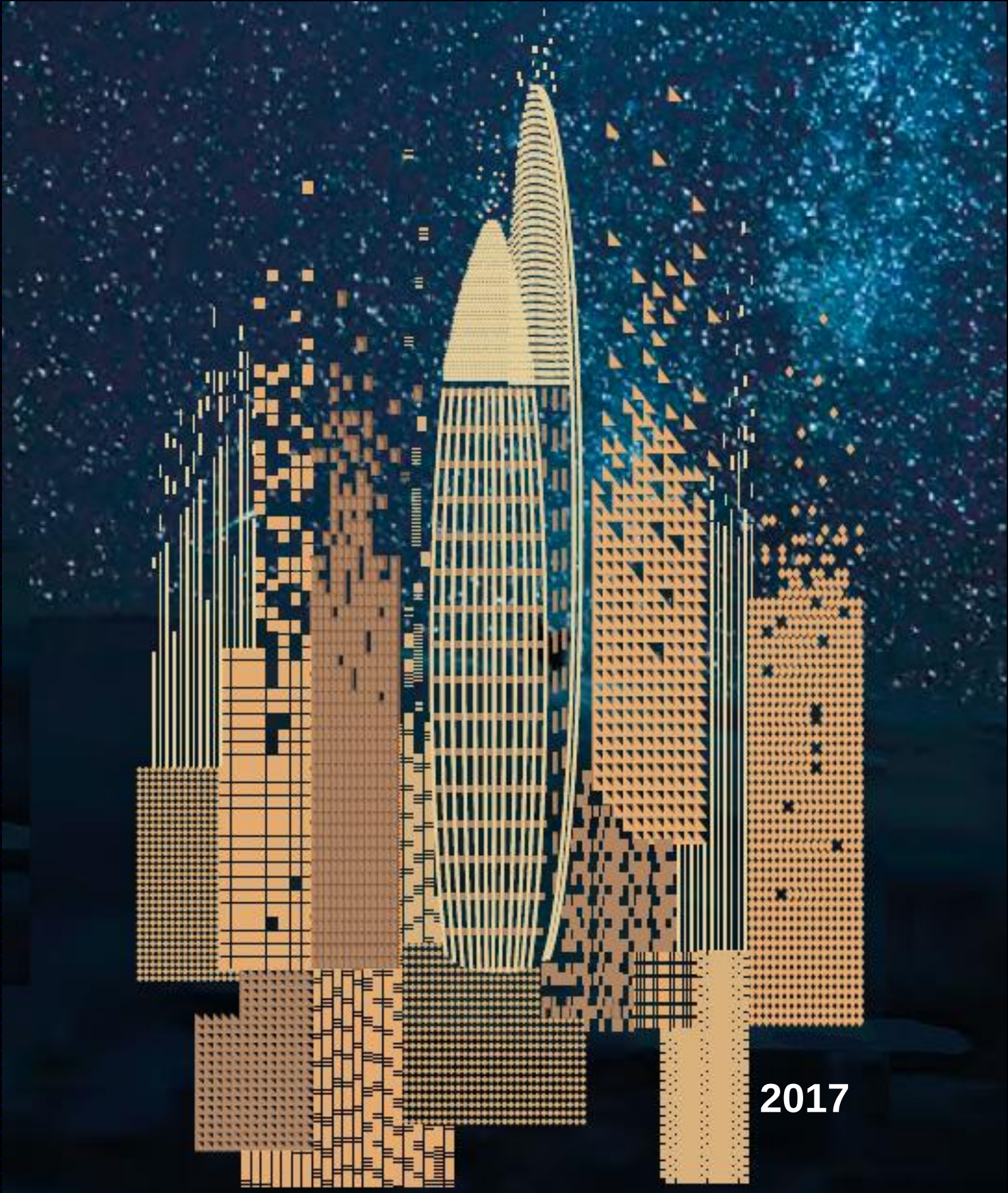


2017

ANNUAL REPORT AND FINANCIAL STATEMENTS

BMCE BANK INTERNATIONAL

Company Registration N°5321714 (England and Wales)

Contents

Part I

Part II

Part I

BOARD

David SURATGAR
Independent Non-executive Director - Chairman

Mohammed AFRINE
Executive Director – Chief Executive Officer

Colin FISHER
Independent Non-executive Director

Brahim BENJELLOUN-TOUIMI
Non-executive Director

Mohammed AGOUMI
Non-executive Director

Ralph SNEDDEN
Independent Non-executive Director
(Appointed on 16 August 2017)

Richard PARRY
Independent Non-executive Director
(Appointed on 01 June 2017)

SECRETARY

TMF Corporate Administration Services Limited

AUDITOR

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

REGISTERED OFFICE

26 Upper Brook Street
London
W1K 7QE

BANKERS

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

Chairman's statement

BMCE Bank International plc has ended 2017 with a continuing strong performance. Once again we have built on the scope and depth of our parent BMCE Bank's continued commitment to the economic development of the African region and the potential synergies in the operations of the entire BMCE-Bank of Africa Group.

The United Kingdom and the countries of the European Union continue to experience uncertainties consequent to the Brexit process. Like other foreign owned banks present here in London and with operations in the EU these uncertainties are requiring us to be conscious of the potential implications for our business model and the specific areas of our operations and for our clients.

We have experienced a continuing improvement in our capital adequacy and a sound management of our liquidity requirements where we have had the benefit of the commitment of our parent bank.

The Bank has shown a net profit of £5,510k and a return on equity of 7.7% This has been despite a difficult year in terms of rises in interest rates and the impact of fluctuating exchange rates for Sterling and the US dollar. We have recently taken the initiative to open Representative Offices in Zurich and Dubai to help us build up our growing links to the international trading community and international investors with a growing interest in Emerging Markets and particularly in Africa.

We have sought to strengthen our team of experienced specialists and to develop their resilience and thoroughness in securing conformity to the highest standards. The heightened and ever-widening regulatory frameworks for our operations make Compliance a major area for our management team both in London and Paris. The Board has taken particular interest in ensuring that regular training is in place to foster a responsible culture of adherence to regulatory rules and consistent monitoring of client relations.

As all the international banking industry is aware there is a constant requirement to maintain and indeed enhance the resilience of our IT systems. While wishing to minimise operational risks we have also been in a position to permit prudent growth in our business. Management is achieving progress on our project to enhance the performance of our information systems and our wish to meet the ever increasing demands of our regulators. We are aware that this demands further efforts and continuing investment.

Our growth and profitability and our commitment to a sound banking culture clearly requires a very professional approach to the management of our Human Resources. This year has seen the benefits of a well planned and experienced HR and Communications team covering both London and Paris. The quality and efficiency of our business makes this a focal point for the anticipated and carefully calibrated growth of our business. We will need to anticipate the consequences of Brexit. We have been fortunate to have the continuing support of the BMCE-Bank of Africa Group in this – striving to assure the highest standards of training and quality throughout the operations of the Group.

Chief Executive Officer's review

Mohammed AFRINE

BMCE Bank International Plc ("BBI") has, again in 2017, delivered a strong operational and financial performance, benefitting from its structural strengths: a broad and deep geographic presence in Africa, critical synergies with its reference shareholder BMCE Bank Of Africa a leading pan-African banking Group and the faultless commitment and dedication of all its people and stakeholders.

2017 has yet been a year of high political and economic uncertainties: in the United Kingdom first, the decision to leave the European Union, which terms are still subject to ongoing negotiations, forced the entire Banking industry to re-evaluate its strategy and react quickly to adapt. In Africa, the heart of our activity, countries continued to suffer the shock of a huge fall in commodity prices, leading to higher inflation and interest rates. These elements heavily impacted their financial health and stability and slowed down their economic activity.

Despite this challenging macroeconomic environment, BBI is growing stronger and demonstrating its business model resilience and constant ability to re-invent itself and achieve outstanding results.

This year was another breakthrough year for our bank with a positive Net Profit for the sixth consecutive year maintaining our trajectory of capital stewardship and financial ratios improvement.

For the 6th consecutive year, we recorded strong net profit along with our structuring initiatives, thus in line with our business plan objectives.

We also consider 2017 as a landmark year for the future of our bank, as we have launched structuring projects that will transform three strategic pillars: our international dimension and African identity, our Information Systems performance, and our management of regulatory and compliance requirements.

Supported by the energy and professionalism of our people and continuous support of our Group, we remain confident in our ability to deliver our plan and achieve more success.

The Total shareholder's equity increased by 8.8% to record £77,889k generating a 7.7% return shareholder's equity over the period.

Regulations and Compliance

Excellence in the management of regulatory and compliance requirements is another key pillar of our development strategy.

Compliance to all regulatory and control policies is a major concern of our bank in line with the strategic recommendations of our Group. This has been a key focus for BBI and a critical area of progress this year. BBI is now adopting the state of the art compliance features and market best practices. Adhering to those principals will maximise our reliability and strengthen our economic health.

Our geographical diversification is a core driver of our strategy. The project of opening Zurich and Dubai's representative offices will strengthen our presence in the countries we are reaching.

International Expansion

Our international dimension is a core element of our culture and a critical driver for development of BBI. With the announcement of the opening of two offices in Zurich and Dubai, our bank is further strengthening its EMEA footprint and ability to do business across sectors in its geographical scope. BBI is now a major player in the African finance sector building on its African DNA and values of excellence.

Information Systems

We have significantly up-scaled and invested in our information systems to ensure BBI is able to reduce its operational risk and sustain growth. Our Strategic Information Systems projects are at an advanced stage of implementation enabling BBI's strong and sustainable growth.

Human Capital

Our people are our most essential assets making our success and growth promising. Their knowledge, professionalism and commitment is our key growth driver. A strong HR vision and strategy, with a continuous support to our teams and training opportunities, is what makes us thrive.

Strategic Report

The Directors present their Strategic Report for BMCE Bank International plc ("the Bank") for the year ended 31 December 2017.

Our Strategic priorities and progress

1 *Organisation of governing bodies*

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

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

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

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

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

- Other committees involved in the decision making processes of BBI plc are:
    - Executive Committee
    - Asset and Liability Committee
    - Credit Committee
    - Steering and Control Committee for Paris branch
    - Human Capital and Communication Committee
    - Compliance Committee

2 *Upgrading of information technology system*

Our constant goal is to improve our IT system.

In 2017, the Bank continued to enhance its IT system. The IT system is seen as a strategic investment for us, for achieving a sustainable growth of our business model. It is an Information System oriented and used essentially for the Regulatory Reporting intended for the PRA. Beyond regulatory reporting, this IT system is our leverage to build new opportunities, for enhancing quality, reliability and the management of our reporting.

3 *Diversification of our investment bank*

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

- The business advisory, fund manager and brokerage of asset business streams are ongoing projects to be fully established. We still aim to be the benchmark for investment in Africa with a complete portfolio of Banking products.

4 *Achievement of business objectives*

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

- Commercial efforts: Remaining dynamic on marketing and communication by sponsoring several events, attending many meetings and conferences related to business in Africa.

- Group Synergies: Capitalising on the BMCE Bank of Africa brand for the acquisition of new customers and continually being a key player for creating synergies within the BMCE Bank of Africa Group. Several successful combined transactions with other entities of the Group generated substantial revenues at Group level. We are developing our network and co-financing projects with other subsidiaries of BMCE Bank of Africa. We are still expecting strong benefits from Group synergies for both of the components "Buy Side" and "Sell Side".

Strategic Report (continued)

4 *Achievement of business objectives*

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

- Risks: Maintaining the level of "Risk Appetite" as approved by the Board. BBI plc Risk Appetite has been reviewed and we have delivered enhanced risk management practices with risk limits aligned to a carefully considered business strategy.

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

Economical overview

1 *Sub Sahara Environment*

Sub-Saharan Africa is set to drop its GDP's growth to its lowest level for a couple of decades, reflecting the adverse external environment, and a lacklustre policy response in many countries.

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

2 *International and Local Environment : Brexit…*

In 2017, the UK market fluctuated amid uncertainties about the output of Brexit negotiations. Despite improving macro-economic indicators across Europe, the lack of confidence remained high. The US interest rates were raised twice and 2018 policy outlook remained unchanged.

As in 2016, 2017 left us with lower figures than expected.

Risk Management Framework

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

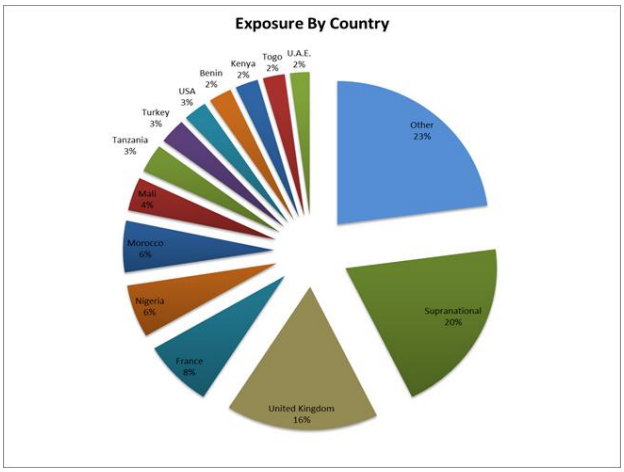
This model allows BBI plc to implement effective risk management and a risk culture.

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

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

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

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



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

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

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

The fast growth of BBI plc, coupled with the new incoming rules on IFRS 9 and the willingness of BBI plc to adopt of the best practice, have accelerated the rhythm of refining and developing more sophisticated risk management procedures and models.

Strategic Report (continued)

1 *Credit Risk*

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

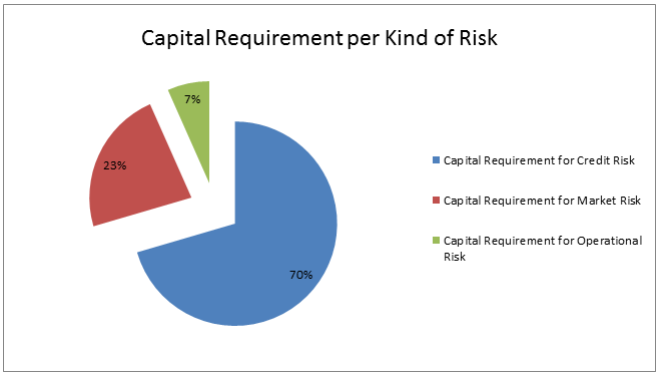
The credit risk includes counterparty risk, settlement risk and concentration risk.

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

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

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

Credit risk is the main risk in BBI plc as shown here below:



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

In 2017, BBI plc have recorded £1.5 million provision related to three exposures.

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

2 *Market Risk*

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

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

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

The fixed income portfolio represents 25% of the total balance-sheet.

40% is High Quality Liqud Assets and rated above AA-.

Only minimal currency risk will arise from BBI plc's fixed income activity as the purchase of most securities denominated in foreign currency will be funded on a matched basis.

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

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

3 *Operational Risk*

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

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

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

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

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

Strategic Report (continued)

4 *Liquidity Risk*

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

BBI plc monitors its liquidity very closely and within the Risk Tolerance approved by the Board.

These internal limits are benchmarked against the Individual Liquidity Guidance to ensure they are at least as stringent.

Principal risks and uncertainties

The table below summarizes the principal risks and uncertainties.

Risks and uncertainties	Description/Component/Impact	Mitigation	Change 2017/2016
Risks			
Credit Risk	• Description:Non-investment grade direct lending • Component: Sub-saharian area • Impact: Losses in notional	Country/counterparty analysis, Credit committee approval	↗
Market Risk	• Description:Interest rate hikes/Currency volatility • Component: USD rates • Impact: Market losses (% of notional)	Limit in place and potential hedge with Interest rate swap and Fx swaps	→
Regulatory	• Description:Heightened regulation • Component: Basel III • Impact: Regulatory breach	Regulatory updates and internal control	→
Liquidity	• Description:Long term assets not covered by wholesale funding • Component: Funding diversification • Impact: Reputational risk	Application and implementation of ILAA (Individual Liquidity Adequacy Assessment)	→
Compliance	• Description:AML/KYC related issues • Component: High percentage of PEPs and SDNs in our client base, in particular the oil business • Impact: Reputational risk	AML Officer, AML systems, AML policy	→
Operational	• Description:Migration to Delta platform • Component: Inadequate performance of Delta • Impact: Reputational risk	Steering committee Full testing of Delta planned. IT Support, Manual workaround	→
Uncertainties			
Economic difficulties in African countries	• Description: Lower growth in Africa • Component: Bearish commodities market; low oil market. • Impact: Lower banking income		↗

5 *Significant accounting judgements*

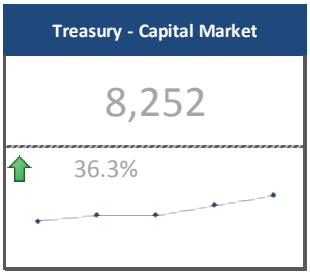
The audit committee has considered the key areas of estimation and judgement applied in the financial statements as set out in note 2b. The considerations for the most significant areas for 2017 included:

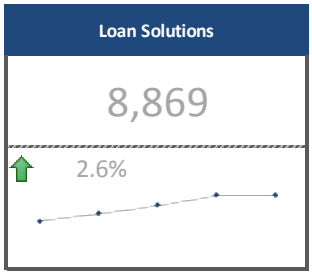
Key area	Action taken
Impairment of loans and advances to customers	• The audit committee considered management's key judgements used to establish the approriate level of individual allowances on material individually assessed cases. Whilst this is management's best estimate, recoveries on certain exposures may vary significantly. The audit committee considered the range of estimates as disclosed in notes 16.
Revenue recognition – Fee income	• The audit committee considered the nature of fees for loans to be recognised as an adjustment to the effective interest on loans and the output from the process for monitoring effective interest rate adjustments. See note 2b and 2j.
Deferred Tax Asset	• The audit committee considered the recoverability of deferred tax assets by reviewing forecast profitability and considering the sensitivities to those forecasts on the period to recover the deferred tax asset.

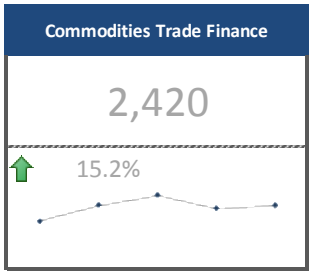
Strategic Report (continued)

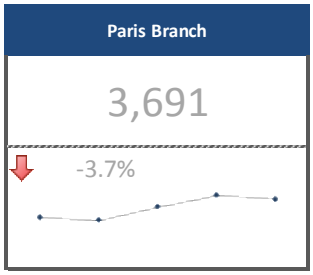
Development and performance by business lines for the year 2017

£'000	2017	2016
Profit on FX	430	1,130
Profit on bonds	5,503	4,196
Money Market	2,319	729
Treasury – Capital Market	**8,252**	**6,055**
Loan Solutions	8,869	8,647
Commodities Trade Finance	2,420	2,101
Paris branch	3,691	3,833
Corporate Banking	**14,981**	**14,581**
Other income / (expenses) not allocated	(2,274)	532
Subordinated debt interest not allocated	(629)	(590)
Net operating income	**20,330**	**20,578**









Treasury – Capital Market (TCM)

The TCM business 2016 closed the year-end with a £8,252k (2016: 6,055k) net operating income. This represented a 36.3% increase compared to 2016. TCM represented more than 29% of the net banking income. TCM continued to develop synergies with the Group. Amid difficult conditions on commodities, TCM achieved a strong performance.

Corporate Banking

- **Loan solutions** – Loan solution continued to record a strong performance this year despite some deals being postponed due to some political upheavals in Africa. The department increased by 2.6% compared to 2017 to £8,647k (2016: £8,647k) . Management still aims to generate more origination and structuring transactions with the Group.

- **Commodities and Trade Finance (CTF)** – The 2017 performance was up by 11.9% to £2,420k compared to 2016. This performance was done amid difficult conditions on the commodities market combined with a revision of CTF exposures and significant commercial efforts were made to reshape the client portfolio. On a positive note the level of profitability of live deals remained high. CTF will continue to have a dynamic and diversified commercial strategy in 2017.

- **Paris branch** – The Paris branch continued to contribute significantly to BBI plc's revenues. In line with the global commercial strategy of BBI plc, the Paris Branch kept generated business on Trade Finance despite strong competition. The Paris Branch will continue to apply the current strategy in 2018. Synergies with the Group will remain a key driver.

Strategic Report (continued)

Income analysis

The net operating income decreased by -1.2% to £20,330k. The decrease in net operating income compared to the prior year resulted from a combined performance of the corporate banking activities generating interest and fees and capital markets activities generating interest and trading income. BBI plc's portfolio earning assets reduced by 7.0% for the year to £464,251k (2016: £499,429k).

Net interest income grew by 8.9% to £16,448k (2016: £15,108k) resulting from additional mixed interest income from customer lending activities and the bond portfolios. As in 2016, the interest margin suffered due to the increase in the cost of funding provided by the Group as a consequence of two US rates increase by the FED in 2017. The level of interest expenses reflected also BBI plc's willingness to hold strong liquidity level to meet regulatory requirements.

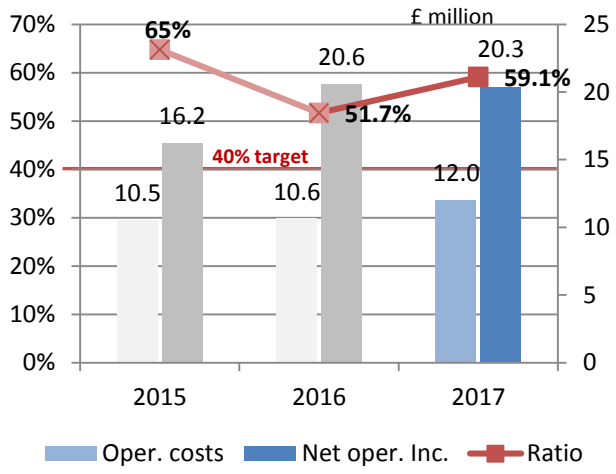
Total fees and commissions income decreased by -57.7% to £1,016k (2016: £2,402k). The new commercial strategy focusing on fees business put in place in 2016 slowed down amid difficult economic climate in the African market. However, the Bank remains confident in this strategy as it will be supported by the opening of two offices in Zurich and Dubai. This strategy is planned to increase in years to come.

Net trading income grew by 14.5% to £2,898k (2016: £2,530k) largely due to activities on BBI plc's bond portfolios. The decrease on foreign exchange business was compensated by more business in money markets.

Operating costs reached £12,012k up by 13.0% (2016: £10,632k). The other operating expenses were up by 17.7% to £5,231k (2016: £4,443k) reflecting the continous effort from BBI to invest in its IT infrastructure. The signicant investment made in late 2016 generated a full year of amortization explaining the increase in 2017 (+£373k). 2017 recorded unexpected and non recurring extra costs for £225k.

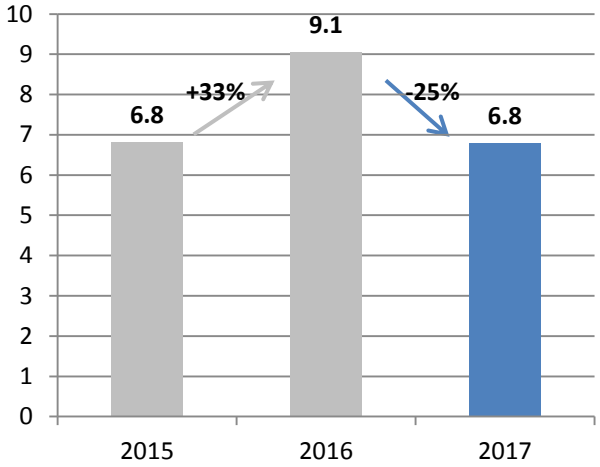
Personnel expenses remained stable at £6,163k (+3.0%; 2016: £5,983k). The Bank kept its on-going commitment to invest in human capital resources by strengthening teams and retaining talented people. The cost income ratio deteriorated by 7.4 pts from 51.7% in 2016 to 59.1% in 2017.

Last but not least the drop of GBP against EUR mechanically increased the Paris branch operating expenses by 7.7% (2016: +13.3%).



Individual credit impairment charges increased to £1,510k during the year mainly due to a three counterparties. No collective impairment was deemed necessary during 2017.

Profit before tax recorded a decrease to £6,608k (2016: £9,060k).



As the bank continues to demonstrate strong performance which allows BBI to recognise deferred tax assets in full. Following the decrease in the threshold in bank loss-relief restrictions to 25%, deferred tax assets are expected to be recovered over 10 years.

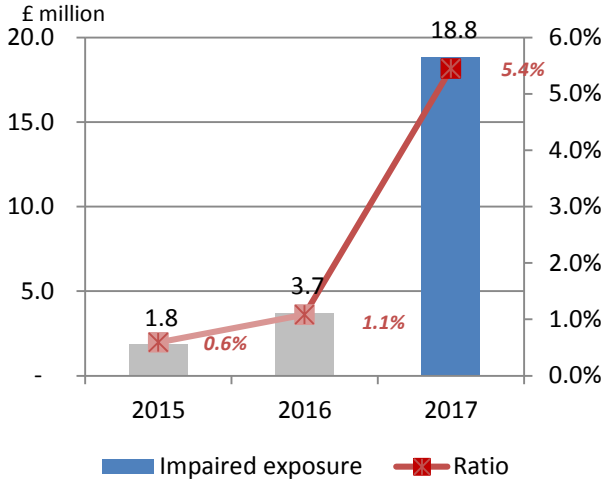
Consequently, BMCE Bank International plc recorded a net profit of £5,510k for the year ended 31 December 2017 resulting in a 35.8% decrease compared to last year (2016: £8,584k)

Strategic Report (continued)

Balance sheet analysis

The total assets reduced by £36,758k to £490,960k (2016: £527,718k). Earning assets decreased by £35,178k to £464,251k (2016: £499,429k). Loans to Banks decreased by £28,900k to £120,104k (2016: £ 149,004k) whereas loans to customers increased by £32,019k to £207,964k (2016: £175,945k).

The impairment ratio increased to 5.4% (2016: 1.1%). The carrying amount of impaired assets was £18,818k at the year end 2017 (2016: £3,669k).

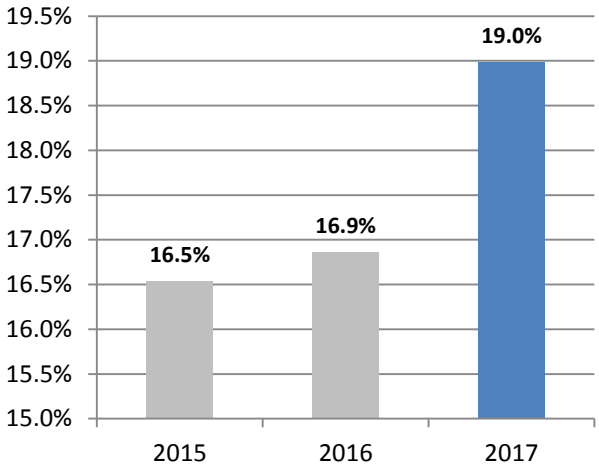


Deposit liabilities decreased by 9.8% to £392,088k (2016: £434,783k). The decrease was mainly from a reduction of funding not from the Group and deposits coming from corporate customers.

Total shareholder's equity increased by 8.8% to £77,889k (2016: £71,557k) due to a mix of net fair value gain on available for sale financial assets (+£899k) and the 2017 net profit fully reinvested by the shareholder (no dividend distributed). BBI plc continued to operate a profitable business model based on its stable funding and high quality assets portfolio held.

Capital management

As at 31 December 2017, BBI plc recorded a capital adequacy ratio of 19.0% (2016: 16.9%) with a core tier 1 capital ratio of 15.1% (2016: 13.0 %). The capital ratios were in excess of regulatory requirements as at the reporting date and demonstrated the robust capital position of the BBI plc.



Risk weighted assets increased by 1.6% to £401,388k (2016: £395,244k). It is expected that with the strength of our current capital ratios, the shareholder's decision to waive dividends until 2020 and the rigourous BBI plc's approach to find the right risk/return mix, BBI plc will be able to meet its regulatory capital requirements in the future.

Liquidity and funding

BBI plc's funding strategy continued to rely on funding from the Group. However, the continuous strong performance recorded for the last 3 years allowed BBI plc to diversify its source of funding outside the Group; and with the aim to get alternative funding sources to manage costs and guard against funding disruption. Liquidity remained high during the year as BBI plc continued to maintain a reserve account with the Banque de France and to hold high-quality, unemcumbered liquid assets in line with the regulatory buffer asset requirements. In addition, highly liquid money market instruments were held to support liquidity requirements.

BBI plc will continue to do its best for meeting any regulatory requirements both LCR and NSFR (effective date as at 01 January 2018).

Key performance indicator

Return on shareholders' equity decreased to 7.7% (2016: 14.1%).

Signed on behalf of the Board

Mohammed Afrine
Chief Executive Officer and Director

David Suratgar
Chairman

25 April 2018

Directors' report

The Directors of BMCE Bank International plc present their Directors' report for the year ended 31 December 2017. As permitted by Paragraph 1A of Schedule 7 to the Large and Medium sized Companies and Groups (Accounts and Reports) Regulations 2008 certain matters which are required to be disclosed in the Directors' Report have been omitted as they are included in the Strategic Report on pages 7-14. These matters relate to

- Future Developments: and
- Financial Risk Management

Principal activities

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

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

The Bank also maintains a branch in Paris.

Business review

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

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

BMCE Bank International plc invests significantly in human capital and its IT systems which will improve its business and financial performances. The Directors regard such investment as necessary for shifting expectations on the future of the business.

Results and dividend

The Bank's profit for the year after taxation amounted to £5,510k (2016: £8,584k).

No dividend was paid during the year (2016: £Nil). The Directors do not recommend the payment of a final dividend for this financial year (2016: £Nil).

Capital structure

The Bank's capital structure remains unchanged.

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

In 2015, the maturity of €17,700k subordinated debt was extended from 2020 to 2023.

Further information regarding the Bank's approach to risk management and its capital adequacy is contained in the unaudited Pillar 3 disclosures made under the current regulatory capital requirements. These disclosures are published on the Bank's website shortly after the approval of these financial statements at http://www.bmce-intl.co.uk/finance.

Directors

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

Directors' interests

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

Directors' insurance and indemnities

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

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

Going concern basis of accounting

The Directors have a reasonable expectation that the Bank has adequate resources to continue in operational existence for the foreseeable future.

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

Signed on behalf of the Board – 25 April 2018

Mohammed Afrine
Chief Executive Officer and Director

David Suratgar
Chairman

Statement of Directors' responsibilities

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

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the profit or loss of the Bank for that period.

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

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable International Financial Reporting Standards (IFRSs) have been followed, subject to any material departures disclosed and explained in the financial statements;
- provide additional disclosures when compliance with specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Bank's transactions and disclose with reasonable accuracy at any time the financial position of the Bank and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

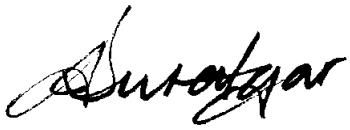
Directors' statement of disclosure to auditors

Each of the Directors confirms that:

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

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

Signed on behalf of the Board



Mohammed Afrine
Chief Executive Officer and Director

David Suratgar
Chairman

25 April 2018

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

We have audited the financial statements of BMCE Bank International plc ("the Bank") for the year ended 31 December 2017 which comprise the Statement of profit or loss, the Statement of other comprehensive income, the Statement of financial position, the Statement of changes in equity, the Statement of cash flows, and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion the financial statements:

- give a true and fair view of the Bank's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union;
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Use of the audit report

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

Conclusions relating to going concern

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

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

Key audit matters

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

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

Area of focus	How our audit addressed the area of focus
Impairment of loans and advances to customers The impairment provision relating to the Bank's loan portfolio requires the directors to make judgements over the ability of the counterparties to make future loan repayments incorporating a high degree of subjective assumptions and estimated future cash flows. The Bank performs an assessment of its loans for impairment as described in note 2b. The factors considered in the determination of the impairment provision are set out in note 16.	• We have assessed the design and tested the operating effectiveness of the key controls operating in the Bank in relation to credit processes (e.g. underwriting, monitoring, collections and provisioning). This included reviewing credit files for all watchlist loans and a sample of performing loans: - For loans identified by management as watchlist loans, we performed substantive procedures to independently consider the sources of future cash flows and the reasonableness of management assessment. - For all other loans we independently assessed indicators of impairment on a sample of loans across the portfolio. • *We found the approach taken in respect of loan loss provisions to be consistent with the requirements of IAS 39 and judgements made were reasonable.*
Risk of Fraud in Revenue recognition As the majority of the Bank's revenue is system generated, the risk of fraud in revenue recognition specifically relates to the recognition of fees and commission income which are manually identified and recognised on an effective interest rate method. As set out in Note 2j, amortised cost takes into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate (EIR). Judgment is required to determine whether fees are recognised as EIR or recognised when a service has been performed. Furthermore, as set out in note 2b effective interest rate adjustments are estimated and monitored manually.	• As part of our audit procedures relating to revenue recognition of fee and commission income, for a sample of instruments : - we tested the appropriateness of the fees included in the calculations; - we assessed the period over which yield adjustments were applied; and - we performed EIR calculations. • *We found that the judgements and estimates applied in determining the basis for revenue recognition were reasonable.*
Recoverability of Deferred Tax Assets The bank has recognised deferred tax assets of £6,531k in respect of tax losses brought forward. As set out in note 13, this is recognised on the basis that the directors believe it is probable that sufficient future taxable profits will be generated against which it can be utilised.	• As part of our audit procedures over tax balances: - we assessed and evaluated the accuracy of underlying deferred tax calculations; - we considered the key assumptions underpinning future taxable profit projections used in the directors' recoverability assessment; - we considered the consistency of these forecasts with Board approved financial plans and analysed historical budgeting accuracy; and - we reviewed the sensitivity analysis looking at the impact of recovery of the deferred tax assets under varying scenarios. • *The assumptions used in the calculation of the Deferred Tax Asset were appropriate and in accordance with IAS 12.*

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

Our application of materiality

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

Overall materiality	£ 424k
How we determined it: Rationale for benchmark applied	• 6% of Profit before Tax. In determining our materiality, we considered financial metrics which we believed to be relevant, and concluded that net assets was the most relevant benchmark. • We believe that the benchmark of profit before tax is most appropriate because the profitability of the business remains the key focus of users of the financial statements, and that of the Directors.
Performance materiality	• Performance materiality is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the financial statements exceeds materiality for the financial statements as a whole. Performance materiality of £297k was applied in the audit.
Reporting threshold	• We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £12k as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

An overview of the scope of our audit

We tailored the scope of our audit to ensure that we performed sufficient work to be able to give an opinion on the financial statements as a whole, taking into account the Bank's accounting processes and controls, and the industry in which it operates. We used the outputs of a risk assessment, our understanding of the Bank, and we also considered qualitative factors in order to ensure that we obtained sufficient coverage across all financial statement line items.

Our audit involved obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are discussed under "Key audit matters" within this report.

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

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

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

Responsibilities of Directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

Other matters which we are required to address

Following the recommendation of the audit committee, we were appointed by Audit Committee on 25 September 2017 to audit the financial statements for the year ending 31 December 2017 and subsequent financial periods. The period of total uninterrupted engagement is 5 years, covering the years ending 31 December 2013 to 31 December 2017.

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

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

Greg Simpson (Senior Statutory Auditor)
for and on behalf of Mazars LLP
Chartered Accountants and Statutory Auditor
Mazars LLP
Tower Bridge House
St. Katharine's Way
London
E1W 1DD
25 April 2018

Part II

Statement of profit or loss for the year ended 31 December 2017

£'000	Note	2017	2016
Interest and similar income		21,034	19,038
Interest expense and similar charges		(4,586)	(3,930)
Net interest income	**6**	**16,448**	**15,108**
Fee and commission income		2,668	3,889
Fee and commission expense		(1,653)	(1,487)
Net fee and commission income	**7**	**1,015**	**2,402**
Net trading income	**8**	2,898	2,530
Other operating income	**9**	(31)	538
Net operating income		**20,330**	**20,578**
Personnel expenses	**10**	(6,163)	(5,983)
Depreciation of property and equipment	**19**	(111)	(71)
Amortisation of intangible assets	**20**	(508)	(135)
Other operating expenses	**11**	(5,231)	(4,443)
Total operating expenses before impairment losses		**(12,012)**	**(10,632)**
Net impairment (losses)	**12**	(1,510)	(886)
Profit before taxation		**6,808**	**9,060**
Taxation	**13**	(1,298)	(476)
Profit for the year		**5,510**	**8,584**

The notes on pages 28 – 70 form part of these financial statements.

Statement of other comprehensive income for the year ended 31 December 2017

£'000	Note	2017	2016
Profit for the year		**5,510**	**8,584**
Items that may quality for reclassification			
Foreign currency translation differences for foreign operations		(77)	356
Net fair value gain / (loss) on available for sale financial assets		2,469	2,603
Reclassification of available for sale investments to profit or loss		(1,570)	(662)
Other comprehensive income for the year	**14**	**822**	**2,297**
Total comprehensive income for the year		**6,332**	**10,881**

The notes on pages 28 – 70 form part of these financial statements.

Statement of financial position as at 31 December 2017

£'000	Note	2017	2016
Assets			
Cash and balances with central banks	**15**	17,489	13,339
Due from banks	**15**	120,104	149,004
Derivative financial instruments	**37**	1,140	32
Loans and advances to customers	**16**	207,964	175,945
Financial investments - available for sale	**17**	117,555	144,263
Financial investments - held to maturity	**18**	-	16,846
Property and equipment	**19**	333	300
Goodwill and other intangible assets	**20 - 21**	11,371	10,310
Deferred tax assets	**13**	6,531	6,966
Other assets	**22**	8,473	10,713
Total assets		**490,960**	**527,718**
Liabilities and equity			
Due to banks	**23**	279,739	305,077
Derivative financial instruments	**37**	74	1,298
Due to customers	**24**	112,349	129,706
Other liabilities	**25**	4,837	4,577
Subordinated debt	**26**	16,072	15,503
Total liabilities		**413,071**	**456,161**
Equity attributable to equity holders of parent			
Share capital	**27**	102,173	102,173
Other reserves	**27**	130	(692)
Accumulated losses	**27**	(24,414)	(29,924)
Total equity		**77,889**	**71,557**
Total liabilities and equity		**490,960**	**527,718**

The notes on pages 28 – 70 form part of these financial statements.
Approved by the Board and authorised for issue on 25 April 2018.

Mohammed Afrine
Chief Executive Officer and Director

David Suratgar
Chairman

Statement of changes in equity for the year ended 31 December 2017

£'000	Note	Share capital	Other reserves	Accumula-ted losses	Total
Balance as at 1 January 2016		**102,173**	**(2,989)**	**(38,508)**	**60,676**
Profit for the year		-	-	8,584	8,584
Other comprehensive income		-	2,297	-	2,297
Total comprehensive income		-	2,297	8,584	10,881
Balance as at 31 December 2016		**102,173**	**(692)**	**(29,924)**	**71,557**
Balance as at 1 January 2017		**102,173**	**(692)**	**(29,924)**	**71,557**
Profit for the year		-	-	5,510	5,510
Other comprehensive income		-	822	-	822
Total comprehensive income	**27**	**-**	822	5,510	6,132
Balance as at 31 December 2017		**102,173**	**130**	**(24,414)**	**77,889**

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 28 – 70 form part of these financial statements.

Statement of cash flow for the year ended 31 December 2016

£'000	note	2017	2016*
Cash flows from continuing operating activities			
Profit before tax		6,808	9,060
Adjustments for:			
Net interest income		16,448	15,108
Interest received		(5,704)	(7,638)
Interest paid		4,711	3,725
Change in operating assets	**28**	(64,434)	(41,817)
Change in operating liabilities	**28**	(41,412)	75,410
Other items included in profit before tax	**28**	(890)	970
Corporation tax paid		(1,298)	(1,418)
Net cash flows generated by continuing operating activities		**(85,771)**	**53,400**
Cash flows from investing activities			
Purchase of financial investments		(72,258)	(114,745)
Proceeds from sales of financial investments		115,811	63,354
Purchase of property and equipment	**19**	(135)	(115)
Purchase of intangible assets	**20**	(1,244)	(1,160)
Net cash flows generated by investing activities		**42,174**	**(52,666)**
Cash flows from financing activities			
Group subordinated debt	**26**	629	590
Net cash flows generated by financing activities		**629**	**590**
Net increase in cash and cash equivalents		(42,968)	1,324
Cash and cash equivalents as at 1 January		117,350	116,026
Cash and cash equivalents as at 31 December	**15**	**74,382**	**117,350**

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.

* Cash flows from group subordinated debt has been represented from operating cash flow to financing activities'

The notes on pages 28 – 70 form part of these financial statements.

1. Corporate Information

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

The Bank provides Corporate and Investment Banking and Treasury services in Europe as well as North, East, West and Central Africa. The principal activities of the Bank are described in the strategic and Directors' reports and note 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 Bank of Africa Group), a Company incorporated in Morocco. BMCE International (Holdings) plc, a Company incorporated in the United Kingdom and registered in England and Wales, is the immediate holding Company for the Bank.

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

2. Presentation of accounts

A. Basis of preparation

The accounts are prepared on a going concern basis (see the Directors' report on page 15) and in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) and interpretations issued by the IFRS Interpretations Committee of the IASB as adopted by the European Union (EU) (together IFRS).

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

The Bank presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) is presented in note 34.

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 2017 is set out below in relation to the impairment of financial instruments and in relation to other areas such as:

- 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 of financial assets;
- impairment testing for goodwill: key assumptions underlying recoverable amounts; and
- impairment of other intangible assets.

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 37. 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.

- **Revenue recognition** – Judgement is required to determine whether fees and commission are recognised in revenue using the effective interest rate method. Furthermore, as the Bank's systems do not automatically calculate effective interest rate adjustments, these are estimated and monitored manually.

- **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 following 10 financial 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 statement of profit and loss. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance. The method used to calculate impairment provisions is to estimate future cash flows and then discount these at the original effective interest rate for the loans and advances and financial instruments being considered. The impairment provision is calculated as the difference between the net present value and the carrying value.

  The amounts of impairment provisions can be seen in note 16.

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

  Assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that is largely independent of the cash inflows of other assets or CGUs. Refer to note 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 British Pound, which is the Bank's functional and presentational currency. The functional currency of the foreign branch in Paris is Euro.

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

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

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

- **Financial asset** – The Bank classifies its financial assets into one of the following categories:
  - loans and receivables;
  - available for sale;
  - held to maturity; 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'.

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

  After initial measurement, available for sale investments are subsequently measured at fair value. Unrealised gains and losses are recognised in other comprehensive income and are accumulated in 'other reserves' in equity. When the security is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the statement of profit and loss in 'net trading income'. Where the Bank holds more than one investment in the same security they are deemed to be disposed of on a first-in-first-out basis. Interest earned whilst holding available for sale financial investments is reported as interest income using the effective interest rate. Dividends earned whilst holding available for sale financial investments are recognised in the statement of profit and loss as 'Other operating income' when the right of the payment has been established. The losses arising from impairment of such investments are recognised in the statement of profit and loss in 'Impairment losses on financial investments' and removed from the available for sale reserve.

- **Held-to-maturity financial investments** – Held to maturity investments are those which carry fixed or determinable payments and have fixed maturities and which the group has the intention and ability to hold to maturity. After initial measurement, held to maturity financial investments 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 that are an integral part of the effective interest rate. The amortisation is included in 'Interest and similar income' in the consolidated statement of profit and loss. Following the disposal of the portfolio prior to maturity, the held-to-maturity designation will no longer be used.

- **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 statement of profit and loss.

- **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 statement of profit and loss in 'Net trading income'.

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

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

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

- **Cash and balances with central banks -** These consist of cash held in hand and balance with central banks which serve as liquid asset buffer. The carrying amount of the cash balances is deemed to be a reasonable representation of the fair value.

- **Due from banks -** These comprise loans granted to financial institutions, short-term placements with banks and balances held in nostro accounts with other banks. The carrying amount is deemed a reasonable approximation of their fair value.

- **Derivative financial instruments-assets -** These consist mainly of forward and swap foreign exchange contracts, of which the fair value is determined by applicable market forward rates. The fair value is determined by using the market spot rates as at the balance sheet date.

- **Loans and advances to customers -** These comprise loans and other facilities granted to non-bank customers. The carrying amount of the loans is deemed a reasonable approximation of their fair value.

- **Financial investments- available for sale -** These comprise mainly marketable debt securities. The basis of estimating the fair value of these assets is by ascertaining the market value as at the balance sheet date. The carrying amount is deemed to be a reasonable representation of the fair value.

F. Determination of fair value (continued)

- **Financial investments- held to maturity -** These comprise mainly marketable debt securities. The basis of estimating the fair value of these assets is by ascertaining the market value as at the balance sheet date. The carrying amount represents the total amortised cost of the asset as at the balance sheet date.

- **Due to banks -** These comprise mainly deposits taken from financial institutions and the carrying amount of these deposits is based on reasonable approximation of market value and in the absence of which the directors' estimation is used.

- **Derivative financial instruments-liabilities -** These consist mainly of forward and swap foreign exchange contracts, of which the fair value is determined by applicable market forward rates. The fair value is determined by using the market spot rates as at the balance sheet date.

- **Due to customers -** These comprise mainly deposits taken from non-bank customers and the carrying amount of these deposits is based on reasonable approximation of market value and in the absence of which the directors' estimation is used.

- **Subordinated debt -** These are long-term debt liabilities, fair value of which has been estimated using the market values.

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 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 statement of profit and loss. 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 'Impairment 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's impairment methodology for assets carried at amortised cost results in the recording of provisions for:

• Specific impairment losses on individually significant or specifically identified exposures;

• Collective impairment of:

- Individually not significant exposures;

- Incurred but not yet identified losses (IBNI).

Details are provided in note 16.

- **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 statement of profit and loss.

- **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 statement of profit and loss on a straight line basis over the lease term and included in 'Operating expenses'.

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

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. This 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.

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

L. Property and equipment

Property and equipment, which consist of computer hardware and furniture and equipment are stated at cost less accumulated depreciation. Depreciation is calculated using the straight-line method to write down the cost of Property and equipment to their residual values over their estimated useful lives. The residual estimated useful lives from 1 January 2017 are as follows:

- Computer hardware - 3 to 5 years; and
- Furniture and equipment - 5 years to 9 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 statement of profit and loss in the year in which it is incurred. Development expenditure is recognised as an intangible asset only after its technical feasibility and commercial viability can be demonstrated. Intangible assets acquired separately are measured on initial recognition at cost. Following the initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

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

The residual estimated useful lives from 1 January 2017 are as follows:

- Licences: 5 to 10 years;
- Computer software - 3 to 10 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 statement of profit and loss.

S. Dividends on ordinary shares

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

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

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

3. 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 for an accounting period that begins on or after 1 January 2017.

A. Annual Improvements to IFRS Standards 2014–2016 Cycle

The cycle amends the following aspects:

- **IFRS 1 First-time Adoption of International Financial Reporting Standards.** The amendment deletes the short-term exemptions in paragraphs E3–E7 of IFRS 1, because they have now served their intended purpose.

- **IFRS 12 Disclosure of Interests in Other Entities.** The amendment clarifies the scope of the standard by specifying that the disclosure requirements in the standard, except for those in paragraphs B10–B16, apply to an entity's interests listed in paragraph 5 that are classified as held for sale, as held for distribution or as discontinued operations in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

- **IAS 28 Investments in Associates and Joint Ventures.** The amendment clarifies that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organisation, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

B. Amendments to IAS 7 — Statement of Cash Flows

The amendments are intended to clarify IAS 7 to improve information provided to users of financial statements about an entity's financing activities. Additional information on financing activities is provided in note 28.

C. Amendments to IAS 12 — Income Taxes

The amendments consist of some clarifying paragraphs around the recognition of a deferred tax asset that is related to a debt instrument measured at fair value is mainly attributable to uncertainty about the application of some of the principles in IAS 12.

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

The standards, amendments, and interpretations, which are relevant to the Company, and may have a material effect on the Company's forthcoming financial statements are as follows. The adoption of all other standards, amendments, and interpretations are not expected to have a material impact (IFRS 9 excluded see dedicated paragraph hereafter).

Below is a list of new and revised IFRSs that are not yet mandatorily effective (but allow early application) for the year ending 31 December 2017:

- Standards effective date: 01/01/2018

- IFRS 9 Financial Instruments;
- IFRS 15 Revenue from contracts with customers;
- Clarification to IFRS 15;
- Amendments to IFRS 4: applying IFRS9 Financial instrument with IFRS 4 insurance contracts ;
- Amendments to IFRS 2: clarification and measurement of share based payment transactions; and
- Amendement to IAS 40: transfers of investment property.

- Standards effective date: 01/01/2019

- IFRS 16 Leases

- Standards effective date: unknown

- IFRS 17 Insurance contracts;
- IFRIC 22 Foreign currency transactions and advance consideration;
- IFRIC 23 Uncertainty over Income tax treatments;
- Amendments to IFRS9: prepayment features with negative compensation;
- Amendments to IAS 28: Long-term interests in Associates and Joint ventures;
- Annual improvements to IFRS standards 2015 - 2017 cycle; and
- Amendments to IAS 19: Plan amendment, curtaiment or settlement.

- **IFRS 9 Financial Instruments: Classification and Measurement**, 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.

- Classification and measurement: The classification and measurement of financial assets will depend on how these are managed (the entity's business model) and their contractual cash flow characteristics. These factors determine whether the financial assets are measured at amortised cost, fair value through other comprehensive income ('FVOCI') or fair value through profit or loss ('FVPL'). The combined effect of the application of the business model and the contractual cash flow characteristics tests may result in some differences in the population of financial assets measured at amortised cost or fair value compared with IAS 39. In addition, on transition to IFRS 9 entities are required to revoke previous designations of financial assets and financial liabilities measured at fair value through profit or loss where the accounting mismatch no longer exists and are permitted to revoke such designations where accounting mismatches continue to exist.

- Impairment: The impairment requirements apply to financial assets measured at amortised cost and FVOCI, lease receivables, and certain loan commitments and financial guarantee contracts. At initial recognition, an impairment allowance (or provision in the case of commitments and guarantees) is required for expected credit losses ('ECL') resulting from default events that are possible within the next 12 months ('12-month ECL'). In the event of a significant increase in credit risk, an allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument ('lifetime ECL'). Financial assets where 12-month ECL is recognised are in 'stage 1'; financial assets that are considered to have experienced a significant increase in credit risk are in 'stage 2'; and financial assets for which there is objective evidence of impairment, so are considered to be in default or otherwise credit impaired, are in 'stage 3'.

The assessment of credit risk and the estimation of ECL are required to be unbiased and probability-weighted, and should incorporate all available information relevant to the assessment, including information about past events, current conditions and reasonable and supportable forecasts of economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money.

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

As a result, the recognition and measurement of impairment is intended to be more forward-looking than under IAS 39, and the resulting impairment charge may be more volatile. IFRS 9 may also result in an increase in the total level of impairment allowances, since all financial assets will be assessed for at least 12-month ECL and the population of financial assets to which lifetime ECL applies is likely to be larger than the population for which there is objective evidence of impairment in accordance with IAS 39.

- Transitional impact: The requirements of IFRS 9 'Financial Instruments' will be adopted from 1 January 2018. The classification and measurement and impairment requirements are applied retrospectively by adjusting the opening balance sheet at the date of initial application, with no requirement to restate comparative periods. The Bank does not intend to restate comparatives.

For the financial statements of BMCE International plc, the adoption is expected to reduce net assets by less than 5%.

These estimates are based on accounting policies, assumptions, judgements and estimation techniques that remain subject to change until the Bank finalises its financial statements for the year ending 31 December 2018.

- **IFRS 15 Revenue from contracts with customers**

In May 2014, the IASB issued IFRS 15 'Revenue from Contracts with Customers' and it is effective for annual periods beginning on or after 1 January 2018. IFRS 15 provides a principles-based approach for revenue recognition, and introduces the concept of recognising revenue for performance obligations as they are satisfied. The Bank will adopt the standard on its mandatory effective date, and the standard will be applied on a retrospective basis, recognising the cumulative effect, if any, of initially applying the standard as an adjustment to the opening balance of retained earnings. The Bank has assessed the impact of IFRS 15 and expects that the standard will have no significant effect.

- **IFRS 16 Leases**

January 2016, the IASB issued IFRS 16 'Leases' with an effective date for annual periods beginning on or after 1 January 2019. IFRS 16 results in lessees accounting for most leases within the scope of the standard in a manner similar to the way in which finance leases are currently accounted for under IAS 17 'Leases'. Lessees will recognise a 'right of use' asset and a corresponding financial liability on the balance sheet. The asset will be amortised over the length of the lease, and the financial liability measured at amortised cost. Lessor accounting remains substantially the same as under IAS 17. The bank will assess in 2018 the impact of IFRS 16, and it is not practicable to quantify the effect at the date of the publication of these financial statements. Existing operating lease commitments are set out in Note 29.

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 2017 and 31 December 2016.

£'000	TCM	CIB	Other	Total 2017
Operating income				
Net interest income	7,822	14,353	(5,727)	16,448
Net fees and commission income	-	618	398	1,016
Net trading income	(2,448)	29	2,439	20
Realised gain on disposal of investment securities	2,878	-	-	2,878
Net operating income from other segments	-	(126)	126	-
Other operating income	-	(19)	(12)	(31)
Total operating income	**8,252**	**14,855**	**(2,777)**	**20,330**
Operating expenses				
Personnel expenses	(418)	(563)	(5,182)	(6,163)
Depreciation	-	-	(111)	(111)
Amortisation	-	-	(508)	(508)
Other operating expenses	-	(126)	(5,104)	(5,230)
Net impairment losses	-	(1,510)	-	(1,510)
Total operating expenses	**(418)**	**(2,199)**	**(10,906)**	**(13,522)**
Segment results	**7,834**	**12,656**	**(13,682)**	**6,608**
Income tax expense	-	-	(1,298)	(1,298)
Profit for the year	**7,834**	**12,656**	**(14,980)**	**5,510**
Other comprehensive income				
Items that may qualify for reclassification	899	-	(77)	822
Total other comprehensive income	**899**	-	**(77)**	**822**
Assets and liabilities (under review)				
Segment assets	220,825	225,937	44,198	**490,960**
Segment liabilities	224,095	168,067	20,909	**413,071**
Capital expenditure				
Tangible assets	-	-	135	**135**
Intangible assets	-	-	**1,244**	**1,244**

5. Segment reporting (continued)

£'000	TCM	CIB	Other	Total 2016
Operating income				
Net interest income	4,263	12,205	(1,360)	15,108
Net fees and commission income	-	2,402	-	2,402
Net trading income	1,130	-	738	1,868
Realised gain on disposal of investment securities	662	-		662
Net operating income from other segments	-	(26)	26	-
Other operating income	-	-	538	538
Total operating income	**6,055**	**14,581**	**(58)**	**20,578**
Operating expenses				
Personnel expenses	(458)	(514)	(5,011)	(5,983)
Depreciation	-	-	(71)	(71)
Amortisation	-	-	(135)	(135)
Other operating expenses	-	(26)	(4,417)	(4,443)
Impairment recoveries	-	(886)	-	(886)
Total operating expenses	**(458)**	**(1,426)**	**(9,634)**	**(11,518)**
Segment results	**5,597**	**13,155**	**(9,692)**	**9,060**
Income tax expense	-	-	(476)	(476)
Profit for the year	**5,597**	**13,155**	**(10,168)**	**8,584**
Other comprehensive income				
Items that may qualify for reclassification	1,941	-	356	2,297
Total other comprehensive income	**1,941**	-	**356**	**2,297**
Assets and liabilities				
Segment assets	241,750	244,340	41,628	**527,718**
Segment liabilities	251,657	184,424	20,080	**456,161**
Capital expenditure				
Tangible assets	-	-	115	**115**
Intangible assets	-	-	1,160	**1,160**

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 accounting figures and on the location of the transaction counterparty.

£'000 - 2017	United Kingdom	Africa	Europe	Rest of the World
External net operating income / (expenses)	18,946	14,358	(15,273)	2,299
Total of assets	208,537	2,449	60,192	219,782

£'000 – 2016	United Kingdom	Africa	Europe	Rest of the World
External net operating income	8,198	10,489	(511)	2,402
Total of assets	74,945	233,520	155,780	63,473

6. Net interest income

£'000	2017	2016
Due from banks	2,108	1,337
Loans and advances to customers	13,907	12,531
Financial investments - available for sale	4,641	4,229
Financial investments – held to maturity	378	941
Interest and similar income	**21,034**	**19,038**
Due to banks	(3,957)	(3,340)
Subordinated debt	(629)	(590)
Interest and similar charges	**(4,586)**	**(3,930)**
Net interest income	**16,448**	**15,108**

Included within various line items under interest income for the year ended 31st December 2017 is a total of : £457k (2016: £222k) relating to impaired financial assets.

7. Net fee and commission income

£'000	2017	2016
Credit related fees and commissions	181	850
Corporate banking fees	2,488	3,039
Fee and commission income	**2,669**	**3,889**
Fees and commission expense	-	(299)
Other fees paid	(1,654)	(1,188)
Fees and commission expense	**(1,654)**	**(1,487)**
Net fee and commission income	**1,015**	**2,402**

8. Net trading income

£'000	2017	2016
Foreign exchange	(5,806)	7,794
Foreign exchange - derivative foreign exchange	5,825	(5,926)
Gain on disposal of available for sale securities	1,571	662
Gain on disposal of held to maturity securities	1,308	-
Net trading income	**2,898**	**2,530**

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

9. Other operating income

£'000	2017	2016
Rent received from subletting of premises	-	401
Other income / (expenses)	(31)	137
Other operating income	(31)	**538**

10. Personnel expenses

£'000	2017	2016
Wages and salaries	(4,439)	(4,202)
Social security costs	(952)	(794)
Pension costs - defined contribution plans	(469)	(321)
Other benefits	(303)	(666)
Personnel expenses	**(6,163)**	**(5,983)**
Directors' remuneration and disclosure of highest paid director are disclosed in note 30.		
Number of employees	**57**	**61**
The average monthly number of employees (including Directors) during the year was:		
Board	4	3
Corporate and Investment Banking	12	16
Treasury and Capital Markets	4	3
Operations and support	37	39

11. Other operating expenses

£'000	2017	2016
Marketing expense	(109)	(35)
Operating leases expenses (premises)	(1,037)	(1,166)
Administrative	(2,763)	(2,056)
Professional fees	(850)	(377)
Statutory audit fees	(148)	(130)
Other expenses	(324)	(679)
Other operating expenses	**(5,231)**	**(4,443)**

Other fees paid to the auditors		
Taxation services	-	(30)

12. Net impairment (losses) / recoveries

£'000	Note	2017	2016
Loans and advances to customers	**16**	(1,510)	(886)
Impairment losses		**(1,510)**	**(886)**

13. Taxation

£'000	2017	2016
Current Income tax	(819)	(1,027)
Prior period current tax adjustments	(26)	3
Current tax	(845)	**(1,024)**
Relating to origination and reversal of temporary differences	(188)	957
Change in tax rate	(34)	(19)
Prior period deferred tax adjustments	(43)	
Recognition of deferred tax assets	(188)	(390)
Deferred tax	**(453)**	**548**
Taxation	**(1,298)**	**(476)**

Reconciliation of the total tax charge		
Profit before tax	6,809	9,060
Income tax calculated at a tax rate of 19.27% (2016: 20.00%)	(1,311)	(1,812)
Other Non-deductible items	(35)	(1)
Depreciation in excess of capital allowances	(119)	-
Capital allowances in excess of depreciation	373	318
Effect of change in tax rate	(34)	(19)
Adjustment in respect of prior years	(70)	3
(Derecognition) / Recognition of tax effect of previously recognised deferred tax	(102)	1,035
Income tax benefit reported in the statement of profit and loss	**(1,298)**	**(476)**

The deferred tax asset is due to temporary differences on the following:		
Tax losses available	5,576	5,819
Property and equipment	956	1,147
Total	**6,531**	**6,966**

Deferred tax has been provided at the rates being in force when the temporary differences reverse, in accordance with the accounting policy. This has been calculated using the tax rate ranging from 19% to 17% (2016: from 20% to 17%).
As a result of the change in bank loss relief utilisation, the deferred tax asset is expected to be realised over 10 years.

The deferred tax asset (DTA) recognised as at 31 December 2017 has been recognised on the basis that the Directors believe it is probable that sufficient future taxable profits will be generated against which it can be utilised. In arriving at this conclusion the Directors have estimated the future profit performance for the Bank which is subject to a number of variables. If forecast profit before tax reduces by 10% the Directors would still deem recognition of the deferred tax assets as appropriate. The Directors are satisfied the calculation of the deferred tax asset will be utilised with future taxable profits.
A sensitivity analysis has been applied to the initial scenario described previously. A +10% - 6% changes in the forecast income of the Bank would change the period over which the losses will be fully utilised by 0 - 1 year.

13. Taxation (continued)

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

At the reporting date, all assets were recognised because the Bank had greater certainty on sufficiency of taxable profits. In 2015, the following gross assets were unrecognised because in the view of the Directors, the recovery of the asset was not probable for the purpose of IAS12.

Loss restrictions relief was tightened from 1 April 2016 with further reduction from 50% to 25% of realised profits. On the basis that it is anticipated that the Company's deferred tax assets are expected to unwind in subsequent periods. The tax losses do not have an expiry date.

14. Other comprehensive income

£'000	Before tax 2017	Tax 2017	Net of tax 2017	Net of tax 2016
Unrealised gain / (loss) on Financial Investments - available for sale	899		899	1,539
Net gain on disposal of available for sale investments				402
Exchange differences on translating foreign operations	(77)		(77)	356
Total other comprehensive income / (loss)	**822**		**822**	**2,297**

15. Net cash and cash equivalent position

£'000	2017	2016
Balances with central banks	17,489	13,339
Cash and cash equivalent with central banks	**17,489**	**13,339**
Current accounts with other banks	46,247	81,000
Money market placements with other banks	10,646	23,011
Cash and cash equivalent due from banks	**56,893**	**104,011**
Net cash and cash equivalent position	**74,382**	**117,350**
Loans and advances to banks	63,211	44,993
Due from banks	**120,104**	**149,004**

16. Loans and advances to customers

£'000	Note	2017	2016
Performing		189,146	172,276
Non performing	33	18,818	3,669
Loans and advances to customers		**207,964**	**175,945**

Loans and advances to customers as presented in the statement of financial position include loans and advances carried at amortised cost.

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	2017	2016
As at 1 January		**1,581**	**597**
Provision charge	12	1,763	886
Loan Recovery	12	(253)	-
Exchange rate movement		(68)	98
As at 31 December		**3,023**	**1,581**
Individual impairment provision	**33**	**3,023**	**1,581**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**33**	**21,840**	**5,250**

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.

Furthermore, the bank considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors across portfolio and concluded that there is no requirement for a collective provision. The bank will continue to monitor impairment indicators across the whole portfolio and all exposures individually.

Given the subjective nature of the forecasting of future cash flows on impaired assets, the outcome may be significantly different to the estimated recoverable amount. This is particularly relevant in respect of the recovery of certain impaired assets which are dependent upon litigation or investigations in overseas jurisdictions. The provision at the year-end reflects the Directors best estimate of the recoverable amounts; however, the actual recoverable amount could be up to £1.7m higher or lower in the next financial year.

17. Financial investments - available for sale

£'000	2017	2016
Government debt securities	7,646	14,625
Other debt securities	109,909	129,638
Financial investments at available for sale	**117,555**	**144,263**
Financial instruments available for sale at cost	117,258	144,865
Available for sale cumulative valuation	297	(602)
less impairment provision	-	-
Available-for-sale financial assets carried at fair value	**117,555**	**144,263**
Maturity		
less than three months	7,396	-
one year or less but over three months	24,099	53,178
between one year and five years	86,060	91,085
more than five years	-	-
Available-for-sale financial assets carried at fair value	**117,555**	**144,263**

18. Financial investments - held to maturity

£'000	2017	2016
Government debt securities	-	16,846
Financial investments held to maturity	-	**16,846**
Maturity		
less than three months	-	-
one year or less but over three months	-	-
between one year and five years	-	16,846
more than five years	-	-
Financial investments held to maturity	-	**16,846**

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

£'000	2017	2016
Cost as at 1 January	691	499
Additions	135	115
Disposals	-	-
Exchange adjustments	20	77
Cost as at 31 December	**846**	**691**
Depreciation as at 1 January	(391)	(273)
Charge for the year	(111)	(71)
Disposals	-	-
Exchange adjustments	(11)	(47)
Depreciation as at 31 December	(513)	(391)
Net book value	**333**	**300**

20. Intangible assets – computer software

£'000	2017	2016
Cost as at 1 January	1,884	724
Additions	1,243	1,160
Disposals	-	-
Cost as at 31 December	**3,127**	**1,884**
Amortisation as at 1 January	(165)	(30)
Charge for the year	(508)	(135)
Disposals	-	-
Amortisation as at 31 December	**(674)**	**(165)**
Net book value	**2,454**	**1,719**

21. Goodwill

£'000	2017	2016
As at 1 January	13,445	12,191
Exchange adjustments	326	1,254
As at 31 December	**13,771**	**13,445**
Impairment	(4,854)	(4,854)
Net book value	**8,917**	**8,591**

A. Information about geographical areas

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

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

£'000	2017	2016
Corporate and Investment Banking	5,937	5,175
Treasury and Capital Markets	2,980	3,416
Net book value	**8,917**	**8,591**

Key assumptions used in value in use calculations

The recoverable amounts of the above CGUs have been determined based on a value in use calculation, using cash flow projections in perpetuity based on business plans approved by senior management for 5 years with an assumption of steady 2% growth in future years after the 5 years period and then discounted at a rate of 11%. These assumptions are considered by management to be prudent. For example current average gross domestic product growth rates in the African market are about 4%. These business plans, which also form the basis of the assessment of the deferred tax recognition (see note 13), assume:

- No significant impairments over a provision rate of 1.0% per annum of the loan book;
- An on-going cost reduction programme including premises savings and eliminating resource duplication; and
- Adequate capital to cover asset growth.

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

The sensitivity to the key assumptions before a write down is required (assuming other factors remain constant), are as follows:

- The discount rate would need to exceed 13%, or
- Projected growth rates in profit before tax from the forecast period would need to exceed -4%.

Interest margins: Interest margins are based on management assessments and are in line with average values achieved in 2017. These are maintained over the budget period for anticipated market conditions.

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

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

22. Other assets

£'000	2017	2016
VAT recoverable	269	252
Prepayments	1,850	1,203
Rent deposit	181	128
Due from ultimate parent undertaking	4,832	8,183
Other sundry receivables	1,341	947
Other assets	**8,473**	**10,713**

23. Due to banks

£'000	2017	2016
Current accounts	39,974	26,365
Term deposits due to banks	11,084	6,844
Due to fellow group undertakings less than 1 year	6,784	21,933
Due to ultimate parent undertaking	221,897	249,935
Due to banks	**279,739**	**305,077**

Due to fellow group undertakings are money market deposits from members of the Bank of Africa Group. These deposits are at commercial arms length rates.

24. Due to customers

£'000	2017	2016
Current accounts	104,480	119,871
Term deposits	7,869	9,835
Due to customers	**112,349**	**129,706**

25. Other liabilities

£'000	2017	2016
Accounts payable	817	768
Accruals	2,060	1,810
Other taxes and social security costs	365	473
Deferred income	1,147	1,496
Other payables	448	30
Other liabilities	**4,837**	**4,577**

26. Subordinated debt

£'000	2017	2016
Principal	15,695	15,140
Accrued Interest	377	363
Subordinated debt	**16,072**	**15,503**

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

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

£'000 – 2016	2015	Cash flows	Fx change	Other	Total
Group subordinated debt	13,316	590	1,912	(315)	**15,503**

See note 27, issued Share capital, for movement in the banks reserves which also represent the Banks funding sources.

27. Share capital and reserves

£'000	2017	2016
Share capital		
Authorised 150,000,000 ordinary shares of £1 each		
Issued, called up and fully paid 102,173,000 shares ordinary shares of £1 each	102,173	102,173
Share capital as at 31 December	**102,173**	**102,173**
All shares rank equally with one vote per share. There is no entitlement to fixed income		
Reserves		
Available for sale investment reserve	297	(602)
Foreign currency translation	(167)	(90)
Accumulated losses	(24,414)	(29,924)
Reserves as at 31 December	(24,284)	(30,616)
Share capital and reserves	**77,889**	**71,557**

28. Additional cash flow information

£'000	2017	2016
Cash and balances with central banks	17,489	13,339
Current accounts with other banks	46,247	81,000
Money market placements with other banks	10,646	23,011
Cash and cash equivalent (note 15)	**74,382**	**117,350**
Net decrease / (increase) in:		
Due from banks	(18,217)	(19,950)
Derivative Financial Instruments	(1,108)	190
Loans and advances to customers	(32,019)	(8,232)
Other assets	2,239	(2,425)
Interest	(15,330)	(11,400)
Change in operating assets	**(64,435)**	**(41,817)**
Net (decrease) / increase in:		
Due to banks	(25,338)	40,300
Derivative financial instruments	(1,224)	439
Due to customers	(17,357)	31,169
Other liabilities	3,330	3,225
Interest	(125)	205
Change in operating liabilities	**(40,714)**	**75,338**
Depreciation and amortisation	619	206
Impairment provisions	1,510	886
Gains on securities	(2,878)	(662)
Net foreign exchange gain	(141)	540
Other items included in profit before tax	**(890)**	**970**

29. Contingent liabilities and commitments

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

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

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

The total outstanding commitments and contingent liabilities are as follows:

£'000	2017	2016
Financial guarantees	1,285	8,417
Letters of credit	50,391	47,758
Bills for collection	79	8,219
Contingent liabilities	**51,755**	**64,394**
Undrawn commitments to lend	8,342	16,448
Commitments	**8,342**	**16,448**
Contingent liabilities and commitments	**60,097**	**80,842**

Operating lease commitments

Bank as lessee

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

The lease is to be shared with other group companies, the Bank's committed share is to pay £821k per annum.

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

£'000	2017	2016
Within one year	1,395	1,051
After one year but not more than five years	1,276	1,996
After five years but not more than ten years	-	-
Lease commitments expiring	**2,671**	**3,047**

29. 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	2017	2016
Within one year	520	393
Lease commitments receivable	**520**	**393**

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

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

Key management personnel include senior management of the Bank.

One director was a member of the defined contribution scheme in 2017. The non–executive Directors do not receive pension entitlements from the Bank.

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

£'000	2017	2016
Short-term employee benefits	1,071	1,232
Post-employment pension (defined contribution)	-	33
Compensation of key management personnel (including Directors)	**1,071**	**1,265**
Short-term employee benefits	645	542
Compensation of Directors	**645**	**542**
Aggregate emoluments and benefits	404	348
Highest paid Director	**404**	**348**

31. Related party transactions

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

During the year there have been transactions between the Bank, its parent company, the ultimate parent company and other related parties. The Bank receives and provides a range of services from the parent and related parties, including loans and guarantees and various administrative services.

31. Related party transactions (continued)

The outstanding balances at the year end arose from the ordinary course of business and are unsecured. The interest, fees and commissions paid to or received from related parties are at normal commercial rates.

In addition to entities within the scope of BMCE Group, key management personnel are also considered as related parties. Compensations are disclosed in note 30.

£'000 - 2017	BMCE	BOA	ITIS	ES	Total
Interest charged	4,292	94	-	-	**4,386**
Interest received	670	(139)	-	-	**531**
Fees and commission paid	11	0	-	-	**11**
Fees and commission received	608	128	-	-	**736**
Net trading income/(expense)	6	2	-	-	**7**
Other operating expenses paid	368	3,074	-	365	**3,807**
Amounts owed to	225,685	3,593	900	-	**230,251**
Amounts owed by	23,950	14,171	4,992	-	**43,113**
Financial guarantees and commitments given	8,384	3,764	-	-	**12,148**
Financial guarantees received	11,797	5,246	-	-	**17,043**

£'000 - 2016	BMCE	BOA	ITIS	ES	Total
Interest charged	3,569	166	-	-	**3,735**
Interest received	591	223	-	-	**814**
Fees and commission paid	13	-	-	-	**13**
Fees and commission received	137	143	-	-	**280**
Net trading income/(expense)	430	280		2	**712**
Other operating expenses paid	2	1	1,461	-	**1,464**
Amounts owed to	253,936	19,098	900	-	**273,934**
Amounts owed by	35,058	4,061	5,590	-	**44,709**
Financial guarantees and commitments given	19,797	4,811			**24,608**
Financial guarantees received	21,331	2,820			**24,151**

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

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

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

32. Risk management

A. Introduction

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

- Governance; and
- Risk management processes.

The main risks facing the Bank are:

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

B. Governance

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

- **Risk Management Department (RMD) and Risk Committee:**
  - The RMD is organised along traditional risk functions: Market/Liquidity, Credit, and Operational risks. The RMD is responsible for implementing, measuring and maintaining risk related procedures to ensure that an independent control process is present.
  - The Risk Committee assists the Board in monitoring the adequacy and effectiveness of the Bank's risk management policies and processes. The Credit Risk Committee approves all credit applications.
- **Treasury Asset and Liability Committee (TALCO) -** TALCO is responsible for assisting the board and senior management in the oversight of risk policies, strategies and processes. The role of TALCO is to assist the Bank in fulfilling its responsibilities relating to the oversight of the Bank's market risk management policies, strategies and processes that have the potential to impact significantly on the Bank's earnings performance and capital. TALCO's responsibilities include management and review of:
  - the Bank's exposure to market risk and its hedging strategy;
  - the Bank's liquidity;
  - the usage of capital including ensuring external regulatory requirements are met;
  - risk management processes;
  - other categories of risk linked to market risk (country risk, counterparty risk);
  - regulatory developments and their impact on the prices of marketable assets;
  - the valuation of market assets and the measurement of market risk; and
  - market risk limits.
- **Audit Committee:**

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

C. Measuring and reporting systems

The monitoring and controlling of risk is primarily performed against limits established by the Bank. These limits are established using an approved 'Credit Policies and Procedures Manual', 'Market Risk Policies and Procedures Manual' and 'Operational Risk Policies and Procedures Manual'. Additionally, a qualitative and quantitative approach within this framework is used.

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

32. Risk management (continued)

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.

33. Credit risk

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

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

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

A. Risk concentrations of the maximum exposure to credit risk

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

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

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

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

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

The maximum gross credit exposure to one counterparty, other than to related parties disclosed in note 31, by risk concentration as of 31 December 2017 was £23,662k (2016: £29,039k).

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 - 2017	CIB	TCM	Total
Europe	123,300	29,483	152,783
United Kingdom	34,452	5,360	39,812
Africa	116,274	68,601	184,875
Others	47,858	47,398	95,256
Total	**321,884**	**150,842**	**472,726**

33. Credit risk (continued)

£'000 - 2016	CIB	TCM	Total
Europe	44,551	87,192	131,743
United Kingdom	42,280	26,573	68,853
Africa	111,418	133,803	245,221
Others	45,326	19,000	64,326
Total	**243,575**	**266,568**	**510,143**

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

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

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

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

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

£'000	Note	2017	2016
Cash and balances with central banks	**15**	17,489	13,339
Due from banks	**15**	120,104	149,004
Derivative financial instruments	**37**	1,140	32
Loans and advances to customers	**16**	207,964	175,945
Financial investment - available for sale	**17**	117,555	144,263
Financial investment - held to maturity	**18**	-	16,846
Other assets	**22**	8,473	10,714
Total		**472,725**	**510,143**
Contingent liabilities	**29**	50,812	66,419
Commitments	**29**	8,342	16,448
Total		**59,154**	**82,867**
Contingent liabilities and commitments		**532,368**	**593,009**

33. Credit risk (continued)

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

£'000	2017 Gross maximum exposure	2017 Net maximum exposure	2016 Gross maximum exposure	2016 Net maximum exposure
Agriculture	88	68	1,172	1,172
Banking and finance	364,058	319,920	350,125	289,194
Commodities extraction and production	12,035	11,876	802	802
Construction and heavy goods	7,446	7,446	8,234	8,234
Consumables wholesaling	19,559	2,620	20,239	6,285
Energy	9,849	-126	12,305	1,367
Governments	82,905	38,693	172,056	137,998
Individuals	172	109	360	297
Commodities extraction and production	4,992	4,992	5,362	5,362
Real estate	1,648	-	-	-
Recreational	25	25	477	477
Technology, and telecommunications	18,755	10,765	3,830	3,822
Transport and shipping	10,190	1,323	18,047	6,298
Total	**531,722**	**397,711**	**593,009**	**461,308**

33. 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 classified as performing in the last 12 months.

No restructured loans have been recorded in 2017.

£'000	2017	2016
Corporate lending	-	12,011
Total	**-**	**12,011**

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 - 2017	Investment grade	Non investment grade	Impaired	Total
Due from banks	44,192	75,912		120,104
Derivative financial instruments	225	915		1,140
Loans and advances to customers	-	189,146	18,818	207,964
Financial instruments – available for sale	87,582	29,972		117,555
Financial instruments – held to maturity	-	-		-
Total	**131,999**	**287,793**	**26,970**	**446,763**

£'000 - 2016	Investment grade	Non investment grade	Impaired	Total
Due from banks	94,543	54,461	-	149,004
Derivative financial instruments	-	32	-	32
Loans and advances to customers	47	170,647	5,250	175,944
Financial instruments – available for sale	102,965	41,298	-	144,263
Financial instruments – held to maturity	8,153	8,693	-	16,846
Total	**205,708**	**275,131**	**5,250**	**486,089**

33. Credit risk (continued)

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

£'000	Note	2017	2016
As at 1 January – Gross amount		5,250	1,829
Impaired in year		17,246	15,246
Reclassified to performing		-	(12,011)
Loan Recovery		(671)	-
Exchange rate movement		16	186
As at 31 December – Gross amount		**21,840**	**5,250**
As at 31 December – Impairment	**16**	**3,023**	**1,581**
As at 31 December – Carrying amount	**16**	**18,818**	**3,669**

E. Credit quality per class of financial assets

Financial investments - available for sale and held to maturity can be split as follows:

£'000	2017	2016
Rated AAA	45,658	57,393
Rated BBB+ to BBB-	-	8,153
Rated BB+ and Below	7,646	23,318
Government Bonds and Treasury Bills	**53,303**	**88,864**
Rated A-	11,478	12,475
Rated BBB+ to BBB-	19,045	20,638
Rated BB+ and Below	33,728	39,132
Financial Institution Bonds	**64,251**	**72,245**
Total	**117,555**	**161,109**

34. Liquidity risk

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

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

In stressed situations, the Bank will utilise funding arrangements under market repurchase agreements and deposits from the parent Company. This funding will be provided on an arms-length basis. The liquidity position is assessed and managed under a variety of scenarios. The most important of these is to maintain limits on the ratio of net liquid assets to customer liabilities, set to reflect market conditions.

Net liquid assets consist of cash, short term Bank deposits and high quality liquid assets 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 intergroup funding deposits to a maximum of £250 million, or equivalent in foreign currency, at an arms length interest rate to be agreed between the two parties until 31 December 2018.

A. Liquidity reserves

The table below shows the liquidity reserves:

£'000	2017 Carrying amount	2016 Carrying amount
Balances with central banks	17,489	13,399
Cash and balances with other banks	43,954	81,000
Unencumbered debt securities issued by sovereigns	45,658	57,393
Total	**107,101**	**151,792**

34. Liquidity risk (continued)

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

£'000 - 2017	Less than 1 month	1 to 3 months	Over 3 to 12 months	1 to 5 years	Over 5 years	Total
Assets						
Balances with central banks	17,489	-	-	-	-	**17,489**
Due from banks	66,192	4,556	36,692	12,664		**120,104**
Derivative financial instrument	1,011	129	-	-	-	**1,140**
Loans and advances to customers	11,996	40,951	39,065	97,333	18,619	**207,964**
Financial Investments AFS	74	7,573	24,398	85,510	-	**117,555**
Financial Investments HTM	-	-	-	-	-	**-**
Property and equipment	-	-	-	-	333	**333**
Goodwill and other intangible assets	-	-	-	-	11,371	**11,371**
Deferred tax assets	-	-	-	-	6,531	**6,531**
Other assets	8,473	-	-	-	-	**8,473**
Total Assets	**105,236**	**53,209**	**100,155**	**195,507**	**36,833**	**490,960**
Liabilities						
Due to banks	73,513	-	-	206,226	-	**279,739**
Derivative financial instrument	74	-	-	-	-	**74**
Due to customers	97,655	3,817	10,877	-	-	**112,349**
Subordinated debt	-	377	-	-	15,695	**16,072**
Other liabilities	4,837	-	-	-	-	**4,837**
Total Liabilities	**176,079**	**4,194**	**10,877**	**206,226**	**15,695**	**413,071**

34. Liquidity risk (continued)

The table below summarises the maturity profile of the Bank's assets and liabilities at 31 December 2016 based on contractual discounted repayment financial obligations.

£'000 - 2016	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	13,339	-	-	-	-	13,339
Due from banks	101,481	10,795	27,439	9,289	-	149,004
Derivative financial instrument	26	-	6	-	-	32
Loans and advances to customers	9,806	24,695	29,969	82,926	28,549	175,945
Financial Investments AFS	323	21	49,477	94,442	-	144,263
Financial Investments HTM	-	-	166	16,680	-	16,846
Property and equipment	-	-	-	-	300	300
Goodwill and other intangible assets	-	-	-	-	10,310	10,310
Deferred tax assets	-	-	-	3,474	3,492	6,966
Other assets	10,713	-	-	-	-	10,713
Total Assets	**135,688**	**35,511**	**107,057**	**206,811**	**42,651**	**527,718**
Liabilities						
Due to banks	69,068	8,772	227,237	-	-	305,077
Derivative financial instrument	178	1,120	-	-	-	1,298
Due to customers	114,454	4,469	10,783	-	-	129,706
Subordinated debt	-	363	-	-	15,140	15,503
Other liabilities	4,577	-	-	-	-	4,577
Total Liabilities	**188,277**	**14,724**	**238,020**	**-**	**15,140**	**456,161**

34. Liquidity risk (continued)

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

£'000	2017 Less than 1 year	2017 More than 1 year	2016 Less than 1 year	2016 More than 1 year
Assets				
Cash and balances with central banks	17,489	-	13,339	-
Due from banks	107,440	12,664	139,715	9,289
Derivative financial instruments	1,140	-	32	-
Loans and advances to customers	92,012	115,952	64,470	111,475
Financial investments - available for sale	32,045	85,510	49,821	94,442
Financial investments - held to maturity	-	-	166	16,680
Property and equipment	-	333	-	300
Goodwill and other intangible assets	-	11,371	-	10,310
Deferred tax assets	-	6,531	-	6,966
Other assets	8,473	-	10,713	-
Total assets	**259,599**	**232,361**	**278,256**	**249,462**
Liabilities				
Due to banks	73,513	206,226	305,077	-
Derivative financial instruments	74	-	1,298	-
Due to customers	112,349	-	129,706	-
Other liabilities	4,837	-	4,577	-
Subordinated debt	377	15,695	363	15,140
Total liabilities	**191,150**	**221,921**	**441,021**	**15,140**

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

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

35. Market risk

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

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

- Interest rate risk
- Foreign exchange risk
- 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	2017	2016
Parallel shift in interest rates -2%	1,000	(10,100)
Parallel shift in interest rates +2%	(1,186)	11,420

35. Market risk (continued)

B. Foreign exchange risk

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

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

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

£'000 - 2016	USD	EUR	Other Currencies
Net foreign currency exposures	4,606	(650)	883
Impact of 5% increase in foreign currency : GBP rate	(230)	33	(44)
Impact of 5% decrease in foreign currency : GBP rate	230	(33)	44

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 £-1,196k. Similarly a 1% price rise would result in a gain of approximately £1,196k.

36. Operational risk

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

37. Fair Value

A. Fair Value Hierarchy

Basis of determination of fair values are detailed on page 31 under fair value. Derivatives are measured at Level 2, where the fair value is determined by applicable market forward rates.

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

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

The accounting policy for determining fair values is detailed on page 31 under "Determination of fair values".

No transfer of financial instruments between categories occurred during the year 2017.

£'000 - 2017	Level 1	Level 2	Level 3	Total fair values
Assets				
Cash and balances with central banks	17,489	-	-	**17,489**
Amortised cost				
Due from banks	-	65,449	54,655	**120,104**
Loans and advances to customers	-	-	207,964	**207,964**
Fair value through profit & Loss				
Derivative financial instrument	-	1,140	-	**1,140**
Available-for-sale				
Available for sale investment securities	117,555	-	-	**117,555**
Held-to-maturity				
Held to maturity investment securities	-	-	-	**-**
Liabilities				
Amortised cost				
Deposits from banks	-	243,119	36,620	279,739
Deposits from customers	-	-	112,349	112,349
Subordinated liabilities	-	-	16,072	16,072
Fair value through profit & Loss				
Derivative financial instrument	-	74	-	74

37. Fair Value (continued)

£'000 - 2016	Level 1	Level 2	Level 3	Total fair values
Assets				
Cash and balances with central banks	13,339	-	-	13,339
Amortised cost				
Due from banks	-	104,023	44,981	149,004
Loans and advances to customers	-	-	175,945	175,945
Fair value through profit & Loss				
Derivative financial instrument	-	32	-	32
Available-for-sale				
Available for sale investment securities	144,263	-	-	144,263
Held-to-maturity				
Held to maturity investment securities	17,559	-	-	17,559
Liabilities				
Amortised cost				
Deposits from banks	-	252,399	52,678	305,077
Deposits from customers	-	-	129,706	129,706
Subordinated liabilities	-	-	15,503	15,503
Fair value through profit & Loss				

37. Fair Value (continued)

Derivative financial instruments and available sale securities are carried at fair value. All other financial assets and financial liabilities are held at historic or amortised cost.

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

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

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

The objective of the valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

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

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

B. Derivative financial instruments

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

For the valuation techniques used, please see above.

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

£'000 - 2016	Fair value of assets	Fair value of liabilities	Notional amount
Forward foreign exchange	7	1,265	11,301
Foreign exchange swaps	25	33	74,778
Derivatives held for trading	**32**	**1,298**	**86,079**

38. Capital management

A. Definition

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

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

B. Approach

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

C. Regulatory capital

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

D. Monitoring

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

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

£'000 (unaudited)	2017
Tier 1 capital	60,535
Subordinated debt (principal)	15,695
Own funds	**76,230**
Required capital	**60,509**
Surplus Capital	**15,721**
Risk weighted assets	401,388
Tier 1 capital ratio	15.1%
Solvency ratio	19.0%

39. Events after the reporting date

There have been no events after the reporting date that require disclosure in these financial statements.

Pillar 3 disclosures

Further information regarding the Bank's approach to risk management and its capital adequacy is contained in the unaudited Pillar 3 disclosures made under the current regulatory capital requirements. These disclosures are published on the Bank's website shortly after the approval of these financial statements at http://www.bmce-intl.co.uk/finance.

BMCE Bank International plc

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

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

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

Contact us

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

Website BMCE Bank International plc

www.bmce-intl.co.uk

Website BMCE Bank of Africa

www.bmcebank.ma