BMCE BANK INTERNATIONAL plc

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

Company Registration N°5321714 (England and Wales)

Contents

Part I

Chairman

- David Suratgar

Executive director

- Mohammed Afrine

Non-executive directors

- Colin Fisher
- Ian Plenderleith, CBE
- Brahim Benjelloun-Touimi
- Mohammed Agoumi

Secretary

TMF Corporate Administration Services Limited

Auditor

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Chartered accountants and statutory auditor
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BMCE Bank International Plc

Registered in England No. 5321714

The Directors present their Strategic Report for BMCE Bank International plc ("the Bank") for the year ended 31 December 2014.

Our Strategic priorities and progress

1 *Completion of the investment bank*

The Bank continues in it's efforts to transition towards becoming and investment bank with a particular focus on developing African business.

The business advisory, fund manager and brokerage of asset business streams are not yet fully established. We aim to be the benchmark for investment in Africa with a complete portfolio of Banking products.

In 2014 new staff members joined the Bank to strengthen current business lines but also to generate new opportunities.

In 2015 the Bank aims to achieve its target to offer a full range of corporate and investment services including the asset management and equity sales.

2 *Switch to a new central information technology system*

A project to centralise the information technology systems started in 2013. There are important implications in the development of the new system that will allow a significant reduction of human intervention and thus operational risk.

Phase 1 was implemented in January 2015. The availability of improved management information and the possibility of implementing dashboards are expected to facilitate decision making. The system is designed to be flexible and exploitable for Management purposes.

3 *Organisation of governing bodies*

The goal is to ensure an effective decision making process throughout the business. Governance within the Bank is achieved by the following bodies:

- The Board of Directors consisting of five non-executive Directors and the Chief Executive Officer, and others regularly invited including the 'Managing Director & Head of Risk', the Chief Financial Officer and the Head of Internal Audit. The Board approves the overall strategy and the broad guidelines of the Bank.
- The Risk Committee consists of two non-executive Directors and the 'Managing Director & Head of Risk'; other members of the Board, 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 Chairman of the Board, the Chief Executive Officer, other members of the Board, the Head of Internal Audit, the Chief Financial Officer and 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. In addition to the Head of the committee another member of the Board of Directors, the Chief Executive Officer and Human Resources department also attend.
- Other committees involved in the decision making processes of the Bank are:
  - Business Committee;
  - Treasury Asset and Liability Management Committee; and
  - Credit Committee.

The Board commissioned in December 2014 an independent external review of its effectiveness.

4 *Achievement of business objectives*

- Achieving our goals will undoubtedly be as a result of continuing our marketing efforts with on-going cost control and further optimisation of the risk return.
- Commercial effort and synergies: we expect strong benefits from Group synergies for both of the components " Buy Side " and " Sell Side ".
- Commercial success: Capitalising on the "BMCE" brand for the acquisition of new customers while emphasising the geographic and sectoral diversification of our "Target Market" and maintaining the level of "Risk Appetite" as defined by the Board.
- Orientation towards fee earning business: It is important for our Bank to complete the product range and move progressively towards the fee earning business.
- Control over overheads : Rationalisation of costs (moving to new premises in Paris that are more appropriate) and outsourcing IT (this operation will produce substantial savings).

5 *Improving the financial performance*

The aim is to improve capital allocation focusing on enhanced shareholder return on investment and re-investment in our business in:

- significantly reducing the cost/ income ratio and being among the lower within the Group;
- reaching a 15% return on equity (Tier one capital); and
- maintaining a solvency ratio above a 14% threshold.

(refer to key performance indicators hereafter).

Review of the Company's business

The Bank achieved a strong performance in 2014. A net profit of £5,708k was achieved, up 103.7% in comparison to 2013 and exceeding the budget by £1,000k.

This performance relied on achieving both qualitative and quantitative objectives.

From a qualitative perspective, the Bank has continued to strengthen its internal control framework. The Bank has hired a new Chief Financial Officer and a new Compliance Officer and also succesfully completed the first phase of its new IT infrastructure project (see point 2 above).

From a quantitative perspective, the net operating income increased to £14,148k, up by 10.9%. General expenses were down 26.5% to £7,959k by reducing other operating expenses (£2,143k). Personnel costs were on a downward trend (-1.6%) to £4,268k. Impairment provisions reached £1,361k in 2014 compared to £385k in 2013 (see note 12). Profits before tax grew to £4,828k (£1,540k in 2013).

The Bank diversified its sources of funding by placing less reliance on the parent company and by increasing relationships with banks oustide the scope of the BMCE Group («the Group»).

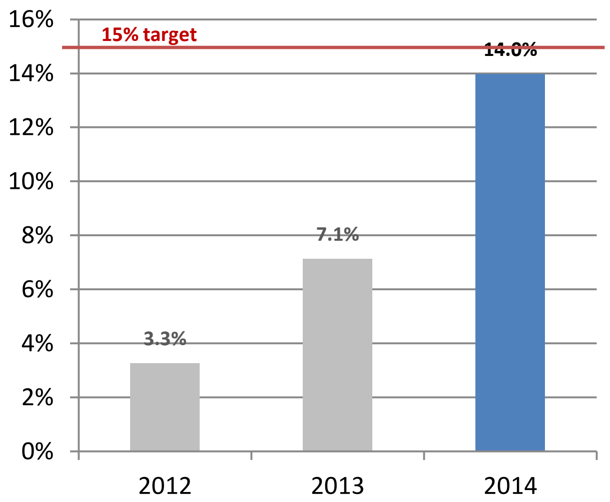
The Bank started to take advantages of synergies within the Group. More than 10 transactions were carried out with Tanger Off-Shore and BMCE International SAU (« BMCE Spain ») generating significant revenues for the Group. Synergies were generated as well in market activities with partners such as BMCE Spain, Bank of Africa in Tanzania and Uganda and supporting the development of other group entities by providing high quality services and competitive prices and by covering their needs in G7 currencies. The volume of FX transactions with group entities (excluding the parent company) significantly increased by 91% to £1.2billion.

The Bank also continued with its diversification policy of the client portfolio by dealing with new counterparties and countries (e.g. Ethiopia, Kenya, Tanzania , South Africa).

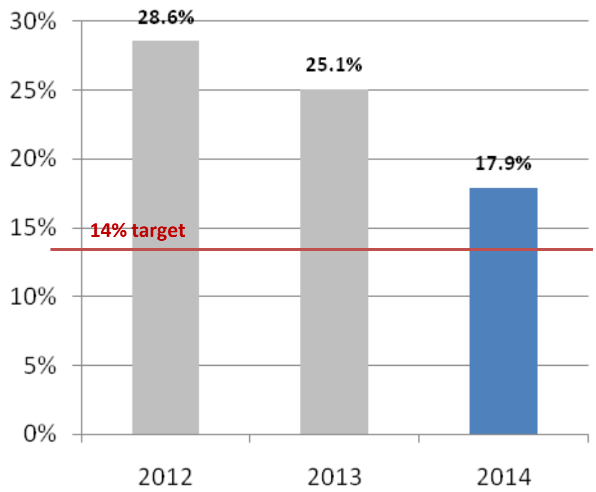
As at the year end 2014, the Bank was dealing with more than 70 counterparties compared to 40 in the previous year.

Key performance indicators (KPI)

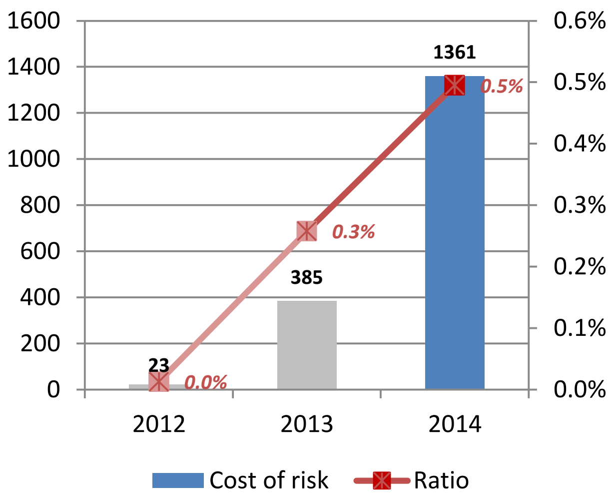
- **Return on equity (Tier one capital)**



- **Solvency ratio**



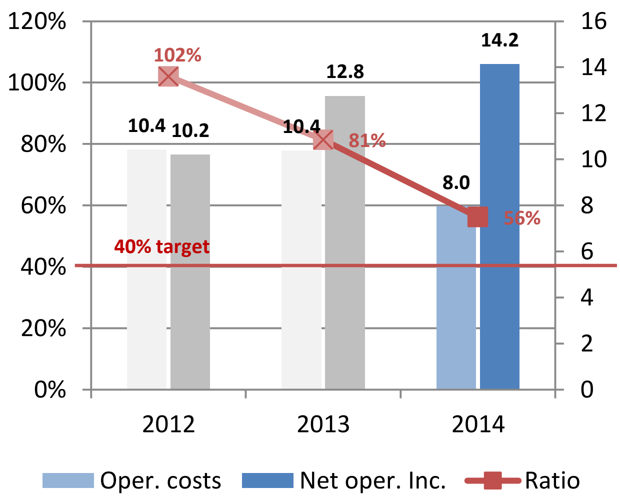
- **Cost of risk and ratio**



Note 1: cost of risk = impairment provisions on P&L

Note2: ratio = cost of risks / balance sheet exposure on cash and loans to banks and customers.

- **Cost / income ratio**



Strategic report

Development and performance by business lines for the year 2014

£'000	2014	2013
Profit on FX	1,100	800
Profit on bonds	2,200	1,700
Money Market	808	685
Treasury – Capital Market	**4,108**	**3,185**
Structured Finance	3,277	1,430
Commodities Trade Finance	2,302	1,000
Loans syndications and synergies	1,807	830
Paris branch	2,967	3,100
Corporate Banking	**10,353**	**6,360**
Other income not allocated	270	3,838
Subordinated debt	(583)	(624)
Net operating income	**14,148**	**12,759**

Treasury – Capital Market (TCM)

Similarly to 2013, the 2014 trend remained upwards.

The TCM business closed the year end 2014 with a £4,108k net operating income. This represented a 29.0% increase on 2013 and a performance of 26.3% above budget.

One of the main targets during the year was to continue to seek communication synergies by visually reinforcing the Bank's brand in working with renowned multi-trading platforms and dealing with more geographically diversified clients.

The Bank became a market maker in the main African currencies and a major contributor for pricing African currencies and Eurobonds.

This success allowed the Bank to target clients in the US, Switzerland, Holland, Germany and Italy and to strengthen its expertise in the African capital markets business.

The Bank also restarted the equity sales business, seizing the opportunity for high potential African markets in 2015.

Based on the performance outlined above, the targets for 2015 are as follows;

- expand the product range;
- diversify the client base;
- widen the group synergies;
- strengthen cross-selling opportunities between TCM and the bank's other business lines; and
- expand equity sales activity to new markets.

Development and performance by business lines for the year 2014 (continued)

Corporate Banking

- **Project Structured Finance (PSF)** – The performance over the year increased by 129.2%. The PSF desk was involved in an active market for the financing of infrastructure in several countries (Ethiopia, Kenya, Tanzania, Mali, Burkina-Faso).

  The PSF desk structured 2 significant shipping deals for $14 million and other transaction related to working capital for $10 million, generating fees and interest.

  2014 gave the SF desk the opportunity to show its ability to structure deals and to become in 2015 lead arranger on some deals.

- **Commodities and Trade Finance (CTF)** – The CTF desk achieved a solid performance during 2014 by: almost doubling its revenues, by exceeding 10% growth on the portfolio under management and by reaching a total of £100 million in credit lines.

  The main target of the CTF desk in 2014 was to strengthen and diversify its client portfolio. In 2015, the CTF desk will continue to secure the loyalty of its customers and to expand its client portfolio to further develop the business.

- **Loans syndications and synergies (LSS)** – The LSS desk achieved a strong performance in generating revenues which increased by 117.7%. The desk successfully generated more than 10 deals involving group entities (e.g. Tangier Off-Shore, BMCE in Spain).

  For the first time the LSS desk became a mandated lead arranger which contributed to enhancing the reputation of the Bank both inside and outside of the Group.

  The LSS desk succeeded in both geographical and sectoral diversification with expansion into banking , mining, infrastructure and telecommunication sectors. The target for 2015 is for the desk to remain a key contributor within the Group for developing synergies between group entities.

- **Paris branch** – The Paris branch achieved some successes during the year such as enhancing their client's account management business. The Paris branch also performed structuring and origination on trade finance deals in Africa.

  The Paris branch remains the retail arm of the Bank.

  In 2015, the Paris branch will target new markets such as Egypt, Turkey and East Africa but also new clients incorporated in Europe and to manage and benefit from synergies with other group entities.

Principal risks and uncertainties

The table below summarizes the principal risks and uncertainties. Further information is provided within notes 34 to 38.

Risks and uncertainties	Description/Component/Impact	Mitigation	Change 2014/2013
Risks			
Credit Risk	• Description: Non-investment grade direct lending • Component: Nigeria/Angola • 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 IRS and CDS	→
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 • Impact: lower banking income		

Signed on behalf of the Board

Mohammed Afrine
Chief Executive Officer and Director

David Suratgar
Chairman

23 April 2015

The Directors of BMCE Bank International plc present their report and financial statements for the year ended 31 December 2014.

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.

Branch

The Bank also maintains a branch in Paris.

Dividend

No dividend was paid during the year (2013: £Nil). The Directors do not recommend the payment of a final dividend for this financial year (2013: £ Nil).

Future plans

- Banque Marocaine du Commerce Exterieur S.A. (BMCE) intends to continue to develop synergies between BMCE Bank International and its fellow subsidiary BMCE International Spain and with other group companies in Africa.
- Further details about the Bank's strategy for the forthcoming financial year are provided in the Strategic Report.

Financial risk management and exposure to financial risks

The Bank's financial risk management objectives and policies and its exposure to credit risk, price risk and liquidity risk are disclosed in Notes 34 to 38.

Directors

The following Directors have held office since 1 January 2014:

D. Suratgar (Chairman)

C. Fisher

I. Plenderleith, CBE

B. Benjelloun-Touimi

M. Agoumi

M. Afrine (Chief Executive Officer)

Directors' interests

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

Going concern

As set out in the Review of the Business section, the Bank took significant actions during 2014 to improve its financial position combining strong performance on net operating income and on its cost base, this resulted in 2014 being the third profitable year in a row for the Bank. No profit will be distributed to the shareholder, so the additional resources will allow the Bank to reinvest in its business. The three years business plan shows an ongoing growth of our profits to a forecasted £7.1 million and £8.6 million profit in 2015 and 2016 respectively.

The directors have a reasonable expectation that the company 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.

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Signed on behalf of the Board

Mohammed Afrine

Chief Executive Officer and Director

David Suratgar

Chairman

23 April 2015

This statement should be read in conjunction with the responsibilities of the auditor set out in their report on page 13.

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 Company for that period.

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

- select suitable accounting policies and then apply them consistently;
- make judgments and 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 Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company 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 auditors are unaware;
- 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 auditors are 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

Mohammed Afrine

Chief Executive Officer and Director

David Suratgar

Chairman

23 April 2015

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

We have audited the financial statements of BMCE Bank International plc for the year ended 31 December 2014 which comprise the statement of profit or loss, statement of other comprehensive income, statement of financial position, statement of cash flow, statement of changes in equity and the related notes 1 to 40. 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.

Respective responsibilities of Directors and auditor

As explained more fully in page 12 in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. This report is made solely to the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body for our audit work, for this report, or for the opinions we have formed.

Scope of the audit of the financial statements

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

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the Company's affairs as at 31 December 2014 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.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

Rudiger Lang (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

27.4.2015

Part II

Statement of profit or loss for the year ended 31 December 2014

£'000	Note	2014	2013
Interest and similar income		8,221	6,057
Interest expense and similar charges		(1,022)	(1,034)
Net interest income	**6**	**7,199**	**5,023**
Fee and commission income		5,351	4,670
Fee and commission expense		(241)	(160)
Net fee and commission income	**7**	**5,110**	**4,510**
Net trading income	**8**	1,487	1,813
Other operating income	**9**	352	1,413
Net operating income		**14,148**	**12,759**
Personnel expenses	**10**	(4,268)	(4,338)
Depreciation of property and equipment	**19**	(249)	(334)
Amortisation of intangible assets	**20**	-	(577)
Other operating expenses	**11**	(3,442)	(5,585)
Total operating expenses before impairment losses		**(7,959)**	**(10,834)**
Impairment losses	**12**	(1,361)	(385)
Profit before taxation		**4,828**	**1,540**
Taxation	**14**	880	66
Profit from discontinued activity	**13**	-	1,197
Profit for the year		**5,708**	**2,803**

The notes on pages 20 – 62 form part of these financial statements.

Statement of other comprehensive income for the year ended 31 December 2014

£'000	Note	2014	2013
Profit for the year		**5,708**	**2,803**
Items that do not qualify for reclassification		-	-
Items that may qualify for reclassification		(1,787)	(742)
Foreign currency translation differences for foreign operations		(7)	(64)
Net fair value loss on available for sale financial assets		(1,874)	(678)
Net gain / (loss) on disposal of available for sale investments		94	(1)
Tax		-	-
Other comprehensive income for the year, net of tax	**15**	(1,787)	(742)
Total comprehensive income for the year, net of tax		**3,921**	**2,061**

The notes on pages 20 – 62 form part of these financial statements.

Statement of Financial Position as at 31 December 2014

£'000	Note	2014	2013
Assets			
Cash and balances with central banks	**16**	1,887	2,472
Due from banks	**16**	123,940	89,285
Derivative financial instruments	**39**	15	474
Loans and advances to customers	**17**	149,257	57,507
Financial investments - available for sale	**18**	66,109	42,067
Property and equipment	**19**	987	1,166
Goodwill and other intangible assets	**20 - 21**	7,791	8,362
Deferred tax assets	**14**	4,893	3,878
Other assets	**22**	10,473	9,672
Total assets		**365,352**	**214,883**
Liabilities and equity			
Due to banks	**23**	189,419	97,048
Derivative financial instruments	**39**	4,267	14
Due to customers	**24**	101,419	48,456
Other liabilities	**25**	1,785	3,815
Provisions	**26**	-	30
Subordinated debt	**27**	14,138	15,117
Total liabilities		**311,028**	**164,480**
Equity attributable to equity holders of parent			
Share capital	**28**	102,173	102,173
Other reserves	**28**	(2,635)	(848)
Accumulated losses	**28**	(45,214)	(50,922)
Total equity		54,324	50,403
Total liabilities and equity		**365,352**	**214,883**

The notes on pages 20 – 62 form part of these financial statements

Approved by the Board and authorised for issue on 23 April 2015.

Mohammed Afrine
Chief Executive Officer and Director

David Suratgar
Chairman

Statement of changes in equity for the year ended 31 December 2014

£'000	Note	Share capital	Other reserves	Accumula-ted losses	Total
Balance as at 1 January 2013		**102,173**	**(106)**	**(53,725)**	**48,342**
Profit for the year		-	-	2,803	2,803
Other comprehensive income		-	(742)	-	(742)
Total comprehensive income			*(742)*	*2,803*	*2,061*
Balance as at 31 December 2013	**28**	**102,173**	**(848)**	**(50,922)**	**50,403**
Balance as at 1 January 2014		102,173	(848)	(50,922)	50,403
Profit for the year		-	-	5,708	5,708
Other comprehensive income		-	(1,787)	-	(1,787)
Total comprehensive income		*-*	*(1,787)*	*5,708*	*3,921*
Balance as at 31 December 2014	**28**	**102,173**	**(2,635)**	**(45,214)**	**54,324**

Other reserves category in the table above relates to changes in the fair value of financial instruments classified as available for sale and the effects of foreign currency retranslation on a foreign operation.

The notes on pages 20 – 62 form part of these financial statements.

Statement of cash flow for the year ended 31 December 2014

£'000	Note	2014	2013
Cash flows from continuing operating activities			
Profit before tax		4,828	1,540
Adjustments for:			
Net interest income		7,199	5,023
Interest received		(4,620)	(2,150)
Interest paid		1,059	1,185
Change in operating assets	**29**	(106,599)	33,401
Change in operating liabilities	**29**	147,429	(28,587)
Other items included in profit before tax	**29**	1,250	1,868
Net cash flows generated by continuing operating activities		**50,546**	**12,280**
Cash flows from investing activities			
Purchase of financial investments		(73,137)	(31,500)
Proceeds from sales of financial investments		47,315	27,314
Proceeds from disposal of property and equipment		-	655
Proceeds from disposal of intangible assets		-	2,446
Purchase of property and equipment		(125)	-
Purchase of intangible assets		-	(59)
Net cash flows generated by investing activities		**(25,947)**	**(1,144)**
Cash flows from financing activities			
Net (outflow) / inflow from financing activities		**-**	-
Cash flows from discontinued activities			
Profit before tax		-	1,197
Net Cash flows generated by discontinued activities		**-**	**1,197**
Net increase in cash and cash equivalents		24,599	12,333
Cash and cash equivalents as at 1 January		76,350	64,017
Cash and cash equivalents as at 31 December	**16**	**100,949**	**76,350**

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 20 – 62 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, West and Central Africa. The principal activities of the Bank are described in the strategic and directors' reports and note 5.

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), 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. Presentation of accounts

A. Basis of preparation

The accounts are prepared on a going concern basis (see the Directors' report on page 11) 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 and available for sale investments that have been measured at fair value.

The Bank is a parent entity, however in accordance with section 401 of the Companies Act; it is exempt from the requirement to prepare consolidated financial statements as its results and position are included within the consolidated financial statements of BMCE. These financial statements therefore include the financial performance and position of the Bank only.

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 36 .

B. Significant accounting judgements and estimates

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognized in the financial statements is set out below.

Information about assumptions and estimation uncertainties that have a significant risk resulting in a material adjustment in the year ended 31 December 2014 is set out below in relation to the impairment of financial instruments and in relation to other areas such as:

- Impairment of financial assets;
- determination of the fair value of financial instruments with significant unobservable inputs;
- recognition of deferred tax assets: availability of future taxable profit against which carry forward tax losses can be used;
- Impairment testing for CGU containing goodwill: key assumptions underlying recoverable amounts; and
- Recognition and measurement of provisions and contingencies: key assumptions about the likehood and magnitude of an outflow of resources.

The most significant use of judgements and estimates are as follows:

- **Fair value** - The fair values of financial investments are determined based upon a combination of values derived from an external model and broker prices. The valuation of financial instruments is described in more detail in note 39. Management consider that, with the exception of held for trading financial instruments, derivatives and available for sale investments that are held at fair value, all other financial assets and financial liabilities are held on an amortised cost basis which approximates to fair value. Each of the financial assets and financial liabilities are assessed individually and therefore the carrying value equates to the fair value.

- **Deferred tax assets** - Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profits will be available against which the losses can be utilised in the future. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Detailed plans are produced for the next financial year, and using this as a basis, forecasts are produced for the following three 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.

- **Impairment of financial assets** - Problem loans and advances including financial investments which are held to maturity and debt securities classified as available for sale investments are reviewed at each reporting date to assess whether an allowance for impairment should be recorded in the income statement. 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 rate of return 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.

  The amounts of impairment provisions can be seen in Note 17.

- **Impairment of goodwill** – Goodwill is tested at each reporting date for impairment and the evaluation requires significant management judgement in estimating the present value of future estimated cash flows expected to be derived from the cash generating units (CGU) to which goodwill has been allocated. Goodwill arising from business combination is allocated to CGU that or group of CGU's that are expected to benefit from the synergies of the combination.

  Assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that is largely independent of the cash inflows of other assets or CGUs. Refer to note 21.

  Discount rate is within the range of rates used by the financial services industry and the growth rate is based on the growth rate of our main business geographical area (Africa).

- **Impairment of other intangible assets** - They are reviewed for any indication of impairment at each reporting date. Where there is such an indication, judgement is required in the estimation of the present value of the future cash flows expected to be derived from the asset or the cash generating unit to which it is allocated.

C. Foreign currency translation

The financial statements are presented in pounds sterling, which is the Bank's functional and presentational currency. The functional currency of the foreign branch in Paris is Euros.

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 income statement. Unrealised gains and losses on unsettled transactions are also taken to the income statement.

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.

D. Financial assets and liabilities – initial recognition and subsequent measurement

- **Financial asset** – The Bank classifies its financial assets into one the following categories:
  - loans and receivables;
  - available for sale; and
  - at fair value through profit and loss (held for trading or fair value through profit and loss).

- **Financial liabilities** – The Bank classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or fair value through profit and loss.

- **Date of recognition** - Purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace are recognised on the trade date. Derivatives are also recognised on a trade date basis.

- **Initial recognition of financial instruments** - The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus, in the case of financial assets and financial liabilities not at fair value through profit and loss, any directly attributable incremental cost of acquisition or issue.

- **Derivatives recorded at fair value through profit or loss** - Derivatives which include foreign exchange contracts are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives held for trading are included in 'Net trading income'.

- **Financial assets or financial liabilities held for trading and trading securities** - Financial assets or financial liabilities held for trading, comprising financial instruments held for trading other than derivatives, are recorded in the statement of financial position at fair value. Changes in fair value are recognised in 'Net trading income'. Interest and expenses are recorded in 'Net trading income' according to the terms of the contract, or when the right to the payment has been established.

  Included in this classification are equities other than those designated as available for sale which have been acquired principally for the purpose of selling in the near term.

- **Available for sale financial investments** - Available for sale financial investments which consist of equity and 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 income statement in 'Other operating income' or 'Other operating expenses'. 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 income statement 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 income statement in 'Impairment losses on financial investments' and removed from the available for sale reserve.

- **Loans and advances to Banks and customers -** These are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as 'Financial assets held for trading', designated as 'Financial investment – available for sale' or 'Financial assets designated at fair value through profit or loss'. After initial measurement, loans and advances to Banks and customers are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate. The amortisation is included in 'Interest and similar income' in the income statement.

- **Subordinated debt -** Subordinated debt is carried at amortised cost.

- **'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 income statement 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 income statement when the inputs become observable, or when the instrument is derecognised.

- **Financial guarantees** - 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 income statement in 'Credit loss expense'. The premium received is recognised in the income statement in 'Net fees and commission income' on a straight line basis over the life of the guarantee.

E. Derecognition of financial assets and financial liabilities

- **Financial assets** - A financial asset is derecognised where:

  - The rights to receive cash flows from the asset have expired; or

  - The Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and

  - Either (a) the Bank has transferred substantially all the risks and rewards of the asset, or (b) the Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

  When the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the assets. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

- **Financial liabilities -** A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same counterparty on substantially different terms or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability and the difference in the respective carrying amounts is recognised in profit or loss.

F. Determination of fair value

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 techniques, comparison to similar instruments for which market observable prices exist and other relevant valuation models.

G. 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.

- **Due from Banks and loans and advances to customers -** For amounts that are carried at amortised cost, the Bank assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant.

  If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

  If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the 'Credit loss expense'.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the effective interest rate at the relevant reporting date. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

The Bank now assesses all loans on an individual basis. Collective impairment provision is not applied.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the Bank. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of current conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the Bank and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

- **Available for sale financial instruments -** For available for sale financial instruments, the Bank assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired. Objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss that had been recognised in other comprehensive income is removed from equity and recognised in the income statement.

- **Renegotiated loans -** Where possible the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original effective interest rate (EIR) as calculated before the modification of the terms and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual impairment assessment, calculated using the loan's original EIR.

H. 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.

I. Leasing

- **Bank as a lessee -** The leases entered into by the Bank as lessee are operating leases. Any rentals payable are charged to the income statement 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 income statement 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.

J. Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

- **Interest and similar income and expense** - For all financial instruments measured at amortised cost and interest bearing financial instruments classified as available for sale financial investments, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability.

  The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payment or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as an impairment loss.

  Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

- **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.

- **Fee income from providing transaction services -** 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.

- **Net trading income** - All gains and losses from changes in fair value and related interest income or expense and dividends for financial assets and financial liabilities held for trading are included in net trading income.

K. 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.

L. Tangible assets

Tangible assets which consist of computer hardware and furniture and equipment are stated at cost less accumulated depreciation. Depreciation is calculated using the straight-line method to write down the cost of tangible assets to their residual values over their estimated useful lives. The estimated useful lives were re-assessed as at 1 January 2013. The residual estimated useful lives from 1 January 2013 are as follows:

- Computer hardware - 3 to 5 years; and

- Furniture and equipment - 5 years.

M. 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 income statement 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 estimated useful lives were re-assessed as at 1 January 2013. The residual estimated useful lives from 1 January 2013 are as follows:

Computer software - 3 to 5 years; and

Development costs - 3 to 5 years.

N. Business combinations and goodwill

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

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

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

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

O. 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.

P. 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'.

Q. 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.

R. Taxes

- **Current tax** - 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 -** 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 income statement.

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

In the current year, the Bank has 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 fro an accounting period that begins on or after 1 January 2014.

A. Investment entities (amendments to IFRS 10, IFRS 12 and IAS 27)

These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10 Consolidated Financial Statements and must be applied retrospectively, subject to certain transition relief. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. These amendments have no impact on the Bank, since none of the entities in the Bank qualifies to be an investment entity under IFRS 10.

B. Offsetting financial assets and financial liabilities - amendments to IAS 32

These amendments clarify the meaning of 'currently has a legally enforceable right to set-off' and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting and is applied retrospectively. These amendments have no impact on the Bank, since the Bank settles on daily basis transactions with offsetting arrangements

C. Amendments to IAS36 recoverable amount disclosures for non-financial assets

The amendments to IAS 36 remove the requirements to disclose the recoverable amount of a cash-generating unit (CGU) to which goodwill or other intangible assets with indefinite useful lives had been allocated where there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements applicable to when the recoverable amount of an asset or a CGU is measured at fair value less costs of disposal. The application of these amendments has had no material impact on the disclosures in the Bank's financial statements.

D. Novation of derivatives and continuation of hedge accounting – amendments to IAS 39

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria and retrospective application is required. These amendments have no impact on the Bank as the Bank has not novated its derivatives during the current or prior periods.

E. IFRIC 21 Levies

IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. Retrospective application is required for IFRIC 21. This interpretation has no impact on the Bank as no levy has been paid since 2012. No triggers have been identified which could lead to the recognition of a liability.

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

- IFRS 9 : Financial instruments - effective for accounting periods beginning on or after 1 January 2018;
- IFRS 15 : Revenue from contracts with customers - effective for accounting periods beginning on or after 1 January 2017;
- Amendements to IFRS 11 : accounting for acquisitions of interests in joint operations - effective for accounting periods beginning on or after 1 January 2016;
- Amendements to IAS 1- and IAS 38: clarification of acceptable methods of depreciation and amortisation - effective for accounting periods beginning on or after 1 January 2016;
- Amendements to IAS 19 : defined benefits plan (employee contributions) - effective for accounting periods beginning on or after 1 January 2014;
- Annual Improvements 2010-2012 Cycle - effective for accounting periods beginning on or after 1 July 2014; and
- Annual Improvements 2011-2013 Cycle – effective for accounting periods beginning on or after 1 July 2014.

Note that IFRS 14 Regulatory Deferral Accounts is not applicable to the Bank as the Bank is not a first-time adopter.

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 9 Financial Instruments: Classification and Measurement** -IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial instruments. IFRS 9 includes revised guidance on the classification and measurement of financial instruments including a new expected loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward guidance on recognition of and derecognition of financial instruments from IAS39.

  IFRS 9 project as this has now been completed, although it is subject to EU endorsement.

  The Bank is currently assessing the impact of adopting IFRS 9, however, the impact of adoption depends on the assets held by the Bank at the date of adoption, and it is not practical to quantify the effect.

5. 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.

5. 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 2013 and 31 December 2014.

£'000	TCM	CIB	Other	Total 2014
Operating income				
Net interest income	2,530	5,857	(1,187)	7,199
Net fees and commission income	-	5,062	48	5,110
Net trading income	1,091	-	(91)	1,000
Realised gain on disposal of investment securities	487	-	-	487
Net operating income from other segments	-	(600)	600	-
Other operating income	-	35	317	352
Total operating income	**4,108**	**10,353**	**(313)**	**14,148**
Operating expenses				
Personnel expenses	(264)	(580)	(3,424)	(4,268)
Depreciation	-	-	(249)	(249)
Amortisation	-	-	-	-
Other operating expenses	-	-	(3,442)	(3,442)
Impairment losses on financial investments	-	(1,361)	-	(1,361)
Total operating expenses	**(264)**	**(1,941)**	**(7,115)**	**(9,320)**
Segment results	**3,843**	**8,413**	**(7,428)**	**4,828**
Income tax expense	-	-	-	880
Profit for the year				**5,708**
Other comprehensive income				
Items that may qualify for reclassification	(1,780)	-	(7)	(1,787)
Total other comprehensive income	**(1,780)**	-	**(7)**	**(1,787)**
Assets and liabilities				
Segment assets	163,898	175,533	25,921	**365,352**
Segment liabilities	173,441	121,780	15,807	**311,028**
Capital expenditure				
Tangible assets			125	125
Intangible assets			-	-

5. Segment reporting (continued)

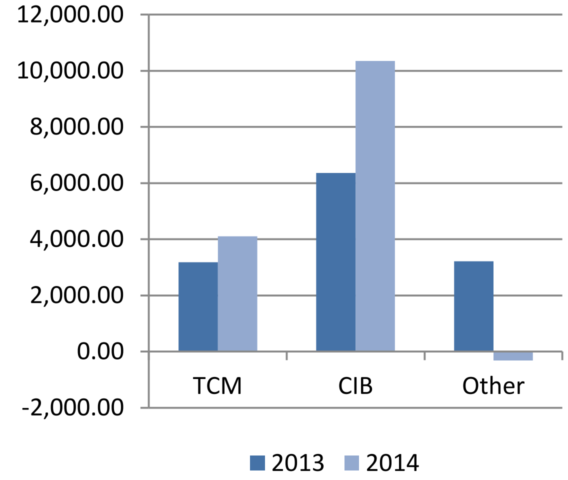
The 2013 operating segments have been restated to reflect a more appropriate basis for allocating results between the profit centres.

£'000	TCM	CIB	Other	Total 2014
Operating income				
Net interest income	2,184	3,743	(904)	5,023
Net fees and commission income	-	3,068	1,443	4,510
Net trading income	808	-	475	1,283
Realised gain on disposal of investment securities	530	-	-	530
Net operating income from other segments	(337)	(590)	927	-
Other operating income	-	139	1,274	1,413
Total operating income	**3,185**	**6,359**	**3,215**	**12,759**
Operating expenses				
Personnel expenses	(169)	(503)	(3,666)	(4,338)
Depreciation	-	-	(334)	(334)
Amortisation	-	-	(577)	(577)
Other operating expenses	-	-	(5,585)	(5,585)
Impairment losses on financial investments	-	(385)	-	(385)
Total operating expenses	**(169)**	**(888)**	**(10,162)**	**(11,219)**
Segment results	**3,016**	**5,471**	**(6,947)**	**1,540**
Profit from discontinued activities				1,197
Income tax expense	-	-	-	66
Profit for the year				**2,803**
Other comprehensive income				
Items that may qualify for reclassification	(678)	-	(64)	(742)
Total other comprehensive income	**(678)**	**-**	**(64)**	**(742)**
Assets and liabilities				
Segment assets	116,237	73,151	25,495	214,883
Segment liabilities	20,043	126,062	18,735	164,840
Capital expenditure				
Tangible assets	-	-	10	10
Intangible assets	-	-	162	162

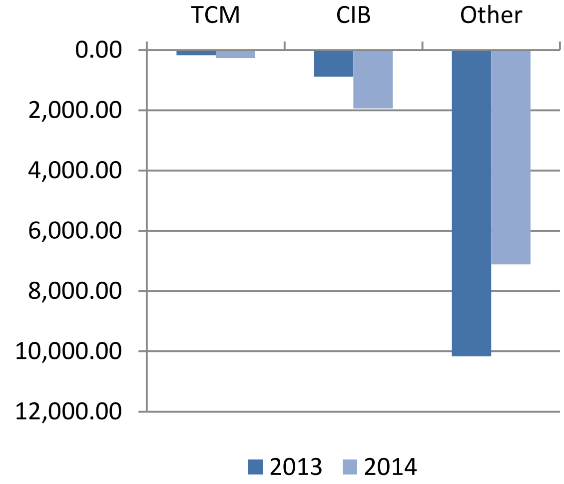
5. Segment reporting (continued)

The following graphs compare values between 2013 and 2014 (figures in thousand GBP).

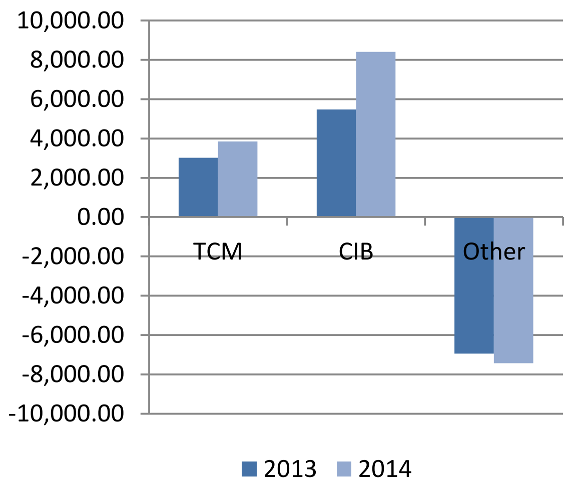
- **Operating income**



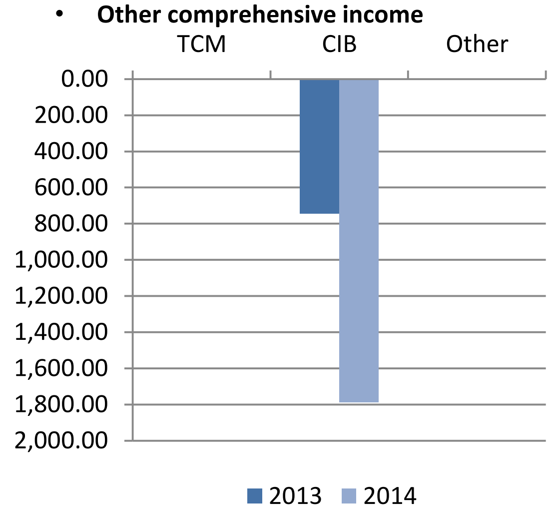
- **Operating expenses**



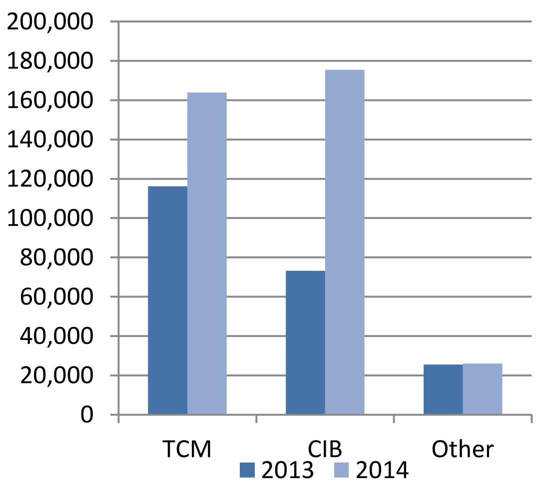
- **Net results**



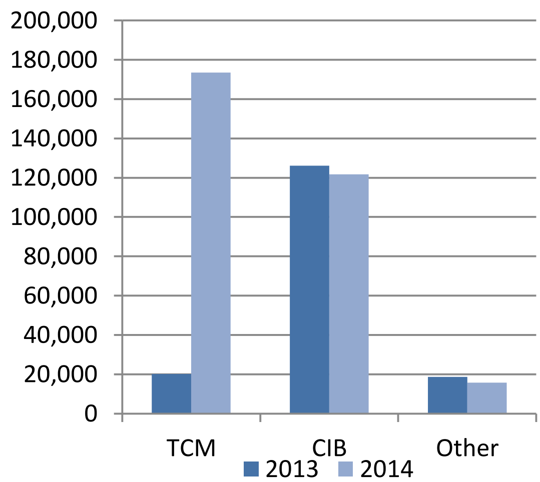
- **Other comprehensive income**



- **Assets**



- **Liabilities**



5. Segment reporting (continued)

Information about geographical areas

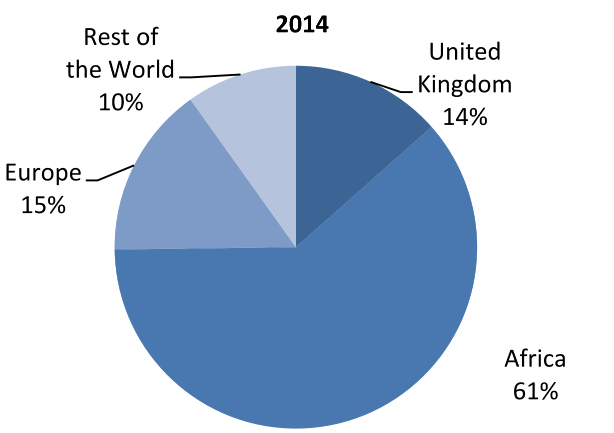
The bank operates in four geographical locations: UK, Africa, Europe and the rest of the world. The Bank's external net operating income is allocated based on the location of the transaction counterparty.

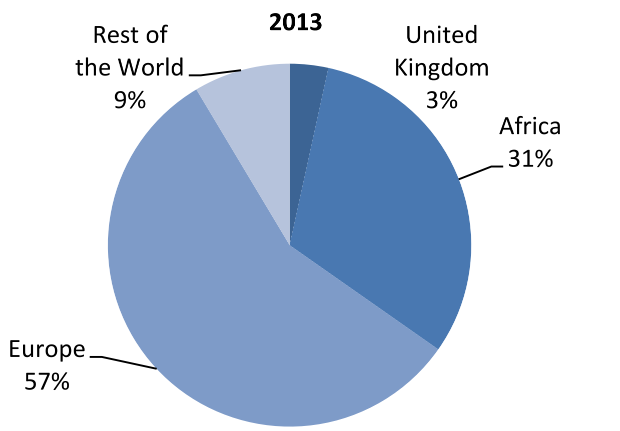
No individual country is above 10% of the external net operating income in Europe. Same as other foreign countries where exposure are spread on more than 32 countries.
Individual material customers are mainly related parties (see dedicated note).

£'000 - 2014	United Kingdom	Africa	Europe	Rest of the World
External net operating income	1,904	8,677	2,169	1,397
Total of assets	10,122	232,213	99,648	23,369

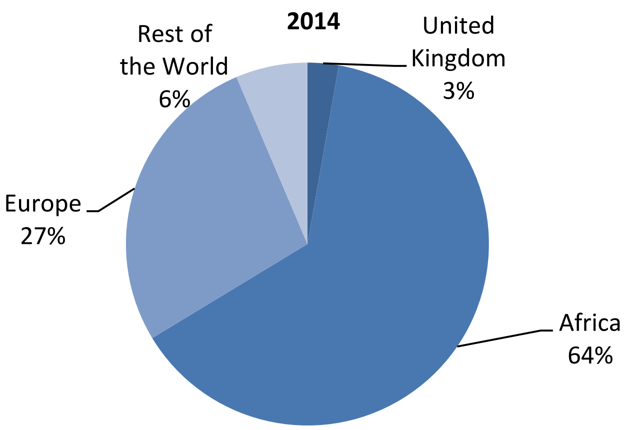
£'000 - 2013	United Kingdom	Africa	Europe	Rest of the World
External net operating income	537	3,945	7,232	1,045
Total of assets	36,339	56,408	85,474	36,662

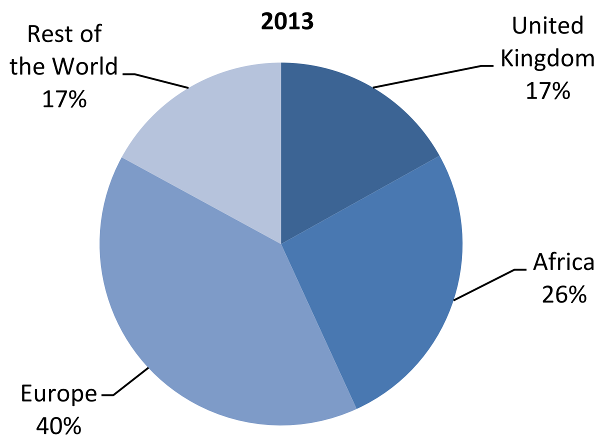
- **External net operating income**





- **Total of assets**





6. Net interest income

£'000	2014	2013
Due from banks	1,842	2,751
Loans and advances to customers	4,380	1,874
Financial investments - available for sale	1,999	1,432
Interest and similar income	**8,221**	**6,057**
Due to banks	(967)	(782)
Due to customers	(55)	(252)
Interest and similar charges	**(1,022)**	**(1,034)**
Net interest income	**7,199**	**5,023**

Included within various line items under interest income for the year ended 31st December 2014 is a total of £414k (2013: £338k) relating to impaired financial assets.

7. Net fee and commission income

£'000	2014	2013
Credit related fees and commissions	2,510	371
Corporate banking fees	2,841	2,861
Corporate finance advisory fees	-	1,438
Fee and commission income	**5,351**	**4,670**
Fees and commission expense	(8)	(46)
Other fees paid	(233)	(114)
Fees and commission expense	**(241)**	**(160)**
Net fee and commission income	**5,110**	**4,510**

8. Net trading income

£'000	2014	2013
Derivatives	-	(13)
Foreign exchange	1,000	1,296
Fixed income	487	530
Net trading income	**1,487**	**1,813**

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

9. Other operating income

£'000	2014	2013
Rent received from subletting of premises	137	1,411
Other income	215	2
Other operating income	**352**	**1,413**

10. Personnel expenses

£'000	2014	2013
Wages and salaries	(3,106)	(3,156)
Social security costs	(618)	(705)
Pension costs - defined contribution plans	(216)	(255)
Other benefits	(328)	(222)
Personnel expenses	**(4,268)**	**(4,338)**
Directors' remuneration and disclosure of highest paid director are disclosed in note 31.		
Number of employees	**53**	**47**
The average monthly number of employees (including directors) during the year was:		
Board	4	4
Corporate and Investment Banking	10	9
Treasury and Capital Markets	5	2
Operations and support	34	32

11. Other operating expenses

£'000	2014	2013
Marketing expense	(19)	(10)
Operating leases expenses (premises)	(1,119)	(2,622)
Administrative	(1,249)	(1,856)
Professional fees	(703)	(675)
Statutory audit fees	(125)	(140)
Other expenses	(227)	(282)
Other operating expenses	**(3,442)**	**(5,585)**

Other fees paid to the auditors		
Taxation services	(55)	(5)
Regulatory advice	-	(15)

12. Impairment losses

£'000	Note	2014	2013
Loans and advances to customers	**17**	(1,361)	(385)
Impairment losses		**(1,361)**	**(385)**

13. Profit from discontinued activity

£'000	2014	2013
Additional consideration paid in 2013 relating to the sale of the remittance transfer business to a fellow subsidiary	-	1,197
Profit from discontinued activity	**-**	**1,197**

14. Taxation

£'000	2014	2013
Current Income tax	(135)	-
Current tax	**(135)**	-
Relating to origination and reversal of temporary differences	132	(3,100)
Change in tax rate	(241)	(136)
Recognition of deferred tax assets	1,124	3,302
Deferred tax	**1,015**	**66**
Taxation	**880**	**66**

Reconciliation of the total tax charge		
Profit before tax	4,828	2,737
Income tax calculated at a tax rate of 21.5% (2013: 23.25%)	(1,038)	(636)
Depreciation in excess of capital allowances	(53)	(212)
Recognition of tax effect of previously unrecognised tax losses	1,971	914
Income tax benefit reported in the income statement	**880**	**66**

The deferred tax asset is due to temporary differences on the following:		
Tax losses available	4,481	3,591
Property and equipment	358	233
Financial investments – available for sale	54	54
Total	**4,893**	**3,878**

Deferred tax has been recognised at the rate that has been substantively enacted in 2014 of 21% (2013: 23%).

When assessing the deferred tax asset recognised, the Bank has taken a reasonably estimate view of future profits. The forecasts used for this purpose are based primarily on cost savings already achieved and require very limited growth in revenues.

14. Taxation (continued)

The following deferred tax assets are unrecognised at the reporting date because in the view of the Directors, the recovery of the asset is not probable for the purpose of IAS12. This asset will be recognised when the Bank has greater certainty on sufficiency of taxable profits.

£'000	2014	2013
Losses and Financial Investments – available for sale	2,836	5,303
Difference between tax written down value and net book value of assets	1,196	1,477
Total	**4,032**	**6,780**

Legislation already enacted at the reporting date means that with effect from 01 April 2015 the corporate tax rate reduced to 20% (from 21%). On the basis that it is anticipated that the Company's deferred tax assets are expected to unwind after 1 April 2015 the closing deferred tax asset balance has been tax affected at the lower rate of 20%. The tax losses do not have an expiry date.

15. Other comprehensive income

£'000	Before tax 2014	Tax 2014	Net of tax 2014	Total 2013
Unrealised profit/ (loss) on Financial Investments - available for sale	(1,780)	-	(1,780)	(678)
Exchange differences on translating foreign operations	(7)	-	(7)	(64)
Total other comprehensive income / (loss)	**(1,787)**		**(1,787)**	(742)

16. Net cash and cash equivalent position

£'000	2014	2013
Cash on hand	-	31
Balances with central banks	1,887	2,441
Cash and cash equivalent with central banks	**1,887**	**2,472**
Current accounts with other banks	48,623	41,887
Money market placements with other banks	50,439	31,991
Cash and cash equivalent due from banks	**99,062**	**73,878**
Net cash and cash equivalent position	**100,949**	**76,350**
Loans and advances to banks	22,991	12,935
Due from banks	**123,940**	**89,285**

17. Loans and advances to customers

£'000	2014	2013
Corporate lending	149,257	57,507
Loans and advances to customers	**149,257**	**57,507**

Loans and advances to customers as presented in the statement of financial position include loans and advances carried at amortised cost. No loans and advances have been designated on initial recognition as at fair value through profit and loss.

A. Impairment allowance for loans and advances to customers

A reconciliation of the allowance for impairment losses for loans and advances is as follows:

£'000	Note	2014	2013
As at 1 January		**598**	**938**
Provision charge	**12**	1,361	385
Released through interest income		(161)	(99)
Written off		16	(619)
Exchange rate movement		(29)	(7)
As at 31 January		**1,785**	**598**
Individual impairment provision		**1,785**	598
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance		**9,929**	6,709

The Bank carries out a risk assessment of all impaired loans and estimates the recoverable amounts using all available data on the customer e.g. its performance in repaying other creditors, the country and market conditions. The Bank now assesses all loans on an individual basis and therefore a collective impairment provision is not required.

18. Financial investments at available for sale

£'000	2014	2013
Government debt securities	21,005	13,302
Other debt securities	45,104	28,765
Financial investments at available for sale	**66,109**	**42,067**

19. Property and equipment

£'000 - 2014	Furniture and equipment	Computer hardware	Total
Cost as at 1 January 2014	2,538	-	2,538
Additions	125	-	125
Disposals	-	-	-
Exchange adjustments	(106)	-	(106)
Cost as at 31 December 2014	**2,557**	**-**	**2,557**
Depreciation as at 1 January 2014	1,372	-	1,372
Charge for the year	249	-	249
Disposals	-	-	-
Exchange adjustments	(51)	-	(51)
Depreciation as at 31 December 2014	**1,570**	**-**	**1,570**
Net book value	**987**	**-**	**987**

£'000 - 2013	Furniture and equipment	Computer hardware	Total
Cost as at 1 January 2013	**2,941**	**527**	**3,468**
Disposals	(445)	(530)	(975)
Exchange adjustments	42	3	45
Cost as at 31 December 2013	**2,538**	**-**	**2,538**
Depreciation as at 1 January 2013	1,098	251	1,349
Charge for the year	294	40	334
Disposals	(28)	(292)	(320)
Exchange adjustments	8	1	9
Depreciation as at 31 December 2013	1,372	-	1,372
Net book value	**1,166**	**-**	**1,166**

20. Intangible assets

In 2013, all computer software was sold as part of the outsourcing of IT services to the Bank's fellow subsidiary IT Information Services. The disposal proceeds were the estimated book value at the time of the transfer.

£'000 - 2013	Develop-ment costs	Computer software	Other	Total
Cost as at 1 January 2013	4,288	13,470	196	**17,954**
Additions	59	-	-	**59**
Disposals	(4,347)	(13,475)	(196)	**(18,018)**
Exchange adjustments	-	5	-	**5**
Cost as at 31 December 2013	-	-	-	**-**
Depreciation as at 1 January 2013	3,480	11,503	-	**14,983**
Charge for the year	100	477	-	**577**
Disposals	(3,580)	(11,992)	-	**(15,572)**
Exchange adjustments	-	12	-	**12**
Depreciation as at 1 January 2013	-	-	-	-
Net book value	-	-	-	-

21. Goodwill

£'000	2014	2013
As at 1 January	**13,216**	**13,038**
Additions	-	-
Disposals	-	-
Exchange adjustments	(571)	178
As at 31 January	**12,645**	**13,216**
Impairment	4,854	4,854
Net book value	**7,791**	**8,362**

A. Information about geographical areas

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

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

£'000	2014	2013
Corporate and Investment Banking	3,810	5,597
Treasury and Capital Markets	3,981	2,765
Other operating income	**7,791**	**8,362**

Key assumptions used in value in use calculations

The recoverable amounts of the above CGUs have been determined based on a value in use calculation, using cash flow projections in perpetuity based on business plans approved by senior management for 3 years with an assumption of steady 4% growth in future years and then discounted at a rate of 16%. These assumptions are considered by management to be prudent. For example current average gross domestic product growth rates in the African market are about 7%. These business plans, which also form the basis of the assessment of the deferred tax recognition (see note 14), assume:

- No significant impairments over a provision rate of 0.5% per annum of the loan book;
- An ongoing cost reduction programme including premises savings and eliminating resource duplication;
- Adequate capital to cover asset growth.

The calculation of value in use for both of the CGUs does not lead to any impairment.

The sensitivity to the key assumptions before a write down is required and holding other factors constant is that:

- The discount rate would need to exceed 20%, or
- Projected growth rates during the budget period would need to contract to less than 2%.

Interest margins: Interest margins are based on management assessments and are in line with average values achieved in 2014. These are maintained over the budget period for anticipated market conditions.

Discount rates: Discount rates reflect management's estimated return on capital employed (ROCE) bench-marked against external sources.

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

22. Other assets

£'000	2014	2013
VAT recoverable	168	91
Prepayments	347	512
Rent deposit	128	854
Due from ultimate parent undertaking	5,828	6,756
Other sundry debtors	4,002	1,459
Other assets	**10,473**	**9,672**

23. Due to banks

£'000	2014	2013
Current accounts	24,627	46,676
Term deposits due to banks	18,179	34,682
Due to fellow group undertakings less than 1 year	11,047	11,853
Due to ultimate parent undertaking	135,566	3,837
Due to banks	**189,419**	**97,048**

24. Due to customers

£'000	2014	2013
Current accounts	79,749	23,006
Term deposits	21,670	25,450
Due to customers	**101,419**	**48,456**

25. Other liabilities

£'000	2014	2013
Accounts payable	225	489
Accruals	1,200	1,351
Other taxes and social security costs	244	293
Other creditors	116	1,682
Other liabilities	**1,785**	**3,815**

26. Provisions

£'000	2014	2013
As at 1 January	30	100
Additions	-	-
Used	30	70
Unused	-	-
As at 31 December	-	30

Provision in respect of litigation recognised through other general overheads in the income statement.

27. Subordinated debt

£'000	2014	2013
€17m 4% fixed rate notes issued on 31st May 2010 - due 31st May 2020	14,138	15,117
Subordinated debt	**14,138**	**15,117**

28. Share capital and reserves

£'000	2014	2013
Share capital as at 1 January		
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 as at 1 January		
Available for sale investment reserve	(2,277)	(497)
Foreign currency translation	(358)	(351)
Accumulated losses	(45,214)	(50,922)
Reserves as at 31 December	**(47,849)**	**(51,770)**
Share capital and reserves	**54,324**	**50,403**

29. Additional cash flow information

£'000	2014	2013
Cash and balances with central banks	1,887	2,472
Current accounts with other banks	48,623	41,887
Money market placements with other banks	50,439	31,991
Cash and cash equivalent (note 16)	**100,949**	**76,350**

Net decrease / (increase) in:		
Due from banks	(9,471)	(4,739)
Derivative Financial Instruments	459	(396)
Loans and advances to customers	(93,111)	44,431
Other assets	(875)	(1,989)
Interest	(3,601)	(3,906)
Change in operating assets	**(106,599)**	**33,401**

Net (decrease) / increase in:		
Due to banks	92,371	(18,918)
Derivative financial instruments	4,253	(158)
Due to customers	52,963	(7,529)
Other liabilities	(2,195)	(2,133)
Interest	37	151
Change in operating liabilities	**147,429**	**(28,587)**

Depreciation and amortisation	249	911
Impairment provisions	1,361	385
Gain on disposal of AFS	(7)	(530)
Net foreign exchange gain	(353)	1,089
Net loss on derivatives	-	13
Other items included in profit before tax	**1,250**	**1,868**

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.

30. 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	2014	2013
Financial guarantees	34,729	28,869
Letters of credit	46,655	98,415
Bills for collection	9,337	4,139
Contingent liabilities	**90,721**	**131,423**
Undrawn commitments to lend	8,912	3,122
Commitments	**8,912**	**3,122**
Contingent liabilities and commitments	**99,633**	**134,545**

Other contingent liabilities

In the normal course of business, the Bank is exposed to certain legal issues, which can involve litigation and arbitration, and may result in contingent liabilities.

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.

These leases have an average life of between one to ten years with rental review at the end of their life.

The Bank relocated its Paris branch and took on a new six year lease with effect from 1st February 2014. The lease is to be shared with other group companies, the Bank's committed share is to pay £100,000 per annum.

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

£'000	2014	2013
Within one year	391	551
After one year but not more than five years	2,215	400
After five years but not more than ten years	316	408
Lease commitments expiring	**2,922**	1,359

30. 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	2014	2013
Within one year	311	158
Lease commitments receivable	**311**	**158**

31. Compensations

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.

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

Key management personnel are the Directors and senior management of the Bank.

One director was a member of the defined contribution scheme in 2013.

Information provided below for the highest paid director in 2014 and 2013 relates to two different directors.

£'000	2014	2013
Short-term employee benefits	834	520
Post-employment pension (defined contribution)	50	25
Compensation of key management personnel of the group	884	**545**
Short-term employee benefits	500	444
Post-employment pension (defined contribution)	-	7
Compensation of directors	500	**451**
Aggregate emoluments and benefits	282	142
Defined benefit schemes	-	-
Highest paid director	282	**142**

32. Related party transactions

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.

The Bank outsourced its Information technology tangible and intangible assets to a fellow subsidiary, IT Information Services (ITIS) with effect from 1st October 2013.

In 2014, the Bank was charged £1,000k by ITIS for the supply of Information Services in relation to the signed agreement. This amount was payable to ITIS by the Bank at the reporting date.

In addition to entities within the scope of BMCE Group, key management personnel are also considered as related parties. Compensations are disclosed in note 31.

£'000 - 2014	BMCE	BOA	ITIS	ES	Total
Interest charged	908	62	-	-	**971**
Interest received	228	80	-	-	**308**
Fees and commission paid	3	-	950	-	**953**
Fees and commission received	17	367	-	-	**384**
Amounts owed to	150,802	12,589	1,150	-	**164,541**
Amounts owed by	42,154	978	4,180	5	**47,317**
Financial guarantees and commitments given	7,716	-	-	-	**7,716**
Financial guarantees received	10,441	474	-	-	**10,915**

£'000 - 2013	BMCE	BOA	ITIS	ES	Total
Interest charged	1,173	46	-	-	**1,219**
Interest received	459	153	-	-	**613**
Fees and commission paid	2	-	200	-	**202**
Fees and commission received	1,609	239	-	-	**1,848**
Remittance services income	-	-	-	5,493	**5,493**
Amounts owed to	23,614	17,544	200	-	**41,358**
Amounts owed by	106,431	4,077	2,491	-	**112,999**
Financial guarantees and commitments given	4,421	20,726	-	-	**25,147**
Financial guarantees received	11,195	-	-	-	**11,195**

BMCE = Banque Marocaine du Commerce Exterieur S.A
BOA = Bank of Africa Group
IT IS = IT Information Services
ES = Euroservices SA

33. Investment in subsidiary

The Bank owns 100% of its subsidiary MediCapital Finance S.A., its country of registration and operations being in France. The principal activity of MediCapital Finance S.A. was to provide advisory services on mergers and acquisitions. On 24 January 2011 the activities of the subsidiary MediCapital Finance S.A. were ceased. The company went into liquidation in late 2013.

34. 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.

These risks are sufficiently mitigated by the Bank's effective risk management processes which are comprehensively detailed in its risk policy manuals.

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.

34. Risk management (continued)

- **Audit Committee - Audit Committee's responsibilities include:**

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 report on daily basis from information compiled from all business systems, then examined and 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.

35. 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 a major task 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.

35. Credit risk (continued)

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

The maximum gross credit exposure, other than to related parties disclosed in note 32, by risk concentration as of 21 December 2014 was £33,168,000 (31 December 2013: £35,958,000)

This exposure arises from commodity trade financing, the 2013 exposure arose from the discounting of letters of credit.

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 - 2014	CIB	TCM	Total
Europe	90,913	10	90,923
United Kingdom	5,175	1	5,176
Africa	232,209	4	232,213
Others	23,369	-	23,369
Total	**351,666**	**15**	**351,681**

£'000 - 2013	CIB	TCM	Total
Europe	76,085	18	76,103
United Kingdom	29,846	2,457	32,303
Africa	58,409	(2,001)	56,408
Others	36,662	-	36,662
Total	**201,002**	**474**	**201,477**

Loans and advances to corporate customers
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 liens and guarantees.
Because 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.

35. Credit risk (continued)

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	Note	2014	2013
Cash and balances with central banks	**16**	1,887	2,472
Due from banks	**16**	123,940	89,285
Financial assets held for trading	**39**	15	474
Loans and advances to customers	**17**	149,257	57,507
Financial investment - available for sale	**18**	66,109	42,067
Other assets	**22**	10,473	9,672
Total		**351,681**	**201,477**
Contingent liabilities	**30**	90,721	131,423
Commitments	**30**	8,912	3,122
Total		**99,633**	**134,545**
Contingent liabilities and commitments		**451,314**	**336,023**

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	2014 Gross maximum exposure	2014 Net maximum exposure	2013 Gross maximum exposure	2013 Net maximum exposure
Agriculture	7,069	6,344	8,644	8,644
Banking and finance	272,930	255,089	265,940	209,584
Construction and heavy goods	14,696	1,892	10,357	358
Consumables wholesaling	46,745	13,126	60	60
Energy	4,732	4,732	5,601	5,601
Governments	35,661	30,378	5,445	5,445
Individuals	250	179	276	142
Commodities extraction and production	44,477	44,477	21,347	16,916
Recreational	1,981	1,981	530	530
Technology, and telecommunications	80	80	1,480	1,078
Transport and shipping	22,693	22,312	16,343	10,462
Total	**451,314**	**380,590**	**336,023**	**258,820**

35. Credit risk (continued)

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

The below table shows the carrying amount of renegotiated financial assets, net of credit mitigation by class:

£'000	2014	2013
Corporate lending	3,754	919
Total	**3,754**	**919**

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.

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 - 2014	Investment grade	Non investment grade	impaired	Total
Due to banks	78,815	45,125	-	123,940
Financial liabilities held for trading	5	10	-	15
Loans and advances to customers	66,710	74,412	8,135	149,257
Financial instruments – available for sale	22,540	43,569	-	66,109
Total	**168,070**	**163,116**	**8,135**	**339,321**

£'000 - 2013	Investment grade	Non investment grade	impaired	Total
Due to banks	55,990	33,295	-	89,285
Financial liabilities held for trading	-	474	-	474
Loans and advances to customers	-	51,900	5,607	57,507
Financial instruments – available for sale	17,864	24,203	-	42,067
Total	**73,854**	**109,872**	**5,607**	**189,333**

35. Credit risk (continued)

The table below sets out a reconciliation of changes in the carrying amount of impaired loans and advances to customers

£'000	Total
As at January 2014	5,607
Impaired in year	4,686
New provisions made	(1,361)
Released through interest income	161
Written off	(16)
Exchange movement	(314)
Reclassified to performing	(628)
As at 31 December 2014	**8,135**

E. Credit quality per class of financial assets

Financial investments - available for sale can be split as follows:

£'000	2014	2013
Rated AAA	9,574	8,362
Rated BB+ and Below	11,431	4,940
Government Bonds and Treasury Bills	**21,005**	**13,302**
Rated BBB+ to BBB-	12,966	12,835
Rated BB+ and Below	32,138	15,930
Financial Institution Bonds	**45,104**	**28,765**
Total	**66,109**	**42,067**

36. 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.

Net liquid assets consist of cash, short term Bank deposits and liquid equity securities available for immediate sale, less deposits from Banks and other borrowings. The Bank focuses on net liquid assets due to mature within the next eight days and also those due to mature within the next month. However the Bank also monitors all assets and liabilities over their contractual maturities.

The ultimate parent Company Banque Marocaine du Commerce Exterieur S.A has committed to provide interBank funding deposits to a maximum of £200 million, or equivalent in foreign currency, at an arms length interest rate to be agreed between the two parties until 31 December 2015.

A. Liquidity reserves

The table below shows the liquidity reserves:

£'000	2014 Carrying amount	2014 Fair value	2013 Carrying amount	2013 Fair value
Balances with central banks	1,872	1,872	2,441	2,441
Cash and balances with other banks	73,501	73,501	41,918	41,918
Unencumbered debt securities issued by sovereigns	9,571	9,571	8,040	8,040
Total	**84,944**	**84,944**	52,399	52,399

36. Liquidity risk (continued)

The table below summarises the maturity profile of the Bank's assets and liabilities at 31 December 2014 based on contractual undiscounted repayment obligations.

£'000 - 2014	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	1,887	-	-	-	-	1,887
Due from banks	99,362	4,250	20,328	-	-	123,940
Financial assets held for trading	15	-	-	-	-	15
Loans and advances to customers	87,176	49,745	42,872	15,850	3,359	199,002
Financial Investments AFS	-	627	-	65,482	-	66,109
Property and equipment	-	-	-	-	987	987
Goodwill	-	-	-	-	7,791	7,791
Deferred tax assets	-	-	-	4,893	-	4,893
Other assets	2,074	-	8,399	-	-	10,473
Total Assets	**190,514**	**54,622**	**71,599**	**86,225**	**12,137**	**415,097**

£'000 - 2014	Less than 1 month	1 to 3 months	Over 3 to 12 months	1 to 5 years	Over 5 years	Total
Liabilities						
Due to banks	33,567	3,939	151,913	-	-	189,419
Financial liabilities held for trading	4,267	-	-	-	-	4,267
Due to customers	91,355	3,573	6,395	96	-	101,419
Subordinated debt	363	-	-	-	13,775	14,138
Other liabilities	969	-	816	-	-	1,785
Total Liabilities	**130,521**	**7,512**	**159,124**	**96**	**13,775**	**311,028**

36. Liquidity risk (continued)

The table below summarises the maturity profile of the Bank's assets and liabilities at 31 December 2014 based on contractual undiscounted repayment financial obligations.

£'000 - 2013	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	2,472	-	-	-	-	2,472
Due from banks	73,632	607	4,262	10,784	-	89,285
Financial Assets held for trading	474	-	-	-	-	474
Loans and advances to customers	35,362	7,233	13,289	1,623	-	57,507
Financial Investments AFS	-	708	8,040	29,933	3,386	42,067
Property and equipment	-	-	-	-	1,166	1,166
Goodwill	-	-	-	-	8,362	8,362
Deferred tax assets	-	-	-	3,878	-	3,878
Other assets	5,124	1,680	851	2,017	-	9,672
Total Assets	**117,064**	**10,228**	**26,442**	**48,235**	**12,914**	**214,883**

Liabilities						
Due to banks	54,759	5,231	13,787	23,271	-	97,048
Financial liabilities held for trading	14	-	-	-	-	14
Due to customers	26,487	8,553	13,149	267	-	48,456
Subordinated debt	369	-	-	-	14,748	15,117
Other liabilities	2,133	1,712	-	-	-	3,845
Total Liabilities	**83,762**	**15,496**	**26,936**	**23,538**	**14,748**	**164,480**

36. 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	2014 Less than 1 year	2014 More than 1 year	2013 Less than 1 year	2013 More than 1 year
Assets				
Cash and balances with central banks	1,887	-	2,472	-
Due from banks	123,940	-	78,501	10,784
Derivative financial instruments	15	-	474	-
Loans and advances to customers	179,793	19,209	55,884	1,623
Financial investments - available for sale	627	65,482	8,748	33,319
Property and equipment	-	987		1,166
Goodwill and other intangible assets	-	7,791		8,362
Deferred tax assets	-	4,893		3,878
Other assets	10,473	-	9,672	-
Total assets	**316,735**	**98,362**	**155,751**	**59,132**
Liabilities				
Due to banks	189,419	-	73,777	23,271
Derivative financial instruments	4,267	-	14	-
Due to customers	101,323	96	48,189	267
Other liabilities	1,785	-	3,815	-
Provisions	-	-	30	-
Subordinated debt	363	13,775	369	14,748
Total liabilities	**297,157**	**13,871**	**126,194**	**38,286**
Equity				
Share capital	-	102 173	-	102 173
Other reserves	-	(2 635)	-	(848)
Accumulated losses	-	(45 214)	-	(50 922)
Total equity	**-**	**54 324**	-	**50 403**

37. Market risk

Market risk is defined as the risk of losses on financial instruments arising from changes in risk factors. The current risk factors are interest rate risk and foreign exchange rate 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
- Price risk on available for sale assets

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	2014	2013
Parallel shift in interest rates -2%	(382)	1,487
Parallel shift in interest rates +2%	309	(1,725)

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 risks are monitored on a daily basis.

The Bank does not allow any open position on foreign currency transactions. All positions must be closed at the end of the trading day. Therefore, the foreign exchange risk is mitigated.

C. Price risk on available for sale assets.

The Bank holds available for sale 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 £400,000. Similarly a 1% price rise would result in a gain of approximately £400,000.

38. 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 endeavours 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.

39. Fair Value

A. Fair Value Hierarchy

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.

No transfer of financial instruments from one category to another was done during the year 2014.

£'000 - 2014	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Assets					
Cash and cash equivalents	-	1,887	-	1,887	1,887
Loans and advances to banks	-	97,767	26,173	123,940	123,940
Loans and advances to customers	-	-	149,257	149,257	149,257
Derivatives held for trading	-	15	-	15	15
Available for sale investment securities	66,109	-	-	66,109	66,109
Liabilities					
Deposits from banks	-	168,813	20,606	189,419	189,419
Deposits from customers	-	-	101,419	101,419	101,419
Derivatives held for trading	-	4,267	-	4,267	4,267
Subordinated liabilities	-	-	14,138	14,138	14,138

£'000 - 2013	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Assets					
Cash and cash equivalents	-	2,472	-	2,472	2,472
Loans and advances to banks	-	73,696	15,588	89,284	89,284
Loans and advances to customers	-	-	57,507	57,507	57,507
Derivatives held for trading	-	474	-	474	474
Available for sale investment securities	42,067	-	-	42,067	42,067
Liabilities					
Deposits from banks	-	16,584	80,464	97,048	97,048
Deposits from customers	-	-	48,456	48,456	48,456
Derivatives held for trading	-	14	-	14	14
Subordinated liabilities	-	-	15,117	15,117	15,117

39. Fair Value (continued)

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 ordely 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 estimated using valuation model such as discount cash flow techniques. For collateral-dependent impaired loans, the fair value is measured based on the value of underlying collateral.

The fair value of the deposits from banks and customers is estimated using discounted cash flow techniques, applying the rates that are offered for deposits of similar maturities and terms. The fair value of desposits payable on demand is the amount payable at the reporting date.

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 - 2014	Fair value of assets	Fair value of liabilities	Notional amount
Forward foreign exchange	10	2	9,242
Foreign exchange swaps	5	4,265	48,570
Derivatives held for trading	**15**	**4,267**	**57,812**

£'000 - 2013	Fair value of assets	Fair value of liabilities	Notional amount
Forward foreign exchange	18	14	3,422
Foreign exchange swaps	456	-	75,906
Derivatives held for trading	**474**	**14**	**79,328**

40. 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 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 regulatory reporting during 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	2014	2013
Share capital	102,173	102,173
Available for sale investment reserve	(2,277)	(497)
Foreign currency translation	(358)	(351)
Accumulated losses	(50,922)	(53,725)
Goodwill	(7,791)	(8,362)
Tier one capital	**40,825**	**39,238**
Subordinated debt (principal)	13,775	14,748
Tier two capital	**54,600**	**53,986**

Part III

Additional information required by the Capital Requirements Directive (CRD)

Pillar 3 Disclosures

This is unaudited information

A. Ratios

The following disclosures are in accordance with the requirements of the Capital Requirements Directive. The numbers in this appendix are as submitted to the Prudential Regulation Authority and do not reflect late adjustments to the financial statements which are not considered to be material.

Further information on capital management is available in note 40.

The Bank has no Tier 3 capital.

Deductions from pillar 1 capital are goodwill and AFS reserve. Figures are available on table in note 40.

£'000	2014	2013
Tier 1 capital	40,825	39,238
Subordinated debt (principal)	13,775	14,748
Tier 2 capital	**54,600**	**53,986**
Required capital pre capital planning buffer	37,091	30,167
Capital planning buffer	8,200	21,430
Required capital including buffer	**45,291**	**51,597**
Surplus Capital	**9,309**	**2,389**
Risk weigthed assets	305,024	215,479
Tier 1 capital ratio	13.3%	18.2%
Solvency ratio	17.9%	25.1%

B. Regulatory exposure values

The regulatory exposure values and pillar 1 capital requirements by class are as follows:

£'000	2014	2013
Central governments or central banks	38,890	2,472
Institutions	108,849	142,338
Corporate	132,657	66,999
Retail	250	276
Short term claims on institutions	94,388	74,682
Other items	7,209	11,938
Total	**382,243**	**298,705**

Additional information required by the Capital Requirements Directive (CRD)

Pillar 3 Disclosures (continued)

B. Regulatory exposure values (continued)

Pillar 1 capital requirement:

£'000	2014	2013
Central governments or central banks	2,773	-
Institutions	5,682	7,313
Corporate	6,587	3,981
Retail	16	99
Short term claims on institutions	1,941	1,493
Other items	143	457
Total	**17,142**	**13,343**

C. Risk management

Risk Management is described in note 34.

D. Credit risk

Credit Risk is described in note 35.

The average exposures by class during the year were as follows:

£'000	2014	2013
Central governments or central banks	20,681	2,502
Institutions	125,594	121,954
Corporate	99,828	89,268
Retail	263	255
Short term claims on institutions and corporate	84,535	69,546
Other items	9,574	11,900
Total	**340,474**	**295,425**

The bank monitors the performance of all credit exposures. It classifies an exposure as past due whenever a due payment of interest or principal is overdue. The risk department is responsible for monitoring exposures. If it has a concern as to whether an exposure may be at risk of default this is referred to the credit committee. Exposures are classified as impaired if there is a reasonable probability of default.

41. Additional information required by the Capital Requirements Directive (CRD)

Pillar 3 Disclosures (continued)

D. Credit risk (continued)

The table below shows loans impaired and provisions applied:

£'000	2014 Principal	2014 Provision	2013 Principal	2013 Provision
By type				
Loans to customers	9,929	1,785	6,709	598
By sector				
Banking and Finance	-	-	628	161
Construction & heavy goods	4,925	1,359	5,2 75	198
Commodities extraction and production	4,276	187	-	-
Recreational	615	222	765	238
Transport and shipping	113	17	41	1
Total	**9,929**	**1,785**	**6,709**	**598**
Expected Recovery				
0 to 3 months		187		-
3 - 6 months		1,359		161
6 months to 1 year		239		-
1 to 2 years				437
Total		**1,785**		**598**

The Bank uses the following External Credit Assessment Institutions:

- Fitch Ratings;
- Moody's Investors Service.

These ratings are applied to the exposures to Institutions and central governments.

The ratings are mapped as follows:

Credit quality	Moodys	Fitch
1	Aaa	AAA
2	Aa1 to Aa3	AA+ to AA-
3	A1 to A3	A+ to A-
4	Baa1+ to Baa3	BBB+ to BBB-
5	Ba1 to Ba3	BB+ to BB-
6	B1 to B3	B+ to B-
7	Caa1 and below	CCC+ and below
NR	Not rated	
SN	Supranational	

Additional information required by the Capital Requirements Directive (CRD)

Pillar 3 Disclosures (continued)

E. Market risk

The exposures that are subject to market risk are:

- Interest rate swaps
- Foreign exchange open positions
- Available for sale instruments

Equity risk is measured using the standardised approach. The trading book equities are quoted but are not part of any qualifying equity index. There are no short positions and hence no netting.

The Bank calculates the general market risk on its interest rate swaps by using the maturity method. The swaps are standard fixed / floating swaps. The risk is calculated by the standardised method of placing the cash flows into time bands.

The Bank applies the ordinary credit default swap PRR (Position Risk Requirement) method. A valuation change capital charge is added to a default capital charge. The aggregate charge is limited to the maximum loss possible under the swaps.

Further information is available in note 37.

£'000	2014	2013
Interest rate risk	5,046	2,574
Foreign exchange risk	7	4
Total	**5,053**	**2,578**

F. Liquidity risk

Liquidity Risk is described in note 36.

G. Operational risk

The Bank calculates its operational risk capital requirement by using the basic indicator approach.

Further information is available on note 38.

H. Remuneration policy

The Remuneration Committee meets at least annually or as frequently as is required to:

- establish the compensation policy;
- review individual performances, salary adjustments and position upgrades; and
- review any other relevant compensation issues.

The committee is headed by a non-executive Director.

In addition to the Head of the committee another member of the Board of Directors, the Chief Executive Officer and Human Resources department also attend.

No employee receives shares or other variable remuneration.

Non-cash benefits are those that are standard within the industry; the most significant being private medical insurance and season ticket loans.

Total remuneration is disclosed in note 10. Remuneration of key personnel is disclosed in note 31. The number of employees is such that further analysis is not material and would be confidential.