PDs/LGDs/EADs	113	73	(94)	86
Changes to model assumptions and methodologies				
FX and other movements			7	7
Loss allowance as at 31 December 2018	**(516)**	**(1,475)**	**(2,340)**	**(4,331)**

Financial investments – fair value through other comprehensive income

£'000	Stage 1	Stage 2	Stage 3	Total
Loss allowance as at 1 January 2018	(199)	-	-	(199)
Movement with P&L impact				
Transfers:				
Transfer from Stage 1 to Stage 2		(5)	-	(5)
Changes in PDs/LGDs/EADs	114	-	-	114
Loss allowance as at 31 December 2018	**(85)**	**(5)**	**-**	**(90)**

Financial investments – amortised cost

£'000	Stage 1	Stage 2	Stage 3	Total
Loss allowance as at 1 January 2018	-	-	-	-
Movement with P&L impact				
New financial asset originated or purchased	(201)	-	-	(201)
Loss allowance as at 31 December 2018	**(201)**	**-**	**-**	**(201)**

38. Credit risk (continued)

J. Loss allowances – IAS 39 incurred loss model

The table below sets out a reconciliation of changes in impairment loss allowance under IAS 39.

£'000	2017
As at 1 January	**1,581**
Provision charge	1,763
Loan Recovery	(253)
Exchange rate movement	(68)
As at 31 December	**3,023**

The table below sets out a reconciliation of changes in the carrying amount of impaired loans and advances to customers in 2017 following the IAS 39 standards.

£'000	2017
As at 1 January – Gross amount	5,250
Impaired in year	17,246
Reclassified to performing	-
Loan Recovery	(671)
Exchange rate movement	16
As at 31 December – Gross amount	**21,840**
As at 31 December – Impairment	**3,023**
As at 31 December – Carrying amount	**18,818**

K. Collateral held as security and other credit enhancements

The Group 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.

39. 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.

A. Liquidity reserves

The table below shows the liquidity reserves:

£'000	2018 Carrying amount	2017 Carrying amount
Balances with central banks	17,698	17,489
Unencumbered debt securities issued by sovereigns	50,326	45,658
Total	**68,024**	**63,147**

39. Liquidity risk (continued)

B. Maturity profile

The table below summarises the maturity profile of the Bank's assets and liabilities at 31 December 2018 based on contractual discounted repayment obligations.

£'000 - 2018	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	17,698	-	-	-	-	17,698
Due from banks	85,660	32,665	30,751	8,321	-	157,397
Derivative financial instrument	231	-	-	-	-	231
Loans and advances to customers	31,405	23,220	25,828	115,213	15,930	211,596
Financial Investments FVOCI	120	226	43,279	70,054	-	113,678
Financial Investments AC	189	151	342	17,571	30,291	48,545
Property and equipment	-	-	-	-	426	426
Goodwill and other intangible assets	-	-	-	-	12,115	12,115
Deferred tax assets	-	-	-	3,320	3,320	6,640
Other assets	6,737	-	-	-	-	6,737
Total Assets	**142,040**	**56,262**	**100,200**	**214,479**	**62,082**	**575,063**
Liabilities						
Due to banks	101,163	43,105	-	223,363	-	367,631
Derivative financial instrument	-	-	-	-	-	-
Due to customers	106,504	376	2,351	-	-	109,231
Subordinated debt	-	382	-	-	15,912	16,294
Other liabilities	6,453	-	-	-	-	6,453
Total Liabilities	**214,120**	**43,863**	**2,351**	**223,363**	**15,912**	**499,609**

39. Liquidity risk (continued)

The table below summarises the maturity profile of the Bank's assets and liabilities at 31 December 2017 based on contractual discounted repayment financial obligations.

£'000 – 2017 Restated	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	17,489	-	-	-	-	**17,489**
Due from banks	66,192	4,556	36,692	12,664		**120,104**
Derivative financial instrument	1,011	129	-	-	-	**1,140**
Loans and advances to customers	11,996	40,951	39,065	97,333	18,619	**207,964**
Financial Investments AFS	74	7,573	24,398	85,510	-	**117,555**
Financial Investments HTM	-	-	-	-	-	**-**
Property and equipment	-	-	-	-	333	**333**
Goodwill and other intangible assets	-	-	-	-	11,371	**11,371**
Deferred tax assets	-	-	-	3,281	3,280	**6,561**
Other assets	8,030	-	-	-	-	**8,030**
Total Assets	**104,792**	**53,209**	**100,155**	**198,788**	**33,603**	**490,547**
Liabilities						
Due to banks	73,513	-	-	206,226	-	**279,739**
Derivative financial instrument	74	-	-	-	-	**74**
Due to customers	97,655	3,817	10,877	-	-	**112,349**
Subordinated debt	-	377	-	-	15,695	**16,072**
Other liabilities	5,879	-	-	-	-	**5,879**
Total Liabilities	**177,121**	**4,194**	**10,877**	**206,226**	**15,695**	**414,113**

39. 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	2018 Less than 1 year	2018 More than 1 year	2017 Less than 1 year	2017 More than 1 year
Assets				
Cash and balances with central banks	17,698	-	17,489	-
Due from banks	149,077	8,321	107,440	12,664
Derivative financial instruments	231	-	1,140	-
Loans and advances to customers	80,453	131,143	92,012	115,952
Financial investments - available for sale	43,624	70,055	32,045	85,510
Financial investments - held to maturity	682	47,862	-	-
Property and equipment	-	426	-	333
Goodwill and other intangible assets	-	12,115	-	11,371
Deferred tax assets	664	5,976	656	5,905
Other assets	6,737	-	8,032	-
Total assets	**299,166**	**275,898**	**258,814**	**231,735**
Liabilities				
Due to banks	134,871	223,363	73,513	206,226
Derivative financial instruments	-	-	74	-
Due to customers	118,629		112,349	-
Other liabilities	6,441	11	5,879	-
Subordinated debt	382	15,912	377	15,695
Total liabilities	**260,323**	**239,286**	**192,192**	**221,921**

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.

40. 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 current low level of the trading book means there is no significant interest rate risk at this time.

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

£'000 - Gain / (Loss) in profit or loss	2018	2017
Parallel shift in interest rates -2%	(5,277)	1,000
Parallel shift in interest rates +2%	5,899	(1,186)

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

£'000 - 2018	USD	EUR	Other Currencies
Net foreign currency exposures	6,094	(2,545)	395
Impact of 5% increase in foreign currency : GBP rate	(305)	127	(20)
Impact of 5% decrease in foreign currency : GBP rate	305	(127)	20

£'000 - 2017	USD	EUR	Other Currencies
Net foreign currency exposures	4,262	(1,539)	1,522
Impact of 5% increase in foreign currency : GBP rate	(213)	77	(76)
Impact of 5% decrease in foreign currency : GBP rate	213	(77)	76

C. Price risk on investments in debt securities

The Bank holds investments in debt securities, which in accordance with International Financial Reporting 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 TALCO 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 reduction would result in a loss of approximately £-1,131k. Similarly a 1% price rise would result in a gain of approximately £1,131k.

40. Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks but it endeavors to manage these risks through its control framework and by monitoring and responding to potential risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes.

41. 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 31 under "Determination of fair values".

No transfer of financial instruments between categories occurred during the year 2018.

£'000 - 2018	Level 1	Level 2	Level 3	Total fair values
Assets				
Cash and balances with central banks	-	17,698	-	**17,698**
Amortised cost				
Due from banks	-	72,882	84,515	**157,397**
Loans and advances to customers	-	-	211,596	**211,596**
Fair value through profit & Loss				
Derivative financial instrument	-	231	-	**231**
Fair value through Other Comprehensive Income				
Investment securities - FVOCI	113,678	-	-	**113,678**
Amortised cost				
Investment securities – Amort. Cost	48,545	-	-	**48,545**
Liabilities				
Amortised cost				
Deposits from banks	-	79,707	287,924	**367,631**
Deposits from customers	-	-	109,231	**109,231**
Subordinated liabilities	-	-	16,294	**16,294**
Fair value through profit & Loss				
Derivative financial instrument	-	-	-	**-**

41. Fair Value (continued)

£'000 - 2017	Level 1	Level 2	Level 3	Total fair values
Assets				
Cash and balances with central banks	17,489	-	-	**17,489**
Amortised cost				
Due from banks	-	65,449	54,655	**120,104**
Loans and advances to customers	-	-	207,964	**207,964**
Fair value through profit & Loss				
Derivative financial instrument	-	1,140	-	**1,140**
Available-for-sale				
Available for sale investment securities	117,555	-	-	**117,555**
Held-to-maturity				
Held to maturity investment securities	-	-	-	**-**
Liabilities				
Amortised cost				
Deposits from banks	-	243,119	36,620	**279,739**
Deposits from customers	-	-	112,349	**112,349**
Subordinated liabilities	-	-	16,072	**16,072**
Fair value through profit & Loss				

41. 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 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 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 - 2018	Fair value of assets	Fair value of liabilities	Notional amount
Forward foreign exchange	8	-	16,529
Foreign exchange swaps	223	-	73,889
Derivatives held for trading	**231**	-	**90,418**

£'000 - 2017	Fair value of assets	Fair value of liabilities	Notional amount
Forward foreign exchange	1,117	56	19,289
Foreign exchange swaps	23	19	95,775
Derivatives held for trading	**1,140**	**74**	**115,064**

42. Capital management

A. 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.

B. 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.

C. 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..

D. 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 TALCO.

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.

£'000 (unaudited)	2018
Tier 1 capital	61,796
Subordinated debt (principal)	15,912
Own funds	**77,708**
Required capital	**69,763**
Surplus Capital	**7,945**
Risk weighted assets	456,561
Tier 1 capital ratio	13,5%
Solvency ratio	17,0%

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

BMCE Bank International plc

26 Upper Brook Street,
Mayfair - London W1K 7QE
United Kingdom
Tel. +44 (0) 207 429 5500
Fax. +44 (0) 207 248 8595

BMCE Bank International plc is registered in England and Wales under registration number 5321714

Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and Prudential Regulation Authority

Contact us

Tel. +44 (0) 207 429 5500
info@bmce-intl.co.uk

Website BMCE Bank International plc

www.bmce-intl.co.uk

Website BMCE Bank of Africa

www.bmcebank.ma