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## Financial Communication

Results June 2017



bmcebank.ma

# BMCE BANK OF AFRICA

## CONSOLIDATED FINANCIAL STATEMENTS UNDER IAS/IFRS AND NOTES TO THE FINANCIAL STATEMENTS

**30 june 2017**

### **BMCE BANK**

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Established in 1959 and privatised in 1995, BMCE Bank is a universal bank which offers a diversified range of products and services through a domestic network of 708 branches. BMCE Bank, Morocco's third largest bank in terms of market share for deposits and loans, currently has operations in about thirty countries in sub-Saharan Africa, Europe and Asia.

BMCE Bank's activities primarily include commercial banking, specialised financial services, asset management, investment banking and international activities.

### **BMCE Bank in Morocco**

BMCE Bank's activities in Morocco include:

- Retail Banking, sub-divided by market specialisation – retail customers, professional banking customers, private clients and Moroccans living abroad;
- Corporate Banking, including SMEs and large enterprises.

It is worth noting that BMCE Bank has embarked on a regional strategy aimed at moving the decision-making process closer to the customer and improving the Bank's impact from a commercial perspective. The Bank's distribution network, now organised on a regional basis and enjoying greater independence, encompasses both Retail Banking as well as Corporate Banking activities.

- BMCE Capital, the Bank's investment banking subsidiary, is organised by business line on an integrated basis which include asset management, wealth management, brokerage and capital markets activities as well as M&A and other corporate advisory services.
- Specialised financial services, whose products are primarily marketed via the branch network, the aim being to develop intra-Group commercial and operational synergies – consumer credit, leasing, bank-insurance, factoring and vehicle leasing. RM Experts, subsidiary specialising in recovery, was established in 2010.

### **BMCE Bank's international activities**

BMCE Bank's international vocation can be traced back to its origins as a bank specialising in foreign trade. The Bank rapidly turned to international markets by building a strong presence in Europe. In 1972, it became the first Moroccan bank to open a branch in Paris. The Group's European activities are conducted through BMCE Bank International in London, Paris and Madrid, which constitute the Group's European platform for investing in Africa.

The Bank also has twenty or so representative offices providing banking services to Moroccans living abroad. The Bank recently established BMCE Euroservices as a result of the recent re-organisation of its European business. This entity, which is responsible for banking for expatriates, will work closely with the domestic branch network.

BMCE Bank has also developed, since the 1980s, sizeable operations in the African market following the restructuring of Banque de Développement du Mali, the country's leading bank, in which it has a 32.4% stake.

Similarly, in 2003, in Congo Brazzaville, BMCE Bank acquired a 25% stake in La Congolaise de Banque 37% as of december 31<sup>st</sup>, 2015 which it restructured, resulting in it becoming the undisputed market leader in its industry.

BMCE Bank's development accelerated in 2008 following the acquisition of a 35% stake in Bank of Africa which has operations in 18 countries. BMCE Bank has since increased its stake in the pan-African bank to 73%.





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## STATUTORY AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS as of june, 30th 2016



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We have audited the attached consolidated financial statements of the Banque Marocaine du Commerce Extérieur and its

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## I. CONSOLIDATED BALANCE SHEET, CONSOLIDATED INCOME STATEMENT, STATEMENT OF NET INCOME, STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY, CHASH FLOW STATEMENT AND SUMMARY OF ACCOUNTING POLICIES

### 1.1. CONSOLIDATED BALANCE SHEET

The consolidated financial statements at 30 june 2016 were approved by the board of directors on 23 september 2016.

ASSETS	NOTES	june-17	dec.-16
Cash and amounts due from central banks and post office banks	4.1	9 902 233	12 155 637
Financial assets at fair value through profit or loss	4.2	42 719 202	38 890 923
Derivatives used for hedging purposes		268	2 938
Available-for-sale financial assets	4.3	7 931 858	8 317 725
Loans and receivables due from credit institutions	4.4	20 217 704	21 221 229
Loans and receivables due from customers	4.5	191 729 081	179 774 222
Remeasurement adjustment on interest rate risk hedged assets		-	-
Held-to-maturity financial assets	4.6	24 664 473	25 136 170
Current tax assets	4.8	485 211	414 191
Deferred tax assets	4.8	600 756	521 548
Accrued income and other assets	4.9	8 239 665	6 440 776
Non current assets held for sale		-	-
Investment associates	4.10	601 336	631 268
Investment property	4.11	3 715 192	3 746 146
Property, plant and equipment	4.11	7 222 027	6 988 825
Intangible assets	4.11	842 278	828 970
Goodwill	4.12	852 310	852 310
<b>TOTAL ASSETS</b>		<b>319 723 594</b>	<b>305 922 878</b>

(In thousand MAD)

LIABILITIES & SHAREHOLDERS EQUITY	NOTES	june-17	dec.-16
Due to Central Banks and Post Office Banks		-	-
Financial liabilities at fair value through profit or loss	4.2	1 979 790	2 098 276
Derivatives used for hedging purposes		-	-
Due to credit institutions	4.4	50 199 326	49 708 268
Due to customers	4.5	195 473 052	190 050 335
Debt securities	4.6	17 678 064	13 186 303
Remeasurement adjustment on interest rate risk hedged portfolios		-	-
Current tax liabilities	4.8	461 464	641 287
Deferred tax liabilities	4.8	1 251 230	1 198 242
Accrued expenses and other liabilities	4.9	17 166 176	14 278 900
Liabilities related to non-current assets held for sale		-	-
Technical reserves of insurance companies		-	-
Provisions for contingencies and charges	4.13	741 603	685 204
Subsidies, assigned public funds and special guarantee funds		-	-
Subordinated debts	4.6	11 045 818	10 493 376
<b>TOTAL DEBTS</b>		<b>295 996 523</b>	<b>282 340 191</b>
Capital and related reserves		13 739 965	13 299 090
Consolidated reserves		8 184 632	7 455 241
- Attributable to parent		3 399 823	2 934 250
- Non-controlling interests		4 784 809	4 520 991
Unrealized or deferred gains or losses, attributable to parent		-6 600	-9 794
Unrealized or deferred gains or losses, non-controlling interests		2 826	3 323
<b>Net Income</b>		<b>1 806 248</b>	<b>2 834 827</b>
- Attributable to parent		1 288 400	2 036 186
- Non-controlling interests		517 848	798 641
<b>TOTAL CONSOLIDATED SHARE HOLDERS'S EQUITY</b>		<b>23 727 071</b>	<b>23 582 687</b>
<b>TOTAL ASSETS</b>		<b>319 723 594</b>	<b>305 922 878</b>

(In thousand MAD)

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## 1.2. CONSOLIDATED INCOME STATEMENT

	NOTES	june-17	june-16
+ Interests and similar income		7 338 369	6 892 538
- Interests and similar expense		-2 592 649	-2 513 457
<b>Net Interest income</b>	<b>2.1</b>	<b>4 745 720</b>	<b>4 379 081</b>
+ Fees received and commission income		1 280 430	1 193 154
- Fees paid and commission expense		-187 373	-156 972
<b>Net fee income</b>	<b>2.2</b>	<b>1 093 057</b>	<b>1 036 182</b>
+/- Net gains or losses on financial instruments at fair value through profit or loss	2.3	307 655	804 534
+/- Net gains or losses on available for sale financial assets	2.4	192 291	212 078
<b>Income from market transactions</b>		<b>499 946</b>	<b>1 016 612</b>
+ Other banking revenues	2.5	552 387	479 384
- Other banking expenses	2.5	-200 584	-206 064
<b>Net Banking Income</b>		<b>6 690 526</b>	<b>6 705 195</b>
- General Operating Expenses	2.9	-3 346 973	-3 209 216
- Allowances for depreciation and amortization PE and intangible assets	2.9	-373 859	-351 662
<b>Gross Operating Income</b>		<b>2 969 694</b>	<b>3 144 317</b>
- Cost of Risk	2.6	-633 456	-1 054 598
<b>Operating Income</b>		<b>2 336 238</b>	<b>2 089 719</b>
+/- Share in net income of companies accounted for by equity method		43 647	59 260
+/- Net gains or losses on other assets	2.7	31 985	10 161
+/- Change in goodwill		-	-
<b>Pre-tax earnings</b>		<b>2 411 870</b>	<b>2 159 138</b>
+/- Corporate income tax	2.8	-605 622	-562 282
<b>Net income</b>		<b>1 806 248</b>	<b>1 596 856</b>
Non-controlling interests		517 848	346 396
<b>Net income attributable to parent</b>		<b>1 288 400</b>	<b>1 250 459</b>
Earnings per share		7.18	6.97
Diluted Earnings per share		7.18	6.97

(In thousand MAD)

## 1.3. STATEMENT OF NET INCOME AND GAINS AND LOSSES RECOGNISED DIRECTLY IN SHAREHOLDERS' EQUITY

	june-17	june-16
Net income	1 806 248	1 596 855
Currency translation adjustment	2 697	-11 238
Reevaluation of available for sale financial assets	0	28 709
Reevaluation of hedging instruments	2 697	-39 947
Reevaluation of fixed assets	2 697	-39 947
Actuarial gains and losses on defined plans	0	0
Proportion of gains and losses directly recognised in shareholders equity on companies consolidated under equity method	0	0
<b>Total gains and losses directly recognised in shareholders equity</b>	<b>2 697</b>	<b>-11 238</b>
<b>Net income and gains and losses directly recognised in shareholders equity attributable to parent</b>	<b>1 808 945</b>	<b>1 585 617</b>
Non-controlling interests	517 351	342 728

(In thousand MAD)



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#### 1.4. STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

	Share Capital	Reserves related to stock	Treasury stock	Reserves & consolidated earnings	Unrealised or deferred gains or losses	Shareholder's Equity attributable to parent	Non- controlling interests	Total
june-2017								
Ending balance of Shareholder's Equity 01.01.2017	1 794 634	11 504 456		4 970 436	-9 794	18 259 732	5 322 955	23 582 687
Change in the accounting methods								
Beginning Balance of adjusted Shareholder's Equity 01.01.2017	1 794 634	11 504 456		4 970 436	-9 794	18 259 732	5 322 955	23 582 687
Operations on capital		440 875		-440 875				
Share-based payment plans								
Operations on treasury stock								
Dividends				-897 317		-897 317	-526 602	-1 423 919
Net income				1 288 400		1 288 400	517 848	1 806 248
PP&E and intangible assets : Revaluations and disposals (A)								
Financial instruments : change in fair Value and transfer to earnings (B)					3 194	3 194	-497	2 697
Currency translation adjustments : Changes and transfer to earnings (C)								
Avantages au personnel								
Unrealized or deferred gains or losses (A)+ (B) + (C)					3 194	3 194	-497	2 697
Change in the scope of consolidation				79 946		79 946	21 346	101 292
Others				-312 367		-312 367	-29 567	-341 934
Ending Balance of Shareholder's Equity 30.06.2017	1 794 634	11 945 331		4 688 223	-6 600	18 421 588	5 305 483	23 727 071
june-2016								
Ending Balance of Shareholder's Equity 12.31.2016	1 794 634	11 104 784		4 056 903	65 587	17 021 908	5 087 509	22 109 419
Impact of changes in accounting methods								
Ending Balance of adjusted Shareholder's Equity 12.31.2016	1 794 634	11 104 784		4 056 903	65 587	17 021 908	5 087 509	22 109 419
Operations on capital		408 975		-408 975				
Share-based payment plans								
Operations on treasury stock								
Dividends				-923 345		-923 345	-474 826	-1 398 171
Net income				1 250 459		1 250 459	346 396	1 596 855
PP&E and intangible assets: Revaluations and disposals (E)								
Financial instruments: change in fair Value and transfer to earnings (F)					-36 277	-36 277	-3 670	-39 947
Currency translation adjustments: Changes and transfer to earnings (G)					28 709	28 709		28 709
IAS 19 R								
Unrealized or deferred gains or losses (E)+ (F) + (G)					-7 568	-7 568	-3 670	-11 238
Change in the scope of consolidation (*)				14 016		14 016	5 311	19 327
Others				328 221		328 221	57 145	385 365
Ending Balance of adjusted Shareholder's Equity 12.31.2016	1 794 634	11 513 759		4 317 278	58 020	17 683 691	5 017 865	22 701 557

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## 1.5. CASH FLOW STATEMENTS AS OF JUNE 30, 2017

### 1.5.1. Cash Flow Statement

	NOTE	june-2017	dec-2016	june-2016
<b>Pre-tax net income</b>		<b>2 411 436</b>	<b>3 958 481</b>	<b>2 159 139</b>
+/- Net depreciation/amortization expense on property, plant, and equipment and intangible assets	2,9	373 859	696 947	351 662
+/- Impairment of goodwill and other non- current assets		-	31 514	-
+/- Impairment of financial assets		-17 444	-39 470	-72 441
+/- Net allowances for provisions	2,6	631 435	1 633 772	1 054 013
+/- Share of earnings in subsidiaries accounted for by equity method	4,10	-43 209	-103 652	-59 260
+/- Net loss (income) from investing activities		-533 406	-1 061 663	-948 193
+/- Net loss (income) from financing activities		-	-	-
+/- Other movements		-1 293 925	-541 722	-899 597
<b>Non monetary items included in pre-tax net income and other adjustments</b>		<b>-1 293 925</b>	<b>-541 722</b>	<b>-899 597</b>
+/- Cash flows related to transactions with credit institutions		<b>-882 691</b>	<b>615 726</b>	<b>-573 815</b>
+/- Cash flows related to transactions with customers		6 384 548	59 915	-829 365
+/- Cash flows related to transactions involving other financial assets and liabilities		<b>3 265 608</b>		
<i>Dont Flux liés aux autres opérations affectant les titres de transaction</i>		-10 465 724	-1 497 240	6 957 702
+/- Cash flows related to transactions involving non financial assets and liabilities		<b>-5 432 994</b>		
<i>Dont Flux liés aux autres opérations affectant les dettes sur titres Empruntés</i>		-546 951	-3 358 590	-3 569 750
+/- Flux liés aux autres opérations affectant des actifs ou passifs non financiers		2 090 737	701 528	950 873
+/- Taxes paid			<b>-2 216 271</b>	<b>-1 746 406</b>
<b>Net Increase (Decrease) in cash related to assets and liabilities generated by operating activities</b>		<b>2 090 737</b>	<b>701 528</b>	<b>950 873</b>
<b>Net Cash Flows from Operating Activities</b>		<b>-914 897</b>	<b>-560 317</b>	<b>-420 925</b>
+/- Cash Flows related to financial assets and equity investments		-852 484	-2 474 166	-523 933
+/- Cash flows related to investment property	4,11	-404 320	-2 211 410	-1 170 218
+/- Cash flows related to PP&E and intangible assets	<b>4,11</b>	<b>-592 216</b>	<b>-1 361 288</b>	<b>-367 137</b>
<b>Net Cash Flows from Investing Activities</b>		<b>-1 849 020</b>	<b>-6 046 864</b>	<b>-2 061 288</b>
+/- Cash flows related to transactions with shareholders		-1 405 811	-667 738	-709 243
+/- Cash flows generated by other financing activities		<b>1 523 783</b>	<b>-2 947 262</b>	<b>1 544 448</b>
<b>Net Cash Flows from Financing Activities</b>		<b>117 971</b>	<b>-3 615 000</b>	<b>835 206</b>
<b>Effect of movements in exchange rates on cash and equivalents</b>		<b>72 586</b>	<b>-164 613</b>	<b>-13 250</b>
<b>Net Increase in Cash and equivalents</b>		<b>3 015 396</b>	<b>-5 258 792</b>	<b>553 894</b>
<b>Beginning Balance of Cash and Equivalents</b>		<b>5 956 841</b>	<b>11 215 740</b>	<b>11 215 740</b>
Net Balance of cash accounts and accounts with central banks and post office banks	4,1	10 403 090	9 966 853	9 966 853
Net Balance of demand loans and deposits- credit institutions		-4 446 249	1 248 887	1 248 886
<i>Dont Prêt et Emprunt de trésorerie JJ</i>		-2 877 349	489 872	
<b>Ending Balance of Cash and Equivalents</b>		<b>8 972 236</b>	<b>5 956 947</b>	<b>11 769 634</b>
Net Balance of cash accounts and accounts with central banks and post office banks	4,1	9 472 175	10 403 196	10 062 952
Net Balance of demand loans and deposits- credit institutions		-499 938	-4 446 249	1 706 682
<i>Dont Prêt et Emprunt de trésorerie JJ</i>			-2 877 349	
<b>Net increase in cash and equivalents</b>		<b>3 015 395</b>	<b>-5 258 792</b>	<b>553 894</b>
(In thousand MAD)				
Dividends received	2,4	187 902	240 014	202 906
Dividends paid	1,5	-1 423 919	-1 402 997	-1 398 171
Interests received		5 258 410	12 532 242	4 833 252
Interests paid		-1 216 627	-3 771 219	-1 093 531
(In thousand MAD)				





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## 1.6. SUMMARY OF ACCOUNTING POLICIES APPLIED BY THE GROUP

### 1.6.1. Applicable accounting standards

The first consolidated financial statements to be prepared by BMCE Bank Group in accordance with international accounting standards (IFRS) were those for the period ended 30 June 2008 with an opening balance on 1<sup>st</sup> January 2007.

The consolidated financial statements of BMCE Bank Group have been prepared in accordance with international accounting standards (International Financial Reporting Standards – IFRS), as approved by the IASB.

The Group has not opted for early adoption of the new standards, amendments and interpretations adopted by the IASB where retrospective application is permitted.

### 1.6.2. Consolidation principles

#### a. Scope of consolidation

The scope of consolidation includes all Moroccan and foreign entities in which the Group directly or indirectly holds a stake.

BMCE Bank Group includes within its scope of consolidation all entities, whatever their activity, in which it directly or indirectly holds 20% or more of existing or potential voting rights. In addition, it consolidates entities if they meet the following criteria:

- The subsidiary's total assets exceed 0.5% of the parent company's;
- The subsidiary's net assets exceed 0.5% of the parent company's;
- The subsidiary's banking income exceeds 0.5% of the parent company's ;
- "Cumulative" thresholds which ensure that the combined total of entities excluded from the scope of consolidation does not exceed 5% of the consolidated total.

#### b. Consolidation methods

The method of consolidation adopted (fully consolidated or accounted for under the equity method) will depend on whether the Group has full control, joint control or exercises significant influence.

At 30 June 2017, no Group subsidiary was jointly controlled.

#### c. Consolidation rules

The consolidated financial statements are prepared using uniform accounting policies for reporting like transactions and other events in similar circumstances.

#### Elimination of intragroup balances and transactions

Intragroup balances arising from transactions between consolidated companies, and the transactions themselves, including income, expenses and dividends, are eliminated. Profits and losses arising from intragroup sales of assets are eliminated, except where there is an indication that the asset sold is impaired.

#### Translation of financial statements prepared in foreign currencies

BMCE Bank Group's consolidated financial statements are prepared in dirhams. The financial statements of companies whose functional currency is not the dirham are translated using the closing rate method. Under this method, all assets and liabilities, both monetary and non-monetary, are

translated using the spot exchange rate at the balance sheet date. Income and expenditures are translated at the average rate for the period.

#### d. Business combinations and measurement of goodwill

##### Cost of a business combination

The cost of a business combination is measured as the aggregate fair value of assets acquired, liabilities incurred or assumed and equity instruments issued by the acquirer in consideration for control of the acquired company. Costs attributable to the acquisition are recognised through income.

##### Allocating the cost of a business combination to the assets acquired and liabilities incurred or assumed

The Group allocates, at the date of acquisition, the cost of a business combination by recognising those identifiable assets, liabilities and contingent liabilities of the acquired company which meet the criteria for fair value recognition at that date.

Any difference between the cost of the business combination and the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities is recognised under goodwill.

##### Goodwill

At the date of acquisition, goodwill is recognised as an asset. It is initially measured at cost, that is, the difference between the cost of the business combination over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities.

The Group has adopted from 2012 the "full goodwill" method for new acquisitions. This method consists of measuring goodwill based on the difference between the cost of the business combination and minority interests over the fair value of the identifiable assets, liabilities and contingent liabilities.

It is worth noting that the Group has not restated business combinations occurring before 1 January 2008, the date of first-time adoption of IFRS, in accordance with IFRS 3 and as permitted under IFRS 1.

##### Measurement of goodwill

Following initial recognition, goodwill is measured at cost less cumulative impairment.

In accordance with IAS 36, impairment tests must be conducted whenever there is any indication of impairment that a unit may be impaired and at least once a year to ensure that the goodwill recognised for each CGU does not need to be written down.

The recoverable amount of a cash-generating unit is the higher of the net fair value of the unit and its value in use.

Fair value is the price that is likely to be obtained from selling the CGU in normal market conditions.

Value in use is based on an estimate of the current value of future cash flows generated by the unit's activities as part of the Bank's market activities:

- If the subsidiary's recoverable amount is more than the carrying amount, then there is no reason to book an impairment charge;
- If the subsidiary's recoverable amount is less than the carrying amount, the difference is recognised as an impairment charge. It will be allocated



to goodwill as a priority and subsequently to other assets on a pro-rata basis.

The Bank has employed a variety of methods for measuring CGU value in use depending on the subsidiary. These methods are based on assumptions and estimates:

- A revenue-based approach, commonly known as the “dividend discount model”, is a standard method used by the banking industry. The use of this method depends on the subsidiary’s business plan and will value the subsidiary based on the net present value of future dividend payments. These flows are discounted at the cost of equity.
- The “discounted cash flow method” is a standard method for measuring firms in the services sector. It is based on discounting available cash flows at the weighted average cost of capital.

#### Step acquisitions

In accordance with revised IFRS 3, the Group does not calculate additional goodwill on step acquisitions once control has been obtained.

In particular, in the event that the Group increases its percentage interest in an entity which is already fully consolidated, the difference at acquisition date between the cost of acquiring the additional share and share already acquired in the entity is recognised in the Group’s consolidated reserves.

### 1.6.3. Financial assets and liabilities

#### a. Loans and receivables

##### Loans and receivables include credit provided by the Group.

Loans and receivables are initially measured at fair value or equivalent, which, as a general rule, is the net amount disbursed at inception including directly attributable origination costs and certain types of fees or commission (syndication commission, commitment fees and handling charges) that are regarded as an adjustment to the effective interest rate on the loan.

Loans and receivables are subsequently measured at amortised cost. The income from the loan, representing interest plus transaction costs and fees and commission included in the initial value of the loan, is calculated using the effective interest method and taken to income over the life of the loan.

#### b. Securities

##### Classification of securities

Securities held by the Group are classified under one of three categories.

##### Financial assets at fair value through P&L

This category includes financial assets and liabilities held for trading purposes. They are measured at fair value at the balance sheet date under “financial assets at fair value through P&L”. Changes in fair value are recognised in the income statement under “Net gains or losses on financial instruments at fair value through P&L”.

An instrument may only be designated at fair value through profit or loss if the following conditions are met:

- If designation were to eliminate or significantly reduce any inconsistency in the instrument’s measurement or recognition which would arise if designated otherwise;

- If a group of financial assets, financial liabilities or both were to be managed and its performance assessed on a fair value basis in accordance with a documented risk management or investment strategy;

- If the economic characteristics and risks of an embedded derivative were not closely related to those of the host contract (see Appendix A, paragraphs AG30 and AG33);

Financial assets and financial liabilities at fair value through profit or loss are recognised in the balance sheet at fair value. Changes in the fair value of financial assets and liabilities are recognised as losses or gains in the P&L.

Interest income is recognised under interest income and expenses while dividends are recognised under other operating income if the right to payment has been established.

It is worth underlining that the Group has not designated, on initial recognition, any non-derivative financial asset or liability at fair value through profit or loss as per the option offered by IAS 39.

In 2013, the Bank issued a USD 300 million fixed rate international bond. This bond is hedged by a swap with the same characteristics as those of the bond (a fixed rate versus a variable rate). This transaction is qualified as a fair value hedging relationship.

##### Held-to-maturity financial assets

Held-to-maturity financial assets include securities with fixed or determinable payments and fixed maturity securities that the Group has the intention and ability to hold until maturity.

Assets in this category are accounted for at amortised cost using the effective interest method, which builds in amortisation of premium and discount, corresponding to the difference between the asset’s purchase price and redemption value and acquisition costs, if material. They may be written down, if applicable, in the event of issuer default. Income earned from this category of assets is included in “Interest and similar income” in the income statement.

##### Available-for-sale financial assets

Available-for-sale financial assets are fixed income and floating rate securities other than those classified under the two previous categories.

Assets included in the available-for-sale category are initially recognised at fair value plus transaction costs, if material. At the balance sheet date, they are re-measured at fair value, with changes in fair value shown on a separate line in shareholders’ equity. Upon disposal, these unrealised gains and losses are transferred from shareholders’ equity to the income statement, where they are shown on the line “Net gains or losses on available-for-sale financial assets”. The same applies in the event of impairment.

Income recognised using the effective interest method for fixed income available-for-sale securities is recorded under “Interest and similar income” in the income statement.

Dividend income from floating rate securities is recognised under “Net gains or losses on available-for-sale financial assets” when the Group’s right to receive payment is established.

##### Temporary acquisitions and sales

##### Repurchase agreements

Securities subject to repurchase agreements are recorded in the Group’s balance sheet in their original category.





The corresponding liability is recognised in the under “Borrowings” as a liability on the balance sheet.

Securities temporarily acquired under reverse repurchase agreements are not recognised in the Group’s balance sheet. The corresponding receivable is recognised under “Loans and receivables”.

#### **Securities lending and borrowing transactions**

Securities lending transactions do not result in de-recognition of the lent securities while securities borrowing transactions result in recognition of a debt on the liabilities side of the Group’s balance sheet.

#### **Date of recognition of securities transactions**

Securities recognised at fair value through income or classified under held-to-maturity or available-for-sale financial assets are recognised at the trade date.

Regardless of their classification (recognised as loans and receivables or debt), temporary sales of securities as well as sales of borrowed securities are initially recognised at the settlement date.

These transactions are carried on the balance sheet until the Group’s rights to receive the related cash flows expire or until the Group has substantially transferred all the risks and rewards related to ownership of the securities.

#### **c. Foreign currency transactions**

##### **Monetary assets and liabilities denominated in foreign currencies**

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency of the relevant Group entity at the closing rate. Translation differences are recognised in the income statement, except for those arising from financial instruments earmarked as a cash flow hedge or a net foreign currency investment hedge, which are recognised in shareholders’ equity.

#### **d. Impairment and restructuring of financial assets**

##### **Impairment of loans and receivables and held-to-maturity financial assets, provisions for financing and guarantee commitments**

At each balance sheet date, the Group determines whether there is objective evidence of impairment to a financial asset or group of financial assets as a result of an event or several events occurring after initial recognition, whether this event affects the amount or timing of future cash flows and whether the consequences of the event can be reliably measured.

The Group assesses, in the first instance, whether there is objective evidence of impairment on an individual basis for individually material assets or on a collective basis for financial assets which are not individually material.

If the Group determines that there is no objective evidence of impairment to a financial asset, whether considered individually material or not, it includes this asset within a group of financial assets with a similar credit risk profile and subjects them to an impairment test on a collective basis.

At an individual level, objective evidence that a financial asset is impaired includes observable data relating to the following events:

- The existence of accounts which are past the due date;
- Any knowledge or evidence that the borrower is experiencing significant financial difficulty, such that a risk can be considered to have arisen,

regardless of whether the borrower has missed any payments;

- Concessions in respect of the credit terms granted to the borrower that the lender would not have considered had the borrower not been experiencing financial difficulty.

Impairment is measured as the difference between the carrying amount and the present value, discounted at the asset’s original effective interest rate, of those components (principal, interest, collateral, etc.) regarded as recoverable.

The Group’s portfolio doubtful loan portfolio is categorised as follows :

**Individually material loans :** Each of these loans is reviewed individually in order to estimate recovery payments and determine recovery schedules. Impairment under IFRS relates to the difference between amounts owing and the net present value of expected recovered payments.

**Non-individually material loans :** Loans not reviewed on an individual basis are segmented into different risk categories having similar characteristics and are assessed using a statistical model, based on historical data, of annual recovery payments by each risk category.

#### **Counterparties not showing any evidence of impairment**

These loans are risk-assessed on a portfolio basis with similar characteristics. This assessment draws upon historical data, adjusted if necessary to reflect circumstances prevailing at the balance sheet date. This analysis enables the Group to identify counterparty groups which, as a result of events occurring since inception of the loans, have collectively acquired a probability of default at maturity that provides objective evidence of impairment of the entire portfolio but without it being possible at that stage to allocate the impairment to individual counterparties.

This analysis also estimates the loss relating to the portfolios in question, taking account of trends in the economic cycle during the assessment period.

Based on the experienced judgement of the Bank’s divisions or Risk Division, the Group may recognise additional collective impairment provisions in respect of an economic sector or geographical region affected by exceptional economic events. In this regard the Group established watch lists of the accounts at risk.

Provisions and provision write-backs are recognised in the income statement under “Cost of risk” while the theoretical income earned on the carrying amount of impaired loans is recognised under “Interest and similar income” in the income statement.

#### **Forbearance**

The Bank complies with IFRS requirements in matters of forbearance agreements, particularly with regard to discounts applied to restructured loans. The amount deducted is recognised under cost of risk. If the restructured loan is subsequently reclassified as a performing loan, it is reinstated under net interest income over the remaining term of the loan.

#### **Impairment of available-for-sale financial assets**

Impairment of “available-for-sale financial assets”, which mainly comprise equity instruments, is recognised through income if there is objective evidence of impairment as a result of one or more events occurring since acquisition.

The Group has determined two types of non-cumulative impairment for equity instruments recorded under “available-for-sale financial assets”.



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The first one is a significant decline in the security's price. By "significant" is implied a fall of more than 40% from the acquisition price. The second is a prolonged decline, defined as an unrealised loss over a one-year period.

For financial instruments quoted on a liquid market, impairment is determined using quoted prices and, for unquoted financial instruments, is based on valuation models.

For unquoted equity instruments, the impairment criteria applied are as follows :

- The growing likelihood that the debtor could become bankrupt or undertake any other financial reorganisation;
- The disappearance of an active market for that financial asset because of the debtor's financial difficulties; or observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since initial recognition of those assets, even though the decrease cannot yet be identified with the individual financial assets in the group.

Impairment losses taken against equity securities are recognised as a component of net banking income under "Net gains or losses on available-for-sale financial assets" and may only be reversed through income after these securities are sold. Any subsequent decline in fair value constitutes an additional impairment loss, recognised in through income.

In the case of debt instruments, impairment is assessed on the basis of the same criteria applied to loans and receivables, that is, on an individual basis if there is objective evidence of impairment or on a collective basis if there is no evidence of impairment.

Given the characteristics of its portfolio, the Group is not concerned by debt instruments.

#### **Restructuring of assets classed as "Loans and receivables"**

An asset classified in "Loans and receivables" is considered to be restructured due to the borrower's financial difficulty when the Group, for economic or legal reasons related to the borrower's financial difficulty, agrees to modify the terms of the original transaction that it would not otherwise consider, resulting in the borrower's contractual obligation to the Group, measured at present value, being reduced compared with the original terms.

At the time of restructuring, a discount is applied to the loan to reduce its carrying amount to the present value of the new expected future cash flows discounted at the original effective interest rate.

The decrease in the asset value is recognised through income under "Cost of risk".

For each loan, the discount is recalculated at the renegotiation date using original repayment schedules and renegotiation terms.

The discount is calculated as the difference between :

- The sum, at the renegotiation date, of the original contractual repayments discounted at the effective interest rate; and
- The sum, at the renegotiation date, of the renegotiated contractual repayments discounted at the effective interest rate. The discount, net of amortisation, is recognised by reducing loan outstandings through income. Amortisation will be recognised under net banking income.

#### **e. Issues of debt securities**

Financial instruments issued by the Group are qualified as debt instruments if the Group company issuing the instruments has a contractual obligation to deliver cash or another financial asset to the holder of the instrument. The same applies if the Group is required to exchange financial assets or liabilities with another entity on terms that are potentially unfavourable to the Group, or to deliver a variable number of the Group's treasury shares.

In the Group's case, this concerns certificates of deposit issued by Group banks such as BMCE BANK and BANK OF AFRICA as well as notes issued by finance companies MAGHREBAIL and SALAFIN.

#### **f. Treasury shares**

The term "treasury shares" refers to shares of the parent company, BMCE BANK SA and its fully consolidated subsidiaries.

"Treasury shares" refer to shares issued by the parent company, BMCE Bank SA, or by its fully consolidated subsidiaries. Treasury shares held by the Group are deducted from consolidated shareholders' equity regardless of the purpose for which they are held. Gains and losses arising on such instruments are eliminated from the consolidated income statement.

As of June 30<sup>th</sup>, 2017, the Group does not hold any treasury shares.

#### **g. Derivative instruments**

All derivative instruments are recognised in the balance sheet on the trade date at the trade price and are re-measured to fair value on the balance sheet date.

Derivatives held for trading purposes are recognised "Financial assets at fair value through income" when their fair value is positive and in "Financial liabilities at fair value through income" when their fair value is negative.

Realised and unrealised gains and losses are recognised in the income statement under "Net gains or losses on financial instruments at fair value through income".

#### **h. Fair value measurement of own credit default risk (DVA) / counterparty risk (CVA)**

Since the value of derivative products has not been material until now, the Bank will continue to monitor the extent to which this factor is significant in order to take into consideration fair value adjustments relating to its own credit default risk (DVA) / counterparty risk (CVA).

#### **i. Determining the fair value of financial instruments**

Fair value is defined as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Financial assets classified under "Financial assets at fair value through income" and "Available-for-sale financial assets" are measured at fair value.

Fair value in the first instance relates to the quoted price if the financial instrument is traded on a liquid market.

If no liquid market exists, fair value is determined by using valuation techniques (internal valuation models as outlined in Note 4.15 on fair value).



Depending on the financial instrument, these involve the use of data taken from recent arm's length transactions, the fair value of substantially similar instruments, discounted cash flow models or adjusted book values.

Characteristics of a liquid market include regularly available prices for financial instruments and the existence of real arm's length transactions.

Characteristics of an illiquid market include factors such as a significant decline in the volume and level of market activity, a significant variation in available prices between market participants or a lack of recent observed transaction prices.

#### j. Income and expenses arising from financial assets and liabilities

The effective interest rate method is used to recognise income and expenses arising from financial instruments, which are measured at amortised cost.

The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the asset or liability in the balance sheet. The effective interest rate calculation takes into account all fees received or paid that are an integral part of the effective interest rate of the contract, transaction costs, and premiums and discounts.

#### k. Cost of risk

"Cost of risk" includes impairment provisions net of write-backs and provisions for credit risk, losses on irrecoverable loans and amounts recovered on amortised loans as well as provisions and provision write-backs for other risks such as operating risks.

#### l. Offsetting financial assets and liabilities

A financial asset and a financial liability are offset and the net amount presented in the balance sheet if, and only if, the Group has a legally enforceable right to offset the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

### 1.6.4. Property plant and equipment and intangible assets

#### a. Property, plant and equipment

The Group has opted for the cost model to measure property, plant and equipment and intangible assets.

It is worth noting that, in application of the option provided under IFRS 1, the Group has chosen to measure certain items of property, plant and equipment at the transition date at their fair value and use this fair value as deemed cost at this date.

In accordance with IAS 23, borrowing costs directly attributable to the acquisition are included in the acquisition cost of items of property, plant and equipment.

As soon as they are available for use, items of property, plant and equipment are amortised over the asset's estimated useful life.

Given the character of BMCE Bank Group's property, plant and equipment, it has not adopted any residual value except for transport equipment owned by LOCASOM, a subsidiary.

In respect of the Group's other assets, there is neither a sufficiently liquid market nor a replacement policy over a period that is considerably shorter than the estimated useful life for any residual value to be adopted.

This residual value is the amount remaining after deducting from the acquisition cost all allowable depreciable charges.

Given the Group's activity, it has adopted a component-based approach for property. The option adopted by the Group is a component-based amortised cost method by applying using a component-based matrix established as a function of the specific characteristics of each of BMCE Bank Group's buildings.

#### Component-based matrix adopted by BMCE Bank

	Head office property		Other property	
	Period	QP	Period	QP
Structural works	80	55%	80	65%
Façade	30	15%		
General & technical installations	20	20%	20	15%
Fixtures and fittings	10	10%	10	20%

#### Impairment

The Group has deemed that impairment is only applicable to buildings and, as a result, the market price (independently-assessed valuation) will be used as evidence of impairment.

#### b. Investment property

IAS 40 defines investment property as property held to earn rentals or for capital appreciation or both. An investment property generates cash flows that are largely independent from the company's other assets in contrast to property primarily held for use in the production or supply of goods or services.

The Group qualifies investment property as any non-operating property.

BMCE Bank Group has opted for the cost method to value its investment property. The method used to value investment property is identical to that for valuing operating property.

In accordance with the requirements of paragraph 79(e) of IAS 40, the Group has investment properties whose acquisition cost is deemed to be substantially material valued by external surveyors at each balance sheet date (cf. 4.15 on fair value).

#### c. Intangible assets

Intangible assets are initially measured at cost which is equal to the amount of cash or cash equivalent paid or any other consideration given at fair value to acquire the asset at the time of its acquisition or construction.

Subsequent to initial recognition, intangible assets are measured at cost less cumulative amortisation and impairment losses.

The amortisation method adopted reflects the rate at which future economic benefits are consumed.

Impairment is recognised when evidence (internal or external) of impairment exists. Evidence of impairment is assessed at each balance sheet date.

Given the character of the intangible assets held, the Group considers that the concept of residual value is not relevant in respect of its intangible assets. As a result, residual value has not been adopted.



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### 1.6.5. Leases

Group companies may either be the lessee or the lessor in a lease agreement.

Leases contracted by the Group as lessor are categorised as either finance leases or operating leases.

#### a. Lessor accounting

##### Finance leases

In a finance lease, the lessor transfers the substantial portion of the risks and rewards of ownership of an asset to the lessee. It is treated as a loan made to the lessee to finance the purchase of the asset.

The present value of the lease payments, plus any residual value, is recognised as a receivable.

The net income earned from the lease by the lessor is equal to the amount of interest on the loan and is taken to the income statement under "Interest and other income". The lease payments are spread over the lease term and are allocated to reducing the principal and to interest such that the net income reflects a constant rate of return on the outstanding balance. The rate of interest used is the rate implicit in the lease.

Individual and portfolio impairments of lease receivables are determined using the same principles as applied to other loans and receivables.

##### Operating leases

An operating lease is a lease under which the substantial portion of the risks and rewards of ownership of an asset are not transferred to the lessee.

The asset is recognised under property, plant and equipment in the lessor's balance sheet and depreciated on a straight-line basis over the lease term. The depreciable amount excludes the asset's residual value. The lease payments are taken to the income statement in full on a straight-line basis over the lease term.

Lease payments and depreciation expenses are taken to the income statement under "Income from other activities" and "Expenses from other activities".

#### b. Lessee accounting

Leases contracted by the Group as lessee are categorised as either finance leases or operating leases.

##### Finance leases

A finance lease is treated as an acquisition of an asset by the lessee, financed by a loan. The leased asset is recognised in the balance sheet of the lessee at the lower of fair value or the present value of the minimum lease payments calculated at the interest rate implicit in the lease.

A matching liability, equal to the fair value of the leased asset or the present value of the minimum lease payments, is also recognised in the balance sheet of the lessee. The asset is depreciated using the same method as that applied to owned assets after deducting the residual value from the amount initially recognised over the useful life of the asset. The lease obligation is accounted for at amortised cost.

##### Operating leases

The asset is not recognised in the balance sheet of the lessee. Lease payments made under operating leases are taken to the lessee's income statement on a straight-line basis over the lease term.

### 1.6.6. Non-current assets held for sale and discontinued activities

An asset is classified as held for sale if its carrying amount is obtained through the asset's sale rather than through its continuous use in the business.

At 30<sup>th</sup> June 2017, the Group did not recognise any assets as held for sale or discontinued activities.

### 1.6.7. Employee benefits

#### Classification of employee benefits

##### a. Short-term benefits

Short-term benefits are due within twelve months of the close of the financial year in which employees provided the corresponding services. They are recognised as expenses in the year in which they are earned.

##### b. Defined-contribution post-employment benefits

The employer pays a fixed amount in respect of contributions into an external fund and has no other liability. Benefits received are determined on the basis of cumulative contributions paid plus any interest and are recognised as expenses in the year in which they are earned.

##### c. Defined-benefit post-employment benefits

Defined-benefit post-employment benefits are those other than defined-contribution schemes. The employer undertakes to pay a certain level of benefits to former employees, whatever the liability's cover. This liability is recognised as a provision.

The Group accounts for end-of-career bonuses as defined-benefit post-employment benefits: these are bonuses paid on retirement and depend on employees' length of service.

##### d. Long-term benefits

These are benefits which are not settled in full within twelve after the employee rendering the related service. Provisions are recognised if the benefit depends on employees' length of service.

The Group accounts for long-service awards as long-term benefits: these are payments made to employees when they reach 6 different thresholds of length of service ranging from 15 to 40 years.

##### e. Termination benefits

Termination benefits are made as a result of a decision by the Group to terminate a contract of employment or a decision by an employee to accept voluntary redundancy. The company may set aside provisions if it is clearly committed to terminating an employee's contract of employment.

Principles for calculating and accounting for defined-benefit post-employment benefits and other long-term benefits

##### f. Calculation method

The recommended method for calculating the liability under IAS 19 is the "projected unit credit" method. The calculation is made on an individual basis. The employer's liability is equal to the sum of individual liabilities.

Under this method, the actuarial value of future benefits is determined by calculating the amount of benefits due on retirement based on salary projections and length of service at the retirement date. It takes into consideration variables such as discount rates, the probability of the employee remaining in service up until retirement as well as the likelihood of mortality.





The liability is equal to the actuarial value of future benefits in respect of past service within the company prior to the calculation date. This liability is determined by applying to the actuarial value of future benefits the ratio of length of service at the calculation date to length of service at the retirement date.

The annual cost of the scheme, attributable to the cost of an additional year of service for each participant, is determined by the ratio of the actuarial value of future benefits to the anticipated length of service on retirement.

#### g. Accounting principles

A provision is recognised under liabilities on the balance sheet to cover for all obligations.

Actuarial gains or losses arise on differences related to changes in assumptions underlying calculations (early retirement, discount rates etc.) or between actuarial assumptions and what actually occurs (rate of return on pension fund assets etc.) constitute.

They are amortised through income over the average anticipated remaining service lives of employees using the corridor method.

The past service cost is spread over the remaining period for acquiring rights.

The annual expense recognised in the income statement under “Salaries and employee benefits” in respect of defined-benefit schemes comprises:

- The rights vested by each employee during the period (the cost of service rendered) ;
- The interest cost relating to the effect of discounting the obligation ;
- The expected income from the pension fund's investments (gross rate of return);
- The effect of any plan curtailments or settlements.

#### 1.6.8. Share-based payments

The Group offers its employees the possibility of participating in share issues in the form of share purchase plans.

New shares are offered at a discount on the condition that they retain the shares for a specified period.

The expense related to share purchase plans is spread over the vesting period if the benefit is conditional upon the beneficiary's continued employment.

This expense, booked under “Salaries and employee benefits”, with a corresponding adjustment to shareholders' equity, is calculated on the basis of the plan's total value, determined at the allotment date by the Board of Directors.

In the absence of any market for these instruments, financial valuation models are used that take into account performance-based criteria relating to the BMCE Bank share price. The plan's total expense is determined by multiplying the unit value per option or bonus share awarded by the estimated number of options or bonus shares acquired at the end of the vesting period, taking into account the conditions regarding the beneficiary's continued employment.

#### 1.6.9. Provisions recorded under liabilities

Provisions recorded under liabilities on the Group's balance sheet, other than those relating to financial instruments and employee benefits mainly relate to restructuring, litigation, fines, penalties and tax risks.

A provision is recognised when it is probable that an outflow of resources providing economic benefits will be required to settle an obligation arising from a past event and a reliable estimate can be made about the obligation's amount. The amount of such obligations is discounted in order to determine the amount of the provision if the impact of discounting is material.

A provision for risks and charges is a liability of uncertain timing or amount.

The accounting standard provides for three conditions when an entity must recognise a provision for risks and charges:

- A present obligation towards a third party ;
- An outflow of resources is probable in order to settle the obligation;
- The amount can be estimated reliably.

#### 1.6.10. Current and deferred taxes

The current income tax charge is calculated on the basis of the tax laws and tax rates in force in each country in which the Group has operations.

Deferred taxes are recognised when temporary differences arise between the carrying amount of an asset or liability in the balance sheet and its tax base.

A deferred tax liability is a tax which is payable at a future date. Deferred tax liabilities are recognised for all taxable temporary differences other than those arising on initial recognition of goodwill or on initial recognition of an asset or liability for a transaction which is not a business combination and which, at the time of the transaction, has not impact on profit either for accounting or tax purposes.

A deferred tax asset is a tax which is recoverable at a future date. Deferred tax assets are recognised for all deductible temporary differences and unused carry-forwards of tax losses only to the extent that it is probable that the entity in question will generate future taxable profits against which these temporary differences and tax losses can be offset.

The Group has opted to assess the probability of recovering deferred tax assets.

Deferred taxes assets are not recognised if the probability of recovery is uncertain. Probability of recovery is ascertained by the business projections of the companies concerned.

#### 1.6.11. Cash flow statement

The cash and cash equivalents balance is composed of the net balance of cash accounts and accounts with central banks and the net balances of sight loans and deposits with credit institutions.

Changes in cash and cash equivalents related to operating activities reflect cash flows generated by the Group's operations, including cash flows related to investment property, held-to-maturity financial assets and negotiable debt instruments.

Changes in cash and cash equivalents related to investing activities reflect cash flows resulting from acquisitions and disposals of subsidiaries, associates or joint ventures included in the consolidated group, as well



as acquisitions and disposals of property, plant and equipment excluding investment property and property held under operating leases.

Changes in cash and cash equivalents related to financing activities reflect the cash inflows and outflows resulting from transactions with shareholders, cash flows related to subordinated debt, bonds and debt securities (excluding negotiable debt instruments).

#### **1.6.12. Use of estimates in the preparation of the financial statements**

Preparation of the financial statements requires managers of business lines and corporate functions to make assumptions and estimates that are reflected in the measurement of income and expense in the income statement and of assets and liabilities in the balance sheet and in the disclosure of information in the notes to the financial statements.

This requires the managers in question to exercise their judgement and to make use of information available at the time of preparation of the financial statements when making their estimates.

The actual future results from operations where managers have made use of estimates may in reality differ significantly from those estimates depending on market conditions. This may have a material impact on the financial statements.

Those estimates which have a material impact on the financial statements primarily relate to:

- Impairment (on an individual or collective basis) recognised to cover credit risks inherent in banking intermediation activities ;

Other estimates made by the Group's management primarily relate to :

- Goodwill impairment tests ;
- Provisions for employee benefits;
- The measurement of provisions for risks and charges.



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## II. NOTES TO THE INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2017

### 2.1. NET INTEREST INCOME

includes net interest income (expense) related to customer and interbank transactions, debt securities issued by the Group, the trading portfolio (fixed income securities, repurchase agreements, loan / borrowing transactions and debts securities), available for sale financial assets and held-to-maturity financial assets.

	june-17			june-16		
	Produits	Charges	Net	Produits	Charges	Net
Customer Items	5 398 284	1 485 082	3 913 202	4 929 045	1 559 471	3 369 574
Deposits, loans and borrowings	5 040 760	1 414 436	3 626 324	4 596 467	1 503 360	3 093 107
Repurchase agreements		70 646	-70 646		56 111	-56 111
Finance leases	357 524		357 524	332 578		332 578
Interbank items	448 085	646 963	-198 878	409 152	495 775	-86 623
Deposits, loans and borrowings	336 334	600 241	-263 907	297 436	429 196	-131 760
Repurchase agreements	111 751	46 722	65 029	111 716	66 579	45 137
Debt securities issued	0	0	0	0	0	0
Cash flow hedge instruments	0	0	0	0	0	0
Interest rate portfolio hedge instruments	0	0	0	0	0	0
Trading book	675 819	460 604	215 215	811 167	458 211	352 956
Fixed income securities	675 819	270 852	404 967	687 183	303 820	383 363
Repurchase agreements			0			0
Loans/borrowings			0			0
Debt securities	0	189 752	-189 752	123 984	154 391	-30 407
Available for sale financial assets			0			0
Held to maturity financial assets	816 181		816 181	743 174		743 174
<b>TOTAL</b>	<b>7 338 369</b>	<b>2 592 649</b>	<b>4 745 720</b>	<b>6 892 538</b>	<b>2 513 457</b>	<b>4 379 081</b>

(In thousand MAD)

As of June 30<sup>th</sup>, 2017, the net interest income increased by 8.37% compared as of June 30<sup>th</sup>, 2016 and amounted 4 746 million MAD. This variation is mainly due to an increase of 9.52% of income related to customers loans, which amounted 5 398 million MAD as of June 30<sup>th</sup>, 2017 versus 4 929 million MAD as of June 30<sup>th</sup>, 2016 and an increase of 9.82% of fixed income securities (816 million MAD as of June 30<sup>th</sup>, 2017 versus 743 million MAD as of June 30<sup>th</sup>, 2016).

### 2.2. NET FEE INCOME

	june-17			june-16		
	Produits	Charges	Net	Produits	Charges	Net
Net fee on transactions	937 696	84 076	853 620	842 767	83 277	759 490
With credit institutions			-			-
With customers	723 666		723 666	587 970		587 970
On custody	110 311	60 868	49 443	102 102	43 692	58 410
On foreign exchange	103 719	23 208	80 511	152 695	39 585	113 110
On financial instruments and off balance sheet			-			-
Banking and financial services	342 734	103 297	239 437	350 387	73 695	276 692
Income from mutual funds management			-			-
Income from electronic payment services	179 019	32 287	146 732	175 943	23 227	152 716
Insurance			-			-
Other	163 715	71 010	92 705	174 444	50 468	123 976
<b>NET FEE INCOME</b>	<b>1 280 430</b>	<b>187 373</b>	<b>1 093 057</b>	<b>1 193 154</b>	<b>156 972</b>	<b>1 036 182</b>

(In thousand MAD)

Net fee income covers fees from interbank market and the money market, customer transactions, securities transactions, foreign exchange transactions, securities commitments, financial transactions derivatives and financial services.

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### 2.3. NET GAINS ON FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

This entry includes all items of income (excluding interest income and expenses, classified under «Net interest income» as described above) relating to financial instruments managed within the trading book.

This covers gains and losses on disposals, gains and losses related to mark-to-market, as well as dividends from variable-income securities.

	june-17			june-16		
	Trading Book	Assets measured under the fair value option	Total	Trading Book	Assets measured under the fair value option	Total
Fixed income and variable income securities	292 989		292 989	793 888		793 888
Derivative instruments	15 101	-435	14 666	10 807	-161	10 646
Repurchase agreements						
Loans						
Borrowings						
Remeasurement of interest rate risk hedged portfolios						
Remeasurement of currency positions						
<b>TOTAL</b>	<b>308 090</b>	<b>-435</b>	<b>307 655</b>	<b>804 695</b>	<b>-161</b>	<b>804 534</b>

(In thousand MAD)

As of June 30<sup>th</sup>, 2017, net gains on financial instruments at fair value through profit decreased compared to June 30<sup>th</sup>, 2016, amounting 308 million MAD

This variation is mainly due to an decrease of yield of fixed and variable income of 63.09% from june 2016 to 293 million MAD in june 2017.

### 2.4. NET GAINS ON AVAILABLE-FOR-SALE FINANCIAL ASSETS

This section includes :

- Dividends and other income from equities and other floating rate securities classified as financial assets available for sale ;
- Gains and losses on disposals of fixed and floating rate securities classified as available for sale financial assets ;
- Impairment provisions on floating rate securities, classified as available for sale financial assets.

	june-17	june-16
<b>Fixed income securities</b>	<b>0</b>	<b>0</b>
Disposal gains and losses		
<b>Equity and other variable-income securities</b>	<b>192 291</b>	<b>212 078</b>
Dividend income	187 902	202 906
Impairment provisions	-14 475	28 467
Net disposal gains	18 864	-19 295
<b>TOTAL</b>	<b>192 291</b>	<b>212 078</b>

(In thousand MAD)

As of June 30<sup>th</sup>, 2017, net gains on available for sale financial assets rose by -9% compared to June 30<sup>th</sup>, 2016 and amounted 192 million MAD. This variation is mainly due an decrease of dividend income of -15 million MAD.

### 2.5. NET INCOME FROM OTHER ACTIVITIES

	june-17			june-15		
	Income	Expense	Net	Income	Expense	Net
Net income from insurance activities			0			0
Net income from investment property	0	0	0	0	0	0
Net income from assets held under operating leases	140 650	59 589	81 061	138 111	54 205	83 906
Net income from property development activities	0	0	0	0	0	0
Other banking income & expenses	129 304	127 614	1 690	192 008	134 216	57 792
Other operating income	282 433	13 381	269 052	149 265	17 643	131 622
<b>TOTAL NET INCOME FROM OTHER ACTIVITIES</b>	<b>552 387</b>	<b>200 584</b>	<b>351 803</b>	<b>479 384</b>	<b>206 064</b>	<b>273 320</b>

(In thousand MAD)



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## 2.6. COST OF RISK

Includes expenses arising from the manifestation of credit risk and counterparty disputes inherent in the banking business conducted with stakeholders. Net impairment non covered by such risk allocations are classified in the income statement according to their type.

### Cost of risk for the period

	June-17	June-16
<b>Impairment provisions</b>	<b>-1 015 550</b>	<b>-1 411 030</b>
Impairment provisions on loans and advances	-966 406	-1 349 132
Impairment provisions on held to maturity financial assets (excluding interest rate risks)		
Provisions on off balance sheet commitments	-22 530	-809
Other provisions for contingencies and charges	-26 614	-61 089
<b>Write back of provisions</b>	<b>384 115</b>	<b>357 017</b>
Write back of impairment provisions on loans and advances	355 306	293 049
Write back of impairment provisions on held to maturity financial assets (excluding interest rate risks)		
Write back of provisions on off balance sheet commitments	8 105	0
Write back of other provisions for contingencies and charges	20 704	63 968
<b>Changes in provisions</b>	<b>-2 021</b>	<b>-585</b>
Losses on counterparty risk on available for sale financial assets (fixed income securities)		
Losses on counterparty risk held to maturity financial assets		
Loss on irrecoverable loans and advances not covered by impairment provisions		
Loss on irrecoverable loans and advances covered by impairment provisions	-9 273	-5 098
Discount on restructured products		
Recoveries on amortized loans and advances	7 252	4 513
Losses on off balance sheet commitments		
Other losses		
<b>COST OF RISK</b>	<b>-633 456</b>	<b>-1 054 598</b>

(In thousand MAD)

## 2.7. NET GAINS ON OTHER ASSETS

	June-17	June-16
PP&E and intangible assets used in operations		
Capital gains on disposals		
Capital losses on disposals		
Equity interests		
Capital gains on disposals		
Capital losses on disposals		
Others*	31 985	10 161
<b>Net Gain/Loss on Other Assets</b>	<b>31 985</b>	<b>10 161</b>

(In thousand MAD)

Net gains or losses on other assets increased amounting from 10.1 million MAD to 32 million MAD at the end of June 2017.

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## 2.8. INCOME TAX

### 2.8.1. Current and deferred tax

	june-17	dec-16
Current tax	485 211	414 191
Deferred tax	600 756	521 548
<b>Current and deferred tax assets</b>	<b>1 085 967</b>	<b>935 740</b>
Current tax	461 464	641 287
Deferred tax	1 251 230	1 198 242
<b>Current and deferred tax liabilities</b>	<b>1 712 694</b>	<b>1 839 530</b>

(In thousand MAD)

### 2.8.2. Net income tax expense

	june-17	june-16
Current tax expense	-587 470	-591 683
Net deferred tax expense	-18 152	29 401
<b>Net Corporate income tax expense</b>	<b>-605 622</b>	<b>-562 282</b>

(In thousand MAD)

### 2.8.3. Effective tax rate

	june-17	june-16
Net income	1 806 248	1 596 856
Net corporate income tax expense	605 622	562 282
<b>Average effective tax rate</b>	<b>33,5%</b>	<b>35,2%</b>

(In thousand MAD)

### Analysis of effective tax rate

	june-17	june-16
Standard tax rate	37,0%	37,0%
Differential in tax rates applicable to foreign entities		
Reduced tax rate		
Permanent differences		
Change in tax rate		
Reportable deficit		
Other items	-3,5%	-1,8%
<b>Average effective tax rate</b>	<b>33,5%</b>	<b>35,2%</b>

(In thousand MAD)

## 2.9. CHARGES GÉNÉRALES D'EXPLOITATION

	june-17	june-16
Staff expenses	1 767 645	1 689 405
Taxes	68 508	72 994
External expenses	753 544	727 326
Other general operating expenses	757 276	719 491
Allowances for depreciation and provisions of tangible and intangible assets	373 859	351 662
<b>General Operating Expenses</b>	<b>3 720 832</b>	<b>3 560 878</b>

(en milliers de DH)

General operating expenses increased 4.5% between 2016 and 2017, from 3.56 billion MAD as of June 30, 2016 to 3.72 billion MAD as of June 30, 2017

This variation is explained by an increase of 4.6% in staff expenses, from MAD 1.69 billion in 2016 to MAD 1.76 billion in 2017, and by the increase in other operating expenses (including Taxes and expenses, depreciation and other external expenses) of 4.37% to 1.87 billion MAD in 2016 to 1.95 billion MAD in 2017



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### III. SEGMENT INFORMATION

BMCE Bank Group is composed of four core business activities for accounting and financial information purposes:

- **Banking in Morocco** : includes BMCE Bank's Moroccan business;
- **Asset management and Investment banking** : includes investment banking (BMCE Capital), securities brokerage (BMCE Capital Bourse) and asset management (BMCE Capital Gestion) ;
- **Specialised financial services** : includes consumer credit (SalaFin), leasing (Maghrébaïl), factoring (Maroc Factoring), recovery (RM Experts) and credit insurance (Acmar) ;
- **International activities** : includes BMCE International (Madrid), Banque de Développement du Mali, La Congolaise de Banque, BMCE Bank International and Bank Of Africa.

#### 3.1. Earnings by business line

	june-17					TOTAL
	ACTIVITY IN MOROCCO	INVESTMENT BANKING	SPECIALISED FINANCIAL SERVICES	OTHERS	INTERNATIONAL ACTIVITIES	
Net interest Income	1 963 218	22 908	383 964	-8 206	2 383 836	4 745 720
Net Fee income	550 526	85 776	11 276		445 479	1 093 057
<b>Net Banking Income</b>	<b>2 802 950</b>	<b>190 354</b>	<b>402 144</b>	<b>73 677</b>	<b>3 221 401</b>	<b>6 690 526</b>
General Operating Expenses & allowances for depreciation and amortization	-1 627 304	-132 272	-109 029	-42 852	-1 809 375	(3 720 832)
<b>Operating Income</b>	<b>1 175 646</b>	<b>58 082</b>	<b>293 115</b>	<b>30 825</b>	<b>1 412 026</b>	<b>2 969 694</b>
Corporate income tax	-325 460	-29 852	-84 055	-9 112	-157 143	( 605 622)
<b>Net Income Attributable to shareholders of the parent</b>	<b>575 483</b>	<b>70 900</b>	<b>89 327</b>	<b>22 384</b>	<b>530 306</b>	<b>1 288 400</b>

(In thousand MAD)

	june-16					TOTAL
	ACTIVITY IN MOROCCO	INVESTMENT BANKING	SPECIALISED FINANCIAL SERVICES	OTHERS	INTERNATIONAL ACTIVITIES	
Net interest Income	1 796 273	37 608	400 913	-9 371	2 153 658	4 379 081
Net Fee income	485 899	77 543	14 594		458 146	1 036 182
<b>Net Banking Income</b>	<b>3 054 452</b>	<b>203 674</b>	<b>419 954</b>	<b>74 653</b>	<b>2 952 462</b>	<b>6 705 195</b>
General Operating Expenses & allowances for depreciation and amortization	-1 550 652	-140 230	-104 896	-47 093	-1 718 007	(3 560 878)
<b>Operating Income</b>	<b>1 503 801</b>	<b>63 444</b>	<b>315 058</b>	<b>27 560</b>	<b>1 234 454</b>	<b>3 144 317</b>
Corporate income tax	-339 553	-31 199	-62 820	-7 964	-120 746	( 562 282)
<b>Net Income Attributable to shareholders of the parent</b>	<b>634 818</b>	<b>75 426</b>	<b>71 250</b>	<b>20 101</b>	<b>448 864</b>	<b>1 250 459</b>

(In thousand MAD)

#### 3.2. Assets and liabilities by business activity

	june-17					TOTAL
	ACTIVITY IN MOROCCO	INVESTMENT BANKING	SPECIALISED FINANCIAL SERVICES	OTHERS	INTERNATIONAL ACTIVITIES	
<b>TOTAL ASSETS</b>	<b>217 270 009</b>	<b>975 987</b>	<b>9 410 927</b>	<b>282 720</b>	<b>91 783 951</b>	<b>319 723 594</b>
<b>ASSETS ITEMS</b>						
Available for sale assets	2 321 420	99 964	18 408	15 183	5 476 883	7 931 858
Customer loans	129 000 809	410	14 440 031		48 287 831	191 729 081
Financial assets at fair value	42 226 257	315 748	207		176 990	42 719 202
Held to maturity assets	3 619 446				21 045 027	24 664 473
<b>LIABILITIES &amp; SHAREHOLDERS EQUITY ITEMS</b>						
Customer deposits	135 390 740	16	602 685		59 479 611	195 473 052
Shareholder's Equity	15 376 498	292 882	1 337 397	42 996	6 677 298	23 727 071

(In thousand MAD)

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	dec-16					TOTAL
	ACTIVITY IN MOROCCO	INVESTMENT BANKING	SPECIALISED FINANCIAL SERVICES	OTHERS	INTERNATIONAL ACTIVITIES	
<b>TOTAL ASSETS</b>	<b>205 383 601</b>	<b>979 684</b>	<b>9 234 390</b>	<b>183 128</b>	<b>90 142 075</b>	<b>305 922 878</b>
<b>ASSETS ITEMS</b>						
Available for sale assets	2 249 497	101 026	19 718	20 464	5 927 020	8 317 725
Customer loans	117 080 076	121	14 701 986	0	47 992 039	179 774 222
Financial assets at fair value	38 499 389	208 390	207	0	182 937	38 890 923
Held to maturity assets	4 188 468	0	0	0	20 947 702	25 136 170
<b>LIABILITIES &amp; SHAREHOLDERS EQUITY ITEMS</b>						
Customer deposits	131 000 917	17	908 600	0	58 140 801	190 050 335
Shareholder's Equity	15 463 646	315 561	1 478 662	( 32 906)	6 357 724	23 582 687

(In thousand MAD)

### 3.3. BREAKDOWN OF LOANS AND RECEIVABLES

#### Breakdown of loans and receivables to credit institutions by geographical region

	june-17			dec-16		
	Performing loans	NPL	Provisions	Performing loans	NPLS	Provisions
Morocco	12 041 000	58 620	58 616	13 781 032	58 620	58 620
Europe	2 643 516	0	0	3 145 671	0	0
Subsaharian Africa	5 514 443	29 293	10 552	4 275 686	27 760	8 920
<b>Total</b>	<b>20 198 959</b>	<b>87 913</b>	<b>69 168</b>	<b>21 202 389</b>	<b>86 380</b>	<b>67 540</b>
Allocated debts						
Provisions						
<b>Net Value</b>	<b>20 198 959</b>	<b>87 913</b>	<b>69 168</b>	<b>21 202 389</b>	<b>86 380</b>	<b>67 540</b>

(In thousand MAD)

#### Breakdown of loans to customer by geographical region

	june-17				dec-16			
	Performing loans	NPL	Individual Provisions	collective Provisions	Performing loans	NPL	Individual Provisions	collective Provisions
Morocco	140 300 902	9 530 133	4 448 720	1 941 065	128 534 813	9 353 560	4 358 705	1 748 430
Europe	3 890 869	170 293	78 134	0	3 885 045	205 958	85 331	0
Subsaharian Africa	42 371 567	4 748 424	2 663 289	151 899	41 432 887	5 150 768	2 424 641	171 702
<b>Net Value</b>	<b>186 563 338</b>	<b>14 448 850</b>	<b>7 190 143</b>	<b>2 092 964</b>	<b>173 852 745</b>	<b>14 710 286</b>	<b>6 868 677</b>	<b>1 920 132</b>

(In thousand MAD)



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#### IV. NOTES TO THE BALANCE SHEET FOR THE YEAR ENDED 30 JUNE 2016

##### 4.1. CASH, AMOUNTS DUE FROM CENTRAL BANKS, BANKS AND THE POST OFFICE

	june-17	dec-16
Cash	3 660 225	3 391 893
CENTRAL BANKS	5 323 013	7 922 511
TREASURY	914 326	836 575
GIRO	4 669	4 658
CENTRAL BANKS, TREASURY, GIRO	6 242 008	8 763 744
<b>Cash, Central Banks, Treasury, Giro</b>	<b>9 902 233</b>	<b>12 155 637</b>

(In thousand MAD)

##### 4.2. ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets and liabilities recognised at fair value through income consist of negotiated transactions for trading purposes.

	june-17			dec-16		
	Trading book	Assets designated at fair value through profit or loss	Total	Trading book	Assets designated at fair value through profit or loss	Total
<b>FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS</b>						
Negotiable certificates of deposits	19 657 107	0	19 657 107	16 099 331	0	16 099 331
Treasury bills and other eligible for central bank refinancing	17 010 323		17 010 323	14 101 323		14 101 323
Other negotiable certificates of deposits	2 646 784		2 646 784	1 998 008		1 998 008
<b>Bonds</b>	<b>2 615 455</b>	<b>0</b>	<b>2 615 455</b>	<b>3 231 539</b>	<b>0</b>	<b>3 231 539</b>
Government bonds	829 449		829 449	881 003		881 003
Other bonds	1 786 006		1 786 006	2 350 536		2 350 536
Equities and other variable income securities	20 399 434	0	20 399 434	19 533 271	0	19 533 271
Repurchase agreements	0	0	0	0	0	0
Loans	0	0	0	0	0	0
To credit institutions						
To corporate customers						
To private individual customers						
Trading Book Derivatives	47 206	0	47 206	26 782	0	26 782
Currency derivatives	46 629		46 629	26 205		26 205
Interest rate derivatives	577		577	577		577
Equity derivatives						
Credit derivatives						
Other derivatives						
<b>TOTAL FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS</b>	<b>42 719 202</b>	<b>0</b>	<b>42 719 202</b>	<b>38 890 923</b>	<b>0</b>	<b>38 890 923</b>
Of which loaned securities						
Excluding equities and other variable-income securities						
<b>FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS</b>						
Borrowed securities and short selling						
Repurchase agreements						
Borrowings	0	1 945 550	1 945 550	0	2 037 621	2 037 621
Credit institutions		1 945 550	1 945 550		2 037 621	2 037 621
Corporate customers						
Debt securities						
Trading Book Derivatives	34 240	0	34 240	60 655	0	60 655
Currency derivatives	34 240		34 240	60 655		60 655
Interest rate derivatives			0			0
Equity derivatives			0			0
Credit derivatives						
Other derivatives						
<b>TOTAL FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS</b>	<b>34 240</b>	<b>1 945 550</b>	<b>1 979 790</b>	<b>60 655</b>	<b>2 037 621</b>	<b>2 098 276</b>

(In thousand MAD)

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#### 4.3. AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets are non-derivative financial assets other than those classified as:

- a) Loans and receivables;
- b) Held-to-maturity financial assets;
- c) Financial assets at fair value through profit or loss.

	june-17	dec-16
Negotiable certificates of deposit	0	0
Treasury bills and other bills eligible for central bank refinancing		
Other negotiable certificates of deposit		
Bonds	5 072 473	5 501 553
Government bonds	3 503 011	3 970 101
Other bonds	1 569 462	1 531 452
Equities and other variable-income securities	3 296 525	3 251 983
Of which listed securities	325 805	316 103
Of which unlisted securities	2 970 720	2 935 880
<b>Total available-for-sale financial assets, before impairment provisions</b>	<b>8 368 998</b>	<b>8 753 536</b>
Of which unrealized gains and losses	-437 140	-435 811
Of which fixed-income securities	0	
Of which loaned securities	-437 140	-435 811
<b>Total available-for-sale financial assets, net of impairment provisions</b>	<b>7 931 858</b>	<b>8 317 725</b>
Of which fixed-income securities, net of impairment provisions		

(In thousand MAD)

#### 4.4. INTERBANK TRANSACTIONS, RECEIVABLES AND AMOUNTS DUE FROM CREDIT INSTITUTIONS

##### Loans and receivables due from credit institutions

	june-17	dec-16
Demand accounts	6 104 756	4 992 941
Loans	13 990 036	13 446 232
<i>Dont prêts de trésorerie JJ</i>	0	24 826
Repurchase agreements	192 080	2 846 445
<b>Total loans and receivables due from credit institutions, before impairment provisions</b>	<b>20 286 872</b>	<b>21 285 618</b>
Provisions for impairment of loans and receivables due from credit institutions	-69 168	-64 389
<b>Total loans and receivables due from credit institutions, net of impairment provisions</b>	<b>20 217 704</b>	<b>21 221 229</b>

(In thousand MAD)

##### Amounts due to credit institutions

	june-17	dec-16
Demand accounts	2 184 793	2 801 428
Borrowings	32 946 201	32 330 639
<i>Dont emprunt de trésorerie JJ</i>	1 678 509	1 153 270
Repurchase agreements	15 068 332	14 576 201
<b>TOTAL</b>	<b>50 199 326</b>	<b>49 708 268</b>

(In thousand MAD)



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#### 4.5. LOANS, RECEIVABLES AND AMOUNTS DUE FROM CUSTOMERS

##### Loans and receivables due from customers

	30-june-17	31-dec-16
Demand accounts	28 623 886	24 688 644
Loans to customers	145 231 643	138 932 342
Repurchase agreements	13 907 035	11 561 530
Finance leases	13 249 624	13 380 515
<b>Total loans and receivables due from customers, before impairment provisions</b>	<b>201 012 188</b>	<b>188 563 031</b>
Impairment of loans and receivables due from customers	-9 283 107	-8 788 809
<b>Total loans and receivables due from customers, net of impairment provisions</b>	<b>191 729 081</b>	<b>179 774 222</b>

(In thousand MAD)

##### Breakdown of amounts due from customers by business activity

	30-june-17	31-dec-16
Activity in Morocco	129 000 809	117 079 106
Specialized Financial Services	14 440 031	14 702 011
International Activities	48 287 831	47 992 984
Investment Banking	410	121
Other Activities	0	0
<b>Total</b>	<b>191 729 081</b>	<b>179 774 222</b>
Allocated Debts		
<b>Value at Balance sheet</b>	<b>191 729 081</b>	<b>179 774 222</b>

(In thousand MAD)

##### Breakdown of amounts due from customers by geographical region

	30-june-17	31-dec-16
Morocco	143 441 250	131 781 238
Sub saharan Africa	44 304 803	43 987 312
Europe	3 983 028	4 005 672
<b>Total</b>	<b>191 729 081</b>	<b>179 774 222</b>
Allocated Debts		
<b>Value at Balance sheet</b>	<b>191 729 081</b>	<b>179 774 222</b>

(In thousand MAD)

##### Amounts due to customers

	30-june-17	31-dec-16
On demand deposits	111 028 826	108 326 940
Term accounts	41 820 105	40 965 156
Savings accounts	22 934 060	22 391 034
Cash certificates	5 151 833	5 085 322
Repurchase agreements	5 137 520	4 218 496
Other items	9 400 708	9 063 387
<b>TOTAL LOANS AND RECEIVABLES DUE TO CUSTOMERS</b>	<b>195 473 052</b>	<b>190 050 335</b>

(In thousand MAD)

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#### Breakdown of amounts due to customers by business activity

	30-june-17	31-dec-16
Activity in Morocco	135 390 740	131 000 907
Specialized Financial Services	602 685	908 610
International Activities	59 479 611	58 140 801
Investment Banking	16	17
Other Activities	0	0
<b>Total</b>	<b>195 473 052</b>	<b>190 050 335</b>
Allocated Debts		
<b>Value at Balance sheet</b>	<b>195 473 052</b>	<b>190 050 335</b>

(In thousand MAD)

#### Breakdown of amounts due to customers by geographical region

	30-june-17	31-dec-16
Morocco	135 993 441	131 909 534
Sub saharan Africa	57 908 274	56 390 289
Europe	1 571 337	1 750 512
<b>Total</b>	<b>195 473 052</b>	<b>190 050 335</b>
Allocated Debts		
<b>Value at Balance sheet</b>	<b>195 473 052</b>	<b>190 050 335</b>

(In thousand MAD)

#### 4.6. DEBT SECURITIES, SUBORDINATED DEBT AND SPECIAL GUARANTEE FUNDS

	30-june-17	31-dec-16
Other debt securities	<b>17 678 064</b>	<b>13 186 303</b>
Negotiable certificates of deposit	17 678 064	13 186 303
Bond issues		
Subordinated debts	<b>11 027 048</b>	<b>10 183 703</b>
Subordinated debt	11 027 048	10 183 703
Redeemable subordinated debt	9 027 048	8 183 703
Undated subordinated debt	2 000 000	2 000 000
Subordinated Notes		
Redeemable subordinated notes		
Undated subordinated notes		
Public Funds and special guarantee funds	18 770	309 673
<b>Total</b>	<b>28 723 882</b>	<b>23 679 679</b>

(In thousand MAD)

Special purpose public funds and special guarantee funds only relate to BOA Group.

They are non-repayable funds aimed at subsidising lending rates and provisioning for credit losses in specific sectors and business activities.

#### 4.7. HELD-UNTIL-MATURITY FINANCIAL ASSETS

	30-june-17	31-dec-16
Negotiable certificates of deposit	<b>5 503 500</b>	<b>5 669 715</b>
Treasury bills and other bills eligible for central bank refinancing	5 503 500	5 669 715
Other negotiable certificates of deposit		
Bonds	<b>19 160 973</b>	<b>19 466 455</b>
Government bonds	13 200 266	14 331 242
Other bonds	5 960 707	5 135 213
<b>Total held-to-maturity financial assets</b>	<b>24 664 473</b>	<b>25 136 170</b>

(In thousand MAD)

#### 4.8. CURRENT AND DEFERRED TAXES

	30-june-17	31-dec-16
Current taxes	485 211	414 191
Deferred taxes	600 756	521 548
<b>Current and deferred tax assets</b>	<b>1 085 967</b>	<b>935 739</b>
Current taxes	461 464	641 287
Deferred taxes	1 251 230	1 198 242
<b>Current and deferred tax liabilities</b>	<b>1 712 694</b>	<b>1 839 529</b>

(In thousand MAD)



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#### 4.9. ACCRUED INCOME AND EXPENSES, OTHER ASSETS AND LIABILITIES

	30-june-17	31-dec-16
Guarantee deposits and bank guarantees paid	51 672	40 950
Settlement accounts related to securities transactions	111 414	71 213
Collection accounts	353 834	397 441
Reinsurers' share of technical reserves		
Accrued income and prepaid expenses	1 193 433	517 122
Other debtors and miscellaneous assets	6 321 242	5 087 235
Inter-related Accounts	208 070	326 815
<b>TOTAL ACCRUED INCOME AND OTHER ASSETS</b>	<b>8 239 665</b>	<b>6 440 776</b>
Guarantee deposits received	33 017	20 247
Settlement accounts related to securities transactions	7 725 073	7 261 686
Collection accounts	2 169 215	1 304 298
Accrued expenses and deferred income	559 432	1 154 763
Other creditors and miscellaneous assets	6 679 439	4 537 906
<b>TOTAL ACCRUED EXPENSES AND OTHER LIABILITIES</b>	<b>17 166 176</b>	<b>14 278 900</b>

(In thousand MAD)

#### 4.10. INVESTMENTS IN COMPANIES ACCOUNTED FOR UNDER THE EQUITY METHOD

	30-june-17	31-dec-16
Euler Hermes Acmar	21 041	19 447
Banque de Développement du Mali	365 926	387 973
Eurafric Information	-16 085	-12 202
Société Conseil Ingénierie et Développement	146 719	148 585
Investments in equity methods companies belonging to subsidiaries	83 735	87 465
<b>Investments in associates</b>	<b>601 336</b>	<b>631 268</b>

(In thousand MAD)

#### Financial data of the main companies accounted for under the equity method

	Total Assets	Net Banking Income or Net Revenues	Company Income	Contribution in Net Income attributable to the parent
Euler Hermes Acmar	484 782	26 730	7 966	1 593
Banque de Développement du Mali	11 090 635	272 410	105 026	34 035
Eurafric Information	171 671	126 172	-6 236	-3 470
Société Conseil Ingénierie et Développement	655 010	135 350	15 090	5 870

(In thousand MAD)

#### 4.11. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS USED IN OPERATIONS AND INVESTMENT PROPERTY

	june-17			dec-16		
	Gross Value	Accumulated depreciation amortization and impairment	Carrying Amount	Gross Value	Accumulated depreciation amortization and impairment	Carrying Amount
PP&E	12 829 297	5 607 270	7 222 027	12 320 654	5 331 829	6 988 825
Land and buildings	3 920 422	390 963	3 529 459	3 797 644	380 388	3 417 256
Equipment, furniture and fixtures	4 007 091	2 438 451	1 568 640	3 837 324	2 357 522	1 479 802
Plant and equipment leased as lessor under operating leases	0	0	0	0	0	0
Other PP&E	4 901 784	2 777 856	2 123 928	4 685 686	2 593 919	2 091 767
Intangible Assets	2 291 451	1 449 173	842 278	2 162 892	1 333 922	828 970
Purchased software	1 791 105	1 200 738	590 367	1 684 757	1 096 920	587 837
Internally-developed software	0	0	0	0	0	0
Other intangible assets	500 346	248 435	251 911	478 135	237 002	241 133
Investment Property	3 804 134	88 943	3 715 192	3 841 315	95 169	3 746 146

(In thousand MAD)

#### 4.12. GOODWILL

	30-june-17	31-dec-16
Gross value at start of period	852 310	852 310
Accumulated impairment at start of period		
Carrying amount at start of period	852 310	852 310
Acquisitions		
Cessions		
Impairment losses recognized during the period		
Translation adjustments		
Subsidiaries previously accounted for by the equity method		
Other movements		
Gross value at end of period	852 310	852 310
Accumulated impairment at end of period		
<b>CARRYING AMOUNT AT END OF PERIOD</b>	<b>852 310</b>	<b>852 310</b>

(In thousand MAD)

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The following table provides a breakdown of goodwill :

	Valeur nette comptable 30/06/2017	Valeur nette comptable 31/12/2016
Maghrébaïl	10 617	10 617
Banque de développement du Mali	3 588	3 588
SALAFIN	5 174	5 174
Maroc Factoring	1 703	1 703
Bmce Capital Bourse	2 618	2 618
Bmce International (Madrid)	3 354	3 354
Bank Of Africa	711 976	711 976
LOCASOM	98 725	98 725
Hanouty	0	0
CID	14 555	14 555
<b>TOTAL GROUPE</b>	<b>852 310</b>	<b>852 310</b>

#### 4.13. PROVISIONS FOR CONTINGENCIES AND CHARGES

	30-june-17	31-dec-16
Total provisions at start of period	<b>685 204</b>	<b>650 913</b>
Additions to provisions	64 299	51 674
Reversals of provisions	-28 809	-51 024
Effect of movements in exchange rates and other movements	10 085	39 329
<b>Gross value at end of period</b>	<b>10 824</b>	<b>-5 688</b>
<b>TOTAL PROVISIONS AT END OF PERIOD</b>	<b>741 603</b>	<b>685 204</b>

### V / FINANCING AND GUARANTEE COMMITMENTS

#### 5.1. FINANCIAL COMMITMENT

	30-june-17	31-dec-16
<b>Financing commitments given</b>	<b>11 711 065</b>	<b>13 452 970</b>
- To credit institutions	461 135	861 021
- To customers:	11 249 930	12 591 949
Confirmed letters of credit		
Other commitments given to customers		
<b>Financing commitments received</b>	<b>2 996 189</b>	<b>2 181 683</b>
From credit institutions	2 996 189	2 181 683
From customers	-	-

##### ► Financing commitments given to credit and similar institutions

This entry relates to commitments to make liquidity facilities available to other credit institutions such as refinancing agreements and back-up commitments on securities issuance.

##### ► Financing commitments given to customers

This entry relates to commitments to make liquidity facilities available to customers such as confirmed credit lines and commitments on securities issuance.

##### ► Financing commitments received from credit and similar institutions

This entry relates to financing commitments received from credit and similar institutions such as refinancing agreements and back-up commitments on securities issuance.

**Financing commitments** rose by +32% from MAD 9 846 million at 30 June 2015 to MAD 13 027 million at 30 June 2016.

Similarly, financing commitments increased slightly to MAD 2 552 million.

#### 5.2. GUARANTEE COMMITMENTS

	june-17	dec-16
<b>Guarantee commitments given</b>	<b>30 065 334</b>	<b>31 627 219</b>
To credit institutions	10 043 376	11 933 231
To customers :	20 021 958	19 693 988
Sureties provided to tax and other authorities, other sureties		
<b>Guarantee commitments received</b>		
From credit institutions	84 464 901	75 147 878
From the State and guarantee institutions	82 532 054	73 902 914
state and others	1 932 847	1 244 964

##### ► Guarantee commitments given to credit and similar institutions.

This entry relates to commitments to assume responsibility for an obligation entered into by a credit institution if the latter is not satisfied with it. This includes guarantees, warranties and other guarantees given to credit and similar institutions.

##### ► Guarantee commitments given to customers

This entry relates to commitments to assume responsibility for an obligation entered into by a customer if the latter is not satisfied with it. This includes guarantees given to government institutions and real estate guarantees, among others. les cautions immobilières, etc.

##### ► Guarantee commitments received from credit and similar institutions

This entry includes guarantees, warranties and other guarantees received from credit and similar institutions.

##### ► Guarantee commitments received from the State and other organisations

This entry relates to guarantees received from the State and other organisations.

### VI. SALARY AND EMPLOYEE BENEFITS

#### 6.1. DESCRIPTION OF CALCULATION METHOD

Employee benefits relate to long-service awards and end-of-career bonuses.

The method used for calculating the liability relating to both these benefits is the "projected unit credit" method as recommended by IAS 19.

##### ► Caisse Mutualiste Interprofessionnelle Marocaine (CMIM) scheme

The Caisse Mutualiste Interprofessionnelle Marocaine (CMIM) is a private mutual insurance company. The company reimburses employees for a portion of their medical, pharmaceutical, hospital and surgical expenses. It is a post-employment scheme providing medical cover for retired employees.

The CMIM is a multi-employer scheme. As BMCE Bank is unable to determine its share of the overall liability (as is the case for all other CMIM members), under IFRS, expenses are recognised in the year in which they are incurred. No provision is recognised in respect of this scheme.



## 6.2. SYNTHESIS AND DESCRIPTION OF PROVISIONS OF EXISTING SCHEMES

### 6.2.1. Provisions in respect of post-employment and other long-term benefits provided to employees

	30-june-17	31-dec-16
Retirement allowances and equivalents	344 823	329 668
Special seniority premiums allowances		
Other		
<b>TOTAL</b>	<b>344 823</b>	<b>329 668</b>

### 6.2.2. Basic assumptions underlying calculations

Economic assumptions	30/06/17
Discount rate	3,75%
Long-term wage growth (inflation included)	3%
Rate of employers contributions	10,61%
Demographic assumptions	
Retirement terms	Départ Volontaire
Retirement age	60 ans
Mortality table	PM 60/64 - PF 60/64

The discount rate is based on secondary market Treasury benchmark bond yields - Duration: about 22 years.

### 6.2.3. Cost of post-employment plans

	30-june-17	31-dec-16
Normal cost	11 052	25 161
Interest cost	-	11 626
Expected returns of funds		
Amortization of actuarial gains/ losses		
Amortization of net gains/ losses		
Additional allowances	11 052	36 787
Other		
Net cost of the period		

### 6.2.4. Changes in the provision recognised on the balance sheet

	30-june-17	31-dec-16
Actuarial liability, beginning of the period	329 668	323 091
Normal cost	13 052	25 161
Interest cost	6 110	11 626
Experience gains/ losses	-	-
Other actuarial gains/ losses		
Depreciation of net gains/losses		
Paid benefits	-8 110	-30 210
Additional benefits		
Other	4 103	
Actuarial liability, end of the period	344 823	329 668
Whose relative cost to the assimilated retirement benefits		
Others		

## VII. ADDITIONAL INFORMATION

### 7.1. CHANGES IN SHARE CAPITAL AND EARNINGS PER SHARE

#### 7.1.1. Share capital transactions

TRANSACTIONS ON CAPITAL	In number	Unit value	In MAD
Number of shares outstanding at 31 December 2014	179 463 390	10	1 794 633 900
Number of shares outstanding at 31 December 2015	179 463 390	10	1 794 633 900
Number of shares outstanding at 31 December 2016	179 463 390	10	1 794 633 900
Number of shares outstanding at 30 June 2017	179 463 390	10	1 794 633 900

#### 7.1.2. Earnings per share

Basic earnings per share is calculated by dividing the net income for the period attributable to holders of ordinary shares by the weighted average number of ordinary shares outstanding during the period.

	june-17	june-16
SHARE CAPITAL (IN MAD)	1 794 633 900	1 794 633 900
Number of common shares outstanding during the year	179 463 390	179 463 390
NET INCOME ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT (IN MAD)	1 288 399 317	1 250 459 485
BASIC EARNINGS PER SHARE (IN MAD)	7,18	6,97
DILUTED EARNING PER SHARE (IN MAD)	7,18	6,97

The Bank does not have any dilutive instruments for conversion into ordinary shares. As a result, diluted earnings per share equates to basic earnings per share.

### 7.2. SCOPE OF CONSOLIDATION

Company	Activity	% of voting interests	% of ownership interests	Method
BMCE BANK	Banque			Mère
BMCE CAPITAL	Banque d'Affaire	100,00%	100,00%	I.G.
BMCE CAPITAL GESTION	Gestion d'actif	100,00%	100,00%	I.G.
BMCE CAPITAL BOURSE	Intermédiation boursière	100,00%	100,00%	I.G.
MAROC FACTORING	Factoring	100,00%	100,00%	I.G.
MAGHREBAIL	Crédit-Bail	52,47%	52,47%	I.G.
SALAFIN	Crédit à la consommation	74,76%	74,76%	I.G.
BMCE EUROSERVICES	Ets financier	100,00%	100,00%	I.G.
LA CONGOLAISE DES BANQUES	Banque	37,00%	37,00%	I.G.
BMCE BANK INTERNATIONAL HOLDING	Banque	100,00%	100,00%	I.G.
BANK OF AFRICA	Banque	72,85%	72,85%	I.G.
LOCASOM	Location de voiture	100,00%	97,39%	I.G.
RM EXPERTS	Recouvrement	100,00%	100,00%	I.G.
BANQUE DE DEVELOPPEMENT DU MALI	Banque	32,38%	32,38%	M E E
EULER HERMES ACMAR	Assurance	20,00%	20,00%	M E E
EURAFRIC INFORMATION	Informatique	41,00%	41,00%	M E E
CONSEIL INGENIERIE ET DEVELOPPEMENT	Bureau d'étude	38,90%	38,90%	M E E

BMCE Bank of Africa holds 37% of La Congolaise de Banque's voting rights and has a controlling interest in this subsidiary as per the criteria outlined in IFRS 10.

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**Power** : BMCE Bank of Africa derives its effective rights from the management contract entrusted to it by the other shareholders. It has a majority on the Board of Directors with three directors followed by the Congolese State which has two directors.

**Returns** : BMCE Bank of Africa is exposed, or has rights, to the profits generated by LCB pro-rata to its shareholding in the company.

**Link between power and returns** : BMCE Bank of Africa is responsible for appointing LCB's senior management as well as being able to influence this entity's returns.

### 7.3. RELATED-PARTY BALANCE SHEET ITEMS

Relationship between BMCE Bank and consolidated companies and the Parent Company.

Naturally transactions with consolidated companies are fully eliminated with regard to the outstandings at the end of the period. Outstandings at end of period under transactions with companies consolidate under the equity method and the Parent Company are maintained in the consolidated financial statements.

	Parent company (FINANCECOM)	Companies consolidated under the equity method	Fully consolidated companies
<b>Assets</b>			
Loans, advances and securities	62 862	13 716 489	14 157 237
On demand accounts	35 575	12 974 166	12 743 985
Loans	27 287	387 500	579 330
Securities		354 823	833 922
Lease financing			
Other assets		3 685	657
<b>Total</b>	<b>62 862</b>	<b>13 720 174</b>	<b>14 157 894</b>
<b>Liabilities</b>			
Deposits	10 384	13 158 806	12 888 486
On demand accounts	10 384	12 825 941	12 798 721
Other borrowings		332 865	89 765
Debt securities		352 288	834 672
Other liabilities		209 080	434 736
<b>Total</b>	<b>10 384</b>	<b>13 720 174</b>	<b>14 157 894</b>
<b>Financing and guarantee commitments given</b>			
Commitments given		2 321 190	2 101 429
Commitments received		2 321 190	2 101 429

### Related party profit and loss items

	Parent company (FINANCECOM)	Companies consolidated under the equity method	Fully consolidated companies
Interest and similar income	-626	-179 984	-260 232
Interest and similar expenses		234 429	321 092
Fees (income)		-174 129	-161 995
Fee (expenses)		24 979	13 684
Services provided			
Services procured			
Lease income	-1 985	-86 949	-63 437
Other		181 633	150 888

## VIII - NOTE CONCERNING RISKS

### 8.1. RISK MANAGEMENT POLICY

#### 8.1.1. Risk categories

##### 8.1.1.1. Credit risk

Credit risk, inherent in banking activity, is the risk of customers not repaying their financial obligations toward the Bank in full or within the allotted time, resulting in potential losses for the Bank. It is the broadest risk category and may be correlated with other risk categories.

##### 8.1.1.2. Market risk

Market risk is the risk of loss in value of financial instruments resulting from changes in market parameters, volatility and correlations between them. Concerned parameters include exchange rates, interest rates and the prices of securities (stocks, bonds) and commodities, derivatives and all other assets.

##### 8.1.1.3. Global liquidity and interest rate risk

Interest rate risk is the vulnerability of the financial situation of an institution to adverse changes in interest rates.

Liquidity risk is defined as the risk for the development of not being able to meet its cash flow or collateral requirements when they fall due and at a reasonable cost.

##### 8.1.1.4. Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, personnel error and systems failure or from external events. This definition includes legal risk, but excludes strategic and reputational risks.

##### 8.1.1.5. Country risk

Country risk comprises political risk as well as transfer risk. Political risk generally arises from action taken by the government of a country such as nationalisation or expropriation or an independent event such as war or revolution, which may affect a customer's ability to honour its obligations.

Transfer risk can be defined as the risk of a resident customer being unable to acquire foreign currency in its country so as to honour its overseas commitments.

### 8.1.2. Risk management organization

#### 8.1.2.1. Risk control bodies

##### ► Group Risk Division

The Group Risk Division's task is to correctly manage credit, market and operational risks while actively contributing to:

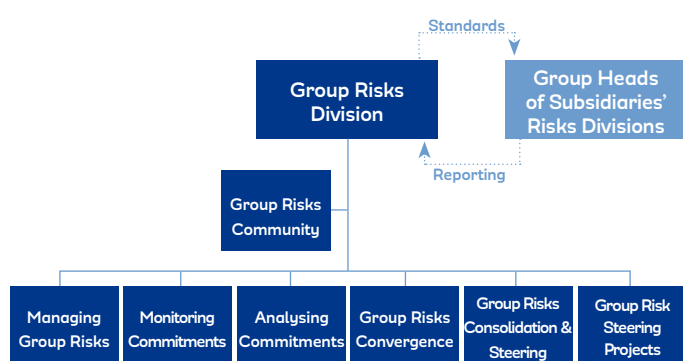
- Defining BMCE Bank Group's risk policy ;
- Definition and management taking and monitoring of commitments ;
- Implementing of a credit risks control system, market transactions and operational risks ;

The Risks Division and Coordination Group is composed of four entities :





- The Group Risk Management Division
- The Commitments Analysis Division
- The Commitments Monitoring Division
- The Group Coordination Division.



#### 8.1.2.2. Governance bodies

##### ► Group Risk Committee

The Group Risk Committee BMCE Bank is an instance from the Board of Directors of BMCE Bank, whose prerogatives are extended to direct and indirect subsidiaries included in the scope of consolidation of the Group.

This Committee assists the Board on strategy and risk management, including ensuring that the global risk strategy is adapted to the risk profile of the bank and the Group, to the degree of risk aversion, its systemic importance, its size and its financial basis.

##### ► Group Audit and Internal Control committee

BMCE Bank Group's Audit and Internal Control Committee is an instance from the Board of Directors of BMCE Bank, whose prerogatives are extended to subsidiaries and other entities included in the scope of consolidation.

Group Audit and Internal Control Committee assists the Board of Directors on internal control, including by ensuring that:

The internal control system and the means implemented are::

- Coherent and compatible to allow monitoring and risk management at the bank and its subsidiaries and the production of information required by the regulator as part of the Group's consolidated supervision;
- Adapted to the Group's organization and the activities of controlled entities;
- The financial information intended for the Board of Directors and third parties is reliable and accurate, such that the legitimate interests of shareholders, depositors and other stakeholders are preserved;
- A review of company and consolidated accounts is carried out before submission to the Board of Directors.

##### ► General Management Committee

The Group Management Committee is responsible for the declination in

equity and operational measures of the Group's strategy and monitoring.

This Committee, whose periodicity is weekly, has main tasks the management of the business of the bank, the conduct of internal control and risk management, monitoring the HR component, commercial communication policy, institutional and financial

##### ► The Steering Committee and Group Risk Management

After the General Management Committee of BMCE BANK, the Steering Committee and Risk Management BMCE Bank assists in the management and monitoring of effective and operational of:

- Piloting device Group risks,
- Consistency of group activities with the policies fixed of risks and limitations.

This Committee ensures the efficiency of the piloting device of the risks of BMCE Bank Group and its adequacy with the risk management policy defined on shutters risk of Credit, Market and Operational.

#### 8.1.2.3. Credit Committees

##### ► Senior Credit Committee

This committee is chaired by the Bank's Chairman and Chief Executive Officer with the Group Executive Managing Director. It is sub-divided by market segment into two committees, one specialising in Corporate Banking, the other in Personal and Professional Banking. These committees meet twice-weekly and include senior managers of the Bank.

##### ► Regional Credit Committee

The Regional Credit Committee (RCC) meets on a weekly basis. Regional Directors decide on meeting dates and inform committee members.

#### 8.1.2.4. Downgrading Committee

The Bank's credit activity is part of the general credit policy approved by the Bank's senior management. Among the guiding principles include the Group's requirement related to ethics, attribution of responsibilities, the existence and adherence to procedures and rigour in risk analysis. This policy is available in specific policies and procedures appropriate to the nature of activities and counterparties.

## 8.2. CREDIT RISK

The Bank's credit activity is part of the general credit policy approved by the Bank's senior management. Among the guiding principles include the Group's requirement related to ethics, attribution of responsibilities, the existence and adherence to procedures and rigour in risk analysis.

This policy is available in specific policies and procedures appropriate to the nature of activities and counterparties.

#### 8.2.1. Credit decision cycle

##### 8.2.1.1. General principles

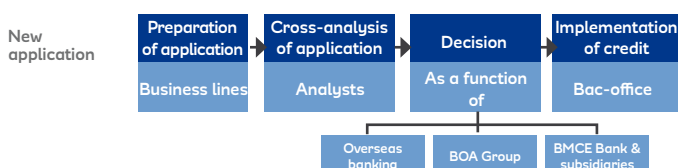
The approval process at BMCE Bank Group level respects the "Troika" principle and is based on the following principles:



- All credit requests adhere to the same approval process which ensures that the Troika principle is respected (minimum requirement). Therefore, at least 3 people, one of which is from the Risk Division, should approve all credit requests except for some predefined specific cases;
- The decision, jointly taken by the Risk and Commercial Divisions – which includes at least one preliminary counterfactual analysis – applies to the applications assigned to the local decision committees as well as to the central decision committees. This involves a multi-level pyramid structure, where the higher level acts as an arbitrator in the event that consensus is not reached;
- The Risk Division can use the escalation procedure (n+1) if there is a disagreement with the Commercial Division.

#### 8.2.1.2. Credit approval process

The following diagram provides an overview of the credit approval process :



- The Commercial Division in charge of customer relations is responsible for preparing the credit application;
- Counterfactual analysis of the credit application is performed by credit analysts from the entity's Risk Division;
- The decision is jointly taken by the Risk and Commercial Divisions, based on their respective levels of delegation;
- The loan is actually implemented by the back-office, which is a unit independent from the Risk and Commercial Divisions.

#### 8.2.1.3. Decision making and choice of circuits

In order to facilitate the reporting exercise, the principle of a single decision for each credit proposal should be respected.

Credit decisions are made either by circulation file, or by holding a Credit Committee, via a manual or electronic process.

#### 8.2.1.4. Delegation

The credit decision process is based on a delegation system whereby an entity's Board of Directors delegates powers to its employees or a group of employees by setting limits, as it sees fit.

The delegation may in turn involve a sub-delegation depending on the organisation, volume, products and risks.

The delegation of authority to employees is assigned intuitu personae on the basis of their decision-making ability, experience, personal skills, professional skills and training.

#### 8.2.1.5. Approval rules

The credit approval decision is sent for consideration to the Troika or to Credit Committees depending on the approval levels required.

The present delegation system defines the following decision levels:

- At local branch level;
- At "hub" level (BOA Group and Europe);
- At central BMCE Bank level.

The local branch level may involve a sub-delegation depending on the entity's organisation, volume, products and risks.

#### 8.2.1.6. Credit application contents

All requests for obtaining credit should meet the product's eligibility criteria as defined in the product factsheets. All credit decisions are taken on the basis of a standard credit application whose format is defined in consultation with the Commercial Division and Risk concerned and in coordination with the Group Risk Division.

A credit application is prepared for each counterparty or transaction to which the entity wishes to make a commitment or for which the entity has already made a commitment in the case of an annual review or renewal. This is done on the basis of the documents mentioned in the product checklist and provided by the client.

The document checklist to be sent by the client and the analysis form should be identical to the one at Group level and these will be modified based on the type of credit. The contents of the credit application should provide the decision-makers with the necessary information as well as the quantitative and qualitative analysis required for taking the credit decision.

The Commercial Division is responsible for preparing the credit application and its contents.

The credit application shall remain the single point of reference for any credit decision; it should contain all the signatures or stamps that guarantee the accuracy of the information provided therein.

### 8.3. RATING MODEL

BMCE Bank has an internal rating tool covering several customer segments.

#### 8.3.1. Key rating rules

##### 8.3.1.1. Rating's uniqueness

The rating is established for each client, provided as a third code group. The rating process is thus carried out for each third code group so that a third party has one and only one ratings. Thus, BMCE ensures the uniqueness of the rating attributed to each assessed counterparty.

##### 8.3.1.2. Rating's integrity

As per the regulatory principles, the attribution of the rating and its periodic review should be carried out or approved by a party that does not benefit directly from the credit approval. It is for this reason that the rating is validated in the back office by the Group Risk Management Division following initial attribution by front-office commercial operations. The rating's integrity is a key component in the credit risk management process and should reinforce and encourage independence in the rating process.



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### 8.3.1.3. Rating's singularity

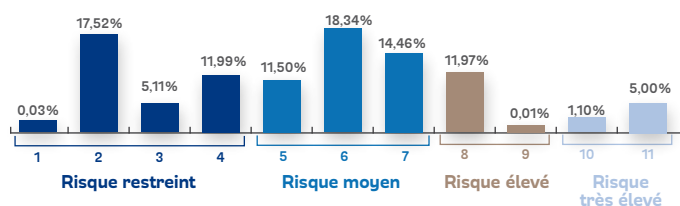
A counterparty code is assigned to each of the Bank's counterparties. The rating of each third party is carried out using the counterparty reference code in such a manner that, for all third parties (the counterparty type is single and unique), the assessment will be carried out by using a single rating model but with data specific to each counterparty. BMCE Bank thus ensures the rating's singularity for each counterparty.

### 8.3.2. Rating scale

BMCE Bank Group has adopted an 11-level rating scale to attribute a final counterparty rating :

CATEGORIE	CLASSE	DEFINITION
Investment grade	1	Extrêmement stable à court et moyen terme; très stable à long terme; soluble même après de graves bouleversements
	2	Très stable à court et moyen terme; stable à long terme; solvabilité suffisante même en cas d'événements négatifs persistants
	3	Solvable à court et moyen terme même après de grosses difficultés; de légers développements négatifs peuvent être absorbés à long terme
	4	Très stable à court terme; aucune modification menaçant le crédit attendu dans l'année à venir; substance suffisante à moyen terme pour pouvoir survivre; évolution à long terme encore incertaine
Risque moyen	5	Stable à court terme; aucune modification menaçant le crédit attendu dans l'année à venir; ne peut absorber que des petits développements négatifs à moyen terme
	6	Capacité limitée à absorber des développements négatifs inattendus
	7	Capacité très limitée à absorber des développements négatifs inattendus
Risque élevé	8	Faible capacité de remboursement des intérêts et du principal à temps. Tout changement des conditions économiques et commerciales internes et externes rendra difficile le respect des engagements
	9	Incapacité de remboursement des intérêts et du principal à temps. Le respect des engagements est lié à l'évolution favorable des conditions commerciales et économiques internes et externes
Sub-investment grade	10	Très fort risque de défaillance; incapacité de remboursement des intérêts et du principal à temps. Défaut partiel de paiement des intérêts et du capital
	11	Défaut total de paiement des intérêts et du capital
Risque très élevé		

As of 30 June 2017, the breakdown of the portfolio by asset class was as follows :



### 8.3.3. Retail customer scoring system

The retail customer scoring system consists of statistically modelling retail customers in default and their risk behaviour.

A behavioural score matrix for consumer loan customers in salaried employment is accessed in the Customer Relationship Management (CRM) system with additional remarks explaining the score. The score is updated on a daily basis. A specific approval score matrix schedule is used for retail customers with a government-backed on-demand loan. Behavioural scores for professional banking customers and Moroccans living abroad have been developed.

## 8.4. CREDIT RISK CONTROL AND MONITORING PROCEDURE

Credit risk control and monitoring ensures the second-level checking, separate from daily monitoring by the Commercial Division.

This procedure may be adapted depending on how each subsidiary is organised in consultation with the Group Risk Division.

Commercial Division is responsible for risk monitoring. Indeed, the credit manager in the Commercial Division is responsible to the daily monitoring of transaction risks. To fulfill this mission, the Commercial Division is helped by the risks which play an alert role.

The risk Division's main objective is to ensure the efficiency running of a forward-looking alert system that allows the Commercial Division to optimize risk management as well as anticipating potential risks so that the bank's portfolio may be properly managed. The risk Division also ensures that the Commercial Division is monitoring properly and provides alerts for accounts in default.

The implementation of a new entity within the Group Risks Division namely the Monitoring of commitments Division to the last quarter of 2014. The objective is strengthening the monitoring of the credit portfolio.

The Risk Division is not responsible for checking and approving every transaction executed for an approved and validated facility. This task is performed by an independent back-office which implements the transaction when instructed by the Commercial Division. The Risk Division's main operational tasks, which relate to credit risk control and monitoring, can be summarised as follows :

- Performs pre-checks ;
- Performs post-checks ;
- Identifies and monitors the portfolio of commitments based on several factors : products, maturities, beneficiaries, business sectors, branches, geographical regions etc.;
- Fixes and monitors concentration limits;
- Detects and monitors accounts showing anomalies and high-risk accounts;
- Categorised the portfolio based on regulatory criteria and proposes provisioning;
- Performs stress tests;
- Produces regulatory reports and internal steering reports.

### 8.4.1. Pre-checks

Pre-checks include all compliance checks carried out prior to a credit mine's initial authorisation and use. These checks are performed in addition to automatic checks and checks carried out by the Commercial Division, Back-office and Legal Department etc.

These checks are implemented by the Risk Division. They mainly relate to:

- Credit proposal data;
- Compliance with the appropriate delegation level;
- Legal documentation compliance;
- Conditions and reservations expressed before initial use of funds or the facility ;
- Data entered in the information systems.

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## 8.4.2. Post-checks

Like pre-checks, post-checks are also performed by the Risk Division.

These checks are aimed at ensuring measurement, control and monitoring of credit risks in terms of the entire portfolio and not just the counterparty. Special attention is therefore paid to credit quality, anticipating and preventing irregularities and risks as well as controlling and monitoring risks by the Commercial Division.

### 8.4.2.1. Portfolio monitoring

Group's portfolio Monitoring commitments and its entities is performed through several indicators, both on the risks to the granting and during the life of the credit records.

The first post-check consists of identifying and monitoring the entity's total commitments based on several factors including products, maturities, customers, business groups, customer segments, counterparty ratings, loan categories (healthy loans and non-performing loans), industries, branches, geographical regions, type of collateral etc. The multi-criteria analysis is a credit risk management tool.

The production of multi-criteria analysis commitments portfolio is the responsibility of the Credit Risk die which also ensures the reporting of credit risks, both internally and vis-à-vis the Risk Committees and management, that external, vis-à-vis the regulators.

### 8.4.2.2. Concentration limits

Credit Risk Management has adopted a policy of analysing business line strategies from a risk perspective, especially in respect of new activities or product launches, by setting formal limits on these risks. Credit concentration risk incurred by BMCE Bank Group can arise from exposure to :

- Individual counterparties ;
- Interest groups ;
- Counterparties belonging to the same industry or country.

#### 8.4.2.2.1. Individual counterparties

The Group proceeds monthly monitoring of individual concentrations, on social and consolidated basis, and ensures close monitoring of the commitments of its 10, 20 and first 100 customers with the greatest commitments.

The following table shows commitments to the bank's main debtors at the end of june 2016 :

	june-17	
	Amount	% of the total
Commitments to 10 largest customers	13 624	7,28%
Commitments to 20 largest customers	20 474	10,95%
Commitments to 100 largest customers	43 569	23,29%

#### 8.4.2.2.2. Interest groups

Diversification of the portfolio by counterparty is monitored on a regular basis, notably under the Group's individual risk concentration policies. Credit risks that result from concentration on a single counterparty or

group of counterparties with a relative high level of outstandings (more than 5% of shareholders' equity) are specifically monitored from an individual as well as consolidated perspective.

In addition, monitoring of major risks also ensures that the aggregate exposure to each beneficiary does not exceed 20 % of the Group's net consolidated shareholders' equity capital as recommended by the Moroccan banking regulations. BMCE Bank remains well below the concentration limits defined by the Bank Al Maghrib directive.

#### 8.4.2.2.3. Counterparties belonging to the same company

In 2011, BMCE Bank implemented a new methodology to determine and manage industry-specific limits. This procedure uses a statistical data-based model which includes historical default rates and the number of counterparties by industry and by risk category (rating).

The objective is to model the probability of default by using appropriate econometric techniques and a dependent random variable whose value is derived from the number of occurrences of defaulting events.

This procedure is based on the assumption that the counterparties are independent and the defaulting events are not correlated. Thus, the key concept of this methodological approach is the probability of default for a given counterparty. This probability is measured by using the rate of default of the rating-industry pair.

For every rating-industry pair, this top-down approach counts the number of customers that have defaulted in order to calculate the average historical rate of default.

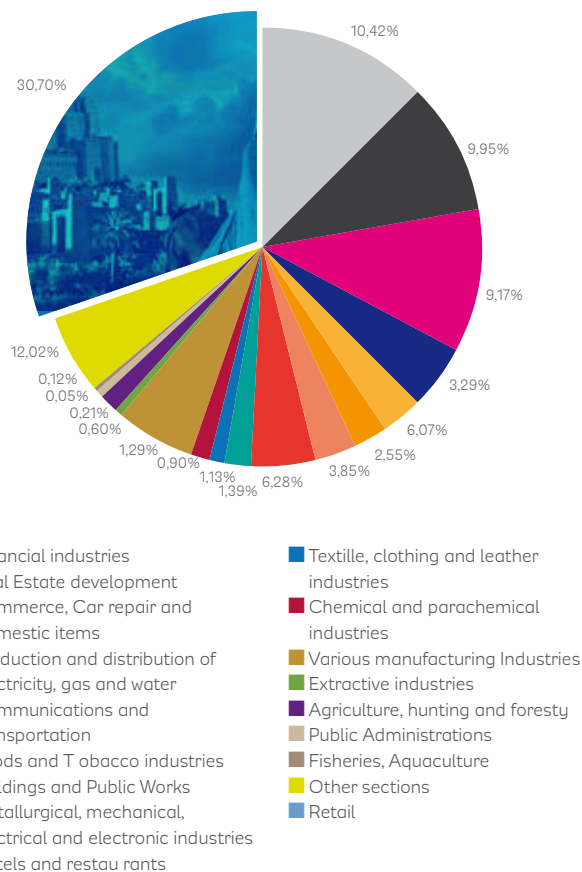
The model therefore enables the Bank to identify those industries from which it needs to withdraw or reduce its commitments as well as those industries to which it needs to increase its exposure.

The model also enables the Bank to identify priority industries for credit expansion in the context of the Bank's development plan as well as bad loan experience by industry. This approach, adopted by the Group Risk Division, is complemented by back-testing the model every six months.

Industry-specific limits are reviewed every six months in consultation with the Commercial Division and the Bank's Economic Intelligence Centre, which provide both business line experience as well as estimation of macroeconomic and industry growth. Advice provided by these entities therefore helps to challenge and confirm the suitability of the model in respect of the economic context.

The following table shows the Group's commitments to customers by industry at 30 june 2017 :





#### 8.4.2.2.4. Counterparties belonging to the same country

Country risk refers to the possibility that a sovereign counterparty in a given country, as well as other counterparties in this country, is unable or refuses to fulfil its foreign obligations due to socio-political, economic or financial reasons.

Country risk can also result from limits on the free movement of capital or due to other political or economic factors, in which case it is qualified as transfer risk. It can also result from other risks related to the occurrence of events impacting the value of commitments for a given country (natural disasters, external shocks).

The Group reviewed its country risk policy in detail. It set itself the primary objective of implementing a system for assessing, limiting, reducing and, if necessary, prudently suspending its commitments to high-risk countries across the Group.

The proposed policy, in addition to outlining a strategy for managing Country Risk, includes rules for identifying, managing and controlling these risks as well as the Group entities responsible. The main feature of this risk prevention policy is the system of delegation and limitation of commitments.

This system has been designed in such a way that limits rise in proportion to the increase in country risk. The level of commitments is determined on

the basis of the country risk level, reflected in the rating attributed to each country and the percentage of shareholders' equity of each Group entity.

BMCE Bank's commitments are primarily within Morocco. The Bank's commitments to foreign counterparties relate to foreign credit institutions. These commitments require:

- Post-rating authorisation and fundamental analysis of each counterparty;
- Monthly monitoring, with the findings sent to the Central Bank in the form of a regulatory statement.

Realized reporting provide an overview of the global commitment of BMCE Bank of Africa against foreign bank counterparties. They reflect the commitment by countries which includes all assets in the balance sheet and Off-balance sheet representing claims on residents of foreign countries.

In addition to these statements, the Group Risk Division develops a monthly analytical report on the foreign exhibitions of BMCE Bank of Africa. Use this report to assess the level of foreign exhibitions of BMCE Bank of Africa Group and is a dashboard for monitoring the evolution of the risk inherent in each country. The Group's country risk policy is illustrated as follows:



The Group Risk Management Division has carried out work to extend the country risk management policy to all its subsidiaries in Africa.

### 8.4.2.3. Control of accounts showing anomalies and high-risks accounts

#### 8.4.2.3.1. Control of accounts showing anomalies

The purpose of this post-check is to detect the irregular use of accounts and identify recurring anomalies. This is carried out to ensure that the Commercial Division regularises the account or at least provides justification for the irregularity.

This check is therefore carried out in addition to daily monitoring by the Commercial Division. The most important cases of accounts showing anomalies relate to credit applications where:

- Credit authorisations have expired;
- Guarantees have not been provided;
- Credit lines have not been used for more than 6 months.

These criteria constitute the minimum conditions for accounts showing anomalies that are detected automatically and monitored jointly with the Commercial Division.

#### 8.4.2.3.2. Monitoring high-risk accounts

High-risk accounts relate to those for which the risk is likely to subsequently increase, thereby resulting in a cost to the Bank. They consist of commitments which show either a visible deterioration in risk quality as measured against quantitative criteria or a potential deterioration in risk quality as measured against qualitative criteria.

- Are frozen: meaning sight deposit accounts for which there have not been any actual credit entries over 60 days (excluding the release of loan funds) to at least cover the account fees as well as a significant portion (10%) of the said outstanding debit balance;
- Are in arrears, such as:
  - Amortisable loan outstandings for which a repayment instalment has still not been paid 30 days after the due date;
  - Loan outstandings repayable in a single instalment which has still not been honoured 30 days after the due date;
  - Trade receivables discounted by the Banks and returned unpaid;
- Have exceeded limits, beyond one month, in respect of authorisations granted. To avoid any potential operational risks, however, entities carry out a weekly check to ascertain to what extent authorised limits have been exceeded (at the discretion of each entity);
- Have exposures for which recovery is doubtful due to other negative quantitative or qualitative information about the customer such as: a high risk rating, special events or litigation surrounding the main shareholders (death, bankruptcy etc.).

These are the minimum criteria for detecting high-risk accounts.

The Commercial Division, given the information at its disposal and through its daily contacts, together with the Risk Division are responsible for identifying and indicating any other account which may be considered a high-risk account, if they deem it necessary. Assessment, intervention and the complementary nature of the Commercial and Risk Divisions remain the determining factors for identifying high-risk accounts.

Responsibility for the daily monitoring of these risks lies with the Commercial Division. However, it is the Risk Division's responsibility to detection high-risk accounts. This is done using quantitative criteria extracted from the Bank's appropriate applications and IT systems.

When these risks are considered certain, the Risk Division requests the Commercial Division to provide explanations. The latter uses all the means at its disposal to ensure that the arrears are recovered.

#### 8.4.2.3.3. Annual account review

All retail customers with a revolving credit or corporate customers with a commitment to any of the Group's entities must undergo an annual review process carried out by the relevant Credit Committee, irrespective of whether a facility needs to be approved or renewed.

The Risk Division is responsible for continuously updating the planned annual review schedule provisional, in conjunction with the Commercial Division.

#### 8.4.2.3.4. Theme-based checks

Unlike the checks mentioned above, theme-based checks are not performed on a regular basis and are related to a specific point or risk. These checks are carried out by the Risk Division on the request of senior management or other bodies.

### 8.4.3. Loan classification

After the monthly review of the Bank's portfolio and analysis of high-risk accounts, each subsidiary reviews its regulatory loan classification as required by local regulatory requirements.

This review is finalised by the committees for monitoring high-risk accounts on the recommendation of each entity's Risk Division. The latter is also responsible for implementing these decisions by monitoring and transferring these accounts from the "healthy" to the "non-performing, requires provisioning" category.

The following table shows the net carrying amount of non-amortised loan outstandings in arrears and amortised doubtful loans in the Moroccan business activity :

In MAD millions	june 2017					dec 2016				
	Maturities of non provisioned having outstanding unpaid				Impaired Assets (CES)	Maturities of non provisioned having outstanding unpaid				Impaired Assets (CES)
	< 90 days	>90 days < 180 days	>180 days < 1 year	Total		< 90 days	>90 days < 180 days	>180 days < 1 year	Total	
Corporate	5	0	0	5	1 694	897	0	0	897	1 890
Corporate Network	266	41	3	309	3 388	44	271	42	357	2 591
Retail and Professionnels network	714	125	98	937	2 852	511	126	28	664	3 185
Total	985	166	100	1 251	7 934	1 452	398	69	1 919	7 666





#### 8.4.4. Guarantees

The Group receives different types of guarantee in consideration for loan outstandings. As a general rule, the guarantees required are based on the following two factors: the loan type and the counterparty quality.

Thus, for all property loans (home purchase loans and real estate development loans), the Group systematically possesses mortgages on the financed property as well as insurance cover.

Similarly, the financing of public contracts, merchandise, equipment and trade premises is systematically guaranteed by collateral in respect of the financed items as well as through insurance cover.

In addition to these guarantees, the Group generally secures its position by requesting personal guarantees from counterparties whenever deemed necessary, depending on the quality of such counterparties.

#### 8.4.5. Stress-tests Conduct

Every six months, BMCE Bank conducts crisis simulations (stress tests) to assess the vulnerability of its credit portfolio in the event of an adverse event or deterioration of the quality of its counterparties.

The stress tests are conducted in order to assess the Bank's resilience in the face of unexpected, extreme events. Operationally, they consist of simulating scenarios relating to the default of a certain percentage of the Group's counterparties. The ultimate objective is to measure the impact on provisions and, as a result, on profitability and the prudential shareholders' equity.

The various scenarios are reviewed regularly and at least twice per year to ensure that they are relevant. This assessment is carried out on the basis of the objectives set for conducting stress tests and whenever the market conditions suggest any potentially adverse changes that are likely to seriously impact the Group's ability to withstand them.

The results of the stress test are made known to the Steering Committee and Group Risk Management and the Group Risk Committee.

#### 8.4.6. Credit risk reporting

In order to monitor credit risks, the Group Risk Division has established a specific procedure for producing credit risk reports in order to improve and streamline credit risk control across the entire Group. These reports are aimed at satisfying the requirements of all concerned parties for monitoring, steering or regulatory purposes. They are also used by BMCE Bank Group's financial communications department.

These reports are in addition to the various regulatory reports that have to be prepared by the Risk Division in order to satisfy regulatory requirements at the Group and local levels. These also include reports relating to the financial statements as well as other risk-related reports prepared by other departments of the entity. These reports are designed to present and overview of risk management carried out by the various entities.

Credit risk reporting relates to all credit risks resulting from the activities of all entities of the entire BMCE Bank Group. Each entity organises itself as a function of local particularities in order to satisfy the requirements of the reporting process.

#### 8.4.7. Implementation of the risk control system by overseas subsidiaries

The implementation phase of the Convergence Programme progressed well in 2015 in line with Group targets. This involved new subsidiaries implementing the different systems, resulting in expanded geographical coverage to the entire Group.

Thus, in early 2016 a review of deployment has been achieved this time in Benin, Niger and Burkina Faso. These balances will be continued over the other subsidiaries by end of 2016, beginning 2017.

##### Credit risk system

The implementation review of the credit risk system deployed by nine BOA subsidiaries (BOA Burkina Faso, BOA Benin, BOA Ivory Coast, BOA Senegal, BOA Niger, BOA Madagascar, BOA Mali, BOA Kenya and BOA Uganda) was positive.

The system was adopted by a further two subsidiaries, BOA Togo and BOA Mer Rouge :

- Organisational structure and delegation plan drawn up and approved by General Management and in the process of being approved by the Board of Directors;
- Presentation of the new delegation plan's impact on the credit approval process and support for the principle of escalation in case of divergence;
- Introduction of schedule planners for holding committee meetings and ensuring that the minutes of committee meetings are sent to BOA Group's Risks Division;
- Steering and reporting systems deployed and used by all BOA subsidiaries;
- Support for the use of the 'Large Enterprises' internal ratings system when deciding on credit applications;
- Monitoring commitments with the introduction of a priori and a posteriori controls for loan applications;
- Introduction of a reporting system resulting in more effective management of loan applications in terms of processing and volume;
- Project being finalised to improve the reliability of data on companies.
- Deployment is ongoing at the two remaining English speaking subsidiaries: BOA Tanzania and BOA Mer Rouge. Construction will be completed by the end of December 2016.

The work was initiated at La Congolaise des Banques (LCB) (Gap analysis process) and a concept note was prepared. The continuation and finalization of the deployment will occur by the end of December 2016.

In addition, the development of the Group Third Parties and Commitments database by BMCE Bank IT staff was completed. This Group database is an integral part of steering and monitoring credit risk at the consolidated level:

- Construction work on the Group Third Parties and Commitments database was completed in March 2015 (centralised data warehouse, interface for data control and harmonising accounting and management systems, automatic report generation etc.);



- Management data from the Group Third Parties and Commitments database and accounting information from the IT source systems of BMCE Bank Group's 17 subsidiaries were developed and automated by each subsidiary's IT department (BMCE Bank SA, LCB, 12 BOA subsidiaries (Benin, Burkina Faso, Senegal, Niger, Ivory Coast, Kenya, Uganda, Madagascar, MerRouge, DRC, Tanzania, Ghana, Togo, BCB and France), 3 Moroccan subsidiaries (Salafin, Maghrebail and MarocFactoring). Third Parties and Commitments data of four BOA subsidiaries were integrated in light mode into the BEG database from the detailed balance (France, Mali, Togo and RDC).

The data flows of 20 BMCE Bank Group subsidiaries are now integrated and centralised in the BEG database, which covers more than 95% of the Group's commitments.

- Production of credit risk steering reports has been automated. These indicators are in the process of being finalised by business line for these ten subsidiaries (for the periods ended 30/06/2014 and 31/12/2015).

- The BEG's functional and technical administrative is in the process of being implemented..

#### **Operational risk system**

The operational risk management system was implemented by nine BOA subsidiaries (BOA Benin, BOA Ivory Coast, BOA Burkina Faso, BOA Senegal, BOA Niger, BOA Mali, BOA Madagascar, BOA France and BBI UK) :

Operational risk maps were finalised and approved at the local level in five areas: credit, payment means, customer accounts management, international and accounting.

Work began on implementing the operational risk management system in BOA Uganda, BOA Tanzania and BOA Mer Rouge has been initiated and will be completed in December 2016 on the field.

New domains (IT, HR, General Services) were mapped on a pilot site (BOA Senegal) and this mapping will serve as a basis for the deployment to be conducted by local team..

### **8.5. DESCRIPTION OF THE POLICY FOR MANAGING LIQUIDITY AND INTEREST RATE RISKS**

BMCE Bank has established a policy for controlling balance sheet risks such as liquidity and interest rate risks so that it is able to as to continuously monitor changes in financial market trends and their impact on the Bank's operations.

In order to maintain balance sheet stability from a medium- to long-term perspective, the Bank's liquidity and interest rate risk management policy aims to:

- Ensure income stability when interest rates change, thereby maintaining net interest income and optimising the economic value of equity;
- Ensure an adequate level of liquidity, thereby enabling the Bank to meet its obligations at any given time and protecting it from any eventual crisis;
- Ensure that the risk inherent in its foreign exchange positions does not have a negative impact on the Bank's profit margins;
- Steer the bank's strategy so as to take full advantage of growth opportunities available in the market.

The Bank has established an ALCO committee to ensure that these targets are met. The main tasks of this committee are as follows:

- Set asset-liability policy ;
- Organise and direct asset-liability sub-committees;
- Possess in-depth knowledge of types of risk inherent in the Bank's operations and keep abreast of any changes in these risks based on financial market trends, risk management practices and the Bank's operations ;
- Review and approve procedures aimed at limiting the risks inherent in the Bank's operations in terms of credit approval, investments, trading and other significant activities and products;
- Master the reporting systems that measure and control the main sources of risk on a daily basis ;
- Review and approve risk limits periodically given changes to the institutional strategy, approve new products and respond to important changes in market conditions;
- Ensure that the different business lines are properly managed by HR, the latter possessing a high level of competence, experience and expertise in relation to supervised activities.

#### **Responsibilities of the different parties involved in interest rate and liquidity risk management**

Maintaining short- and medium-term balance sheet stability entails the involvement of all parties within the Bank and requires that each party's responsibilities are clearly defined in respect of interest rate and liquidity risk management.

In this regard, each of the Bank's entities will have its own budget and objectives, validated by the general management team on a medium-term basis. This enables the relevant bodies to ensure orderly monitoring and control of the three-year plan while balance sheet stability and compliance with regulatory capital requirements.

The ALM department regularly tracks changes in the Bank's balance sheet structure by comparison with the plan's objectives and indicates any divergence during ALCO committee meetings, attended by representative of all entities, and any required corrective measures.

#### **Liquidity Risk**

The Bank's strategy in terms of liquidity risk management aims to ensure that its financing mix is adapted to its growth ambitions to enable it successfully expand its operations in a stable manner.

Liquidity risk is the risk of the Bank being unable to fulfil its commitments in the event of unforeseen cash or collateral requirements by using its liquid assets.

Such an event may be due to reasons other than liquidity, for example, significant losses that result from counterparties in default or due to adverse changes in market conditions.

The following two major sources may generate liquidity risk :

- Inability of the institution to raise the required funds to deal with unexpected situations in the short term, such as a massive withdrawal from deposits or a maximum drawdown of off- balance sheet commitments;





- A mismatch of assets and liabilities or the financing of medium- or long-term assets by short-term liabilities.

An acceptable liquidity level is a level that enables the bank to finance asset growth and to fulfil its commitments when they are due, thereby protecting the bank from any eventual crisis.

Two indicators are used to evaluate the Bank's liquidity profile:

- The liquidity ratio must be greater than 100% (as defined by the Central Bank). This indicator helps to measure the one-month asset coverage ratio.

The liquidity ratio stood at 158% on 30 June 2017, above the regulatory limit fixed to 80% by Central Bank for year 2017.

- Profile of cumulative liquidity gaps: the method of periodic or cumulative gaps in dirhams and in foreign currencies helps measure the level of liquidity risk incurred by the Bank over the short, medium and long term.

This method is used to estimate the net refinancing requirements over different time periods and determine an appropriate hedging strategy.

#### Interest Rate Risk

Interest rate risk is the risk that future changes in interest rates have a negative impact on the Bank's profit margins.

Changes in interest rates also impact the net present value of expected cash flows. The extent to which the economic value of assets and liabilities is impacted will depend on the sensitivity of the various components of the balance sheet to changes in interest rates.

Interest rate risk is measured by conducting simulation-based stress tests under a scenario in which interest rates are raised by 200 basis points as recommended by the Basel Committee.

The Bank's strategy in terms of interest rate risk management aims to ensure the stability of results against changes in interest rates, thereby maintaining net interest income and optimising the economic value of equity.

Changes in interest rates may negatively impact net interest income and result in the Bank significantly undershooting its initial projections.

In order to counter such risks, the ALM department regularly steers the Bank's strategy by establishing rules for matching assets and liabilities by maturity and by defining a maximum tolerance departure threshold for net interest income by comparison with projected net banking income.

The method of periodic or cumulative gaps in dirhams and in foreign currencies helps measure the level of interest rate risk incurred by the Bank over the short, medium and long term.

This method is used to estimate asset-liability mismatches over different time periods and determine an appropriate hedging strategy

#### Sensitivity of the value of the banking portfolio

Simulation-based stress-tests are conducted to measure the impact of changes in interest rates on net interest income and on economic value of equity.

At 30 June 2017, the impact of a 200 basis point change in interest rates on net banking income was estimated to MAD 58 million, which represents 1.0% of equity, lower than the limit fixed by the Committee ALCO at 5%.

The change in the economic value of equity in the event of a 200 basis point shock was estimated to be MAD 1305 million or 7.2% of regulatory capital.

#### 8.6. MARKET RISK

The majority of the Group's market activity is focused at BMCE Bank level which accounts for 99% of total activity. The remainder is undertaken by the Group's London subsidiary.

Market risk management at BMCE Bank Group adheres to regulatory standards as defined by supervisory authorities and in application of best international management practices as defined by the Basel Accords.

Market risk is defined as the risk of loss on balance sheet and off-balance sheet positions due to changes in market prices. For BMCE Bank, these risks encompass the following:

- Interest rate risk;
- Property title risk
- Foreign currency risk;
- Credit risk on market transactions.

#### Mapping of financial instruments

The following table shows products traded as part of BMCE Bank Group's trading portfolio, mapped by risk factor :

Foreign Exchange Instruments	Cash instruments
	Spot Foreign Exchange
	Forward Foreign Exchange
	Foreign exchange Derivatives
	Foreign exchange Swaps
Equity Instruments	Equity shares
	Derivatives on equity or and Indices
	Mutual funds on equities
Fixed income Instruments	I- Corporate and Interbank loans and borrowing
	Fixed rate (in MAD and Foreign Currency)
	Floating Rate (in MAD and Foreign Currency)
	II- Negotiable Debt Securities and bonds
	II-1 Sovereign Debt (Including bonds issued by the Kingdom of Morocco)
	Fixed rate (in MAD)
	Floating Rate (in MAD and Foreign Currency)
	II-2 Securities issued by Credit institutions and Companies
	Fixed rate (in MAD and Foreign Currency)
	Floating Rate (in MAD and Foreign Currency)
	III- Loans / borrowing of Securities
	Loans / borrowing of securities
	Repo / Reverse repo
	IV- Rate Derivatives
	Rate Swaps
	Rate Futures
	Forward Rate Agreement
	V- Fixed income mutual funds
	Money market mutual funds
	Debt mutual funds
Commodity Products	Commodity futures
	Commodity futures options
	Credit Default Swap (CDS)
	Credit Linked Note (CLN)

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### 8.6.1. Market risk management policy

#### 8.6.1.1. Governance

The main contributors to BMCE Bank Group's market risk management policy are as follows:

- General Management, which implements market risk management strategies and policies approved by the Board of Directors;
- Group Market Risk Committee, which defines Group market risk management policy and validates any amendment to the steering of market risk across the entire Group;
- Group Market Risk Department, which centralises market risk management for BMCE Bank Group as a department which is independent from the Group's front-offices. This gives it maximum objectivity in steering market risks and arbitrating between the Group's various market activities;
- Risk Management Units of BMCE Bank Group entities, which provide a first level check on market activities within their entity and send regular reports to Group Risk Management;
- Internal Audit, which ensures implementation of the market risk management policy and rigorous compliance with procedures.

#### 8.6.1.2. Description of the Market Risk Management Policy

BMCE Bank Group's market risk management policy is based on four main factors:

- Limits ;
- Risk indicators ;
- Capital requirements ;

##### 8.6.1.2.1. Limits

#### ► Counterparty limits in market transactions

The process for approving limits for counterparties and applications to exceed those limits in market transactions is governed within BMCE Bank Group by a system of delegation of powers within a framework of procedures specific to each counterparty type.

Market transactions are subject to a fixing priori limits, according to a delegation scheme based on the principle of the Troika.

#### ► Market limits

In order to control market risk within BMCE Bank Group and to diversify the trading portfolio, a set of market limits has been adopted. These limits reflect the Group's risk profile and help to steer market risk management by arbitrating between the Group's various market activities.

BMCE Bank Group's set of market limits are as follows :

- Stop-loss limits by activity over different time horizons;
- Position limits by activity;
- Transaction limits.

VaR limits are in the process of being defined and will be included in the project relating to adoption of the advance approach in respect of market

risks. This is a dynamic limit management policy that takes into account fluctuations in different risk factors as well as existing correlations in order to assess more accurately the diversification of the portfolio.

#### ► Regulatory limits

In addition to the limits adopted for internal purposes, BMCE Bank Group also complies with regulatory limits defined by Bank Al-Maghrib such as:

- Limits on Tier 1 solvency ratios;
- Limits on foreign currency positions which should not exceed 10% of shareholders' equity ;
- Limit on the overall foreign exchange position which should not exceed 20% of shareholders' equity.

#### 8.6.1.2.2. Risk indicators

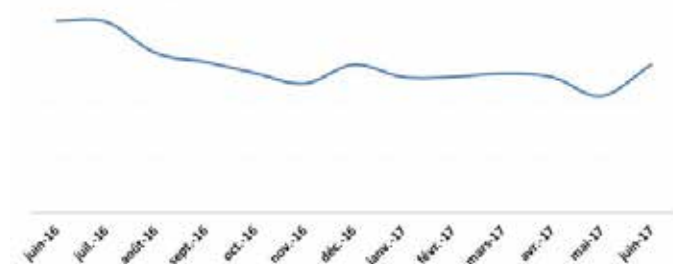
Different risk indicators reflecting the level of exposure to market risks are used within BMCE Bank Group as follows :

#### ► Overall Value-at-Risk (VaR) and VaR by asset class

Value-at-Risk is a probability-based technique used to measure overall market risk. It helps to measure the risk incurred by calculating the potential loss a given time horizon and degree of probability.

Unlike traditional risk indicators, Value-at-Risk combines several risk factors and measures their interaction, thereby taking into consideration the diversification of portfolios.

BMCE Bank Group uses KVar software to calculate overall Value-at-Risk and VaR by asset class as well as back-testing by using different methods.



#### ► Stressed VaR

The Group has established different scenarios for calculating stressed VaR.

The Group opted for the period from 1 September 2008 to 1 September 2009. In fact, there were a number of events during this period generating a high level of volatility in financial markets. These events were:

- The bankruptcy of Lehman Brothers, which was unable to withstand the sub-prime crisis;
- USD 1,000 billion widening in the US budget deficit to support financial markets;
- The Greek crisis and the threat of contagion spreading to the "PIIGS" countries.





The reaction by Morocco's financial markets to these events was limited however. A number of scenarios were applied to simulate global market conditions:

- Fluctuation in the Casablanca stock market identical to that of the United States;
- Fluctuation in the dirham rate identical to that of USD;
- Repercussion of EURUSD volatility on EURMAD and USDMAD;
- Repercussion of EURUSD volatility on EURMAD volatility and USDMAD volatility.

#### ► Stress-testing by risk factor

BMCE Bank Group conducts stress tests to assess the vulnerability of the Group's trading portfolio to extreme scenarios. Stress tests cover all components of the trading portfolio by simulating all risk factors which have an impact on the portfolio. The results of stress tests for interest rate risks and exchange rate risks on the trade portfolio are described below :

##### Fixed income securities portfolio

**1<sup>st</sup> scenario** : A 25 basis point parallel shift in the yield curve.

This scenario would result in a MAD 82 Million impact on the P&L.

**2<sup>nd</sup> scenario** : A 50 basis point parallel shift in the yield curve.

This scenario would result in a MAD 163 Million impact on the P&L.

##### Equity portfolio

**1<sup>st</sup> scenario** : A 15% fall in the value of the equity portfolio.

This scenario would result in a MAD 7 Million impact on the P&L

**2<sup>nd</sup> scenario** : depreciation of 25% of the value of the equity portfolio

This scenario would result in a MAD 11 Million impact on the P&L

##### Foreign exchange

**1<sup>st</sup> scenario** : A 10% rise or fall in the value of the Dirham

This scenario would result in a MAD 29 Million impact on the P&L

**2<sup>nd</sup> scenario** : A 25% rise or fall in the value of the Dirham

This scenario would result in a MAD 44 Million impact on the P&L

The results of the stress tests show that the Group has adequate capital to withstand adverse stress scenarios and to be able to comply with regulatory standards, even in crisis situations.

## 8.7. OPERATIONAL RISK

Operational risk is defined as the risk of loss due to inadequate or failed internal procedures, employee error, systems failure or external events, liable to impact the smooth running of the business.

### 8.7.1. Operational risk management policy

#### 8.7.1.1. Operational risk management objective

The operational risk management policy has the following objectives:

- Assess and prevent operational risks;
- Assess controls;
- Implement preventive and/or corrective action for major risks.

The management of operational risks through the implementation of preventive actions and / or corrective address the identified major risks.

The risk management system is regularly reviewed and monitored, allowing continuous improvement of said device.

#### 8.7.1.2. Classification

Operational risks or losses can be analysed and categorised on the basis of two factors and it is important to differentiate between them: cause and effect, in terms of their financial or other impact. They are classified under Basel by event type.

##### 8.7.1.1.1. Links to other risk types (market/credit risks)

The management of operational risks is potentially linked to the management of other risks (market/credit risks) at two levels:

- Overall level, analysis of the Bank's overall level of risk aversion (and in terms of allocation of capital) must be carried and monitoring of "trans-risks";
- Detailed level, some operational risks can be directly linked to market and credit risk management.

##### 8.7.1.1.2. Operational risk management organisation

The framework governing operational risk management within BMCE Group is based on three main objectives:

- Define a target policy consistent with BMCE Bank Group's business organisation and inspired by best practice;
- Involve and empower business lines and subsidiaries in the day-to-day management of operational risk management;
- Ensure that Audit/Control function is separate from the Operational Risk Management function.

Operational risk management at BMCE Bank Group involves four major entities :

- BMCE Bank's Group Operational Risk Department;
- BMCE Bank network;
- BMCE Bank business divisions;
- Subsidiaries.

Operational risks coordinators have been appointed by the aforementioned entities. These include:

- Operational Risk Correspondents (CRO);
- Operational Risk Coordinators (CORO);
- Operational Risk Liaison Officers (RRO).

The operational risk management's remit includes 8 Group subsidiaries.



#### 8.7.1.1.3. Governance of operational risk management

Governance of operational risks within BMCE Bank Group is organised by three Operational Risk Committees:

- Group Operational Risks Committee;
- Operational Risk Monitoring (Business Lines) Committee;
- Operational Risk (Subsidiaries) Committee.

These committees are tasked with periodically:

- Reviewing changes in the exposure to operational risks and in the environment for controlling such risks;
- Identifying the main areas of risk, in terms of activities and risk types;
- Defining preventive and corrective action required to reduce the level of risk ;
- Reviewing the amount of capital to be allocated to operational risks, the cost of preventive action required and the costs of insurance.

#### 8.7.1.3. Fundamental methodology principles

BMCE Bank Group's operational risk management policy has two strategic objectives:

- Reduce exposure to operational risks;
- Optimise capital requirements relating to operational risks.

The internal system for measuring operational risks is closely linked to the Group's day-to-day risk management process via:

- Collecting risk events;
- Mapping operational risks,
- Key risk indicators.

The data produced are part of the process of monitoring and control of operational risk profile.

The management of the entity in question, general management and the board of directors are regularly notified of operational risk exposure and losses incurred. Management systems are properly documented, ensuring compliance with a formalised set of controls, internal procedures and corrective measures in the event of non-compliance.

Internal and/or external auditors are invited to periodically review management processes and systems for measuring operational risk. These audits relate to units' activities and the independent operational risk management function.

Management of operational risks at BMCE Bank Group is entirely automated by means of a dedicated system, "MEGA GRC". The collection of risk events, the mapping of operational risks and the key risk indicators are currently managed by this system which is used at Bank level as well as by Moroccan and European subsidiaries.

#### 8.7.1.4. Operational risk control and mitigation

Several types of action may be taken to manage operational risks:

- Reinforce checks;
- Hedge risks, especially through insurance contracts;
- Avoid risks, in particular, by redeploying activities;
- Draw up business continuity plans.

BMCE Group has a very strong control policy, resulting in a significant reduction in operational risks. However, in terms of operational risk management and via its dedicated policy, the Group is at liberty to identify optimal behaviour, on a case by case basis, depending on the different types of risks described above.

Additionally, the Group has insurance policies to mitigate risks such as damage to office buildings, fraud, theft of valuable items and third-party liability cover etc.

#### 8.7.2. Business continuity plan

Under a changing regulatory environment, the Business Continuity plan is a response to the rising demand to minimise the impact in the event of any interruption to the Bank's activities. This is due to the increasing reliance on the resources underpinning those activities including human, IT or logistics resources.

The business continuity plan is a set of measures and procedures aimed at ensuring that the Bank, under different crisis scenarios such as major shock, maintains essential services in fail-soft mode on a temporary basis, prior to a planned resumption of normal operations.

The strategic principles underpinning the business continuity plan are as follows:

- BMCE Bank has a moral responsibility to allow its customers access to the cash which they have entrusted to it. Any breach of this obligation in times of crisis may have an impact on public order. This principle prevails above any other;
- BMCE Bank must guarantee its commitments towards Morocco's interbank clearing system;
- BMCE Bank intends to first and foremost comply with all existing legal and contractual commitments entered into (relating to loans and other commitments), prior to entering into any other commitment;
- BMCE Bank intends to maintain its international credibility by guaranteeing first and foremost its commitments vis-à-vis foreign correspondents;
- BMCE Bank Group's existing customers take priority over others;
- Services are executed in their entirety, beginning in the front-office and culminating in the back-office (e.g. from branch level up until accounting recognition).



### 8.7.3. Measurement of capital adequacy

The BMCE Bank Group has opted for the standardised approach as outlined in Bank Al Maghrib circulars (BAM).

The latter require banks to have a Tier 1 capital ratio of 9% and a solvency ratio of 12% at both the parent company and consolidated levels.

BMCE Bank Group already satisfies these new requirements.

BMCE Bank Group : Capitalization ratios according Basel 3	
	Amount (In millions MAD)
Tier 1 Capital	20 109
Total Capital ratio	27 631
Total risk-weighted assets	222 848
Tier 1 Capital ratio	9,02%
Capital Adequacy ratio	12,48%

#### Main characteristics of items constituting shareholders' equity

At 31 December 2016, BMCE Bank's share capital stood at MAD 1,719,633,900 made up of 171,963,390 ordinary shares, each with a nominal value of 10 dirhams. The shares are fully paid-up. Each ordinary share entitles the holder to one voting right.

At 31 December 2016, fixed maturity subordinated debt stood at almost MAD 6.7 billion.

#### Measurement of capital adequacy

BMCE Bank Group has opted for the standardised approach to calculating risk-weighted assets as prescribed by Bank Al-Maghrib circulars (BAM):

Since 30 June 2014, capital adequacy ratios have been calculated in accordance with Basel III regulatory standards as defined by BAM.

The method for calculating capital was reviewed in the light of these new regulations and temporary measures have been adopted for a period until 2019.

#### The circulars governing these declarations are as follows:

n Circular No. 26/G/2006 relating to calculating capital requirements based on the standardised approach for hedging credit institutions' credit, market and operational risks;

n Circular No. 8/G/2010 relating to calculating capital requirements based on internal approaches for hedging credit institutions' credit, market and operational risks;

n Circular No. 14/G/13 relating to capital requirements for credit institutions

### Composition of capital and capital adequacy ratio

<b>Tier 1 capital</b>	<b>19 386 843</b>
<b>Items to be included in Tier 1 capital</b>	<b>21 519 272</b>
Share Capital	
Consolidated reserves, including premiums related to share capital and not included in hidden reserves	14 299 893
Retained earnings	
Net income for the previous period	1 126 807
Minority interests	4 297 939
<b>Items to be deducted from Tier 1 capital</b>	<b>2 132 429</b>
Goodwill	852 310
Other adjustments to Tier 1 capital	693 084
Immobilisations	285 487
Other deductions	301 549
<b>Additional core capital</b>	<b>1 185 885</b>
Perpetual subordinated debt	1 400 000
<b>Items to be deducted from capital</b>	<b>214 115</b>
Non-current assets	214 115
<b>Tier 2 capital</b>	<b>7 353 452</b>
Perpetual subordinated debt	6 787 394
Revaluation differences	
Investment subsidies	309 673
Hidden reserves	187 613
<b>Items to be deducted from capital</b>	<b>243 115</b>
Non-current assets	214 115
	29 000
<b>Total</b>	<b>27 926 180</b>

<b>Capital Requirements by Risk Type</b>	<b>2016</b>
Risk-weighted credit risks	195 243 881
Risk-weighted market risks	9 950 723
Risk-weighted operational assets	21 626 047
Total risk-weighted assets	226 820 651
Tier 1 Capital	20 572 728
Tier 1 Capital ratio	9.1%
Total capital	27 926 180
Capital adequacy ratio	12.3%

BMCE Bank Group's capital adequacy ratio stood at 12.3% at 31 December 2016.