BANK AL-MAGHRIB

ANNUAL REPORT ON BANKING SUPERVISION

2018

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SUMMARY

FOREWORD BY THE GOVERNOR

Amidst an international environment marked by slower global growth due to rising trade tensions, tightening monetary policies and Brexit-related uncertainties, the national economic growth decelerated to 3 percent, as against 4.2 percent a year earlier, as a result of the slowdown of both agricultural and nonagricultural value added, to 4 percent and 2.6 percent respectively.

Bank lending activity in Morocco remained sluggish, especially for companies, where it rose by no more than 0.7 percent, while the loan loss ratio fell slightly to 7.3 percent.

Despite this context, the banking sector was able to maintain its overall profitability owing to the sectoral and geographical diversification of its business model. Indeed, the net income- share of the nine banking groups was up 4.4 percent at end-2018, as against 9.2 percent in 2017, reflecting a moderately higher net banking income and a lower cost of risk. Return on assets (ROA) stabilized at 0.9 percent while return on equity (ROE) rose by 0.6 point to 10.8 percent.

In terms of capitalization, fundamentals remained sound, generating, on an individual basis, a solvency ratio of 14.7 percent and a Tier 1 capital ratio of 10.9 percent, for regulatory minimums of 12 percent and 9 percent. On a consolidated basis, these ratios stood at 13.8 percent and 10.8 percent, respectively.

Under this background, Bank Al-Maghrib continued monitoring the quality of banks' credit portfolios and provisioning. It also supported the adoption of the reform of IFRS 9 financial instruments through transitional provisions aimed at smoothing the impact of the first application of this standard on prudential capital over a five-year period. Meanwhile, the Bank continued reviewing the rules for loans classification and provisioning as well as processing assets held by banks through dation payment techniques and repurchase agreements.

As part of the measures taken to support implementation of the exchange rate reform regime, the Bank strengthened the market risk and global interest rate supervision framework, mainly through thematic control missions and regulatory reporting to improve the monitoring of such risks.

In terms of cross-border supervision, Bank Al-Maghrib extended its cooperation activities by signing an agreement on banking supervision with the Central Bank of Mauritania and revising the one concluded with the Central Bank of Tunisia. Hence, the total number of cooperation agreements signed was brought up to 13, covering 24 countries. This framework helped to hold supervisory colleges, exchange information and conduct joint controls. The Bank also continued exchanging with its counterpart in the West African Economic and Monetary Union to prepare a cross-border crisis simulation exercise.

In order to fight money laundering and terrorist financing, Bank Al-Maghrib continued to enhance the regulatory and supervisory framework, while supporting the actors in their efforts to comply with the new requirements and adopt a risk-based approach. This year, the national anti-money laundering and counter-terrorism financing system (AML/CFT) was evaluated by the Middle East and North Africa Financial Action Task Force (MENAFATF), whose report will be adopted in April 2019.

In a context of increasing digitization of banking services, Bank Al-Maghrib focused on banks' management of the risk of cyber-attacks. In this regard, it reviewed the intrusion tests reports developed by the banking institutions and conducted control missions on the security of information systems and the business continuity plans. Banks were also called upon to extend the coverage of these tests and to build up the capacity of their teams in this area.

Aiming to take part in the transition to a green economy, Bank Al-Maghrib joined the Central Banks and Supervisors Network for Greening the Financial System (NGFS), established on December 12, 2017, with a view to promoting the exchange of experience and practices with regard to the management of climate risks and their effects on the financial system. Meanwhile, in order to ensure alignment of the financial sector with sustainable development challenges, the Bank pursued its dialogue with the banks on the implementation of the COP 22 roadmap commitments.

With regard to protecting customers of banking services, Bank Al-Maghrib stepped up its controls regarding the compliance with the relevant legal and regulatory provisions, and worked to revitalize the Moroccan Banking Mediation Center. This task was included among the priorities of Bank Al-Maghrib and will lead to strengthening bank pricing comparability and increasing the efficiency of the conventional banking mobility system.

In terms of deposit guarantee, Bank Al-Maghrib ratified the specifications of the Deposit Guarantee Funds' managing company as well as the circulars on the conditions for paying contributions to the Funds and the methods of managing its liabilities.

One of the major events of the year 2018 was the launching of 5 participatory banks and 3 participatory windows. At the end of 2018, Mourabaha real estate and car financing amounted to nearly 4.5 billion dirhams as against 1.7 billion dirhams for the demand deposits collected. Bank Al-Maghrib continued to support these stakeholders with regard to labeling contracts with the Higher Council of Ulemas (Muslim scholars) in order to complete the market offer, particularly for the movable Mourabaha, the card-holding contract, investment deposits and Ijara, as well as refinancing instruments such as Wakala bil Istithmar. The regulatory system was also reinforced, as prudential texts governing equity and solvency ratio were drafted. Bank Al-Maghrib also worked with other stakeholders to complete the components of the participatory finance ecosystem, mainly in terms of taxes and sukuks.

HIGHLIGHTS OF THE YEAR 2018

January 24	The 5th meeting of the Credit Institutions Committee (CEC), in its restricted form, was held.
February 8	A study visit was conducted by the Governor, accompanied by a delegation composed of several departments of Bank Al-Maghrib, including the Banking Supervision Department, to the governor of the BCEAO to make a cooperation report between the two central banks over the last two years
February 28	Bank Al-Maghrib participated in Abu Dhabi in the 8th meeting of the regional group on financial stability
April 4	Bank Al-Maghrib organized in Rabat a regional seminar on control practices regarding anti-money laundering and counter-terrorism financing, in collaboration with the Banque de France
April 26	A meeting was held in Malaga, Spain, between Bank Al-Maghrib and the Bank of Spain on gender, in which the Banking Supervision Department participated
April 28	Bank Al-Maghrib participated in the 27th plenary meeting of the Middle East and North Africa Financial Action Task Force (MENAFATF), held in Beirut
May 3	Bank Al-Maghrib participated in Paris in the Euro-Mediterranean seminar on the theme "Impact of financial reforms in the Euro-Mediterranean area", in partnership with the World Bank, the Center for Mediterranean Integration and Banque de France
May 9	Bank Al-Maghrib participated in the 31st meeting of the Arab Monetary Fund's Arab Committee of Banking Supervisors in Abu Dhabi
May 9	Bank Al-Maghrib organized the 4th meeting of the BMCE Bank Group's College of Supervisors
May 10	Bank Al-Maghrib organized the 4th meeting of the College of Supervisors of Credit Populaire du Maroc group
June 25	Bank Al-Maghrib participated in a meeting with the Central Bank of the United Arab Emirates, in Abu Dhabi, to present Morocco's experience in the financing of VSMEs.
June 25	Bank Al-Maghrib participated in the conference of the Community of African Banking Supervisors, organized jointly by the South African Central Bank and the Association of African Central Banks.
June 26	The 13th meeting of Bank Al-Maghrib's Internal Financial Stability Committee was held.
July 5	The 7th meeting of the Coordinating and Systemic Risk Monitoring Committee was held.
July 13	The 6th meeting of the Credit Institutions Committee, in its extended form, was held.
July 17	The 7th meeting of the Credit Institutions Committee, in its restricted form, was held.
July 19	Africa Committee, under the chairmanship of Bank Al-Maghrib's Governor, was held with the participation of the chairpersons of the Moroccan banking groups present in Africa.
July 24	The annual meeting of Bank Al-Maghrib with the National Federation of Microcredit Associations was held.
August 8	Bank Al-Maghrib participated in the 41st ordinary meeting of the Assembly of Governors of the Association of African Central Banks, held in Sharm El Sheikh, Egypt.
September 4	Bank Al-Maghrib participated in the 9th meeting of the Regional Group on Financial Stability, in Abu Dhabi.

September 5	Bank Al-Maghrib participated in the 10th Global Policy Forum on Financial Inclusion, co-organized in Sochi, Russia, by the Alliance for Financial Inclusion and the Bank of Russia.
September 17	Bank Al-Maghrib participated in the 42nd Ordinary Session of the Council of Central Banks and Arab Monetary Institutions, held in Amman, Jordan.
September 19	Bilateral meeting in Bahrain between Bank Al-Maghrib and members of the assessment mission of the national anti-money laundering and counter-terrorist financing system organized by the MENAFATF, dedicated to the review of the related assessment report.
October 15	Bank Al-Maghrib participated in the 17th meeting of the Annual General Meeting and Annual Conference of the International Association of Deposit Insurers, held in Basel.
October 16	Bank Al-Maghrib and the African Institute for Remittances co-organized, in Rabat, a workshop on regulatory models and development of policies for improving the impact of remittances on economic and social development.
October 17	Bank Al-Maghrib participated in the annual meeting of the College of Supervisors of Societe Generale Group organized in Frankfurt by the Prudential Control and Resolution Authority.
October 17	Bank Al-Maghrib participated in the annual meeting of the College of Supervisors of Credit Agricole Group organized in Paris by the Prudential Supervision and Resolution Authority
October 24	Meeting of the Governor with the Board of the Moroccan Bankers Association (GPBM).
October 24	Bank Al-Maghrib organized a 1st workshop on the supply chain finance, in collaboration with the International Finance Corporation.
October 29	Bank Al-Maghrib organized in Rabat an experience sharing seminar on digital financial services, in collaboration with the Alliance for Financial Inclusion.
October 30	The General Directorate of Information Security Systems and Bank Al-Maghrib co-organized a seminar on "cyber-resilience: a new approach to the challenge of cyber-risk".
November 14	Bank Al-Maghrib organized the 5th meeting of the College of Supervisors of Attijariwafa Bank Group.
November 16	Bank Al-Maghrib participated in the 5th meeting of Central Bank Governors of the Arab Maghreb Union, held in Tunis.
November 27	Bank Al-Maghrib participated in the 28th plenary meeting of the MENAFATF, held in Beirut.
December 5	Bank Al-Maghrib and the African Institute for Remittances co-organized, in Rabat, a second workshop on regulatory models and the development of policies for improving the impact of remittances on the economic and social development of countries.
December 6	Bank Al-Maghrib participated in the 33rd meeting of the Islamic Financial Services Board, held in Jeddah.
December 11	Bank Al-Maghrib participated in the 32nd meeting of the Arab Monetary Fund's Arab Supervisors Committee, held in Abu Dhabi.
December 25	The 14th meeting of Bank Al-Maghrib's Internal Financial Stability Committee was held.
December 25	The 8th meeting of the Coordinating Systemic Risk Monitoring Committee was held.

KEY FIGURES OF THE BANKING SYSTEM

1- Structure of the banking system

- Number of credit institutions and similar entities : 86

- Banks : 24
- Including participatory banks : 5
- Finance companies : 28
- Offshore banks : 6
- Microcredit associations : 13
- Payment institutions : 13
- Other institutions : 2

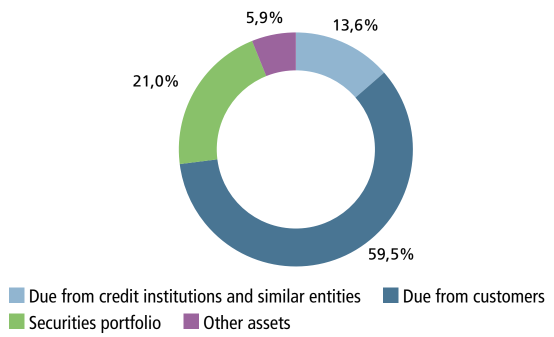
- Network :

- In Morocco:
  - 6,503 banking agencies, or 5,400 inhabitants per counter
  - 7,289 automated teller machines
  - Abroad: 45 subsidiaries and 15 branches with almost 1,427 points of sale.
- Staff of credit institutions and similar entities: 55,763

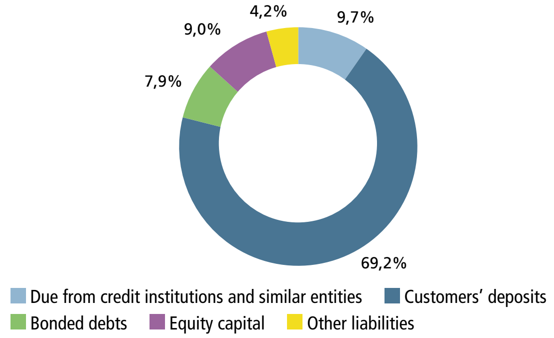
2- Banks' activity and profitability indicators - on individual basis

Amount in billion of dirhams	2016[1]	2017	2018
Total of balance sheet	1.199	1.271	1.341
Loans by disbursement (net of provisions)[2]	775	800	854
Customers' deposits	854	901	928
Equity (excluding profit for the year)	109	115	121
Net banking income	45,1	46,0	47,2
Gross operating income	23,3	23,5	23,8
Net income	9,2	10,8	11,1
Average yield of assets	4,86%	4,53%	4,35%
Average cost of liabilities	1,50%	1,38%	1,37%
Average operating ratio	49,3%	50,6%	50,7%
Return on assets (ROA)	0,8%	0,9%	0,9%
Return on equity (ROE)	8,6%	9,5%	9,5%
Non-performing loans ratio (NPL)	7,6%	7,5%	7,3%
NPL coverage ratio	69%	71%	69%

Structure of banks' assets - 2018



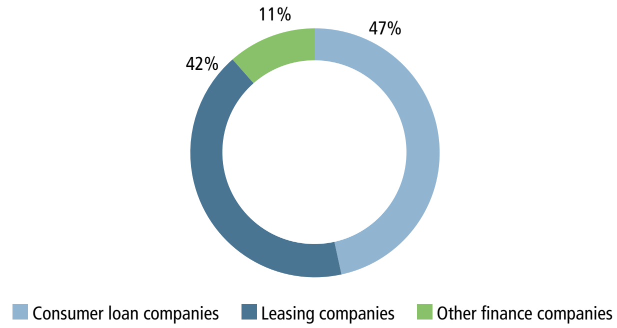
Structure of banks' liabilities - 2018



3- Finance companies' activity and profitability indicators

Amount in billion of dirhams	2016	2017	2017 restated (*)	2018
Total balance sheet	106	113	112	117
Loans by disbursement (net of provisions)	94	99	99	105
Net banking income	5,8	6,0	5,4	5,7
Gross operating income	3,6	3,7	3,4	3,6
Net income	1,6	1,7	1,5	1,4
NPL ratio	9,4%	9,4%	8,7%	9,2%
Return on assets (ROA)	1,5%	1,5%	1,3%	1,2%
Return on equity (ROE)	15,8%	15,5%	14,3%	13,3%

Share of each category of finance companies in total assets



1 Figures restated to reflect a one-off transaction.
2 Including loans to finance companies.

4- Microcredit associations' activity and profitability indicators

Amount in billion of dirhams	2016	2017	2018
Total balance sheet	7,4	7,6	7,9
(Gross) outstanding loans	6,4	6,6	6,8
NPL ratio	2,9%	3,3%	3,0%
Net income	0,21	0,18	0,19

5- Offshore banks' activity and profitability indicators

Amount in billion of dirhams	2016	2017	2018
Total balance sheet	48,1	42,7	41,0
(Gross) outstanding loans	18,2	18,5	17,7
Customers' deposits	5,6	6,5	6,4
Net income	0,46	0,5	0,5

6- Activity and profitability indicators of the nine banking groups - on a consolidated basis

Amount in billion of dirhams	2016	2017	2018
Total balance sheet	1.432	1.540	1.611
Loans by disbursement to customers (net of provisions)	924	969	1.029
Customers' deposits	973	1.038	1.074
Equity-group share	124	130	128
Net banking income	64	67	69
Gross operating income	31	32	33
Net income-group share	12,2	13,3	13,9
Average operating ratio	50,8%	51,5%	52,6%
Return on assets (ROA)	0,8%	0,9%	0,9%
Return on equity (ROE)	9,8%	10,2%	10,8%

CHAPTER I

STRUCTURE, ACTIVITY AND PROFITABILITY OF CREDIT INSTITUTIONS

1 -Banking sector landscape

The year 2018 was mainly marked by the launching of participatory banks approved in 2017 and the granting of the first licenses for payment institutions authorized to conduct the activity of payment services backed by payment accounts.

1.1 - Structure of the banking system and shareholding

The overall number of credit institutions and organizations supervised by Bank Al-Maghrib stood at 86. The number of banks remained stable at 24, while that of finance companies fell by 4 after 3 payment means management companies were authorized to carry out payment institutions activities. The sector of consumer credit companies saw the merger-takeover of two consumer credit companies and the transformation of a company's activity into leasing.

Table 1: Change in the number of credit institutions and similar entities

	2013	2014	2015	2016	2017	2018
Banks	**19**	**19**	**19**	**19**	**19**	**19**
Majority foreign-owned banks*	7	7	7	7	7	7
Majority state-owned banks	5	5	5	5	5	5
Participatory banks	**-**	**-**	**-**	**-**	**5**	**5**
Finance companies	**35**	**34**	**34**	**33**	**32**	**28**
Consumer loan companies	17	16	16	15	14	12
Leasing companies	6	6	6	6	6	7
Real estate loan companies	2	2	2	2	2	2
Surety companies	2	2	2	2	2	2
Factoring companies	2	2	2	2	2	2
Payment-means management companies	3	3	3	3	3	0
Other companies	3	3	3	3	3	3
Offshore banks	**6**	**6**	**6**	**6**	**6**	**6**
Microcredit associations	**13**	**13**	**13**	**13**	**13**	**13**
Payment institutions	**9**	**10**	**10**	**10**	**9**	**13**
Other institutions	**2**	**2**	**2**	**2**	**2**	**2**
Total	**84**	**84**	**84**	**83**	**86**	**86**

(*) Including 3 with a participatory window.

In 2018, the Credit Institutions Committee granted licenses to 11 payment institutions to provide payment services backed by payment accounts, 3 of which are banks subsidiaries.

Box 1: Status of payment institutions

Payment institutions are those authorized to provide one or more payment services. They may also, in accordance with the laws and regulations in force, carry out foreign exchange transactions.

The following are considered as payment services:

- money transfer operations;
- deposits and cash withdrawals from a payment account;
- execution of remote payment transactions, provided that the operator acts solely as an intermediary between the payer and the supplier of goods and services;
- execution of permanent or unit whithdrawals, card payment transactions and execution of transfers, when they relate to funds placed in a payment account.

A payment account refers to any account held in the name of a payment service user and used exclusively for payment transactions.

Payment transactions carried out by cheque, bill of exchange, money order issued and/or paid in cash and any similar paper-based securities are not considered payment services.

Foreign shareholdings in the banking sector maintained a majority share in 7 banks and 7 finance companies. The number of majority state-owned institutions remained stable at 5 banks and 4 finance companies.

The number of listed credit institutions in 2018 was reduced to 10, including six banks, following the takeover-merger of two listed consumer credit companies. These institutions represent 36 percent of market capitalization.

On a cross-border level, one banking group acquired a bank located in Mauritius, which itself owns a subsidiary in Madagascar, bringing the network of the three Moroccan banking groups abroad to 45 subsidiaries and 15 branches in 35 countries, including 27 in Africa, 7 in Europe and one in Asia.

The presence of these groups in Africa, through 42 subsidiaries and 4 branches, is spread over 27 countries: 10 countries in West Africa (including 8 in the West African Economic and Monetary Union zone), 6 countries in Central Africa, 6 in East Africa, 3 in the Arab Maghreb and two countries in Southern Africa. In the rest of the world, Moroccan banks are also present, through 3 subsidiaries and 11 branches, in 7 countries across Europe and China. They also have 48 representative offices in 11 countries, mainly in Europe.

1.2 - Change in the banking network

The growth of the banking network continued decelerating, and stood at 1.8 percent in 2018, as against 1.7 percent in 2017, with an average of 4 percent during the 2013-2015 period and 9 percent over the period 2007-2016. The number of branches stood at 6,503, up 115 branches, including 56 new branches opened by participatory banks. This deceleration is to be attributed to the development of digital channels via internet and mobile.

Box 2: Development of digital channels

With digital means, the bank's distribution model is changing on a global scale, as the presence of agencies has declined and remote access to banking services has increased. Most of the interactions between banks and their customers are more and more achieved via mobile and digital tools to easily meet the needs of basic operations (account consultation, transfer, checkbook order, etc.).

In Morocco, banks have joined this dynamic and developed their mobile and internet applications, enriching customer options and experience. By relying on the digital means, they also work on ensuring digital transformation of their networks mainly through establishing new forms of agencies equipped with digital tools for customers and shifting the functions in the branch to consultation services, a function with higher value added for the customer and the bank.

Chart 1: Change in the banking network

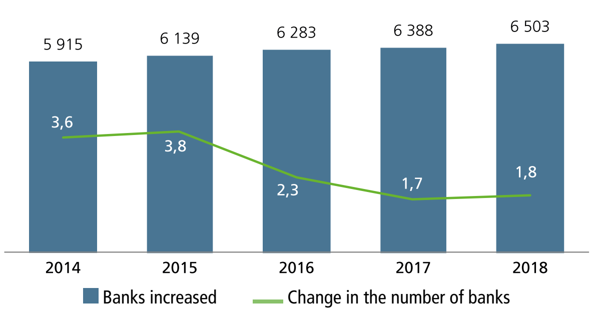
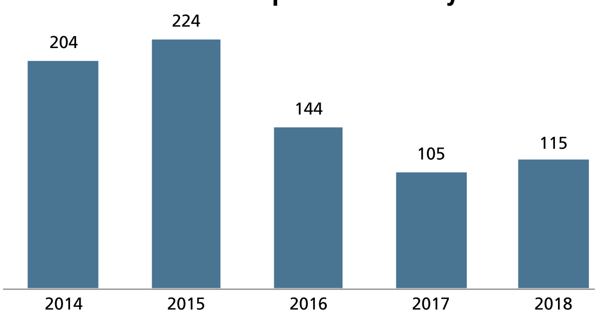


Chart 2: Number of additional branches opened annually

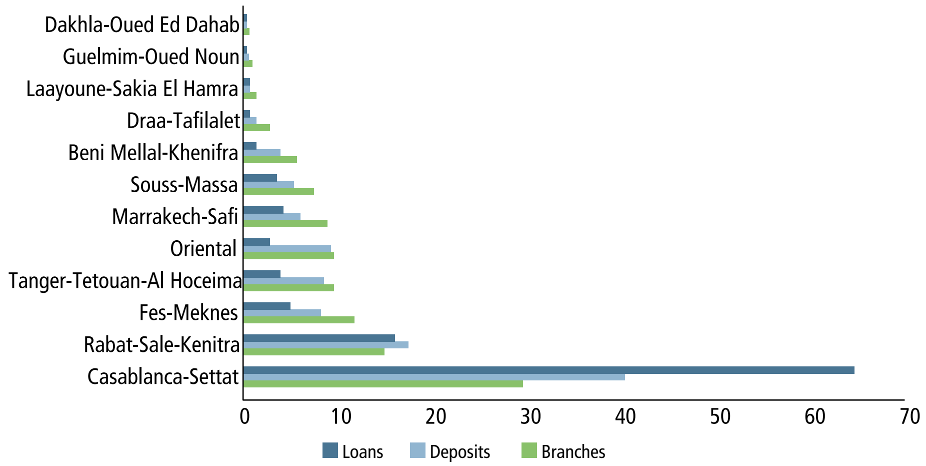


Bank density, measured by the number of inhabitants per branch, stood at 5,400. Measured by the number of branches per 10,000 inhabitants, it stood at 2 branches, as against one branch fifteen years ago.

The regional breakdown of branches, deposits and loans remained broadly stable in 2018. The Casablanca-Settat region, with a share of 29 percent for branches, 39 percent for deposits and 64 percent for loans, continues to rank first. It is followed by the Rabat- -Sale-Kenitra region, which holds 15 percent of the banking network, 17 percent of deposits and 17 percent of loans. In the third place, comes the region of Fez-Meknes, with 11 percent of branches, 8 percent of deposits and 4 percent of loans.

In terms of newly-opened branches in 2018, the Casablanca-Settat region continues to register the largest share, followed by Marrakech-Safi and Fez-Meknes.

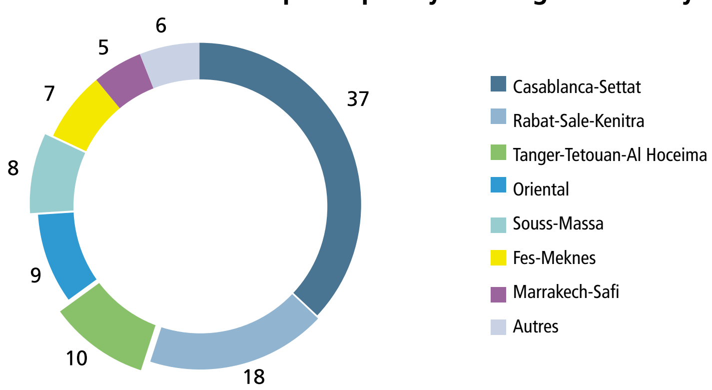
Chart 3: Share of each region in the total banking network, deposits and loans (%)



In the Tangier offshore zone, banks have 5 branches and one subsidiary, unchanged from previous years.

The network of branches and dedicated spaces of participatory banks and windows rose to 100 branches, from 44 in 2017. The Casablanca-Settat region represents 37 percent of this network, followed by Rabat- Sale-Kenitra and Tangier-Tetouan-Al Hoceima, which hold respective shares of 18 percent and 10 percent.

Chart 4: Breakdown of the participatory banking network by region (%)

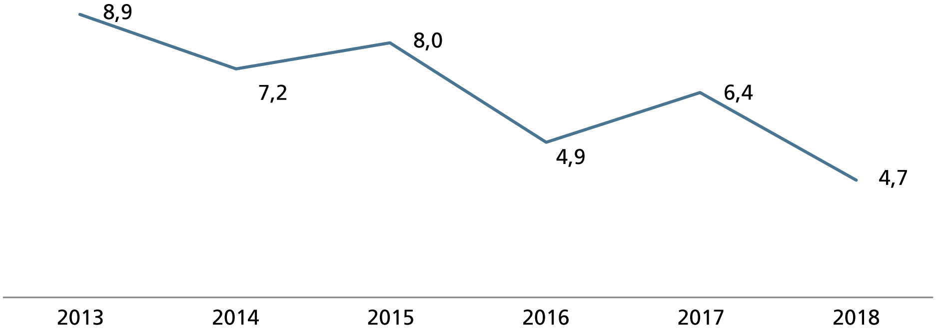


The network of payment institutions strengthened by 12.6 percent, from 16.6 percent in 2017, to reach 4,732 points of sale, divided into 880 own branches and 3,852 representatives, with whom the institutions have signed representation contracts.

1.3 - Change in the number of bank accounts

At the end of 2018, the number of banking accounts slowed with an annual increase of 4.7 percent to around 27 million, as against 6.4 percent at the end of 2017. The number of accounts opened by participatory banks stood at around 56 thousand, from 27 thousand accounts at the end of 2017.

Chart 5: Change in the number of banking accounts (%)



The number of individuals with at least one banking account[3], measured as a ratio to the adult population, increased by 4 points, from one year to the next, to 60 percent. By gender, this rate stands at 40 percent for women and 77 percent for men, compared to 37 percent and 77 percent respectively at the end of 2017, showing an improvement in the rate of bank accounts held by women.

Chart 6: Population with at least one banking account by gender (%)

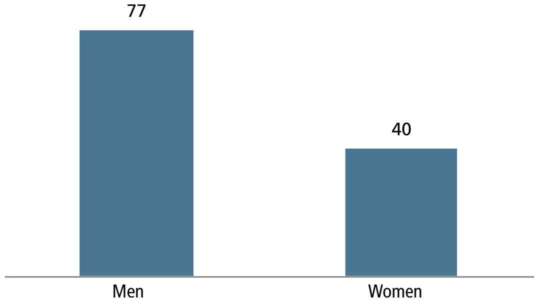
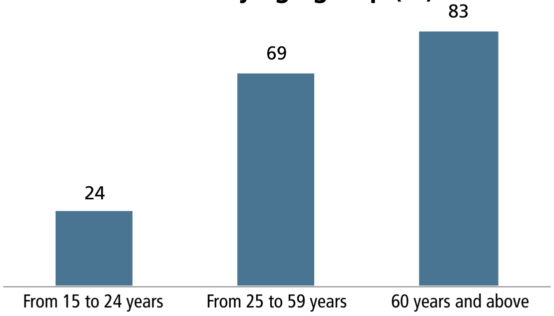


Chart 7: Population with at least one banking account by age group (%)



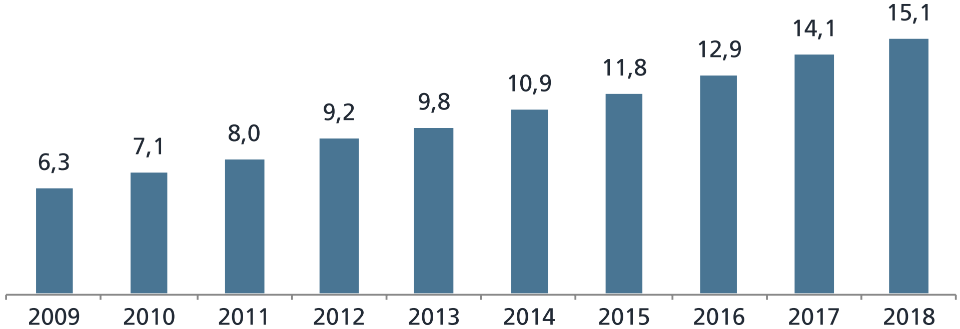
By age groups, 24 percent of people aged 15 to 24 hold a banking account, compared to 23 percent in 2017. This proportion stands at 69 percent for people aged 25 to 59, as against 65 percent, and 83 percent for people over 60, compared to 72 percent.

1.4 - Change in bank cards and automated teller machines

The number of bank cards increased by 7.2 percent to 15.1 million at the end of 2018, most of which continues to be used for withdrawal operations.

3 Source: BAM Bank Accounts Registry

Chart 8: Change in the number of bank cards in circulation (in million)



In line with the changing banking network, the number of automated teller machines (ATMs), up 3.8 percent in 2018, as against 3 percent the previous year, expanded by 264 new ATMs to stand at 7,289 units at end-2018.

In recent years, banks have used multi-service ATMs carrying out a number of day-to-day banking operations that usually required agency attendance, such as check deposits and cash. The deployment of these multi-service ATMs reached 350 units at the end of 2018, representing 4.8 percent of the number of ATMs.

Chart 9: Change in ATMs

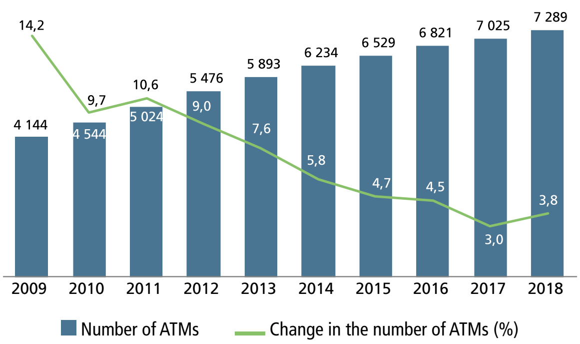
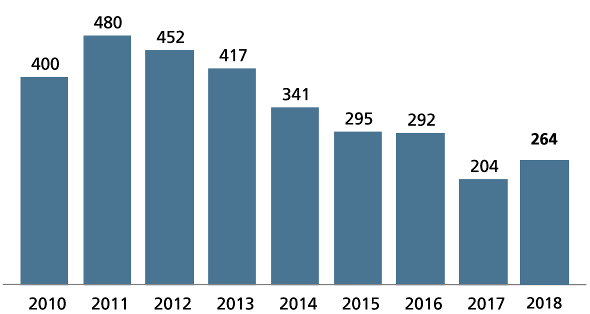


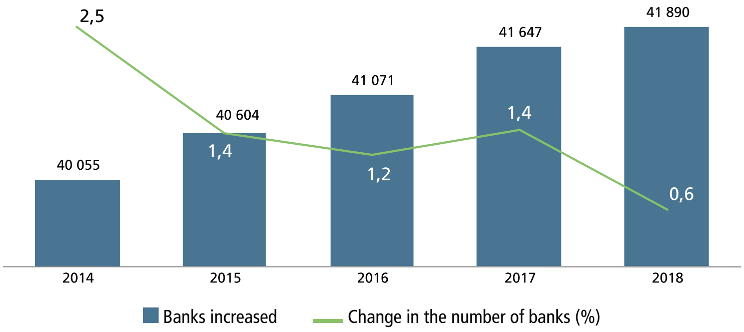
Chart 10: Additional ATMs



1.5 - Staff of credit institutions and similar bodies

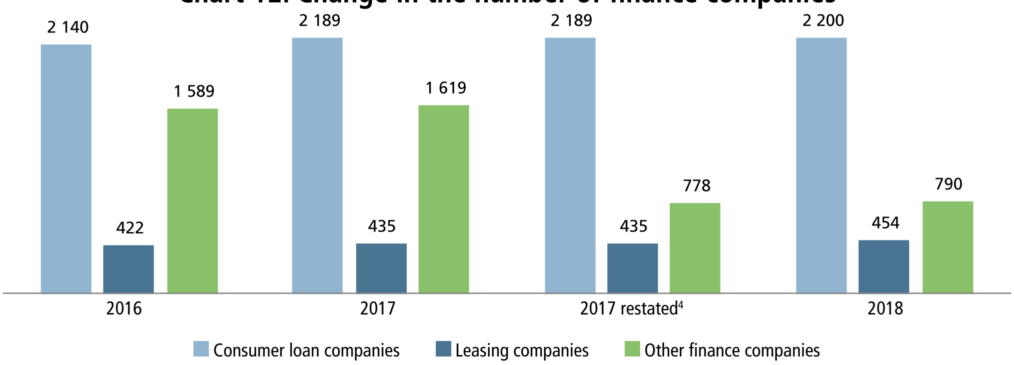
At end-December 2018, the staff of credit institutions and similar bodies stood at 55,753, nearly 75 percent of whom were employed by banks, 6 percent by finance companies and 14 percent by microcredit associations.

Chart 11: Change in the number of banks' personnel



Banks increased their staff by 243 new employees, up 0.6 percent to 41,890 employees, from 1.4 percent in 2017. By age, a 45 percent share concerns the 25-35 age group, followed by 31 percent for the 35-50 age bracket and 18 percent for those over 50. The female share in the total workforce increased to 47 percent in 2018 compared to 46 percent at the end of 2017.

Chart 12: Change in the number of finance companies



Finance companies sector employs 3,444 staff members compared to 3,402 in the previous year[5], up 42 people compared to 2017 (+1.2 percent), the vast majority of whom were recruited by leasing companies and real estate loan companies.

Consumer loan companies recorded a 0.5 percent increase in their workforce compared to 4.4 percent for leasing companies and 3.3 percent for real estate loan companies. The workforce of the factoring companies remained stable.

The number employed by microcredit associations rose by 7.9 percent in 2018, as against a rise of 2.5 percent a year earlier, thus totaling 7,830 people.

Payment institutions employ 2,026 staff members, up 9.1 percent[6].

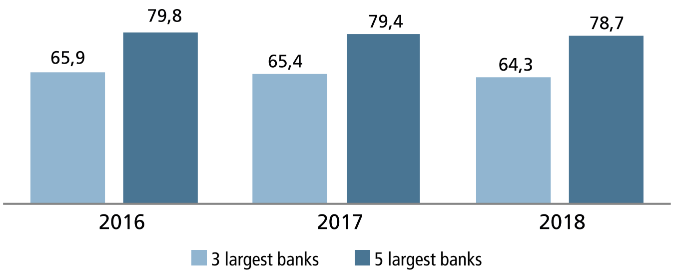
4 For reasons of comparability, the number of staff working in other finance companies was restated to reflect the number of staff employed by payment means management companies that were approved in 2018 as payment institutions..
5 Excluding the staff of payment means' management companies.
6 Including newly-approved payment means management companies as payment institutions.

1.6 - Change in the banking concentration

1.6.1 - Concentration of banking activity on an individual basis

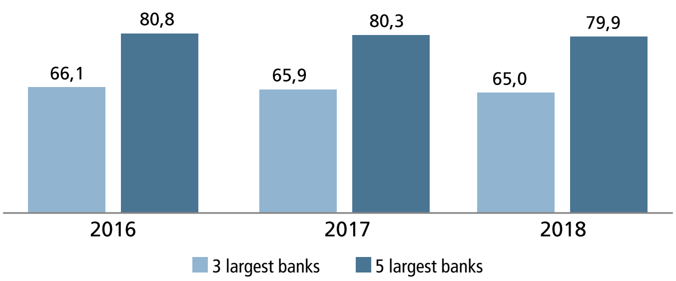
In 2018, the concentration level fell slightly. The share of the three largest banks in the sector's total assets stood at 64.3 percent in 2018, compared to 65.4 percent a year earlier and the proportion of the five largest banks stood at 78.7 percent, from 79.4 percent.

Chart 13: Concentration of total assets (%)



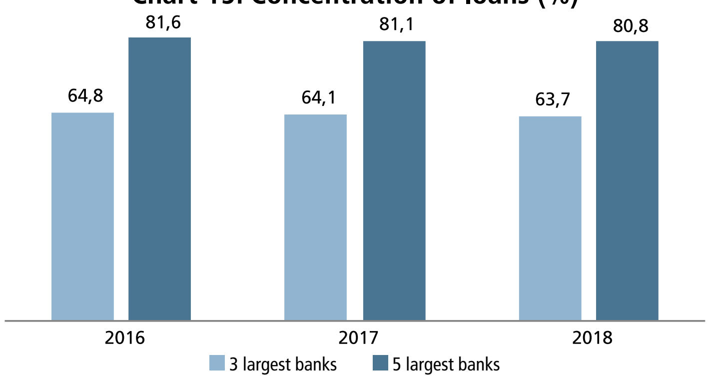
In terms of deposits, the three largest banks collected almost 65 percent of deposits, compared to 65.9 percent a year earlier. The top five banks achieved a 79.9 percent share compared to 80.3 percent in 2017.

Chart 14: Concentration of deposits (%)



Regarding loans, the three largest banks concentrated 63.7 percent of loans distributed, as against 64.1 percent in 2017 and the five largest banks accounted for 80.8 percent of financing, from 81.1 percent one year ago.

Chart 15: Concentration of loans (%)



According to Herfindahl-Hirshman Index, the concentration level of total assets, deposits and loans of banks remained unchanged from previous years at 0.17, reflecting a moderately-concentrated banking market.

Depending on the shareholding status, privately-owned banks with majority Moroccan capital hold 53.5 percent of the branches, almost unchanged from the previous year. This share shrank by 1.1 point in terms of total assets to 65.1 percent, by one point to 65.5 percent in terms of deposits and by 0.4 point to 64.2 percent in terms of loans.

Chart 16: Concentration according to the status of shareholding - 2018 (in %)

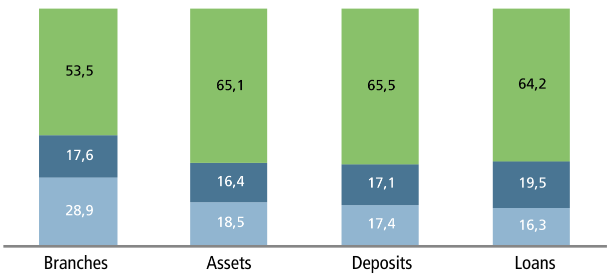
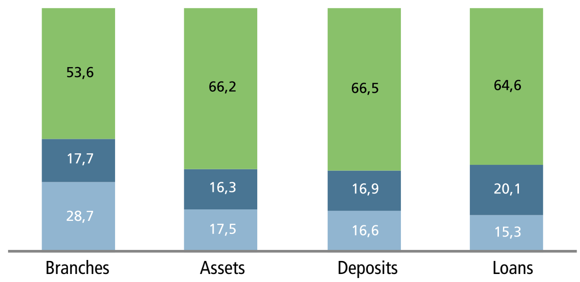


Chart 17: Concentration according to the status of shareholding - 2017 (in %)



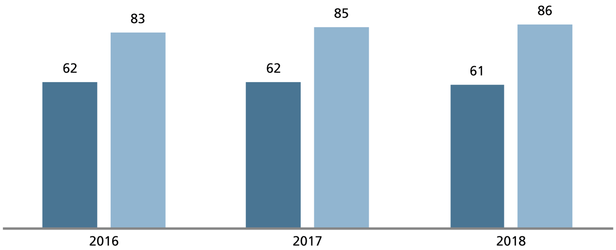
The market share of majority foreign-owned banks almost stagnated in terms of network and total assets, at 17.6 percent and 16.4 percent, respectively. Their market share in terms of deposits increased slightly by 0.2 point to 17.1 percent, while in terms of loans, it contracted by 0.6 point to 19.5 percent.

The market share of majority state-owned banks expanded to 28.9 percent in terms of network, to 18.5 percent in terms of total assets, to17.4 percent in terms of deposits and to 16.3 percent in terms of loans.

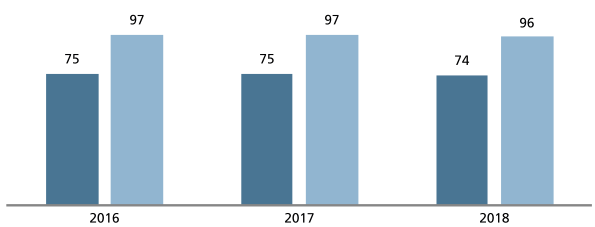
1.6.2 - Concentration of the activity of finance companies

At the end of 2018, the share of the three largest consumer credit companies in the sector's total assets declined slightly to 61 percent from 62 percent at the end of 2017. The share of the first five companies increased by one point to 86 percent. A proportion of nearly 95 percent of the sector's activity is carried out by 8 companies affiliated to financial institutions.

Chart 18: Concentration of total assets of consumer loan companies (in %)



Chapter 19: Concentration of total assets of leasing companies (in %)



In the leasing sector, the top three and five companies accounted respectively for 74 percent and 96 percent, at the end of 2018, from 75 percent and 97 percent a year earlier.

1.6.3 - Concentration of the activity of payment institutions

The contribution of the three largest payment institutions in the total transfer of funds increased by 1.7 point to 89.2 percent and that of the five largest institutions remained at around 98 percent.

1.6.4 - Concentration of the activity of microcredit associations

The contribution of the three and five largest microcredit associations in the distribution of loans stood, at the end of 2018, at 92 percent and 97.9 percent, respectively, from 91.8 percent and 97.6 percent a year earlier.

1.6.5 - Concentration of banking activities on a consolidated basis

On a consolidated basis, the concentration level of the credit activity did not change significantly from 2017, as the shares of the first 3 and 5 banking groups in total loans remained at 64 percent and 81 percent, respectively.

Table 2: Change in the loans' concentration on a consolidated basis

	Equipment loans and cash facilities to businesses			Real estate loans			Consumer loans			Total loans		
	2016	2017	2018	2016	2017	2018	2016	2017	2018	2016	2017	2018
3 first banking groups	64	63	62	64	64	64	63	65	65	65	64	64
5 first banking groups	83	83	83	81	81	81	79	82	83	81	81	81

Analysis by purpose shows that for cash facilities and equipment loans, the share of the top three groups fell by one point to 62 percent, while that of the first five groups stabilized at 83 percent. Regarding real estate loans, these shares stagnated at 64 percent and 81 percent, respectively. As to consumer loans, the share of the top three groups stabilized at 65 percent, while that of the first five groups rose by one point to 83 percent.

2 - Activity and profitability of banks on an individual basis

In 2018, banking activity continued to be marked by persistently sluggish credit, especially loans to businesses. The collection of deposits also decelerated, reflecting lower deposits of Moroccan residing abroad and slow deposits of individual residents, as the latter switched to alternative investments in the form of bank insurance products and securities[7]. The banking sector remained profitable, despite the unfavorable economic conditions, thanks to improved interest margin and commissions on service delivery. The loss ratio of the loan portfolio continued to grow, albeit at a slower pace, contributing to a reduction in the NPL ratio.

The banking activity is analyzed on the basis of balance sheets describing their activity in Morocco.

2.1 - The growth of banking activity was driven by an increase in loans to customers supported by the bank financing of VAT credits

At the end of 2018, total balance sheet of the banking sector stood at 1,341 billion dirhams, up 5.5 percent, from 6 percent and 4.7 percent respectively in 2017 and 2016. As a percentage of GDP, it accounted for 122 percent, up 2 points compared to the last year. The share of bank assets in foreign currency decreased by 0.2 point to 7.9 percent, of which those held on non-residents represent 4 percent of total assets of the banking sector.

Table 3: Change in banks' assets (Activity in Morocco)

(Billion dirhams)

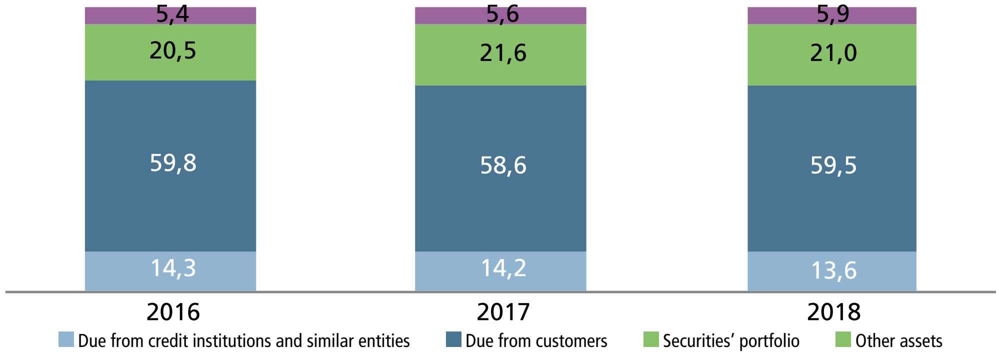
	2016	2017	2018	Change 2017/2018 (%)
Due from credit institutions and similar entities	**170 930**	**180 290**	**182 171**	**1,0**
Due from customers	**716 444**	**744 578**	**798 042**	**7,2**
Securities portfolio	**245 522**	**274 187**	**281 063**	**2,5**
Including Treasury bills	118 343	139 203	147 111	5,7
Fixed assets	**31 205**	**35 377**	**38 411**	**8,6**
Other assets	**34 658**	**36 661**	**41 429**	**13,0**
Total assets	**1 198 759**	**1 271 093**	**1 341 116**	**5,5**

Headings net of depreciation and provisions

Regarding the structure of banking assets, the share of due from customers expanded to 59.5 percent, from 58.6 percent a year earlier. Conversely, the share of due from credit and similar entities and the securities portfolio decreased by 0.6 point to 13.6 percent and 21 percent, respectively.

7 In 2018, households' investments in securities grew by 9.3 percent and those in the form of life insurance contracts by 7.9 percent.

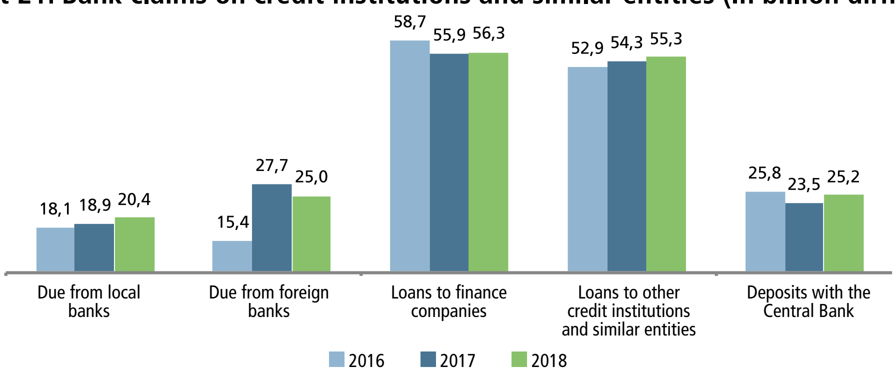
Chart 20: Bank' assets structure (in %)



2.1.1 - Due from credit institutions and similar entities decelerated

After a rise of 5.5 percent in 2017, due from credit institutions and similar entities increased by 1 percent to nearly 182.2 billion dirhams. This trend covers an increase in deposits with the Central Bank, due from local banks and other credit institutions and similar bodies, as well as a decrease in due from foreign banks.

Chart 21: Bank claims on credit institutions and similar entities (In billion dirhams)



After a 9.1 percent decline in the previous year, bank deposits with the central bank recorded, at the end of the year, a rise of 7.3 percent to 25.2 billion. Loans granted by banks to finance companies were up 0.8 percent to 56.3 billion, after a 4.8 percent decline in 2017, reflecting a 9 percent increase in cash facilities and a decline of 2.4 percent in financial loans.

Due from local banks, amounting to 20.4 billion, posted an increase of 7.8 percent, as against 4.5 percent in 2017. Of this total, unsecured cash facilities grew by 40 percent to 10.7 billion dirhams, after declining 5.7 percent a year earlier, offsetting the decrease in financial loans by 3.7 percent to 5.2 billion and repurchase agreements by 23.2 percent to 4.6 billion.

Loans granted to other credit institutions and similar bodies, which include offshore banks, microcredit associations, CDG, CCG, overseas head offices and subsidiaries as well as other non-resident credit institutions, increased by 1.8 percent to 55.3 billion.

After a robust increase of 80.1 percent in 2017, a year marked by expectations related to the exchange rate regime reform, due from banks located abroad fell by 9.8 percent to 25 billion, mainly owing to a decline in foreign currency receivables.

By type of money, foreign currency-denominated due from credit institutions and similar entities decreased by 7.9 percent to nearly 48.7 billion dirhams, reflecting lower investments with foreign banks. Conversely, dirham-denominated due rose by 4.7 percent to 133.4 billion, after falling 0.4 percent in 2017.

2.1.2 - Bank credit to the private sector continued to slow in 2018

Gross outstanding loans amounted to 891 billion dirhams, marking an increase of 6.5 percent, after that of 3.2 percent registered a year earlier. This change was bolstered by the VAT credit financing operations carried out in 2018. Excluding this financing, credit grew by 3.3 percent. Measured as a ratio to GDP, this outstanding amount represents 81 percent, as against 79 percent in the previous year.

Box 3: Financing of VAT credit by banks

An agreement was signed in January 2018 between the Ministry of Economy and Finance, the General Confederation of Moroccan Enterprises (CGEM) and the Moroccan Bankers Association (GPBM), establishing a factoring-based refund mechanism that allows companies that wish to refinance their entire VAT credit with banks.

Loans granted in this context by the banking sector totaled 27 billion dirhams in 2018.

The growth of outstanding loans to nonfinancial enterprises slowed to 0.7 percent, after a rise of 2.6 percent in 2017 and 3.4 percent in 2016. This increase reflects a rise of 4.4 percent to 51.5 billion dirhams for public enterprises and 0.3 percent to 377.4 billion for private companies.

This deceleration reflects supply and demand factors. The demand for credit by businesses slowed in an economic context marked by a slow recovery in nonagricultural growth, an extension of payment terms and a slowdown in real estate activity. At the same time, credit supply is affected by rising credit risk.

Bank loans to households grew 4.1 percent, from 4 percent a year earlier, to stand at nearly 284 billion dirhams.

Bank credit to the public sector jumped from 6.5 percent in 2017 to 39.8 percent in 2018, in connection with the VAT credit financing operations. Loans to the private sector stood at 765 billion dirhams, up 2.4 percent, as against 2.8 percent in the previous year.

Chart 22: Change in loans granted by banks to customers (in %)

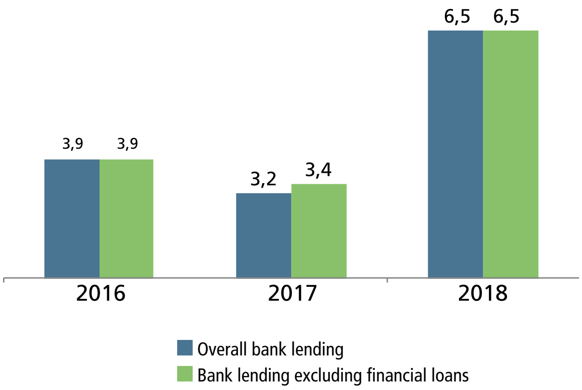
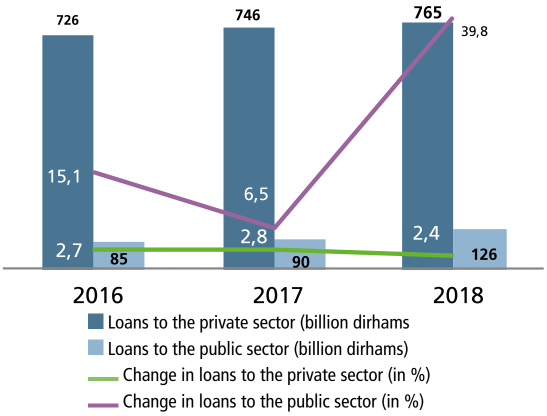


Chart 23: Bank loans to public and private sectors



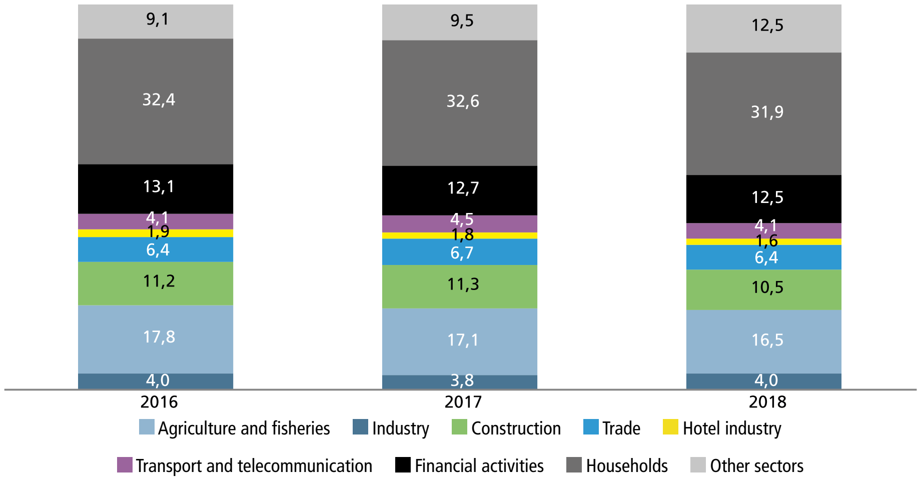
By sector of activity, the increase in loans to businesses reflects a 12.8 percent rise in lending to the primary sector to 35.5 billion dirhams, reducing its share in total loans to 4 percent, after falling to 3.8 percent a year ago.

The industrial sector benefited from outstanding loans of 147 billion, up 2.5 percent, as against a drop of 0.7 percent, while their share in total loans fell by 0.6 point to 16.5 percent. This trend mainly covers increases of 12.7 percent in loans to the food and tobacco industries, 11.5 percent in credit to the extractive industries and 1.7 percent in lending to the chemical industries. On the other hand, a drop was observed in the energy and water sector (-4.6 percent), textile branch (-5.1 percent) and other manufacturing industries (-4.5 percent).

Loans allocated to the building and public-work sector and the transport and communication sector fell by 0.8 percent to 93.7 billion and by 4 percent to 36.2 billion, respectively, after rising 3.9 percent and 14 percent in 2017. Loans to the hotel sector decreased further to 7.3 percent, as opposed to 3.2 percent a year earlier, to reach 14.1 billion.

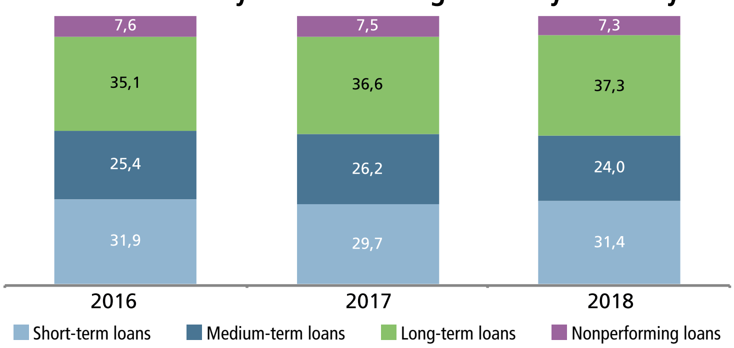
Meanwhile, loans distributed to the trade sector grew by 1.7 percent to 57.3 billion dirhams, as against 8.6 percent a year earlier.

Chart 24: Sectoral breakdown of loans by disbursement granted by banks (in %)



After their decline, which began in 2013, outstanding amounts of short-term loans posted a growth of 12.9 percent, in connection with higher claims acquired through factoring. Similarly, their share in the total rose 1.7 percentage point to 31.4 percent. At the same time, outstanding medium-term loans decreased by 2.5 percent, owing to the deceleration of equipment loans and their share fell by 2.2 points to 24 percent. In terms of long-term loans, their outstanding amount increased by 8.3 percent, in conjunction with the rise in housing loans, while their share moved up 0.7 point to 37.3 percent.

Chart 25: Structure of loans by disbursement granted by banks by their term (%)



2.1.3 - Trading, investment and equity portfolios strengthened, while held-for-sale portfolios dropped

At the end of 2018, the outstanding amount of the securities portfolio held by banks reached 282.2 billion dirhams, up 2.5 percent from 11.5 percent in 2017. Thus, its share stood at 21 percent of total banking assets.

Table 4: Change in banks' securities portfolio

(Gross amount in million dirhams)

	2015	2016	2017	Change 2016/2017 (%)
Trading securities	132 623	146 991	157 817	7,4
Held-for-sale securities	47 620	53 367	40 591	-23,9
Investment securities	27 337	28 339	32 216	13,7
Equity securities and similar assets	39 417	46 742	51 620	10,4
Total of securities portfolio	**246 997**	**275 439**	**282 244**	**2,5**

Analysis based on purpose accounting shows that the trading securities portfolio grew by 7.4 percent to 158 billion dirhams, up from 10.8 percent a year earlier, reflecting higher trading in securities made by the trading rooms. This trend is attributed to increases of 9.6 percent to 90.7 billion in Treasury bills, 3.1 percent to 58.5 billion in title deeds and 14.8 percent to 8.6 billion in other debt securities.

Similarly, investment securities grew by 13.7 percent to 32.2 billion, in connection with the 6.8 percent increase in Treasury bills and other debt securities that more than doubled. On the other hand, the outstanding amount of the held-for-sale portfolio fell by 23.9 percent to 40.6 billion, owing to a fall of 61 percent in title deeds, mainly in the form of fund shares/units of undertakings for collective investments in securities, 6.6 percent in Treasury Bills and 20.8 percent in other debt securities.

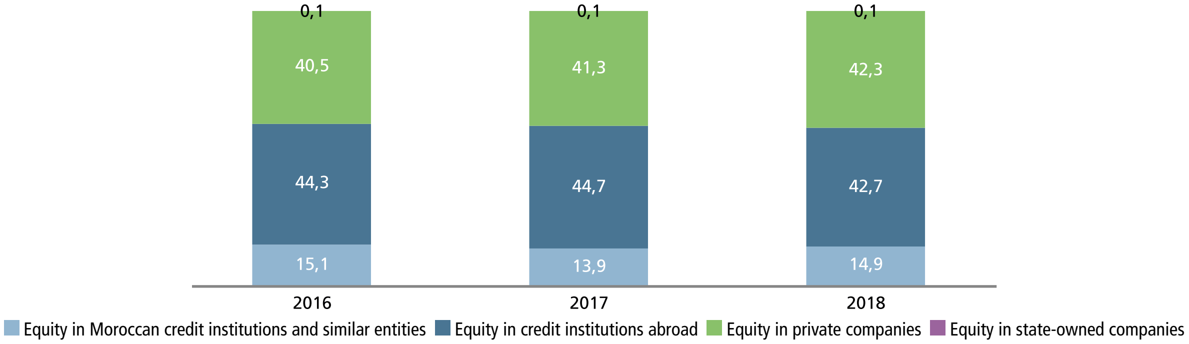
Box 4: Definition of securities portfolios

At the time of their acquisition, securities are classified, depending on the intent of the credit institution, in one of the categories provided for in the credit institutions chart of accounts: trading securities, held-for-sale securities, investment securities and equity securities.

- **Trading securities**: Securities acquired or sold with the intention of reselling or redeeming them in the short term in order to make a profit.
- **Held-for-sale securities**: Fixed- or floating-income securities held with the aim of investment for an indefinite period of time and which the institution may dispose of at any time. By default, these are securities that are not classified in another category.
- **Investment securities**: Fixed-term debt securities that are acquired or that come from the "investment securities" category, with the intention of holding them until maturity.
- **Equity securities**: Securities whose sustainable possession is considered useful to the credit institution's activity and which are representative of a fraction of the capital held directly or indirectly.

The equity portfolio grew by 10.4 percent to 51.6 billion, as against 18.6 percent in 2017. This change reflects an increase of 11.7 percent to 20.7 billion in shareholdings in private companies, particularly financial ones. On the other hand, shareholdings in credit institutions abroad grew by 4.1 percent to 20.9 billion dirhams, or nearly 43 percent of the total equity portfolio and 17.2 percent of banks' capital at book value.

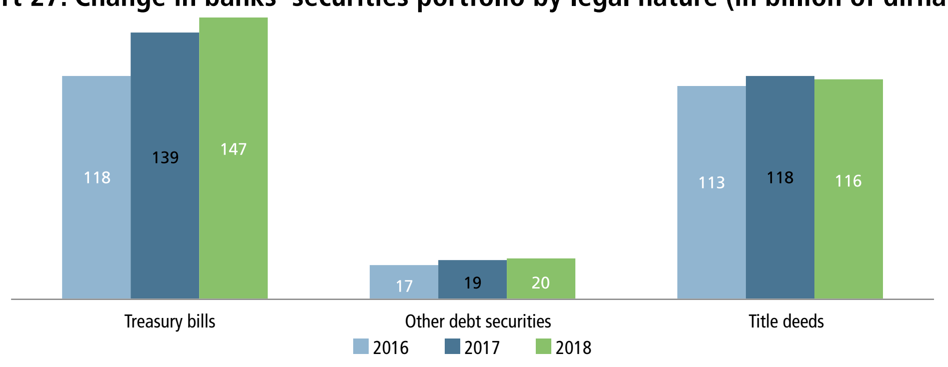
Chart 26: Breakdown of banks' equity portfolio by type of counterparty (%)



The breakdown of the securities portfolio by legal nature indicates a 5.7 percent rise of Treasury bills to 147 billion dirhams, bringing its weight up to 52 percent of the overall portfolio, as against 50 percent in 2017. Its share in bank assets remained at 10.9 percent.

The portfolio of other debt securities, consisting mainly of bonds and other negotiable debt securities, rose by 6 percent to nearly 20 billion dirhams. Conversely, title deeds held by banks across all portfolios posted a decrease of 1.8 percent, after a rise of 4.8 percent in 2017, while their share in the overall portfolio contracted by 2 percentage points to 41 percent.

Chart 27: Change in banks' securities portfolio by legal nature (in billion of dirhams)



Outstanding provisions for depreciation of the securities portfolio, nearly 89 percent of which are allocated to hedge equity securities and similar assets, grew by 16 percent to 2.3 billion dirhams.

2.2 - Change in bank liabilities was marked by an increased reliance on Central Bank refinancing

Table 5: Change in banks' liabilities (Activity in Morocco)

(In million dirhams)

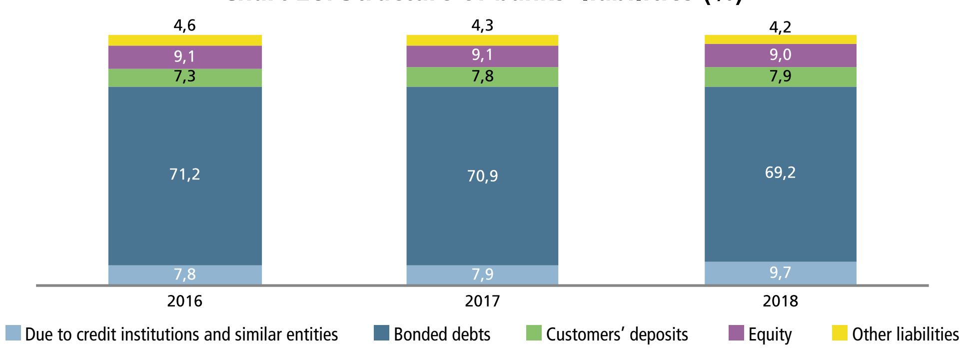
	2015	2016	2017	Change 2016/2017 (in %)
Due to credit institutions and similar entities	**93 687**	**100 199**	**130 243**	**30,0**
Customers' deposits	**854 081**	**901 412**	**927 808**	**2,9**
Bonded debts	**87 034**	**99 354**	**105 412**	**6,1**
Debt securities issued	52 645	57 875	61 738	6,7
Subordinated debts	34 389	41 479	43 675	5,3
Equity	**108 792**	**115 428**	**121 303**	**5,1**
Net income	**12 258**	**10 830**	**11 147**	**2,9**
Other liabilities	**42 907**	**43 870**	**45 203**	**3,0**
Total liabilities	**1 198 759**	**1 271 093**	**1 341 116**	**5,5**

In a context of increasing liquidity needs caused by higher currency in circulation and falling net international reserves, dues to credit institutions grew by 30 percent, reflecting increased reliance on central bank financing. Bonded debts rose by 6.1 percent. The growth of deposits collected from customers decelerated to 2.9 percent from 5.5 percent a year earlier.

As a result, the share of bonded debt stood at 7.9 percent. That of deposits collected decreased by 1.7 point to 69.2 percent, while the proportion of dues to credit institutions in liabilities grew to 9.7 percent. The share of equity capital remained stable at around 9 percent.

Foreign currency-denominated liabilities held by non-residents moved up 8.6 percent, representing 1.4 percent of total banking liabilities.

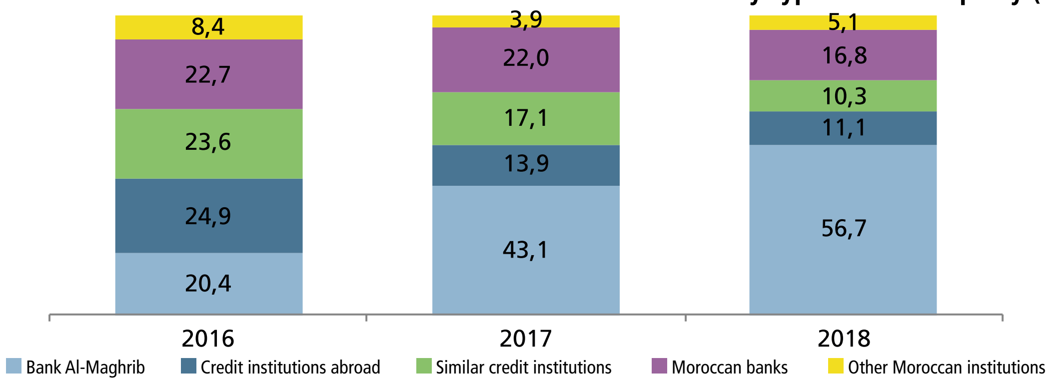
Chart 28: Structure of banks' liabilities (%)



2.2.1 - Higher dues to credit institutions and similar entities reflect increased reliance on central bank refinancing

After a rise by 7 percent in 2017, dues to credit institutions and similar entities rose by 30 percent to 130.2 billion dirhams in 2018. This change is mainly due to the banks' increased use of advances from Bank Al-Maghrib, owing to a tightening of bank liquidity in dirhams, following higher currency in circulation and rising level of foreign currency liquidity held by the banks since 2017. Of this total, dirham-denominated debts, which total an outstanding amount of 100.7 billion, accelerated by 38.8 percent, while currency-denominated debts, accounting for nearly 23 percent of the total, appreciated by 7 percent.

Chart 29: Breakdown of bank debts due to credit institutions by type of counterparty (%)



Refinancing with the Central Bank increased significantly by 71.1 percent to 73.8 billion, bringing its share in due to credit institutions to 56.7 percent. This outstanding amount consisted of 67 billion as 7-day advances compared to 39 billion in 2017 and 2.3 billion as secured loans granted under the VSMEs refinancing program, as against 3.2 billion in 2017. The remainder corresponds to 24-hour advances.

Interbank debt contracted by 0.5 percent to 21.9 billion, after having increased by 3.6 percent a year earlier, due to the 23.4 percent drop in repurchase agreements and, to a lesser extent, financial borrowings (-1.5 percent). Due to credit institutions abroad grew by 4.1 percent to 14.5 billion.

2.2.2 - Slower deposits of individuals, mainly Moroccans residing abroad

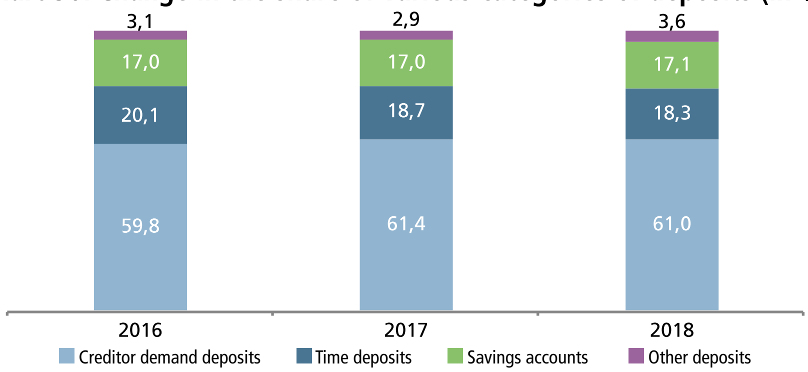
In 2018, deposits collected from customers totaled 928 billion dirhams, up 2.9 percent, as opposed to 5.5 percent a year earlier. This results in an average loans-to-deposit ratio of 96 percent.

Representing 98 percent of the total, dirham-denominated deposits were up 3.3 percent, as against 5.2 percent in 2017. After an increase of 20 percent last year, currency deposits showed a decrease of 10.7 percent, which seems to be attributed to a dissipation of expectations that prevailed before the initiation of the reform towards a more flexible exchange rate regime in January 2018.

By category, demand deposits grew by 2.4 percent to 566.3 billion dirhams. Deposits in savings accounts increased by 3.5 percent to 158.8 billion, in a context of evolution of their remuneration by 10 basis points to 1.94 percent. Time deposits, which amounted to nearly 170 billion, grew by 0.9 percent, mainly driven by those of public and private companies, after falling by 2.2 percent a year earlier. Time deposits of individuals continued to decline in a context of low yields. However, other deposits, consisting mainly of volatile repurchase agreements, posted a growth of 24.5 percent, compared with an increase of 4.2 percent in 2017, standing at 33 billion dirhams.

As a result, the share of demand deposits and time deposits fell to 61 percent and 18.3 percent respectively, while that of savings accounts stabilized at 17.1 percent.

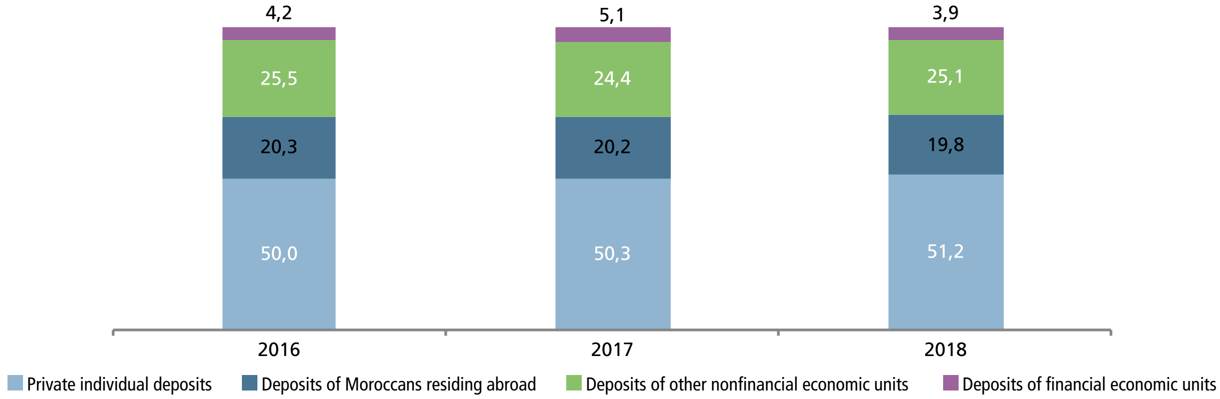
Chart 30: Change in the share of various categories of deposits (in %)



By economic unit, deposits by resident private individuals rose 4.6 percent to 473.2 billion dirhams, as against 6.4 percent at the end of 2017, driven by an increase of 6.5 percent in demand deposits and 3.8 percent in deposits in savings accounts that offset the 6.8 percent decline to 40.3 billion in time deposits, due to the downward trend in deposit rates. The growth of currency deposits slowed to 0.6 percent from 14.6 percent in 2017. Their share in total deposits by resident private individuals remains limited to 1.1 percent.

The growth of deposits by Moroccans residing abroad decelerated to 0.9 percent at the end of 2018, after increases of 5.1 percent in 2017 and 5.5 percent in 2016, to stand at nearly 183 billion dirhams, owing to a 1.5 percent decline in remittances of MRE.

Chart 31: Structure of deposits with banks by economic agent (in %)



Meanwhile, deposits of private companies grew by 4 percent to 181.2 billion dirhams. Demand deposits, which account for 71.4 percent, declined by 0.6 percent to 129.5 billion, offset by a 10.4 percent increase to 26.5 billion in time deposits. Deposits of state-owned companies, constituted at 50 percent by interest-bearing investments, showed an increase of 18.6 percent to 25.4 billion in connection with the improvement in their cash generated by the financing of their VAT credit.

Deposits of financial units, consisting mainly of UCITS, insurance companies and social welfare funds, amounted to 36.6 billion dirhams, down 20.4 percent, after an increase of 25.8 percent in the previous year. Taken separately, deposits of UCITS, consisting of nearly 82 percent of time deposits, fell by 30.2 percent to 18.1 billion. This decrease, which follows a 41.7 percent increase in 2017, is attributed to the decline in UCITS net subscriptions (+19 billion as against +40 billion in 2017). Deposits of insurance companies, representing 13 percent of liabilities collected from financial units, were up 4.5 percent to 4.9 billion, of which 50 percent as demand deposits and 36 percent as time deposits.

2.2.3 - Banks continued to extend the maturity of their liabilities by relying on the private debt market

Total outstanding bonded debts rose by 6.1 percent to 105.4 billion dirhams, bringing its share in total liabilities close to 8 percent. This increase reflects a rise of 6.7 percent in the outstanding amount of debt securities issued to 61.7 billion, thanks to an 11.4 percent rise in certificates of deposit. 72 percent of these certificates are held by UCITS, 18.6 percent by credit institutions and similar entities and 8.5 percent by individuals.

Chart 32: Change in banks' bonded debts (in billion of dirhams)

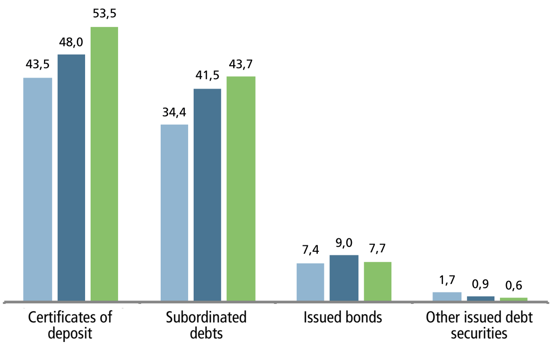
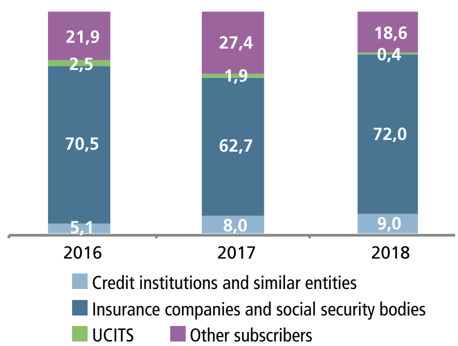


Chart 33: Outstanding certificates of deposit by type of subscribers (in %)

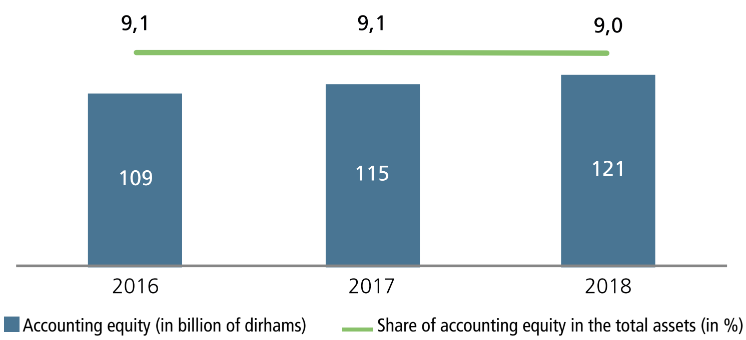


In order to strengthen their solvency ratios in a way consistent with regulatory requirements, banks continued, albeit at a slower pace than in 2017, to have recourse to subordinated debt issues. Their outstanding amount rose by 5.3 percent to 43.7 billion at the end of 2018. These instruments include perpetual subordinated debts amounting to 4 billion dirhams.

2.2.4 - Banks' equity continued to grow

After rising 6.1 percent in 2017, banks' equity grew by 5.1 percent. It totaled 121 billion dirhams, which is a stable share of 9 percent in liabilities. The additional equity comes mainly from the carry-over of retained earnings.

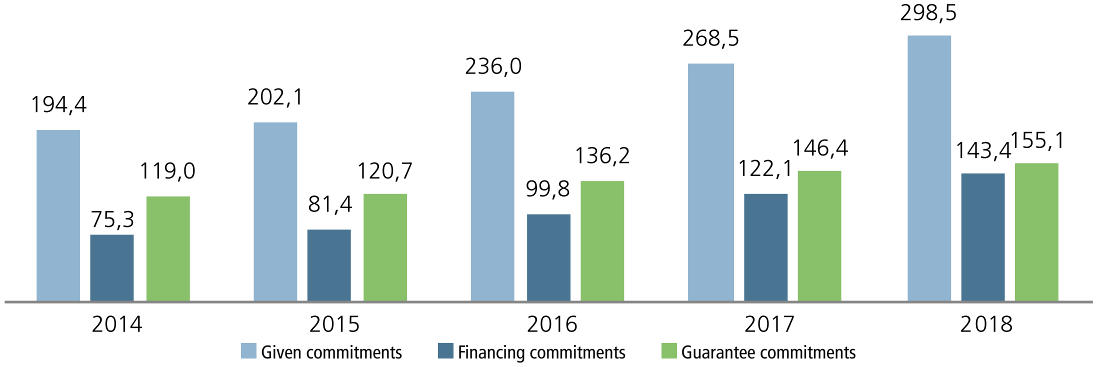
Chart 34: Change in banks' accounting equity



2.3 -Banks' off-balance sheet commitments increased in line with the rise in financing and in guarantee commitments given to customers

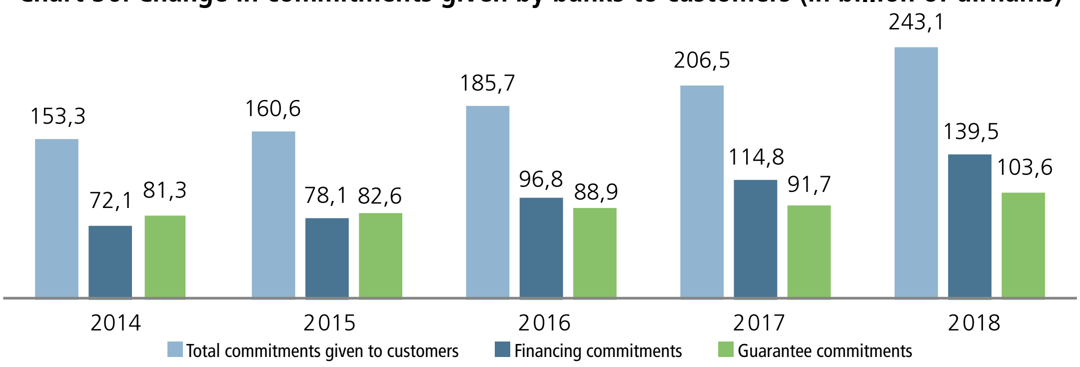
Exposures in the commitments of banks' off-balance sheet mainly consist of given or received guarantee and financing commitments, as well as commitments on foreign exchange operations and derivatives.

Chart 35: Change in commitments given by banks (billion dirhams)



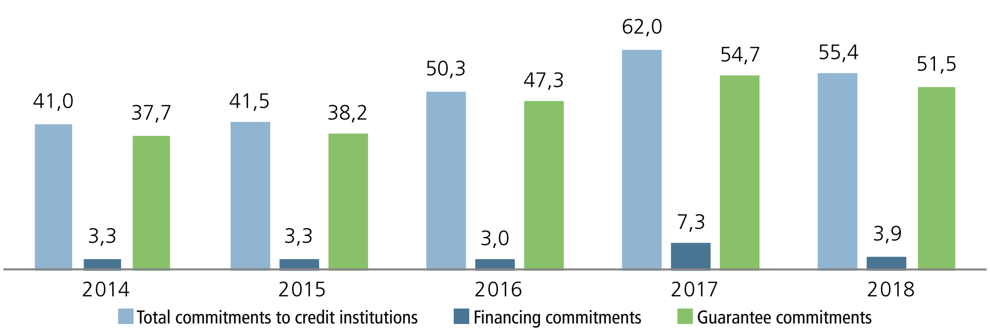
Commitments given by banks rose by 11.2 percent to 298.5 billion dirhams, as against 13.8 percent in the previous year, reflecting respective increases of 17.4 percent and 6 percent in financing commitments and guarantee commitments to 143.4 billion and 155.1 billion dirhams.

Chart 36: Change in commitments given by banks to customers (in billion of dirhams)



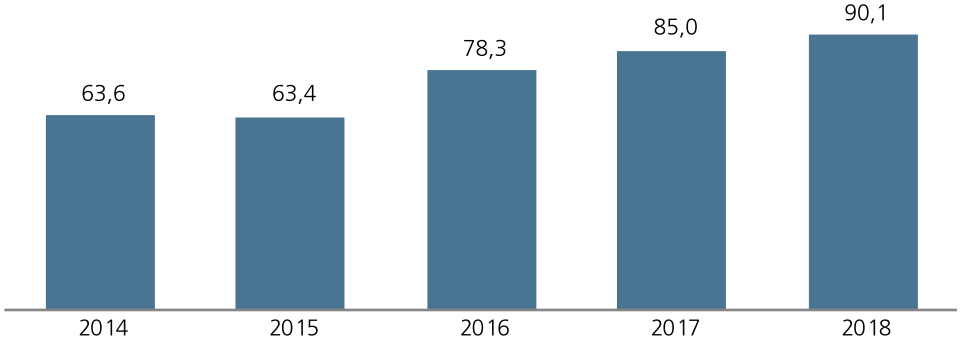
Commitments to customers, representing 81 percent of the total given commitments, grew by 17.7 percent to 243.1 billion dirhams. Of this total, financing commitments, with a 57 percent share, rose by 21.5 percent to 139.5 billion and guarantee commitments moved up 13 percent to 103.6 billion dirhams.

Chart 37: Change in commitments given by banks to credit institutions (in billion of dirhams)



Commitments given to credit institutions and similar entities fell by 10.7 percent to 55.4 billion, after an increase of 23.4 percent in 2017. This trend covers decreases of 5.8 percent to 51.5 billion for guarantee commitments and 47.1 percent to 3.9 billion for financing commitments.

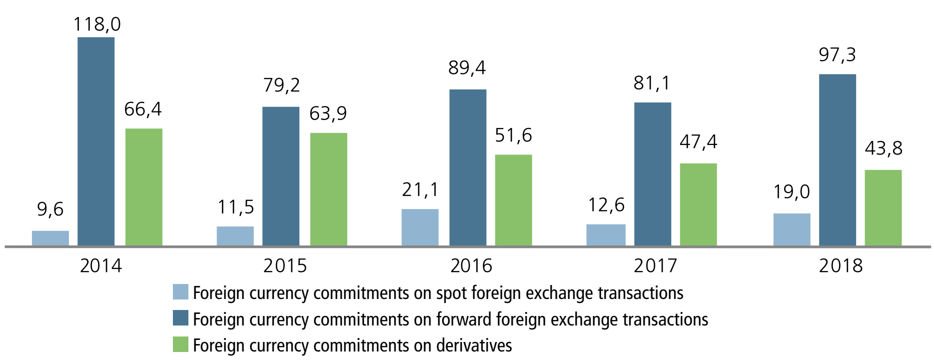
Chart 38: Change in commitments received from banks (in billion of dirhams)



For their part, received commitments grew by 6.1 percent to 90.1 billion dirhams thanks to increases by 5.4 percent in guarantee commitments to 86.7 billion and by 25.7 percent in financing commitments to 3.5 billion.

After declining 40.4 percent in the previous year, foreign currency commitments8 on spot foreign exchange transactions increased by 51.1 percent to 19 billion dirhams. Similarly, commitments on forward foreign exchange transactions rose by 20 percent to 97.3 billion.

Chart 39: Change in commitments on exchange transactions and derivatives (in billion of dirhams)



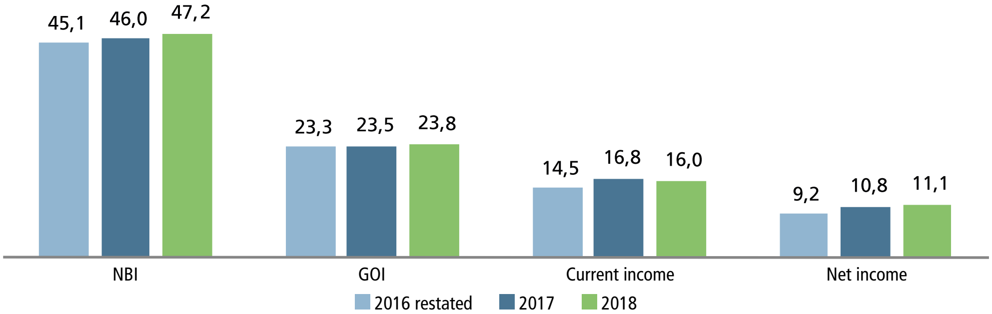
Commitments on derivatives, corresponding to hedging transactions or transactions carried out on behalf of customers; fell by 7.6 percent to a notional amount of nearly 43.8 billion dirhams. This trend mainly reflects declines of 42.8 percent in commitments on interest rate instruments to 3.8 billion and 3.5 percent in commitments on other instruments to 18.7 billion. Conversely, commitments on exchange rate instruments remained at 21.2 billion.

8 Commitments in foreign currency, whether spot or forward, combine the volumes at the purchase and sale.

2.4 - Profitability of banks showed an increase in net banking income offset by a higher cost of risk

In the 2018 financial year, banks achieved an overall net profit, calculated on an individual basis, of 11.1 billion dirhams, posting an increase of 2.9 percent, after that of 17.6 percent recorded a year earlier. This change is attributed to a moderately increasing net banking income combined with a higher cost of risk.

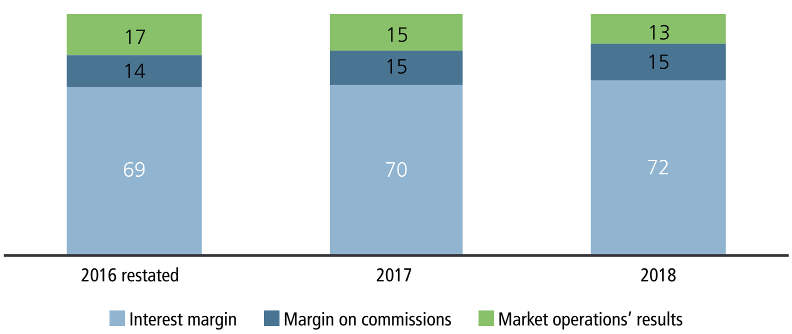
Chart 40: Change in banks' intermediate operating balances (in billion of dirhams)



2.4.1 - Change in net banking income reflects a strengthening in interest margin and margin on commissions

Net banking income (NBI) stood at 47.2 billion dirhams, up 2.7 percent, as against 2 percent a year ago9. This trend is driven by an improvement in the interest margin and margin on commissions, while income from market operations declined.

Chart 41: Structure of the net banking income (%)



Being a main component of NBI with a share of 72 percent, the interest margin improved again by 4.4 percent to 32.2 billion dirhams, as against 3.8 percent in 2017.

9 The 2016 data were restated to reflect a one-off transaction that caused a significant increase in NBI and net income of the sector.

Net interest income on customer transactions, the main component of the interest margin, grew by 6.3 percent to 31.8 billion dirhams, owing to a 4.1 percent increase in interests earned on loans to 40.3 billion, and a 3.1 percent decline in interests paid on deposits to 8.6 billion dirhams. This decrease is attributable to the 5.3 percent lower interests on time deposits following a decrease in their share in customer liabilities.

Net interest income on transactions with credit institutions and similar entities dropped, anew, by 12.6 percent to 1.3 billion, in conjunction with a 13.4 percent increase in interest paid on loans to 2.9 billion dirhams, particularly from the Central Bank.

While remaining negative, net interest income from debt securities rose from a balance of 520 million to 950 million dirhams. This increase reflects a drop of 8 percent in interest earned on securities held to 2.5 billion, while interest paid on debt securities issued moved up 6.4 percent to 3.5 billion dirhams, due to a 6.7 percent increase in emissions.

The margin on commissions grew 5.3 percent to 7.3 billion, as against 9.4 percent a year earlier, reflecting an 8 percent increase in commissions received.

Commissions earned on service delivery totaled nearly 7 billion, posting an increase of 7.4 percent, as against 9.6 percent, thanks to a growth of 3 percent in commissions on operating accounts to 1.6 billion and 11 percent in commissions on means of payment to 2.7 billion. These increases are due to a rise of 4.7 percent in the number of accounts, 7.2 percent in cards in circulation and 19 percent in payments by these cards. Commissions on sales of insurance products increased by 10.4 percent to 343 million, due to increases of 8 percent in bancassurance premiums and commissions collected on credit service delivery grew by 1.9 percent to 552 million for a credit increase of 6.5 percent. Commissions on foreign exchange operations also increased by 21.4 percent to 390 million dirhams, also reflecting higher commitments on this activity. On the other hand, commissions on management and deposits of securities fell by 9.6 percent to 429 million, in connection with weaker transactions on the stock market.

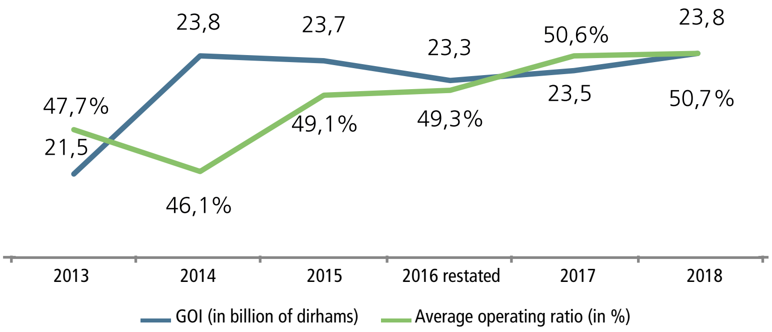
Income from market activities dropped by 7.2 percent to 6.4 billion dirhams, as against 12.7 percent in 2017. This decline mainly covers decreases by 68.2 percent in income from operations on held-for-sale securities to 236 million dirhams, in conjunction with the decrease of this portfolio, and 11.7 percent in trading securities to 3.4 billion dirhams, due to slightly higher bond rates. Income on derivatives is at equilibrium at 7 million dirhams, as against 171 million dirhams in 2017. Income from foreign exchange transactions grew by 26.8 percent to 2.3 billion dirhams.

2.4.2 - Gross operating income strengthened slightly

At 23.9 billion dirhams, general operating expenses saw a controlled increase of 2.9 percent, as against 4.6 percent, the same pace as the net banking income. In addition, the average operating ratio remained stable at 50.7 percent.

By category, personnel expenses, representing 47.5 percent of general operating expenses, grew by 2.9 percent to 11.4 billion dirhams, as against 4.7 percent in 2017. External expenses10, which constitute 39 percent of the total, rose by 2.2 percent to 9.2 billion dirhams, as opposed to 4.4 percent. Amortization and depreciation allocation of intangible and tangible fixed assets were up 1.3 percent to 2.3 billion dirhams.

Chart 42: Change in banks' GOI and average operating ratio of banks



As a result, gross operating income (GOI) grew by 1.4 percent to 23.8 billion dirhams, as against 1 percent in 2017.

2.4.3 - After its improvement in 2017, the cost of risk rose again

After the 22.8 percent drop recorded in 2017, the cost of risk rose again by 15.9 percent to 7.8 billion dirhams. Of this total, the cost of risk for nonperforming loans stood at 5.6 billion dirhams, up 8.7 percent, while other allocations net of reversals grew by 38.5 percent, due to the increase in general provisions covering sensitive loans and real estate assets acquired by way of transfer in lieu of payment.

Measured as a ratio to GOI, the cost of risk stood at 32.8 percent, as against 28.7 percent a year earlier. Measured as a ratio to outstanding loans, it represented 0.9 percent, from 0.8 percent in 2017.

10 External expenses consist mainly of maintenance and repair costs, remunerations of fees and intermediaries, transportation and travel as well as advertising costs.

Chart 43: Banks' cost of risk compared to GOI

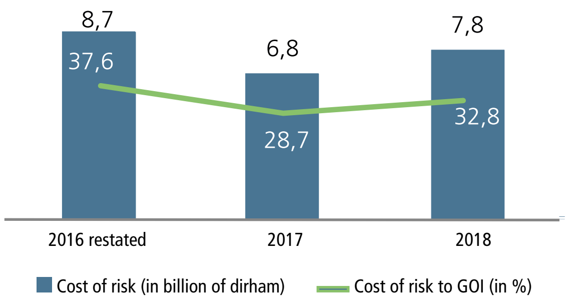
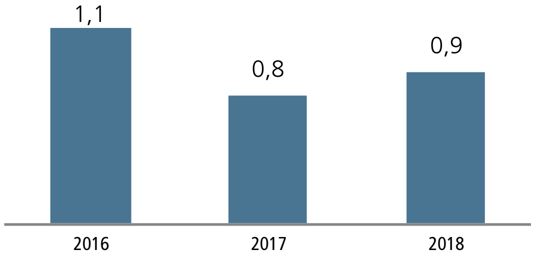


Chart 44: Banks' cost of risk compared to loans (in %)



Given the rise in the cost of risk, current income shrank by 4.4 percent to 16 billion dirhams, after an increase of 15.3 percent in 2017. Non-recurring income improved from a negative balance of 830 million to a positive balance of 186 million dirhams, as the year 2017 was particularly marked by the banks' payment of some non-current tax expenses.

Chart 45: Change in banks' return on assets (ROA) (in %)

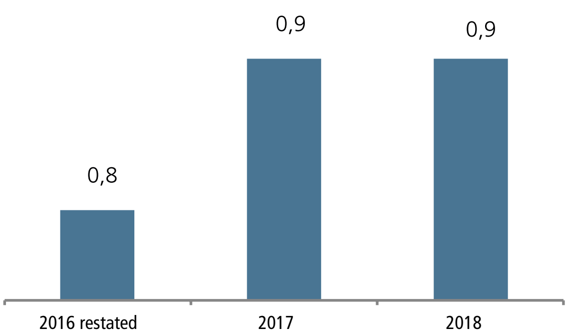
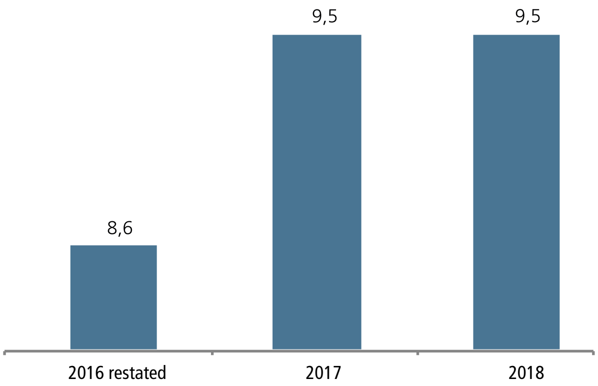


Chart 46: Change in banks' return on equity (ROE) (in %)

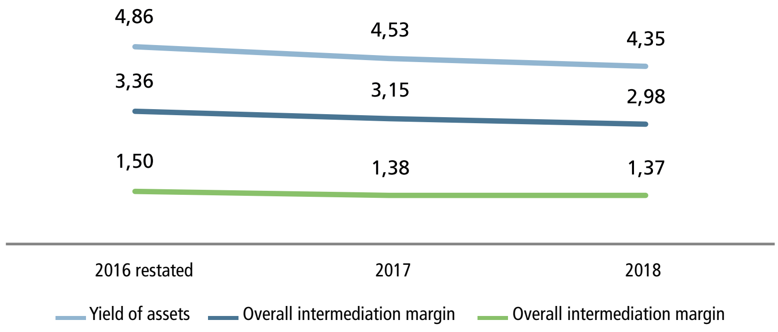


Overall, banks' net income amounted to 11.1 billion dirhams, up 2.9 percent, as against 17.6 percent in 2017, a year which posted a significant decrease in the cost of risk. Return on assets (ROA) and return on equity (ROE) remained stable at 0.9 percent and 9.5 percent, respectively.

2.4.4 - The overall intermediation margin contracted again

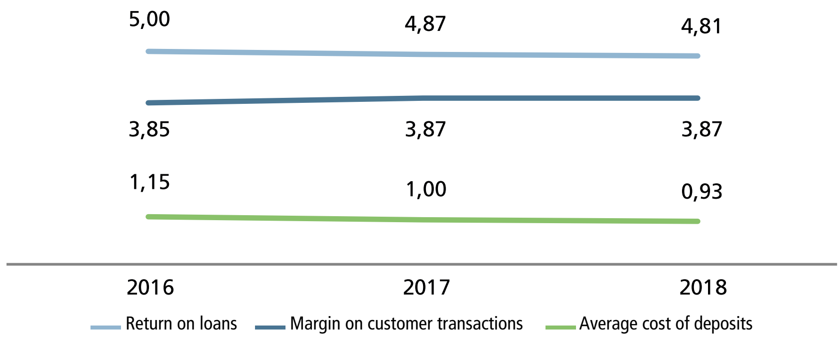
Banks' overall intermediation margin fell by 17 basis points to 2.98 percent, owing to a decrease of 18 points in the average yield of assets to 4.35 percent, while the average cost of liabilities stagnated at 1.37 percent. This decline was driven by the decrease in yields on securities.

Chart 47: Change in banks' overall intermediation margin (in %)



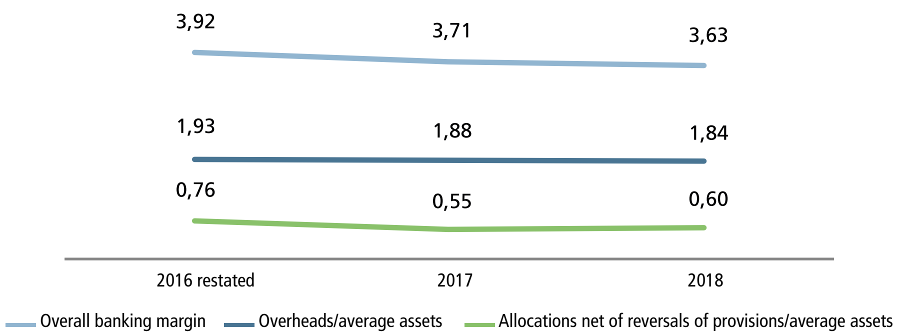
More specifically, the margin on customer transactions stabilized at 3.87 percent, as a result of a concomitant fall of 6 basis points in the average return on loans to 4.81 percent and 7 basis points in the average deposit cost to 0.93 percent.

Chart 48: Change in banks' margin on customer transactions (in %)



The overall banking margin, as measured by the ratio of NBI to average assets, fell by 8 percentage points to 3.63 percent. It was absorbed by overheads at 1.84 percent, from 1.88 percent in 2017 and by the cost of risk at 0.60 percent, as against 0.55 percent in 2017.

Chart 49: Change in the overall banking margin, overheads and cost of risk (in %)



3 - Activity and profitability of participatory banks and windows

At the end of 2018, the first full year of exercise of participatory banks and windows, the latter recorded a total balance sheet of 7.3 billion dirhams from 2.6 billion a year earlier. This change reflects a rise in participatory financing.

Table 6: Change in assets of participatory banks and companies

(In Million of dirhams)

	2017	2018	Change 2017 /2018 (%)
Due from credit institutions and similar entities	**1 510**	**1 035**	**-31,5**
Sukuk certificates	**182**	**4 472**	**>100**
Fixed assets	**0**	**380**	**>100**
Other assets	**275**	**298**	**8,7**
Including assets	**587**	**1 131**	**>100**
acquired as part of participatory financing	323	431	33,4
Total assets	**2 554**	**7 316**	**>100**

Headings net of depreciation and provisions

Outstanding financing amounted to nearly 4.5 billion at the end of 2018, of which over 90 percent as "real estate Mourabaha" and 8 percent as "automotive Mourabaha". Its share in assets stands at 62 percent.

The outstanding amount of Mourabaha financing includes the margin recognized in advance by participatory banks and windows, the payment of which is spread over the financing term.

Box 5: Mourabaha financing accounting method

Assets acquired by participatory banks and windows for sale to clients by Mourabaha are registered at their acquisition cost, which consists of the purchase price plus acquisition costs.

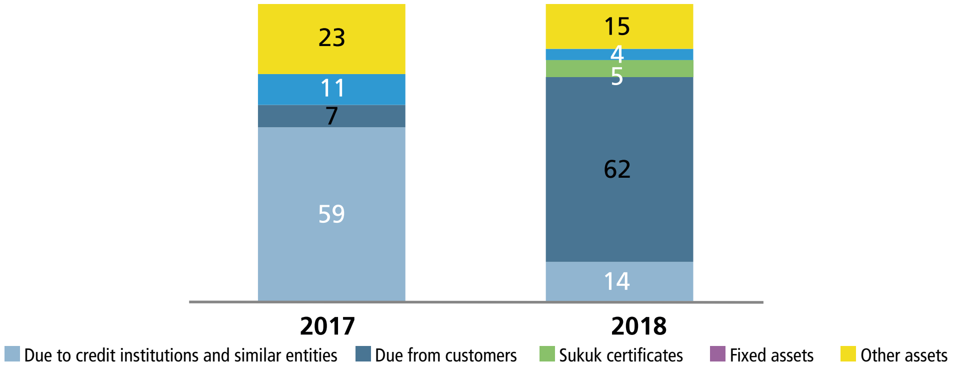
At the conclusion of the Mourabaha contract with the client, the asset is derecognized from the seller's balance sheet. The profit margin[11] is recorded at the level of a regularisation account "margins recognized in advance" in the liabilities side and is spread pro rata temporis over the term of the contract. At each subsequent accounting closure, the institution records as income the share of the margin relating to the accounting year deducted from the aforementioned regularization account.

Net of the amount of the margins recorded in advance, the outstanding Mourabaha financing amounted to 3.2 billion at the end of 2018.

Due from credit institutions and similar entities, composed mainly of deposits with Bank Al-Maghrib, decreased by 31.5 percent, concomitantly with the development of the financing activity.

The year 2018 also saw the first sovereign issue of Sukuk certificates, to which 4 participatory banks subscribed, for a total amount of nearly 380 million dirhams, or 5 percent of the total balance sheet.

Chart 50: Assets structure of participatory banks and windows (%)



The share of other assets decreased to 15 percent, compared to 23 percent at the end of 2017, particularly due to a 7-percentage-points[12] decrease in the share of the stock of property acquired through participatory financing[13]. Measured as a ratio to the outstanding Mourabaha financing, this outstanding amount represented less than 10 percent at the end of 2018, as against 177 percent a year earlier, reflecting the dynamics of the transformation of the stock into financing.

Table 7: Change in liabilities of participatory banks and windows

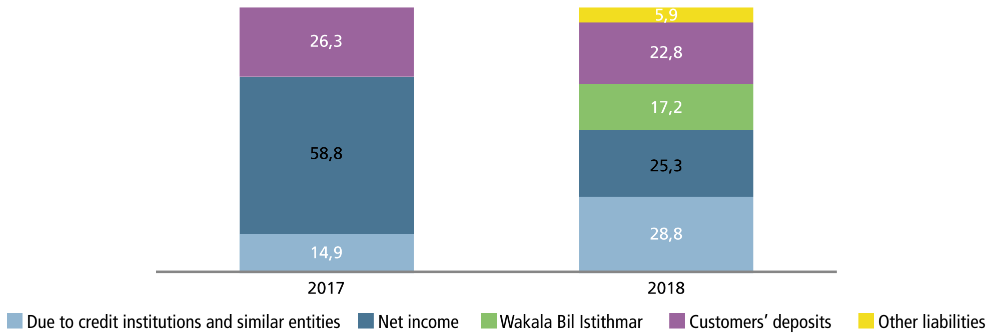
(In Million of dirhams)

	2017	2018	Change 2017 /2018 (%)
Due to credit institutions and similar entities	0	431	>100
Customers' deposits[14]	671	1 665	>100
Equity[15]	1 676	2 226	32,8
Net income	-175	-377	>100
Wakala Bil Istithmar	0	1 262	>100
Other liabilities	381	2 109	>100
Total-liabilities	2 554	7 316	>100

11 Fixed by the contract, representing the difference between "Mourabaha" sales price to the customer and the cost of acquisition of the asset by the institution..
12 This heading increased in value by 33 percent.
13 This is the stock of real estate for resale under Mourabaha contracts.

On the liabilities side, demand deposits collected from customers totaled 1.7 billion dirhams, up 148 percent in one year. Their share in liabilities fell from 26.3 percent to 22.8 percent year on year in favor of the issue of Wakala Bil Istithmar refinancing instruments.

Chart 51: Liabilities' structure of participatory banks (%)



As soon as the Higher Council of Ulemas (Muslim scholars) adopted the Wakala Bil Istithmar standard contract in July 2018, some banks resorted to this type of refinancing, which amounted to 1.3 billion dirhams at the end of 2018, or 17 percent of total liabilities.

Box 6: Definition of the "Wakala Bil Istithmar" product

The Wakala Bil Istithmar is a contract by which the "Mouwakil" (financial/mandate backer) makes funds available to the "Wakil" (manager/proxy) to invest them in a Sharia-compliant business. Neither the invested capital nor the remuneration of the Mouwakil can be guaranteed. In case of profits, these are returned to the Mouwakil after a deduction of the Wakil's remuneration in return for his management. In case of losses, these are borne by the Mouwakil, except in the case of fraud, negligence, mismanagement or non-compliance with contractual clauses.

Equity, excluding the year's income, grew by 33 percent, mainly as a result of capital increase operations. Other liabilities, consisting mainly of outstanding margins recognized in advance on Mourabaha financing, amounted to 2.1 billion dirhams and represented 29 percent of the total balance sheet.

Participatory banks and windows generated a net banking income of 67.2 million dirhams in 2018 and recorded a cumulative negative net result of 377 million dirhams, reflecting the weight of the investments made by the start of their activity. As such, general operating expenses amounted to 445 million dirhams.

14 Including Hamish Al Jiddiya.
15 Excluding the year's income.

4 - Activity and profitability of finance companies

4.1 - The consumer loans granted by finance companies accelerated

Table 8: Change in finance companies'

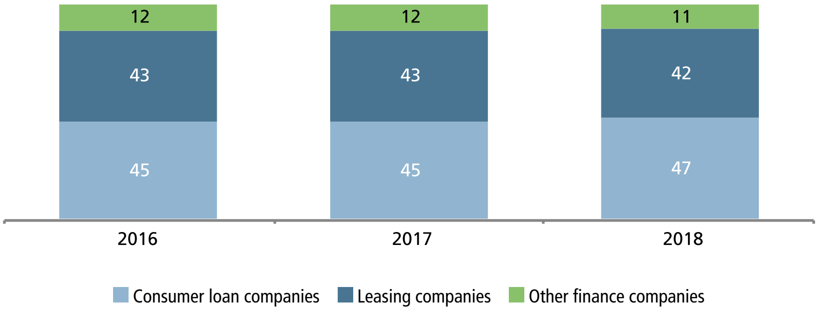
(In million of dirhams)

	2016	2017	2018 restated[16]	2018	Change 2017 /2018 (%)
Due from credit institutions and similar entities	4 864	6 224	5 918	4 885	-17,5
Due from customers	94 276	99 002	98 974	104 760	5,8
Securities portfolio	1 396	1 699	1 429	1 308	-8,5
Fixed assets	1 428	1 384	1 045	1 319	26,2
Other assets	4 034	4 558	4 373	4 892	11,9
Total assets	105 998	112 867	111 739	117 164	4,9

Headings net of depreciation and provisions

At the end of 2018, total assets of finance companies increased by nearly 5 percent to 117.2 billion dirhams, as against 6.5 percent in the previous year. Of this total, loans to customers, representing more than 89 percent of assets, grew by 5.8 percent, as against 5 percent.

Chart 52: Share of different categories of finance companies in the sector's total assets (In %)



In terms of total assets, the share of consumer loan companies expanded by 2 points to 47 percent, to the detriment of leasing companies and other finance companies at 42 percent and 11 percent, respectively.

16 Restated to reflect data from payment management companies that have been approved as payment institutions and whose figures are consolidated in the payment institutions' activity.

Table 9: Change in consumer loan companies' assets

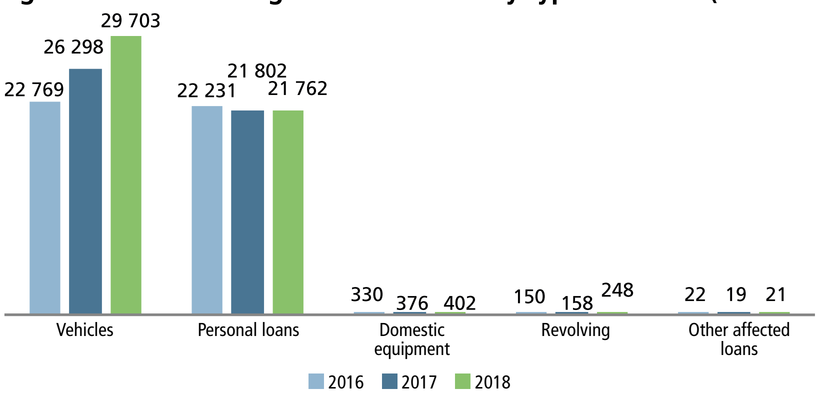
(In million of dirhams)

	2016	2017	2018	Change 2017 /2018 (%)
Due from credit institutions and similar entities	**703**	**616**	**764**	**25,6**
Due from customers	**42 832**	**45 726**	**49 532**	**8,3**
Including lease with a purchase option	13 496	15 804	18 331	16,0
Securities portfolio	**197**	**17**	**229**	**>100**
Fixed assets	**713**	**675**	**889**	**31,8**
Other assets	**2 923**	**3 319**	**3 740**	**12,7**
Total assets	**47 368**	**50 353**	**55 164**	**9,6**

Headings net of depreciation and provisions

The activity of consumer loan companies, measured by the total balance sheet, recorded an acceleration of 9.6 percent in 2018 to 55.2 billion dirhams, from 6.3 percent at the end of 2017. Representing nearly 90 percent at the end of 2018, loans saw their gross outstanding amounted to 53.6 billion dirhams, up 8 percent from 6.3 percent a year earlier. This increase was stimulated by leasing operations with a purchase option, whose gross outstanding amount rose by 18 percent to more than 26 billion dirhams after 15 percent in 2017.

Chart 53: Change in the outstanding consumer loans by type of credit (In million of dirhams)



Personal loans17 stood at nearly 22 billion dirhams, after their 1.7 percent drop a year ago, indicating a greater use of allocated loans, including vehicles' purchase financing. These loans accounted for 57 percent of consumer loans.

17 Data from the Professional Association of Finance Companies.

Table 10: Change in leasing companies' assets

(In million of dirhams)

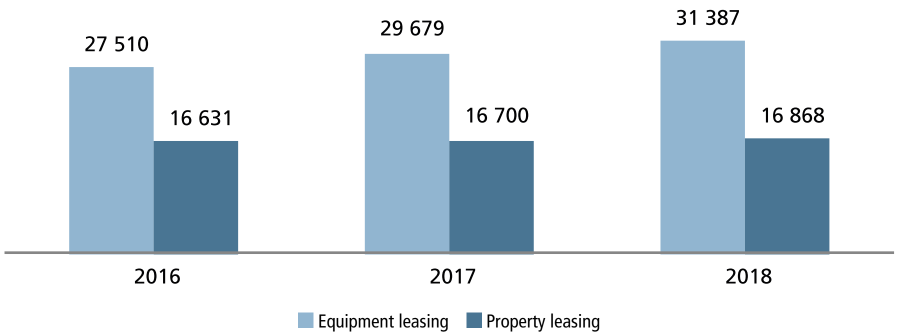
	2016	2017	2018	Change 2017 /2018 (%)
Leasing fixed assets	**44 141**	**46 380**	**48 254**	**4,0**
Other customers' loans	**197**	**223**	**318**	**42,9**
Securities' portfolio	**18**	**268**	**18**	**-93,1**
Other assets	**1 034**	**1 074**	**1 181**	**10,0**
Total assets	**45 390**	**47 945**	**49 772**	**3,8**

Headings net of depreciation and provisions

At end-2018, leasing companies accumulated total assets of around 50 billion dirhams, up 3.8 percent, as against 5.6 percent at end-2017. Thus, the gross outstanding leasing grew by 4.7 percent to about 52 billion dirhams.

The outstanding amount of equipment leasing transactions, representing 65 percent of the total, rose by 5.8 percent to 31.4 billion, as against 7.9 percent at the end of 2017. That of property leasing transactions grew by 1 percent to about 17 billion, as against 0.4 percent, a year ago.

Chart 54: Change in the outstanding amount of equipment and property leasing transactions (In million of dirhams)



In terms of production, the year 2018 saw a 3.3 percent increase in financing of leasing companies to 15.8 billion dirhams[18], of which 80 percent as equipment leasing. This trend concerned the financing of commercial vehicles (4.8 percent), passenger cars (10.1 percent) and buildings and public-works (6.6 percent). The financing of industrial machinery and equipment, as well as computers and office equipment, fell by almost 15 percent and 5.6 percent, respectively, after recording increases of 25 percent and 6 percent in 2017.

18 Data from the Professional Association of Finance Companies.

Chart 55: Breakdown of equipment leasing production by type of equipment (In %)

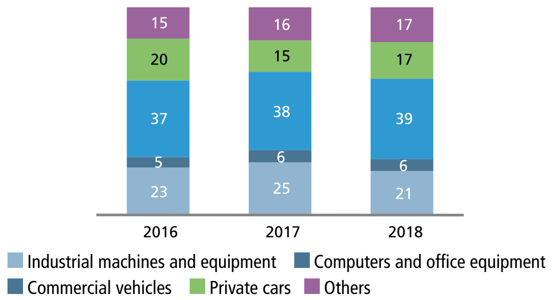
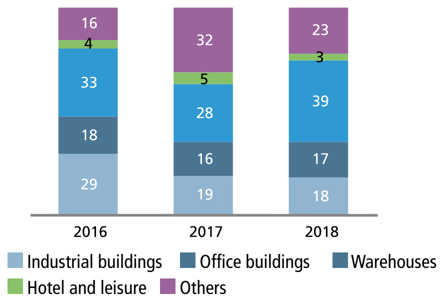


Chart 56: Breakdown of property leasing production by type of financed fixed assets (In %)



Financing of leasing companies is mainly allocated to the industrial sectors, up almost 1 percent to 2.6 billion dirhams, as against 9 percent a year earlier. This increase mainly benefitted the chemical and related industries (62 percent), mining (54.6 percent) and food industries (8.9 percent). However, these changes were offset by declines in the sectors of water and energy production (-68.7 percent), construction (-5.6 percent), mechanical and metallurgical industries (-10 percent) and financial activities (-2 percent).

Property leasing production increased by 8.1 percent to more than 3 billion, compared to a 4 percent decline at the end of 2017, which mainly concerned the financing of office buildings (47.8 percent), warehouses (19.8 percent) and, to a lesser extent, industrial buildings (1 percent).

4.2 - Finance companies increasingly used the private debt market and the collection of deposits from customers

The banking indebtedness of finance companies decelerated to 0.2 percent from 1.8 percent in 2017 to 62.5 billion dirhams, as against an increase in bonds issued by finance companies. The outstanding amount of the latter grew by 14.3 percent to 19.8 billion, as against 45.2 percent in 2017. Also, debts to customers grew by 27.1 percent, as against 16.3 percent, to 12.5 billion, and equity by 5.4 percent to 10.9 billion dirhams.

Table 11: Change in finance companies' liabilities

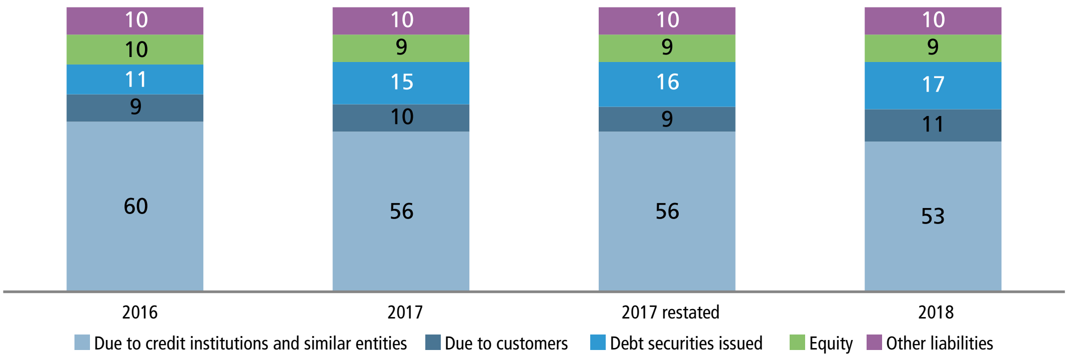
(In million of dirhams)

	2016	2017	2017 restated[19]	2018	Change 2017 /2018 (%)
Due to credit institutions and similar entities	**63 800**	**62 656**	**62 367**	**62 491**	**0,2**
Due to customers	**9 421**	**10 958**	**9 818**	**12 474**	**27,1**
Debt securities issued	**11 942**	**17 336**	**17 336**	**19 817**	**14,3**
Equity	**10 387**	**10 713**	**10 343**	**10 902**	**5,4**
Net income	**1 643**	**1 666**	**1 478**	**1 445**	**-2,2**
Other liabilities	**8 805**	**9 538**	**10 397**	**10 034**	**-3,5**
Total liabilities	**105 998**	**112 867**	**111 739**	**117 164**	**4,9**

19 For 2017, the figures of finance companies are restated to reflect data from payment management companies that have been approved as payment institutions and whose figures are consolidated in the payment institutions' activity.

The structure of liabilities shows a further decline in the share of bank indebtedness to 53 percent, while the proportion of debt securities issued and loans to customers rose to 17 percent and 11 percent respectively, with a view to diversifying liabilities and lengthening their maturity.

Chart 57: Change in the structure of finance companies' liabilities (In %)



Finance companies' bonds are issued on the bond market at 69 percent by consumer loan companies and 31 percent by leasing companies. UCITS are the main subscribers to these bonds with a 70 percent share, followed by credit institutions and similar entities (22 percent) and individuals (8 percent).

Table 12: Change in liabilities of consumer loan companies

(In million of dirhams)

	2016	2017	2018	Change 2017 /2018 (%)
Due from credit institutions and similar entities	**21 318**	**19 073**	**19 138**	**0,3**
Due from customers	**6 944**	**8 580**	**10 152**	**18,3**
Debt securities issued	**8 020**	**11 117**	**13 391**	**20,5**
Equity	**5 684**	**5 883**	**6 128**	**4,2**
Net income	**875**	**923**	**901**	**-2,4**
Other liabilities	**4 527**	**4 777**	**5 454**	**14,2**
Total liabilities	**47 368**	**50 353**	**55 164**	**9,6**

Indebtedness of consumer loan companies stabilized at 19 billion dirhams, after a drop of 10.5 percent in 2017, equaling a 3-point drop in the share of liabilities to 35 percent. The outstanding amount of debt securities issued, whose share moved up 2 points to 24 percent, expanded by 20.5 percent to 13.4 billion and loans to customers, with a share of 18 percent, appreciated by 18.3 percent to 10.2 billion. Equity, representing 11.1 percent of liabilities, grew by 4.2 percent to 6.1 billion dirhams, as against 3.5 percent a year earlier.

Table 13: Change in liabilities of leasing companies

(In million of dirhams)

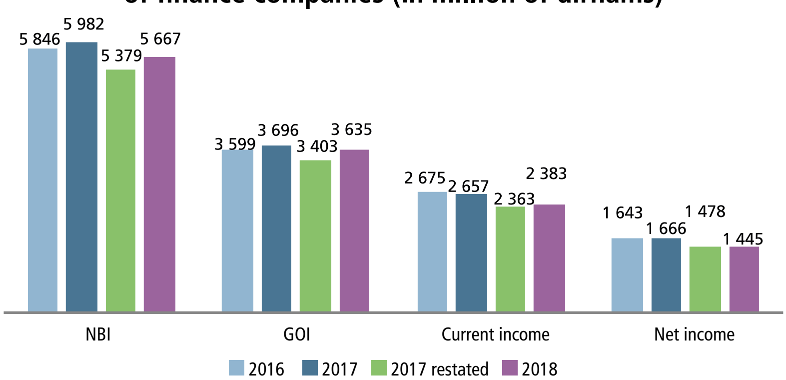
	2016	2017	2018	Change 2017 /2018 (%)
Due to customers	35 051	35 161	36 142	2,8
Debt securities issued	518	522	583	11,7
Equity	3 715	5 710	5 926	3,8
Net income	3 077	3 176	3 411	7,4
Other liabilities	342	384	401	4,3
Other liabilities	2 687	2 992	3 309	10,6
Total liabilities	45 390	47 945	49 772	3,8

Bank debts of leasing companies, representing 73 percent of liabilities, rose by 2.8 percent to more than 36 billion dirhams, from 0.3 percent. The outstanding debt securities issued appreciated by 3.8 percent, as against 38.6 percent, to 5.9 billion, while their share account for 12 percent. Also, the accounting equity grew by 7.4 percent to 3.4 billion dirhams, with a share of 7 percent in liabilities.

4.3 - Change in the net income of finance companies covers divergent trends

After its 1.4 percent-increase in 2017, the net income of finance companies fell by 2.3 percent to 1.4 billion dirhams. This change covers divergent trends. The net income of leasing and real-estate companies increased, while that of consumer loans, surety and factoring companies trended downwards.

Chart 58: Change in management intermediate balances of finance companies (In million of dirhams)



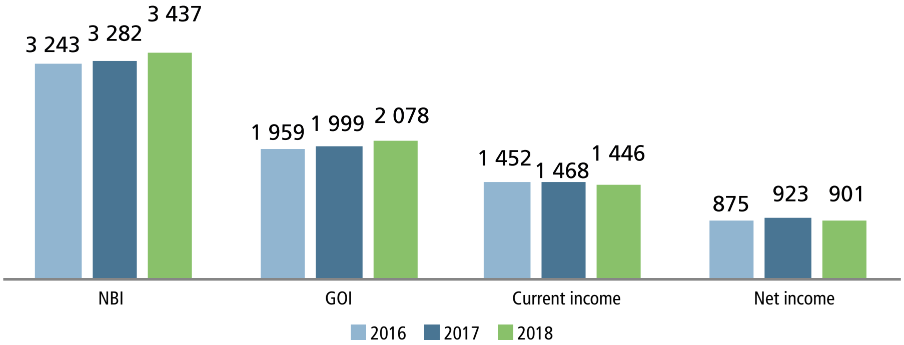
(*) The figures are restated to reflect data of payment means management companies which have been re-approved as payment institutions and whose figures are consolidated in the payment institutions' activity.

Finance companies posted a net banking income of 5.7 billion dirhams, up 5.4 percent, as against 2.3 percent in 2017, thanks to an increase of 9.1 percent in the margin on commissions and 5.2 percent in the income from leasing transactions.

The general operating expenses of these companies increased by 3 percent to 2.1 billion dirhams, as against 2.7 percent in the previous year, generating a decrease of one point in the average operating ratio to 37 percent. Gross operating income (GOI) of these companies stood at 3.6 billion, registering a growth of 6.8 percent, from 2.7 percent a year ago. It was absorbed by the cost of risk at 34 percent, as against 30.6 percent in 2017.

The average return on assets (ROA) of these companies was reduced by 0.1 point to 1.2 percent and the average return on equity (ROE) fell by one point to 13.3 percent.

Chart 59: Change in management intermediate balances of consumer loan companies (In million of dirhams)



By category, consumer loan companies generated a net banking income of 3.4 billion dirhams, up 4.7 percent from 1.2 percent in 2017. This increase is attributed to a rise of 2.3 percent in the interest margin and 0.6 percent in the income from leasing transactions, a trend less pronounced than the increase in financing, indicating a weakening of margins in a competitive environment marked mainly by the granting of zero-rated credits. The margin on commissions grew by 11.8 percent, from 7 percent in 2017.

Box 7: Free credit / Zero-rate credit

By virtue of law 31-08 enacting consumer protection measures, free credit is defined as any credit refundable without interest payment.

The provisions of this law require that when a financing transaction involves a full or partial assumption of credit charges, the supplier may not ask the borrower or lessee for a sum of money higher than the average price actually charged for the spot purchase of a similar item or service at the same retail institution in the last 30 days prior to the beginning of the advertisement or offer. In addition, the supplier must offer a price for cash payment lower than the sum proposed for the free credit purchase or rental.

In addition, any advertising carried out in the place of sale bearing the mention "free credit" or offering an equivalent benefit must indicate the discount amount granted in the event of cash payment. Any advertisement with the mention "free credit" must be marked separately on any product, good or service.

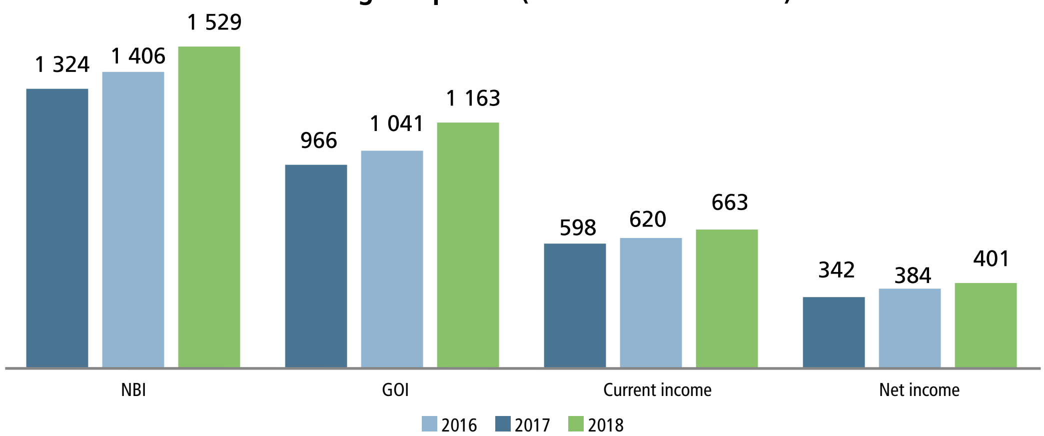
The general operating expenses of these companies grew by 6 percent, as against 1.1 percent to 1.4 billion dirhams, resulting in an average operating ratio of 41 percent compared to 40 percent in 2017. As a result, GOI rose by 4 percent to 2.1 billion, from 2 percent last year.

Owing to the rise in nonperforming loans, the cost of risk rose by nearly 19 percent, from 4.7 percent, to 632 million dirhams. It represents nearly 30 percent of GOI, from 27 percent in 2017. This trend shows an increase of 19.8 percent in allocations net of reversals of provisions for nonperforming loans to 630 million dirhams, the other allocations net of reversals fell back from 4.3 to 2.1 million dirhams.

As a result, current income decreased by 1.5 percent, after an increase of 1.1 percent and non-current income, while being negative, rose from 9.9 to 32.2 million dirhams due to expenses related to tax adjustments.

Consequently, net income generated by consumer credit companies stood at 901 million dirhams, down 2.4 percent after a 5.5 percent increase last year. Therefore, the average return on assets (ROA) was 1.6 percent, easing by 0.2 percentage point from 2017, and the average return on equity (ROE) stood at 14.7 percent, as against 15.7 percent in 2017.

Chart 60: Change in management intermediate balances of leasing companies (In Million of dirhams)



Leasing companies recorded a net banking income of 1.5 billion, up 8.8 percent, as opposed to 6.1 percent in 2017, in conjunction with an 8.6 percent appreciation of the interest margin (including income from leasing operations) to 1.5 billion, compared to 6.7 percent in the previous year. The margin on commissions, through remaining negative, dropped from 7 million to 4 million dirhams, year on year.

The general operating expenses of these companies grew by 1.1 percent to 372 million dirhams, as against a rise of 2 percent, generating an improved average operating ratio of 1.8 point to 24.3 percent. Under these conditions, GOI rose by 11.7 percent to 1.2 billion dirhams, as against 7.8 percent a year earlier.

Due to an increase in the loss ratio, the cost of risk posted by leasing companies rose by 18.8 percent, as against 14.4 percent in 2017, to 500 million, or 43 percent of GOI from 40.4 percent in 2017.

As a result, the overall net income generated by leasing companies increased by 4.3 percent to 401 million, as opposed to 12.2 percent in 2017. The average return on assets (ROA) remained stable at 0.8 percent and the average return on equity (ROE) stood at 11.9 percent.

For their part, real estate loan companies saw their net income rise by 5.2 percent to 106 million dirhams. Conversely, the income of factoring companies declined and that of surety companies posted overall a deficit.

5 - Activity and profitability of offshore banks

Box 8: Framework governing offshore banks

Offshore banks are governed by the provisions of Law No. 58-90 on offshore financial places which provides incentives to encourage foreign investors to settle in Morocco in the industrial free zones.

Banks located in the Tangier offshore zone are subsidiaries/branches of Moroccan on-shore banks. They carry out banking transactions in convertible foreign currencies with non-residents. They can also finance the foreign currency operating cycle of resident enterprises as well as investment when it is carried out in foreign currency.

The main activities carried out by these banks relate to the financing of foreign trade and investment operations, the transfer of funds, the collection of deposits and the management of cash.

Since their start in 1992, offshore banks have been subject to a derogation regime of the corporate tax which was abolished by the Finance Act as of 2019.

At the end of 2018, the volume of activity of offshore banks, as measured by the total balance sheet corresponding to an equivalent dirham value, recorded a new fall of 4 percent to 41 billion dirhams, after that of 11.3 percent in the previous year. This contraction is attributed to a decline of 7 percent in due from credit institutions to 19 billion and 4.5 percent in due from customers to 17.7 billion dirhams.

The outstanding nonperforming loans of these banks amounted to 57 million dirhams, representing 0.3 percent of loans.

Table 14: Change in offshore banks' assets

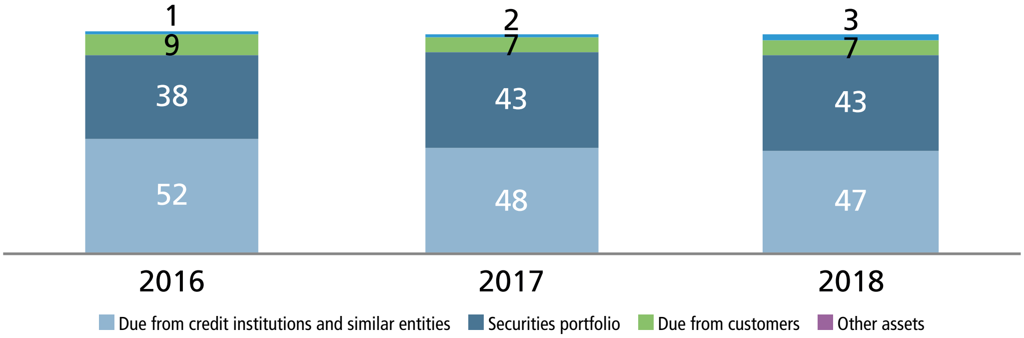
(In million of dirhams)

	2016	2017	2018	Change 2017 /2018 (%)
Due from credit institutions and similar entities	25 181	20 524	19 087	-7,0
Due from customers	18 147	18 536	17 704	-4,5
Securities portfolio	4 484	2 901	2 951	1,7
Other assets	277	696	1 219	75,2
Total assets	48 089	42 657	40 961	-4,0

Headings net of depreciation and provisions.

In light of these developments, the shares of due from customers and securities portfolio remained at 43 percent and 7 percent, respectively. The proportion of due from credit institutions and similar entities fell by one point to 47 percent.

Chart 61: Assets structure of offshore banks (%)



Offshore banks' due to credit institutions and similar entities, constituting 79 percent of their liabilities, fell by 6.5 percent to 32.4 billion, as against 15.8 percent a year ago. These debts consist of 67 percent of liabilities raised from credit institutions in Morocco and 33 percent from foreign credit institutions.

Deposits collected from customers, which represented a 16 percent share of liabilities, decreased by 1.7 percent, after a 16 percent increase in 2017 to 6.4 billion. More than a third of these deposits are held by non-residents and the remainder by companies located in the Tangier offshore zone.

Table 15: Change in offshore banks' liabilities

(In million of dirhams)

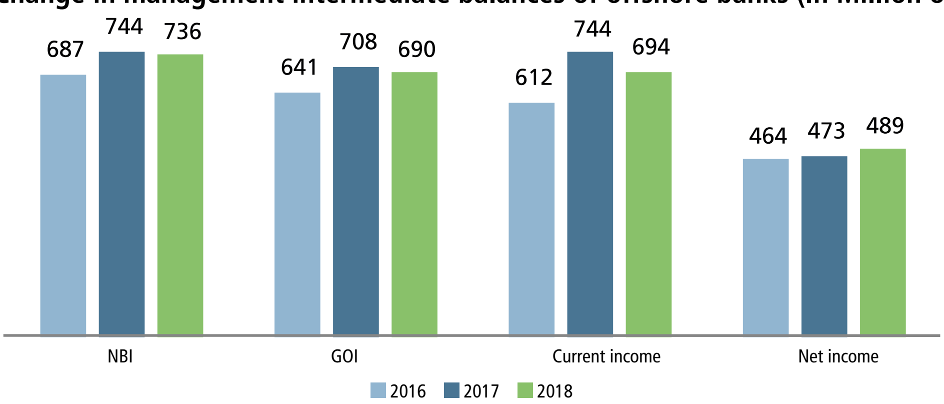
	2016	2017	2018	Change 2017 /2018 (%)
Due from credit institutions and similar entities	**41 092**	**34 619**	**32 375**	**-6,5**
Customers' deposits	**5 602**	**6 500**	**6 389**	**-1,7**
Equity	**643**	**641**	**555**	**-13,3**
Other liabilities	**752**	**897**	**1 641**	**83,0**
Total liabilities	**48 089**	**42 657**	**40 961**	**-4,0**

With an amount of 555 million dirhams at end-December 2018, offshore banks' accounting equity value decreased by 13.3 percent compared to 2017. The risks incurred by offshore activities are mainly covered by equity of parent banks'.

Financing commitments given by offshore banks amounted to 613 million dirhams , up 86 percent, showing a 148 percent increase in commitments to customers to 562 million and a 50 percent decrease in commitments to credit institutions and similar entities to 52 million dirhams.

Guarantee commitments given grew by 8 percent to 1.5 billion, as against 31 percent at the end of 2017, reflecting an increase of 14 percent for guarantee commitments to credit institutions and similar entities to 796.7 million dirhams and 1.5 percent for guarantee commitments to customers to 690 million dirhams. Received guarantee commitments reached 12.4 billion dirhams.

Chart 62: Change in management intermediate balances of offshore banks (In Million of dirhams)



At end-2018, offshore banks reported a net banking income of 736 million dirhams, down 1 percent, as against 8.4 percent in 2017, mainly due to lower credit activity and income from market transactions, following a decline in income on the held-for-sale portfolio.

The net income generated by offshore banks registered an increase of nearly 3.3 percent to 489 million dirhams, after that of 2 percent recorded in 2017, in connection with the decline in non-current expenses.

6 - Activity of microcredit associations

The microcredit sector has a network of 1,767 points of sale, up 0.6 percent compared to 2017. The number of customers stood at 890,000, down by 3.8 percent, almost half of which are women.

Table 16: Change in assets of microcredit associations

(In million of dirhams)

	2016	2017	2018	Change 2017 /2018 (%)
Due from credit institutions and similar entities	**792**	**655**	**806**	**23,1**
Due from customers	**6 234**	**6 437**	**6 608**	**2,7**
Fixed assets	**201**	**251**	**231**	**-7,9**
Other assets	**183**	**227**	**271**	**19,4**
Total assets	**7 410**	**7 570**	**7 916**	**4,6**

Headings net of depreciation and provisions.

Loans granted by microcredit associations to customers totaled a gross outstanding amount of nearly 6.8 billion dirhams, recording a rise of 2.5 percent, as against 3.7 percent a year ago. As a result, the average outstanding amount grew to 8,000 dirhams, or 1,000 dirhams more than in 2017. Nearly 92 percent of the loans are granted by the three largest associations.

Loans to micro-enterprises account for 88 percent of the total, down one point from 2017. Almost 76 percent of loans are concentrated in urban areas, compared to 70 percent a year earlier. The share of individual loans gained 3 points, from 70 percent to 73 percent.

Outstanding nonperforming loans declined by 8 percent to nearly 204 million dirhams, after a rise of 20 percent in 2017, giving a risk ratio of 3 percent, from 3.3 percent a year earlier. This improvement is particularly attributed to the write-off of nonperforming loans. The coverage ratio of these loans by provisions increased to 86 percent from 82 percent in 2017.

Due from credit institutions and similar entities, consisting mainly of deposits with banks, were up 23.1 percent to 806 million dirhams, or 10 percent of the total assets.

Table17: Change in liabilities of microcredit associations

(In Million of dirhams)

	2016	2017	2018	Change 2017 /2018 (in %)
Due to credit institutions and similar entities	**3 989**	**3 938**	**4 088**	**3,8**
Equity and similar assets	**2 663**	**2 780**	**2 846**	**2,4**
Other liabilities	**758**	**852**	**982**	**15,2**
Total liabilities	**7 410**	**7 570**	**7 916**	**4,6**

Due amounts to credit institutions, representing more than half of the liabilities of microcredit associations, appreciated by 3.8 percent to 4 billion dirhams, after falling 1.3 percent a year earlier. Due to local banks account for an 88 percent share of these debts.

Equity of these associations increased by 2.4 percent to reach around 2.9 billion dirhams, or 36 percent of liabilities.

The microcredit associations sector ended the 2018 financial year with a net profit of 188 million dirhams, registering a 5 percent increase after a 15 percent drop in 2017, or an ROA of 2.4 percent and an ROE of 6.6 percent.

7 - Activity and profitability of payment institutions

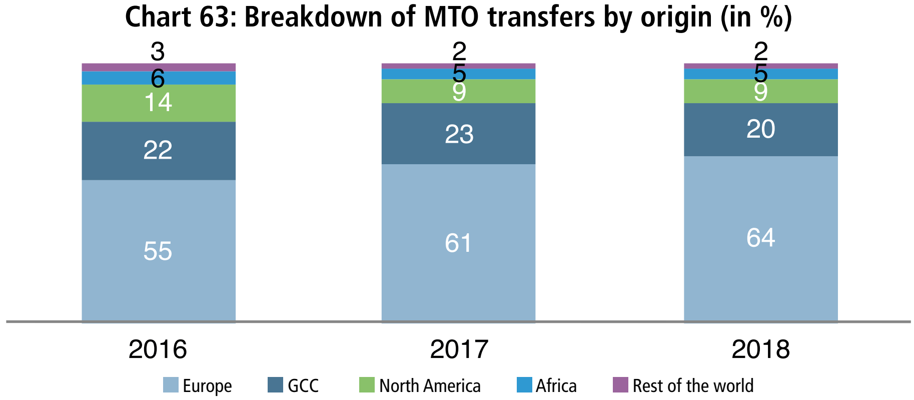
For the 2018 financial year, payment institutions had a total balance sheet of 2.3 billion dirhams, up 19.8 percent over 2017. Their equity20 amounted to 666 million dirhams, from 632 million dirhams. At the same time, the sector's indebtedness level rose by 40 percent to 626 million, in connection with the financing needs of investments to start or extend the activity of certain players.

The volume of transfers through payment institutions increased by 14.6 percent to 26.3 billion dirhams. These transfers are made through the money transfer operators platforms.

Transfers of funds received from abroad were carried out by payment institutions specialized in the area of funds transfer at 87 percent and banks at 13 percent.

The breakdown by origin of these transfers21 reveals a predominant share of Europe (64 percent), which increased by 3 points to the detriment of that of the Gulf countries (20 percent). The share of North America and the African continent remained, year on year, at 9 percent and 5 percent, respectively.

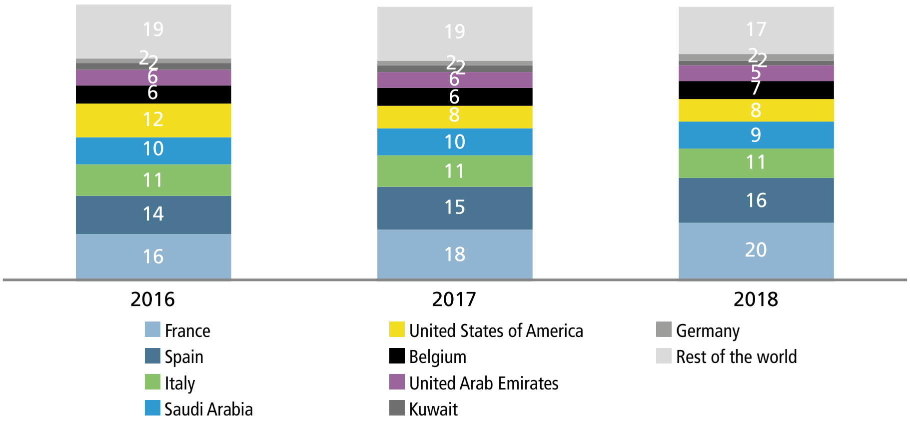
Chart 63: Breakdown of MTO transfers by origin (in %)



20 Excluding profit income.
21 Data on transfers by country of origin, sending country, destination region and city include only data from money transfer companies.

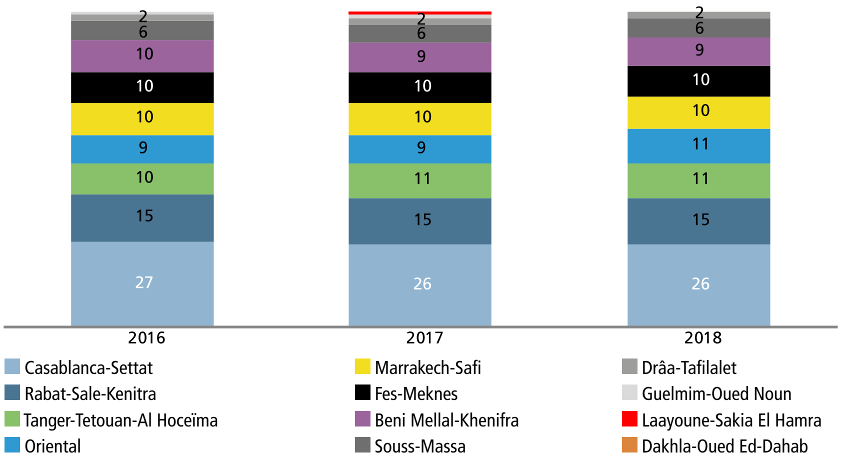
The top 10 issuing countries account for 83 percent of transfers.

Chart 64: Breakdown of MTO transfers by sending country (in %)



Nearly half of these transfers were intended for the three major regions of Casablanca-Settat, Rabat-Sale-Kenitra and Tangier-Tetouan-Al Hoceima.

Chart 65: Change in the share of receiving regions (in %)



With regard to national transfers, their volume totaled nearly 32.7 billion dirhams at the end of 2018, as against 26.5 billion a year earlier (+ 14.6 percent). Of this total, 20 percent are issued from Casablanca.

Chart 66: Share of cities receiving national MTO transfers (in %)

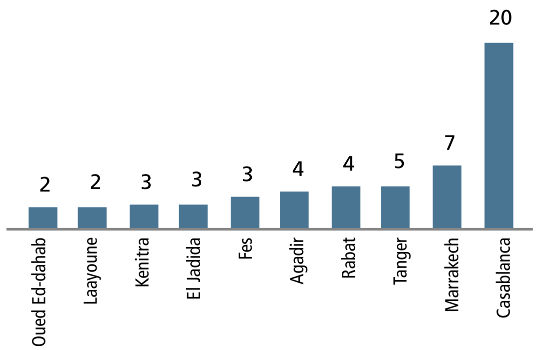
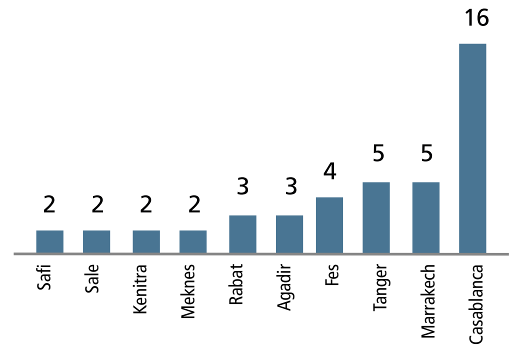


Chart 67: Share of cities sending national MTO transfers (in %)



In terms of profitability, the net banking income generated by payment institutions rose 3 percent to 852 million dirhams and their net profit improved by 8.7 percent to 161 million dirhams.

8 - Banking groups' activity and profitability

Fiscal year 2018 was marked by the entry into force of International Financial Reporting Standards 9 (IFRS) relating to financial instruments, which leads to a reform of the classification of these instruments, their depreciation and a revision of hedge accounting.

8.1 - The banking groups' assets structure was modified following the new classification according to IFRS 9

At the end of 2018, the balance sheet total of the 9 banking groups stood at 1.611 billion dirhams, up 4.6 percent, year on year, as against 7.6 percent at the end of 2017. This change covers the impact of the transition to IFRS 9.

Box 9: Impact of the first application of IFRS 9

The IFRS 9 standard on financial instruments, which came into force in January 2018, replaced IAS 39 as regards the accounting, depreciation and presentation of financial instruments. It comprises three components:

- Classification and measurement of financial instruments;
- Depreciation of financial instruments;
- Hedge accounting.

In the banking sector, the implementation of this standard led to a negative net deferred tax impact of 13.2 billion dirhams on accounting equity, mainly due to the inclusion of the prospective depreciation model based on expected credit losses.

Banking groups' assets are mainly composed of due from customers (64 percent), followed by financial assets at fair value by result (10 percent) and financial assets at fair value by equity (6 percent).

Chart 68: Structure of banks' assets - on a consolidated basis (in %)

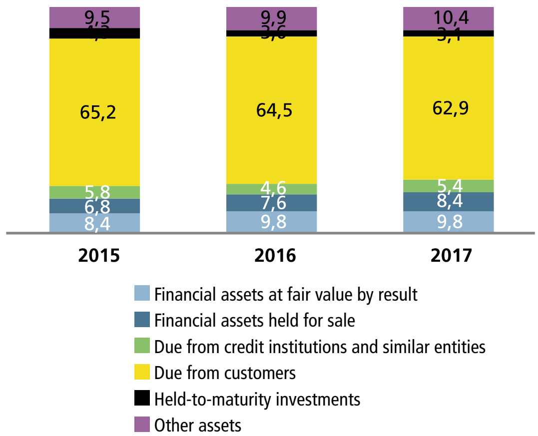
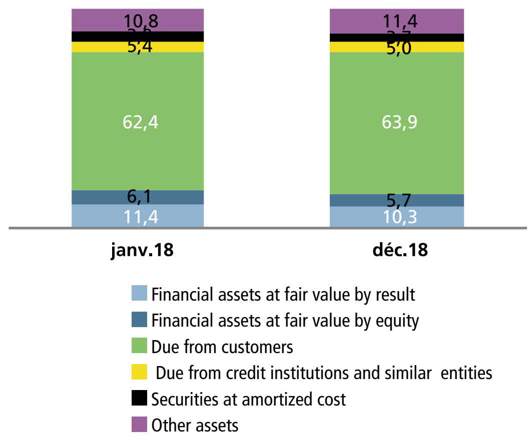
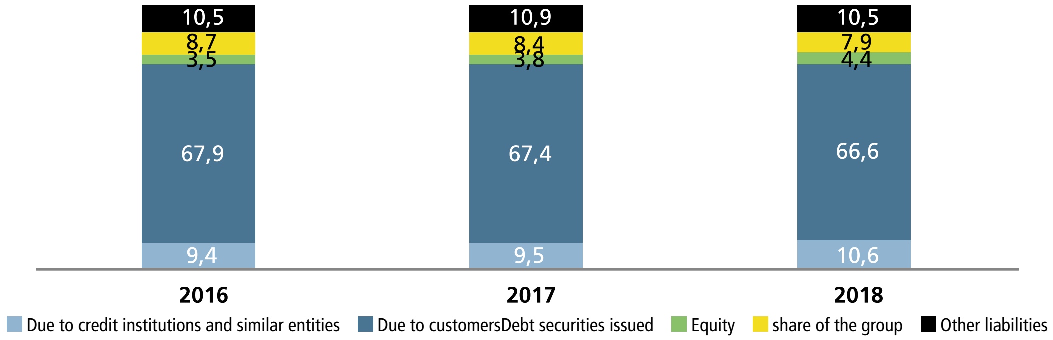


Chart 69: Structure of banks' assets according to IFRS 9 - on a consolidated basis (in %)



Liabilities remain dominated by customers' deposits (66.6 percent), followed by due to credit institutions (10.6 percent). The share of equity fell to 7.9 percent, as against 8.4 percent, driven by the entry into force of IFRS 9.

Chart 70: Structure of banks liabilities-on a consolidated basis (%)



8.1.1 - Banking groups' assets increased thanks to higher due from customers

Table 18: Change in banks' assets on a consolidated basis

(In Million of dirhams)

	2016	2017	Jan 1st, 2018: 1st application of the IFRS 9 standard	2018	Change Jan.2018/dec. 2018 (in %)	Change 2017 /2018 (in %)
Financial assets at fair value by result	139 906	150 555	173 757	166 451	-4,2	10,6
Financial assets held for sale	108 345	129 241				
Financial assets at fair value by equity			92 958	91 391	-1,7	
Due from customers	923 864	969 202	953 797	1 029 188	7,9	6,2
Due from credit Institutions and similar entities	65 185	83 034	82 803	80 499	-2,8	-3,1
Held-to-maturity investments	50 882	47 352				
Securities at amortized cost			59 345	60 256	1,5	
Other assets	144 018	161 021	165 976	183 427	10,5	13,9
Total assets	**1 432 200**	**1 540 405**	**1 528 636**	**1 611 212**	**5,4**	**4,6**

At the end of 2018, loans and advances to customers grew by 7.9 percent, as against 4.9 percent in the previous year. The impact of the first application of the new standard led on January 1 to a reduction of 16.4 billion dirhams in advances to customers, or -1.7 percent, particularly owing to depreciations for credit risk.

Box 10: Impact of IFRS 9 standard on the portfolio of loans and advances to customers

IFRS 9 introduces a new model of depreciation of loans and advances to customers based on expected losses and the monitoring of deterioration in credit risk since their initial accounting. This model includes three provisioning stages called "buckets" reflecting the significant increase in credit risk since its origination:

- Bucket 1: It includes financial instruments that have no significant increase in credit impairment since the initial . accounting. Expected credit losses are estimated over the next twelve months.
- Bucket 2: It corresponds to financial instruments for which credit impairment increased significantly since initial recognition, without presenting a proven default event. Expected credit losses are estimated at maturity.
- Bucket 3: It covers financial instruments with one or more default events. Expected credit losses are estimated at maturity.

The implementation of the new IFRS 9 standard provisions on impairment generated, at the date of the first application in January 2018, an additional provisioning of 16.4 billion dirhams, including 7.1 billion dirhams under the first bucket, 8.7 billion dirhams under the second bucket and 631 million dirhams under the third bucket.

In addition, the first application of IFRS 9 standard resulted in an additional provision on off-balance sheet commitments of 2.2 billion dirhams, securities of 848 million dirhams and due to credit institutions and central banks of 268 million dirhams.

At the same time, the securities portfolio at amortized cost, a new category introduced under IFRS 9 standard, rose 1.5 percent to 60.3 billion dirhams in 2018.

Following a 27.4 percent increase in 2017, loans and advances to credit institutions declined by 2.8 percent to 80.5 billion dirhams. Similarly, financial assets at fair value by result decreased by 4.2 percent and financial assets at fair value by equity decreased by 1.7 percent.

Box 11: Securities portfolio

IFRS 9 standard requires a new model for the classification and measurement of financial assets based on the criteria of the management arrangements and the characteristics of the contractual cash flows generated by these assets.

This model replaces the four accounting categories of the previous IAS 39 standard (loans and advances, held-to-maturity assets, available-for-sale assets, assets at fair value by result) with three new accounting categories:

- Assets measured at amortized cost;
- Assets measured at fair value by equity;
- Assets measured at fair value by result.

8.1.2 - The increase in liabilities collected was driven by customers' deposits and refinancing on the debt market

Table 19: Change in banks' liabilities on a consolidated basis

(In Million of dirhams)

	2016	2017	Jan. 2018	2018	Change 2017/2018 (%)
Financial liabilities at fair value by result	**3 229**	**2 560**	**2 566**	**553**	**-78,4**
Due to credit institutions and similar entities	**134 851**	**146 524**	**146 524**	**170 781**	**16,6**
Due to customers	**972 611**	**1 038 059**	**1 038 059**	**1 073 662**	**3,4**
Debt securities issued	**50 590**	**59 072**	**59 072**	**70 628**	**19,6**
Equity - share of the group	**124 233**	**129 758**	**119 120**	**127 829**	**-1,5**
Including net income	12 167	13 286	3 512	13 866	**4,4**
Other liabilities	**146 686**	**164 432**	**163 294**	**167 758**	**2,0**
Total liabilities	**1 432 200**	**1 540 405**	**1 528 636**	**1 611 212**	**4,6**

Liabilities collected from customers decelerated to 3.4 percent from 6.7 percent a year earlier. Due to credit institutions accelerated to 16.6 percent from 8.7 percent, mainly owing to increasing reliance on the refinancing of the central bank. Debt securities issued increased significantly by 19.6 percent, as against 16.8 percent. Financial liabilities at fair value by result, comprised of repurchase agreements and derivative instruments, fell again by 2.6 billion, to 553 million dirhams.

The equity-group share shrank by 1.5 percent to 127.8 billion dirhams, in conjunction with the application of the IFRS 9 standard.

Box 12: Impact on the accounting equity

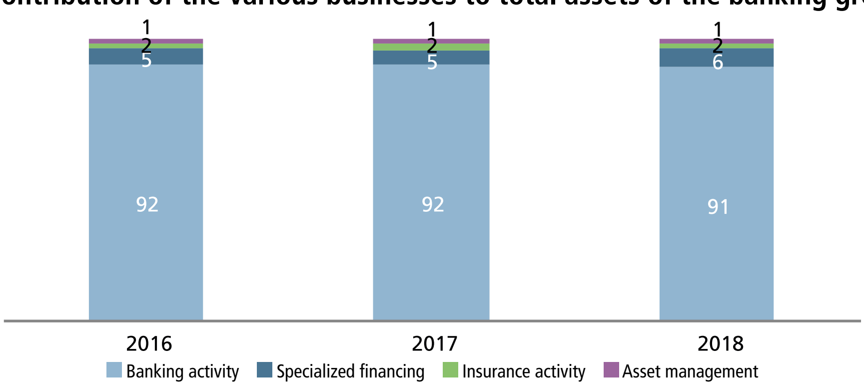
The differences in measuring financial assets and liabilities, provisions and depreciation for credit risk, and the gains and losses resulting from the retrospective application of IFRS 9 standard are accounted directly in equity as at January 1, 2018, date of the first application of the new standard.

The first application of this standard resulted in a decrease in the capital at book value of about 13.2 billion dirhams, moving down from 153.8 billion dirhams at end-December 2017 to 140.5 billion dirhams on 1 January 2018.

8.1.3 - The business structure of the banking groups' activities has not changed, as the banking activity remains dominant

The consolidated activity of the banking groups covers the banking activities in Morocco and those carried out abroad through subsidiaries or branches, the sectors of insurance and asset management as well as specialized financing. It remains dominated by the banking component, which accounts for nearly 91 percent, down one point from the previous year, while the share of specialized financing rose to 6 percent. Shares of the asset management and insurance activities stabilized at 2 percent and 1 percent, respectively.

Chart 71: Contribution of the various businesses to total assets of the banking groups (in %)



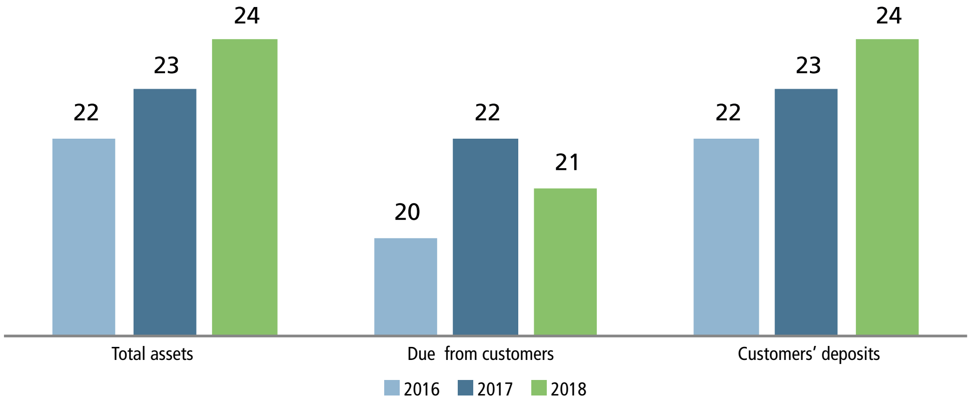
8.1.4 - Slower growth of activities abroad, further to the application of the new IFRS 9 standard

At the end of 2018, the total assets of the foreign-based subsidiaries of the 3 cross-border Moroccan banking groups recorded an increase of 1.8 percent to 284 billion dirhams, contributing an average of 24 percent to their activity. This deceleration is attributed to the introduction of IFRS 9 standard as well as the sluggish activity in some foreign-based subsidiaries. Compared to January 1, 2018, the date of entry into force of this standard, the activity of these subsidiaries grew by 5 percent.

In terms of loans, international activity grew by 1.1 percent to 155.3 billion dirhams, as against 13.3 percent a year earlier and 4.4 percent excluding the effect of the first application of the IFRS 9. Its share in the overall portfolio of activities decreased by one point to 21 percent. This trend is attributed to a difficult economic situation, particularly in the countries of Central Africa.

Deposits collected by foreign-based subsidiaries amounted to 191 billion, up 5.6 percent, from 13.1 percent a year earlier, or a 24 percent share of total deposits of the 3 banking groups.

Chart 72: Contribution of the banking subsidiaries abroad to the main balance-sheet headings of the three major banking groups (in %)



8.1.5 - Nonperforming loan ratio on a consolidated basis remained stable

At the end of 2018, nonperforming loans of the 9 banking groups totaled 93 billion dirhams, up 7.5 percent compared to the end of 2017, generating a stable risk ratio of 8.4 percent. These loans were covered by provisions22 at 64.5 percent, from 63.1 percent.

Chart 73: Change in non-performing loans and the risk ratio, on a consolidated basis

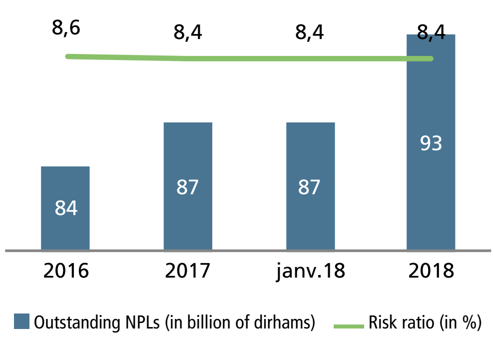
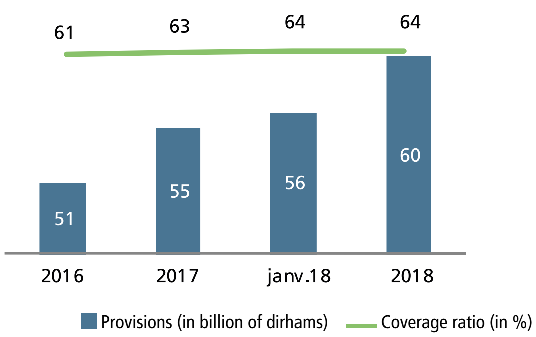


Chart 74: Change in the provisions and in the coverage ratio, on a consolidated basis



At the end of 2018, sensitive loans meeting the criteria of IFRS 9 were provisioned at an average rate of 14.4 percent. Healthy loans with no vulnerability index are covered by provisions at 0.8 percent on average.

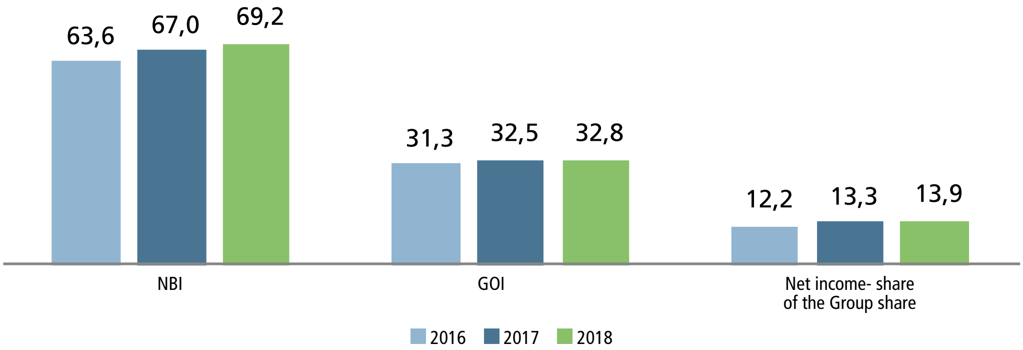
22 The provisions for 2016 and 2017 were recalculated without taking into account collective provisions for reasons of comparability.

Nonperforming loans of subsidiaries abroad, particularly in sub-Saharan Africa, totaled 15.7 billion dirhams, representing a stable risk ratio of 9.6 percent. The coverage rate of these loans by provisions also remained at 70 percent.

8.2 - Banking groups' net income performed well, despite a lower market income

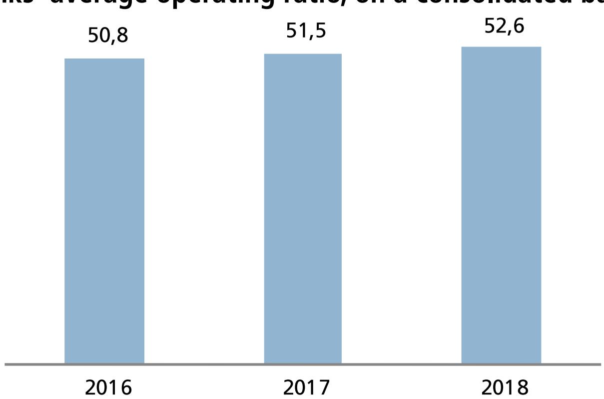
The cumulative consolidated income of the nine banking groups in 2018 posted a growth less marked than in 2017, reflecting a contraction of income from market operations. Income from intermediation and services activity and the cost of risk improved.

Chart 75: Change in management intermediate balances, on a consolidated basis (in billion of dirhams)



Net banking income amounted to 69.2 billion dirhams, up 3.3 percent, as against 5.4 percent in the preceding year. This change reflects a 6.4 percent improvement in the interest margin, compared with 4.8 percent in the previous year and a 6.7 percent increase in the margin on commissions, compared to 9.8 percent. The gains on market transactions dropped by 10.6 percent, after a rise of 1 percent a year earlier, mainly due to the decline in the securities portfolio and the slight rise in bond rates.

Chart 76: Banks' average operating ratio, on a consolidated basis (in %)



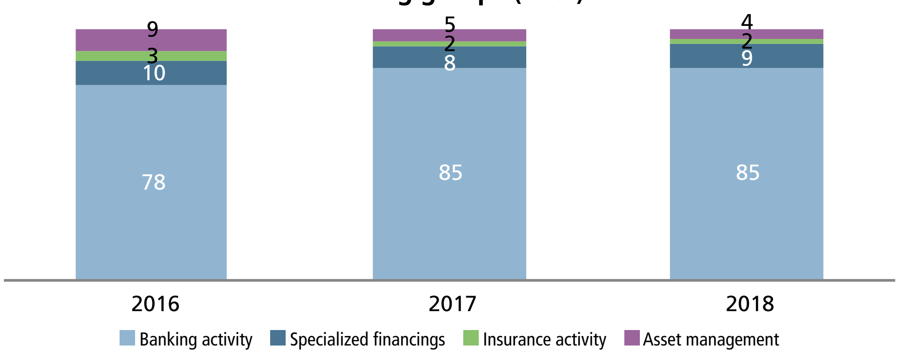
General operating expenses increased by 5.7 percent to nearly 36.5 billion dirhams, compared to 7 percent at the end of 2017. As a result, the average operating ratio was up 1.1 point to 52.6 billion and the gross operating income (GOI) rose 0.9 percent to 32.8 billion dirhams.

The cost of risk fell again by 5.8 percent to 9.1 billion, absorbing 27.7 percent of GOI, compared to 29.7 percent in the previous year.

In total, the nine banking groups closed the financial year 2018 with a net income-group share of 13.9 billion, up 4.4 percent, as against 9.2 percent in 2017. The return on assets (ROA) stabilized at 0.9 percent, while the return on equity (ROE) increased by 0.6 point to 10.8 percent.

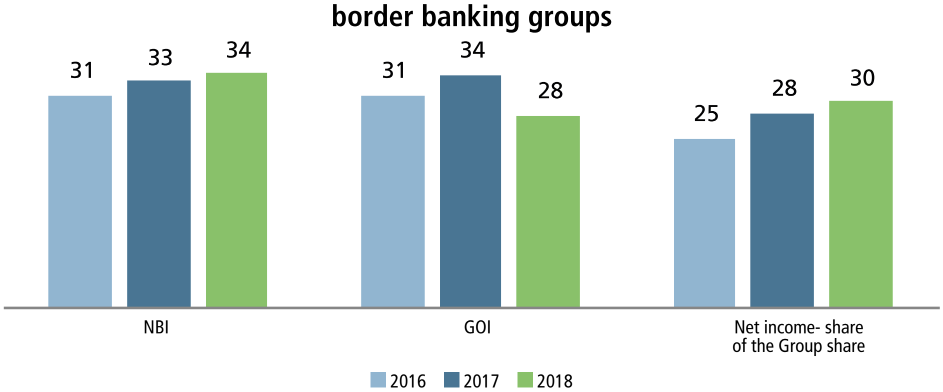
By business line, it seems that the contribution of the banking activity to the net income-group share stood at 85 percent, unchanged from 2017. The contribution of specialized financing increased by one point to 9 percent, to the detriment of asset management (4 percent).

Chart 77: Contribution of various businesses to the net income- share of the group of the nine banking groups (in %)



International activity generated a 5.8 percent increase in net banking income to 17.9 billion dirhams. Its contribution to the NBI of the 3 banking groups rose by one point to 34 percent and the net income- group share by 2 points to 30 percent.

Chart 78: Contribution of the banking subsidiaries abroad in the main income headings of 3 cross-border banking groups



CHAPTER II

BANKING RISKS

In 2018, loans to businesses remained sluggish, with a slight decline of the loss ratio.

On the other hand, the concentration risk continued to decrease and the ratio of large risks to banks' equity stood at around to 2.7 times, compared to 4 times a decade ago.

Banks strengthened their financial base, and the year 2018 marked the completion of the transitional provisions for the rolling out of Basel III capital adequacy regime.

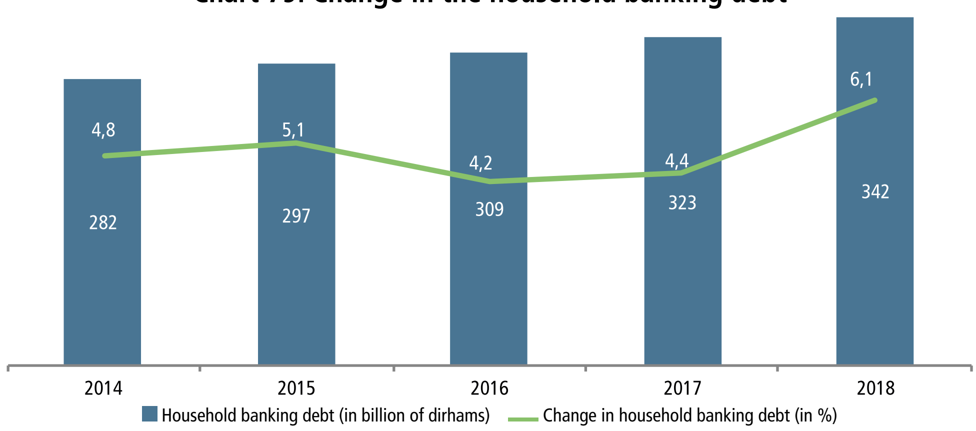
The developments, explained below, deal with the various components of credit risks through the analysis of the change in indebtedness among non-financial agents, households and enterprises, as well as the change in non-performing loans and major risks. This chapter also traces banks' solvency and liquidity and their exposure to interest rate risk.

1 - Change in household bank indebtedness

Since 2005, Bank Al-Maghrib has been conducting a survey of banks and consumer loan companies to monitor changes in household bank indebtedness. The 14th survey, concerning FY 2018, covered a sample of 11 banks and 10 consumer loan companies, with a market share of 99 percent in terms of housing loans and 98 percent for consumer loans.

This survey complements the monthly regular monitoring of consumer and housing loans, and enriches it with information on the profile of the recipients based on age, income, socio-professional category and geographical location.

Chart 79: Change in the household banking debt



At end-December 2018, outstanding household bank debt amounted to 342 billion dirhams, up 6.1 percent as against 4.4 percent in 2017, driven by higher housing and consumer loans. This rise accounted for nearly 36 percent for loans from credit institutions, the same level as in the previous year. Measured by GDP, this outstanding amount stood at 31 percent, one point more compared to the end of 2017.

The average household debt level stood at 42,500 dirhams at end-December 2018, as against 41,000 a year earlier.

The share of consumer loans in households' bank indebtedness stood at 36 percent while housing loans represented 64 percent.

Banks hold around 85 percent of this debt, unchanged from the previous year.

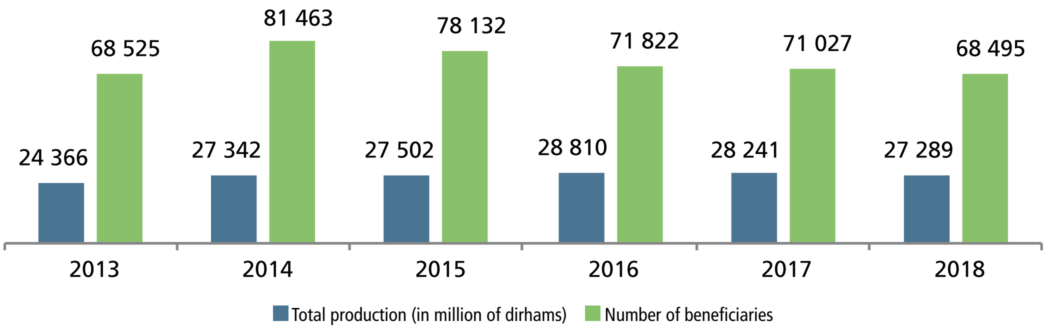
1.1 - Housing financing

Outstanding housing financings stood at 219 billion23 dirhams, up 5.5 percent, as against 4.2 a year earlier. Among this total, Mourabaha real estate loans stand at 4.2 billion dirhams.

1.1.1 - Characteristics of housing loans

In a context of 4.5 percent higher real estate transactions in 2018, housing loans fell anew by 3 percent to reach around 27.3 billion, after their 2 percent drop last year. This drop concerned loans encouraged by the State (-10 percent) while free loans grew 2 percent.

Chart 80: Change in the production of housing loans and the number of beneficiaries

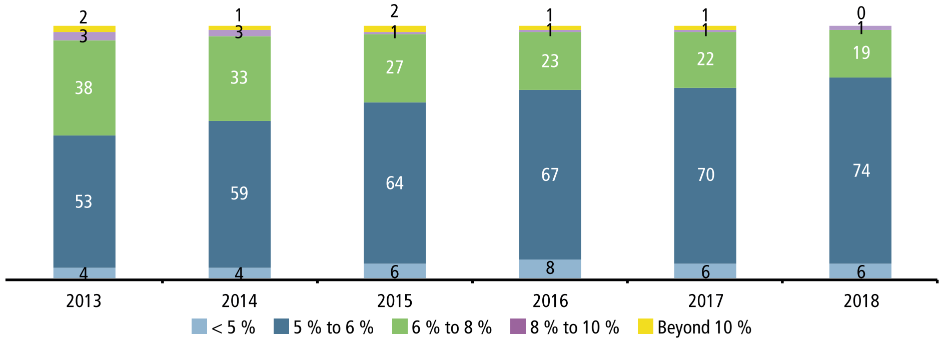


At the same time, the number of beneficiaries fell again by 4 percent to nearly 68,500 customers, reflecting a drop of 5 percent for loans encouraged by the State and 2 percent for free loans. As a result, loans amount averaged 398,000 dirhams, unchanged from the previous year.

Thus, gross outstanding housing loans amounted to 215 billion dirhams, up 3.7 percent, as against 4.1 percent a year earlier. Outstanding free loans represent 82 percent of this total, up 6.7 percent, as against 4.7 percent. For their part, loans encouraged by the State saw their outstanding amounts grow by 0.9 percent following a 1.8 percent increase. They thus amounted to 39.3 billion dirhams, including 21.4 billion under FOGALEF24 and FOGALOGE25, 15.8 billion under FOGARIM26 and 2.1 billion for low-cost housing.

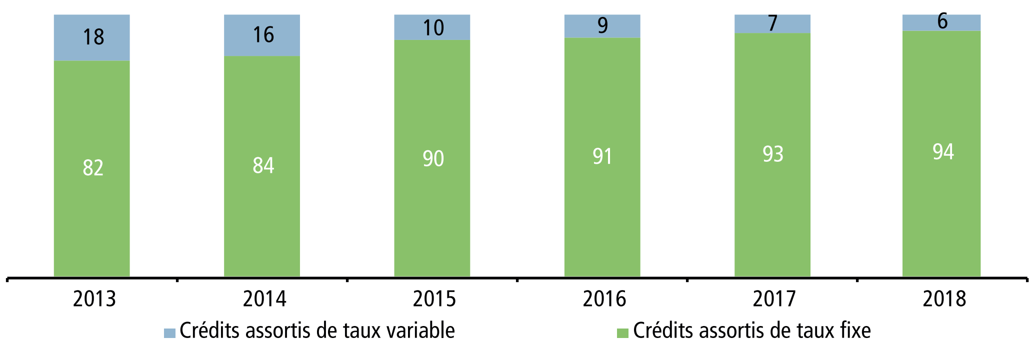
23 Including real estate participatory financing, granted in the form of Mourabaha.
24 Guarantee fund for housing loans to members of the Mohammed VI Foundation for the Promotion of Social Works for Education Training staff.
25 Guarantee fund for housing loans to public sector personnel.
26 Guarantee fund for households with irregular and small-incomes.

Chart 81: Change in the outstanding amount of housing loans based on the applied range rate (in %)



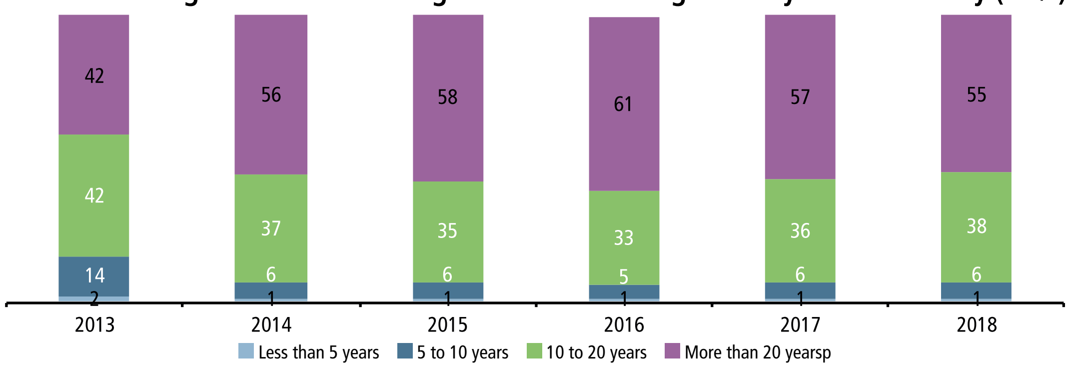
The average interest rate applied to housing loans was 4.93 percent. The share of loans granted at a rate ranging between 4 percent and 6 percent increased by 4 points to 74 percent at end-2018, at the expense of credits granted at a rate between 6 percent and 8 percent, whose share fell by 3 points to 19 percent.

Chart 82: Breakdown of the outstanding amount of housing loans into fixed and floating rates (in %)



Fixed-rate housing loans increased again to represent 98 percent in terms of production and 94 percent in terms of outstanding amounts, one point more compared to 2017.

Chart 83: Change in the outstanding amount of housing loans by initial maturity (in %)



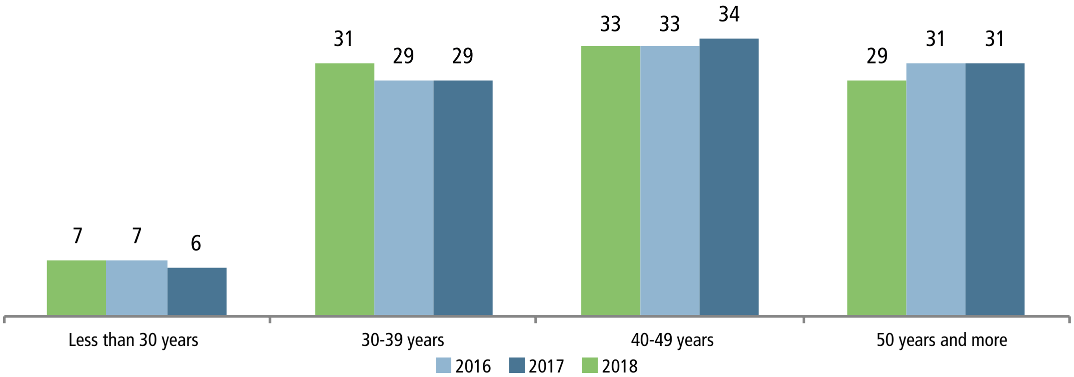
The share of housing loans granted for an initial term of more than 20 years shrank again by 2 points to 55 percent, in favor of loans with a maturity ranging between 10 and 20 years. This results in an average initial duration of 19.8 years, as against 20 years a year earlier.

1.1.2 - Profile and characteristics of housing loans beneficiaries

The profile of housing loan beneficiaries is analysed based on age, income, socio-professional category and place of residence.

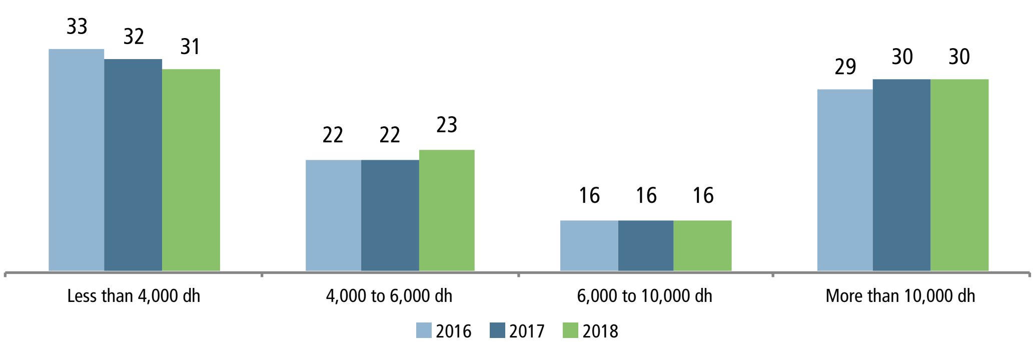
Based on age, people over 40 have concentrated almost 65 percent of the total number of loans, compared to 29 percent for people aged between 30 and 40 years, while people under 30 represent no more than 6 percent.

Chart 84: Breakdown of the number of housing loans files by age (in %)



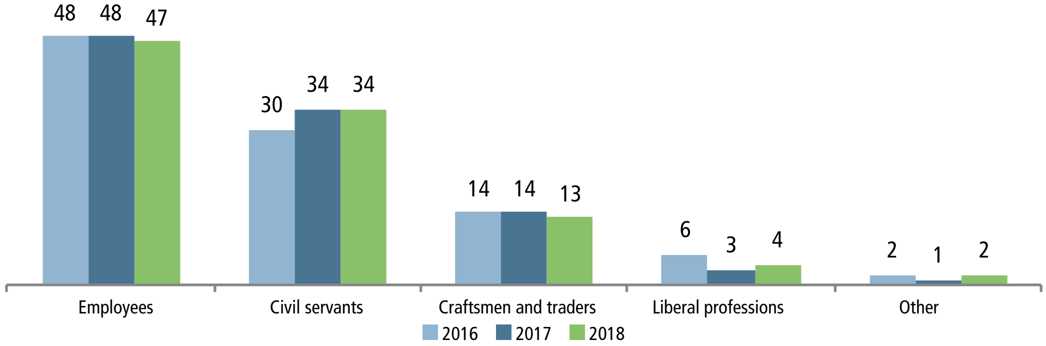
In terms of income, people with income ranging between 4,000 and 6,000 DH had 23 percent of the number of loan files, up by one point to the detriment of people with incomes lower than 4,000 dirhams, whose share has decreased to 31 percent.

Chart 85: Breakdown of the number of housing loans' files by income (in %)



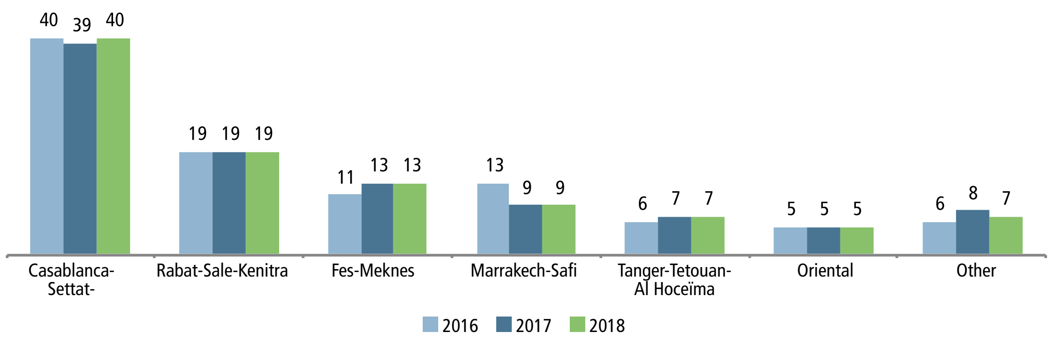
Based on the socio-professional category, employees and civil servants continue to make the most use of credit, with shares of 47 percent (48 percent in 2017) and 34 percent (34 percent in 2017) respectively. Craftsmen-traders hold 13 percent of the credit files (14 percent in 2017).

Chart 86: Breakdown of the number of housing loans' files by socio-professional category (in %)



According to the geographical distribution, 40 percent of overall debtors are concentrated inthe region of Casablanca-Settat, as against 19 percent for that of Rabat-Sale-Kenitra, compared to 39 percent and 19 percent respectively in 2017.

Chart 87: Geographic breakdown of the number of housing loans' files (in %)



1.2 - Consumer financing

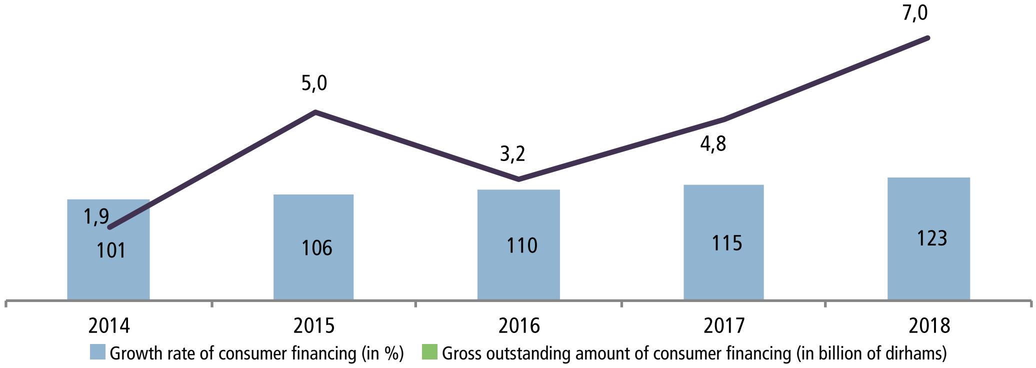
1.2.1 - Change in consumer financing

The growth rate of consumer loans27 accelerated from 4.8% in 2017 to 7 percent, to total a gross outstanding of 123 billion dirhams. This trend concerns both loans distributed by consumer credit companies (+ 8 percent) and banks28 (6.3 percent).

The outstanding participatory loans granted in the form of Mourabaha for the purchase of vehicles amounted to 347 million dirhams.

27 Including participatory financing granted in the form of Mourabaha for vehicle purchase.
28 Including overdrafts and other loans to individuals.

Chart 88: Change in the gross outstanding amount of consumer financing



By analysing consumer loans according to their maturity, the share of loans with maturities over 5 years increased by 3 points to 75 percent, at the expense of loans with maturities below 3 years. This maturity extension concerned both consumer loan companies and banks.

Chart 89: Change of the outstanding amount of consumer loans by initial maturity (in %)

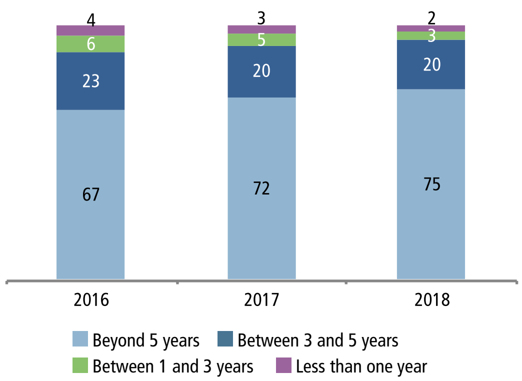
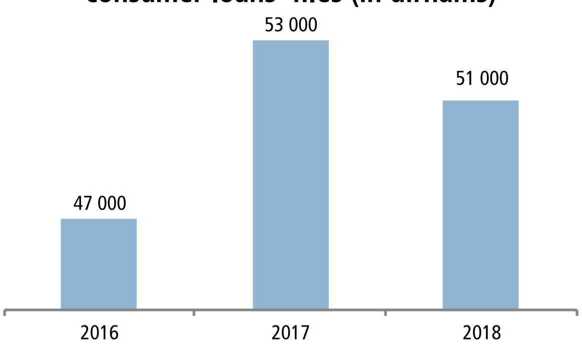


Chart 90: Change in the average amount of consumer loans' files (in dirhams)



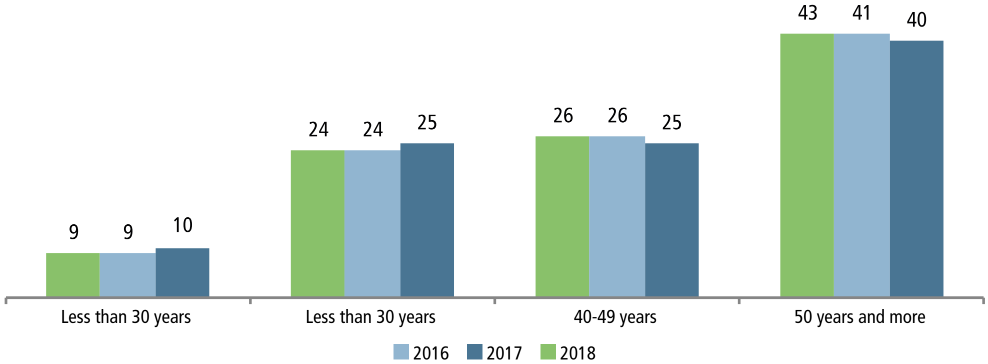
The average amount of consumer loans reached 51,000 dirhams, down 2,000 dirhams from one year to the next.

1.2.2 - Profile and characteristics of consumer loans beneficiaries

As for housing loans, the profile of consumer loans' beneficiaries is defined on the basis of age, income, socio-professional category and residence.

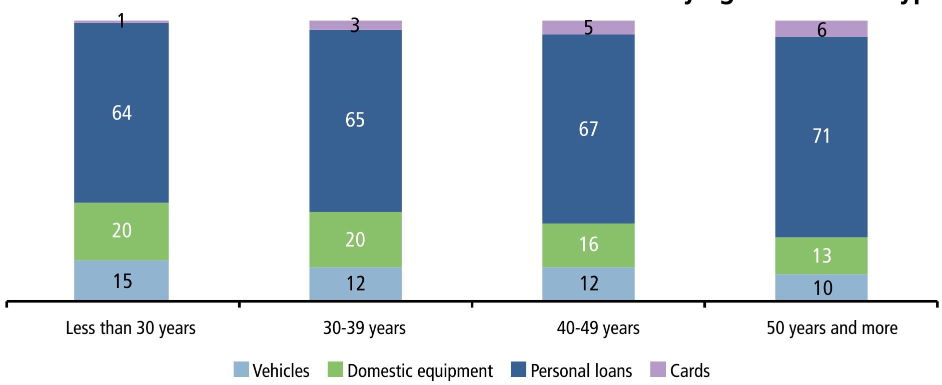
Based on age, the share of beneficiaries under 40 increased by 2 points, representing 35 percent of the number of files, at the expense of older beneficiaries, while beneficiaries under 30 represent merely 10 percent.

Chart 91: Breakdown of the number of consumer loans' files by age (in %)



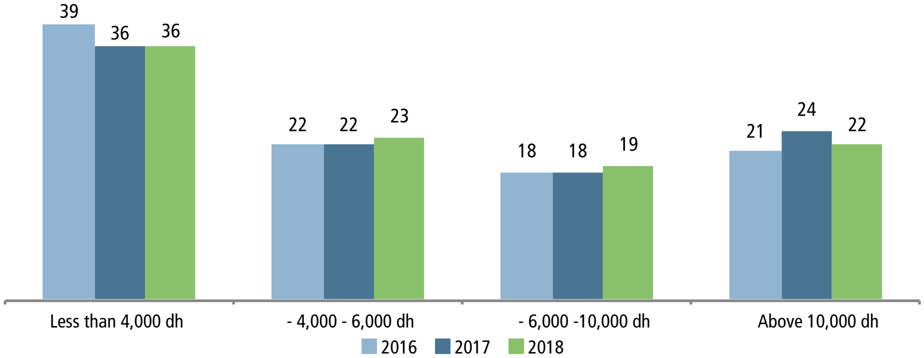
In terms of the number of files, personal loans are still the most widely used type of credit for all age groups. Conversely, revolving cards represent 6 percent of loans contracted by recipients aged over 50 and only 1 percent by persons aged below 30.

Chart 92: Breakdown of the number of consumer loans' files by age and credit type (in %)



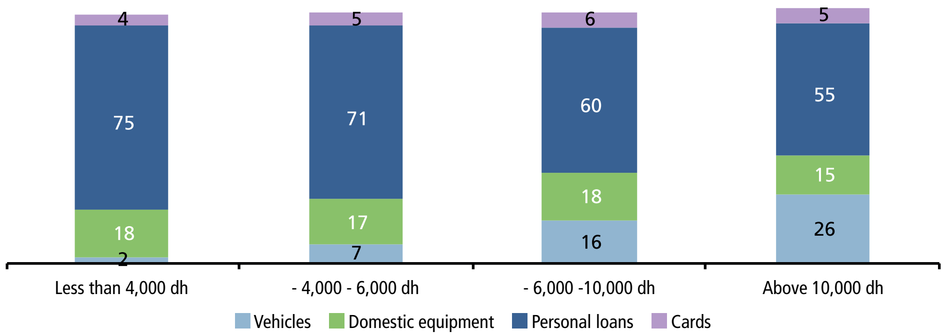
Around 23 percent of credit files belong to individuals with an income ranging between 4,000 and 6,000 dirhams, compared with 22 percent in the previous year. On the other hand, the share of people perceiving incomes over 10,000 dirhams shrank by 2 points to 22 percent, during the same period.

Chart 93: Breakdown of the number of consumer loans' files by income (in %)



Personal loans are still the most widely used type of credit across all income groups. Those with the lowest incomes have the largest share (75 percent versus 78 percent in 2017) while the highest income earners hold a larger share of vehicle purchase loans (26 percent versus 25 percent).

Chart 94: Breakdown of the number of consumer loans' files by income and credit type (in %)



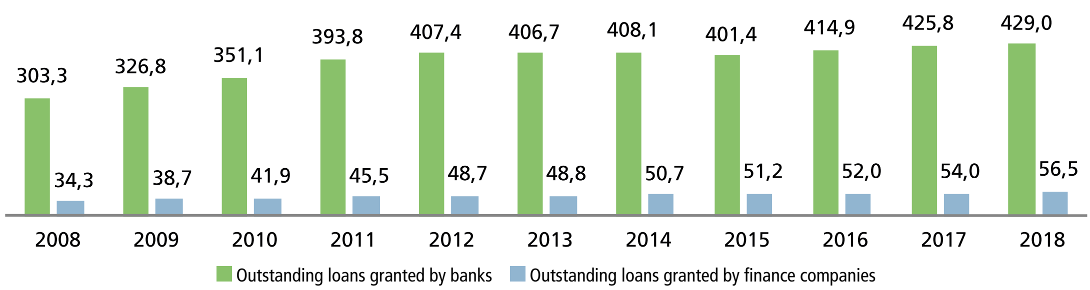
In 2018, employees and civil servants held respective shares of 49 percent and 34 percent, compared to 46 percent and 36 percent in the previous year, due to the increased share of employees.

By geographical location, it seems that the recipients of consumer loans are mostly settled in urban agglomerations of Casablanca (30 percent) and Rabat (19 percent).

2- Change in non-financial corporations' banking indebtedness

As a result of the slow improvement in non-agricultural activities at the national level, disbursement loans granted by credit institutions to non-financial corporations fell more sharply to 1.2 percent, compared with 2.8 percent in 2017, thus representing an outstanding amount of 485.5 billion dirhams. Their share in total loans fell to 51 percent, down 3 points from one year to the next.

Chart 95: Outstanding amount of loans by disbursement granted to non-financial corporations (in billion of dirhams)



Representing 88 percent of total corporate financing, bank loans fell sharply from 2.6 percent to 0.7 percent. This deceleration affected private companies more than their state-owned counterparts. Following a 2.3 percent rise in 2017, outstanding loans to private companies decelerated to 0.3 percent to reach around 377 billion. On the other hand, loans allocated to state-owned enterprises increased by 4.4 percent from 5.3 percent a year earlier, to reach 51.5 billion.

Loans granted by finance companies increased by 4.7 percent to 56.6 billion, compared to 3.9 percent a year earlier, mainly due to higher operations of financing via leasing (+ 4.7 percent).

Data collected from banks and finance companies indicate that the share of loans granted to VSMEs29 equalled 37 percent of total loans to businesses, thus posting an improvement compared to previous years.

3 - Change in banks' major risks

At end-December 2018, banks' exposure to large risks30 increased by 3.6 percent to 368 billion dirhams. They decreased to 2.7 times their equity, compared to 2.9 times in 2017. Of this total, the balance sheet commitments, totalling nearly 269 billion dirhams and off-balance sheet exposures, particularly in the form of financing and guarantee commitments, amounting to 99 billion dirhams, reported the same trend.

Chart 96: Change in banks' large credit exposures - on individual basis

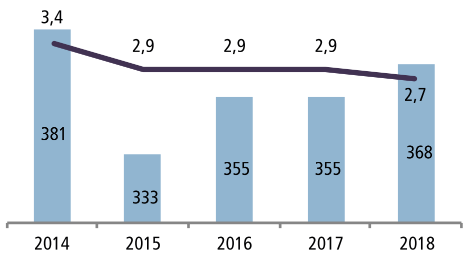
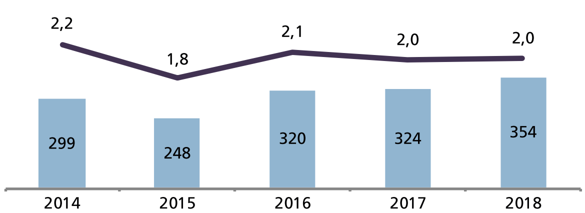


Chart 97: Change in banks' large credit exposures - on consolidated basis



Outstanding amount of large exposures (in billion of dirhams) — Ratio of large exposures to capital (in %)

Distribution of major risks by sector shows that financial groups other than banks represent 23 percent, followed by banks (15 percent), then recipients operating in the extractive industry sector (12 percent), manufacturing industry (9 percent) and energy (8 percent).

4 - Change in non-performing loans

Due to the economic situation, outstanding loans held by banks on an individual basis continued to rise, albeit at a slower pace compared with previous years, to settle at an individual basis stock of 65.3 billion dirhams. After a period of sustained growth from 2010 to 2014, averaging 16 percent, driven by cyclical difficulties, particularly in some external demand-sensitive sectors, outstanding nonperforming loans volume slowed by 6 percent on average over the period 2015- 2017 and 3.7 percent in 2018, converging further with loans growth rate. As a result, the loss ratio fell to 7.3 percent at the end of 2018.

29 Defined based on a turnover below 175 million dirhams.
30 Beneficiary or group of recipients of loans whose outstanding amount equal or exceeds 5 percent of a bank's equity.

Chart 98: Change in banks' non-performing loans - individual basis

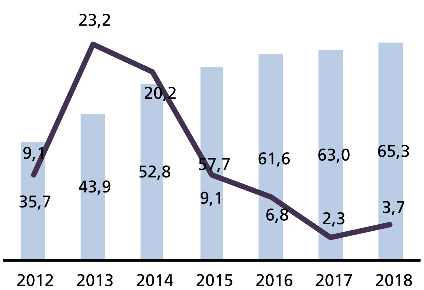
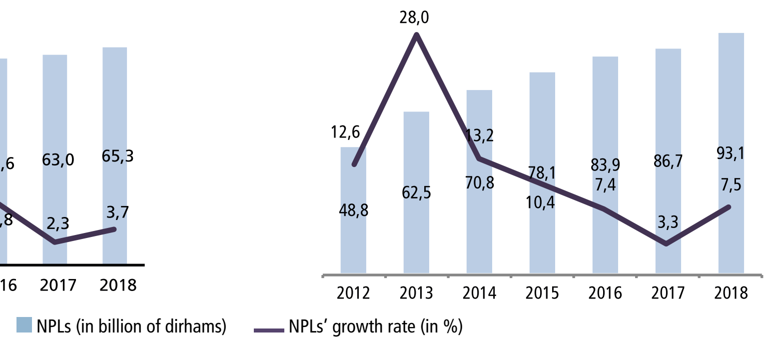
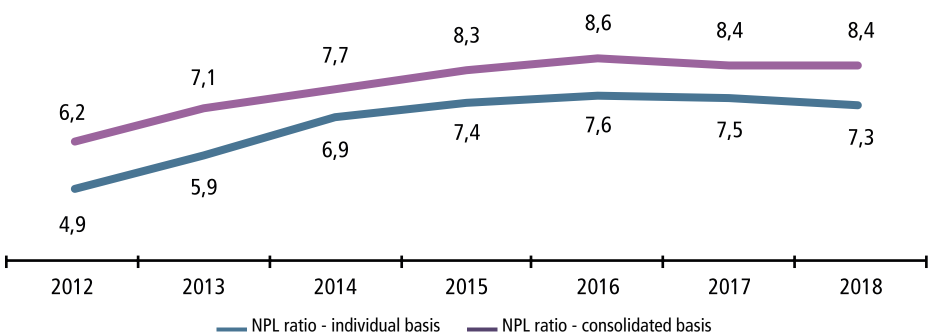


Chart 99: Change in banks' non-performing loans- consolidated basis



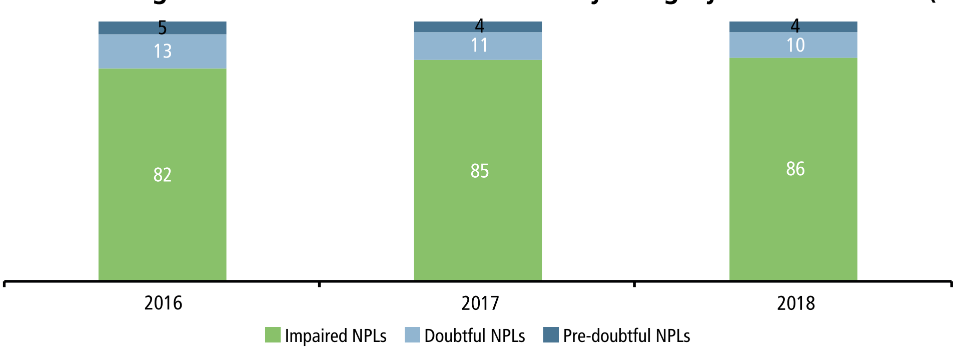
Calculated on a consolidated basis, non-performing loans outstanding increased by 7.5 percent to 93.1 billion dirhams, leading to a stable loss ratio of 8.4 percent.

Chart 100: Change in non-performing loans ratio (%)



By level of risk, pre-doubtful loans rose by 5.2 percent to reach 2.8 billion dirhams while impaired loans increased by 4.8 percent to 56 billion dirhams. For its part, outstanding doubtful loans fell by 5.7 percent to 6.4 billion. These developments led to a one-point reduced proportion of doubtful loans to 10 percent in favour of compromised loans, which have seen their share rise to 86 percent. The share of pre-doubtful loans stood at 4 percent between 2017 and 2018.

Chart 101: Change in the structure of banks' NPLs by category-Individual basis (in %)



Provisions for non-performing loans rose by 1.1 percent, leading to a provisioning rate of 69 percent at end- 2018. This rate stood at 74 percent for the category of impaired claims, 54 percent for doubtful loans and 18 percent for pre-doubtful loans.

Chart 102: Banks' NPL coverage ratio on individual basis

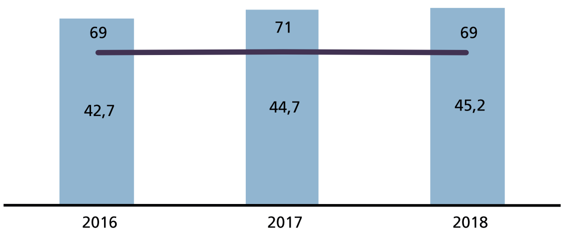
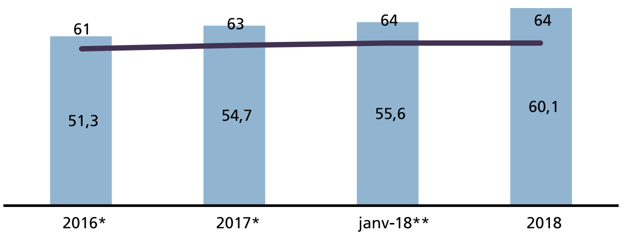


Chart 103: Banks' - NPL coverage ratio on a consolidated basis



* Data for 2016 and 2017 have been recalculated without taking collective allowances into account, for reasons of comparability.
** Date of the first implementation of IFRS 9 standard.

On a consolidated basis, banking groups' provisions increased by 9.8 percent, as against 6.6 percent a year earlier, thus amounting to 60.1 billion dirhams. As a result, the coverage rate rose by one point from 2017 to 64 percent.

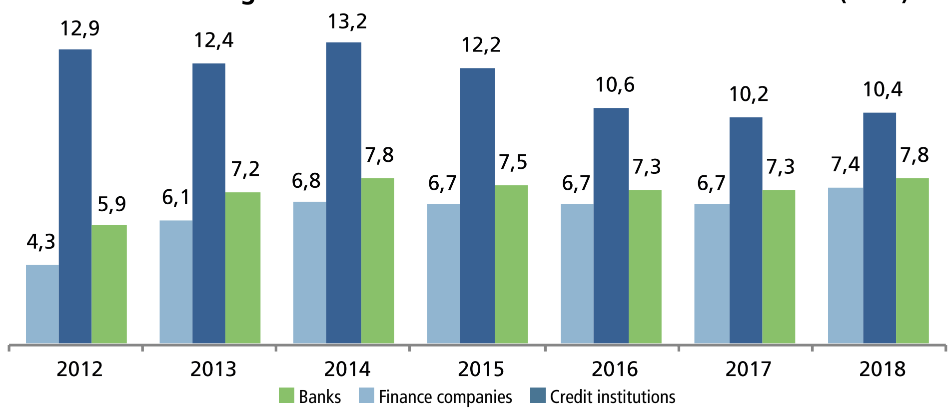
In addition to specific provisions, general provisions to cover loans which are sensitive to the economic situation amounted to 9.3 billion dirhams, up 11.1 percent.

For their part, nonperforming loans carried by finance companies rose by 11.8 percent to 11.2 billion dirhams, a risk ratio of 9.9 percent, compared with 9.4 percent in the preceding year. 71 percent of these loans are covered by provisions.

4.1 - Nonperforming loans held on households

During 2018, nonperforming loans from banks and consumer loan companies held on households increased by 13.8 percent to 26.7 billion, compared with 4.8 percent a year earlier, raising the risk ratio by 0.5 point to 7.8 percent year-on-year. This change reflects a 0.6 percent decline in this rate for resident households to 7.8 percent and a 0.3 percent increase for non-resident households to 7.3 percent. The coverage of these loans by provisions stood at 64 percent.

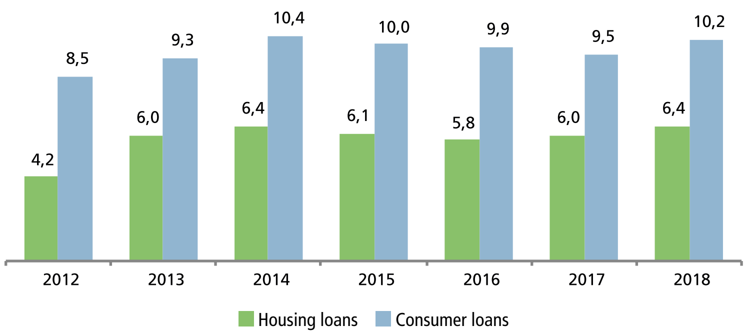
Chart 104: Change in NPL ratio on households - individual basis (in %)



Nonperforming loans outstanding held by banks on households rose 14.7 percent to 21.1 billion, as against a 5.5 percent rise a year earlier, representing a risk ratio of 7.4 percent, compared to 6.7 percent in 2017. Their coverage rate by provisions fell to 61 percent, due to fully provisioned old loans' write-offs and a larger share of pre-doubtful and doubtful loans.

Similarly, non-performing loans of consumer loan companies increased by 10.6 percent to 5.6 billion dirhams, compared to 2.3 percent in the previous year, and their risk ratio rose to 10.4 percent as against 10.2 percent in 2017. The coverage rate of these loans by provisions fell to 75 percent, due to the level of backed guarantees.

Chart 105: Change banks and consumer loan companies' NPL ratio on households, by category of credit- individual basis (in %)

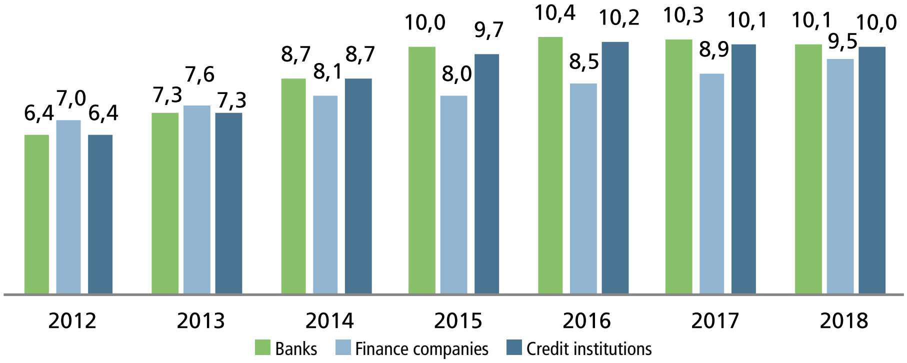


The risk ratio stands at 6.4 percent for housing loans and 10.2 percent for consumer loans, compared to 6 percent and 9.5 percent respectively in 2017.

4.2 - NPLs held on non-financial corporations

NPLs held on non-financial enterprises continued to decelerate, rising by 0.4 percent as against 1.8 percent in 2017 and 8 percent in 2016. Thus, the rate of non-performing loans almost stagnated at the end of the year at 10 percent, representing the equivalent of nearly 48.7 billion. These loans were covered by provisions amounting to 72 percent, the same rate as in the previous year.

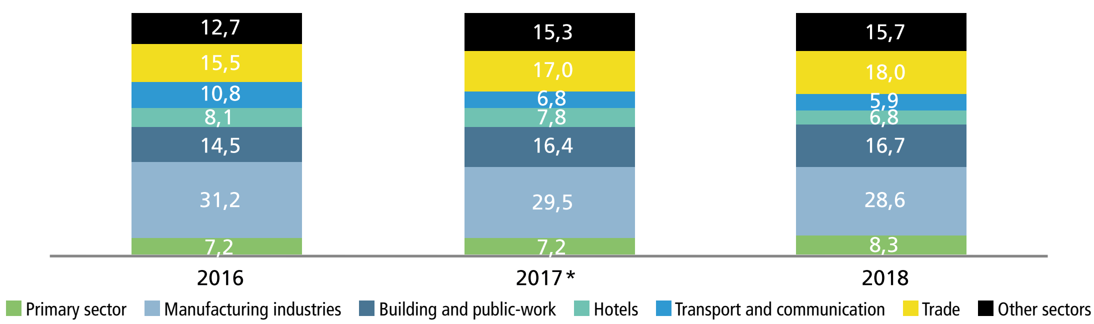
Chart 106: Change in NPL ratio of non-financial corporations -individual basis (in %)



Nonperforming loans outstanding held by banks on non-financial enterprises declined 0.9 percent to 43.3 billion, representing a risk ratio of 10.1 percent, as against 10.3 percent in 2017. A share of 73 percent of these loans is covered by provisions.

By sector, the breakdown shows that nonperforming loans in the primary sector increased by 13.6 percent and accounted for 10.1 percent of loans granted to this sector. Those held on companies operating in the industrial sector fell by 3.7 percent, leading to a risk ratio of 14.4 percent compared to 15.7 percent in 2017. On the other hand, nonperforming loans held on building and public-work sector, which includes real estate development, decelerated to 1 percent after their 15.6 percent rise. As a result, the loss ratio of the sector stood at 7.7 percent.

Chart 107: Sectoral breakdownof banks' NPLs on non-financial companies-individual basis (in %)



*Revised figures

After a sharp rise by 11.6 percent in 2017, nonperforming loans outstanding in the trade sector increased by 5.1 percent, for a loss ratio of 13.6 percent, as against 13.1 percent.

The decline in nonperforming loans outstanding for the hotel sector increased from 2.5 percent to 13.7 percent, while its loss ratio improved by 1.5 point to 20.6 percent.

Similarly, nonperforming loans of the transport and communication sector declined further, albeit at a slower pace than in 2017, namely 14.1 percent. Its risk ratio thus stood at 7 percent as against 7.9 percent a year earlier.

Chart 108: Change in NPLs'ratio on companies by sector of activity - individual basis (in billion of dirhams)

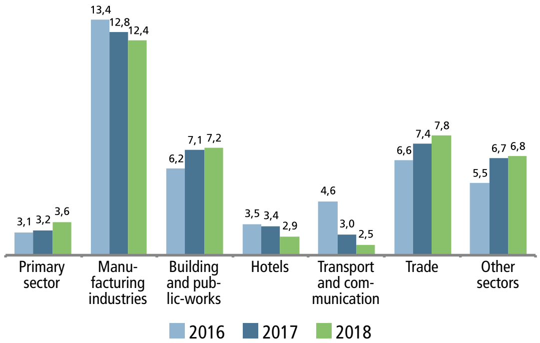
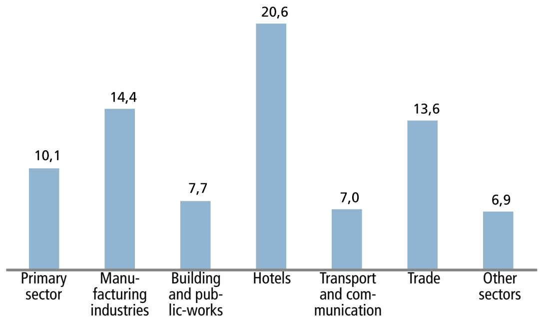


Chart 109: NPL ratio registered by banks on non-financial companies, by sector of activity - individual basis (in %)

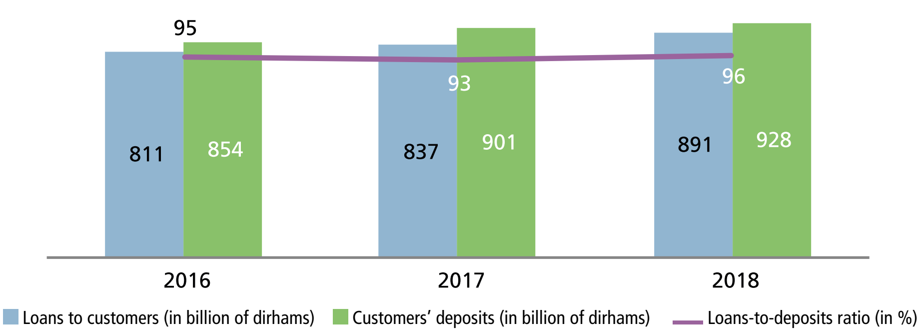


For their part, finance companies posted non-performing loans outstanding on non-financial enterprises of 5.4 billion, up 11.9 percent from 8.7 percent in 2017. These loans represented 9.5 percent of total loans granted to this segment, up 0.6 point from the previous year. A proportion of 68 percent of these loans is covered by provisions.

5 - Change in Banks' liquidity

In 2018, banks' need for liquidity in dirhams increased, particularly with the increase in cash in circulation and the decline in foreign exchange reserves. Also, the intermediation activity recorded a higher credit growth than that of the deposits. Thus, the loans-to-deposit ratio rose by 3 basis points to reach 96 percent. Adjusted by certificates of deposit, this ratio stands at 91 percent as against 88 percent in 2017.

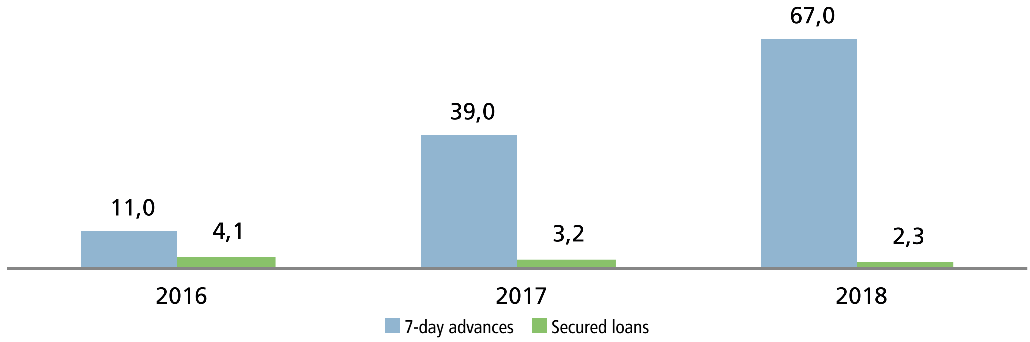
Chart 110: Change in deposits, loans and loans-to-deposits ratio



In this context, Bank Al-Maghrib increased its liquidity injection operations, mainly through 7-day advances, whose outstanding amount increased from 39 to 67 billion in 2018, while loans granted under the VSME refinancing program fell from 3.2 to 2.3 billion dirhams.

Outstanding refinancing with Bank Al-Maghrib represents 5.5 percent of the liabilities of the banking sector. This share varies across banks from 0.5 percent to 16.8 percent.

Chart 111: Outstanding amount of 7-day advances and loans secured by Bank Al-Maghrib (in billion of dirhams)



The average daily outstanding amount of unsecured borrowings on the interbank market stood at 8.2 billion dirhams, down 5 percent from the previous year's average.

Banks' net position in the repo market, excluding operations with Bank Al-Maghrib, generated a net lending position of 16.4 billion dirhams, as against 3.3 billion dirhams in 2017, due to the combined effect resulting from the rise in values received in repurchase agreements of 3,8 billion and the decrease in values given in repurchase agreements of 9,3 billion.

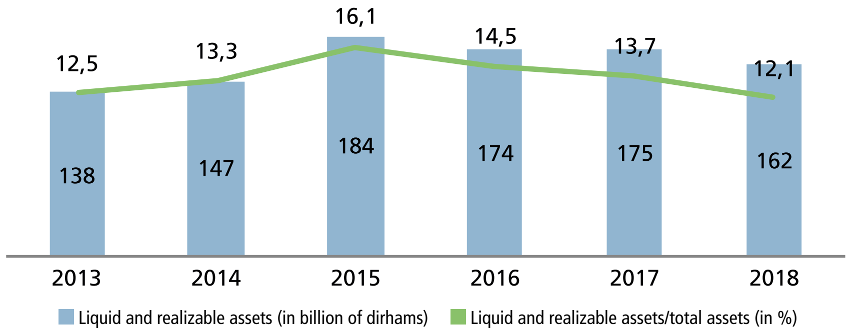
Banks' use of the debt securities market increased by 6.1 percent in terms of outstanding amounts, representing 8 percent of banks' liabilities, unchanged from 2017. By maturity, securities of more than 2 years saw their share of the total fall by 9 points to 43 percent, in favor of securities of less than 2 years, whose share increased to 57 percent.

As for longer-maturity subordinated debts, they increased further by 5.3 percent, after that of 20.6 percent observed in 2017, to reach 43.7 billion dirhams.

Overall, 57 percent of banks' liabilities are made up of resources without maturities, 23 percent of short-term resources and 20 percent of medium and long-term resources, compared to 59 percent, 20 percent and 21 percent, respectively, a year earlier. Short-term liabilities represent 45 percent of the total, as against 55 percent for medium and long-term ones, unchanged from the previous year.

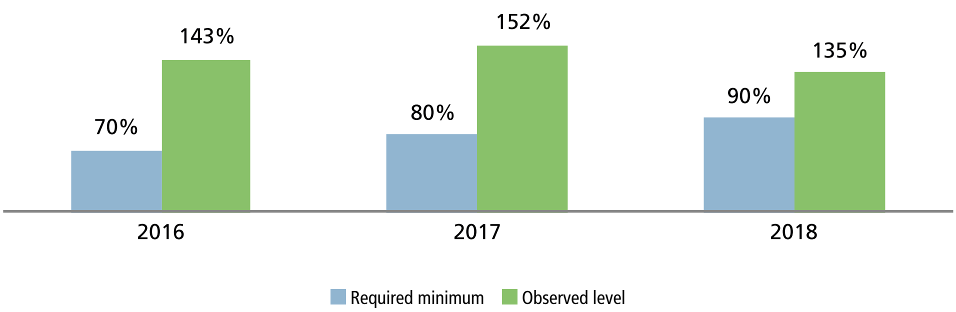
Banks' liquid and realizable assets, consisting mainly of cash, deposits with Bank Al-Maghrib, interbank loans, available Treasury Bills and certificates of deposit, totaled an outstanding of 162 billion dirhams, at the end of 2018, as against 175 in 2017. Their share in total assets reached 12.1 percent in 2018 as against 13.7 percent a year earlier.

Chart 112: Change in banks' liquid and realizable assets



The short-term liquidity ratio 31 generated by banks averaged 135 percent, after 152 percent in 2017, above the 90 percent required in 2018.

Chart 113: Change in banks' short-term liquidity ratio (LCR) (in %)



6 - Change in banks' solvency

6.1 - Change in net weighted risks

At end-2018, net weighted risks of the banking sector rose by 3 percent, after 6 percent at the end of 2017, to reach 937 billion dirhams. 85 percent of them are net weighted risks for credit risk, 9 percent for operational risk, and 6 percent for market risk, as against 84 percent, 9 percent and 7 percent respectively a year ago.

Chart 114: Change in banks' total net weighted risks (in billion of dirhams) - on an individual basis

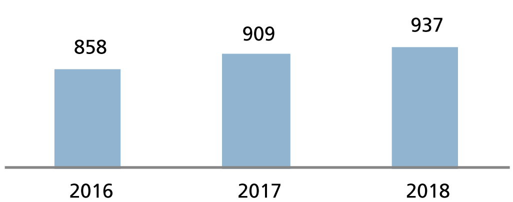
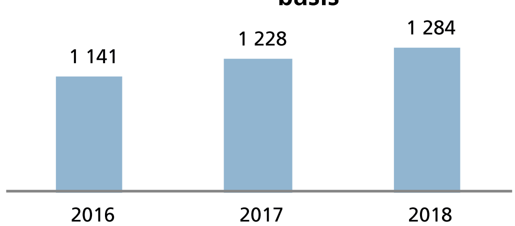


Chart 115: Change in banks total net weighted risks (in billion of dirhams) - on a consolidated basis



On a consolidated basis, these risks amounted to 1,284 billion dirhams, including 85 percent for credit risk, 10 percent for operational risk, and 5 percent for market risk.

6.1.1 - Credit risks

Credit risk-weighted net assets, calculated using the so-called "standard" approach, correspond to risk-weighted exposures for balance sheet and off-balance sheet, calculated after application of risk mitigation techniques. They reached 792 billion dirhams, up 3.8 percent as against 5.7 percent in 2017.

Chart 116: Change in banks' credit risk-weighted exposures (in billion of dirhams) - on individual basis

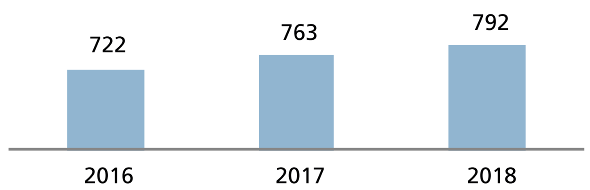
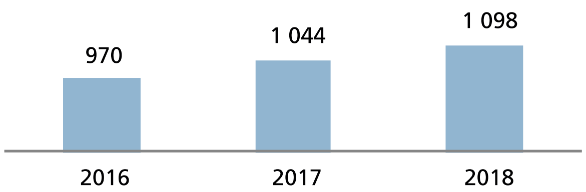


Chart 117: Change in banks' credit risk-weighted exposures (in billion of dirhams) - on consolidated basis



On a consolidated basis, these assets totalled the equivalent of 1,098 billion dirhams, up 5.2 percent, as against 7.5 percent a year earlier.

6.1.2 - Market risks

Market risk-weighted net assets totalled nearly 59 billion dirhams at end-December 2018, down 6.7 percent, after the 15.1 percent rise recorded a year earlier. Calculated on a consolidated basis, these exposures fell by 5 percent to reach 63 billion dirhams.

Chart 118: Change in banks' market risk-weighted exposures (in billion of dirhams) - on an individual basis

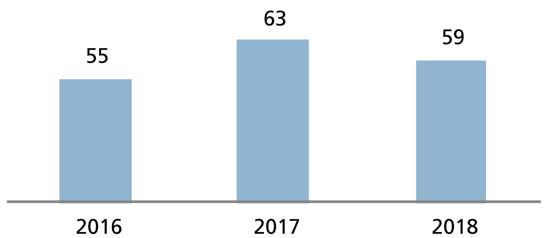
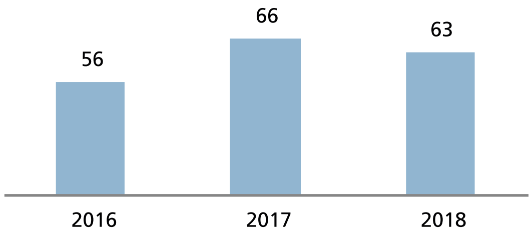


Chart 119: Change in banks' market risk-weighted exposures (in billion of dirhams) - on a consolidated basis



These risks are incurred by banks on their trading portfolio managed by their trading rooms. They mainly cover interest rate and credit spread risks.

Investments in interest rate instruments represent 69 percent of the outstanding amount of the trading portfolio. They mainly concern securities denominated in dirhams and foreign currencies.

Investments in mutual funds (UCITS) are the second instrument used by banks. Money and bond funds make up the largest share.

31 This ratio measured the amount of high-quality liquid assets available to banks to cover cash outflows over a one-month period in the event of a crisis

6.1.3 - Operational risk

Most banks determine the operational risk exposure by using the basic indicator approach. It is valued at 86 billion, up 3.1 percent, due to the change in the net banking income. On a consolidated basis, these risks are estimated at 124 billion dirhams, up 5 percent.

Chart 120: Change in operational risk-weighted exposures (in billion of dirhams) - on an individual basis

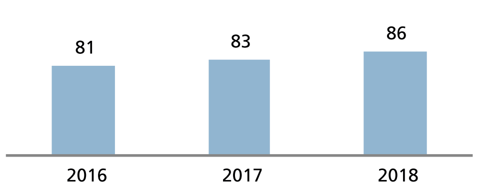
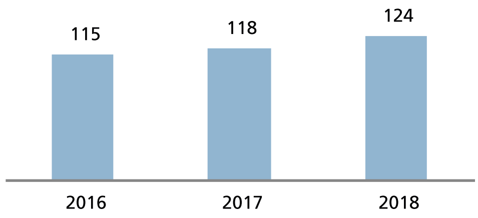


Chart 121: Change in operational risk-weighted exposures (in billion of dirhams) - on a consolidated basis



For banks applying the so-called basic indicator approach, these risks are covered by equity equivalent to 15 percent of the average net banking income for the last 3 years.

6.2 - Change in banks' prudential equity

At end-2018, the prudential capital of banks totalled nearly 138 billion dirhams, up by around 12 billion dirhams compared to December 2017. They are divided into Tier 1 capital[31] for an amount of 102 billion dirhams, of which nearly 98 percent is core capital, and Tier 2 capital amounting to 36 billion dirhams.

31 Composed of core and additional capital. The first category includes the share capital or endowment issued by the institution, reserves, profit and loss and some equity instruments of mutual groups. The second consists of perpetual instruments that may include a repayment option at the exclusive initiative of the borrower and subject to certain conditions.
32 For a minimum CET1 ratio of 8 percent.
33 Depreciation of the nominal value of the securities would enable the bank to recognize an exceptional product that would increase its net result, thus allow an improvement of its own funds.
34 This corresponds to the profit of the last financial year, plus the profits net of the losses carried forward and the reserves available for distribution.
35 The coupon cannot be redefined periodically, depending, in whole or in part, on the bank›s credit rating.

Box 13: Perpetual equity instruments

Consistent with the Basel III international standards, Bank Al-Maghrib has introduced additional Tier 1 capital in circular 14/G/2013 on credit institutions equity capital.

To be eligible for this equity category, an instrument must satisfy the following conditions:

- Be perpetual and subordinated to Tier 2 capital instruments (fixed term subordinated bonds) in the event of insolvency;
- Should not include any repayment options. The latter being at the exclusive initiative of the bank after a minimum period of 5 years and upon approval by Bank Al-Maghrib;
- Have a loss absorbing capacity, in principal, when the Common equity Tier 1 (CET1) becomes less than 6 percent[32], either through conversion into shares or through a depreciation mechanism which attributes losses to the instrument[33];
- Allow the Bank full discretion, at any time, to cancel instrument distributions for an indefinite period and on a non-cumulative basis to meet its obligations;
- Not to be acquired by the bank or a related party over which it exercises control or significant influence.

In addition, distributions to the holders of these instruments can only come from distributable[34] items and are not related to the credit quality of the bank[35].

The year 2018 was the last year of the transitional period set for full implementation of the new Basel 3 regime started since 2014. In fact, over the period 2014-2018, the Basel III deductions were gradually made to allow a gradual adjustment by the banks.

Changes in capital ratios reflect the latest deductions, particularly for credit institutions holdings in Tier 1 capital. Holdings in credit institutions were, according to Basel II, deducted from core and additional equity, at a rate of 50 percent respectively.

Chart 122: Change in banks' capital and solvency ratio - on an individual basis

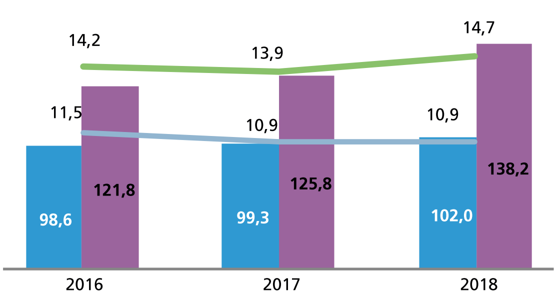
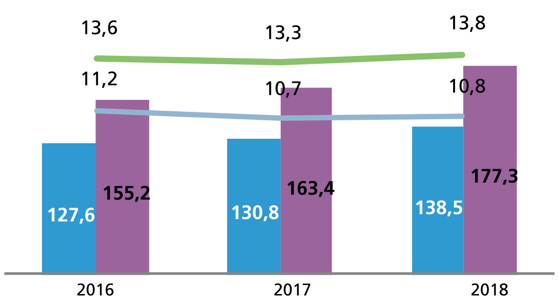


Chart 123: Change in banks' capital and solvency ratio - on a consolidated basis



Tier 1 capital (in billion of dirhams) | Prudential capital (in billion of dirhams) | Tier 1 capital ratio (in %) | Average solvency ratio (in %)

The average solvency ratio, which expresses equity as a proportion of the sum of the weighted net assets, has increased to 14.7 percent compared to a regulatory minimum of 12 percent.

The Tier 1 capital ratio stood at 10.9 percent as against the regulatory minimum of 9 percent. The average Core Tier 1 capital ratio, corresponding to the core capital, stood at 10.7 percent, as against the regulatory minimum of 8 percent.

On a consolidated basis, banks' prudential and Tier 1 capital rose by 8.5 percent to 177 billion dirhams and 5.9 percent to 139 billion respectively. The average solvency ratio thus stood at 13.8 percent, up 50 basis points and the average ratio of Tier 1 capital stood at 10.8 percent, compared to 10.7 percent a year earlier.

7 - Evolution of interest rate risk

Interest rate risk is defined as the risk, current or future, at which the projected net margin and the economic value of a bank's capital are exposed, due to adverse movements in interest rates affecting interest-bearing bank portfolio positions.

The interest rate risk inherent in the banking portfolio is measured using the so-called interest rate gap positions method. This method consists of carrying out a projected outflow of balance sheet and off-balance sheet items that are sensitive to changes in this rate by maturity segment and then determining a net exposure for each of these maturities.

Depending on the interest rate profile and the duration of their assets and liabilities, banks may be exposed to interest rate risk in the event of a fall or rise in interest rates. In 2018, most banks were exposed to a risk of rising rates.

In the short term, rising interest rates would lead to lower net interest margin for banks whose short-term rate-sensitive liabilities exceed short-term rate-sensitive assets.

Short-term interest-sensitive assets and liabilities cover, on the one hand, assets and liabilities whose remuneration is variable or revisable and, on the other hand, fixed-rate assets and liabilities maturing within a one-year time horizon.

On the basis of a static approach to measuring interest rate risk and its rate flow over the coming years, banks are undertaking regulatory stress test scenarios simulating a parallel shock of interest rates of 200 bps.

At end-2018, such rate hike scenario would have a downward impact on the short-term net interest margin, which would average -5.32 percent for banks exposed to this scenario.

For other banks that would be exposed to short-term interest rate risk in the event of a rate cut, a shock of -200 basis points would lead to a 2 percent contraction of their net interest margin.

In the medium and long term, an upward or downward interest rate scenario could lead to lower or higher economic value of assets and liabilities depending on their interest rates backing. The scale of this impact is subject to the duration levels of these positions.

At end-2018, most banks were exposed to a risk, in the medium and long terms, in the event of an extended rise in interest rates.

In the event of an extended parallel rate shock of +200 bps, the depreciation of the economic value of equity amounts to -5.96 percent in 2018 on average for banks exposed to an upward rate risk. As to banks exposed to a risk in the event of an extended decrease of interest rates, the depreciation of the economic value of equity would reach -17.90 percent in the event of a shock of -200 basis points.

بنك المغرب

CHAPTER III

LEGAL AND REGULATORY FRAMEWORK OFCREDIT INSTITUTIONS

بنك المغرب

In 2018, Bank Al-Maghrib continued its efforts to align the Moroccan banking regulatory framework with the international standards and complete the rules and regulation applicable to the new actors of the banking landscape, particularly participatory banks and payment institutions.

Ten new circulars were issued, including the prudential framework for participatory banks and similar bodies, the deposit guarantee, rules relating to the audit committee and the risk committee issued by the governing bodies of the institutions subject to control, as well as the banking law implementing circulars on CDG, offshore banks and micro-credit institutions.

At the same time, Bank Al-Maghrib accompanied banks in implementing the "IFRS 9" reporting standard for financial instruments that came into force on January 1, 2018. It also continued work on the reform of loan classification rules and initiated consultations with the banking business on the establishment of a framework governing dations in payment and repurchase sales operations.

1 - Participatory Finance

As a continuation of its actions initiated over the previous years, Bank Al-Maghrib pursued it work to establish the prerequisites necessary for a comprehensive ecosystem of participatory finance. Hence, the Bank engaged in preparing a prudential, accounting and appropriate governance framework and accompanying stakeholders in ensuring contracts' labeling by the Higher Council of Ulemas.

At the prudential level, Bank Al-Maghrib issued two circulars on equity and the solvency ratio that take into account the specificities of the participatory banking business, particularly in terms of products and the resulting risks, in line with international standards issued by the Islamic Financial Services Board (IFSB).

Box 14: The Islamic Financial Services Board (IFSB)

The IFSB is an international organization based in Kuala Lumpur whose main mission is to develop prudential standards or adapt them to Islamic finance. It has 180 members, including 78 regulators, including Bank Al-Maghrib, and eight international intergovernmental institutions, including the Islamic Development Bank and the World Bank.

The IFSB issued 18 standards on capital adequacy, risk management, corporate governance, Islamic insurance governance "Takaful" and the Sharia governance system.

1.1 - Bank Al-Maghrib Circulars

1.1.1 - Circular on participatory banks' equity

In July 2018, Bank Al-Maghrib issued a circular on the equity of participatory banks and finance companies setting out the terms for determining the equity to be used for the calculation of prudential ratios.

1.1.2 - Circular on participatory banks' solvency ratio

In July 2018, Bank Al-Maghrib issued a circular on capital requirements for credit, market and operational risks of participatory banks.

Participatory banks shall respect a Tier 1 capital ratio of 9 percent and a solvency ratio of 12 percent, similar to conventional banks. The prudential framework applicable to them provides the following main specificities:

- A participatory-specific prudential treatment was provided for by the banking law, namely Mourabaha, Ijara, Salam, Moudaraba, Moucharaka and Istisna'a;
- The reference rate risk was integrated. It refers to the risk arising from holding fixed-income assets such as Mourabaha contracts financed by investment deposits whose holders expect a yield rate in line with those paid by the market;
- The inventory risk included, corresponding to the risk of holding assets intended for resale under a Mourabaha contract or to be leased under an Ijara contract;
- The share of the risks borne by holders of unrestricted investment deposits is to be deducted from the risks incurred by participatory banks.

The risks borne by participatory windows must be covered by the banks hosting them, in line with the specific weightings applicable to the assets of participatory banks.

1.1.3 - Circular on Istisna'a

The circular on the technical characteristics and terms of presenting participatory finance products was amended to introduce the "Istisna'a" product. It was approved by the Credit Institutions Committee in July 2018 and submitted to the Higher Council of Ulemas.

"Istisna'a" means a contract for the acquisition of goods that requires the manufacturing or processing whereby one of the parties agrees to deliver the goods, manufactured or processed, for a fixed price, the payment of which is made by the other party according to the set terms.

1.1.4 - Circular relating to the Central Guarantee Fund (CCG)

In 2018, Bank Al-Maghrib issued a circular on the terms and conditions for the CCG to carry out the operations and activities set in Chapter III of Law 103-12. The circular provides for the adoption of the "window" model with a fund dedicated to guaranteeing participatory and financially autonomous financing, as well as the establishment of a compliance function to the opinions of the Higher Council of Ulemas, in accordance with the provisions of Article 64 of the Banking Law.

The circular received the assent of the Higher Council of Ulemas on 23 December 2018.

1.1.5 - Accompanying works for the development of the participatory activity

1.1.5.1 - Labeling of contracts

Bank Al-Maghrib continued to support participatory banks and windows in drawing up model contracts for participatory banking products. Thus, the card-bearing contract received the assent of the Higher Council of Ulemas in 2018. Other contracts were drawn up, notably concerning Ijara Montahiya Bittamlik products and unrestricted term investment deposit, and were submitted to the Higher Council of Ulemas.

Contractual documentation concerning Istisna'a and Salam is being prepared and will also be submitted for opinion to the Higher Council of Ulemas.

In addition, Bank Al-Maghrib has drawn up the securities account agreement for participatory banks and windows allowing the management and custody of financial instruments which comply with the opinions of the Higher Council of Ulemas.

In terms of liquidity and refinancing, the year 2018 was marked by the approval by the Higher Council of Ulemas of the Wakala Bil Istithmar contract which enabled participatory banks and windows to refinance themselves with credit institutions.

1.1.5.2 - Framework on the grouping of the Moroccan Interbank Teleclearing System

During 2018, Bank Al-Maghrib continued to support the grouping of the Moroccan Interbank Teleclearing System in order to align it with the activity of participatory banks and windows. The work undertaken has made it possible to structure solutions in order to adapt the financial security system of the GSIMT to the specificities of participatory banking activity in particular as regards contribution to the Permanent Guarantee Fund (FGP).

The contractual documentation concerning the terms of accession and the internal rules of the FGP were submitted to the assent of the Higher Council of Ulemas.

1.1.5.3 - Taxation

Bank Al-Maghrib continued its dialogue, exchange and preparatory work with the Tax General Directorate in order to adapt the tax system to participatory products, in line with the processing reserved for conventional products. In this context, it contributed to drafting a circular note commenting on the measures of the finance law governing participatory products. A circular note taking into account the VAT specificities of social housing acquired under the Mourabaha or Ijara Mountahia Bitamlik contracts was also issued.

1.1.5.4 - Sukuks

In 2018, the first sovereign Sukuk were issued, following the adoption of Law 69.17 amending and supplementing the law on securitization, and the publication of the decree defining the content and technical characteristics of sukuk Ijara certificates.

Bank Al-Maghrib contributed to the inter-departmental working group in charge of reviewing the draft decree relating to the issuance of Sukuk Ijara certificates.

2 - Deposit guarantee

2.1 - Circular on the payment conditions of contributions to the Collective Deposit Guarantee Fund

The provisions of Article 130 of Law No. 103-12 on credit institutions and similar bodies provide that credit institutions authorized to collect funds from the public are required to join the Collective Deposit Guarantee Fund and to regularly contribute to its financing, by the payment of contributions under the terms fixed by a circular of Bank Al-Maghrib Governor, after consulting the credit institutions committee.

- Pursuant to these provisions, Bank Al-Maghrib draw up a new circular No. 6 / W / 2018 on the financing, management and intervention terms and conditions of the Collective Deposit Guarantee Fund, replacing Circular No. 22 / G / 2006. This new text provides in particular:
- setting a maximum level of the annual contribution rate at 0.25 percent of the deposits and other collected repayable funds, the current standard rate applicable in this area being set by Bank Al-Maghrib at 0.2 percent;
- possibly adopting a calculation approach for contributions based on the risk profile of members, in a range that can vary between 75 percent and 150 percent of the standard rate;
- introducing a supplementary contribution for new members, which is spread over five years following their accession;
- establishing and maintaining an information system, by credit institutions, to provide the necessary information on deposits and depositors at all times, with a view to ensuring, where appropriate, the availability of compensation in optimal conditions;
- fixing a deadline for institutions to pay their contributions.

2.2 - Circular on the terms and conditions of managing resources of the Collective Deposit Guarantee Fund

Bank Al-Maghrib issued a circular on the terms and conditions of managing the resources of the Collective Deposit Guarantee Fund (FCGD) by the managing company set up by virtue of the 2014 banking law and its interventions in accordance with the provisions of article 142 of the said banking law.

The main provisions of this circular relate to the following:

- defining resources of the Collective Deposit Guarantee Fund, which consist mainly of contributions from member institutions and income from investment transactions and bond issues;

- respecting the fundamental principles of a sound and prudent management of financial resources backed by an investment policy which defines the guidelines and management rules governing investment operations;
- setting the terms and conditions under which the management company may intervene in the compensation of depositors of credit institutions.

In addition, this circular provides that the management company may contribute to the adjustment of a credit institution that is a member of the Fund experiencing difficulties, up to a ceiling to be set in relation to the contributions of the institution concerned, the size of the Fund and the amount necessary to compensate depositors of the said credit institution.

2.3 - Specifications of the Guarantee Fund Management Company

Pursuant to Article 132 of the Banking law, Bank Al-Maghrib drew up specifications for the Guarantee Fund Management Company, whose task is to manage the Deposit Guarantee Fund.

This document defines the obligations relating to the operation of the management company and the terms of its contribution to addressing the difficulties of credit institutions.

It also lays down the ethical rules to be observed by the board of directors of the managing company and determines the terms for information exchange between Bank Al-Maghrib and the Guarantee Fund Management Company.

3 - Specific conditions applicable to similar bodies

In accordance with the provisions of Article 19 of the Banking Law, Bank Al-Maghrib issued circulars laying down the specific conditions of certain provisions of the 2014 Banking Law applicable to the Deposit and Management Fund (CDG), to offshore banks and to micro-credit associations.

3.1 - Circular on the Deposit and Management Fund

In July 2018, Bank Al-Maghrib issued circular No. 1/W/2018, which sets out the provisions of the banking law applicable to the CDG. This text is part of the implementation of a new prudential framework adapted to the activities of CDG and reflecting its risk profile.

The text, which repeals the Decision of the Minister of Finance and Privatization No. 29-07 of 5 January 2007 on the same subject, deals with the accounting, prudential and internal control aspects. The main contributions of the text concern the adaptation of equity capital and solvency applicable to the CDG group on a consolidated basis.

- **Prudential capital:** Some provisions included in the calculation of the prudential capital of CDG were adapted, in view of its role as a long-term institutional investor in deferred profitability projects.

- **Capital requirements:** This circular subjects the CDG Group to additional capital requirements for investment risk in addition to those covering credit, market and operational risks. This risk is defined as the risk of value loss related to one or more investment projects.
- **Solvency:** the text introduces a new approach to determining solvency measured over a 5-year horizon to integrate the group's current and future commitments as an investor.
- **Liquidity:** the circular introduces the requirement to set up a liquidity risk management system capable of identifying potential sources and ensuring their measurement, management, monitoring and control.
- **Sectoral limits:** the circular requires the implementation of an internal mechanism in this area.

3.2 - Circular relating to the specific conditions of applying certain provisions of the banking law to offshore banks

In July 2018, Bank Al-Maghrib issued a circular relating to the specific conditions of applying to offshore banks the provisions of the Banking law. This circular upholds the provisions of the Minister of Finance and Privatization Decision No. 33-07 dated 15 dhou al-hija 1427 relating to compliance with the accounting requirements for the certification of accounts by an auditor. At the prudential level, it renews the possibility of exemption from compliance with prudential ratios on an individual basis, subject to the prior approval of Bank Al-Maghrib, exposures being then covered on a consolidated basis by the parent bank.

Circular No 2/W/2018 on the specific conditions of application to offshore banks provided for new requirements concerning the obligation to publish financial statements and the adaptation of the risk management, internal control and governance to the nature, complexity and volume of activity in offshore banks. It also submits exemptions to prudential ratios to periodic updates.

It also expressly requires the establishment of an appropriate due diligence and internal monitoring system to understand, measure, control and monitor the risk of money laundering and terrorist financing.

3.3 - Circular relating to the specific conditions for applying some provisions of the banking law to micro-credit associations

In July 2018, Bank Al-Maghrib issued Circular No. 3/W/2018 on the specific conditions of applying some provisions of the Banking Law to microcredit associations. The text upholds the provisions of the Minister of Finance and Privatization Decisions No. 31-07 of 15 dhou al-hija 1427, while imposing new requirements for the adaptation of the risk management, internal control and governance to the nature, complexity and volume of activity of micro-credit associations.

With regard to the anti-money laundering and terrorist financing mechanism, the circular requires micro-credit associations to put in place an appropriate and adapted due diligence system that allows for a good apprehension of the risks. It introduces the obligation for these institutions to have an internal mechanism for handling claims made by their clients and to adhere to the mediation system aimed at the friendly settlement of disputes between them and their clients.

4 - Governance

4.1 - Circular relating to the audit committee

In July 2018, Bank Al-Maghrib issued a circular concerning the terms and conditions of operation of the audit committee. This circular, issued in application of the provisions of Article 78 of the Banking Law, includes the provisions of Circular No. 4/ W/14 on the internal control of credit institutions governing this committee, while taking into account the recommendations issued by the Basel Committee on Banking Governance.

This committee must emanate from the board of directors or, as the case may be, from the supervisory board and include one or more directors or independent members. Its composition is fixed at least to 3 directors or non-executive members of the administrative body of which one, at least, is independent.

It must have a charter, approved by the administrative body, formalizing the mandate, composition, scope and rules of its operation. The frequency of its meetings is quarterly or semi-annual, depending on the size of the establishment justifies it.

The audit committee’s main missions are:

- assessing the adequacy and effectiveness of the internal control system and the needed remedial measures;
- approving the audit charter and the multi-year audit plan and monitoring their implementation;
- ensuring the independence of the functions of periodic control, permanent control and compliance and the adequacy of their human and technical resources;
- monitoring the process of preparing and controlling accounting and financial information;
- assessing the bank’s situation with regard to the prudential rules and the related steering mechanism;
- supervising the appointment or renewal of the statutory auditors, monitoring their work and ensuring their independence.

This committee reports to the administrative body on the results of its work and informs it of any event or malfunction likely to affect the proper functioning of the internal control systems or the financial situation of the institution.

4.2 - Risk Committee Circular

In July 2018, Bank Al-Maghrib issued a circular concerning the terms and conditions of operation of the committee responsible for risk identification and management.

This circular, adopted pursuant to the provisions of Article 78 of the Banking Law, includes the provisions of Circular No. 4 /W/14 on the internal control of credit institutions governing this committee, while taking into account the recommendations of the Basel Committee in terms of banking governance.

This committee must originate from the board of directors or, as the case may be, from the supervisory board and include one or more directors or independent members. The committee is made up of a minimum of 3 directors or non-executive members of the administrative body of which one member, at least, is independent.

It must have internal regulations, approved by the administrative body, formalizing the mandate, composition, scope and rules of its operation. The frequency of its meetings is quarterly or semi-annual depending on the size of the establishment.

The risk committee is responsible for:

- reviewing and monitoring the implementation of risk strategies on an aggregate basis as well as by type of risk, and reviewing, at least once a year, the institutions' risk policies and risk appetite mechanism;
- reviewing on a regular basis the results of carried out stress tests and ensuring that they are taken into account in risk management and financial planning decisions (equity, liquidity and budgets);
- providing advice to the management body on risk appetite;
- ensuring the implementation by the management body of the guidelines set by the administrative body and that the level of risks incurred is contained within the set limits;
- ensuring the independence of the risk management and control function and providing it with sufficient human and technical resources and securing its access to internal and external information necessary for the performance of its duties.

5 - Prudential equity

In order to mitigate the impact on banks' prudential equity of the effects of the first application of the new international standard IFRS 9, which came into force on January 1, 2018, Bank Al-Maghrib put in place transitional provisions to enable a gradual absorption of the impact of the first application of this standard over the period 2018-2022.

6 - Addressing credit institutions difficulties

Bank Al-Maghrib, alongside the Ministry of Economy and Finance, is continuing the project of setting up a legal framework for bank resolution in accordance with international standards.

This framework consists of providing the resolution authority with the powers and instruments to ensure that bank defaults, especially for banks of a systemic nature, are dealt with in a timely and orderly manner, while limiting the use of public funds, and putting in place the appropriate mechanisms for their funding.

7 - Implementing the US Foreign Account Tax Compliance Act "FATCA"

Following the adoption of Legislative Decree No. 2.18.117 of 6 Jumada II 1439 (23 February 2018), which lays down transitional provisions for the automatic exchange of information for tax purposes,

Bank Al-Maghrib, by decision of the Governor of Bank Al-Maghrib, dated June 6, 2018, issued a list of credit institutions and similar bodies falling under the provisions of the aforementioned Decree-Law.

This list includes banks, offshore banks, finance companies, payment institutions and microcredit associations, in addition to CDG and the CGC.

8 -Texts under review

8.1 - Loan classification reform

In 2018, Bank Al Maghrib continued working on the project to reform loans' classification. Consultations with the banking profession continued and an update of the impact study was carried out.

This project was postponed after the entry into force of IFRS 9, to avoid the constraints induced by the simultaneous implementation of the two reforms on the financial, technical and resource levels.

Box 15: Main advantages of the loans' classification reform

The reform of the classification of loans and their coverage by provisions aims to strengthen banks' soundness and promote sound credit risk management rules, in line with international standards.

The main advantages of this reform revolve around the following elements:

- Broadening the notion of default by including new criteria, namely the persistent overshooting beyond 90 days on authorized lines;
- Introducing an intermediate class of risk known as "sensitive loans" and defining the minimum qualitative and quantitative criteria for the classification of loans among this class of risk and the procedures for setting up related provisions;
- Reviewing the provisions relating to restructured loans, including the definition of restructuring, the period of observation and the accounting treatment.

Subsequent to the consultations, Bank Al-Maghrib opted for a two-phase entry into force:

- End-2022 for the provisions governing non-performing loans;
- End-2024 for provisions governing sensitive loans.

Banks have been called upon to take preparatory actions for the entry into force of the reform, particularly with regard to programs implementation for addressing the persistent overruns in authorized credit lines. These remedial actions aim to reduce the level of overruns observed during the impact studies in order to limit the real impact once the reform comes into force.

Work also focused on the accounting treatment of the impact of the first implementation according to the Moroccan accounting standards in force for the preparation of the institutions' financial statements. These actions will continue in 2019 with banks and auditors and will be submitted to consultation by the National Accounting Council.

8.2 - Supervision of exposures on assets acquired through in dations in payment and repurchase sales

Over the past few years, banks reported an increase in credit risk in a difficult economic environment, which affected the repayment capacity of indebted companies operating in several sectors including the real estate sector.

In this context, an increased use of techniques of dations in payment and repurchase agreements was observed, which consisted for banks of writing off a debtor's debt in return for the acquisition of a generally real estate asset.

In order to protect banks from the real estate risk they incur as a result of holding these assets, Bank Al-Maghrib has undertaken a project to supervise the use of these techniques and to provide risk mitigation measures. In this context, a quantitative study on these assets was conducted with banks over the second half of 2018.

A first draft regulatory text was prepared and was the subject of an initial consultation with banking stakeholders. Based on the conclusions of the consultation, Bank Al-Maghrib initiated work to adjust the proposed framework, while conducting an impact study of the rules adopted.

8.3 - Financial Conglomerates

Bank Al-Maghrib set up a working group composed of representatives of the banking supervision function, macroprudential supervision and supervisory authorities of the insurance sector "ACAPS" and capital markets "AMMC" in order to develop a circular on financial conglomerates. The circular sets out the requirements to be observed by financial conglomerates under Article 21 of the Banking Law. For the purpose of this article, a financial conglomerate refers to any group fulfilling the following three conditions:

- Being under sole control or significant influence of a group entity having its head-office or main activity in Morocco;
- At least two of the group's entities must belong to the banking sector and/or the insurance sector and/or the capital market sector;
- The financial activities of the group are significant.

The provisions of the circular were finalized by the 3 authorities and submitted to the Coordinating Systemic Risk Monitoring Committee. The consultation phase with identified financial conglomerates will be carried out in 2019.

8.4 - Participatory Finance

8.4.1 - LCR liquidity ratio of participatory banks and windows

Bank Al-Maghrib is reviewing the circular on short-term liquidity ratio to adapt it to the specificities of participatory banks and windows. The main specificities concern the treatment of sukuks and investment deposits.

8.4.2 - Guarantee of participatory deposits

Bank Al-Maghrib began drawing up a circular setting out the terms and conditions of operation of the deposit guarantee fund of participatory banks set up to compensate depositors in these banks, in the event of the unavailability of their deposits and any other repayable funds.

This project focuses on how to collect the Fund's contributions and its investments.

9 - Consultation on the Reform of the property security law

Bank Al-Maghrib was consulted on the draft law on the Reform of the property security law. The bill aims at promoting a modernized security legal system that allows the use of tangible and intangible personal property as collateral for bank financing, especially for SMEs.

To this end, the draft law established a set of principles to facilitate transactions and ensure legal security, namely:

- widening the scope of the application of personal property security rights;
- strengthening the contractual freedom between the parties;
- the facilitation of the constitution of personal property security rights;
- the establishment of a National Electronic Register of personal property securities;
- facilitating the enforcement of security rights, in particular by creating extrajudicial channels;
- Strengthening the creditor representation mechanism.

CHAPTER IV

BANKING SUPERVISION ACTIVITY

As in previous years, banking supervision activities covered, in 2018, the areas of micro-prudential supervision, the treatment of the difficulties facing credit institutions, banking sector's financial integrity and the protection of customers.

This year, work has been carried out in the context of new challenges and developments brought about by green finance and digital finance.

1 - Micro-prudential supervision

Bank Al-Maghrib is responsible for the supervision of all credit institutions and similar bodies. As such, it issues the approvals and authorizations necessary for the exercise of the banking activity, enacts the prudential and accounting rules, monitors institutions under its supervision, punishes institutions infringing legal and regulatory provisions, addresses banking difficulties and contributes to the protection of customers of credit institutions and similar entities.

In 2018, Bank Al-Maghrib's supervised a population of 86 credit institutions and similar bodies, including 19 conventional banks, of which 3 with a participatory window, 5 participatory banks, 28 finance companies and 6 offshore banks, 13 microcredit associations, 13 payment institutions, 10 of which specialize in fund transfers, the CDG (Deposit and Management Fund) and the Central Guarantee Fund.

1.1 - Licenses and approvals

Following the opinion of the Credit Institutions Committee (CEC), Bank Al-Maghrib granted in 2018:

- a new license to a Moroccan bank following the merger-takeover of two of its regional banks;
- a license to a Moroccan bank for the transformation of its consumer loan subsidiary into a leasing company;
- a new license to a consumer loan company following its takeover-merger with another company in the same sector;
- a license for the extension of the activities of three intermediary fund management companies to provide payment services backed by payment accounts;
- a license to three payment means management companies as payment institutions;
- a license for the establishment of five payment institutions offering payment services backed by payment accounts;
- prior approval of a Moroccan bank's acquisition of the entire capital of a bank in Madagascar;
- prior approval of the transformation of a Moroccan bank's subsidiary in Côte d'Ivoire into a financing company;
- prior approval for a Moroccan bank to establish 3 microfinance banking institutions in Rwanda, Burkina Faso and Madagascar;
- prior approval for a Moroccan bank to open a representative office in Copenhagen.

During this year, a decision to withdraw license was issued against a money-transfer company at the request of the latter following the losses it had recorded and in the absence of any prospect of recovery.

The Bank also investigated 14 files relating to the appointment of auditors to practice in 2 banks, 4 finance companies, 2 offshore banks, 2 intermediary funds transfer companies and 4 microfinance associations.

It also approved the appointment of 32 directors and managers in 9 banks, 5 finance companies, 2 intermediary funds transfer companies, one microcredit association and one offshore bank.

In addition, the Bank looked into requests from certain credit institutions for the outsourcing of certain back office activities.

1.2 - Onsite and offsite control activities

As part of its surveillance of institutions subject to its supervision, Bank Al-Maghrib adopts an approach based on permanent control, on the basis of documents submitted periodically by these institutions and ad hoc onsite monitoring missions.

Box 16: Offsite and onsite control system

Supervisors in charge of offsite control assess the internal control and risk management systems of credit institutions and evaluate their financial and prudential status in accordance with legal and regulatory requirements. They also monitor the compliance with prudential ratios and follow up on the change in institutional activity.

This work is based on the accounting, financial and prudential regulatory statements periodically transmitted by credit institutions as well as on the annual internal control reports they draw up. It also relies on the reports sent by auditors on the consolidated statements, the regulated agreements and their assessments of the adequacy and efficiency of the internal control system of the institutions they audit.

This information is supplemented and adjusted by the data collected during onsite control missions.

On the other hand, the onsite control is intended to assess the institutions' management aspects that cannot be evaluated remotely, to ensure that the information provided to Bank Al-Maghrib is reliable and to deepen the risk analysis. Onsite inspections are general or thematic.

The control conducted by Bank Al-Maghrib, in both these forms, is based on a risk-based approach focusing on the areas of vulnerability of credit institutions by means of a credit institution rating system.

In 2018, Bank Al-Maghrib continued to pay attention to the quality and provisioning of the banks' credit portfolios. In support of the exchange rate regime reform, it strengthened the framework for monitoring market and interest rate risks. In terms of cross-border supervision, it consolidated cooperation with the regulators of countries hosting Moroccan banks.

Control activities also focused on governance, cyber security devices and the compliance of credit institutions with prudential requirements.

Onsite checks in 2018 covered several of the abovementioned areas. Of the 33 missions carried out, 11 are of a general nature and 18 are thematic. The latter focused on the review of regulatory and prudential reporting, anti-money laundering and counter-terrorist financing, market risk management and foreign currency assets-liabilities management, operational risk management, security of information systems with a focus on cyber-security, IT backup plan and operational management of the business continuity plan.

Missions to follow up on the recommendations of previous missions were also carried out with 3 payment institutions as part of the granting of licenses to conduct the activity of payment services backed by payment accounts.

The Bank also contributed to a joint audit mission with the West African Monetary Union (WAMU) Banking Commission to a Moroccan bank's subsidiary in Mali.

1.2.1 - Governance and comprehensive risk management

Bank Al-Maghrib followed the actions taken by credit institutions to comply with the new regulatory framework for banking governance relating mainly to independent directors enacted in 2016 and to functioning of audit and risk committees enacted in 2018.

The follow-up focused on the composition and functioning of the administrative bodies and their specialized committees, the risk appetite frameworks set up and their integration into the different processes and the articulation of risk management and internal control provisions within the credit institution's governance system.

Bank Al-Maghrib organized meetings with the banks to discuss the prudential expectations regarding banks' internal capital adequacy assessment process (ICAAP) and urged them to undertake strengthening measures.

In addition, in 2018, the Bank received the banks' first internal plans of recovery from crisis with a systemic nature. In cases of default, these ex-ante plans aim to define the solutions that they intend to implement to restore their situation, in response to possible extreme shocks, so as to limit the impact on the financial system without generating additional cost for the State and the taxpayer.

It has individually supported the banks involved in these plans as part of an iterative process to reach a target level in line with the relevant requirements.

1.2.2 - Compliance with prudential rules

As in previous years, Bank Al-Maghrib monitored the compliance of credit institutions with the regulatory provisions relating to minimum capital, capital ratios, risk division, equity investments and liquidity.

The work took into account the findings of the onsite inspections carried out with some banks to check the reliability of the prudential ratios.

Some institutions were recommended to take the necessary measures to ensure compliance with the rules in force.

1.2.3 - Compliance with accounting rules

The Bank supported credit institutions to adopt the international standard "IFRS 9", which came into effect on January 1, 2018. This new standard introduces a new impairment model based on expected credit losses, according to which banks are required to depreciate their loans once loans are granted and throughout their life cycle according to their risk profile. Bank Al-Maghrib also monitored the preparation of consolidated statements of banking groups and their publication and made recommendations in this regard.

1.2.4 - Financial risks

In support of a greater flexibility of the exchange rate regime, Bank Al-Maghrib strengthened the market risk and global interest rate supervision framework, notably through control missions related to the management of these risks by the most exposed banks and enhanced dialogue with the managers in charge of the exposed activities and their supervision.

With regard to market risks, new regulatory reporting has been introduced concerning exposures and risk factors.

Concerning the interest rate risk on the banking portfolio, the Bank paid particular attention to the terms of its measurement. Checks were carried out on the reliability of the rate gap measurement by maturity band and the relevance of the assumptions used in this framework. Banks were contacted to review their analytical approaches, and in light of the findings of interest rate stress tests, take the necessary steps, if any, to mitigate their exposures.

1.2.5 - IT risks and cyber-risks

In 2018, as part of its work on monitoring cyber-risks, Bank Al-Maghrib examined the annual reports on the conduct of intrusion tests submitted by banks. The perimeter of the intrusion tests focused, in view of their criticality, on the applications and resources accessible via the Internet. Banks were invited to expand the scope of these tests to cover other systems and build the capacity of internal teams. It is also expected that the test programs will be submitted to the governing body, or its specialized committees, and that the management body will ensure the implementation of the action plans that have been drawn up following the tests carried out.

Onsite monitoring missions were conducted in 2018 on the information systems security aspects with a focus on cyber security and the computer backup plan.

At the same time, the Bank followed the work carried out by banks to comply with the provisions of Decree No. 2-15-712 establishing the mechanism for protecting sensitive information systems of Infrastructures of Vital Importance (IIV), in terms of identification and security. Bank Al-Maghrib also provided support to streamline information exchanges on computer incidents and alerts between the banking sector and the Moroccan Computer Emergency Response Team (ma CERT center)[36], who reports to the General Department of Information Systems Security (DGSSI).

Following certain operational incidents, some institutions were recommended to take preventive and corrective actions to better control the associated risks.

1.2.6 - Supervision of cross-border banking activities

In 2018, a new convention on banking supervision, information exchange and general cooperation was concluded with the Central Bank of Mauritania and the convention signed with the Central Bank of Tunisia has been updated, bringing the total to 13 covering 24 countries of presence.

For the fifth consecutive year, the colleges of supervisors of the three Moroccan banking groups located abroad were held to examine the financial and prudential situation of these groups, their strategies and the management of their risks, particularly in view of regulatory developments in Morocco and in the host countries. In 2018, banking regulators from Tanzania, Rwanda and Mauritania participated for the first time in the colleges of supervisors of Moroccan banking groups.

At the same time, the Bank continued to monitor the harmonization of risk management, internal control and anti-money laundering and counter-terrorist financing system, through the network of subsidiaries of banking groups in Africa. It also paid particular attention to their strategy and expansion plans.

Bank Al-Maghrib called for the parent banks to implement measures to restore the position of some of their subsidiaries, at the prudential level and in terms of internal control, the information system and operational risk management. With the parent banks, it also ensured the monitoring of the subsidiaries' implementation of the recommendations of the onsite control missions.

Exchange of information with some supervisory authorities of host countries resulted in the periodic organization of conference calls.

36 The Moroccan Computer Emergency Response Team (maCERT) is the center for watch, detection and response to computer attacks.

1.2.7 - Follow-up on Bank Al-Maghrib's checks

Following the onsite and permanent controls, corrective action plans were implemented by the institutions to support Bank Al-Maghrib's recommendations. These action plans are monitored by the supervisors of permanent control.

Disciplinary sanctions were imposed against a finance company, a micro-credit association and 3 payment institutions and financial penalties were imposed against 3 banks and 4 payment institutions.

2 - Protecting the customers of credit institutions

In 2018, Bank Al-Maghrib intensified its supervision of the institutions under its surveillance concerning compliance with the provisions of Law 31-08 enacting consumer protection measures and treatment by their internal services of claims from their customers, while working for greater involvement of the credit institutions' governing bodies in this area.

At the same time, it continued to process the claims it received from customers of credit institutions and started a project to optimize the operational framework supporting this activity, by setting up a tool for processing these claims, which is being deployed. It also monitored the activity of the Moroccan Banking Mediation Center.

2.1 - Control activity

Onsite check missions were carried out to credit institutions, focusing on the assessment of the compliance with the customer complaint handling system, closure of accounts, deadlines for issuing discharges on guarantees, regularization of information on the Credit Bureau's files, application of the clause of variability of the credit rate, and conformity with the provisions of the consumer protection law, particularly concerning a ceiling of the interest rate on arrears, prepayment and advertising.

In addition, several one-off check missions were conducted following claims received from credit institutions' customers.

2.2 - Handling complaints from customers of credit institutions

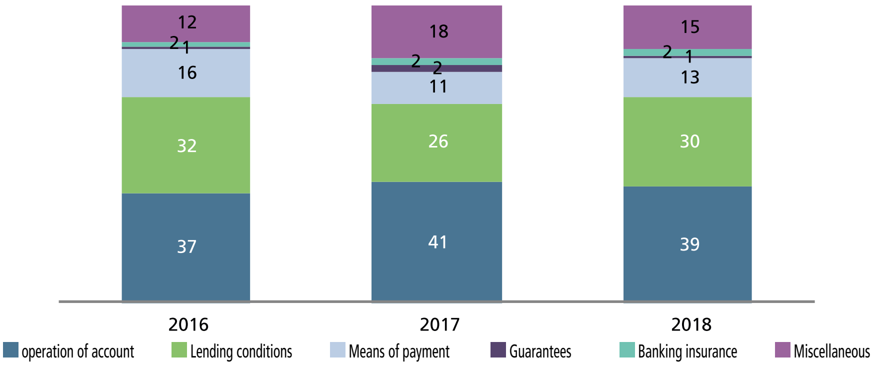
In 2018, the Banking Supervision Department handled 1,620 third-party requests, compared to 1,356 in 2017. These requests are divided into:

- 800 complaints from customers of credit institutions, as against 613 at the end of 2017, up 31%;
- 379 account lookup requests from the heirs of deceased persons[37];
- 441 account disclosure requests from the judicial authorities[38].

37 Data finalized at the end of August 2018. Requests for an account disclosure have been processed since that date by Bank Al-Maghrib's Network and Information Registry Department, mainly through the Bank Account Registry.
38 Data finalized at the end of August 2018. Requests for an account disclosure have been processed since that date by Bank Al-

By typology, complaints about the operation of accounts accounted for nearly 39% of the total, of which more than half on account closure. Those regarding lending conditions represented 30% of the claims received. Complaints relating to means of payment, including the use of checks, accounted for 13 percent of the claims received.

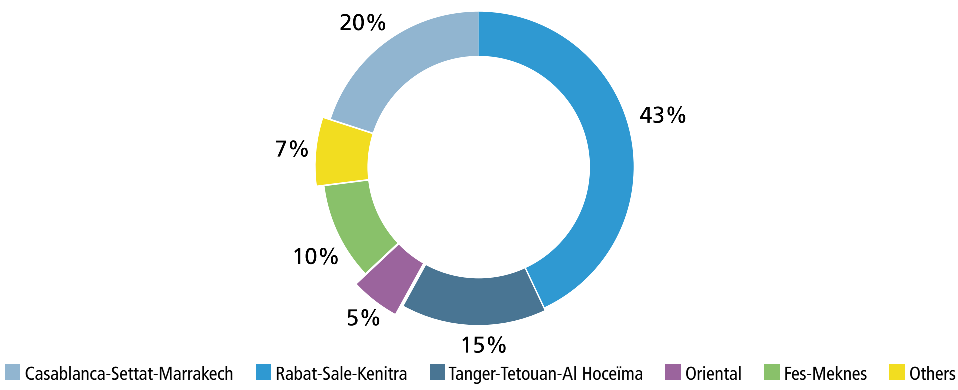
Chart 124: Breakdown, by category, of complaints from customers of credit institutions received by Bank Al-Maghrib(in %)



More than 92 percent of the claims received came from individual customers in 2018, compared to 98 percent a year earlier.

The majority of grievances emanate from plaintiffs living in the Casablanca region, at 43 percent as against 58 percent in 2017. However, this share declined significantly in favor of the other regions.

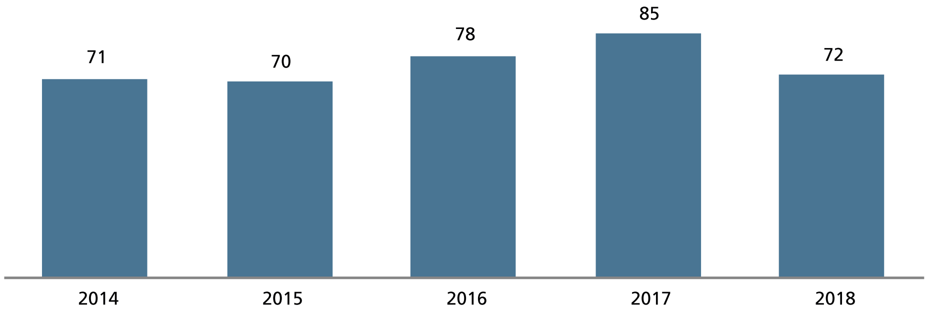
Chart 125: Regional breakdown of complaints filed by customers with bank Al-Maghrib -year 2018



Nearly 72 percent of the claims were settled in favor of complainants, compared to 85 percent in 2017.

Maghrib's Network and Information Registry Department, mainly through the Bank Account Registry.

Chart 126: Rate of claims settled in favor of complainants and received by Bank Al-Maghrib from customers of credit institutions (in %)



2.3 - Monitoring the banking mediation activity

The Moroccan Banking Mediation Center (CMMB) aims at:

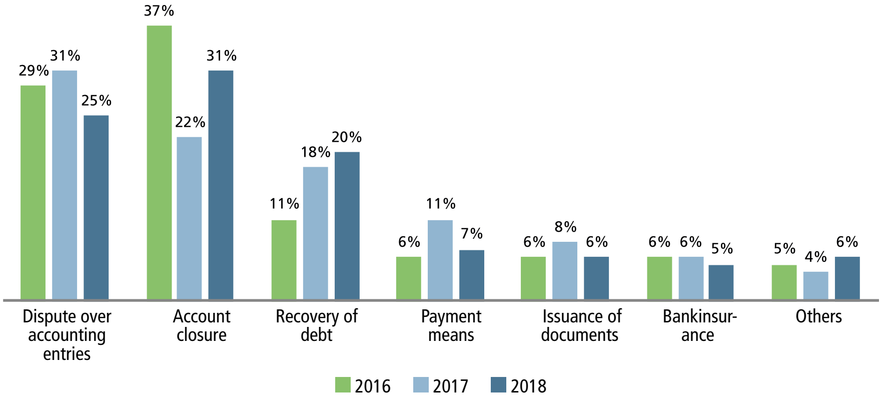
- Ensuring friendly settlement of disputes arising between credit institutions, payment institutions or microcredit associations on the one hand, and their customers on the other;
- organizing events to raise awareness and promote mediation;
- concluding partnerships with public or private, national or international organizations in order to develop this mode of dispute settlement.

In 2018, the Center received 836 complete files, as part of the institutional mediation[39], for litigation amounts corresponding to nearly 210.1 million dirhams. Of this total, 415 files were successfully resolved. 192 files did not result in a transactional mediation agreement[40] in the absence of an amicable solution between parties. 142 files are being handled at the end of the year and 4 files were not accepted by credit institutions.

The type of disputes received mainly concerns account closure (31%), challenges to accounting entries (25%), recovery of debts (20%), means of payment (7%), the issuance of documents (6%) and banking insurance (5%).

39 Institutional mechanism of the Moroccan Banking Mediation Center : deals with the disputes whose amount is lower than one million dirhams. It is deployed for free.
40 At the end of December 2018.

Chart 127: Change in the typology of files submitted to banking mediation (in %)



Bank mediation requests are mainly submitted by individual customers (93 percent) and 86 percent of these requests concern transactions with banks, while 14 percent of operations with finance companies.

Almost 57 percent of applicants are concentrated in the Casablanca region.

Under the so-called "conventional" mediation[41], the Center received 5 files in 2018. The proposed mediation was not accepted for 4 files by the credit institutions involved and at end-2018, one file awaiting a decision of the credit institution.

3 - Financial integrity

Bank Al-Maghrib ensures that credit institutions comply with anti-money laundering and counter-terrorist financing obligations. Through its offsite and onsite controls, it checks the compliance and effectiveness of the preventive mechanisms put in place by the credit institutions and the effective implementation of the due diligence.

In 2018, Bank Al-Maghrib strengthened its action aimed at the banking sector's financial integrity through support for stakeholders in order to bring them into line with the requirements of the circular on due diligence and the adoption of a risk-based approach.

The actions carried out were based on the analysis of the responses to the questionnaire on due diligence, provided annually by the credit institutions, and the compliance reports they draw up. They were supplemented by the information gathered from the heads of the compliance function at the institutions controlled in dedicated meetings.

41 Conventional mechanism of the Moroccan Banking Mediation Center is charged for and relates to the disputes whose amount is higher than one million dirhams.

Onsite inspection missions were also conducted to certain credit institutions to verify the compliance of the implemented arrangements on the ground.

Specific investigations were also carried out with certain institutions following a report from the Financial Information Processing Unit (UTRF) about deficiencies found by this body in certain reports of suspicions and responses to requests for information from the institutions concerned.

As part of the national assessment of money laundering and terrorist financing risks, led by the Financial Information Processing Unit according to the methodology of the World Bank, Bank Al-Maghrib, in coordination with the financial sector's regulatory and supervisory authorities, developed a first draft report on the financial sector. It identifies threats and vulnerabilities in the area of money laundering and terrorist financing and defines the measures to be taken at the sectoral level to address them and strengthen the anti-money laundering and counter-terrorism capacities of the financial sector. This project will be completed and integrated into the national and sectoral report alongside the evaluations carried out for the other sectors of the economy.

The year 2018 was marked by the conduct of a mutual evaluation of the national anti-money laundering and counter-terrorism system (LBC/FT) by the Middle East and North Africa Financial Action Task Force, whose report is expected to be adopted in April 2019.

In this context, the Bank was requested to remotely provide the evaluators with all the necessary documentation in preparation for their onsite visit which took place in March 2018. During this visit, meetings were held with Bank Al-Maghrib, as a supervisory authority, and with a sample of banks, payment institutions, money transfer operators and microcredit associations. Several consultations with the mutual evaluation mission took place after the visit, with a view to responding to the conclusions and remarks of the different intermediate versions of the mutual evaluation report.

Meanwhile, before the adoption of the Mutual Evaluation Report for Morocco, the Bank drew up an action plan to respond to the preliminary recommendations of the mission. In this context, it carried out awareness-raising actions for credit institutions and similar bodies, mainly concerning the progress of the implementation of the action plans on compliance with the new regulatory requirements, sharing of preliminary results of the national risk assessment and progress of the MENAFATF mission.

4 - Digital transformation

In the context of monitoring the impact of the digitization of banking services and its willingness to support the digital transformation of the Moroccan banking sector, Bank Al-Maghrib carried out a watch in this area while maintaining a dialogue with stakeholders on these topics.

In this context, a working group with banks on digital matters has been formed. In 2018, discussions focused on networking and opening a remote bank account as well as the associated challenges related to the digital authentication and identification of customers on the one hand, and the use of the electronic signature on the other. Discussions also focused on the use of cloud computing and related challenges.

Regarding monitoring, the Bank followed-up the work done by international regulators in this area, in particular the Financial Stability Board, the Basel Committee and the IMF, as well as the regulatory initiatives undertaken by some countries in support of innovative financial services.

5 - Support for the VSME Observatory

The Moroccan Observatory for Very Small, Small and Medium Enterprises (OMTPME), set up in 2013, aims to centralize data and information on the environment of VSMEs nationally and regionally and to establish quantitative and qualitative indicators on the conditions of their access to bank financing and support mechanisms.

This institution also aims to address the lack of reliable and regular data on VSMEs in Morocco and to improve access to various services and information.

As a founding member of the Observatory, the Bank continued in 2018 to work towards the operationalization of this institution, alongside its partners.

This year, the Observatory finalized the constitution of a consolidated database on companies, relying on the databases of the various stakeholders, including the Directorate-General for Taxation (DGI), Moroccan Office for Intellectual and Commercial Property (OMPIC), Bank Al-Maghrib and National Social Security Fund (CNSS). The first demographic, economic and financial indicators on companies were produced from this consolidated database.

Meanwhile, the Observatory started work to set up an information system to industrialize data production and restitution.

6 - Promoting sustainable finance

Under the Paris Agreement, Morocco committed to contribute to climate risk mitigation, targeting mainly a rate of 52% of the energy mix derived from renewable energies by 2030, and for the adaptation for the most highly vulnerable sectors.

Determined to accompany and support these commitments, Bank Al-Maghrib coordinated with all the stakeholders of the financial sector, namely operators and regulators, to develop a roadmap for the alignment of this sector with the challenges of sustainable development in order to contribute to a gradual and coordinated transition to a more responsible and inclusive economy.

In this context, the Bank maintains a dialogue with banking stakeholders to ensure the exchange of information and to promote the sharing of experiences between stakeholders.

Box 17: Stakeholders' initiatives

Banks have undertaken, to a different degree from one bank to another, measures to promote green finance. These measures include in particular :

- adherence to international standards and principles for responsible investment, including the Equator Principles, the Principles for Responsible Investment and the Principles for Positive Impact Finance;
- implementation of environmental and social risk management systems to take into account the above principles in the decision-making process for financing and investment;
- supply of financing products aimed in particular at reducing and optimizing energy consumption and natural resources for both businesses and households;
- issuance of green bonds;
- publication of reports on their social and environmental responsibility.

These initiatives, which deserve to be developed, indicate an actors' awareness of the importance of sustainability considerations.

Initiatives led by public and private sector players in the financial sector enabled Morocco to be at an emerging stage in the development of sustainable finance, according to the report published in February 2018 by the Sustainable Banking Network (SBN), of which Bank Al-Maghrib has been a member since 2014.

Box 18: Sustainable Banking Network (SBN)

Set up by 10 countries with the support of the International Finance Corporation in 2012, the SBN is a community that brings together financial regulators and banking associations with the ambition of supporting financial markets towards sustainable finance. At the end of 2018, the network comprised 49 members from 34 countries, totaling nearly $ 43 billion in bank assets, representing more than 85% of all banking assets of emerging market countries.

In 2018, the work of the network's two working groups on green bonds and assessment of members' progress in sustainable finance.

With regard to the first group created in December 2017 and comprising 30 members from 21 countries, the objective was to provide support to members in order to develop the green bonds market and to encourage investments at national and international levels in order to achieve the sustainable development goals of the member countries. A report on green bonds[42] in emerging markets was released in September 2018 by the working group.

Regarding the second theme, the group, set up in December 2016, is composed of 14 members from 11 countries with the mission to create a measurement framework and to develop tools to assess the progress of countries in sustainable finance. The findings of the work were presented in February 2018 in a report on the progress of 15 member countries of the network to assess the maturity of sustainable finance, identify best practices and make recommendations aimed at helping SBN members.

On the prudential level and in order to strengthen its capacity in this area and to better understand the risks associated with climate change caused by the financial sector, Bank Al-Maghrib joined in April 2018 the Central Banks and Supervisors Network for Greening the Financial Sector, so as to capitalize on the experiences of more advanced countries on the subject.

42 Green bonds are sustainable bond issues whose funds are used exclusively for the refinancing of projects related to environmental protection.

Box 19: Central Banks and Supervisors Network for Greening the Financial System

The Central Banks and Supervisors Network for Greening the Financial System (NGFS) was launched at the One Planet Summit held in Paris on December 12, 2017, with the aim of promoting and supporting, through the exchange of experiences and sharing of best practices, the commitments made by the signatory countries of Paris Agreement at COP 21 as part of their specific national contributions and strengthening the role of the financial sector in this area, particularly in terms of environmental risk governance, mainly those related to climate.

Since its creation, the NGFS has grown from 8 founding members to 24 members and 5 observers from five continents. In its first year, the Network developed its work program for the period 2018-2020 and created three technical groups devoted to prudential practices and publication, macro-financial aspects and the impact of climate-related risks on financial stability and the role of central banks in promoting green finance.

On 11 October 2018, NGFS published its first progress report presenting the preliminary findings of the stocktaking of national, regional and international initiatives and recognizing that climate-related risks are a source of financial risk and that financial authorities and institutions need to develop new analytical and prudential approaches to integrating these issues into their operations.

7 - Consultation with professional associations

In 2018, Bank Al-Maghrib organized meetings with the professional associations of the banking sector in order to take stock of the implementation of the roadmaps adopted as part of its consultation and discussion on reforms and issues of direct or indirect interest to stakeholders.

As usual, discussions with the Professional Association of Moroccan Banks focused on topics related to national and international economic trends and their impact on the banking activity, the reform of the exchange rate regime, the ongoing regulatory reforms, the evaluation of the national anti-money laundering and counter-terrorist financing system by the Middle East and North Africa Financial Action Task Force, the financing of SMEs, financial inclusion, payment systems and means, digital finance, green finance and banks/client relations.

With the Professional Association of Financing Companies, discussions focused on the evolution of the sector’s activity, due diligence, compliance with the legal framework of consumer protection as well as the commercial practices in the sector.

With the National Federation of Microcredit Associations, discussions covered the evolution of the activity and the risks of the sector, the achievements of the Solidarity Microfinance Network, the pricing policy, the legal and regulatory framework and the role of the sector in the National Financial Inclusion Strategy.

In 2018, the Professional Association of Payment Institutions was established. Discussions with this association covered the evolution of the sector's activity; with a particular focus on the due diligence arrangements.

8 - International cooperation

In 2018, Bank Al-Maghrib strengthened its cooperation with other central banks and international financial institutions through the joint organization of international and regional events.

In this context, it co-organized with the African Institute for Remittances (AIR) two workshops on regulatory models and policy development aimed at improving the impact of remittances on economic and social development.

With the International Finance Corporation, it organized, in October, a workshop on the theme of "Supply Chain Finance", with the participation of banks and the Moroccan confederation of business associations (CGEM). This workshop was an opportunity to discuss with the experts this concept and the expected benefits as well as the possibility of establishment in Morocco and the prerequisites in terms of developing a favorable environment.

In April 2018, Bank Al-Maghrib jointly organized with the Banque de France and the ACPR a regional seminar on control practices in the fight against money laundering and the financing of terrorism.

In addition, it participated in several events organized by international and regional financial organizations on various topics, including on participatory finance, financial integrity, banking supervision and the deposit guarantee system.

In the field of participatory finance, Bank Al-Maghrib participated in the 33rd meeting of the Islamic Financial Services Board, held in Jeddah on December 6, 2018.

In the area of financial integrity, Bank Al-Maghrib participated in the 27th Annual General Meeting of the Middle East and North Africa Financial Action Task Force. The main points discussed included the strategic plan of this regional group for the years 2019 and 2021.

On the subject of banking supervision, Bank Al-Maghrib participated, in June 2018, in the conference of the Community of African Banking Supervisors organized jointly by the South African Central Bank and the Association of African Central Banks. It also continued to participate in biannual meetings of the Arab Monetary Fund's committee of Arab supervisors and working groups.

In the field of deposit insurance, Bank Al-Maghrib participated in the 17th Annual General Meeting and Annual Conference of the International Association of Deposit Insurers (IADI) held in Basel in October 2018, as well as in meetings of the various thematic working groups to examine issues related to the reliability and efficiency of deposit guarantee schemes.

As part of the exchange of experiences, Bank Al-Maghrib received in 2018:

- a delegation from the Central African Banking Commission to discuss Bank Al-Maghrib's experience with sanctions applicable to credit institutions;
- two Mauritanian delegations to inquire respectively about its experience in the areas of protecting customers of credit institutions and permanent supervision;
- a delegation from the Central Bank of Djibouti on control activities;
- a delegation from the Bank of Algeria to inquire about the Moroccan experience with participatory banks.

9 - Human and technical resources of banking supervision

At end-December 2018, the number of the Banking Supervision Department (BSD) employees totaled 92. Nearly two thirds of this staff is in charge of controlling activities of credit institutions and similar bodies, 24 percent are responsible for regulatory work and studies and 10 percent are assigned to support activities.

Almost 79 percent of this workforce is under 45 years, 68 percent are with a seniority of five years and half are women. A rate of 70 percent of the BSD's staff holds a diploma higher or equal to high school diploma + 5.

Bank Al-Maghrib attaches paramount importance to in-service training of supervisors, in a context marked by a permanent evolution of national and international banking regulations and supervisory practices as well as the emergence of new trends and risks.

In 2018, nearly 96 percent of the BSD's staff received at least one training for a total of 460 training man-days in Morocco and 240 training man-days abroad.

The training plan this year covered 117 actions in areas related to IFRS 9, interest rate, market and cyber security risks and prudential regulation. A particular emphasis was also placed on the fight against money laundering and terrorist financing, participatory finance, bank resolution and the handling of institutional difficulties as well as sustainable finance and digital finance.

A training cycle specifically dedicated to banking supervision was developed in order to consolidate and enhance the operational skills of the staff in charge of the supervision of credit institutions, accounting and prudential regulation, the processing of request for approvals, customer protection, banking studies and bank resolution.

This course covers in particular modules of accounting, prudential and consumer protection regulations, business law related to banking activity, international standards governing banking supervision, internal control and risk management as well as control of financial statements and financial analysis techniques on an individual and consolidated basis.

The BSD contributed to the training of students, hosting 33 trainees in 2018, including 13 students for end-of-study internships.

In terms of supervision tools, the BSD has computer applications that support some components of the permanent supervision and onsite control process:

- SANEC rating system: a tool for managing a credit institution rating file.
- GMC tool: a system for managing onsite control missions at credit institutions and similar bodies and monitoring the implementation of the various related recommendations.

An IT solution is being developed to streamline and secure the exchanges between the various stakeholders in terms of complaint processing and optimize processing times.

In 2018, the Bank finalized a diagnostic study of the banking supervision information system with a view to upgrading this system. A target system has been determined and will be broken down into a batch of IT projects that will be implemented in the coming years.

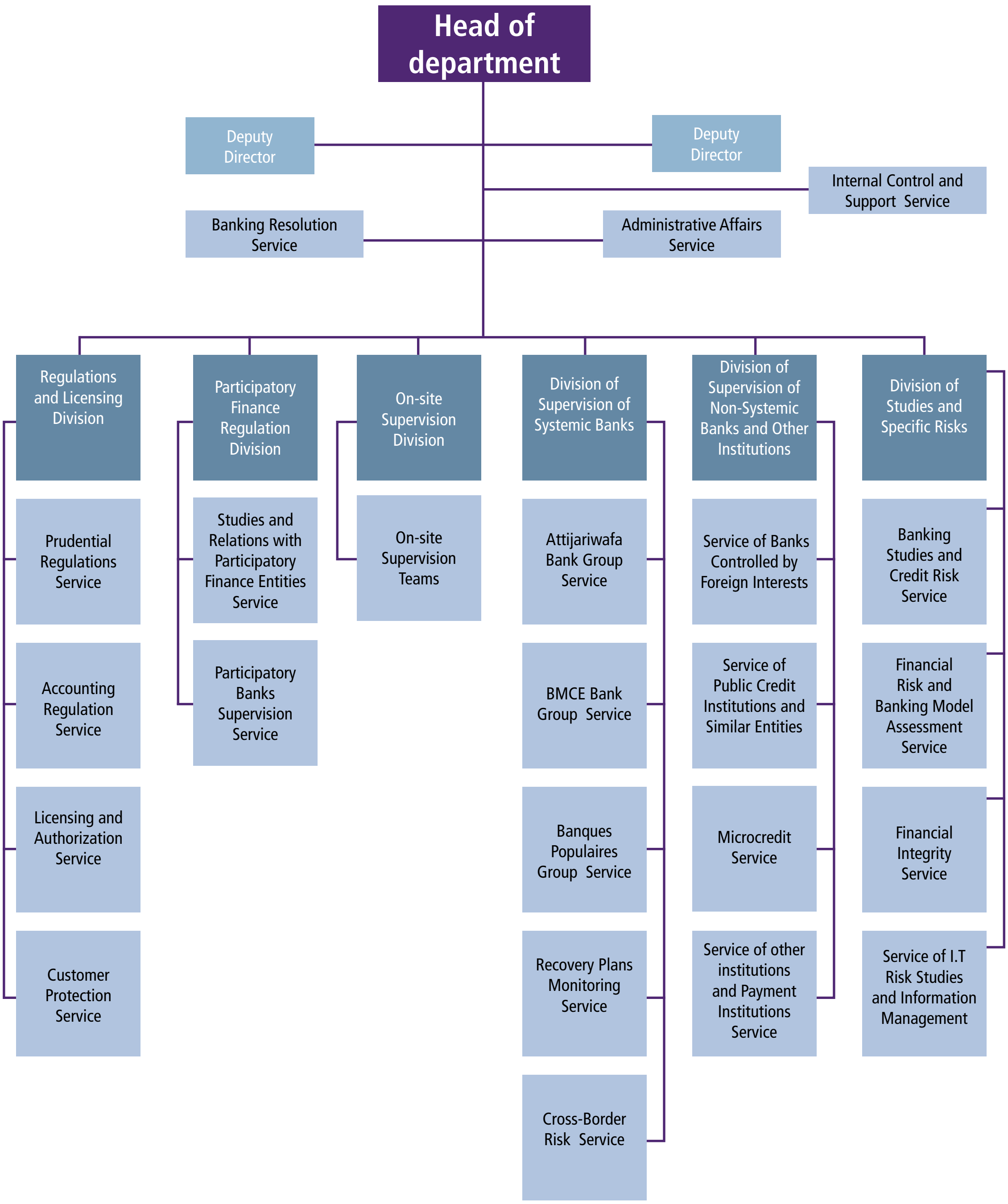
To better take into account the challenges of the digital revolution in the conduct of its work and as part of the overhaul of the system, the Bank has been engaged in reflections on the use of new innovative technologies in the field of banking supervision.

بنك المغرب

APPENDICES

Appendix 1

Organizational chart of the Banking Supervision Department



Appendix 2

List of approved credit institutions - December 2018

Banks

Name	Head office address
AL BARID BANK	798, Angle Boulevard Ghandi et Boulevard Brahim Roudani - Casablanca
ARAB BANK PLC	174, Boulevard Mohamed V - Casablanca
ATTIJARIWAFA BANK	2, Boulevard Moulay Youssef - Casablanca
BANK AL-AMAL	288, Boulevard Mohamed Zerktouni - Casablanca
BANQUE CENTRALE POPULAIRE « B.C.P »	101, Boulevard Mohamed Zerktouni - Casablanca
BANQUE MAROCAINE DU COMMERCE EXTERIEUR « BMCE BANK »	140, Avenue Hassan II - 20000 - Casablanca
BANQUE MAROCAINE POUR LE COMMERCE ET L'INDUSTRIE « B.M.C.I »	26, Place des Nations Unies - Casablanca
BANQUE POPULAIRE DU CENTRE SUD	Avenue Hassan II - Agadir
BANQUE POPULAIRE DE FES-MEKNES	Angle Rue Allal Loudyi et Rue Abdelali Benchekroun - Fes
BANQUE POPULAIRE DE LAAYOUNE	9, Boulevard Mohamed V - Laayoune
BANQUE POPULAIRE DE MARRAKECH - BENI MELLAL	Avenue Abdelkrim Khattabi - Marrakech
BANQUE POPULAIRE DE NADOR-Al HOCEIMA	113, Boulevard Al Massira - Nador
BANQUE POPULAIRE D'OUJDA	Boulevard Derfoufi - Oujda
BANQUE POPULAIRE DE RABAT-KENITRA	3, Avenue de Tripoli - Rabat
BANQUE POPULAIRE DE TANGER-TETOUAN	76, Avenue Mohamed V - Tanger
CDG CAPITAL	Place Moulay El Hassan - Immeuble Mamounia. - Rabat
CREDIT AGRICOLE DU MAROC « CAM »	2, Avenue d'Alger - Rabat
CFG BANK	5-7, Rue Ibnou Toufail - Casablanca
CITIBANK MAGHREB	Lotissement Attaoufik- Imm. I - Ensemble immobilier Zenith Millenium -Sidi Maârouf - Casablanca
CREDIT IMMOBILIER ET HOTELIER « C.I.H »	187, Avenue Hassan II - Casablanca
CREDIT DU MAROC	48-58, Boulevard Mohamed V - Casablanca
FONDS D'EQUIPEMENT COMMUNAL « F.E.C »	Angle Avenue Ben Barka et Avenue Annakhil - Hay Ryad Rabat
MEDIAFINANCE	27, Boulevard Moulay Youssef, 20060 - Casablanca
SOCIETE GENERALE MAROCAINE DE BANQUES « SGMB »	55, Boulevard Abdelmoumen - Casablanca
UNION MAROCAINE DE BANQUES « U.M.B »	36, Rue Tahar Sebti - Casablanca
BANCOSABADELL	Twin center, Tour ouest, 12eme etage - Casablanca
CAJA DE AHORROS Y PENSIONES DE BARCELONA « CaixaBank, S.A. »	179, Boulevard d'Anfa - Casablanca

Participatory Banks and Windows

Name	Head office address
UMNIA BANK	397, Route El Jamia - Casablanca
BANK AL YOUSR	162, angle Boulevard Anfa et rue Moliere
BANK ASSAFA	4, rue Sanaa - Casablanca
AL AKHDAR BANK	Angle Avenue Alger et rue d'Oran, Hassan - Rabat
BANK AL-TAMWEEL WA AL-INMA	157, Avenue Hassan II - Casablanca
ARREDA	48-58, Boulevard Mohamed V - Casablanca
NAJMAH	26, Place des Nations Unies - Casablanca
DAR AL-AMANE	55, Boulevard Abdelmoumen - Casablanca

Consumer loan companies

Name	Head office address
VIVALIS SALAF	369, Boulevard Zerktouni - Casablanca
DAR SALAF S.A	207, Boulevard Zerktouni -Casablanca
RCI FINANCE MAROC S.A	44, Bd Khaled Bnou Loualid - Aïn Sebaa - Casablanca
SALAFIN	Zenith Millenium, Immeuble 8, Sidi Maarouf-Casablanca
SALAF AL MOUSTAKBAL S.A.	20, Boulevard de La Mecque - Laayoune
SOCIETE DE FINANCEMENT D'ACHATS A CREDIT « SOFAC-CREDIT »	57, Boulevard Abdelmoumen - Casablanca
SOCIETE DE FINANCEMENT NOUVEAU A CREDIT « FNAC »	Sahat Rabia Al Adaouia, Residence Kays Agdal - Rabat
SOCIETE D'EQUIPEMENT DOMESTIQUE ET MENAGER « CREDIT EQDOM »	127, Angle Bd Zerktouni et rue Ibnou Bouraîd - 20100 Casablanca
SOCIETE NORDAFRICAINE DE CREDIT « SONAC »	29, Boulevard Mohamed V - Fes
AXA CREDIT	122, Avenue Moulay Hassan 1er - Casablanca
SOCIETE REGIONALE DE CREDIT A LA CONSOMMATION « SOREC-CREDIT »	256, Bd Zerktouni - Casablanca
ASSALAF AL AKHDAR	1, Place Bandoeng - Casablanca
WAFASALAF	72, Angle rue Ram Allah et Boulevard Abdelmoumen - Casablanca

Real-estate loan companies

Name	Head office address
ATTIJARI IMMOBILIER	2, Boulevard Moulay Youssef - Casablanca
WAFA IMMOBILIER	112, Angle boulevard Abdelmoumen et rue Rembrandt - Casablanca

Factoring companies

Name	Head office address
ATTIJARI FACTORING	2, Boulevard Moulay Youssef - Casablanca
MAROC FACTORING	63, Boulevard Moulay Youssef - Residence Adriana 1er etage - CP 20 060 - Casablanca

Leasing companies

Name	Head office address
BMCI- LEASING	Lotissement La Colline II , Lot N°3, Route de Nouaceur - Sidi Maarouf - Casablanca
COMPAGNIE MAROCAINE DE LOCATION D'EQUIPEMENT « MAROC- LEASING »	57, Angle Rue Pinel et Boulevard Abdelmoumen Casablanca
CREDIT DU MAROC LEASING ET FACTORING	48 - 58 Boulevard Zerktouni - Casablanca
SOCIETE GENERALE DE LEASING DU MAROC « SOGELEASE MAROC »	55, Boulevard Abdelmoumen -Casablanca
SOCIETE MAGHREBINE DE CREDIT -BAIL (LEASING) « MAGHREBAIL »	45, Boulevard Moulay Youssef-Casablanca
WAFABAIL	39-41, Angle Boulevard Moulay Youssef & rue Abdelkader El Mazini, 20 100 - Casablanca
CAM LEASING	1, Place Bandoeng-Casablanca

Surety companies

Name	Head office address
FINEA	101, Boulevard Abdelmoumen - Casablanca
DAR AD-DAMANE	288, Boulevard Zerktouni - Casablanca

Other finance companies

Name	Head office address
SOCIETE DE FINANCEMENT POUR LE DEVELOPPEMENT AGRICOLE « S.F.D.A »	28, Rue Abou Faris Al Marini, BP 49 - Rabat
DAR ASSAFAA LITAMWIL	4, rue Sanaa, Casablanca
JAIDA	Place Moulay Hassan, Imm. Dalil-Rabat

Appendix 3

List of offshore banks

Name	Head office address
ATTIJARI INTERNATIONAL BANK (ATTIJARI I.B B.O.S)	58, Boulevard Pasteur, Tanger
BANQUE INTERNATIONALE DE TANGER -BANQUE OFFSHORE (B.I.T B.O.S)	Angle Avenue Mohamed V et Rue Moussa Bnou Noussair, Tanger
BMCI -BANQUE OFFSHORE- GROUPE BNP (BMCI B.O.S)	Zone franche de Tanger, Route de Rabat - Tanger
SOCIETE GENERALE TANGER OFFSHORE (S.G.T O.S)	58, Avenue Mohamed V, Tanger
SUCCURSALE OFFSHORE DE LA BMCE (SUCCURSALE O.S BMCE)	Zone Franche, Port de Tanger, BP 513, Tanger
CHAABI INTERNATIONAL BANK OFFSHORE (CIB BANQUE OFFSHORE)	Lot 45 D Zone franche d’exportation, Route de Rabat - Tanger

Appendix 4

List of microcredit associations

Name	Head office address
AL AMANA MICROFINANCE	40, Rue Al Fadila, quartier industriel, Q.Y.M, Rabat 10 000
Association Al Karama pour le Micro-Credit (AL KARAMA)	38, Bd Abdelmounen Appt 23, 4eme etage Hassan Rabat
Association Ismailia pour le Micro-Credit (AIMC)	115, Boulevard Lahboul-BP 2070 Meknes
ATTADAMOUNE « Association Marocaine de Solidarite Sans Frontieres »	1, Rue Abi Dar El Ghoufari-Quartier Prince Heritier-1er etage Fes
Association Marocaine Oued Serou pour le Micro-Credit (AMOS)	Rue Oued Sbou, Hay Ettakadoum-El Kbab Khenifra
Association Tetouanaise des Initiatives Sociaux-Professionnelles (ATIL)	Avenue Hassan II N° 70-Residence Paloma Blanca-1er Etage N° 1 Tetouan
ATTAWFIQ MICRO FINANCE	3, Rue Docteur Veyre-Residence Patio Casablanca
Fondation « ARDI » micro-credit	Avenue Hassan 2 , Hay Ibn Sina, rue Iran-Temara Centre
Fondation Micro Credits du Nord	N° 6, Rue Rachid Reda, Residence Hayat 2 entresol, appt. N° 34 Tanger
Fondation pour le Developpement Local et le Partenariat (FON-DEP)	Im. Saraya angle Br Riad et Av. Alarz Hay Riad Rabat 10100
TAWADA	N° 119, avenue de la Resistance, appartement 27 Rabat
BAB RIZK JAMEEL	82, Rue Soumaya, Angle Boulevard Abdelmoumen, CASABLANCA
Institution Marocaine d'Appui à la Micro-Entreprise (INMAA)	Angle Rue Maamora et Rue Reine Elizabeth II, Immeuble A 2eme etage appt. 2 Kenitra

Appendix 5

List of payment institutions

Name	Head office address
CENTRE MONETIQUE INTERBANCAIRE	Espace porte d'Anfa, 8, Angle Bd d'Anfa et Avenue Moulay Rachid -20050 Casablanca
NAPS SA	16, Abdelhak Ben Mahyou, Palmier - Casablanca
WAFA CASH	15, Rue Driss Lahrizi - Casablanca
CASH PLUS	1, Rue des Pleiades - Quartier des Hopitaux- Casablanca
MAROC TRAITEMENT DE TRANSACTIONS "M2T"	Immeuble Espace Perla, La Colline, Sidi maarouf, lot n°22 -Casablanca
BARID CASH	202, Boulevard Roudani - Casablanca
WANA MONEY	Lotissement colline 2, Sidi Maarouf -Casablanca
MAYMOUNA SERVICES FINANCIERS	Immeuble Saraya angle Br Riad et Av. Alarz Hay Riad Rabat, 10100
EUROSOL	Residence Ahssan Dar, Appart 3 et 4, Av Hassan II Rabat
DAMANE CASH	212, Avenue Mohamed V - Residence Elite. Bureau 211 - Gueliz-Marrakech
MEA FINANCES SERVICES	Residence Hadi n°27, Rue Salim Cherkaoui. 6eme etage -Casablanca
TRANSFERT EXPRESS	282, Boulevard de la Resistance et Angle Rue de Strasbourg -Casablanca
MONEYON MAROC	52, Boulevard Zerktouni Espace Erreada - Casablanca
MT CASH	Avenue Annakhil, Hay Riad - Rabat
ORANGE MONEY MAROC	Lotissement la colline, Immeuble les 4 temps, 6eme etage, Sidi Maârouf, Casablanca
FAST PAYMENT, SA	3, Rue Berne, Angle Zerktouni - Casablanca

Other Institutions

Name	Head office address
CAISSE DE DEPOT ET DE GESTION	Place Moulay el Hassan - Rabat
CAISSE CENTRALE DE GARANTIE	Boulevard Ar Ryad, Hay Ryad - Rabat

Appendix 6

Banks' aggregate balance sheet - Activity in Morocco

As at December 31, 2018

(Thousands of dirhams)

Assets	31/12/17	31/12/18
Cash values, Central banks, Public Treasury and Postal Checks Service	**38 067 956**	**41 880 882**
Receivables from credit institutions and similar entities	**157 504 338**	**157 306 876**
Demand	33 423 120	26 880 102
Time	124 081 218	130 426 774
Receivables from customers	**740 407 872**	**766 748 398**
Loans and participatory financing for overdraft facilities and consumer	219 855 112	233 094 032
Loans and participatory financing for equipment	197 128 042	204 721 215
Real estate loans and participatory financing	256 722 413	261 696 731
Other loans and participatory financing	66 702 305	67 236 420
Factoring loans	**4 170 298**	**31 293 319**
Trading and held-for-sale securities	**200 792 905**	**199 287 620**
Treasury bills and the like	112 324 476	118 428 153
Other debt securities	17 440 073	16 918 069
Sukuk Certificates		334 291
Ownership' securities	71 028 356	63 607 107
Other assets	**20 730 643**	**23 249 902**
Investment securities	28 334 108	32 200 771
Treasury bills and the like	26 878 208	28 682 974
Other debt securities	1 455 900	3 517 797
Sukuk Certificates		
Equity securities and the like	**45 059 665**	**49 574 290**
Participations in associated enterprises		39 236 623
Other participation securities and the like		6 275 906
Moudaraba and Moucharaka securities		
Subordinated loans	**648 591**	**1 161 128**
Investment deposits placed		
Fixed assets for leasing and rental	**1 452 498**	**2 078 587**
Fixed assets pledged as Ijara		**1 365**
Intangible fixed assets	**5 366 412**	**5 072 236**
Tangible fixed assets	**28 558 035**	**31 260 431**
Total assets	**1 271 093 320**	**1 341 115 805**

(Thousands of dirhams)

Liabilities	31/12/17	31/12/18
Central Banks, Public Treasury, Postal Checks Service	**8 442**	**88**
Due to credit institutions and similar entities	**97 294 535**	**130 242 855**
Demand	18 765 127	13 622 119
Time	81 425 167	116 620 736
Customers' deposits	**901 412 153**	**927 807 733**
Creditor demand deposits	553 292 783	566 333 922
Savings accounts	153 427 890	158 759 868
Time deposits	168 197 535	169 723 274
Other creditor accounts	26 493 945	32 990 669
Customers due to credit on participatory products		
Debt securities issued	**57 874 794**	**61 737 706**
Negotiable debt securities	48 021 003	53 473 562
Bonded debts	8 963 488	7 662 179
Other debt securities issued	890 303	601 965
Other liabilities	**31 149 307**	**30 176 879**
Provisions for risks and expenses	**12 721 355**	**15 025 681**
Regulated provisions		**1**
Subsidies, allocated public funds and special guarantee funds	**3 650 801**	**3 227 708**
Subordinated debts	**41 478 790**	**43 674 743**
Investment deposits received		
Reevaluation gaps	**420**	**420**
Reserves and premiums related to capital	**80 493 778**	**89 846 820**
Capital	**25 864 789**	**25 537 592**
Shareholders. Unpaid capital (-)	**-48 000**	**-48 000**
Retained earnings (+/-)	**5 746 793**	**3 031 720**
Net income before appropriation (+/-)	**-280 434**	**-293 156**
Net income for the year (+/-)	**10 830 037**	**11 147 015**
Total liabilities	**1 271 093 320**	**1 341 115 805**

(Thousands of dirhams)

OFF-BALANCE SHEET	31/12/17	31/12/18
COMMITMENTS GIVEN	**270 470 799**	**306 817 471**
Financing commitments to credit institutions and similar entities	7 314 916	3 869 546
Financing commitments to customers	114 817 620	139 514 000
Guarantee commitments to credit institutions and similar entities	54 698 757	51 505 271
Guarantee commitments to customers	91 681 468	103 633 340
Securities bought under repurchase agreements	78 357	4 071 378
Other securities to deliver	1 879 681	4 223 936
COMMITMENTS RECEIVED	**85 000 220**	**90 324 465**
Financing commitments received from credit institutions and similar entities	2 765 537	3 476 358
Guarantee commitments received from credit institutions and similar entities	71 884 614	66 550 273
Guarantee commitments received from the government and sundry guarantee institutions	10 322 216	20 122 285
Securities sold under repurchase agreements		
Other securities to receive	27 853	175 549
Moucharaka and Moudaraba securities to be received		

Appendix 7

Banks' aggregate loss and profit- Activity in Morocco

From January 1 to December 31, 2018

(Thousands of dirhams)

	31/12/2017	31/12/2018
+ Interest and related income	45 506 833	47 195 699
- Interest and related expenses	14 639 554	14 982 709
Interest Margin	**30 867 279**	**32 212 990**
+Gains on participatory financing		
- Commissions on participatory financing		
Participatory financing Margin		
+ Gains on fixed assets leasing and rentals	262 799	517 104
- Expenses on fixed assets leasing and rentals	331 650	471 444
Income from leasing and rental transactions	**-68 851**	**45 660**
+Gains on fixed assets pledged as Ijara		196
- Expenses on fixed assets pledged as Ijara		90
Income from Ijara operations		106
+ Commissions received	7 563 719	8 172 881
- Commissions paid	**671 764**	**917 461**
Margin on commissions	6 891 955	7 255 420
± Income from transactions on trading securities	3 839 078	3 429 657
± Income from transactions on held-for-sale-securities	**795 194**	**254 652**
± Income from foreign exchange transactions	2 053 116	2 665 234
± Income from derivatives transactions	171 086	12 886
Income from market operations	6 858 474	6 362 429
±Gains on Moudaraba and Moucharaka securities' transactions		0
+ Other banking income	**3 771 486**	**3 935 715**
- Other banking expenses	2 353 684	2 600 397
± SHARE OF INVESTMENT DEPOSITS ACCOUNTS HOLDERS		0
Net banking income	**45 966 659**	**47 211 817**
± Result from operations on financial fixed assets	**327 054**	**-135 446**
+ Other non-banking operating income	991 798	878 892
- Other non-banking operating expenses	525 086	192 486
- General operating expenses	23 252 718	23 919 156
Gross operating income	23 507 707	23 843 621
± Allocations net of provisions for non-performing loans and commitments by signature	-5 127 163	-5 574 792
± Other allocations net of reversals of provisions	-1 627 114	-2 253 501
Current income	16 753 430	16 015 328
Extraordinary income	-829 660	186 293
- Income tax	5 093 734	5 054 606
Net income for the year	**10 830 036**	**11 147 015**

Appendix 8

Aggregate balance sheet of finance companies

As at December 31, 2018

(Thousands of dirhams)

Assets	31/12/17	31/12/18
Cash values, Central Banks, Public Treasury and Postal Checks Service	**161 081**	**252 770**
Receivables from credit institutions and similar entities	**6 223 877**	**4 884 543**
Demand	1 787 200	1 613 275
Time	4 436 677	3 271 268
Receivables from customers	**32 742 799**	**33 829 926**
Overdraft facilities and consumer loans	28 510 209	29 362 747
Equipment loans	1 094 628	1 307 159
Real estate loans	1 987 446	1 710 914
Other loans	1 150 516	1 449 106
Factoring loans	**4 075 979**	**4 344 063**
Trading and held-for-sale securities	**1 330 213**	**1 037 818**
Treasury bills and the like		
Other debt securities	250 234	200 172
Ownership securities	1 079 979	837 646
Other assets	**4 397 554**	**4 640 085**
Investment securities	**220 906**	**232 222**
Treasury bills and the like	220 906	219 722
Other debt securities		**12 500**
Equity securities and the like	**147 828**	**37 852**
Subordinated loans		
Fixed assets for leasing and rental	**62 183 207**	**66 585 592**
Intangible fixed assets	**772 301**	**693 071**
Tangible fixed assets	**611 555**	**625 607**
Total assets	**112 867 300**	**117 163 551**

(Thousands of dirhams)

Liabilities	31/12/17	31/12/18
Central Banks, Public Treasury, Postal Checks Service		
Due to credit institutions and similar entities	**62 656 075**	**62 491 027**
Demand	5 972 568	5 176 498
Time	56 683 507	57 314 529
Customers deposits	**10 957 929**	**12 473 830**
Creditor demand deposits	928 336	1 034 941
Savings accounts		
Time deposits	184 848	187 609
Other creditor accounts	9 844 745	11 251 281
Debt securities issued	**17 335 599**	**19 817 292**
Negotiable debt securities	15 986 089	18 471 211
Bonded loans	1 327 668	1 319 093
Other debt securities issued	21 842	26 988
Other liabilities	**7 476 080**	**8 213 594**
Provisions for risks and expenses	**522 791**	**591 167**
Regulated provisions	**13 201**	**15 253**
Subsidies, allocated public funds and special guarantee funds	**162 887**	**125 061**
Subordinated debts	**1 364 537**	**1 105 750**
Reevaluation gaps		
Reserves and premiums related to capital	**4 721 289**	**5 170 475**
Capital	**3 965 523**	**3 722 604**
Shareholders. Unpaid capital (-)	**-1**	**-25 000**
Retained earnings (+/-)	**2 026 168**	**2 034 057**
Net income before appropriation (+/-)	**-744**	**-16 571**
Net income for the year (+/-)	**1 665 966**	**1 445 013**
Total liabilities	**112 867 300**	**117 163 551**

Appendix 9

Aggregate loss and profit statement of finance companies

From January 1 to December 31, 2018

(Thousands of dirhams)

	31/12/17	31/12/18
+ Interest and related income	3 741 504	3 757 782
- Interest and related expenses	2 832 765	2 846 247
Interest margin	**908 739**	**911 536**
+ Income from fixed assets leasing and rentals	19 638 502	21 152 461
- Expenses on fixed assets leasing and rentals	16 341 055	17 688 069
Income from leasing and rental transactions	**3 297 447**	**3 464 392**
+ Commissions received	2 472 924	1 266 488
- Commissions paid	834 990	138.926
Margin on commissions	**1 637 934**	**1 127 562**
± Income from transactions on trading securities	8 417	11 352
± Income from transactions on held-for-sale-securities	12 748	10 842
± Income from foreign exchange transactions	-10 405	-2 167
± Income from derivatives transactions		
Income from market operations	**10 760**	**20 027**
+ Other banking income	129 728	147 247
- Other banking expenses	3 089	3 934
Net banking income	**5 981 519**	**5 666 829**
± Result from operations on financial fixed asset	13	13
+ Other non-banking operating income	112 461	44 745
- Other non-banking operating expenses	21 492	3 529
- General operating expenses	2 376 454	2 073 167
Gross operating income	**3 696 047**	**3 634 891**
± Allocations net of reversals of provisions for non-performing loans and commitments by signature	-985 918	-1 210 591
± Other allocations net of reversals of provisions	-53 051	-41 024
Current income	**2 657 078**	**2 383 276**
Extraordinary income	**5 885**	**-35 910**
- Income tax	996 657	902 353
Net income for the year	**1 666 306**	**1 445 013**

Appendix 10

Aggregate balance sheet of consumer loan companies

As at December 31, 2018

(Thousands of dirhams)

Assets	31/12/17	31/12/18
Cash values, Central Banks, Public Treasury and Postal Checks Service	**77 448**	**177 076**
Receivables from credit institutions and similar entities	**616 115**	**774 011**
Demand	566 436	752 504
Time	49 679	21 507
Receivables from customers	**29 704 388**	**30 886 027**
Overdraft facilities and consumer loans	28 141 894	28 848 944
Equipment loans	630 384	829 170
Real estate loans	18 891	12 364
Other loans	913 219	1 195 549
Factoring loans	**218 226**	**314 139**
Trading and held-for-sale securities	**875**	**200 836**
Treasury bills and the like		
Other debt securities		199 961
Ownership securities	875	875
Other assets	**3 241 361**	**3 562 578**
Investment securities		**12 500**
Treasury bills and the like		
Other debt securities		**12 500**
Equity securities and the like	**16 104**	**16 004**
Subordinated loans		
Fixed assets for leasing and rental	**15 803 629**	**18 331 469**
Intangible fixed assets	**318 938**	**517 631**
Tangible fixed assets	**356 053**	**371 865**
Total assets	**50 353 137**	**55 164 136**

(Thousands of dirhams)

Liabilities	31/12/17	31/12/18
Central Banks, Public Treasury, Postal Checks Service		
Due to credit institutions and similar entities	**19 073 141**	**19 137 852**
Demand	932 456	1 292 884
Time	18 140 685	17 844 968
Customers' deposits	**8 579 852**	**10 152 072**
Creditor demand deposits		**19**
Savings accounts		
Time deposits		
Other creditor accounts	8 579 852	10 152 053
Debt securities issued	**11 117 344**	**13 391 360**
Negotiable debt securities	11 117 344	13 391 360
Bonded loans		
Other debt securities issued		
Other liabilities	**3 753 112**	**4 448 556**
Provisions for risks and expenses	**140 007**	**124 889**
Regulated provisions	**12 972**	**15 253**
Subsidies, allocated public funds and special guarantee funds		
Subordinated debts	**871 285**	**865 649**
Reevaluation gaps		
Reserves and premiums related to capital	**3 190 492**	**3 667 785**
Capital	**1 969 150**	**1 759 481**
Shareholders. Unpaid capital (-)		
Retained earnings (+/-)	**723 106**	**700 364**
Net income before appropriation (+/-)	**-744**	
Net income for the year (+/-)	**923 420**	**900 876**
Total liabilities	**50 353 137**	**55 164 136**

Appendix 11

Aggregate profit and loss statement of consumer loan companies

From January 1 to December 31, 2018

(Thousands of dirhams)

	31/12/17	31/12/18
+ Interest and related income	3 193 018	3 254 983
- Interest and related expenses	1 139 332	1 153 206
Interest margin	**2 053 686**	**2 101 777**
+ Income on fixed assets leasing and rentals	4 693 594	5 431 030
- Expenses on fixed assets leasing and rentals	4 312 970	5 048 168
Income from leasing and rental transactions	**380 624**	**382 862**
+ Commissions received	802 054	888 766
- Commissions paid	73 999	74 693
Margin on commissions	**728 055**	**814 073**
± Income from transactions on trading securities	443	551
± Income from transactions on held-for-sale-securities		
± Income from foreign exchange transactions	34	67
± Income from derivatives transactions		
Income from market operations	**477**	**618**
+ Other banking income	121 883	141 758
- Other banking expenses	2 409	3 631
NET BANKING INCOME	**3 282 316**	**3 437 457**
± Result from operations on financial fixed assets		
+ Other non-banking operating income	31 223	33 822
- Other non-banking operating expenses	1 455	1
- General operating expenses	1 313 419	1 392 799
GROSS OPERATING INCOME	**1 998 665**	**2 078 479**
± Allocations net of reversals of provisions for non-performing loans and commitments by signature	-526 342	-630 327
± Other allocations net of reversals of provisions	-4 340	-2 084
CURRENT INCOME	**1 467 983**	**1 446 068**
EXTRAORDINARY INCOME	**-9 932**	**-32 208**
- Income tax	534 632	512 984
NET INCOME FOR THE YEAR	**923 419**	**900 876**

Appendix 12

Aggregate balance sheet of leasing companies

As at December 31, 2018

(Thousands of dirhams)

Assets	31/12/17	31/12/18
Cash values, Central Banks, Public Treasury and Postal Checks Service	**47**	**8 453**
Receivables from credit institutions and similar entities	**14 515**	**36 693**
Demand	14 515	36 691
Time		**2**
Receivables from customers	**36 562**	**105 494**
Overdraft facilities and consumer loans	6 512	49 821
Equipment loans		
Real-estate loans	12 149	9 647
Other loans	17 901	46 026
Factoring loans	**186 174**	**212 789**
Trading and held-for-sale securities	**250 234**	**211**
Treasury bills and the like		
Other debt securities	250 234	211
Ownership' securities		
Other assets	**773 721**	**821 843**
Investment securities		
Treasury bills and the like		
Other debt securities		
Equity securities and the like	**18 223**	**18 223**
Subordinated loans		
Fixed assets for leasing and rental	**46 379 578**	**48 254 123**
Intangible fixed assets	**156 094**	**155 218**
Tangible fixed assets	**129 356**	**158 662**
Total assets	**47 944 504**	**49 771 710**

(Thousands of dirhams)

Liabilities	31/12/17	31/12/18
Central Banks, Public Treasury, Postal Checks Service		
Due to credit institutions and similar entities	**35 161 358**	**36 142 103**
Demand	3 073 274	2 796 387
Time	32 088 084	33 345 716
Customers' deposits	**522 370**	**583 370**
Creditor demand deposits	73 568	137 268
Savings accounts		
Time deposits	184 848	187 609
Other creditor accounts	263 954	258 494
Debt securities issued	**5 709 757**	**5 925 986**
Negotiable debt securities	4 868 745	5 079 851
Bonded loans	819 170	819 147
Other debt securities issued	21 842	26 988
Other liabilities	**2 649 169**	**2 967 700**
Provisions for risks and expenses	**198 752**	**213 192**
Regulated provisions	**229**	
Subsidies, allocated public funds and special guarantee funds		
Subordinated debts	**142 472**	**144 419**
Reevaluation gaps		
Reserves and premiums related to capital	**1 397 440**	**1 421 035**
Capital	**910 095**	**1 010 095**
Shareholders. Unpaid capital (-)		**-25000**
Retained earnings (+/-)	**868 622**	**1 004 674**
Net income before appropriation (+/-)		**-16 571**
Net income for the year (+/-)	**384 240**	**400 707**
Total liabilities	**47 944 504**	**49 771 710**

Appendix 13

Aggregate profit and loss statement of leasing companies
From January 1 to December 31, 2018

(Thousands of dirhams)

	31/12/17	31/12/18
+ Interest and related income	9 631	14 469
- Interest and related expenses	1 512 783	1 531 569
Interest margin	**-1 503 152**	**-1 517 099**
+ Income on fixed assets leasing and rentals	14 941 306	15 683 683
- Expenses on fixed assets leasing and rentals	12 028 085	12 634 675
Income from leasing and rental transactions	**2 913 221**	**3 049 008**
+ Commissions received	1 793	5 253
- Commissions paid	8 768	9 294
Margin on commissions	**-6 975**	**-4 042**
Income from transactions on trading securities		
Income from transactions on held-for-sale-securities		
± Income from foreign exchange transactions	-822	-2 499
± Income from derivatives transactions		
Income from market operations	**-822**	**-2 499**
+ Other banking income	3 708	4 155
- Other banking expenses	231	273
NET BANKING INCOME	**1 405 749**	**1 529 250**
± Result from operations financial fixed assets		
+ Other non-banking operating income	5 358	9 102
- Other non-banking operating expenses	2 466	3 319
- General operating expenses	367 492	371 584
GROSS OPERATING INCOME	**1 041 149**	**1 163 449**
± Allocations net of reversals of provisions for non-performing loans and commitments by signature	-379 780	-473 740
± Other allocations net of reversals of provisions	-41 137	-26 440
CURRENT INCOME	**620 232**	**663 269**
EXTRAORDINARY INCOME	**-13 008**	**-1 040**
- Income tax	222 985	261 523
NET INCOME FOR THE YEAR	**384 239**	**400 707**

Appendix 14

Consolidated balance sheet of the 9 banking groups
As at December 31, 2018

(Thousands of dirhams)

Assets	31/12/17	31/12/18
Cash values, Central Banks, Treasury and Postal Checks Service	**56 685 558**	**62 170 940**
Financial assets at fair value by result	**150 555 294**	**166 450 761**
Financial assets held for transactions purposes		152 670 822
Other financial assets at fair value per option result		13 779 938
Hedging derivatives		
Financial assets held-for-sale	**129 241 200**	
Financial assets over the fair value by equity		**91 391 467**
Debt instruments recorded at fair value by recyclable equity		49 065 563
Equity instruments recorded at fair value by non-recyclable equity		7 563 623
Financial assets recorded at fair value by recyclable equity (Insurance)		34 762 281
Securities of amortized cost		**60 256 167**
Due from credit institutions and similar entities	**83 034 415**	**80 498 672**
Due from customers	**969 201 990**	**1 029 188 221**
Asset revaluation gap on interest hedged portfolios		
Held-to-maturity investments	**47 352 372**	
Current tax assets	**3 329 622**	**4 183 711**
Differed tax assets	**4 701 143**	**10 433 890**
Adjustment accounts and other assets	**29 441 646**	**35 386 851**
Non-recurrent assets held for sale	**175 402**	**97 044**
Participations in businesses-equity method	**1 794 057**	**1 661 467**
Investment property	**8 619 279**	**8 966 479**
Tangible fixed assets	**37 650 432**	**40 846 326**
Intangible fixed assets	**5 381 880**	**6 140 001**
Goodwill	**13 240 819**	**13 539 964**
Total assets	**1 540 405 110**	**1 611 211 960**

(Thousands of dirhams)

Liabilities	31/12/17	31/12/18
Central Banks, Treasury, Postal Checks Service	**950 970**	**1 309 570**
Financial liabilities at fair value by result	**2 559 683**	**553 395**
Financial liabilities held for transaction purposes		**553 395**
Financial liabilities at fair value per option result		
Hedging derivatives	**6 008**	
Due to credit institutions and similar entities	**146 524 417**	**170 781 427**
Due to customers	**1 038 059 267**	**1 073 662 146**
Debt securities issued	**59 072 189**	**70 628 380**
Liability revaluation gaps on hedged interest portfolios		
Current tax liabilities	**4 558 666**	**4 610 248**
Differed tax liabilities	**6 722 313**	**5 578 624**
Adjustment accounts and other liabilities	**40 444 601**	**40 327 335**
Liabilities linked to non-current assets held for sale	**4 414**	
Technical provisions of insurance contracts	**33 720 302**	**34 872 350**
Provisions	**7 830 383**	**11 166 758**
Subsidies and similar funds	**3 797 968**	**3 602 703**
Subordinated debts and special guarantee funds	**42 346 708**	**43 623 568**
Equity capital	**153 807 220**	**150 495 456**
Equity - Share of the Group	**129 757 684**	**127 828 787**
Capital and related reserves	71 775 353	77 651 875
Consolidated reserves	42 324 699	35 088 232
Unrealized or deferred gains or losses	2 372 110	1 222 730
Income of the year	13 285 521	13 865 950
Minority shareholdings	**24 049 536**	**22 666 669**
Total liabilities	**1 540 405 110**	**1 611 211 960**

Appendix 15

Consolidated income statement of the 9 banking groups

From January 1 to December 31, 2017

(Thousands of dirhams)

	31/12/17	31/12/18
+ Interest and related income	65 886 478	69 678 279
- Interest and related expenses	21 222 374	22 160 713
INTEREST MARGIN	**44 664 103**	**47 517 566**
+ Commissions received	13 795 776	15 158 973
- Commissions paid	1 530 188	2 076 734
MARGIN ON COMMISSIONS	**12 265 588**	**13 082 239**
+/- Net gains or losses on Financial instruments at fair value by result	6 150 112	6 286 517
+/- Net gains or losses on financial assets available for sale	2 236 745	
+/- Net gains or losses on Financial instruments at fair value by equity		1 208 290
+/- Net gains or losses resulting from derecognition of financial assets at amortized cost		3 351
+ Income from other activities	15 668 338	12 887 835
- Expenses on other activities	13 959 071	11 766 537
NET BANKING INCOME	**67 025 816**	**69 219 261**
- General operating expenses	**30 954 666**	**32 823 971**
- Amortization and depreciation allocations of tangible and intangible fixed assets	3 579 702	3 612 862
GROSS OPERATING INCOME	**32 491 448**	**32 782 428**
- Cost of risk	-9 648 371	-9 086 140
OPERATING INCOME	**22 843 077**	**23 696 288**
+/- Share of the net income of equity-consolidated companies	115 388	132 928
+/- Net gains or losses on other assets	39 022	277 989
+/- Value change of goodwill	-96 174	
INCOME BEFORE TAX	**22 901 313**	**24 107 205**
- Income tax	7 045 538	7 622 592
+/- Net income of discontinued activities or activities being discontinued	110	
NET INCOME	**15 855 885**	**16 484 613**
- MINORITY SHAREHOLDINGS	2 570 364	2 618 660
NET INCOME - SHARE OF THE GROUP	**13 285 521**	**13 865 953**

Appendix 16

Core financial soundness indicators - individual basis

	2016	2017	2018
Capital adequacy			
Solvency ratio	14,2	13,8	14,7
Core equity / total weighted risks	11,5	10,6	10,7
Non-performing loans net of provisions (as a part of capital)	17,3	15,8	16,5
Quality of assets			
Non-performing loans rate (Non-performing loans/total loans)	**7,6**	**7,5**	**7,3**
Sectoral distribution of loans			
Loans to the primary sector	5,7	5,6	5,9
Loans to the building and public-work sector	11,2	11,3	10,5
Loans to the processing industry	16,2	15,3	14,6
Loans to the general government and local communes	4,7	4,9	8,4
Loans to the trade sector	6,4	6,7	6,4
Loans to the tourist sector	1,9	1,8	1,6
Households	32,4	32,6	31,9
Loans to other sectors	21,5	21,8	20,7
Income and profitability			
Return on assets (ROA)	0,8	0,9	0,9
Return on equity (ROE)	8,6	9,5	9,5
Interest margin / net banking income (NBI)	68,6	70,1	71,2
General operating expenses / NBI	49,3	50,6	50,7
Liquidity			
Liquid assets / total assets	14,5	13,7	12,1
Liquid assets/short term liabilities	18,6	17,3	15,0
Foreign exchange net open positions / capital	**4,1**	**7,0**	**6,9**

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