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ANNUAL REPORT ON THE CONTROL, ACTIVITIES AND RESULTS OF CREDIT INSTITUTIONS

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CONTENTS

GOVERNOR'S FOREWORD

In 2013, the international environment was marked by a gradual recovery in advanced countries and an economic downturn in emerging economies. Although the Euro area, Morocco's main partner, has emerged from recession, its economic growth remained low, albeit with some signs of recovery at the end of the year.

Against this backdrop, the Moroccan economy was able to achieve a growth of 4.4 percent from 2.7 percent in 2012, thanks to a good crop year, while non-agricultural growth slowed down to 2.3 percent, suffering from the lingering effects of unfavorable external conditions.

In this context, banks continued to benefit from Bank Al Maghrib's accommodative monetary conditions and from an instrument, reviewed to be more attractive, for refinancing loans granted by these banks to small and medium-sized enterprises.

However, the deceleration in non-agricultural activities was accompanied by a slower demand for loans from businesses and households. Outstanding loans increased by 3.6 percent in 2013, a rate below historical averages observed, reflecting higher sensitivity of banks to default risk in a still-challenging macroeconomic environment.

Indeed, the non-performing loans continued to grow, reflecting deteriorated creditworthiness of borrowers, which affected both businesses and households. Thus, the NPL ratio went up to 5.9 percent from 5 percent, a year earlier.

Despite a higher risk cost, which absorbed over a third of the gross operating income, as against 29 percent, a year earlier, banks were overall able to maintain profit margins thanks to their business model of universal banks and their diversification at both sectoral and regional levels. In fact, their aggregate net income remained at the same level as last year, after a contraction of 1.7 percent in 2012, generating a return on assets of 1 percent and a return on equity of 10.6 percent.

On a consolidated basis, the aggregate net income -share of the Group of the major banking groups showed a decline of 6.5 percent, despite a higher contribution of African subsidiaries, which averaged 20 percent. In addition to slower net banking income and higher risk cost, this decline was due to the lower contribution of other activities, such as assets management.

The results obtained, combined with the measures taken by banks to comply with Bank Al Maghrib's enhanced prudential requirements, served to bolster banks' capital. Therefore, the sector's average capital adequacy ratio and Tier 1 ratio, reflecting the core capital, improved by approximately 100 basis points to 13.3 percent and 11.1 percent, respectively, levels above the minimums of 12 percent and 9 percent required since June 2013.

Concerning prudential supervision, and in the context of a macro-economic environment implying risks to the banking sector, Bank Al-Maghrib enhanced vigilance. As a priority, the Central bank monitored credit and liquidity risks that credit institutions are facing, and took as well as measures to strengthen their capital.

In addition, Bank Al-Maghrib engaged, on one hand in ensuring the institutions' compliance with the rules of claims' downgrading and provisioning, and assessing those showing signs of vulnerability and ensuring their coverage by adequate general provisions.

Like in previous years, banks' liquidity position and refinancing plans were strongly and closely monitored. Banks were urged to raise their level of liquid assets in order to deal with a possible liquidity stress scenario and to develop a liquidity crisis management plan.

In 2013, Bank Al-Maghrib reviewed the first regulatory stress tests conducted by banks to measure their resilience to various hypothetical credit, liquidity and market shocks. The results of these stress tests indicate, overall, banks' resistance to the scenarios that were selected.

With the development abroad of some Moroccan banking groups, particularly in sub-Saharan Africa, Bank Al-Maghrib has given more attention to cross-border supervision. A regulatory reporting was introduced to monitor, on an individual basis, the financial and prudential situation of each banking establishment abroad. Onsite inspection missions were conducted at two subsidiaries of Moroccan banks in West Africa, in cooperation with the domestic supervisory authority. In addition, cooperation with regulators in some host countries intensified through quarterly meetings and should expand even further with the establishment of colleges of supervisors for Moroccan pan-African banking groups, in accordance with international standards.

In terms of regulation, Bank Al-Maghrib's efforts focused on the implementation of Basel III standards for the definition of regulatory capital and short-term liquidity coverage ratio (LCR), after a phase of impact studies and consultation with the banking sector. A timetable for phased implementation of these standards was set to allow banks to continue ensuring adequate financing of the economy.

Regulatory efforts also focused on the preparation of implementing texts of the proposed draft Banking effort, being adopted by the parliament, the texts should cover the introduction of participatory finance.

Following the recent review of the Basel Core Principles for Effective Banking Supervision, Bank Al-Maghrib conducted a self-assessment of its regulation and control arrangements and initiated projects to ensure their compliance. In this context, it has already begun updating the standards of governance, internal control and risk management applicable to credit institutions.

In terms of macroprudential supervision, the analytical framework, established nearly two years ago to assess systemic risks susceptible to affect the financial sector, was refined and expanded to cover not only the banking sector, but also financial markets, the insurance sector and soon the social security sector. On this basis, through its internal Financial Stability Committee and in cooperation with the other regulatory authorities under the Coordinating Committee, Bank Al-Maghrib addressed the vulnerabilities of the financial system and took the mitigation measures.

Mechanisms of coordination between these authorities have also been completed with the finalization of a framework formalizing what data they should exchange regularly under normal conditions, and those they should share in the event of a systemic shock. This exchange framework is aimed to strengthen the financial crisis management system, which should be further enhanced when the draft Banking Act, which provides for new mechanisms and resolution tools, will be adopted.

Based on this progress, the financial authorities planned, in collaboration with the International Monetary Fund and World Bank, a new assessment mission of the Moroccan financial sector in 2015, after those of 2002 and 2007. In the same vein, they decided to conduct in 2014 a simulation of a financial crisis, with the support of the World Bank. This exercise, the second of its kind after the one conducted in 2009, aims to test the previous improvements to the crisis management system, as well as those expected from the reform of the legal banking activity framework.

With a view to promoting a more inclusive finance, Bank Al-Maghrib continued to boost and combine the initiatives taken by public and private stakeholders in the field. These actions, in which banks have participated, made it possible to increase the rate of bancarization to 60 percent.

To better measure public access to financial services, beyond the mere holding of a bank account, and to assess their degree of use, Bank Al-Maghrib developed new indicators based on the highest standards. These indicators also aim to easily assess the adopted financial inclusion strategies and policies. In addition, a survey on how households perceive financial services was conducted in collaboration with the World Bank in order to evaluate the Moroccan population's financial capacity. The results of this study are expected by the end of the first half of 2014.

Being convinced that financial education is essential for promoting financial inclusion, Bank Al-Maghrib defined, along with relevant partners, a national financial education strategy, whose implementation was entrusted to a foundation created for this purpose early 2013. A second edition of the financial educational days for children and young people aged 8 to 17, which benefited more than 60,000 primary and high school students, was organized in order to initiate them to the principles of finance.

As a follow-up to the measures aiming to protect credit institutions' customers, the Bank established a banking mediation center, replacing the mediator, with increased resources and a broader mandate in order to contribute to providing better conditions for dispute settlement.

Meanwhile, Bank Al-Maghrib continued to improve the access of very small, small and medium-sized enterprises (VSMEs) to bank financing. In this context, the Bank reviewed the instrument for banks' refinancing of their loans granted to this category of businesses and to target population, with the aim of increasing these loans. It also started to reflect on the establishment of a financial support fund to co-finance with banks viable VSMEs with temporary difficulties caused by the economic conditions. Meanwhile, the Bank continued its actions to set up the Moroccan VSME Observatory whose status were adopted at the constitutive General Assembly held in November 2013.

With a view to ensuring that Morocco stands out as a regional financial hub, there has been positive progress in the project of Casa Finance City (CFC), since its launch.

Several measures have been taken to make it more attractive. Tax measures and exchange control regulations relating to corporations with CFC status were clarified, a legislation to develop the capital market was adopted and the draft No. 44-10 relating to CFC status is being amended, particularly to expand the corporations eligible for investment service providers, representative offices and branches. To date, the CFC Commission awarded the CFC status to nearly forty corporations, of which more than two thirds as professional service providers, while the rest corresponds to regional offices and financial institutions.

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HIGHLIGHTS OF 2013

February 1 : Adoption of a new organization structure of Bank Al-Maghrib including the Banking Supervision Department.

February 28 : Bank Al-Maghrib symposium on participatory finance.

March 6 : Participation of Bank Al-Maghrib in the meeting of the Financial Inclusion Strategy Peer Learning Group, held in Bangkok.

March 19 : First meeting of the Board of the Moroccan Financial Education Foundation.

March 29 : Signature of a cooperation agreement between Bank Al-Maghrib and the Central Bank of West African States (BCEAO), on matters relating to financial stability and banking supervision.

April 4 : Bank Al-Maghrib internal workshop on financial stability.

April 28 : Participation of Bank Al-Maghrib in the 17th plenary meeting of the Middle East and North Africa Financial Action Task Force (MENAFATF), in Khartoum.

May 7 : Participation of Bank Al-Maghrib in the second international financial education summit, in Istanbul.

May 22 : 13th meeting of the Coordinating Committee of Financial Sector Supervisory Authorities.

May 22 : Third meeting of the Coordination Committee of Financial Sector Supervisory Authorities.

May 28 : Participation of Bank Al-Maghrib in the workshop organized in Basel by the Financial Stability Board (FSB) on the experiences and impact assessment of financial reforms in emerging and developing countries.

June 5 : Participation of Bank Al-Maghrib in the annual meeting of Crédit Agricole group's Board of Supervisors, organized in Paris by the Prudential Supervisory Authority (ACP).

June 5 : Meeting between Bank Al-Maghrib's Governor and the Moroccan Bankers Association (GPBM).

June 6 : Meeting between Bank Al-Maghrib's Governor and the National Federation of Microcredit Associations.

July 23 : Meeting between Bank Al-Maghrib's Governor and the Professional Association of Finance Companies.

July 31 : Meeting of the Credit Institutions Committee.

September 12 : Participation of Bank Al-Maghrib in the 5th annual Global Policy Forum (GPF) on "Driving Policies for Optimal Impact", organized by The Alliance for Financial Inclusion, in Kuala Lumpur.

September 16 : A delegation from the Financial Action Task Force (FATF) visited Bank Al-Maghrib.

October 21 : Participation of Bank Al-Maghrib in the 9th World Islamic Economic Forum, held in London.

October 22 : Participation of Bank Al-Maghrib in the 11th meeting of the Group of French-Speaking Banking Supervisors (GSBF), held in Paris.

November 20 : Participation of Bank Al-Maghrib in the 23rd meeting of the Arab Committee on Banking Supervision, organized by the Arab Monetary Fund, in Abu Dhabi.

November 27 : Participation of Bank Al-Maghrib in the meeting of central banks and monetary authorities of the Organization of Islamic Cooperation (OIC) countries, on "Impact of Recent International Financial Regulatory Reforms on OIC Countries", in Jeddah.

December 4 : 4th meeting of Bank Al-Maghrib's internal Financial Stability Committee.

December 5 : Meeting of Bank Al-Maghrib's Governor with the Moroccan Bankers Association (GPBM).

December 6 : Participation of Bank Al-Maghrib in the annual meeting of the Société Générale group's Board of Supervisors, organized in Paris by the Prudential Supervisory and Resolution Authority.

December 20 : 14th meeting of the Coordination Committee of Financial Sector Supervisory Authorities.

KEY FIGURES OF THE BANKING SYSTEM

1 - Structure of the banking system

- Number of credit institutions and similar entities : 84

- Banks : 19
- Finance companies : 35
- Offshore banks : 6
- Microcredit associations : 13
- Funds transfer companies : 9
- Other institutions : 2

- Network :

- In Morocco : 5,711 banking points of sales, or 5,700 inhabitants per branch
  5,893 automated teller machines
- Abroad : 40 subsidiaries, 14 branches and 1,300 branches

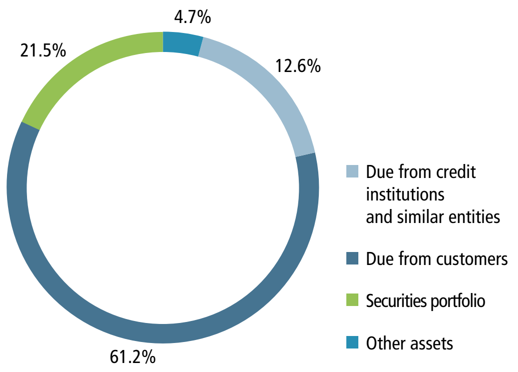
- Staff of credit institutions and similar entities : about 50,451

2 - Banks' activity and profitability indicators

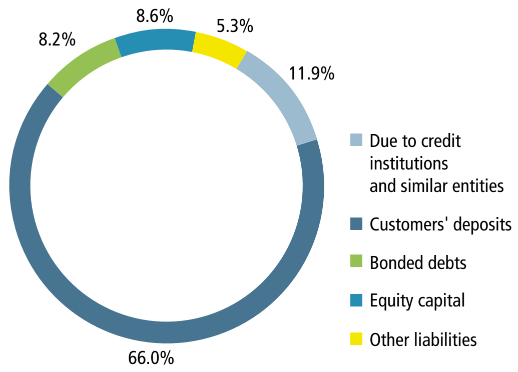
Billion of dirhams	2011	2012	2013
Total of Balance sheet	971	1 041	1 095
Loans to customers (net of provisions) (1)	668	704	726
Customers' deposits	677	697	722
Equity (excluding profit for the year)	78	88	94
Net banking income	35.9	38.6	40.3
Gross operating income	18.7	20.4	21.5
Net income	10.1	9.9	9.9
Average yield of assets	5.22%	5.16%	5.19%
Average cost of liabilities	1.93%	1.95%	1.98%
Average operating ratio	48.0%	47.5%	47.7%
Return on assets (ROA)	1.1%	1.0%	1.0%
Return on equity (ROE)	13.4%	11.8%	10.6%
Non-performing loans rate (NPL)	4.8%	5.0%	5.9%
NPL coverage ratio	69%	68%	64%

(1) Including loans to finance companies

Banks' assets structure in 2013



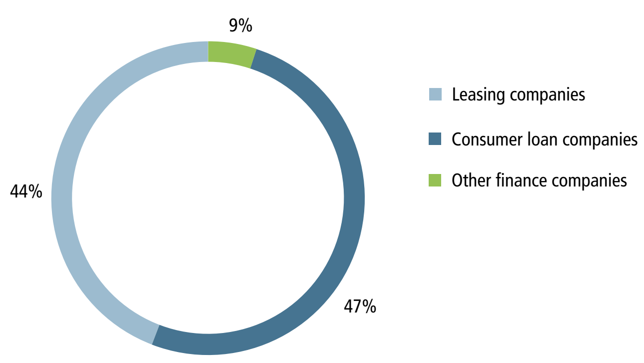
Banks' liabilities structure in 2013



3 - Finance companies’ activity and profitability indicators

(billion of dirhams)	2011	2012	2013
Total of Balance sheet	90	98	98
Loans to customers (net of provisions)	84	90	90
Net banking income	4,9	5,0	5,1
Gross operating income	3,1	3,2	3,2
Net income	1,3	1,5	1,4
NPL rate	9,8%	9,7%	9,8%
Return on assets (ROA)	1,5%	1,5%	1,5%
Return on equity (ROE)	16,4%	16,7%	15,5%

Share of each category of finance companies in the total assets in 2013



4 - Microcredit associations' activity and profitability indicators

(billion of dirhams)	2011	2012	2013
Total of Balance sheet	5,6	5,4	5,7
Outstanding loans	4,6	4,6	4,9
NPL rate	4,3%	6,1%	4,3%
Net income	0,11	0,17	0,20

5 - Activity and profitability indicators of the eight banking groups

(billion of dirhams)	2011	2012	2013
Total of Balance sheet	1 027	1 114	1 162
Loans to customers (net of provisions)	708	760	787
Customers' deposits	691	725	756
Equity – share of the Group	85	96	104
Net banking income	45	49	52
Gross operating income	23	25	26
Net income - share of the Group	10	10,1	9,5
Average operating ratio	49,1%	48,6%	49,5%
Return on assets (ROA)	1,1%	1,0%	1,0%
Return on equity (ROE)	11,7%	10,5%	9,1%

N.B.: Some figures of 2012 were revised following updates made by certain credit institutions and similar entities.

CHAPTER I

MOROCCAN BANKING LANDSCAPE

In 2013, a year marked by a less favorable economic situation, banks continued to expand their network so on national scale as international, reflecting their will to attract new customers and cover new markets.

Without change with regard to the past year, the domestic banking landscape continues to be marked by the dominating weight of private-owned banks with mainly moroccan capital.

1 - Structure of the banking system and shareholding

As Bank Al-Maghrib withdrew the license from a consumer loan company and from a funds transfer company, the number of institutions subject to the central bank's control fell to 84 institutions. These include 19 banks, 35 finance companies, 6 offshore banks, 13 microcredit associations, 9 funds transfer companies, the Central Guarantee Fund (Caisse Centrale de Garantie) and the Deposit and Management Fund (Caisse de Dépôt et de Gestion).

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

	2009	2010	2011	2012	2013
Banks	**19**	**19**	**19**	**19**	**19**
Including :					
Majority foreign-owned banks	7	7	7	7	7
Majority public-owned banks	6	6	5	5	5
Finance companies	**36**	**36**	**35**	**36**	**35**
Consumer loan companies	19	19	18	18	17
Leasing companies	6	6	6	6	6
Real estate loan companies	2	2	2	2	2
Surety companies	2	2	2	2	2
Factoring companies	2	2	2	2	2
Payment-means management companies	3	2	2	3	3
Other companies	2	3	3	3	3
Total number of credit Institutions	**55**	**55**	**54**	**55**	**54**
Offshore banks	**6**	**6**	**6**	**6**	**6**
Microcredit associations	**12**	**12**	**13**	**13**	**13**
Funds transfer companies	**9**	**8**	**10**	**10**	**9**
Other institutions	**2**	**2**	**2**	**2**	**2**
Total	**84**	**83**	**85**	**86**	**84**

At the end of 2013, 7 banks and 9 finance companies are mainly controlled by foreign interests, among which most are of French origin. The presence of the public shareholding is majority in 5 banks and 4 finance companies.

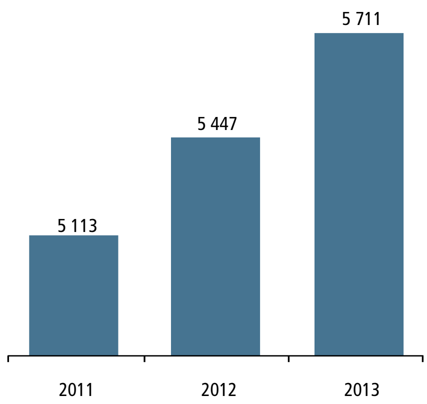
Twelve credit institutions, including six banks, are listed at the Casablanca Stock Exchange, contributing with over a third of the market capitalization.

2 - Change in financial inclusion indicators

In 2013, the number of bank branches reached 5,711, up 264 branches, as against 334 in 2012. As a result, the banking density, measured by the number of branches per 10,000 inhabitants, stood at 1.7 branch, unchanged from the last year and as against less than one branch at the beginning of the decade 2000.

Meanwhile, the number of the banking automatic teller machines strengthened by 417 new set up units to 5,893.

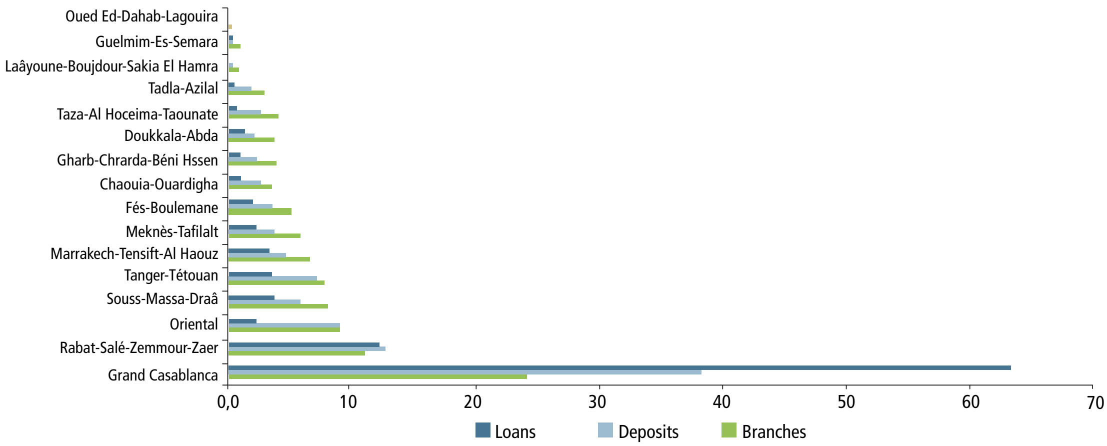
Chart 1 : Change in the banking network



The regional breakdown of the banking network did not change significantly, compared to the previous year. Most branches remain concentrated in urban areas, while rural areas have only 14 percent of the banking network, from nearly 4 percent in the early 2000s.

Thus, the region of Grand Casablanca ranks first with 24 percent of branches, 37 percent of deposits and 64 percent of loans, followed by the region of Rabat-Salé-Zemmour-Zaer, with 11 percent of branches, 14 percent of deposits and 13 percent of loans. The Oriental region is positioned at third place with 9 percent of branches and deposits and 2 percent of loans.

Chart 2 : Share of each region in the total banking network, deposits and loans (in %)



Box 1 : Diversification of the banking offer

Alongside the extension of their network, banks continued to provide customers with offerings that are best suited to their needs, using new low-cost distribution channels and adopting innovative IT solutions.

In this regard, banks increased their use of the mobile branch system. This approach is part of a perspective to ensure wider bank coverage and to improve public financial inclusion, especially populations of rural areas. This system also allows better access to basic banking services, thus contributing to regional economic development. These offerings were also enhanced by involving the network of authorized partners as intermediaries in banking operations.

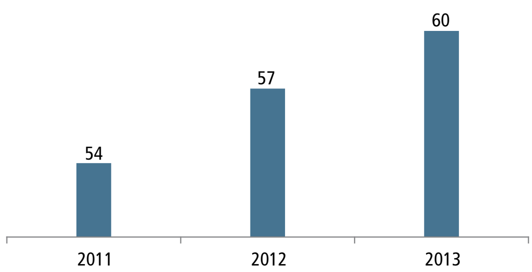
Taking advantage of IT developments, banks increased their Mobile Banking services. This solution makes it possible to offer a range of financial services, covering mainly cash-in and cash-out, money transfers and bill payments. The customer subscription to this service is accompanied by the opening of a prepaid bank account.

In addition to this offer, other measures were also taken, including, in particular :

- Launching websites intended to enable customers to perform banking operations on their own accounts remotely ;
- Supplying prepaid cards ;
- Launching a placing-at-disposal service in dirhams on ATMs ;
- Introducing electronic payment cards on international sites.

Thanks to the efforts made by banks to reach new customers, the number of accounts they opened on their books increased significantly. The rate of bancarization, calculated as the ratio between the number of accounts and the total population, improved, year on year, by 3 points to over 60 percent.

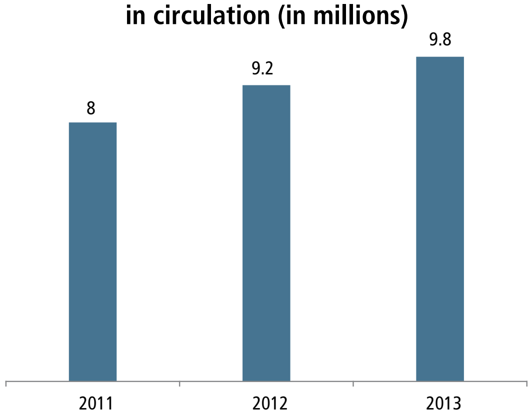
Chart 3 : Change in the ratio of the total number of banking accounts to population (in %)



The use of banking cards continued its progress beginning since a few years. Their number increased in 2013 by 600,000 units to 9.8 million cards, averaging one card for each three Moroccans.

These cards are used mainly for withdrawing money, while the number of payment transactions remained more limited.

Chart 4 : Change in the number of banking cards in circulation (in millions)



The number of withdrawal operations totaled more than 199 million, up 7.5 percent, with a value of 169 billion dirhams, as against 155 billion in 2012. Meanwhile, payment transactions grew by 16.7 percent to 25.5 million, with a volume of 12.2 billion dirhams, up 14.6 percent, from one year to another.

3 - The presence of banks abroad

At the end of 2013, 3 banking groups abroad were located in 22 African countries and 10 of European ones. They are found mainly in sub-Saharan Africa in 2 monetary zones of West Africa (UMOA) and Central Africa (CEMAC). They are also located in the Arab Maghreb, namely in Tunisia and Mauritania, as well as in some English-speaking African countries.

In 2013, the network of subsidiaries grew following the acquisition of a Togo-based entity. Thus, Moroccan banks abroad are represented by 40 subsidiaries, directly and indirectly controlled by the three most active banking groups at the international level[1], and 14 branches, with nearly 1,300 banking points of sales. Similarly, banks have about 50 representative offices, located mainly in European countries.

Box 2 : African countries where Moroccan banks are located

Country	Number of Moroccan banks
Tunisia	1
Mauritania (*)	2
Senegal	3
Burkina Faso	1
Côte d'Ivoire	3
Mali	3
Benin	3
Niger	3
Togo	3
Ghana	1
Guinea Conakry	1
Cameroun	1
Central African Republic	1
Congo Brazzaville	2
Democratic Republic of Congo	1
Gabon	1
Burundi	1
Kenya	1
Djibouti	1
Uganda	1
Tanzania	1
Madagascar	1

(*) : Subsidiary jointly owned by two banks

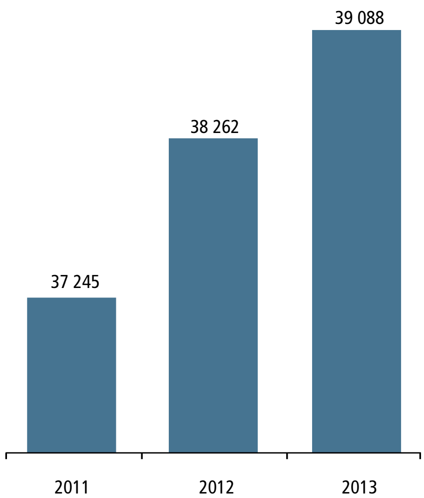
1 Attijariwafa bank , BMCE Bank and Crédit Populaire du Maroc.

4 - The staff of credit institutions and similar entities

The staff of credit institutions and similar entities stood at 50,451 employees at end-December 2013, including nearly 77 percent hired by banks, 8 percent by finance companies and 12 percent by microcredit associations.

Banks hired 826 new employees, as against more than 1,000 in 2012. Their staff stood at 39,088 employees, including nearly 77 percent employed by Majority Moroccan private-owned banks, in order to meet the needs resulting from the extension of their network.

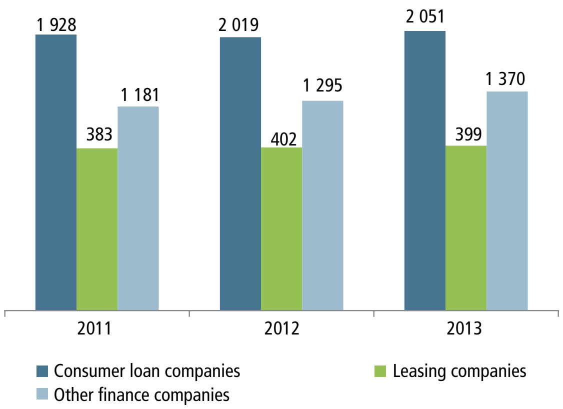
Chart 5 : Change in the number of banks' personnel



The staff of finance companies stood at 3,820 agents at end-December 2013, up 104 persons, compared to 2012. Nearly 54 percent of this workforce is employed by consumer loan companies and 10 percent by leasing companies. The rest is employed mainly by payment means management companies (19 percent) and real-estate loan companies (9 percent).

In order to respond to the growth of their business, payment-means management companies increased the number of their staff by 8 percent in 2013.

Chart 6 : Change in the number of finance companies' personnel



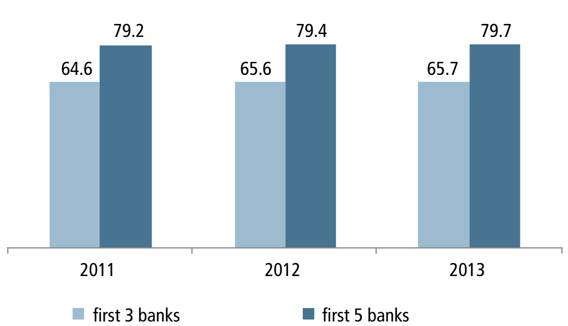
5 - Change in the banking concentration

The banking concentration level, measured by the weight of the largest banks in total assets, loans and deposits, has not changed significantly from previous years. In contrast with these years, based on the status of the shareholding, trends show that the market shares of Majority Moroccan private-owned banks have been reinforced.

5.1 - Concentration of banking activity on individual basis

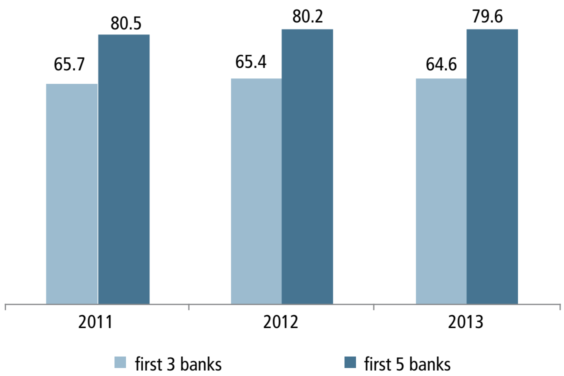
The contribution of the first three banks in total assets remained at around 65.7 percent and that of the first five ones totaled 79.7 percent, up 0.3 point, from one year to another.

Chart 7 : Total assets' concentration (in %)



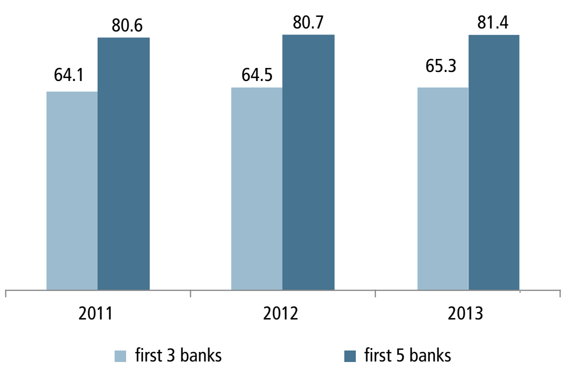
Regarding deposits, the share of the first three banks declined by 0.8 point to 64.6 percent and that of the first five institutions reached 79.6 percent, as against 80.2 percent in 2012.

Chart 8 : Deposits' concentration (in %)



Concerning loans, the share of the three largest banks continued to increase to 65.3 percent, up 0.8 point. Similarly, the share of the first five banks totaled 81.4 percent, as against 80.7 percent, a year earlier.

Chart 9 : Loans' concentration (in %)



Meanwhile, Herfindahl-Hirschman Index[2] showed that the concentration level of the Moroccan banking market is moderated in terms of assets, loans and deposits, unchanged from last year.

Depending on the status of the shareholding, majority Moroccan private-owned banks continue to represent the largest shares in terms of banking business and network, albeit with a slight decline in deposits.

2 This indicator, which adds up the market shares of banks, stands within a range from 0 to 1. An index less than 0.1 indicates a poorly concentrated market; a moderately concentrated market, if it ranges between 0.1 and 0.18 and a highly concentrated market, if its value is greater than 0.18.

Thus, their weight moved up 0.7 point in terms of branches and 0.8 point for loans. Meanwhile, the share of deposits fell by 0.7 percentage point, while that of total assets remained at nearly 66 percent.

Chart 10 : Share ownership's concentration - 2012 (in %)

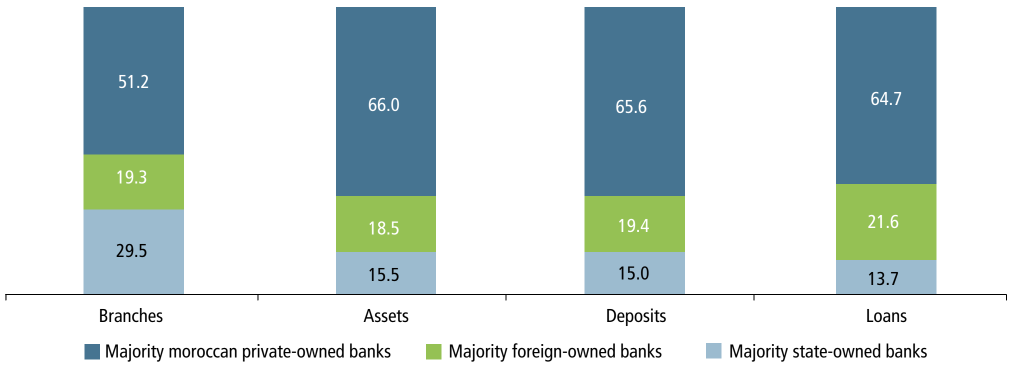
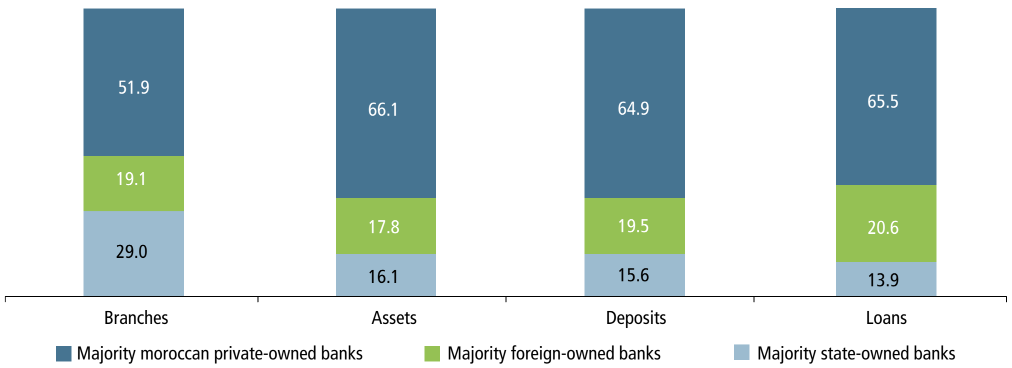


Chart 11 : Share ownership's concentration - 2013 (in%)



5.2 - Concentration of finance companies' activities

Whereas the concentration level fell for consumer loan companies, it stagnated for leasing companies.

Actually, the three largest consumer loan companies hold 59 percent of the sector's total assets, down 2 points, and the five largest companies account for 76 percent, unchanged from 2012, particularly due to a fall in the activities of lease-option agreement, performed by large corporations.

Nearly 98 percent of the sector's business is held by 11 companies affiliated to financial institutions.

Concerning leasing companies, the share of the first three companies in the total balance sheet stood at 74%, up one percentage point, compared to 2012, while that of the first five companies remained at 96%.

5.3 - Concentration of the banking activity on a consolidated basis

On a consolidated basis, the concentration level remained close to that registered on an individual basis. Indeed, the share of the top three banking groups in total loans reached nearly 65 percent, up one percentage point compared to 2012. The share of the top five companies remained at 81 percent.

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

	Equipment loans and cash facilities to businesses			Real estate loans			Consumer loans			Total loans		
	2011	2012	2013	2011	2012	2013	2011	2012	2013	2011	2012	2013
The first 3 banking groups	63	64	64	64	64	64	66	64	65	64	64	65
The first 5 banking groups	82	82	82	82	82	82	84	82	82	81	81	81

Considered by object of loan, the first three banking groups distributed 64% of cash facilities and equipment loans. The same share was recorded for real estate loans. Likewise, they originated in the 65% of consumer loans. As for the five first banking groups, they disposed of 82% share for the three loan categories.

CHAPTER II

ACTIVITY AND PROFITABILITY OF CREDIT INSTITUTIONS AND SIMILAR ENTITIES

بنك المغرب

In 2013, the national economic growth moved up 4.4 percent from 2.7 percent, a year earlier thanks to the agricultural performances. The growth of the secondary and tertiary sectors was limited to 2.3 percent. This slowdown reflects the impact of the weak economic growth in Morocco's main countries' partners.

While still posting a deficit, the current account fell from 9.7 to 7.6 percent of GDP. The budget deficit, although improving to 5.5 percent, caused an increase in the Treasury's financing needs, particularly in the domestic market.

Although impacted by the macro-economic environment, the banking sector was able to maintain its activity level and to achieve a satisfactory profitability.

1 - Activity and profitability of banks on individual basis

Against a backdrop of slowing non-agricultural activities, the banking sector decelerated slightly. In particular, loans to non-financial corporations and households slowed down sharply, affected by sluggish demand and greater prudence of credit institutions, in view of the higher default risk.

Despite this slowdown, banks were able to keep their incomes unchanged from the previous year.

1.1 - The banking activity increased moderately

In 2013, banking activity, as measured by its total assets, increased moderately. As to assets, loans granted to customers decelerated, while the portfolio of Treasury bills rose markedly. Regarding liabilities, deposits collected from customers increased further and refinancing with the central bank grew at a slower pace than last year.

1.1.1 - The increase in banks' assets showed divergent trends

At the end of December 2013, banks' total assets stood at 1.095 billion dirhams, showing an increase of 5.2 percent after those of 7.2 percent and 9.6 percent respectively in 2012 and 2011. Of this total, foreign currency assets with non-resident counterparts accounted for 2.5 percent, at a level almost similar to that of 2012.

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

(in million of dirhams)	2011	2012	2013	Change 2012/2013 (in%)
Due from credit institutions and similar entities	**139 271**	**129 398**	**138 021**	**6,7**
Due from customers	**617 391**	**656 371**	**670 451**	**2,1**
Securities' portfolio	**171 098**	**206 789**	**235 061**	**13,7**
Including Treasury bills	86 288	105 309	136 676	29,8
Fixed assets	**19 776**	**21 013**	**22 372**	**6,5**
Other assets	**23 399**	**27 077**	**29 207**	**7,9**
Total	**970 935**	**1 040 648**	**1 095 112**	**5,2**

Headings net of amortization and provisions

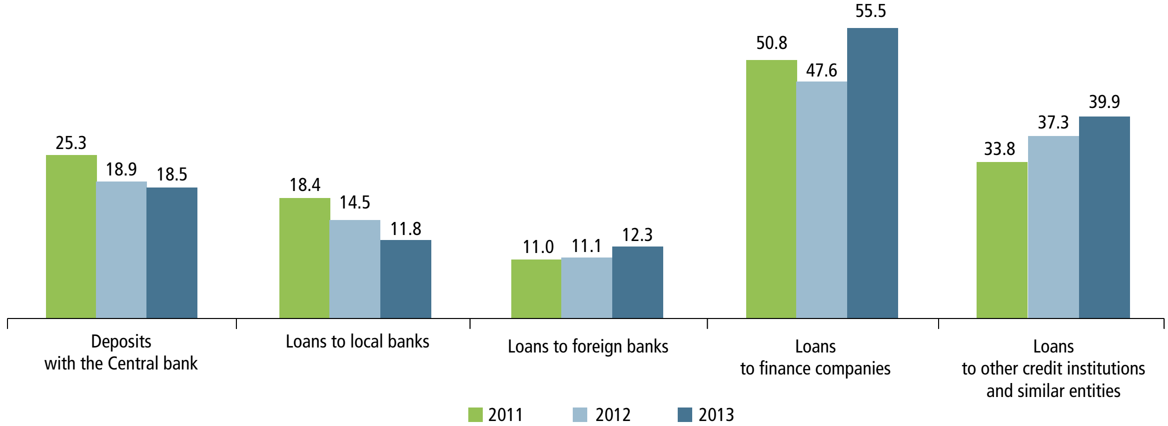
The banks' assets structure remain dominated by loans to customers, although their share declined by nearly 2 points to 61 percent. This decline benefited the securities' portfolio, whose share increased by 1.6 point to 21.5 percent, and to a lesser extent, due from credit institutions and similar entities, whose share moved up 0.2 point to 12.6 percent.

Chart 12 : Banks assets' structure (in %)

1.1.1.1 - Due from credit institutions and similar entities increased due to higher loans to finance companies

Due from credit institutions and similar entities reached nearly 138 billion dirhams, up 6.7 percent, after a decline of 7.1 percent, a year earlier. This change reflects a 9.1 percent increase in foreign currency loans to 30.5 billion, of which 12.5 billion as loans to credit institutions abroad. Investments in dirhams, representing 78 percent of total loans, were up 6 percent to 107.5 billion dirhams.

Chart 13 : Change in loans to credit institutions and similar entities (billion of dirhams)



The rise in interest rates in the bond market seems to have redirected finance companies towards bank financing. Their indebtedness with banks increased by 16.6 percent to 55.5 billion, including 42.4 billion as financial loans and 13.1 billion as cash facilities.

Deposits with the central bank, under the required reserve, stabilized at 18.5 billion, after successive drops in the last two years, due to decreases in the required reserve ratio.

Interbank claims on the local market totaled almost 12 billion dirhams, showing a decrease of 18.7 percent, particularly driven by respective declines of 32 percent and 10.1 percent in cash facilities and financial loans to 5.3 billion and to 3.8 billion. This change was offset by an 8.1 percent increase in repurchase agreements to 2.7 billion dirhams.

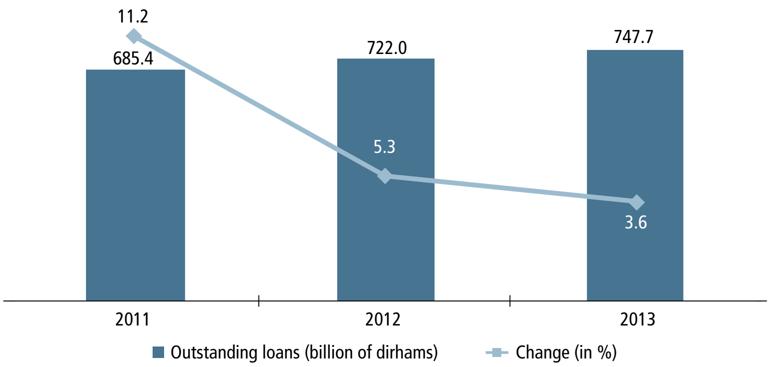
Bank lending to assimilated credit institutions, which involve particularly offshore banks and microcredit associations, grew by 10.2 percent to nearly 40 billion dirhams, as against 9.4 percent in 2012.

1.1.1.2 - Loans to customers decelerated sharply

Total outstanding loans[3] reached nearly 748 billion dirhams, up 3.6 percent as opposed to 5.3 percent in 2012, which is the lowest level observed over the last 10 years. These loans, relative to GDP, reached a ratio of 86 percent, from 87 percent, a year earlier.

3 Loans data are calculated from a prudential perspective. They are different from those used in the context of monetary statistics.

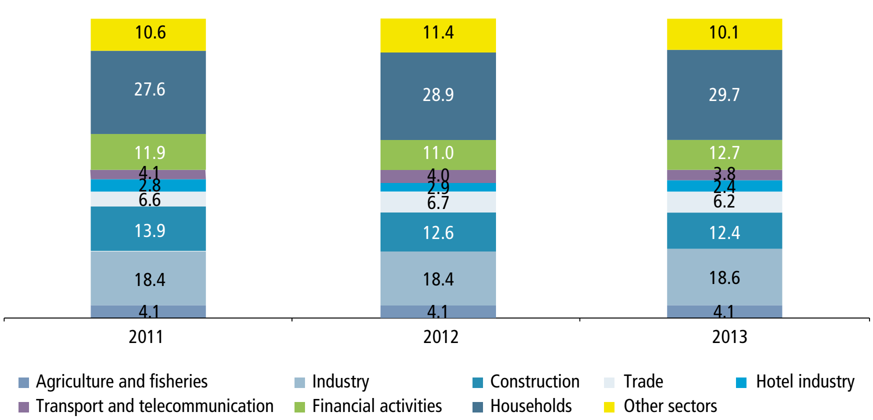
Chart 14 : Change in the total of outstanding loans to customers



The deceleration affected primarily loans to companies. Loans to households, which remain one of the main beneficiaries of bank loans, had an outstanding amount of almost 222 billion dirhams, up 6.3 percent, as against 10.6 percent in 2012.

Confirming the trend of recent years, the sectoral breakdown shows that disbursement loans are quite diverse.

Chart 15 : Sectoral breakdown of loans by disbursement (in %)



Loans to the primary sector grew by 3.6 percent to 30.4 billion dirhams. They accounted for a share of 4.1 percent compared to the total loans.

The industry sector had an outstanding amount of 139.3 billion dirhams, up 4.9 percent. Its share in total loans stood at 18.6 percent. This change mainly covers a 55 percent increase in loans to mining industries and, to a lesser extent, a rise of 5.1 percent in credit granted to food industries. Loans to other sectors showed declines of 9 percent for textile industries, 5 percent for chemical industries and 4 percent for metallurgical and mechanical industries.

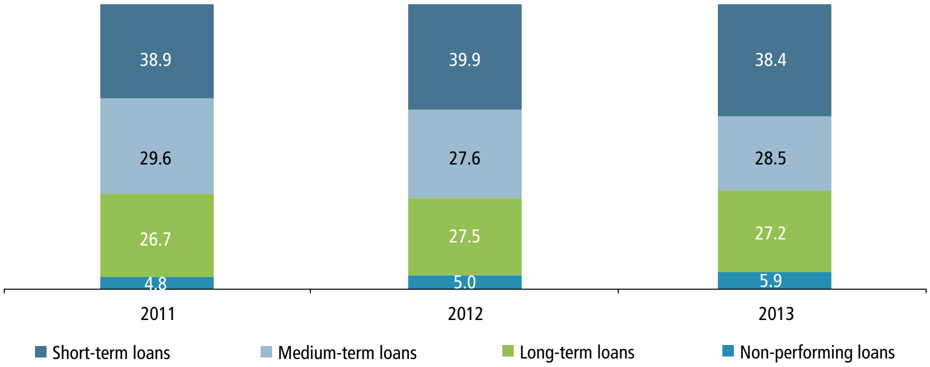
The construction sector had an outstanding amount of loans of 93 billion, rebounding by 2.2 percent, following a decline of 4.3 percent in the previous year. Its share in total loans stood at 12.4 percent. Of this total, loans to real estate development recovered by nearly 2.3 percent and those assigned to construction grew by 1.5 percent.

Meanwhile, loans granted to financial activities rose by 18.9 percent to 94.7 billion. Their share increased by 1.7 point to 12.7 percent of the total, thanks to higher lending to finance companies.

Loans to the tourism sector contracted by 13 percent. Their outstanding amount totaled nearly 18 billion, with a share declining by 0.5 point to 2.4 percent.

The transportation and communication sector benefited from an outstanding amount of 28.2 billion, down 1.7 percent, thus representing 3.8 percent of the total outstanding loans, a level almost similar to that of the previous year. The trade sector received an outstanding amount of 46.1 billion, with a share down 0.5 point to 6.2 percent.

Chart 16 : Structure of loans by disbursement by their term (in %)



The growth in housing and equipment loans caused a 4.6 percent increase in medium- and long-term loans to 416.3 billion dirhams, thus representing a share of 55.7 percent, up 0.6 point, compared to 2012. Conversely, contraction in cash facilities led to a 0.4 percent decline in short-term loans to 287.4 billion dirhams, bringing their share in total loans to 38.4 percent from 39.9 percent in 2012.

The slower credit growth was accompanied by higher risks. Indeed, non-performing loans showed an increase of 21.4 percent, totaling an outstanding amount of nearly 44 billion dirhams. This change affected both households and companies operating in the sectors of real estate development, building materials, shipping, car dealers and tourism.

Consequently, the non-performing loans ratio registered a year-on-year increase from 5 percent to 5.9 percent. This ratio stood at 6.1 percent for households and 7.3 percent for non-financial corporations.

Box 3 : Rules for the classification of non-performing loans and their provisioning

Given their loss risk degree, non-performing loans are classified under three categories :

- Pre-standard loans : outstanding loans whose maturities are not settled within 90 days after their term, whether they are credits refundable on one single maturity, property rents under leasing or lease with option of purchase or amortized loans.
- Doubtful loans : outstanding loans whose maturities are not settled within 180 days after their term, regardless of the loan category.
- Lost loans : outstanding loans whose maturities are not settled within 360 days after their term, regardless of the loan category.

Pre-doubtful, doubtful and impaired loans should lead to the constitution of provisions at least equal to 20 percent, 50 percent and 100 percent of their amounts, respectively, net of reserved overdraft charges and eligible collateral. Provisions for impaired loans must be constituted on a case by case basis. Provisions for pre-doubtful and doubtful loans can be constituted in a comprehensive way.

The provisioning ratio of non-performing loans stood at 64 percent, as against 68 percent. This average reflects a rate of 11 percent for pre-doubtful loans, 38 percent for doubtful loans and 74 percent for impaired ones.

The decrease in the provisioning ratio is attributed to the writing-off of old and fully provisioned non-performing loans, performed by banks in recent years, coupled with higher pre-doubtful and doubtful loans, whose share in the total rose significantly during 2013.

In addition to these specific provisions, banks constituted in 2013 general provisions, amounting to 5.5 billion dirhams to cover sensitive risks to the economic situation.

1.1.1.3 - Banks' securities' portfolio continued to grow through further acquisitions of Treasury bonds

At the end of 2013, the gross outstanding securities' portfolio held by banks amounted to 236.3 billion dirhams, up 12.2 percent, accounting for nearly 21.5 percent of the sector's total assets, as against nearly 20 percent, a year earlier.

Table 4 : Change in securities' portfolio

Gross amount in million of dirhams	2011	2012	2013	Change 2012/2013 (in%)
Trading securities	75 680	102 394	111 904	9,3
Held-for-sale securities	41 193	47 202	47 203	0,0
Investment securities	25 491	29 131	43 634	49,8
Equity stakes and similar assets	30 013	31 985	33 575	5,0
Total of securities' portfolio	**172 377**	**210 712**	**236 316**	**12,2**

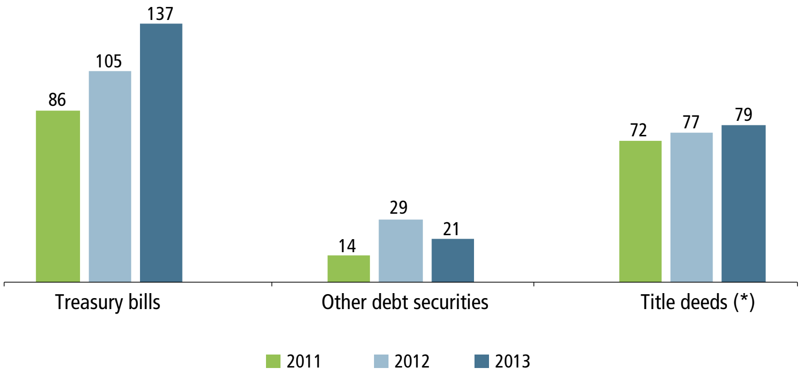
The analysis of the securities'assets portfolio, according to the purposive accounting, shows that the trading securities' portfolio recorded a slower pace than the previous year, or 9.3 percent as against 35.3 percent. Meanwhile, the outstanding amount of the held-for-sale securities' portfolio stabilized at 47.2 billion dirhams, including 62 percent as Treasury bonds, 22 percent of debt securities and 16 percent of title deeds.

The Investment securities totaled an outstanding amount of 43.6 billion dirhams, up nearly 50 percent, bringing their share in the overall securities' portfolio to 18 percent from 14 percent, a year earlier. Nearly 90 percent of this portfolio consists of Treasury bonds.

The analysis of the securities' portfolio by legal nature shows that the increase was attributable to the growth in the Treasury bonds' portfolio, which moved up by 30 percent to nearly 137 billion dirhams, in connection with an increase in the Treasury's financing requirements. This improvement is also part of the prudential liquidity requirements applicable on banks.

The share of the Treasury bonds' portfolio held by banks in their total assets grew stronger, year on year, by 2.4 points to 12.4 percent.

Chart 17 : Change in securities' portfolio by legal nature (billion of dirhams)

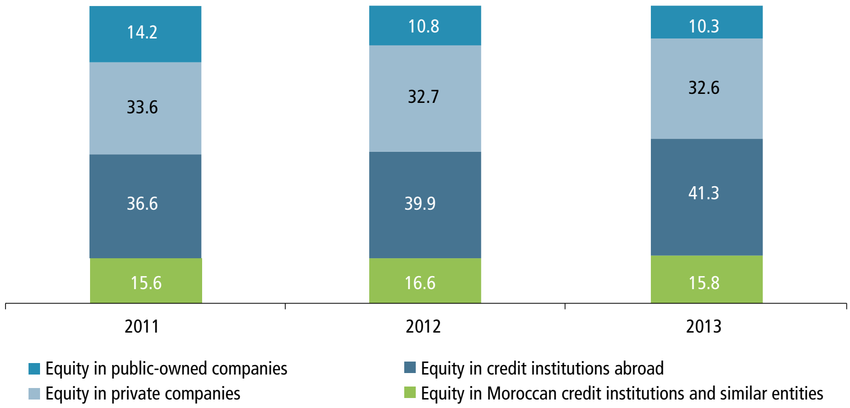


* Other than equity portfolio

Title deeds showed a slight increase of 2.4 percent, as against 6.3 percent in 2012. Their share in the overall securities' portfolio shrank by 4 points to 33 percent. Meanwhile, other debt securities fell by nearly 27.2 percent, following a strong increase in 2012, a year marked an increase of borrowed certificates of deposit.

The equity portfolio grew by 5 percent to 33.6 billion, including nearly three quarters as shareholdings in affiliated companies.

Chart 18 : Breakdown of equity portfolio by type of counterparty (in %)



The total amount of shareholdings in the capital of credit institutions abroad strengthened by 7.3 percent to 13.1 billion, or 41 percent of equity portfolio and 13.9 percent of banks' equity.

The outstanding provisions for depreciation of securities' portfolio, nearly 88 percent of which is allocated to cover equity securities and the like, grew by 15.7 percent to 2.1 billion dirhams.

1.1.2 - Change in liabilities was marked by stronger deposits from customers

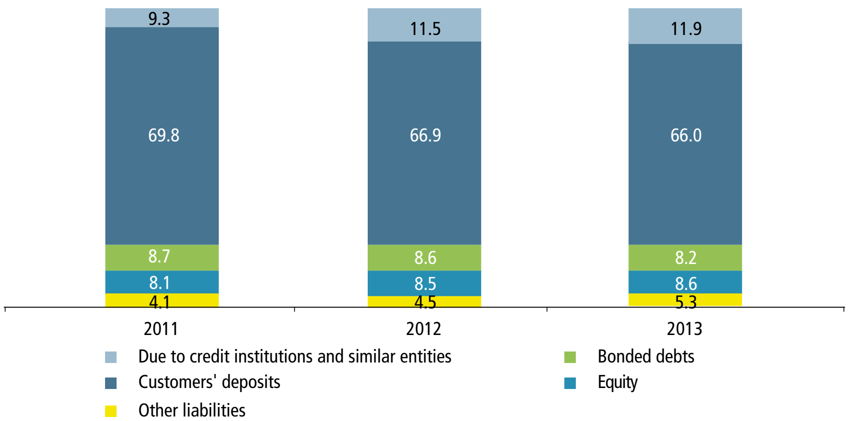
Deposits collected from customers accounted for half of the growth of liabilities in 2013. Banks' recourse to refinancing in central bank money continued, but at a slower pace than in 2012, thanks to an improved current account deficit. Bank liabilities in the form of equity also strengthened, while bonded debts stagnated.

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

(million of dirhams)	2011	2012	2013	Change 2012/2013 (in%)
Due to credit institutions and similar entities	**90 151**	**119 592**	**129 882**	**8,6**
Customers' deposits	**677 248**	**696 640**	**722 253**	**3,7**
Bonded debts	**84 318**	**89 566**	**89 844**	**0,3**
- Issued debt securities	62 708	66 841	66 590	-0,4
- Subordinated debts	21 610	22 725	23 254	2,3
Equity	**78 434**	**88 147**	**94 232**	**6,9**
Net income	**10 060**	**9 890**	**9 914**	**0,2**
Other liabilities	**30 724**	**36 813**	**48 987**	**33,1**
Total	**970 935**	**1 040 648**	**1 095 112**	**5,2**

The liabilities' structure shows a decline in the share of customers' deposits to 66 percent and that of bonded debts to 8.2 percent. Conversely, the weight of debts due to credit institutions and similar entities as well as equity increased, respectively to 11.9 percent and 8.6 percent.

Chart 19 : Structure of banks' liabilities (in %)

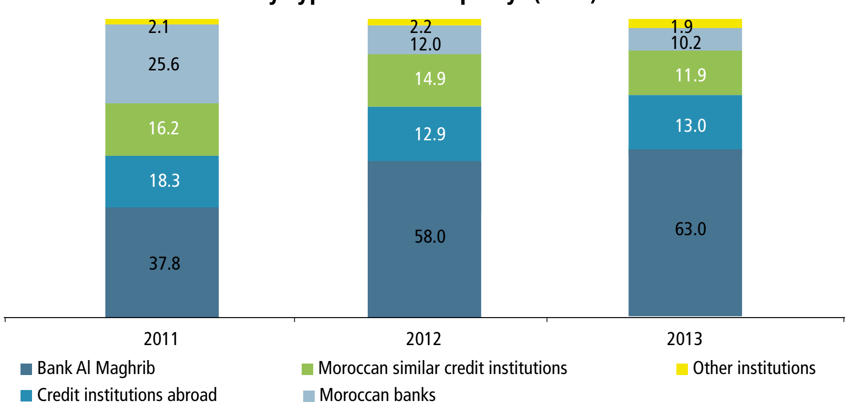


Banks' foreign currency liabilities held by non-residents moved up 6.2 percent to 19 billion dirhams, representing a share of 1.7 percent in banks' total resources, as against 1.6 percent in 2012.

1.1.2.1 - Due to credit institutions and similar entities showed a slower increase due to a deceleration in loans from the central bank

Due to credit institutions and similar entities rose by 8.6 percent in 2013 to nearly 130 billion dirhams, as opposed to 33 percent, a year earlier. Dirham-denominated debts, totaling an outstanding amount of 97 billion, rose by 13 percent and foreign currencies debts, with a share of nearly 25 percent of the total, were down 2.4 percent.

Chart 20 : Breakdown of due to credit institutions by type of counterparty (in %)



Loans granted from the central bank continued to increase in 2013, albeit at a slower pace. After doubling in 2012, they rose by 5 percent to 71.5 billion dirhams, representing about 7 percent of banks' total liabilities. They consist of repurchase agreements, totaling 65.5 billion, and loans secured by claims on VSME (very small, small and medium enterprises), amounting to 6 billion dirhams.

Box 4 : An instrument to refinance banks for loans to VSME

Bank Al-Maghrib set up, in December 2013, a new instrument allowing banks to be refinanced from BAM for loans given to VSME. This program comes as a substitute to the one relating to secured lending operations, established in 2012.

This refinancing program, which extends over a minimum period of two years, can benefit banks which provide loans to VSME, excluding real estate development and liberal professions, meeting the following conditions :

- Loans granted to VSME with a turnover less than or equal to 175 million dirhams ;
- Loans whose amount is less than or equal to 50 million dirhams ;
- Loans with a term equal to or exceeding 12 months.

Banks can receive, for each calendar year, advances from Bank Al-Maghrib for a maximum amount equal to the volume of loans they intend to grant to VSME. They may receive additional refinancing equal to the volume of loans to VSME operating in the industrial sector or those who are generating at least 40 percent of turnover from export activities.

Advances are allocated quarterly for a period of one year, according to a timetable set by Bank Al-Maghrib. They are granted as secured loans and/or repurchase agreements.

In addition to Treasury bonds and certificates of deposit, eligible collateral for these transactions was extended to all loans granted to VSME as well as mortgages loans.

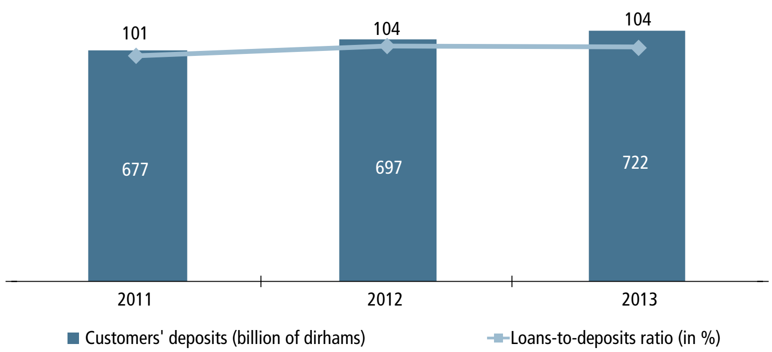
Interbank debts shrank by 8.4 percent to 13.2 billion dirhams, reflecting decreases of 30 percent in cash facilities and 6 percent in financial borrowings, while repurchase agreements grew by 62 percent.

Due to credit institutions abroad rose 9 percent to 16.9 billion dirhams.

1.1.2.2 - The increase in customers' deposits was driven by an uptrend in liabilities collected from private individuals

At the end of 2013, deposits went up by nearly 3.7 percent, as against 2.9 percent, a year earlier. As a result, the average of loans-to-deposits ratio, measured as the ratio of loans to deposits, remained at 104 percent, unchanged from 2012. Foreign currency and convertible dirham deposits rose by 2.9 percent to 26.3 billion, or less than 4 percent of total deposits.

Chart 21 : Change in deposits and Loans-to-deposits ratio



The increase concerned all categories of deposits at different degrees. Demand deposits showed a growth of 3.6 percent to 417.5 billion dirhams, as against 4.4 percent, a year earlier. Savings accounts appreciated by 8.8 percent to 120 billion, indicating that private individuals were sensitive in 2013 to the increase in the relevant remuneration.

Box 5 : Calculation of deposits rate' remuneration on passbook accounts

Since January 2005, the calculation of deposit yield's interest rate on passbook accounts is indexed to the weighted average rate of 52-week Treasury bills, issued by auction during the preceding six months, minus 50 basis points.

This rate increased from 3.02 percent in the second half of 2012 to 3.28 percent and 3.74 percent during the first and second half of 2013, respectively.

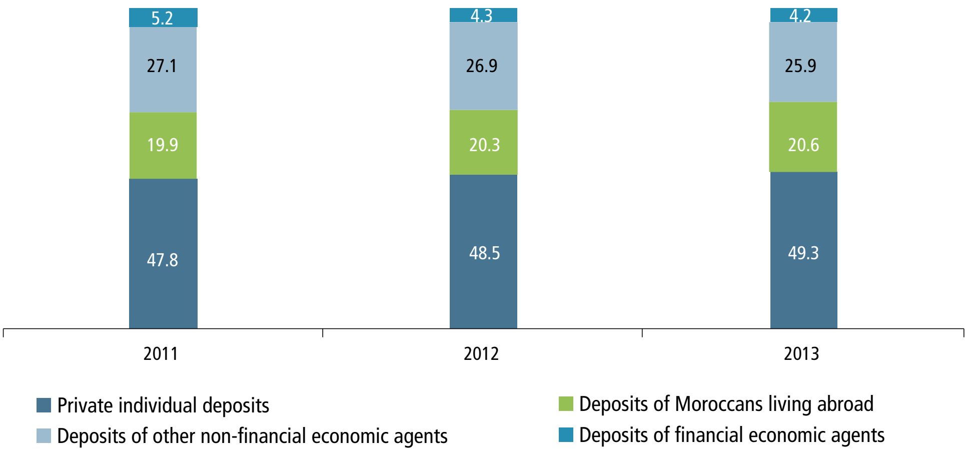
Time deposits recovered by 0.4 percent to 161.3 billion dirhams, after falling 5 percent, last year, reflecting a renewed interest in cash bonds that grew by 7.8 percent, after falling 6.3 percent in the previous year. In contrast, time accounts showed a further decline of 1.6 percent, the same rate as in 2012.

The recovery of time deposits seems to have benefited from the rise in deposits' rates, which grew from one year to another, by 7 basis points to 3.56 percent for 6-month deposits and by 8 basis points to 3.91 percent for one-year deposits.

Chart 22 : Change in the share of various deposits' categories (in %)

Given these developments, the structure of deposits showed a 0.8 point rise in the share of savings accounts to 16.6 percent, to the detriment of time deposits whose share decrease by 0.8 point to 22.3 percent. Meanwhile, demand deposits remained stable at around 58 percent.

Chart 23 : Structure of deposits by economic agent (in %)



By economic agent, the growth of deposits covers divergent trends. Deposits of resident private individuals, representing more than 49 percent of total deposits, showed a more marked increase than in 2012, or 5.4 percent as against 4.3 percent to 354 billion dirhams. This growth stood at 3 percent for demand deposits, 8.9 percent for time deposits and 7.4 percent for savings accounts.

Meanwhile, deposits of Moroccans living abroad, with a share rising by nearly 21 percent, went up by 5.1 percent to 148 billion, the same level as in the previous year. Their demand deposits were up 4.2 percent, as against 5 percent for time deposits and 13.8 percent for savings accounts.

Deposits of other non-financial agents (private businesses and public sector) stagnated at 186 billion, after having increased by almost 2 percent in 2012. Demand deposits moved up 6 percent, while time deposits fell 15 percent.

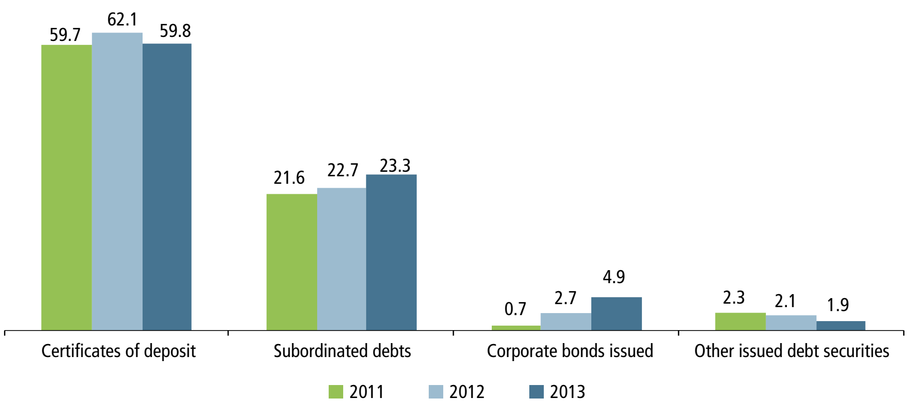
Financial economic agents, consisting primarily of UCITS and insurance companies, saw their deposits progressing of 1.1 percent to almost 30 billion, after a decline of 14 percent in 2012.

Taken separately, UCITS deposits, consisting up to 77 percent of time deposits, registered a rise of 9.8 percent to 15.1 billion, after a 34.5 percent drop in 2012. This recovery seems to be attributed to fewer opportunities for alternative investment in a context marked by a correction of the stock market and a slowdown in bond issues.

Deposits of insurance companies, representing only 13 percent of deposits of financial agents, consisted up to 55 percent of demand deposits, 42 percent of time deposits and 3 percent of other deposits. They were down 22.2 percent to almost 4 billion, following a decline of 6 percent in 2012.

1.1.2.3 - Banks were less refinanced from the private debt market

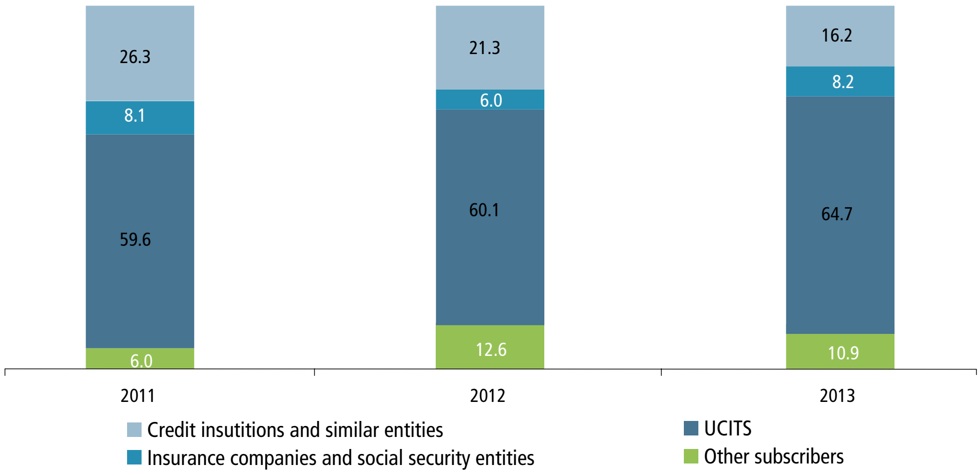
Chart 24 : Change in bonded debts (billion of dirhams)



The outstanding bonded debts rose by 0.3 percent to 89.8 billion dirhams, as opposed to 6.2 percent. In an environment of rising rates in the debt securities market, the outstanding of certificates of deposit fell by 3.7 percent to 59.8 billion, while it had increased by 3.9 percent, a year earlier. Other debt securities issued also declined by 10 percent to 1.9 billion dirhams.

In contrast, issued bonds moved up 2.7 to 4.9 billion dirhams, following a bank's issuance of securities in the international market, while subordinated debts showed an increase of 2.3 percent to 23.3 billion dirhams, due to an increase of the requirement of the minimum solvency ratio during 2013.

Chart 25 : Outstanding of the certificates of deposit issued by type of subscribers (in %)



Most certificates of deposit issued are still held by UCITS (65 percent), followed by credit institutions and similar entities (16 percent) and insurance companies and social security bodies (8 percent).

1.1.2.4 - Banks' equity continued to strengthen

With a view to complying with enhanced prudential requirements, which came into force in June 2013, banks continued to reinforce their equity, which stood at over 94 billion dirhams, up by around 6 billion, compared to 2012. This increase was attributed to capital increases (+1.6 billion) and the transfer of a share of profits to reserves (4.2 billion). Equity, as measured by its ratio to total assets, stood at 8.6 percent, slightly up, compared to 2012.

1.1.3 - The increase in off-balance sheet commitments arose from the growth in financing commitments and commitments in derivatives

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

Given financing commitments were up 3.9 percent to 79.3 billion dirhams, as against 3.2 percent, a year earlier, reflecting a 6.8 percent increase in those given to customers to 76.8 billion, while those granted to credit institutions and similar entities, representing nearly 3 percent of the total, were down 42.9 percent.

Given guarantee commitments, amounting to 119.3 billion dirhams, rose by 3.8 percent, a rate similar to the previous year. Of this total, given commitments by credit institutions increased by 3.8 percent to 36.4 billion and commitments given by customers rose by 3.7 percent to 82.9 billion.

Received commitments were up 9 percent to 62 billion dirhams, including 56.2 billion in the form of guarantee commitments and 2.8 billion as financing commitments.

The guarantee commitments received from credit institutions and similar entities increased by 4.8 percent to 50.5 billion and those received from customers appreciated by 16.3 percent to 5.7 billion.

Concerning foreign currency commitments, the volume of spot foreign exchange transactions dropped by 1.7 percent to 16.1 billion dirhams, while that of forward foreign exchange operations rose by 20.7 percent to 130.9 billion dirhams, due to the operators' increased use of hedging tools against foreign exchange risk.

In the same vein, commitments on derivatives showed a new sustained increase. Their notional amount increased by 28.7 percent to 53.3 billion dirhams, as against 23.4 percent in 2012. The value of contracts accounted for 57 percent of equity and nearly 5 percent of banks' total assets.

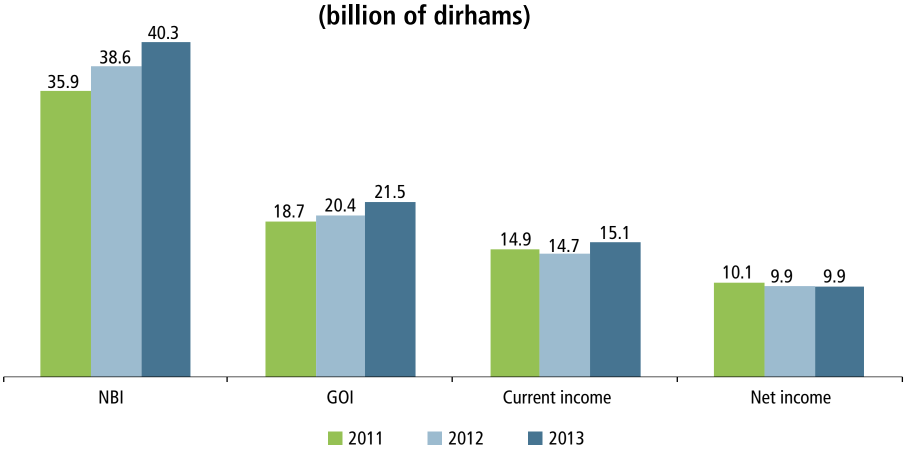
This change is primarily due to the increase in commitments on exchange rate instruments, which remain the most widely used product. Their notional amount increased by 35 percent to 27.4 billion dirhams. Interest rate transactions registered a less significant increase of 5.3 percent to 14.8 billion dirhams. Commitments on other instruments totaled 11.1 billion, representing 21 percent of total derivatives contracts.

1.2 - Banks were able to maintain a satisfactory level of profitability, despite a rising of the risk cost

In 2013, banks' income remained broadly resilient, despite a slower banking activity and a higher risk cost, albeit at a slower pace than the previous year.

The change in this profitability is examined below through the analysis of the major management intermediate balances.

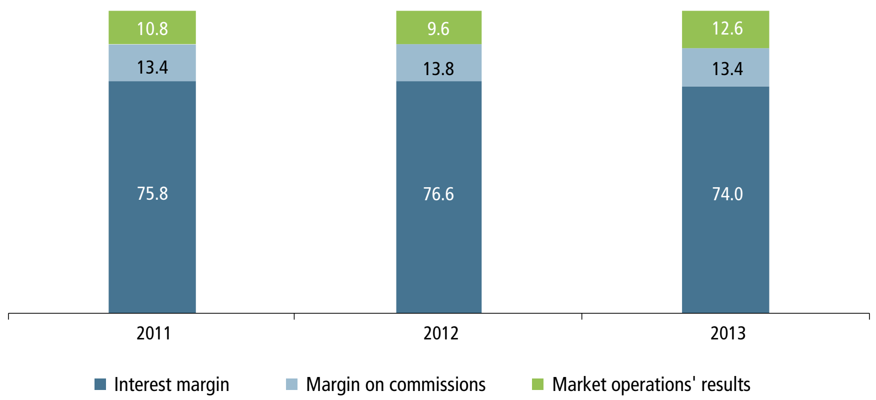
Chart 26 : Change in banks' management intermediate balances (billion of dirhams)



1.2.1 - The net banking income showed a less steady growth than in the previous year

The net banking income (NBI) stood at 40.3 billion dirhams, up 4.5 percent, as against 7.5 percent in 2012. This deceleration is attributed to slower interest margin and margin on commissions. Meanwhile, income from market activities recorded a bigger increase.

Chart 27 : Structure of the net banking income (in %)



Thus, **the interest margin,** totaling 28.6 billion, decelerated sharply, compared to the previous year, up by 0.9 percent from 5.9 percent, particularly owing to slower credit activities, coupled with a rise in the cost of liabilities. It represents the main component of the NBI, with a share of 74 percent, albeit down 2.6 points, compared to 2012.

The deceleration of the interest margin is attributed to a nearly 2 percent decline in the net income from interest rates on operations with customers to 26.3 billion dirhams, after rising 10 percent in 2012. Thus, interest received on loans moved up 1.4 percent to 36.8 billion, while interest paid on deposits grew by 10.5 percent to 10.5 billion, due to higher interest rates on these deposits.

The net income from interest rates on operations with credit institutions and similar entities, representing 2 percent of the total, rose slightly to 685 million dirhams, reflecting a limited increase in both interest received on interbank loans (+0.8 percent) and interest paid on borrowings (+0.9 percent).

Securities' transactions generated a net interest income of 4 billion, up 71 percent, mainly in connection with a 33 percent rise in income received to 7.7 billion, due to a stronger securities' portfolio held by banks. Expenses paid increased by 7.4 percent to 3.7 billion dirhams, as against 10.6 percent in 2012.

The margin on commissions stood at 5.4 billion dirhams, showing a modest increase of 1.2 percent as against 11.3 percent in 2012. Commissions earned on service delivery totaled 5.6 billion, up 2.2 percent, as opposed to 11.6 percent, a year earlier. This trend reflects respective increases of 6 percent, 4.9 percent and 33 percent in commissions on operating accounts, payment means and sales of insurance products to 1.2 billion, nearly 2 billion and 204 million.

However, commissions on loans services were down 5.6 percent to 429 million, in connection with slower loans. Commissions on management and deposit of securities declined by 11 percent to 340 million dirhams, due to a volatile stock market.

After a decline of 4 percent in 2012, the **income from market activities** recovered significantly, up 36.5 percent to 5.1 billion dirhams, mainly due to higher gains on trading securities. The latter increased by 58.7 percent to 3.3 billion, representing a 60 percent share of income from market operations. Income from foreign exchange transactions appreciated by 11 percent to 1.6 billion, while income from derivative transactions fell by 32.5 percent to 144.2 million dirhams.

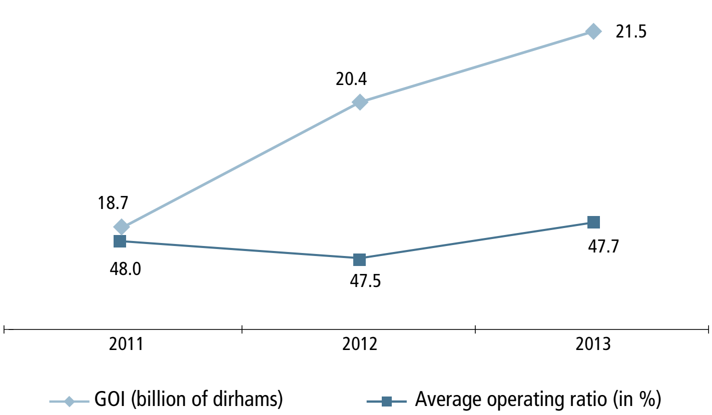
1.2.2 - The net income stagnated due to a further increase in the cost of risk

General operating expenses amounted to 19.2 billion dirhams, up 5 percent, as against 6.5 percent in 2012. This trend covers mainly increases of 3.3 percent in personnel expenses to 9.3 billion, 6.1 percent in external expenses to 7.2 billion and 7.4 percent in taxes and duties to 449 million dirhams.

For their part, depreciation allocations and provisions of tangible and intangible fixed assets increased by 5 percent to nearly 2 billion dirhams.

The control of overheads made it possible to keep the average operating ratio, corresponding to the ratio of these overheads to NBI, at 47.7 percent, as against 47.5 percent in 2012, and showed a 5.5 percent increase in gross operating income (GOI) to 21.5 billion dirhams, as against 8.7 percent, a year earlier.

Chart 28 : Change in banks' GOI and average operating ratio



The deterioration of the borrowers' creditworthiness, in a difficult environment, resulted in a further increase in the **cost of risk**[4]. Thus, the allocations net of reversals of provisions accumulated a 7.4 billion dirhams amount, up 29 percent as opposed to 49 percent, a year earlier. The cost of risk, as measured by its ratio to GOI, reached 34.3 percent.

Chart 29 : Change in the cost of risk compared to GOI

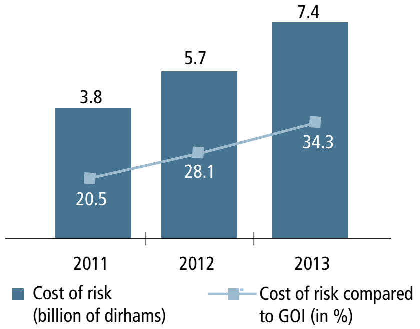
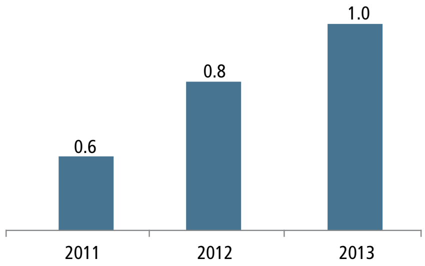


Chart 30 : Cost of risk/outstanding loans (in %)



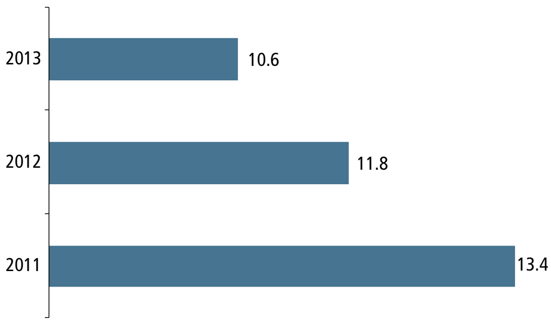
Given these developments, the current income appreciated by 2.7 percent to 15.1 billion dirhams, after falling 1.7 percent in 2012. While still negative, extraordinary income increased from 60 to 492 million dirhams, in connection with higher non-recurrent expenses incurred by some banks.

This shows a cumulative net profit of around 9.9 billion dirhams, up 0.2 percent as against a 1.7 percent decline in 2012. This change covers disparate situations. While the net profit trended upward for some banks, it was down for others.

Overall, the return on assets (ROA) remained at an average of almost 1 percent and the return on equity (ROE) stood at 10.6 percent from 11.8 percent in 2012, primarily due to the consolidation of bank equity.

Chart 31 : Change in banks' return on assets (ROA) in %

Chart 32 : Change in banks' return on equity (ROE) in %

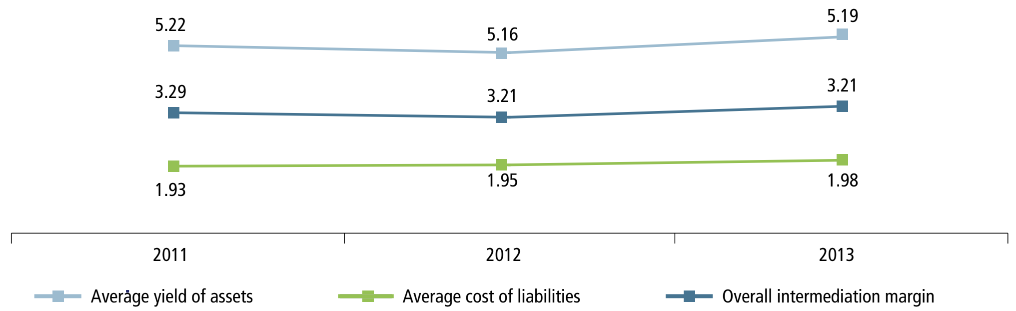


4 The cost of risk of 2013 is restated to include an exceptional allocation of provisions for general risks, amounting to 972 million dirhams, which is inscribed under non-operating income.

1.2.3 - The overall intermediation margin remained unchanged from one year to another

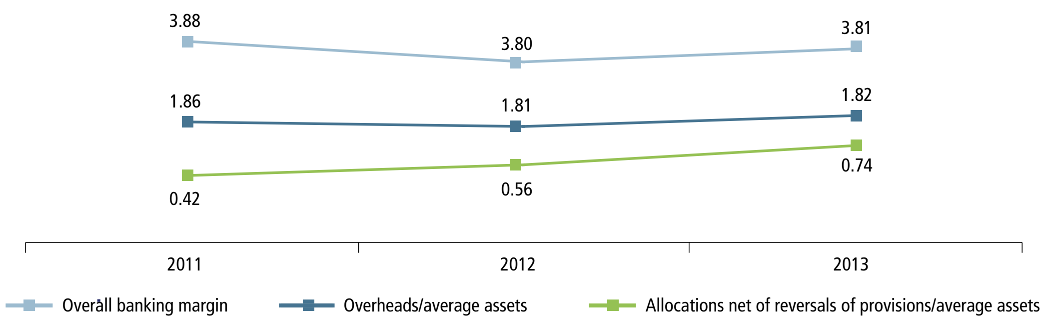
Banks' overall intermediation margin remained unchanged from the previous year at 3.21 percent, due to a 3 basis points increase in the average yields of assets to 5.19 percent, offset by an increase of the same rate in the average cost of liabilities to 1.98 percent.

Chart 33 : Change in banks' overall intermediation margin (in %)



The margin on customer transactions shrank by 19 basis points to 4.02 percent, reflecting a 10 basis points decline in the return on loans to 5.52 percent and a 9 basis points increase in the average cost of deposits to 1.5 percent.

Chart 34 : Change in the overall banking margin, overheads and risk cost (in %)



The overall banking margin, as measured by the ratio of NBI to average assets, remained at 3.81 percent. It was absorbed by overheads at 1.82 percent, as against 1.81 percent, a year earlier, and by the cost of risk at 0.74 percent, as against 0.56 percent in 2012.

2 - Activity and profitability of finance companies

In a difficult economic situation, the activity and profitability of finance companies stagnated. Particularly, the net profit of consumer loan and leasing companies declined.

2.1 - Finance companies' activity remained overall stable in a less favorable economic situation

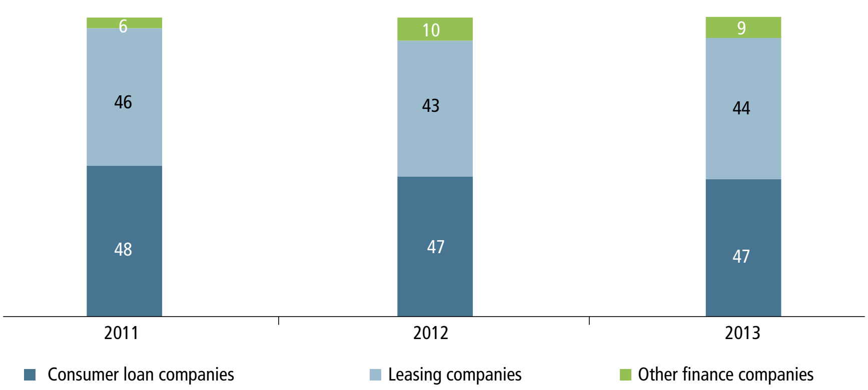
2.1.1 - Finance companies' assets showed mixed trends across businesses

After rising 8.5 percent in 2012, total assets of finance companies stagnated in 2013 at around 98 billion dirhams. The gross outstanding loans by disbursement granted to customers remained also stable at nearly 98 billion, as against an increase of 6.8 percent a year earlier.

This evolution contains differentiated situations. If the activity of consumer loan and leasing companies stagnated, that of payment means management and surety companies increased significantly by 22 percent and 18 percent, respectively.

Finance companies' activity is still dominated by consumer loan companies and leasing companies, with respective shares of 47 percent and 44 percent. Other categories of finance companies accounted for a share of 9 percent of the sector's total assets.

Chart 35 : Share of different categories of finance companies in the sector's total assets (in %)



Consumer loan companies posted a total assets amount of 46.2 billion dirhams, up 0.8 percent only, as against 6 percent in 2012, mainly due to the stagnation of leasing transactions with option of purchase.

Table 6 : Change in consumer loan companies' assets

Million of dirhams	2011	2012	2013	Change 2012/2013 (in%)
Due from credit institutions and similar entities	**436**	**530**	**606**	**14,3**
Due from customers	**40 426**	**42 115**	**42 351**	**0,6**
Including lease with purchase option	6 218	9 629	9 621	-0,1
Securities' portfolio	**30**	**46**	**56**	**18,6**
Fixed assets	**806**	**826**	**812**	**-1,7**
Other assets	**1 592**	**2 321**	**2 391**	**3,1**
Total	**43 290**	**45 838**	**46 216**	**0,8**

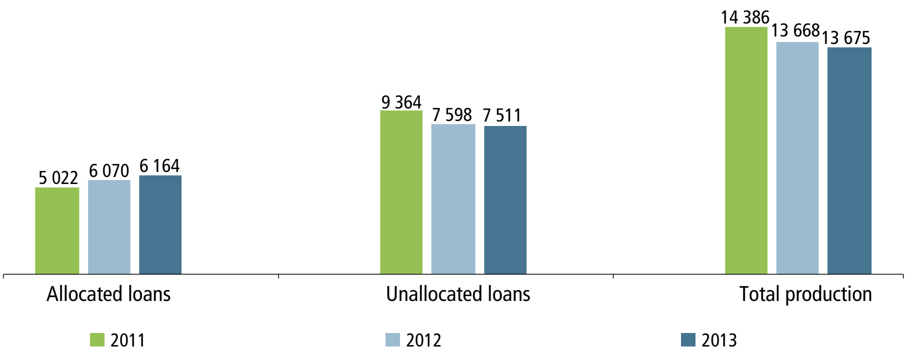
NB : Headings net of depreciation and provisions

Their gross outstanding loans stood at 47.2 billion dirhams, up 0.4 percent only, from 4 percent in 2012. Of this total, leasing operations with option of purchase remained at 9.6 billion dirhams, unchanged from the previous year, after a significant increase of 55 percent in 2012, particularly due to lower car sales. Meanwhile, the outstanding amount of other loan categories rose around 1 percent, after dropping 4 percent, last year.

Nearly two-thirds of consumer loans are made up of unallocated loans, mainly personal loans. Loans for purchase of vehicles represented 91 percent of allocated loans.

In 2013, consumer loan companies granted around 14 billion dirhams, almost the same amount as in 2012, corresponding to a number of files of 400,101. Nearly 55 percent of new loans were granted in the form of unallocated loans.

Chart 36 : Change in the production of consumer loans companies, broken down into allocated and unallocated loans (million of dirhams)



As measured by their total assets, **leasing companies** achieved a business volume of 42.6 billion dirhams, unchanged, compared to end-2012, as against an increase of 2.2 percent, a year earlier. Their gross outstanding loans remained at 43.7 billion dirhams.

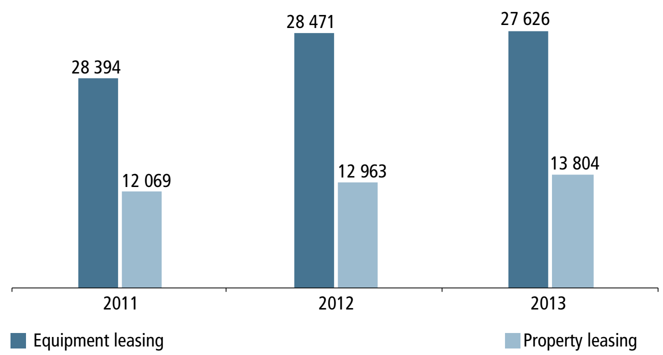
Table 7 : Change in leasing companies' assets

million of dirhams	2011	2012	2013	Change 2012/2013 (in%)
Leasing fixed assets	40 463	41 434	41 431	0
Other customers' loans	51	104	75	-28,3
Securities' portfolio	30	30	30	0
Other assets	1 039	944	1 082	14,6
Total	**41 583**	**42 512**	**42 618**	**0,2**

NB : Headings net of depreciation and provisions

Equipment leasing transactions, with a share of 67 percent of the total, showed a decline of 3 percent, as against a stagnation in 2012. Property leasing transactions continued their upward trend, up 6.5 percent, as against 7.4 percent, a year earlier.

Chart 37 : Change in the outstanding amount of equipment and property leasing transactions (million of dirhams)



In terms of production[5], leasing companies distributed in 2013 nearly 13 billion dirhams, down 744 million dirhams, compared to 2012, corresponding to a number of files of 12,992. Almost 80 percent of this production was allocated to equipment leasing.

Chart 38 : Breakdown of equipment leasing production by type of equipment

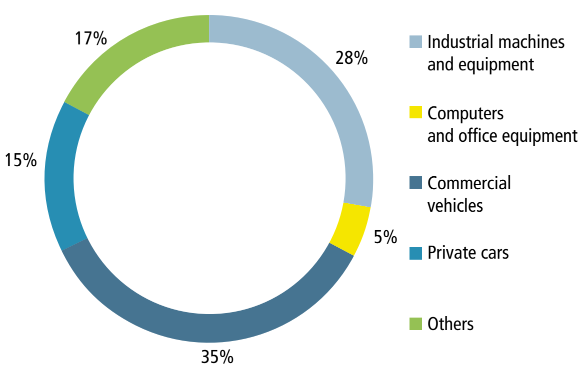
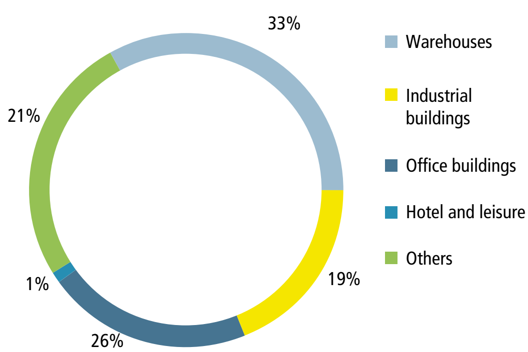


Chart 39 : Breakdown of property leasing production by type of financed fixed assets



Equipment leasing production, amounting to 10.3 billion dirhams, was down 7.5 percent. This trend was mainly affected by a decline in the financing of commercial vehicles (-11 percent), industrial machines and equipment (-15 percent) and computers and office equipment (-47 percent). However, the financing for buildings and public-work increased by 16 percent.

5 Data from the Professional Association of Finance Companies

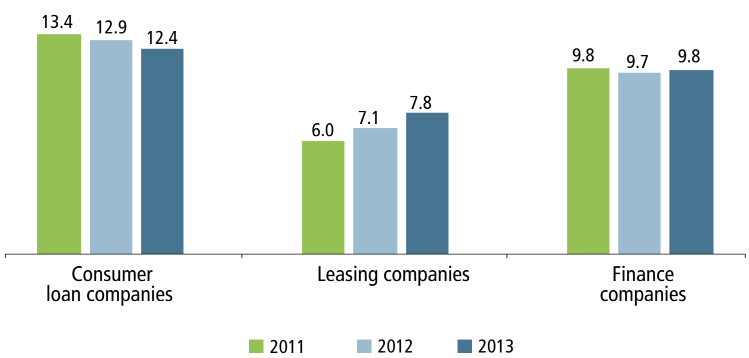
This production benefited particularly industrial activities (30 percent), transport and communications (18 percent), trade (16 percent) and buildings and public work (13 percent).

Analysis by credit terms shows a predominance of medium-term loans, with a share of 81 percent of total production, as against 79 percent, a year earlier.

Meanwhile, **property leasing production** rose 4 percent to 2.5 billion dirhams. It was used to finance office buildings (+37.5 percent) and industrial buildings (+12.5 percent). However, the financing for hotels and leisure decreased by 88 percent.

Despite the rise of the risk, the volume of non-performing loans of finance companies stabilized in 2013 at 9.6 billion dirhams, representing a risk ratio of 9.8 percent, unchanged from 2012. However, this average covers contrasting situations. The risk ratio of consumer loan companies declined from 12.9 percent to 12.4 percent, reflecting the withdrawal of license from a company with a significant outstanding amount of non-performing loans[6]. Meanwhile, leasing companies recorded a 0.7 point increase in the risk ratio to 7.8 percent.

Chart 40 : Change in the risk ratio by category of finance companies (in %)



The provisioning ratio of non-performing loans amounted to 78 percent for finance companies, almost the same level as last year. It remained at 83 percent for consumer loan companies and moved up 3 points to 67 percent for leasing companies.

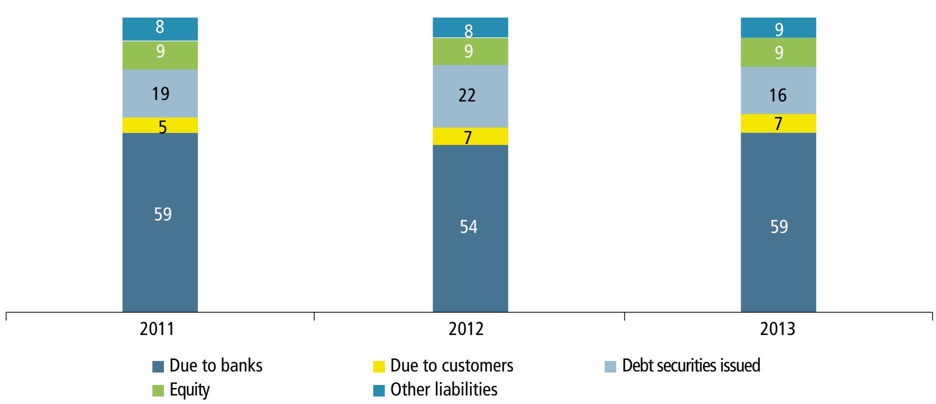
6 Excluding the impact of the withdrawal of license, the risk ratio would increase by 0.3 point.

Chart 41 : Change in the coverage ratio by category of finance companies (in %)

2.1.2 - Finance companies' banking indebtedness increased to the detriment of debt securities issued

At the end of 2013, finance companies' liabilities were composed of bank debts, amounting to 57 billion dirhams, with a share of 59 percent, up 5 points from one year to another. Meanwhile, debt securities issued stood at 16 billion dirhams, and their share in liabilities was down 6 points to 16 percent, owing to higher rates on the bond market. Equity accounted for 9 percent of liabilities, unchanged since 2012.

Chart 42 : Change in the structure of finance companies' liabilities (in %)



Most of the debt securities issued by finance companies was subscribed by UCITS (60 percent), followed by credit institutions and similar entities (37 percent) and insurance companies (3 percent).

Table 8 : Change in liabilities of consumer loan companies

million of dirhams	2011	2012	2013	Change 2012/2013 (in%)
Due to credit institutions and similar entities	23 199	22 445	25 482	13,5
Due to customers	2 409	4 653	4 825	3,7
Debt securities issued	9 625	10 251	6 758	-34,1
Equity	4 609	4 760	5 257	10,4
Net income	733	876	750	-14,4
Other liabilities	2 715	2 853	3 144	10,2
Total	**43 290**	**45 838**	**46 216**	**0,8**

Consumer loan companies' bank debts, representing a share of 55 percent of liabilities, totaled an outstanding amount of 25.5 billion dirhams, up 13.5 percent, compared to 2012. The outstanding amount of debt securities issued decreased by 34 percent to 6.8 billion and their share in liabilities declined, year on year, by 8 points to 15 percent.

Their equity capital increased by 10.4 percent to 5.3 billion dirhams, representing 11 percent of liabilities, almost unchanged from 2012.

Table 9 : Change in leasing companies' liabilities

million of dirhams	2011	2012	2013	Change 2012/2013 (in%)
Due to credit institutions and similar entities	28 017	25 041	27 513	9,9
Due to customers	1 075	734	799	8,9
Debt securities issued	7 625	11 924	9 208	-22,8
Equity	2 322	2 509	2 597	3,5
Net income	383	290	285	-1,7
Other liabilities	2 161	2 014	2 217	10,0
Total	**41 583**	**42 512**	**42 618**	**0,2**

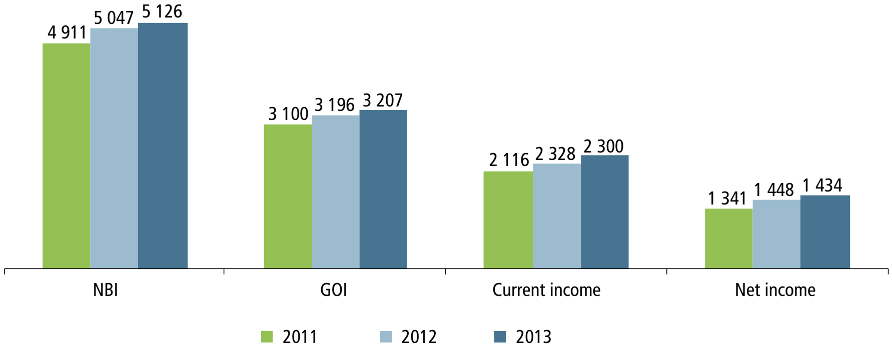
Leasing companies' bank debts, representing nearly 65 percent of liabilities, appreciated by about 10 percent to more than 27 billion dirhams, as against a contraction of 10.6 percent in 2012. However, the outstanding debt securities issued fell by 23 percent to 9.2 billion dirhams.

Their equity capital rose from 2.5 to 2.6 billion dirhams, representing a stable share of 6 percent, unchanged from the last two years.

2.2 - The finance companies' income fell due to slower activity

At the end of 2013, finance companies posted a net profit of 1.4 billion dirhams, down 1 percent, after an increase of 8 percent, last year. This decline was driven by lower profit margins generated by consumer loan and leasing companies.

Chart 43 : Change in finance companies' management intermediate balances (million of dirhams)



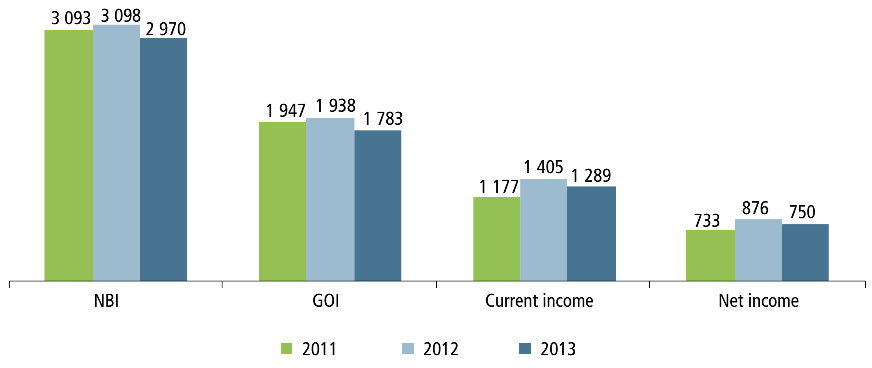
The net banking income of finance companies stood at 5.1 billion dirhams, up 1.6 percent as against 2.8 percent, a year earlier. This change reflects a 15 percent increase in the margin on commissions to 1.1 billion, due to a rise in the activities of payment means management and sureties as well as a development of the activities of consumer loans' portfolio management on behalf of banks. However, the interest margin and income from leasing operations and lease with purchase option showed respective declines of 10.4 percent to 632 million dirhams and 0.8 percent to 3.2 billion dirhams.

After rising 7.2 percent in 2012, general operating expenses were kept at 2 billion dirhams, generating an average operating ratio of 40 percent, unchanged from 2012. Gross operating income, amounting to 3.2 billion, rose by approximately 0.3 percent, as against 3 percent, a year ago.

The cost of risk slightly increased from 868 million to 907 million dirhams, thus absorbing 28 percent of GOI as opposed to 27 percent in 2012.

Given these developments, the return on assets (ROA) stood at 1.5 percent, unchanged from 2012, and the return on equity (ROE) was reduced by 1.2 point to 15.5 percent.

Chart 44 : Change in consumer loan companies' management intermediate balances (million of dirhams)



The NBI of consumer loan companies fell by about 4.1 percent to 3 billion dirhams, after stagnating in 2012. This decrease is attributed to a decline in interest margin and income from operations of lease-option agreement.

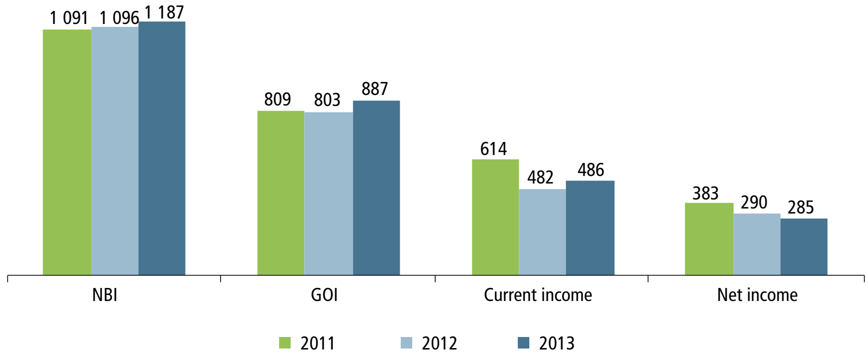
Indeed, interest margin decreased by 5.9 percent to 2.1 billion dirhams, due to a decrease in interest income of 3.1 percent to 3.6 billion dirhams, combined with an increase in interest expenses of 1.1 percent to 1.5 billion dirhams, owing to higher refinancing costs. Income from operations of lease-option agreement also dropped by 23 percent to 322 million dirhams. Conversely, the margin on commissions grew 21 percent to 464 million dirhams, in conjunction with a development in the activity of the consumer loan portfolio management on behalf of banks.

General operating expenses contracted by 1.1 percent to 1.2 billion dirhams, showing an average operating ratio of 41.7 percent and a GOI down 8 percent to nearly 1.8 billion dirhams, after stagnating, last year.

The cost of risk showed a further decrease from 533 million to 494 million. It absorbed 28 percent of GOI, the same level as in 2012. The extraordinary income, albeit negative, rose from 29 to 108 million, particularly due to higher allocations of provisions for tax adjustment.

The net income stood at 750 million dirhams, down 14.4 percent, as against an increase of 19.5 percent in the previous year. Thus, the return on assets (ROA) stood at 1.6 percent, as against 1.9 percent, a year earlier and the return on equity fell from 18.4 percent to 14.3 percent.

Chart 45 : Change in leasing companies' management intermediate balances (million of dirhams)



Leasing companies recorded an NBI of around 1.2 billion dirhams, up 8.4 percent, as against a stagnation in 2012. This increase was mainly attributed to a growth of nearly 8 percent in interest margin (including income from leasing operations) to 1.2 billion, particularly due to an increase in surplus value generated by some companies on fixes assets' sales.

After growing 5.8 percent in 2012, general operating expenses increased 3 percent to 303 million dirhams, generating an average operating ratio of 26 percent, down one point, compared to the previous year, while GOI was up 10.5 percent to 887 million dirhams.

The cost of risk, standing at 401 million dirhams, rose 25 percent, as against 65 percent in 2012. It absorbed 45 percent of GOI, as opposed to 40 percent in 2012.

Therefore, the net income generated by leasing companies fell 1.7 percent to 285 million, after a 24.3 percent decline in 2012. Return on assets and return on equity remained stable, from one year to the next, at 0.7 percent and 11 percent, respectively.

3 - Activity and profitability of offshore banks

In Morocco, the six offshore banks are essentially owned by banks wich make them benefit from their infrastructure and operational management tools.

Box 6 : Offshore bank regulation

Offshore banks are governed by the provisions of Law No. 58-90 relating to offshore financial centers and by some provisions of the Banking Act.

An offshore bank shall be any legal person, regardless of the nationality of its managers and holders of its capital stock, which is based in an offshore financial center. Its usual and main activity is to collect deposits in convertible foreign currencies and perform in the same currencies, for its own account or for its customers, any financial credit, market or exchange operation.

They enjoy advantages, such as complete freedom of exchange regarding their transactions with non-residents, tax and customs exemptions and reductions.

The total assets of offshore banks reached nearly 38 billion dirhams, up 7.1 percent, while they decreased by 3.2 percent in 2012. This change is attributable to an increase in the securities' portfolio, which rose from 1.6 to 2.8 billion dirhams, including 62 percent as debt securities, mainly Treasury bills. Lending to credit institutions also rose by 9.9 percent to 18.6 billion dirhams.

Table 10 : Change in offshore banks' assets

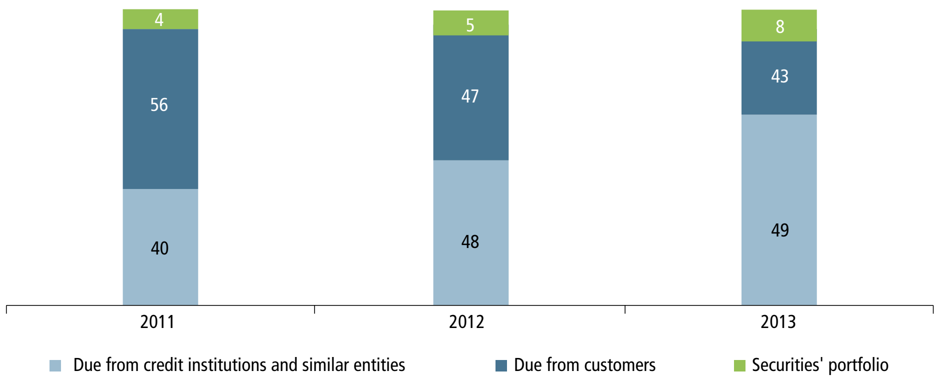
million of dirhams	2011	2012	2013	Change 2012/2013 (in%)
Due from credit institutions and similar entities	14 794	16 892	18 556	9,9
Due from customers	20 318	16 669	16 298	-2,2
Securities' portfolio	1 115	1 573	2 844	80,7
Other assets	306	221	173	-21,7
Total Assets	**36 533**	**35 355**	**37 871**	**7,1**

NB : Headings net of depreciation and provisions.

However, outstanding customer loans went down 2.2 percent to 16.3 billion dirhams, in connection with a 4.3 percent decline in equipment loans, after an increase of 44 percent in 2012.

Regarding non-performing loans, whose share is only 0.5 percent of loans, their outstanding grew by 22 percent to 83 million dirhams.

Chart 46 : Structure of offshore banks' assets (in %)



Given these developments, the structure of assets changed in 2013. The share of dues from customers fell from 47 to 43 percent from one year to the next, while those from credit institutions and similar entities and securities' portfolio increase, respectively by one point to 49 percent and by 3 points to 8 percent.

Regarding offshore banks' liabilities, debts due to credit institutions and similar entities were up 2.8 percent to 33 billion dirhams and customers' deposits rose by 65.1 percent to 4 billion dirhams.

Table 11 : Change in offshore banks' liabilities

million of dirhams	2011	2012	2013	Change 2012/2013 (in%)
Due to credit institutions and similar entities	33 618	32 068	32 961	2,8
Customers' deposits	2 096	2 433	4 017	65,1
Equity	399	451	441	-2,3
Other liabilities	420	403	452	12,2
Total	**36 533**	**35 355**	**37 871**	**7,1**

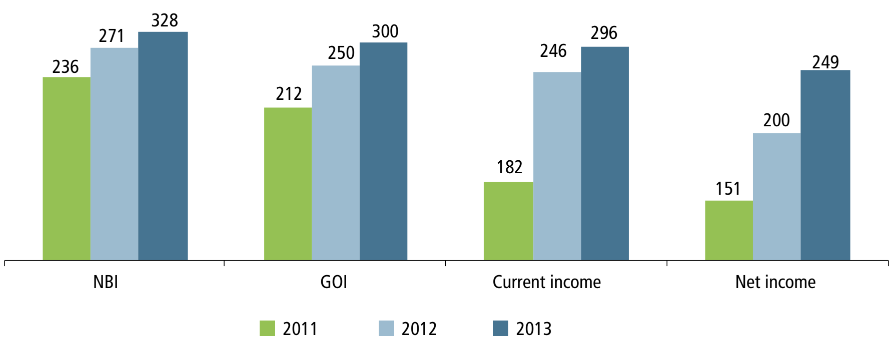
At the end of 2013, offshore banks equity totaled 441 million dirhams, down 2.3 percent, compared to 2012. Their share in liabilities remains insignificant, as the risks they incur were carried by their parent companies.

Chart 47 : Structure of offshore banks' liabilities (in %)

Dues to credit institutions and similar entities accounted for 87 percent of liabilities, down 4 points from the previous year, which went to customers' deposits, whose share rose to 11 percent from 7 percent in 2012.

Financing commitments given by offshore banks including to their parent companies grew 19 percent to 373 million dirhams. Similarly, guarantee commitments moved up 49 percent to 2.2 billion dirhams, including over 73 percent given to customers. Received guarantee commitments totaled 13.7 billion, up 3 percent, after an 18 percent decline, a year ago.

Chart 48 : Change in offshore banks' management intermediate balances (million of dirhams)



In 2013, offshore banks generated a cumulative net profit of 249 million dirhams, up 25 percent, as against 33 percent, a year ago. This growth was driven by a 21 percent rise in NBI to 328 million, thanks to an increase in both the interest margin and the margin on commissions, combined with a significant decrease in the cost of risk.

4 - Activity and profitability of microcredit associations

After a period of consolidation, following difficulties facing the sector in recent years, almost all microcredit institutions returned to growth. The number of their active customers and network grew by 1.8 percent and 5 percent to 819,357 beneficiaries and to 1,478 outlets, respectively. In 2013, the staff of these associations reached 6,065 people, up 1.1 percent, compared to 2012.

Table 12 : Change in the microcredit associations' assets

million of dirhams	2011	2012	2013	Change 2012/2013 (in%)
Due from credit institutions and similar entities	797	557	655	17,7
Due from customers	4 444	4 351	4 688	7,7
Fixed assets	115	169	228	34,4
Other assets	198	279	132	-52,5
Total Assets	**5 554**	**5 356**	**5 703**	**6,5**

NB : Headings net of depreciation and provisions.

The outstanding gross loans granted to customers reached 4.9 billion dirhams, up 6 percent, as against a virtual stagnation, last year. Nearly 49 percent of this outstanding amount benefited female customers, which is the same share recorded over the last two years. This portfolio remains concentrated in urban areas with a share of 66 percent from 65 percent in 2012.

The three largest associations still concentrate nearly 92 percent of loans.

Social loans, which continued their downward trend in favor of individual loans, accounted for only 39 percent, as against 47 percent in 2012. The microcredit sector's portfolio is still dominated by loans to very small enterprises, with a share of 89 percent, as against 87 percent, followed by social housing loans (7 percent).

The rebound in activity was accompanied by a 23 percent decrease in non-performing loans to somewhat above 200 million dirhams, reducing the risk ratio to 4.3 percent from 6.1 percent in 2012. This trend is essentially attributed to write-off operations used by some associations in accordance with the relevant applicable regulations. Non-performing loans were covered by provisions, up to 90 percent, as against 89 percent in 2012.

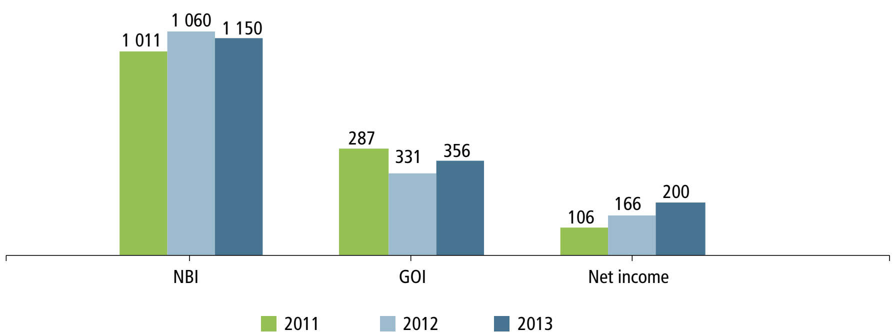
Table 13 : Change in microcredit associations' liabilities

million of dirhams	2011	2012	2013	Change 2012/2013 (in%)
Due to credit institutions and similar entities	3 860	3 334	3 355	0,6
Equity and similar	1 383	1 666	1 900	14,1
Other liabilities	311	356	448	26,0
Total Liabilities	**5 554**	**5 356**	**5 703**	**6,5**

Loans of microcredit associations remained at 3.4 billion dirhams, representing almost 59 percent of total liabilities. Like in 2012, 84 percent of these loans come from local banks.

Equity, amounting to an outstanding of 1.9 billion, represents a 32 percent share of the sector's total liabilities. It was reinforced by 14 percent in 2013, thanks to higher subsidies received.

Chart 49 : Change in microcredit associations' management intermediate balances (million of dirhams)



The microcredit sector ended the fiscal year 2013 with a net profit of around 200 million dirhams, up 21 percent, despite the deficit results registered by some associations.

5 - Activity and profitability of banking groups

The consolidated activity and profitability is analyzed through financial statements prepared in accordance with IFRS (International Financial Reporting Standards) by eight banking groups, holding more than 89 percent of market shares on an individual basis. This analysis helps to integrate banks' activity and results of all bodies under their control both in Morocco and abroad.

The consolidation of the leading banking groups and the level of the domestic market maturity led these groups to seek actively, in recent years, new growth drivers abroad, particularly in sub-Saharan Africa. Transactions made by their subsidiaries in this continent contributed increasingly to their activities and results.

Despite this good performance, the result generated in 2013 by banking groups on a consolidated basis was low due to slower activities in Morocco, increasing cost of related risk and lower contribution of other activities, such as assets' management.

5.1 - The change in the banking groups' activity slowed down due to the deceleration in their domestic activities

At the end of 2013, total assets of the eight banking groups reached nearly 1.162 billion dirhams, up 4.3 percent, as against 8.4 percent a year earlier. As for assets, there is a decrease in financial assets at fair value by result and their share moved down 0.6 point to 8.3 percent. Conversely, held-to-maturity investments, dues from customers and due from credit institutions and similar entities were up, bringing their respective shares to nearly 4 percent, 67.7 percent and 5 percent.

Chart 50 : Structure of banks' assets on a consolidated basis (in %)

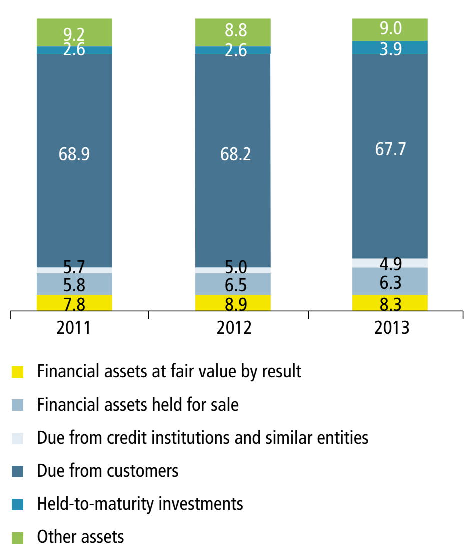
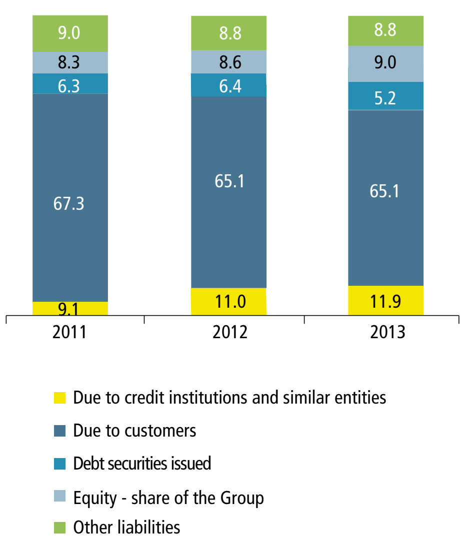


Chart 51 : Structure of banks' liabilities on a consolidated basis (in %)



With regard to liabilities, the increase concerned mainly debts due to customers and credit institutions and the like, as well as consolidated reserves. Meanwhile, debt securities issued showed a decline. Consequently, the share of debts due to customers remained at 65 percent, unchanged from last year, followed by debts due to credit institutions and similar entities (11.9 percent) and equity -share of the Group (9 percent).

5.1.1 - The growth of assets was marked by a significant increase in held-to-maturity investments

Table 14 : Change in banks' assets on a consolidated basis

million of dirhams	2011	2012	2013	Change 2012/2013 (in%)
Financial assets at fair value by result	79 817	99 481	96 589	-2,9
Financial assets held for sale	59 399	72 043	72 631	0,8
Due from credit institutions and similar entities	58 497	55 743	56 716	1,7
Due from customers[7]	707 636	759 839	786 644	3,5
Held-to-maturity investments[8]	26 848	28 493	44 823	57,3
Other assets	94 872	98 127	104 218	6,2
Total	**1 027 069**	**1 113 726**	**1 161 621**	**4,3**

The increase in assets of the banking groups benefited from the growth in loans due from customers, albeit down compared to 2012. These loans totaled an outstanding amount of 786.6 billion dirhams, up 3.5 percent, or half the pace of the previous year, due to a limited rise in loans to businesses and households.

Meanwhile, loans due from credit institutions showed a recovery, up 1.7 percent to 56.7 billion dirhams, following a decline of 4.7 percent and 15 percent in 2012 and 2011, respectively, owing to higher loans to finance companies in Morocco.

Meanwhile, held-to-maturity investments[8], representing nearly 4 percent of total assets, rose 57.3 percent to 44.8 billion dirhams, as against 6.1 percent a year earlier, due to new purchases by the groups' entities of Moroccan Treasury bills in the domestic market and the acquisition by subsidiaries in Africa of securities issued by sub-Saharan countries. Financial assets held for sale, totaling 72.6 billion, registered a limited increase of 0.8 percent, while they rose 21.3 percent in 2012. These changes occurred to the detriment of financial assets at fair value by result, including held-for-trading securities, which fell nearly 3 percent to 96.6 billion dirhams, as against a growth of 24.6 percent in 2012.

7 Dues from customers are valued at amortized cost, using the effective-interest-rate method.

8 Held-to-maturity investments are valued at amortized cost, using the effective-interest-rate method.

5.1.2 - Liabilities grew thanks to higher customer deposits

Table 15 : Change in banks' liabilities on a consolidated basis

Million of dirhams	2011	2012	2013	Change 2012/2013 (in%)
Financial liabilities at fair value by result	**2 728**	**1 024**	**3 797**	**270,6**
Due to credit institutions and similar entities	**92 974**	**122 990**	**137 723**	**12,0**
Due to customers	**691 293**	**724 916**	**756 293**	**4,3**
Debt securities issued	**65 178**	**71 294**	**60 706**	**-14,9**
Equity - share of the Group	**85 344**	**96 119**	**104 124**	**8,3**
including Net income	9 958	10 112	9 455	-6,5
Other liabilities	**89 552**	**97 383**	**98 978**	**1,6**
Total	**1 027 069**	**1 113 726**	**1 161 621**	**4,3**

Dues to credit institutions and similar entities, totaling an outstanding amount of 137.7 billion dirhams in 2013, showed a further growth of 12 percent, albeit at a slower pace, following consecutive increases over the last two years. Conversely, using the private debt market by banks and their subsidiary finance companies decreased, owing to higher bond yields in the domestic market. Accordingly, by the end of 2013, the outstanding of debt securities issued stood at 60.7 billion dirhams, down almost 15 percent compared to the previous year.

Debts due to customers totaled an outstanding amount of 756.3 billion dirhams in 2013, up 4.3 percent, as against nearly 5 percent a year earlier.

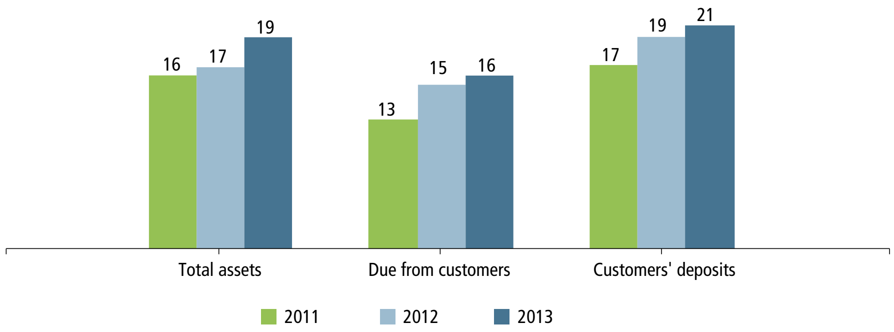
Equity -share of the Group, including the income for the year, rose 8.3 percent to 104 billion dirhams. This change was mainly attributed to respective increases by 21.9 percent and 3.3 percent in consolidated reserves and capital and related reserves. This trend reflects the measures implemented by banking groups to comply with enhanced capital ratios.

5.1.3 - Cross-border activities contributed positively to the banking groups' activity

The expansion beyond the national borders contributed positively to the activity of the three most internationally active banking groups. Indeed, their total assets generated abroad moved up 13.1 percent, as against 22 percent, to 169.5 billion dirhams. Almost 95 percent of this outstanding amount is generated in Africa.

Meanwhile, loans grew by 17.4 percent to 98.7 billion dirhams and deposits appreciated by 13 percent to 125.3 billion dirhams.

Chart 52 : Contribution of the banking subsidiaries abroad to the balance-sheet main headings of the 3 banking group's assets (in %)



In 2013, the contribution of subsidiaries abroad reached 19 percent of the consolidated total assets, as against 17 percent, a year earlier. This share stood at 16 percent and 21 percent for debts due from customers and for deposits, as against respectively 15 percent and 19 percent in 2012.

5.1.4 - Non-performing loans of banking groups rose

In a tough economic context, the moderate change in loans to customers from banking groups was accompanied by higher risks. The outstanding amount of non-performing loans moved up in 2013 by 18.8 percent from 12.6 percent, a year earlier, totaling nearly 58 billion dirhams and generating a non-performing loans rate of 7.1 percent, as against 6.2 percent in 2012. Non-performing loans were covered by provisions up to 66 percent.

Chart 53 : Change in non-performing loans and the risk ratio on a consolidated basis

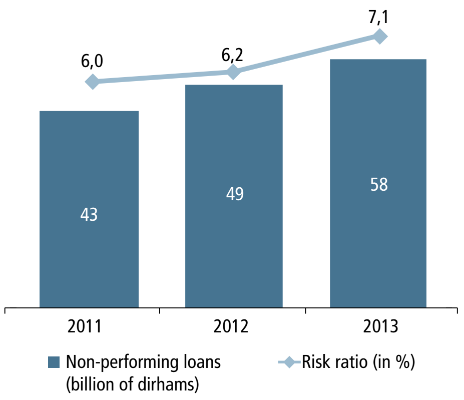
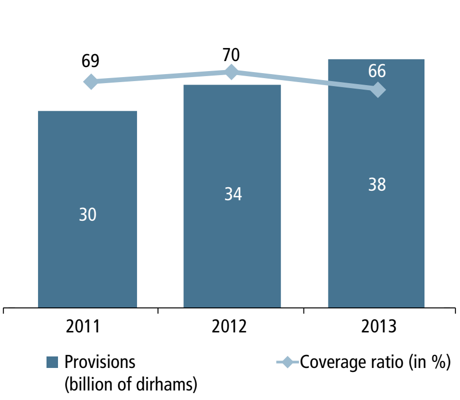


Chart 54 : Change in provisions and the coverage ratio on a consolidated basis



Non-performing loans of subsidiaries in Africa totaled an outstanding amount of 10.4 billion dirhams, representing a risk ratio of 10.6 percent. These loans are covered by provisions up to 63 percent.

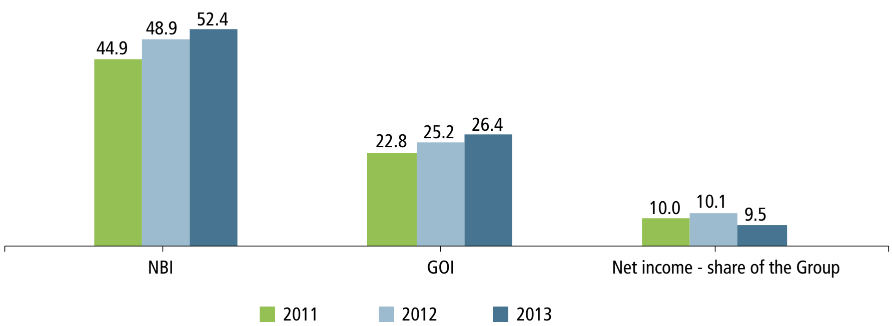
5.2 - The net income of banking groups fell due to lower performance of domestic activities including asset management

The analysis of profitability on a consolidated basis is carried out based on the income statements of the eight banking groups.

5.2.1 - The net income from banking groups was mainly affected by a higher cost of risk

In an unfavorable domestic economic context, the net income-share of the Group dropped by 6.5 percent to 9.5 billion dirhams, after rising by 1.5 percent in 2012, generating a return on assets of 1 percent and on equity of 9.1 percent.

Chart 55 : Change in major management intermediate balances on a consolidated basis (billion of dirhams)



The net banking income, amounting to 52.4 billion dirhams, grew by 7 percent, as against 9 percent in the previous year. This change reflects a slowdown in the interest margin to 4.7 percent from 7.3 percent in 2012. The margin on commissions, resulting from commissions on services provided, net of commissions for third party services, stood at 9.2 billion dirhams, up 10.4 percent, slightly down, compared to 12.7 percent in 2012.

Income from market activities, the third component of the NBI, rose by 20.7 percent to 6.1 billion dirhams, as against 11.2 percent in 2012, thanks to a 27.3 percent increase in gains on financial instruments at fair value by result, while income on assets' held-for-sale was down 1.5 percent.

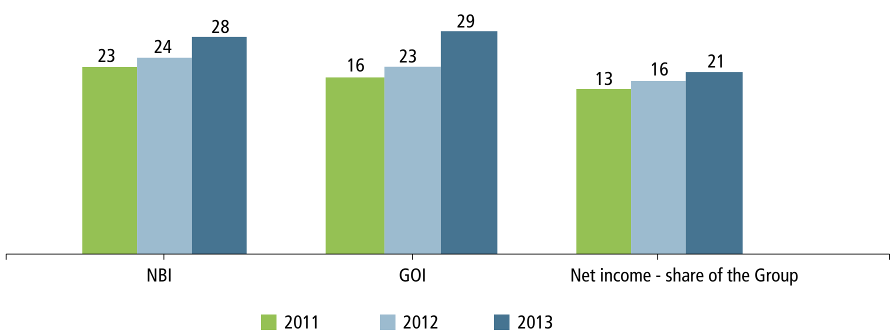
Meanwhile, overheads, amounting to 25.9 billion dirhams, rose 9.1 percent, from 7.8 percent in 2012, causing an average operating ratio of 49.5 percent, from 48.6 percent in 2012, and a 5.1 percent increase in GOI to 26.4 billion dirhams.

Overall, the cost of risk amounted to 7.7 billion dirhams, up 38.3 percent, as against 50.5 percent in 2012. It accounted for 29.2 percent of GOI, from 22 percent in the previous year.

5.2.2 - Cross-border activities contributed positively to banking groups' results

The profitability of activities generated by the most internationally active banking groups positively benefited from the contribution of African subsidiaries. Indeed, the NBI generated abroad by these groups rose by 24.8 percent to 11.4 billion dirhams, including nearly 94 percent in Africa.

Chart 56 : Contribution of the banking subsidiaries abroad to the main headings of 3 the banking groups' result (in %)



The contribution of subsidiaries abroad to the net banking income of the groups concerned reached 28 percent, up 4 points from the previous year. This contribution stood at 21 percent for the net income-share of the Group up 5 points from 2012.

CHAPTER III

BANKING RISKS

In 2013, the deceleration of the banking activity was accompanied by a higher default risk of both households and non-financial corporations. Meanwhile, banks continued to strengthen their financial base. Bank equity increased further and the average solvency ratio improved, placing banks in a better position to cope with incurred risks.

Debt assessment constitutes a major concern for the central bank. To do so, it monitors, on a monthly basis, the trends of consumer and housing loans and conducts each year a survey[9] among banks and consumer loan companies to collect information on household debt as well as the profile of loan recipients. Similarly, the Bank constantly carries out studies and analysis on non-financial corporations' financing.

Banks' solvency is assessed by the Bank through the review of prudential reporting, by analyzing the calculation items of the solvency ratio and core capital ratio, as provided for the regulation in force.

Liquidity is also closely monitored by the Bank, through the review of the reports provided by the banks, including those related to stress tests conducted on a monthly basis.

1 - Change in the risk coverage by equity from a prudential perspective

In 2013, banks continued to strengthen their financial base. They increased significantly their prudential capital to meet the new requirements introduced in June 2013 and to support their development in Morocco and abroad. Meanwhile, net weighted risks declined, particularly due to slower lending activity.

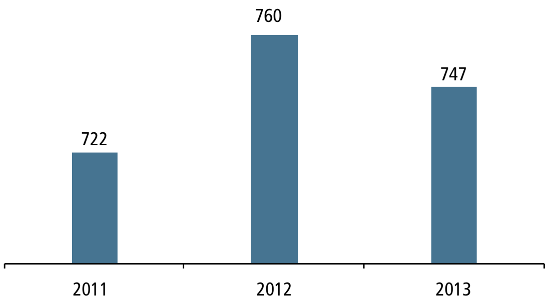
The change in banks' solvency, presented below, is analyzed on the basis of data extracted from their prudential statements, on an individual basis, in accordance with Basel II standards.

9 The ninth survey on real estate loans was conducted, in 2013, among 9 banks. The survey on consumer loans covered 17 companies and 5 banks.

1.1 - Change in the net weighted risks

At the end of 2013, the net weighted risks of the banking sector amounted to 747 billion dirhams, down 1.7 percent, after an increase of 5.3 percent, a year earlier. These risks are divided into credit, market and operational risks.

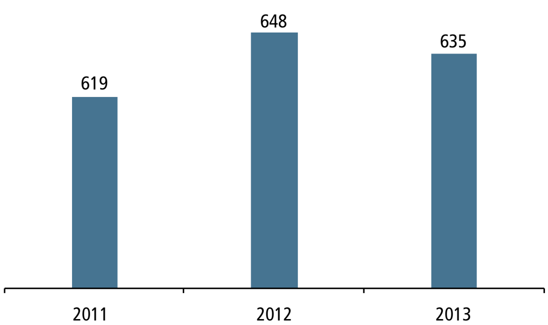
Chart 57 : Change in the total net weighted risks (billion of dirhams)



1.1.1 - Credit risk

The net credit risk-weighted assets, as determined by the Basel II "standardized" approaches, account for 85 percent of total risks. At the end of 2013, they stood at 635 billion dirhams, down 2 percent, after an increase of 4.6 percent in 2012. This decline is attributed, on one hand, to a slowdown in the credit activity and on the other hand, to a bank's use, for the first time, of some credit risk mitigation techniques.

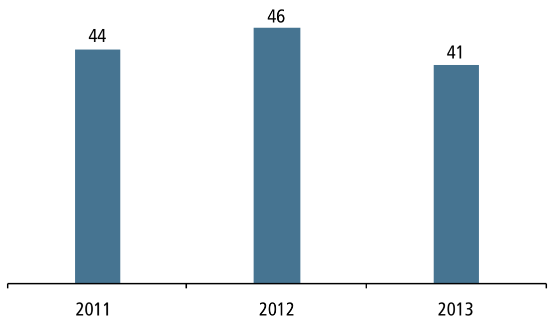
Chart 58 : Change in credit risk (billion of dirhams)



1.1.2 - Market risk

At the end of 2013, the net market risk-weighted assets totaled nearly 41 billion dirhams, down 10.1 percent as against a growth of 4.6 percent, a year earlier. This change is attributable to a decline in trading securities of some banks compared to investment securities. This risk represents 6 percent of all banking risks.

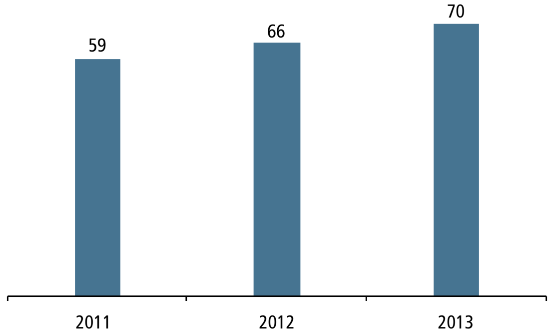
Chart 59 : Change in market risk
(billion of dirhams)



1.1.3 - Operational risks

Operational risks are calculated by most banks using the basic indicator approach[10]. They reached 70 billion, up 6.7 percent, representing 9 percent of total risks. The rise in requirements for operational risks was due to an increase in the net banking income that averaged 9 percent over the last 3 years.

Chart 60 : Change in operational risks
(billion of dirhams)



10 Under this approach, the equity requirement is equal to 15 percent of the three-year average of the net banking income.

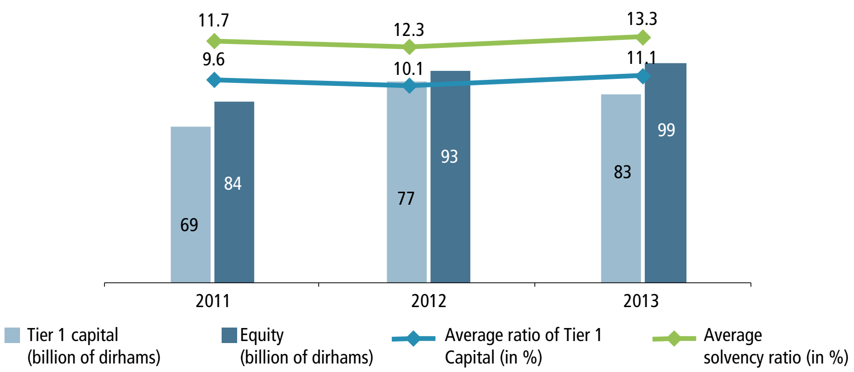
1.2 - Change in banks' equity

Equity is composed of core capital and supplementary capital. Core capital consists of common shares, reserves and the retained earnings. Supplementary capital includes mainly assets revaluation reserves, general provisions and subordinated debts meeting certain conditions.

At the end of 2013, banks' total prudential capital amounted to 99 billion dirhams, up 6.9 percent as against 10.6 percent, a year earlier.

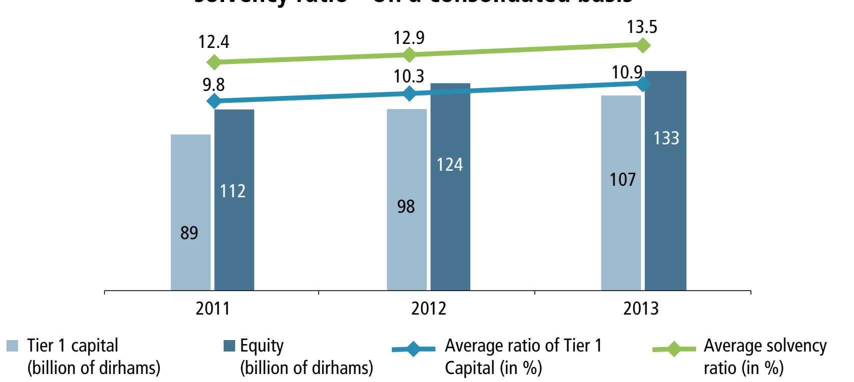
Core capital, which account for 83 percent of the total, increased by 7.6 percent to 83 billion dirhams, as against 10.7 percent in 2012. This change is due to capital increases by banks and the retention of a larger share of profits, in order to comply with the enhanced minimum in force.

Chart 61 : Change in regulatory capital and the average solvency ratio



Given these developments, banks' average solvency ratio improved to 13.3 percent, from 12.3 in 2012, and their average core capital ratio increased to 11.1 percent, as against 10.1 percent, a year earlier.

Chart 62 : Change in regulatory capital and the average solvency ratio - On a consolidated basis



On a consolidated basis, banks' prudential and core capital showed respective increases of 7 percent to 133 billion dirhams and 9 percent to 107 billion. Thus, the average solvency ratio stood at 13.5 percent, up 0.6 percentage point and the average core capital ratio was 10.9 percent, from 10.3 percent, a year earlier.

2 - Change in liquidity risk

Liquidity risk, which is inherent in the banking activity, is defined as the risk that a bank can not, under normal conditions, fulfill its commitments at maturity. The management of this risk requires that banks should :

- have sufficient liquid assets to meet any strain on liquidity;
- work to back at best the maturity of their liabilities to that of their assets.

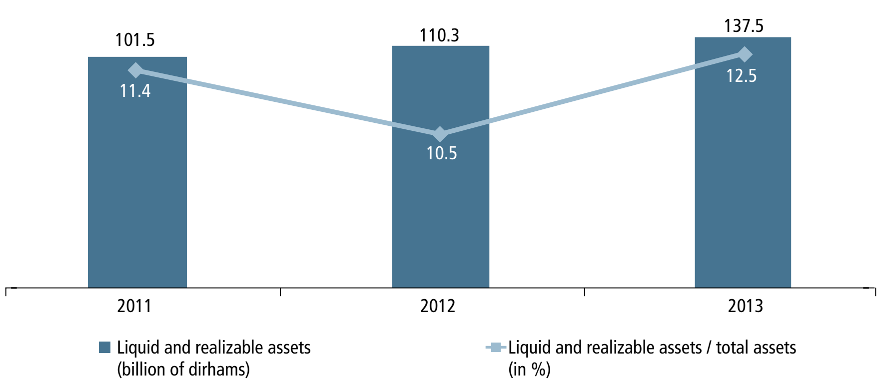
In 2013, pressures on bank liquidity relatively stabilized, due to a reduction in the balance-of-payments current account deficit.

2.1 - Banks' liquid assets

At the end of 2013, banks' liquid assets[11] added up to an outstanding amount of 137.5 billion dirhams, up 24.5 percent, compared to 2012. This rise made it possible to comply with regulatory requirements and enables banks to better cope with potential liquidity shocks.

Nearly 60 percent of liquid assets are Treasury bills. The remainder includes mainly banks' account balances with the Central bank and interbank assets. Their share in banks' total assets increased from 10.5 percent to 12.5 percent, from one year to another.

Chart 63 : Change in the liquid and realizable assets



11 Liquid assets include mainly cash, deposits with Bank Al-Maghrib, interbank transactions, Treasury bills and certificates of deposit.

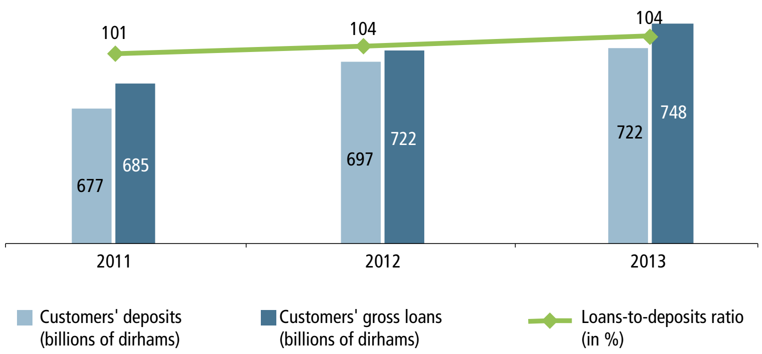
Banks' average liquidity ratio[12], defined as the ratio of liquid assets items and liabilities due for payment within one month, stands at around the regulatory minimum, which is 100 percent, unchanged from the previous year.

Meanwhile, the share of the available collateral held by banks and eligible for Bank Al-Maghrib refinancing improved from 35 percent to 41 percent, year on year. This trend was due to a rise of banks' holdings in Treasury bills and expansion of the collateral eligible with Bank Al-Maghrib to claims on VSMEs.

2.2 - Backing banks' assets to liabilities

Given the slowdown in credit activity, the loans-to-deposits ratio stood at 104 percent.

Chart 64 : Change in deposits, loans and Loans-to-deposits ratio



By maturity, banks' assets are comprised of short-term assets, up to 51 percent, and medium and long-term ones, up to 49 percent. Meanwhile, 54 percent of liabilities are non-maturity liabilities, 27 percent are short-term ones[13] and 19 percent are medium and long-term liabilities.

Thus, banks' medium and long-term assets are partly covered by the historically stable demand deposits, and by short-term liabilities, due to the lack of depth of capital markets, especially on long maturities.

Bonded debts account for 8.2 percent of liabilities, including 47 percent as debt securities issued with a maturity of less than 2 years. These debts stagnated in 2013, after an increase of 6.2 percent due to a lower pace of bond issues in a context of rising rates.

12 This ratio will be replaced by the new Basel III liquidity ratio, which will come into force on July 1, 2015.

13 Short-term liabilities mainly include cash advances from Bank Al-Maghrib, interbank unsecured and collateralized loans with maturities mostly from 1 to 7 days and debt securities issued with a maturity of less than 2 year.

Despite the measures taken to strengthen their liquidity profile and to improve their asset-liability management, banks still face the challenge of mobilizing diverse liabilities, which should be better backed to their assets.

Some banks used securitization to have long-term financing, while reducing their balance sheets. Other banks resorted to the international market to raise medium and long-term funds, or are considering doing so.

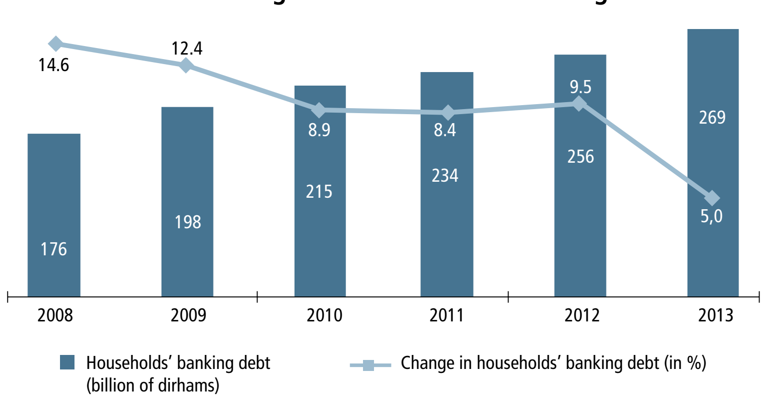
The entry into force of the law on covered bonds should allow banks to have long-term liabilities at lower cost and would offer them new means to refinance their long-term assets.

3 - Change in household banking indebtedness

Over the past 10 years, the volume of household banking indebtedness more than tripled, representing nearly 31 percent of GDP in 2013, as against 17 percent in 2004, thanks to the liberalization of the banking activity and changes in the regulatory framework, combined with the public policies promoting housing. However, this level of indebtedness remains under control in Morocco, compared with that of developed countries.

In 2013, household banking debt continued to grow but at a slower pace. Economic conditions seem to have encouraged households to reduce their consumer and investment spending. At end-December 2013, the outstanding amount of this debt increased, year on year, by 5 percent to 269.2 billion dirhams, as against an average of 13.2 percent over the past decade. It accounted for 34 percent of loans distributed by credit institutions, compared with 33 percent, a year earlier. Therefore, the level of the average household indebtedness was 37,900 dirhams, or more than 2 times the level registered ten years ago.

Chart 65 : Change in the households' banking debt



Households' banking indebtedness is made up of housing loans, up to 63 percent, and consumer loans, up to 37 percent, as against respectively 61 percent and 39 percent. Banks contributed 82 percent of this indebtedness, as against 18 percent for finance companies, unchanged from the previous year.

3.1 - Housing loans

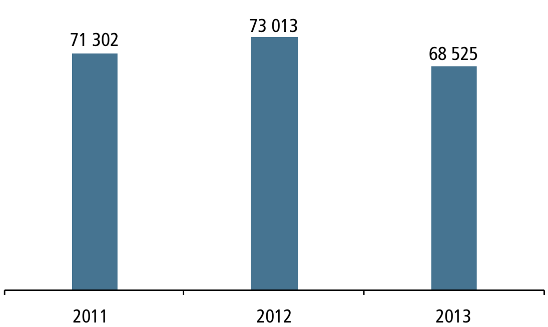
3.1.1 - Change in housing loans' features

Housing loans' production declined by about 11 percent to 24.4 billion dirhams in 2013. This trend was reflected in the trend of the outstanding amounts, which decelerated to 6 percent from 9.7 percent in 2012 and 15.6 percent on average over the past 10 years[14]. This change occurred in an environment combining a moderate increase in the interest rate on these loans and fewer transactions on the housing market. The decline in production is more remarkable on free loans (-12.1 percent).

Meanwhile, the number of housing loans' beneficiaries fell by 6 percent to more than 68,500 customers. This decline stood at 6 percent for free loans and 7 percent for loans supported by the government.

This resulted in an average amount of loans of 356,000 dirhams, down 18,000 dirhams, compared to 2012. The average amount of loans supported by the government rose, year on year, from 200,000 to 210,000 dirhams. The average amount of free loans fell by 30,000 to 413,000 dirhams.

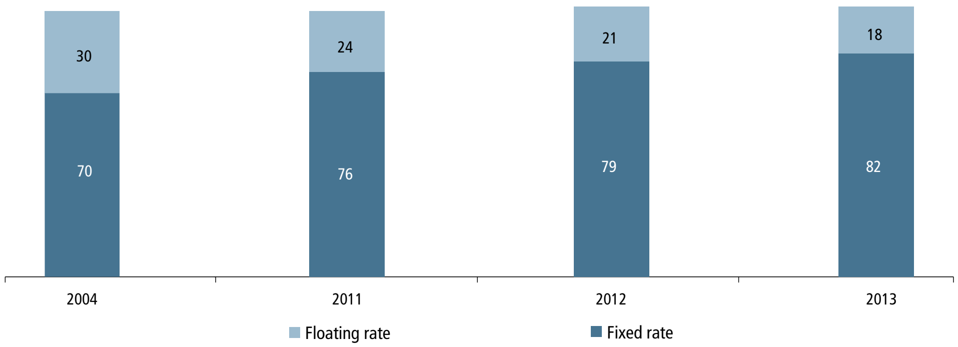
Chart 66 : Change in the number of housing loans' beneficiaries



By type of rate, the share of housing loans granted at fixed rate increased, compared to 2012, by one percentage point to 93 percent in terms of production and by 3 points to 82 percent in terms of outstanding amount. These shares were at respectively 54 percent and 70 percent in 2004. Borrowers prove relatively cautious vis-à-vis the floating rate debt, in an environment of rising rates in markets.

14 In terms of healthy outstanding amount.

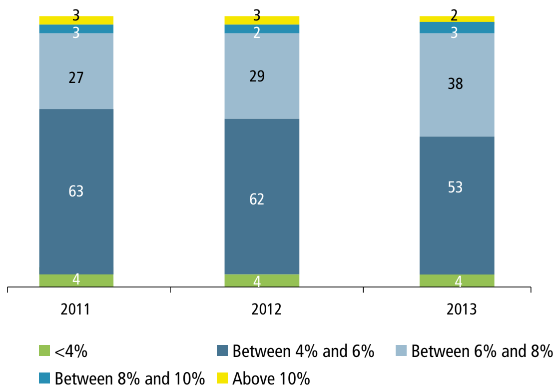
Chart 67 : Change in outstanding amount of housing loans by nature of rate (in %)



The outstanding amount of loans supported by the government, representing a 20 percent share in the total housing loans, rose by around 6.6 percent to 31.3 billion dirhams, including nearly 16 billion under FOGALEF[15] and FOGALOGE[16] (+14.5 percent), 10.3 billion under FOGARIM[17] (+7.1 percent) and 5.1 billion under the low cost housing loans (-13.4 percent) (Habitat Bon Marché).

The interest rate on housing loans recovered to 5.46 percent from 5.28 percent in 2012.
The share of housing loans, whose rate range from 6 percent to 8 percent, increased by 9 points to 38 percent to the detriment of those whose interest rate is between 4 percent and 6 percent.

Chart 68 : Change in the outstanding amount of housing loan based on the applied rate range (in %)



15 Guarantee fund for housing loans to members of the Mohammed VI Foundation for the Promotion of Social Work for Education-Training Staff

16 Guarantee fund for housing loans to public sector staff

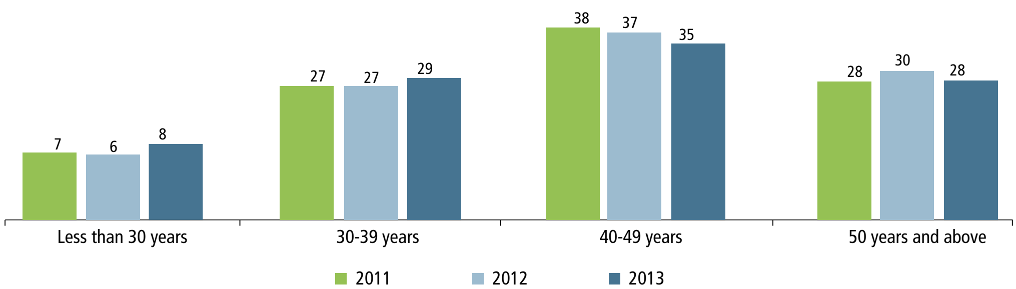
17 Guarantee fund for irregular and small incomes

3.1.2 - Profile and features of housing loans' beneficiaries

The profile of housing loans' beneficiaries is monitored based on the criteria of the age, the income, the socio-professional category and the place of residence.

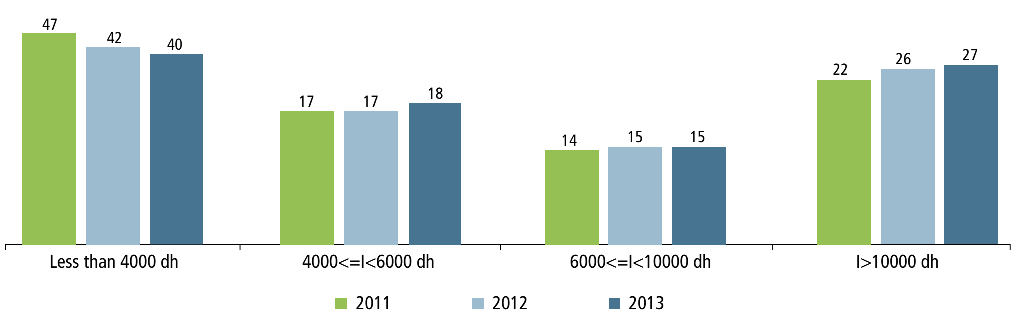
The penetration rate of housing loans, as measured by the ratio of the number of files to the sampled population, amounted to nearly 63 percent of credit files for people aged over 40 years, as against 67 percent in 2012.

Chart 69 : Breakdown of the number of housing loans' files by age (in %)



In terms of income, people with an income less than 4,000 dirhams concentrate 40 percent of loans, as against 47 percent in 2011. However, the share of persons with an income above 10,000 dirhams rose from 22 percent in 2011 to 27 percent in 2013.

Chart 70 : Breakdown of the number of housing loans' files by income (in %)



Public and private sector employees continue to be the categories that use most credit. In 2013, they were holding respective shares of 46 percent and 35 percent.

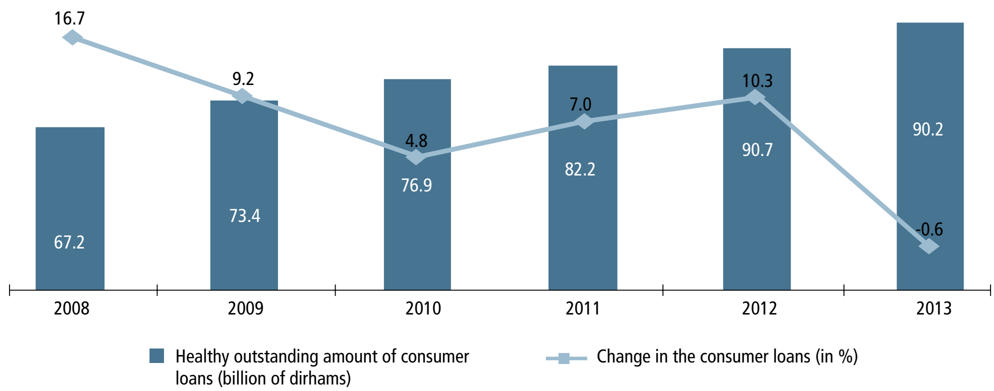
In terms of geographical distribution, the level of concentration of debtors amounted to 27 percent in the Casablanca region and 14 percent in the Rabat one.

3.2 - Consumer loans

3.2.1 - Change in outstanding consumer loans

The healthy outstanding amount of consumer loans, which constitute the second component of the households' banking debt, declined slightly in 2013, to 90.2 billion dirhams, after an increase of 10.3 percent in 2012 and 11.8 percent on average over the past 10 years. The downward trend registered in 2013 seems to be confirmed by lower sales on the car market and sluggish demand for households' appliances. Nearly 53 percent of consumer loans are provided by banks.

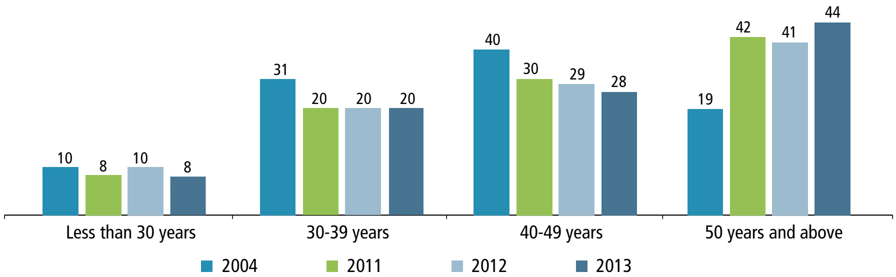
Chart 71 : Change in the healthy amount of consumer loans



3.2.2 - Profile and features of consumer loans' beneficiaries

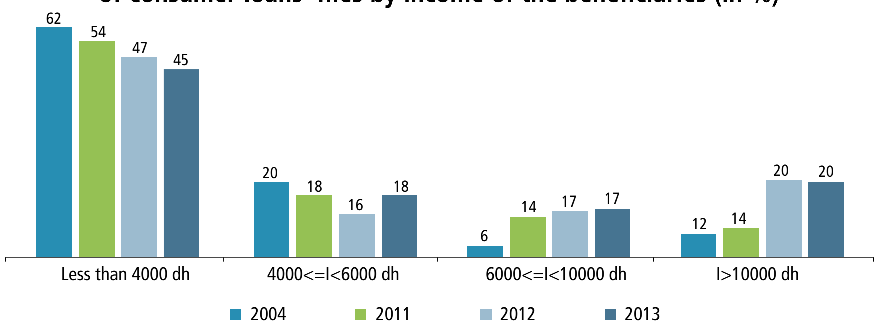
By age, the penetration rate of consumer loans among persons aged over 40 years trended upwards over the past decade, to 72 percent from 59 percent in 2004. This rate remains the lowest among the youngest beneficiaries (aged less than 30 years), or 8 percent.

Chart 72 : Breakdown of the number of consumer loans' files by age of beneficiaries (in %)



Income is, after age, an important variable explaining recourse to consumer loans. Nearly 45 percent of credit files are held by people with an income less than 4,000 dirhams, as against 62 percent in 2004. This downward trend benefited those with higher incomes. The share of those with an income of more than 10,000 dirhams grew stronger by 8 points to 20 percent over the same period.

Chart 73 : Breakdown of the number of consumer loans' files by income of the beneficiaries (in %)



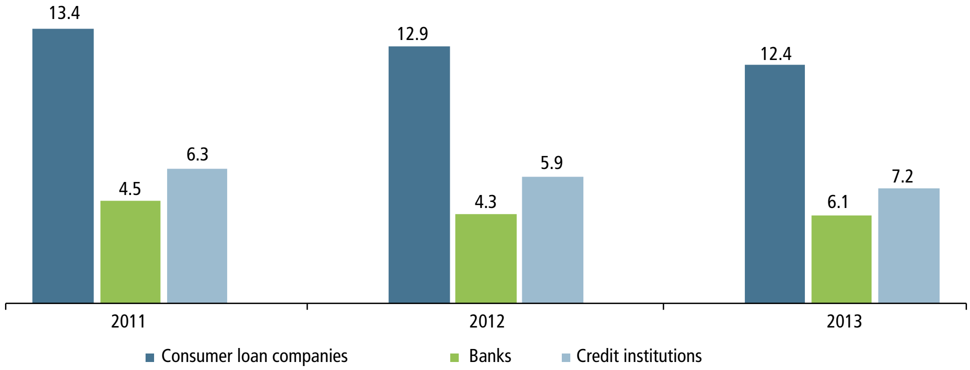
Public and private sector employees held in 2013 respective shares of 43 percent and 35 percent.

By geographical location, it appears that consumer loans' beneficiaries remain concentrated in urban areas of Casablanca (28 percent) and Rabat (17 percent).

3.3 - Quality of risks' exposure to households deteriorated in 2013

The difficult economic conditions led to a deterioration of the quality of risk's exposure to households. Thus, at the end of 2013, the outstanding non-performing loans of banks and consumer loan companies to this category totaled 19.4 billion, representing a risk ratio of 7.2 percent, as against 5.9 percent in the previous year. The provisioning ratio of these loans stood at 67 percent.

Chart 74 : Change in the rate of households' non-performing loans (in %)



Banks' outstanding amount of non-performing loans to households stood at 13.5 billion at the end of 2013, representing a share of 6.1 percent compared to the banking households' debt, as against 4.3 percent at the end of 2012[18]. However, that of consumer loan companies amounted to 5.9 billion dirhams, generating a risk ratio that decreased by 0.5 point to 12.4 percent, due to the withdrawal of a license from one company, whose non-performing loans had reached a significant outstanding amount.

By loan purpose, the risk ratio stood at 6 percent from 4.2 percent in 2012 for housing loans and almost 9 percent from 8.5 percent for consumer loans.

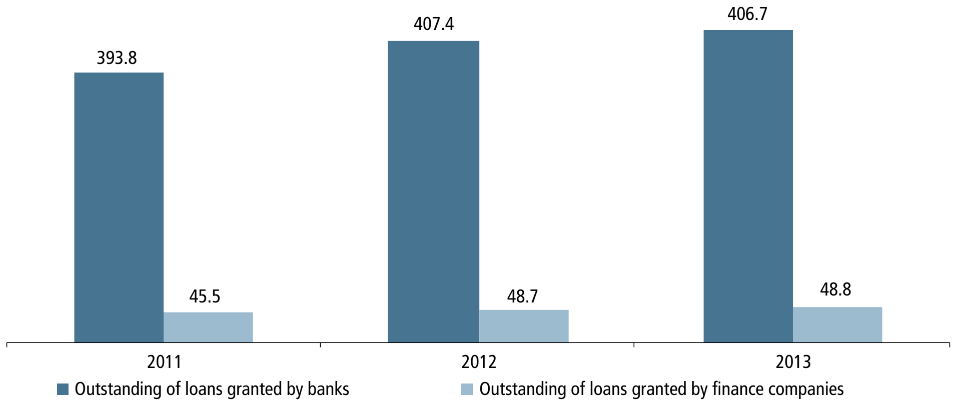
18 This increase is partly amplified by a technical adjustment made by a bank.

4 - Change in non-financial corporations' banking indebtedness

4.1 - Loans to non-financial corporations fell

With an outstanding amount of 455.6 billion dirhams, credits by disbursement granted by banks and finance companies to non-financial corporations declined, from one year to another, by 0.3 percent, after a 3.8 percent increase, a year earlier. They represented 58 percent of total loans distributed by these institutions, down one point from the end of 2012.

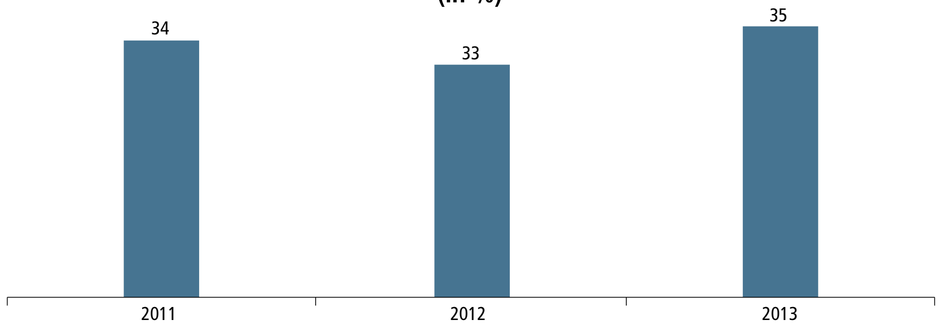
Chart 75 : Outstanding of loans by disbursement granted by credit institutions to non-financial corporations (billion of dirhams)



The outstanding amount of loans granted by banks, which accounted for 89 percent of the total, dropped by 0.2 percent to nearly 407 billion dirhams, after rising 3.5 percent, while that of finance companies remained stable at 48.8 billion dirhams.

According to the survey on lending conditions, conducted by Bank Al-Maghrib among banks in 2013, this trend would be attributable to a decline in demand due to slower non-agricultural activities and increased uncertainties about their prospects, as well as to supply factors related to banks' higher sensitivity to risks.

Chart 76 : Share of loans to VSME's in the total loans to corporations (in %)

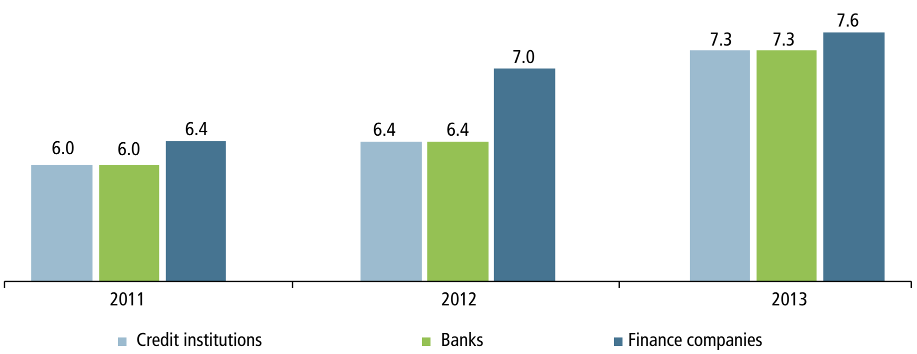


Regarding VSMEs, the reporting of credit institutions, established following the Basel segmentation, shows that the share of loans granted to this segment increased to 35 percent[19] of loans to non-financial corporations.

4.2 - Quality of risks' exposure to non-financial corporations

The slowdown in non-agricultural economic growth led to an increase in credit institutions' non-performing loans to non-financial corporations. At the end of 2013, these loans totaled an outstanding amount of 33.4 billion dirhams, representing a non-performing loan ratio of 7.3 percent, as against 6.4 percent, a year earlier. These loans were covered by provisions, up to 66 percent as against 69 percent in 2012.

Chart 77 : Change in credit institutions' non-performing loans ratio to non-financial corporations (in %)



19 The figures of 2011 and 2012 were revised following the process initiated by some banks to refine corporate segmentation criteria.

The outstanding non-performing loans held by banks on non-financial corporations were at 29.7 billion, representing a risk ratio of 7.3 percent, as against 6.4 percent in 2012. The provisioning ratio of these loans was 65 percent.

The outstanding amount of finance companies' non-performing loans to non-financial corporations reached 3.7 billion. This accounts for 7.6 percent of total loans to this segment, as against 7 percent in 2012. These loans were covered, up to 69 percent, by provisions.

CHAPTER IV

LEGAL AND REGULATORY REFORMS

بنك المغرب

Adapting the legal framework for banking activity continued in 2013, in line with changing international standards. The Bank, in coordination with the Ministry of Finance, completed the new draft Banking Act. Pending its promulgation, it focused on the preparation of regulations implementing the law while giving priority to regulations introducing participatory banking.

Six years after the introduction of Basel II, the Bank implemented in August 2013 the latest Basel III standards for capital and liquidity coverage ratio (LCR).

Following the publication by the Basel Committee of the revised version of the Core Principles for Effective Banking Supervision in September 2012, Bank Al-Maghrib conducted in 2013 a self-assessment of the banking regulatory framework in order to identify gaps to be filled and reforms to be undertaken.

The Bank also actively contributed to the preparation of the draft on covered bonds and that on securities loan. It also set the basic principles governing the database for unpaid standardized bills of exchange

1 - Reform of the Banking Act

The draft Banking Act was approved by the Government Council on January 16, 2014 and is being considered by Parliament. The main features of the reform are given below.

1.1 - Scope of banking supervision

The draft Banking Act extends the jurisdiction of Bank Al-Maghrib to the granting and revocation of licenses to microcredit associations and offshore banks, the development of regulations governing them and the management of their difficulties.

In order to further encourage the development of electronic payments (prepaid cards, mobile banking, online payment, etc.), the draft establishes the status of payment institution for non-bank organizations that would be authorized, upon license, to provide payment services.

It also introduces the status of financial conglomerate for financial groups affiliated to industrial and/or commercial groups, in order to oversee and monitor specific risks that may be incurred by financial institutions because of their membership in these conglomerates.

With the aim of developing the financial center of Casablanca and filling the legal void in the provision of investment services (management of financial instruments, advice and assistance on wealth management and financial management, financial engineering, etc.), the draft defines these services that may be exercised either by the banks or by specialized institutions, which will be supervised by the Moroccan Capital Markets' Authority.

1.2 - Rules on bank governance

The draft stipulates that boards of directors should include independent members. It also contains provisions allowing Bank Al-Maghrib to object to the appointment of a person in the governing, management or supervisory bodies of a credit institution, if it considers that the person's responsibilities in other institutions are likely to impede the normal performance of his duties.

The draft also provides for the establishment of an audit committee responsible for the assessment of internal control arrangements and a risk committee responsible for monitoring the process of risk identification and management. These committees should be composed from among the members of the board of directors or, where appropriate, the supervisory board and have one or more independent directors or members.

1.3 - Macroprudential supervision

Based on lessons learned from the global financial crisis, the draft strengthens the duties entrusted to the Coordinating Commission of Financial Sector Supervisory Bodies, by including the monitoring and management of systemic risks. In the future Banking Act, this committee would become a systemic risk coordinating and monitoring committee and would comprise, in addition to regulators, the Ministry of Finance.

1.4 - Management of credit institutions' difficulties

To align with international best practices and comply with the core principles, the management of the Collective Deposit Insurance Fund would be given to a given to an external managing company that would be under the administration of Bank Al-Maghrib and whose shareholding would be composed, besides the latter, of credit institutions members. The draft assigns to the Fund's managing company new powers for the resolution of banking crisis and reinforces its mission to protect depositors in case of bank failure.

New provisions have been introduced to provide specific treatment of any credit institution considered systemic, particularly in terms of dealing with difficulties.

1.5 - Customer protection

In order to further facilitate the settlement of disputes between credit institutions and their customers and strengthen the latter's protection, the draft requires these institutions to join a banking mediation scheme. It also requires them to put in place internal arrangements for an efficient and transparent processing of customer claims, tailored to their size, structure and nature.

1.6 - Compliance of the Banking Act with other legislation

The draft provides a bridge between the Competition Authority and Bank Al-Maghrib. Indeed, when this authority hears a merger dispute involving directly or indirectly a credit institution, it should seek in advance the reasoned opinion of Bank Al-Maghrib.

Similarly, when Bank Al-Maghrib, during the examination of an application for licensing or an application for merger between two or more credit institutions, believes that the proposed transaction may or is likely to violate the provisions of the Competition Act, it shall stay the proceedings and seeks the reasoned opinion of the Competition Authority.

The draft also includes provisions for the harmonization of the Banking Act with the law on the fight against money laundering and that relating to personal data protection.

1.7 - Participatory banks

The draft Banking Act devotes a separate chapter to the provisions governing participatory banks. These mainly include :

- the definition of participatory banks, investment deposits that these banks may collect and certain products they are authorized to sell and the conditions for the exercise of their activity;
- the compliance bodies, including the Supreme Council of Ulemas and the audit committee to be set up within the participatory bank. It also introduces the obligation for these banks to provide a compliance report;
- the creation of a Sharia-compliant deposit insurance fund for participatory banks to compensate depositors in the event of bank failure.

Bank Al-Maghrib has begun developing implementing regulations, relying in particular on the IFSB and AAOIFI standards.

Box 7 : IFSB and AAOIFI

The Islamic Financial Services Board (IFSB) is an international organization based in Kuala Lumpur and was established in November 2002. Its main mission is to develop prudential standards or adapt them to Islamic finance.

It has 187 members from 43 countries, including 57 regulatory authorities (among whom Bank Al-Maghrib) and 8 international intergovernmental institutions, including the Islamic Development Bank and the World Bank.

The IFSB has published over 14 standards focusing on risk management, capital adequacy, corporate governance, supervision process, governance of Islamic investment funds, governance of Islamic insurance "'Takaful" and Sharia governance system.

The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) is an international non-profit organization established in March 1991 and based in Bahrain. Its mission is to issue accounting, auditing and governance standards for Islamic financial institutions. It has over 200 members representing 45 countries, including 5 founding members.

This institution has published over 86 standards including 25 accounting standards, 5 auditing standards, 6 governance standards, including Sharia supervision, and 30 Sharia standards (rules implementing Sharia).

The implementing regulations on participatory banking will mainly cover :

- the technical characteristics of participatory products and the terms of their sale to customers, including accounting treatment;
- the conditions of exercise, particularly minimum capital;
- standards of governance and risk management, applicable to this class of credit institutions;
- prudential standards, including regulatory capital, capital adequacy, liquidity, risk division and the conditions and limitations of equity holding in existing companies and start-ups.

2 - Implementation of Basel III standards

For the implementation of Basel III, Bank Al-Maghrib has opted for a gradual approach prioritizing two major reforms on capital and liquidity.

In 2013, it enacted a circular which implements the regulatory capital standards issued by the Basel Committee in December 2010 and designed to enhance capital quality and quantity.

During the same year, it issued a new circular on liquidity ratio by which it implements the "Liquidity Coverage Ratio" (LCR) recommended by the above Committee. This ratio aims at enhancing banks' liquidity portfolio and promoting resilience to a potential liquidity shock.

Prior to publication, these circulars were the subject of consultation with the banking sector during the first half of 2013. Plenary meetings were held with the GPBM and the APSF, and others were held bilaterally to discuss issues specific to each bank. At the same time, impact studies were conducted with banks.

Bank Al-Maghrib began discussions on Basel III reforms for the treatment of systemic banks and leverage ratio. It also monitors the progress of work on other prudential and accounting standards.

2.1 - Capital standards

The reform modifies the definition of regulatory capital and eligible instruments. Capital is composed of Tier 1 and Tier 2. The first category includes common equity Tier 1 and additional Tier 1.

Box 8 : Instruments eligible for regulatory capital

1. Tier 1 capital :

1.1 **Common equity** comprises common shares or share premium issued by the institution, reserves, earnings and some equity instruments of mutual groups.

1.2 **Additional Tier 1** consists of perpetual instruments which may callable at the exclusive initiative of the borrower and exercisable under certain conditions.

2. Tier 2 capital :

It includes debt instruments with an original maturity of at least five years, the revaluation surplus, a portion of unrealized gains on investment securities, grants, special guarantee funds, provisions for general risks, positive amounts resulting from the treatment of expected losses and positive hidden reserves of lease or lease with a purchase option.

Credit institutions must have, on an individual and consolidated basis, a common equity capital equal to at least 8 percent of risk-weighted assets, a Tier 1 capital of at least 9 percent and a Tier 1 and Tier 2 capital of at least 12 percent, higher than those set by the Basel Committee.

The instruments that may be included in capital must meet eligibility criteria specific to each category. The changes introduced by the new regulations include the requirement that the purchase of the instrument must not be funded directly or indirectly by the institution.

Eligibility criteria for the instruments are mainly designed to ensure that :

- common equity is perpetual and that the relating payments are flexible and able to absorb losses in all circumstances ;
- additional capital is perpetual without an incentive to redeem and that the relating payments are flexible and able to absorb losses in all circumstances, in principal, through conversion into capital or depreciation from a threshold defined by Bank Al-Maghrib ;
- Tier 2 capital is subordinated with a maturity of at least five years and no provision encouraging their repurchase by the institution.

The new rules come into force on January 1, 2014, with a phased implementation of certain provisions until 2019. A technical notice is being developed to clarify the procedures for implementing the circular, including those relating to transitional provisions.

2.2 - Liquidity Coverage Ratio

The liquidity coverage ratio (LCR) requires banks to have sufficient high-quality liquid assets to weather an acute liquidity crisis over a 30-day period.

Box 9 : Methods for calculating the LCR

The numerator consists of level 1 and level 2 high-quality liquid assets.

Level 1 assets include coins and banknotes, reserves with the central bank, Treasury bonds and some government bonds. These assets are accounted for at their market value and without limitation.

Level 2 assets should be subject to haircuts and ceilings. They include government bonds, corporate debt securities, stocks, covered bonds and shares in undertakings for collective investment in securitization, provided they meet certain requirements of liquidity and credit quality.

Box 9 (continued)

To be included in the numerator of the LCR, the circular has adopted a stricter definition of liquid assets than that existing in the current liquidity ratio. These must meet requirements of credit quality and liquidity but also operational requirements to ensure that they can be readily converted into cash without loss of value even in times of acute stress. In this context, securities issued by other financial institutions, such as certificates of deposit, are not retained. However, some binding treatments of the liquidity ratio have been resized to be aligned with the Basel standards, such as the weights applied to cash outflows from deposits of private persons and very small businesses.

The denominator consists of net cash outflows, which equal excess cash outflows minus expected cash inflows over a 30-day horizon.

Cash outflows correspond to liabilities and off-balance items to which outflow rates are applied varying based on several criteria (type of counterparties, guarantees available, stability criteria, etc.).

Cash inflows include flows contractually owed to the bank within the coming 30 days on exposures that are not outstanding debt.

The reform provides for a minimum LCR of 100 percent. In the event of a liquidity crisis, banks would be required to use their stock of high-quality liquid assets and would be authorized by Bank Al-Maghrib to ignore this minimum threshold during this period. This provision was enacted by the Basel Committee in January 2013, as part of introducing some flexibility to the LCR.

A technical notice to further explain certain provisions of the circular on the LCR was published in early 2014.

The entry into force of this ratio, replacing the liquidity ratio, is scheduled for July 1, 2015, following an observation period of 18 months after which adjustments could be made. To date, the minimum ratio to be observed by banks is 60 percent, gradually increased by 10 percentage points per year to reach 100 percent on July 1, 2019.

2.3 - Other regulatory reforms of Basel III

In the wake of the financial crisis, the Basel Committee published in November 2011 and October 2012, respectively, the framework for dealing with global and domestic systemically important banks.

Box 10 : Framework for dealing with systemically important banks

The Basel Committee has published twelve principles that constitute the framework for dealing with domestic systemically important banks (D-SIBs), seven principles of which focus on the assessment methodology for D-SIBs :

Principle 1 : National authorities should establish a methodology for assessing the degree to which banks are systemically important in a domestic context.

Principle 2 : The assessment methodology for a D-SIB should reflect the potential impact of a D-SIB's failure.

Principle 3 : The reference system for assessing the impact of failure of a D-SIB should be the domestic economy.

Principle 4 : Home authorities should assess banks for their degree of systemic importance at the consolidated group level, while host authorities should assess subsidiaries in their jurisdictions, consolidated to include any of their own downstream subsidiaries, for their degree of systemic importance.

Principle 5 : The impact of a D-SIB's failure on the domestic economy should, in principle, be assessed having regard to bank-specific factors: size, interconnectedness, substitutability, complexity, or any other criteria relevant by national authorities.

Principle 6 : National authorities should undertake regular assessments of the systemic importance of the banks in their jurisdictions.

Principle 7 : National authorities should publicly disclose information that provides an outline of the methodology employed to assess the systemic importance of banks in their domestic economy.

The other five principles focus on D-SIBs additional capacity to absorb losses.

The Basel Committee also issued in January 2014 the provisions relating to the "leverage ratio" that limits banks' leverage and supplements risk-based requirements with a simple, transparent and independent measure designed to serve as a safety net. A report on this ratio to banking supervisors is recommended. The Basel Committee also wishes that it be subject to a publication by banks from January 1, 2015. Adjustments will be made to the ratio before 2017, before it becomes a minimum capital requirement in January 2018.

On the same date, the Committee published a new consultative document on the Net Stable Funding Ratio (NSFR), which requires banks to maintain a stable funding profile in relation to the composition of their assets and off-balance sheet activities. A final version will be published at the end of the consultation period, which ended in April 2014. The Basel Committee expects the implementation of this ratio starting from January 1, 2018.

3 - International accounting reforms

In the aftermath of the financial crisis, the International Accounting Standards Board (IASB) initiated the reform of IAS 39 relating to "financial instruments". This standard is expected to be replaced by a new standard, called IFRS 9.

The reform was conducted in three phases :

- The first, devoted exclusively to the classification and measurement of financial instruments, was published in 2010 ;
- The second, on impairment-a subject on which the IASB has issued several exposure drafts since 2009-, has not yet been adopted ;
- The third, on hedge accounting, was published in November 2013.

In the third text, the IASB aligned hedge accounting with risk management by expanding the scope of instruments eligible for hedge accounting and softening tests run to assess the effectiveness of hedging instruments. These tests are now based on the assessment of the existence of an effective relationship between the hedged item and the hedging instrument.

When it published this third phase, the IASB abandoned the date of implementing IFRS 9—initially scheduled for January 1, 2015, as phase 2 on impairment is not complete.

In Morocco, the provisions of IFRS 9 will be applicable upon their adoption by the IASB according to the application dates it fixes and in accordance with Chapter 4 of the Chart of Accounts for Credit Institutions on consolidated accounts.

4 - Self-assessment of compliance with the Basel Core Principles for Effective Banking Supervision

In September 2012, the Basel Committee published a revised version of the Core Principles for Effective Banking Supervision, taking into account lessons learned from the crisis.

This revised version gives more importance to the quality of governance of the supervisory authority and banking institutions. It also gives greater weight to market discipline and requires banks to tailor their risk management arrangements to their systemic importance. Similarly, it requires regulators to adjust their prudential and supervisory framework to reflect the degree of banks' systemic importance and adopt a macroprudential perspective in banking supervision.

The new standards devote greater attention to the crisis management system as well as to recovery and resolution mechanisms, which should be capable of reducing the impact of bank failure.

Box 11 : The 29 Core Principles for Effective Banking Supervision

As a result of the review of supervision standards, the number of Core Principles has increased from 25 to 29.

Powers, responsibilities and functions of supervisors	Prudential regulations and requirements for banks
Principle 1 : Responsibilities, objectives and powers	**Principle 14 :** Corporate governance
Principle 2 : Independence, accountability, resourcing and legal protection for supervisors	**Principle 15 :** Risk management process
Principle 3 : Cooperation and collaboration	**Principle 16 :** Capital adequacy
Principle 4 : Permissible activities	**Principle 17 :** Credit risk
Principle 5 : Licensing criteria	**Principle 18 :** Problem assets, provisions and reserves
Principle 6 : Transfer of significant ownership	**Principle 19 :** Concentration risk and large exposure limits
Principle 7 : Major acquisitions	**Principle 20 :** Transactions with related parties
Principle 8 : Supervisory approach	**Principle 21 :** Country and transfer risks
Principle 9 : Supervisory techniques and tools	**Principle 22 :** Market risk
Principle 10 : Supervisory reporting	**Principle 23 :** Interest rate risk in the banking book
Principle 11 : Corrective and sanctioning powers of supervisors	**Principle 24 :** Liquidity risk
Principle 12 : Consolidated supervision	**Principle 25 :** Operational risk
Principle 13 : Home-host relationships	**Principle 26 :** Internal control and audit
	Principle 27 : Financial reporting and external audit
	Principle 28 : Disclosure and transparency
	Principle 29 : Abuse of financial services

Compliance with the new principles was established as a strategic goal in Bank Al-Maghrib's three-year plan 2013-2015. In this context, the Bank conducted in 2013 a self-assessment on the basis of these new principles.

This exercise highlighted gaps with the new regulatory requirements. It led to the development of a roadmap for the necessary projects, particularly as regards updating the Circular on internal control and the Directive on credit institutions' governance and developing a circular for dealing with systemically important banks.

5 - The Draft on covered bonds

Bank Al-Maghrib, along with other stakeholders, contributed to the preparation of the draft on covered bonds, now being finalized at the General Secretariat of the Government. This draft aims to lay down the legal framework applicable to these instruments.

Covered bonds are bonds issued by banks and whose holders mainly enjoy the collateral consisting of a pool of mortgage loans or local government debt. Their issue is subject to specific authorization from Bank Al-Maghrib. To be eligible, these claims must meet certain conditions that are checked by the controller of the cover pool.

These instruments provide the issuing banks with several advantages, particularly in terms of asset/liability management. Covered bonds enable them to mobilize long-term resources for financing housing and local authorities. As for investors, they give them greater security than a conventional debt bond.

Bank Al-Maghrib has started developing the implementing regulations of this draft. These texts govern the terms and conditions of issuing secured bonds, including the authorization process, the prudential and technical aspects and the reporting obligations. They also define the tasks and responsibilities of the cover pool controller.

6 - Securities Lending Act

Bank Al-Maghrib also contributed, with other stakeholders, to the preparation of the Securities Lending Act.

Securities lending is a contract that allows a person to transfer the full ownership of securities to a borrower who undertakes to resell them to him at an agreed price. This technique helps to foster market liquidity.

Box 12 : Major innovations of the Securities Lending Act

The major innovations of this Act are summarized below :

- Defining securities lending and subjecting it to the legal regime of consumer loans governed by Articles 856 to 869 of the Code of Obligations and Contracts ;
- Determining bodies authorized to carry out securities lending transactions and delineating eligible securities ;
- Securing these operations by establishing several rules, including the possibility for the lender to receive cash or securities as collateral from the borrower, the requirement that securities lending should be carried out exclusively through a bank or other specifically authorized body, the requirement that these transactions should be subject to a written framework agreement between the parties, according to a standard model, and the suspension of the loan transaction in the event of failure of either party ;
- Introducing specific accounting provisions for securities lending transactions to ensure their tax neutrality.

7 - Provisions on the Central Register of Unpaid Standard Bills of Exchange

As part of implementing Articles 40 and 120 of Law No. 34-03 relating to credit institutions and similar entities promulgated by Royal Decree No. 1-05-178 of Muharram 15, 1427 (February 14, 2006) and in a bid to contribute to the fight against defaults on standard bills of exchange, Bank Al-Maghrib developed in 2013 two circulars in this direction. The first concerns the basic principles governing the activity of the Central Register of Unpaid Standard Bills of Exchange and the information to be transmitted to Bank Al-Maghrib for the management of this Register. The second specifies the terms and conditions of access by customers to information held by the Register, and the possibility for them to make corrections, if any, to information on themselves.

CHAPTER V

BANKING AND MACROPRUDENTIAL MONITORING

بنك المغرب

Amid an environment posing potential risks to the banking sector, Bank Al-Maghrib further strengthened its control and focused on the most salient risks, mainly credit and liquidity risks.

Cross-border supervision and cooperation with foreign counterparts also mobilized significant efforts to support the development of banking groups abroad.

Besides microprudential supervision, the Bank continued the work it started for 2 years for the establishment of macroprudential supervision, in coordination with other financial sector regulators.

To properly carry out the new tasks assigned to it, the Bank adjusted the organization of the Banking Supervision Department early 2013.

1 - Adjusting the organization of the banking supervision function

1.1 - An organization consistent with the strategic directions of the Bank

In early 2013, the Banking Supervision Department adjusted its organization, adopted in 2004. This new organization is part of implementing the guidelines of the Bank's Strategic Plan 2013-2015 and aims to better organize the banking supervision process, given the legal developments underway.

As a result, a division dedicated to participatory finance was set up with the primary mission to develop regulations governing future participatory institutions and ensure compliance therewith by the licensed institutions.

Similarly, the division formerly in charge of accounting and banking studies was replaced by the Macroprudential Supervision Division, whose powers were expanded to include the contribution to the prevention and treatment of systemic risks and the coordination of related arrangements within the Bank and with its partners.

The Regulations and Licensing Division was substituted by the Regulations and Financial Inclusion Division, the functions of which were expanded to issues about financial inclusion, protection of credit institutions' customers and the financing of VSMEs.

1.2 - Human resources

The Banking Supervision Department included 87 staff members to end of December 2013. They continued to benefit from training programs both in Morocco and abroad in order to develop their skills. The main topics focused on macroprudential supervision, the Basel III standards, monitoring and regulation of participatory banks, financial inclusion and education, and consumers' protection.

2 - Banking supervision activities

In response to the rise of certain risks to the banking sector, emanating from the challenging economic conditions, Bank Al-Maghrib further reinforced its oversight of the quality of credit institutions' loan portfolio and strengthened its monitoring of their liquidity position while focusing on consolidating their capital and enhancing their risk management practices. Particular attention was paid to strengthening cross-border supervision.

2.1 - Licenses and approval

In 2013, Bank Al-Maghrib authorized a banking group to take a 55 percent stake of a Togolese bank after a favorable opinion of the Credit Institutions Committee. It also approved the opening of three representative offices of a Moroccan bank in Belgium, the United Arab Emirates and Libya.

The Bank appraised 17 files relating to the approval of the appointment of statutory auditors in 4 banks, 11 finance companies and 2 offshore banks. It also approved the appointment of 22 directors and managers of 14 credit institutions and 2 microcredit associations.

After consulting the Credit Institutions' Disciplinary Commission, the Bank withdrew the license of two troubled institutions.

2.2 - Control activities

Bank Al-Maghrib's supervision of the 84 credit institutions and similar entities is exercised through two complementary forms: offsite and onsite control.

Offsite control is carried out constantly through the examination of accounting and prudential statements and reports that the institutions subjected to the supervision of Bank Al-Maghrib are required to submit periodically to the Banking Supervision Department. It is also based on the findings of onsite checks carried out by the central bank, the reports of statutory auditors and exchanges and meetings with the managers and senior officials of credit institutions based on priorities and inspection results.

This examination allows assessing the financial and prudential situation of supervised institutions and feeding the internal "Credit Institutions' Rating Support System" (SANEC) to determine their risk profile, ensure early warning and prevention, determine corrective actions and guide onsite interventions to risk areas.

Like previous years, the onsite control program for the year 2013 was established taking into account the changing risk profiles of supervised institutions and vulnerabilities identified by offsite control, on one hand, and the control frequency for each class of institutions. Thus, 14 inspections were carried out this year to institutions based in Morocco, including 6 general missions and 8 others of a thematic or cross-cutting nature. The latter concerned the major banks, three finance companies and a similar entity, and focused on the review of credit risk, regulatory reporting, banks' information system and arrangements for processing customer complaints.

Two inspections were conducted at two establishments of Moroccan banks in Senegal and Côte d'Ivoire jointly with the supervision authority of the West African Economic and Monetary Union (WAEMU).

2.2.1 - Credit and liquidity risks were the focus of control activities

The year 2013 was particularly marked by a more narrow focus on the change in credit risk incurred by credit institutions through close monitoring of payment defaults, sensitive claims and non-performing loans. The Bank intensified reviews with banks' executives on the situation of major credit files and those with vulnerabilities, in order to assess downgrades and provisioning made to cover both non-performing loans and sensitive claims.

Loan portfolio quality was also subject to onsite checks among major banks to ensure a more thorough examination of credit files, verify compliance with the downgrading and provisioning rules for non-performing loans, and assess credit risk management policies and the arrangements in place for the identification and monitoring of sensitive claims.

Following these controls, some banks were asked to strengthen their relevant arrangements, classify some claims and raise the level of general provisions.

In terms of liquidity, Bank Al-Maghrib continued to devote great attention to banks' refinancing plans and urged them to strengthen their liquid assets. Like last year, regular meetings were held with some banks to follow up the implementation of actions they had taken to diversify their funding sources, improve ALM and put in place liquidity crisis management plans.

After the introduction last year of regulatory reporting on the stress tests conducted by banks for credit, concentration, liquidity and market risks, a review of these early reports and of their results was made. Discussions were held with banks in order to stabilize the reporting and harmonize its implementation across banks.

After increasing, in June 2013, the minimum capital adequacy ratio to 12 percent and the introduction of a core capital ratio of 9 percent, Bank Al-Maghrib oversaw the compliance of credit institutions with the new prudential requirements. While most institutions show levels above regulatory minimums, some were asked to take the necessary emergency measures to comply.

In terms of the implementation of Basel II advanced approaches, Bank Al-Maghrib approved a bank's internal models for market risk. It again made visits to banks wishing to move to an internal models approach for credit risk, in order to follow the progress of this project, ensure compliance with the minimum legal requirements and, more broadly, see to the quality of information systems.

Box 13 : Prerequisites for banks' migration to advanced approaches

After the implementation of the Basel II standardized approach in 2007, the circular on risk-based capital requirements under the advanced approaches was adopted in 2010. This circular sets out the framework that banks should observe to be allowed to apply these approaches.

Bank Al-Maghrib continued to support banks in the rollout process of these approaches through regular exchanges. It also made available technical notices to facilitate their preparedness for the approval of their internal risk assessment system. This phase led to a major change management effort, particularly in terms of risk management culture and improvement of bank information systems.

The use of advanced approaches by a credit institution is subject to the prior approval of Bank Al-Maghrib, which ensures that the applicant institution meets the minimum qualitative and quantitative requirements defined by the regulations.

Upon receipt of the full approval file, including a formal application for authorization, a rollout plan of advanced approaches and the validation report from internal or external audit, Bank Al-Maghrib can program an onsite approval mission to carry out a thorough review of the arrangements in place.

The above file must be delivered to Bank Al-Maghrib at least six months before the desired date for migration to these approaches.

Regarding interest rate risks, Bank Al-Maghrib sensitized credit institutions regarding the granting of long-term loans at low interest rates, especially in the context of agreements entered into with certain public and private organizations.

2.2.2 - Regular monitoring of internal control, operational risk and anti-money laundering arrangements

Bank Al-Maghrib continued to regularly monitor the development of credit institutions' internal control system and its appropriateness to the nature of activities exercised, particularly when reviewing annual reports of internal control and statutory auditors or during onsite inspections. It prompted banks to persevere in strengthening their internal control arrangements, especially by structuring offsite control, providing with adequate human and material resources and expanding its scope to all activities.

The Bank asked some institutions to ensure more rigorous follow-up of the recommendations of internal and external audits.

Following cases of fraud experienced by certain banks, Bank Al-Maghrib followed up the corrective actions they implemented to early redress the related malfunctions. At the same time, it asked banks to be more vigilant in deploying appropriate tools to ensure strict control of their operations and reduce the likelihood of such incidents.

Furthermore, Bank Al-Maghrib continued to encourage banks to improve their business continuity plans to ensure the continuation of their critical activities in the event of significant disruptions due to operational risks

In the field of anti-money laundering and counter-terrorism financing (AML/CFT), Bank Al-Maghrib monitors compliance to the relevant obligations by institutions subject to its supervision. In this context, it launched in 2013 a detailed questionnaire on the management of this risk that banks should fill out annually. Meetings were held with relevant officials in banks, on the areas of improvement of these arrangements and corrective action plans were required for certain credit institutions.

In particular, the Bank recommended some institutions to accelerate the implementation of behavioral analysis tools, in line with the volume and nature of their operations, and cover their entire geographical network by appropriate arrangements.

Box 14 : Mission of experts from the Financial Action Task Force (FATF) to Morocco

Following the visit by the FATF experts in 2013, Morocco has been removed from the negative list of FATF because of the significant progress it made in improving its AML/CFT regime both in terms of legislation and regulations as well as in the implementation by the subjected institutions of arrangements for customer knowledge and assessment of money-laundering risks.

The Bank continued to monitor the actions made by microcredit associations to upgrade their governance, risk management and information system arrangements. Discussions were held with the Ministry of Finance about troubled institutions.

As regards money-transfer intermediaries, Bank Al-Maghrib took steps to curb the uncontrolled development of some of them. It also asked all institutions operating in the sector to improve their security, in accordance with measures adopted by the Ministry of Interior following the robberies of some outlets.

2.2.3 - A focus was placed this year on strengthening cross-border surveillance

Given the expansion of Moroccan banks' establishments abroad, Bank Al-Maghrib increased the oversight of cross-border groups as part of its supervision on a consolidated basis. To do so, it relied on good practices and the relevant recommendations of the Basel Committee.

To this end, the Bank introduced a detailed report on the activity of each foreign subsidiary, its financial and prudential situation, including monitoring reports of the statutory auditors, the parent company and the supervisory authority of the host country. After review and control, dashboards of financial and prudential indicators are set up for all establishments abroad. A watch on the main macroeconomic, macro-financial and banking indicators of the host countries is being put in place.

Meanwhile, Bank Al-Maghrib continued to monitor banks' strategies for international expansion. Under its impetus, a code of conduct and cooperation on establishments in Africa was signed by cross-border banking groups, in order to exchange and cooperate in the host countries and avoid any potential prejudicial competitive practice.

Cooperation with the supervisory authorities of the host countries was enhanced with the introduction of quarterly discussions with certain foreign counterparts on the situation of banking groups and subsidiaries as well as on the status of implementation of recommendations made by the supervisory authorities. Bank Al-Maghrib also participated, for the first time, in two onsite controls jointly with the supervisory authority of the West African Economic and Monetary Union in subsidiaries of Moroccan banks in this area. These inspections focused on the quality of the credit portfolio, governance, accounting consolidation process and AML arrangements.

At the end of these controls, Bank Al-Maghrib called the banks concerned to strengthen their systems for the integration and monitoring of overseas subsidiaries in terms of risk management and internal control.

Bank Al-Maghrib intends to supplement these arrangements by the gradual establishment of supervisory colleges for each cross-border Moroccan banking group, in accordance with international standards.

Furthermore, Bank Al-Maghrib continued to participate in the annual meetings of supervisory colleges of two French banking groups established in Morocco, organized by the Prudential Supervision and Resolution Authority.

Box 15 : Supervisory colleges of cross-border banking groups

College objectives and role : According to the standards of the Basel Committee, supervisory colleges provide a framework for information exchange and coordination between host supervisors and home supervisors on the risk profile of entities established under their jurisdiction and the supervisory actions to be taken, if any. It does not have legal powers and does not take supervisory decisions, but seeks effective implementation of Basel principles.

In addition to micro-prudential aspects, the college contributes to financial stability in the jurisdiction concerned through a better understanding of the interconnections between entities and their impact on local markets and a better control of the banking group's vulnerabilities. It facilitates planning of crisis management for the banking group in question.

College composition : The college is composed, in addition to the home supervisor, of the host supervisor who has the responsibility of establishments exposed to significant risk, either at group level or at the level of the host jurisdiction. It is based on cooperation agreements between the consolidating supervisor and the host authorities on banking supervision and information exchange, in accordance with the rules of confidentiality.

Box 15 (continued)

Schedule and agenda : In addition to remote exchanges between supervisors, the supervisory authority of the home country organizes an annual meeting to examine the financial and prudential position of the banking group and its subsidiaries and the supervisory actions conducted and/or planned by the home and host authorities. Representatives of the banking group may participate in order to contribute to the themes listed on the agenda.

Communication channels and information sharing : College members share relevant and timely information, through multiform contacts (physical meetings, conference calls, official letters and e-mails), about the risks incurred by each establishment of the group and the related management arrangements. Prior to holding the college, home and host supervisors define and communicate key financial metrics of the establishments under their supervision as well as the assessment of their risk profile, together with a rating.

Permanent college work : Exchanges between supervisors can help refine risk assessment and management on individual and consolidated basis, or lead to planning joint actions such as onsite inspections.

2.3 - Sanctions imposed on credit institutions and similar entities

Failure by credit institutions and similar entities to comply with the regulations is liable to financial penalties and/or disciplinary action.

In 2013, administrative sanctions were sent to four institutions in the form of injunctions and warnings for non-compliance with prudential rules and late implementation of corrective action plans.

Financial penalties were imposed on three other institutions for non-compliance with deadlines for the transmission of regulatory reporting and late financial disclosure.

Bank Al-Maghrib in 2013 withdrew license from two troubled institutions, a finance company and a money transfer intermediary, that no longer met minimum capital requirements.

3 - Macroprudential surveillance

In continuation of the actions undertaken in previous years to establish an enhanced framework for macroprudential surveillance, Bank Al-Maghrib worked in 2013 for strengthening the institutional and operational regime in order to identify and regulate systemic risk together with other financial sector regulators.

3.1 - Governance framework of the macroprudential regime

Under the new draft Banking Act, Bank Al-Maghrib contributes, along with other financial sector regulators, to maintaining financial stability and establishing a framework for systemic risk surveillance.

Although the legal reform has not yet been adopted, the Coordinating Commission of Financial Sector Supervisory Bodies, which will become the Systemic Risk Monitoring Committee, dealt with issues related to stability financial, for the second consecutive year.

In this framework, Bank Al-Maghrib's Financial Stability Committee held in 2013 two semi-annual meetings, in accordance with its rules of procedure. The aim was to assess risks to financial stability and examine mitigating measures.

This year, the Committee also discussed issues related to the terms and conditions of dealing with troubled banks, following the standards set by the Financial Stability Board and the preparatory work for the development of an annual report on financial stability.

3.2 - Macroprudential analytical framework

At the analytical level, the Bank continued in 2013 to refine its assessment of systemic risks. In collaboration with the Ministry of Finance's Insurance and Social Security Directorate, the systemic risk map was extended to cover risk indicators specific to the insurance sector. Similar work was undertaken by this directorate to define an analytical framework of risks specific to social security bodies.

3.2.1 - Overall risk mapping

Like the risk mapping developed by several central banks, financial regulators and the International Monetary Fund, early warning indicators were selected and grouped by pillar to identify and assess the development of actual or latent risks affecting or likely to affect the Moroccan financial system. These macroprudential indicators are designed to assess vulnerabilities in institutions and financial markets and gauge risks that could emanate from real economy actors, particularly households, businesses and real estate sector.

These indicators are assessed in light of developments in their historical values over a long period as against the benchmark of data posted by other developed and emerging countries. The expected trend in some precursor indicators is also examined to give a forward-looking dimension to the analysis. It gives rise to a rating on a 1-to-5 scale, increasing with the level of risk.

In the same vein, the Bank set up a system to annually assess and monitor the level of household debt, based on the analysis of a sample of credit beneficiaries. This system rests on a combined sample of about 750,000 credit agreements over the period 2008-2013; i.e. an observed average population of about 125,000 contracts per year. The sample covered an annual production of consumer loans averaging about 5 billion, or 20 percent of consumer loans granted by banks and finance companies. This system is expected to become a regular tool of macroprudential supervision with annual update of its database.

Meanwhile, the Bank developed a framework for assessing the financial soundness of businesses and particularly their debt ratios based on a representative population of firms. In this context, it constructed reliable balance sheet data of a sample of more than 1,200 small, medium and large enterprises operating in the different sectors, especially from the central balance sheet of the Moroccan Industrial and Commercial Property Office. It was able to build a complete five-year historical series of these businesses' financial statements. This database will be updated annually by the most recent data.

3.2.2 - Stress testing framework

In addition to risk mapping, the stress testing framework implemented by Bank Al-Maghrib helps to assess the resilience of banks to risks identified and evaluate the adequacy of capital buffers, provisions and liquidity hoarding they need to hold to absorb losses. The results of various stress tests are used to implement a number of actions to reduce shock impact in case of materialization.

The stress testing framework rests on three approaches :

- Sensitivity stress tests of banks' balance sheets are conducted on an individual basis and across the sector. The scenarios tested are designed to measure the impact of a credit, liquidity, interest rate or foreign exchange shock on banks' balance sheet, capital adequacy or liquidity position. The choice of these scenarios and their calibration are made according to expert judgment, taking into account the analysis of historical data of past shock events, the results of systemic risk assessment emanating from risk mapping and scores as well as the expected trend in these risks.
- Interbank contagion stress tests assess the risk of contagion from a failing bank to other banks through their bilateral commitments on unsecured and secured interbank markets.
- Macro stress tests are designed to help predict the change in some banking aggregates in relation to macroeconomic, monetary and financial developments and assess the ability of banks to absorb macroeconomic shocks.

3.3 - Crisis management arrangements

Following the first financial crisis simulation exercise conducted by the Moroccan authorities in 2009, which helped to highlight the aspects of the Moroccan crisis management arrangements that worked well and those which needed improvement, actions were taken to enhance coordination in this field between financial supervisors and to expand the resolution tools available to Bank Al-Maghrib.

3.3.1 - Coordination between authorities

In June 2012, the system of coordination between authorities responsible for crisis management was strengthened by the signing of an agreement between the Ministry of Finance, Bank Al-Maghrib and the Transferable Securities Board (CDVM). This agreement establishes a crisis committee, chaired by the Minister of Finance and tasked with coordinating the management of a possible systemically important financial crisis.

Similarly, a framework for exchange of information between financial authorities was established in 2013. It defines the information to be exchanged between financial sector supervisors both under normal conditions and in the event of a crisis.

Box 16 : Framework for exchange of information between financial system regulators

Monitoring risks to financial stability in normal times and the optimal management of financial crisis rest on an appropriate sharing of information by the financial authorities' members of the Coordinating Commission and the Crisis Committee.

The information exchange framework adopted by the financial system regulators aims to provide a financial sector database for financial stability analysis and to respond to the information exchange needs in times of crisis.

Under normal conditions, the financial sector regulators exchange all information and data relevant to the performance of their respective missions and the analysis of systemic risks.

Data to be exchanged concern financial institutions, markets and infrastructure and relate to structural data, exposure to risks, available mattresses to deal with possible shocks, and linkages between the various components of the financial sector.

Data to be exchanged also include the organization and activity of the authorities' members of the Coordinating Commission of Financial Sector Supervisory Bodies.

In the event of a crisis, shared information focus on the stakeholders, markets or infrastructure potentially affected by the crisis as well as exposures to the crisis-hit components of the financial system. This information is exchanged at a frequency adapted to the conditions prevailing during the crisis.

3.3.2 - A framework for handling difficulties facing credit institutions

The Banking Act mandates Bank Al-Maghrib to handle difficulties facing credit institutions, first through the corrective measures paving the way, in case of failure, for disciplinary measures and placement under temporary administration or even the withdrawal of license and liquidation of the institution concerned.

The new draft Banking Act, whose adoption is in its final stage, introduces new provisions in this area in order to :

- grant to the central bank the powers to implement a process of emergency resolution relevant to systemically important credit institutions;
- expand the range of legal mechanisms available for the resolution of credit institutions;
- require systemically important banking groups to establish a recovery plan;
- allow the central bank to coordinate with resolution authorities abroad to resolve cross-border crisis.

3.3.3 - Deposit insurance system

The deposit insurance system is one of the key factors contributing to financial stability. It is part of the financial safety arrangements, designed to protect depositors. Under the draft Banking Act, this system converges towards the best practices.

In 2013, the resources of the Collective Deposit Insurance Fund increased by 12.9 percent to 14.7 billion dirhams, almost unchanged from the previous year. The bulk of these resources (81 percent) come from contributions of member institutions, while the rest is composed of investment income.

The Fund's investments are still predominated by Treasury bonds, with a share of 99 percent. Nearly 67 percent are invested over the medium and long term.

The Fund posted in 2013 a net profit of 398 million dirhams, up from 332 in 2012.

4 - Consultation with professional associations

In 2013, the central bank held several meetings with the sector's professional associations, in order to examine the implementation of the roadmaps adopted as part of its dialogue and exchange-based approach to reforms and issues involving directly or indirectly the banking sector.

Several issues were addressed with the Moroccan Bankers Association (GPBM). They focused particularly on questions related to the implementation of the Consumer Protection Act and the Personal Data Protection Act, corporate funding conditions (the project of establishing an observatory for VSMEs, the new instrument for refinancing loans to VSMEs and VSMEs support fund). They also covered the proposed prudential reforms (risk division ratio, minimum capital ratios, Basel III, due diligence, etc.), financial inclusion (financial education strategy, financial inclusion indicators and banking mediation), and payment systems, mainly matters relating to the opening of the card payments acquisition market to new actors.

The Bank also discussed with the GPBM the measures to be taken to improve the business environment, particularly the project of reforming transferable securities in Morocco and the launch of a call for tenders for the selection of a second credit bureau.

Discussions with the Professional Association of Finance Companies (APSF) focused on the restructuring of the consumer loan sector and competitive practices, the application of prudential regulation on the sector, taxation applicable to leasing companies, and customer protection.

The Bank also held a meeting with the National Federation of Microcredit Associations (FNAM) in 2013, focusing on the implementation of the National Microfinance Strategy, the organization of the solidarity-based microfinance network, the participation of microcredit associations to the credit bureau, and customers' protection.

5 - International cooperation

In 2013, the Bank strengthened its cooperation with other central banks and international and regional institutions, and took part in various activities and events organized by these bodies.

In this context, Bank Al-Maghrib signed a cooperation agreement with the Central Bank of West African States (BCEAO) on the exchange of expertise in their fields of competence, mainly on banking supervision, financial stability and financing of the economy.

As part of this agreement, a delegation from the Bank made a working visit to the BCEAO. Talks between the two sides tackled mainly macroprudential supervision and financing of the economy, including support to SMEs and housing loans, as well as financial education and banking competition.

In addition, the Bank took part in the 20th Conference of Central Bank Governors of Francophone Countries, organized by the Banque de France on "Crisis exits, prudential challenges and risks for central banks".

It also participated in the Child and Youth Finance International Summit, in which representatives of the Bank presented the national financial education strategy in Morocco via the foundation set up for this purpose.

Regarding exchange of experiences, the Bank received a delegation of the Central Bank of the Netherlands composed of about twenty people. The visit was part of a program aiming to help the executives of this bank to discover the modes of governance and good practices of peer institutions. The delegation discussed with Bank Al-Maghrib's officials the stakes and opportunities in the Moroccan financial sector as well as the challenges facing the Bank in terms of financial stability.

Other study visits were made to the Banking Supervision Department by delegations from sub-Saharan African supervisory authorities and the Palestinian Monetary Authority. They covered several topics, especially control practices, accounting and banking regulations, macroprudential supervision and control of the microcredit sector.

Finally, an executive from Bank Al-Maghrib took part in a World Bank technical assistance mission to the Central Bank of Tunisia for the establishment of a deposit insurance system. Another official was invited by the Central Bank of Burundi to present the Moroccan experience in financial education.

CHAPTER VI

PROMOTING FINANCIAL INCLUSION AND PROTECTING CREDIT INSTITUTIONS' CUSTOMERS

بنك المغرب

The promotion of financial inclusion, which is an important component of the integrated development strategy for the national financial sector by 2020, has been in recent years a major concern to Bank Al-Maghrib.

In 2013, the Bank continued to promote financial inclusion, which was set as priority in its 2013-2015 strategic plan. In this context, it took a set of measures and urged banks to develop strategies to increase the number of low-income population using banking services, particularly through reinforcing their branches network at the national level and developing products and services tailored to each type of customer. Thus, thanks to the various actions and the adherence of banks, public access to financial services improved, as the rate of access to banking services reached over 60 percent at end- 2013.

In order to ensure that financial inclusion is developed on sound and balanced basis, the Bank sought to strengthen the mechanisms for protecting credit institutions' customers, in light of the legal reforms adopted by Morocco to be in line with the best standards in this area. In this regard, Bank Al-Maghrib initiated an in-depth reflection, together with the banking system, concerning the banking mediation mechanism in order to strengthen its means and broaden its mandate, which led to the creation of a banking mediation center, operational since early 2014.

It also took the initiative to coordinate with stakeholders financial education actions under a long-term strategy conducted by the National Financial Education Foundation, set up in March 2013, and a three-year action plan set by the Bank Board. The second edition of the child financial education days, held in March 2013, was a resounding success with nearly 60,000 students benefiting from this program.

Moreover, the Bank continued to work to improve VSMEs' access to bank financing.

1 - Developing access to financial services

Under the leadership of the central bank, banks continued in 2013 to expand their branch networks and to implement their Low Income Banking Strategies (LIB) aiming primarily to increase the number of low-income population using banking services, by developing products tailored to the needs of these customers and using innovative technological solutions (pre-paid payment cards, mobile banking, tailored packages, etc.).

In this context, they developed partnerships on the distribution of banking services with intermediaries in banking operations, mainly microcredit associations, telecommunication companies and funds transfer companies. Thus, they launched the mobile banking service, which particularly enables customers of these intermediaries to deposit and withdraw cash, transfer money and funds, and pay bills. This mechanism should contribute to improving banking penetration indicators, given its uncomplicated use and due to the high rate of mobile devices owned by the Moroccan population.

By providing services to unbanked and economically disadvantaged population, the microcredit sector is also a key contributor to financial inclusion. This sector showed a strong growth until 2008, when frailties caused its growth to slow down. Nowadays, thanks to the corrective measures, the sector has entered a new phase of change, given the legal reforms underway, the rehabilitation process it has been subject to and the new national strategy, which sets the broad outlines for its development.

Financial inclusion was also developed thanks to the actions undertaken by the Bank and the government in order to particularly modernize and secure payment systems and supervisory measures taken to improve the regulatory framework aiming to create a more balanced and transparent relationship between banks and their customers.

Box 17 : Measures taken in recent years to promote the development of financial inclusion on sound and transparent basis

1 - Removing barriers to access to banking services :

- Free access to basic banking services: a directive by Bank Al-Maghrib dated May 5, 2010 listing 16 free banking services to be provided by banks to customers (opening of accounts, checkbook issuance, savings book issuance, salary domiciliation, application for a bank identity statement certificate, cash payment excluding fiscal stamp payment, etc.).
- Opening of demand deposit accounts, without payment of money in advance.
- The Banking Law stipulates that any closure of a branch by a credit institution must be notified to customers through any suitable means, at least two months before the real date of closure. Customers wishing to close their accounts or transfer their funds may do so without charge.

2 - Transparency and customer information :

- Display of banking conditions: conditions applied by credit institutions must be brought to the attention of the public. This information must be provided at least on paper and on posters in the premises of credit institutions.
- Agreements for opening deposit accounts with clauses protecting customer rights.
- Transparent bank statements, with clear labels.

Box 17 : (continued)

3 - Facilitation of dispute resolution between institutions and their customers :

- Right of customers to report to Bank Al-Maghrib any dispute with credit institutions.
- Setting up in December 2009 a banking mediation mechanism. The latter has been recently overhauled, in consultation with the banking industry, which resulted in the creation of an independent mediation center of credit institutions, whose resources have been reinforced and mandate broadened.

4 - Establishment of the Credit Bureau : set up in 2009 under the initiative of Bank Al-Maghrib, the credit bureau's mission is to centralize positive and negative information on loans given to private and legal persons.

As a follow-up to the measures taken in recent years to improve the transparency of banking practices, Bank Al-Maghrib developed a Banking Services Price Index (BSPI) in consultation with the Moroccan Bankers Association (GPBM).

Box 18 : Banking Services Price Index (BSPI)

The BSPI, which was detailed in Bank Al-Maghrib Directive No. 2/G/2012, is an index that monitors the relative change in prices for key banking services used by individual customers of deposit banks, from one year to another.

The composition of the reference banking services basket for calculating the index was determined as follows :

- The basic package for each bank ;
- Account maintenance fees ;
- Withdrawal by counter-check with the home agency ;
- check cashing ;
- transfer to a sister bank ;
- Direct debit ;
- Placing-at-disposal issued ;
- Check certification ;
- Cancelation of a lost or stolen check ;
- Electron bank card ;
- Cancelation of bank card ;
- Bank internet subscription fees ;
- Custody right ;
- Commissions on stock market orders.

Box 18 : (continued)

The calculation of the BSPI is based on the following assumptions :

- The composition of the banking services basket remains unchanged, while the weight of such services is reviewed annually ;
- Application of the Laspeyres price methodology ;
- Annual frequency with 2011 as the reference year.

At the end of 2013, the index value stood at 105, representing an overall price increase of nearly 5 points compared to the base year 2011. The BSPI calculated for the year 2012 was relatively stable compared to 2011 (+0.6 point).

On the other hand, to better measure public access to financial services, beyond the mere holding of a bank account, and to assess their degree of use, Bank Al-Maghrib developed new indicators based on the best standards. These indicators also aim to easily assess the adopted financial inclusion strategies and policies.

The first reports submitted by banks in relation to these indicators were received and their evaluation should make it possible to better target the future actions.

Box 19 : Financial inclusion indicators

Financial inclusion indicators are divided into two categories: some indicators assess adult access to financial services, while others provide information on the level of use of such services.

They are determined on the basis of new statements that banks must communicate to Bank Al-Maghrib every six months, giving detailed information on depositors, debtor clients, bank branches and intermediaries in operations carried out by credit institutions:

- Breakdown of deposit accounts by bank branch and by category of corporation (VSE, SME, large-sized enterprises and individual entrepreneurs);
- Breakdown of personal deposit accounts by bank branch (check accounts, savings accounts, time accounts, other accounts);
- Breakdown of loans by bank branch, by number and amount, based on the category of customers (VSE, SME, large-sized enterprises, individual entrepreneurs and individuals);
- Breakdown of customers (individuals, individual entrepreneurs, VSE, SME) by bank branch and gender (male, female);
- Breakdown of accounts associated with prepaid cards by bank branch;
- Breakdown by location of intermediaries in operations conducted by credit institutions;
- Breakdown by location of ATMs.

Box 19 (continued)

Based on the first data received, the following results can be highlighted :

Financial inclusion indicators		
Access	Number of access points for 10,000 adults nationwide	6.5
	Percentage of administrative units with at least one access point	60.9
Use	Percentage of adults with at least one deposit account	72.6
	Number of deposit accounts for 10,000 adults	7,256
	Percentage of adults with at least one loan	45.3
	Number of loan accounts for 10,000 adults	4,525

Meanwhile, with a view to complementing the data collected through the aforementioned indicators with demand-related information, a survey on how households perceive financial services was conducted in partnership with the World Bank, in order to assess the Moroccan population's financial capacity. The study, whose results are expected by the end of the first half of 2014, seeks to better understand the behavior of households, their motivations and knowledge of financial matters, in order to make stakeholders' interventions more effective.

2 - Promoting financial education

Financial education plays a major role in raising awareness of citizens about the importance of financial services and improving their living standards. It allows them to better understand these services and help them improve the management of their income, save and invest efficiently.

In this regard, the Bank has taken the initiative to coordinate, with stakeholders, financial education actions, as part of a long-term strategy laid out by the National Financial Education Foundation, established in early 2013.

The Foundation's primary mission is to implement this national strategy. It plans to promote the principles and good practices of financial education and raise public awareness about a good knowledge of financial services and ways to avoid related risks.

Its membership is composed of Bank Al-Maghrib, the Ministry of Economy and Finance, Ministry of National Education, Ministry of Higher Education, Ministry of Habous and Islamic Affairs, Capital Market Authority, Insurance and Social Security Control Authority, Casablanca Stock Exchange Managing Company, General Confederation of Enterprises of Morocco (CGEM), Moroccan Bankers Association (GPBM), Moroccan Federation of Insurance and Reinsurance Companies, Professional Association of Finance Companies and National Federation of Microcredit Associations.

Considering a first needs assessment and a mapping of existing individual initiatives on financial education as well as the best practices observed, the national financial education strategy, defined by the Foundation, rests on three focus areas :

- Establishing outreach and financial education programs tailored to different segments of population in order to promote their financial inclusion;
- Developing the population's skills to enable them to take decisions and handle financial risks;
- Promoting cooperation on financial education.

In terms of cooperation, in consultation with educational and socio-economic development stakeholders, the Foundation has established several action plans[20] within a framework of cooperation and synergy. Under this cooperative arrangement, the parties undertake to put their human, material, scientific and technical resources at the service of financial education actions. In this context, financial education days for children and young people aged 8 to 17 are organized as occasional activities, in order to initiate them to the principles of finance.

Box 20 : Child Financial education days

The finance week for children and youth, initiated in 2012, is one of the first milestones of the financial education strategy. In 2012, nearly 30,000 children aged 11 to 18 years were targeted. This number doubled in 2013 to around **60,000 students** throughout Morocco and the 2014 edition aims to cover an even wider population.

The program of these one-week events includes visits to bank branches and headquarters of Bank Al-Maghrib for students as well as trainings led by bankers in high schools. Visits were also paid to the Casablanca Stock Exchange, insurance companies, Bank Al-Maghrib Museum and Dar As-Sikkah.

The Foundation also builds partnerships with international bodies concerned with financial education issues. Two partnerships are being concluded: one with the Child and Youth Finance International (CYFI), a nongovernmental organization based in Amsterdam and working for children and youth financial education, and another one with OECD International Network on Financial Education (INFE). These partnerships will make it possible to include its action, as of now, within a framework of best practices regarding financial education.

20 Actions performed with the following organizations:
- Ministry of National Education and Vocational Training;
- Ministry of Higher Education, Scientific Research and Executive Training and with universities ;
- Ministry of Crafts, Social and Solidarity Economy ;
- Social Development Agency ;
- Mohammed VI Microfinance Solidarity Support Center.

3 - Protecting credit institutions' customers

As a follow-up to the actions taken in recent years to protect customers, the Bank has undertaken several measures aiming particularly to strengthen complaint monitoring, reform the banking mediation mechanism and reviewing the provisions governing the maximum conventional interest rate.

3.1 - Handling customer complaints

At the end of 2013, the number of various complaints and inquiries handled by the Banking Supervision Department continued its upward trend observed in previous years, with a total of 700 as against 675 in 2012. Of this total, the number of complaints stood at 425 from 457, a year earlier.

Complaints about the operation of accounts still predominate with a share of 47 percent of complaints received, including almost 37 percent regarding their closing of accounts. In this regard, it should be noted that it is mainly about claims made by customers prior to 2010, as BAM has since then urged banks in systematizing the processing of these claims.

Complaints about credit conditions represented 25 percent of files processed by the Bank, including nearly 5 percent from customers experiencing financial difficulties.

Chart 78 : Change in the number of complaints

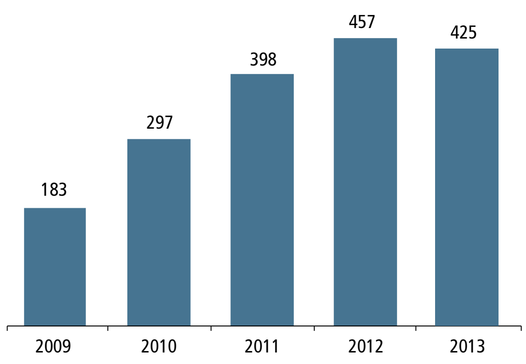
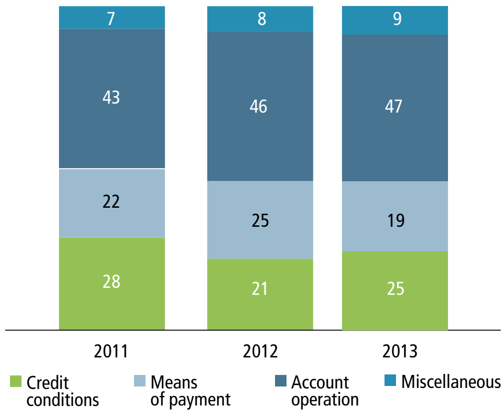


Chart 79 : Breakdown of complaints by purpose (in %)



In terms of profiling, nearly 96 percent of complaints come from individuals, of which more than half comes from customers residing in the Casablanca-Rabat-Kenitra axis and 4 percent were submitted by Moroccans living abroad.

The Banking Supervision Department also processed 168 requests from the public prosecutor, including 20 relating to assets-freeze measures.

To further enhance customers' protection, on-site inspections were carried out in banks to ensure that they effectively implement the recommendations made by Bank Al-Maghrib in the previous year regarding complaint handling and the process of closing customers' accounts.

3.2 - Establishing a banking mediation center

As part of the measures taken by Bank Al-Maghrib, in consultation with the banking sector to improve relations between credit institutions and their customers, and in light of the continued increase in complaints processed by both credit institutions and Bank Al-Maghrib, a mechanism was set up in 2009 for the amicable resolution of disputes arising between credit institutions and their clients.

Given the limited achievements of this mediation mechanism, a thorough analysis was carried out with the banking industry in order to give it new impetus and enable it to achieve greater transparency, accessibility and efficiency for better customer's protection.

Following this process, the banking mediation mechanism took an institutional dimension by establishing in 2013 a Moroccan Banking Mediation Centre. The Center's role is to manage two mechanisms :

- The institutional mediation mechanism for private and legal persons. The use of this system will remain voluntary and free. It will mainly handle disputes over payment means, operation of accounts and loans not exceeding one million dirhams.
- The conventional mediation mechanism, subject to payment, for private and legal persons, governed by the applicable mediation principles of common law (Law No. 08-05). This mechanism will process disputes, with amounts exceeding the threshold of one million dirhams.

Box 21 : Moroccan Banking Mediation Centre

The Moroccan Banking Mediation Center is a non-profit organization. Its founding members are Bank Al-Maghrib, the National Agency for the Promotion of Small and Medium Enterprises, the Moroccan Bankers Association (GPBM), the Professional Association of Finance Companies and the National Federation of Microcredit Associations.

Other honorary members known for their competence and independence may be designated by the Center's Governing Body.

Goal : The Centre is responsible for :

- The amicable settlement of disputes which might arise between banks, finance companies and microcredit associations on the one hand, and their clients, on the other, through two mechanisms of institutional and conventional mediation, in accordance with the conditions and modalities provided for by the mediation rules;
- Organizing events aimed at raising awareness and promoting mediation;
- Concluding any partnership with national or international organizations, public or private, with a view to developing this dispute settlement approach.

Governance bodies :

- Governing Board : composed of active members and four independent personalities selected for their expertise and professional experience in banking, financial and legal matters.

It has all the powers necessary for the smooth running of the Centre, including the mandate to appoint the Mediator and fix his remuneration, monitor the Centre's activities and set its budget. During the constitutive general assembly, the Governor of Bank Al-Maghrib was appointed as Chairman of the Governing Board.

- Management Committee : constituted by the Governing Body, which shall entrust it with all or part of its powers.

- Mediator : vested with the broadest powers to manage the Centre and take all measures necessary to its daily management. He shall discharge the powers formally assigned to him by the Chairman of the Governing Board.

3.3 - Provisions on the maximum conventional interest rate of credit institutions

In consultation with the Moroccan Bankers Association (GPBM) and the Professional Association of Finance Companies, Bank Al-Maghrib issued an amendment to Circular No. 19/G/2006 of October 23, 2006 on the maximum conventional interest rate of credit institutions.

This amendment seeks to ensure convergence towards international standards, including the European Directive on Credit Agreements for Consumers.

In addition, it includes the provisions of Law No. 31-08 to enact measures for consumer protection, mainly requirements of advance repayment without penalty for consumer loans and communication of the overall effective rate.

In addition to interest rates calculated on the basis of the contractual rate and loan granting commissions, the overall effective rate reflects now all processing fees and all costs and compensation paid or due to intermediaries involved in the loan granting process. This Circular excludes credit-related insurance premiums, while imposing an obligation on credit institutions to mention them when credit is supplied and in the loan contract.

The overall effective rate, excluding processing fees of up to 150 dirhams excluding tax, shall not exceed the maximum conventional interest rate applied at the time when the contract is signed and upon total advance repayment of credit other than consumer loans. The text imposed the obligation to report this rate in any contractual documents with customers (credit supply, contract, statement of accounts, interest scales...).

4 - Strengthening the incentive framework for financing VSMEs

As part of the initiatives taken to promote VSMEs, to strengthen their resilience and enhance their ability to contribute to economic growth, Bank Al-Maghrib has undertaken several incentive actions, in partnership with other partners, mainly the banking industry, the Central Guarantee Fund (CCG) and General Confederation of Enterprises of Morocco (CGEM).

Indeed, since 2005, the Bank has actively contributed to national awareness campaigns on financing VSMEs in order to improve their funding conditions and establish a relationship of trust between this segment of corporations and banks. A new campaign is planned for 2014.

Other measures have also been taken to strengthen the governance and financial transparency of companies, in particular through the establishment of the credit bureau and standardization of minimum elements of information to be provided by such businesses as part of a loan application.

To help improve VSMEs' financing conditions, the Bank also worked in partnership with the banking sector and other partners, to establish an observatory for VSME, whose statutes were adopted at the constitutive General Assembly held in November 2013.

Box 22 : Moroccan Observatory for VSMEs

The Observatory for VSMEs is a non-profit organization. Its statutory missions include:

- Providing the public and private sectors with statistics on VSMEs;
- Conducting general and thematic studies on VSMEs;
- Proposing service offers.

The founding members of the Observatory are Bank Al-Maghrib, the Ministry of Economy and Finance, Ministry of Industry and Trade, Ministry of General Affairs and Governance, National Social Security Fund, National Agency for the Promotion of SMEs, Moroccan Bankers Association (GPBM), Moroccan Industrial and Commercial Property Office, Central Guarantee Fund and General Confederation of Enterprises of Morocco.

Similarly, the Bank introduced in December 2013 a new refinancing instrument of banks, urging them to further finance VSMEs, while providing more incentives for funding industrial and export-oriented corporations.

In the same vein, the Bank and the banking industry, together with the Central Guarantee Fund, are examining the possibility of the establishment of a fund to provide financial support to this category of corporations. Such Fund would aim to co-finance, in parallel to the granting of a bank loan, operations for the rehabilitation and sustainability of the financial situation of VSMEs considered viable, but experiencing temporary difficulties.

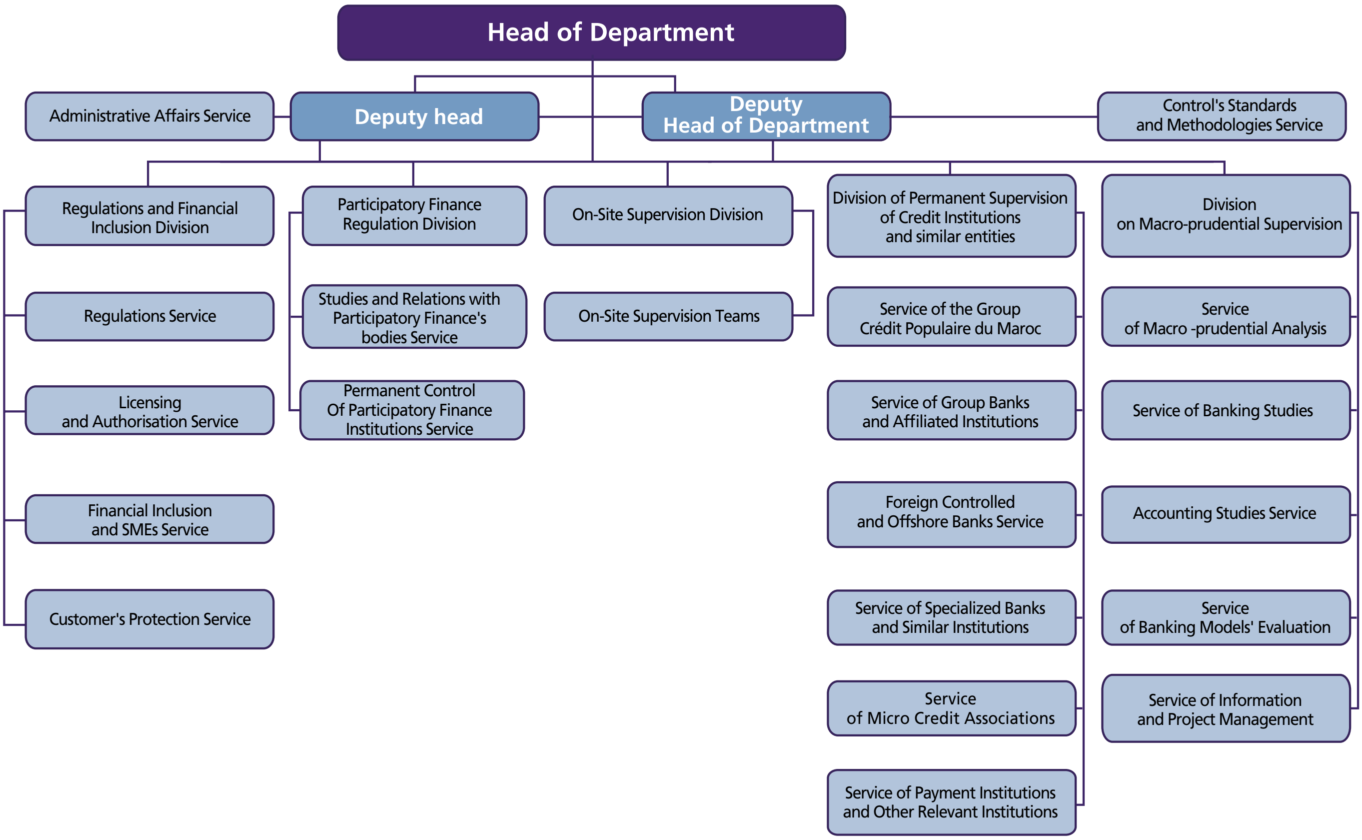
بنك المغرب

APPENDICES

بنك المغرب

Appendix 1

Organizational structure of the Banking Supervision Department



Appendix 2

List of credit institutions

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 D'EL JADIDA-SAFI	Boulevard Jamia Al Arabia - El Jadida
BANQUE POPULAIRE DE FES-TAZA	Angle Rue Allal Loudyi et Rue Abdelali Benchekroun - Fès
BANQUE POPULAIRE DE LAAYOUNE	9, Boulevard Mohamed V – Laâyoune
BANQUE POPULAIRE DE MARRAKECH - BENI MELLAL	Avenue Abdelkrim Khattabi – Marrakech
BANQUE POPULAIRE DE MEKNES	4, Rue d'Alexandrie – Meknès
BANQUE POPULAIRE DE NADOR-Al HOCEIMA	113, Boulevard Al Massira – Nador
BANQUE POPULAIRE D'OUJDA	Boulevard Derfoufi – Oujda
BANQUE POPULAIRE DE RABAT	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	2, Avenue d'Alger – Rabat
CASABLANCA FINANCE GROUP	5-7, Rue Ibnou Toufail – Casablanca
CITIBANK MAGHREB	Lotissement Attaoufik- Imm. I – Ensemble immobilier Zenith Millénium -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	55, Boulevard Abdelmoumen - Casablanca
UNION MAROCAINE DE BANQUES « U.M.B »	36, Rue Tahar Sebti – Casablanca
BANCOSABADELL	Twin Center, Tour Ouest, 12éme étage - Casablanca
CAJA DE AHORROS Y PENSIONES DE BARCELONA « CaixaBank, S.A. »	179, Boulevard d'Anfa - Casablanca

Consumer loan companies

Name	Head office address
VIVALIS SALAF (Ex. Salaf Chaabi)	3, Rue d'Avignon - Casablanca
BMCI CREDIT CONSO	30, Av. des FAR - Casablanca
DAR SALAF S.A	207, Boulevard Zerktouni -Casablanca
OMNIUM FINANCIER POUR L'ACHAT A CREDIT « FINACRED »	18, Rue de Rocroy, Belvédère- 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 - Laâyoune
SOCIETE DE CREDIT A LA CONSOMMATION « TASLIF »	29, Boulevard Moulay youssef - Casablanca
SOCIETE DE FINANCEMENT D'ACHATS A CREDIT « SOFAC-CREDIT »	161, Avenue Hassan II - Casablanca
SOCIETE DE FINANCEMENT NOUVEAU A CREDIT « FNAC »	Sahat Rabia Al Adaouia, Résidence Kays Agdal - Rabat
EQDOM	127, Angle Bd Zerktouni et rue Ibnou Bouraîd - 20100 Casablanca
SOCIETE NORDAFRICAINE DE CREDIT « SONAC »	29, Boulevard Mohamed V - Fès
AXA CREDIT	79, 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
SOGEFINANCEMENT	127, Boulevard Zerktouni - 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 - Résidence Adriana 1er étage - CP 20 060 - Casablanca

Leasing companies

Name	Head office address
BMCI - LEASING	Angle Rue Normandie et Rue Ibnou Fariss - Casablanca
COMPAGNIE MAROCAINE DE LOCATION D'EQUIPEMENT « MAROC- LEASING »	57, Angle Rue Pinel et Boulevard Abdelmoumen - Casablanca
CREDIT DU MAROC LEASING « CDML »	201, Bd 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

Surety companies

Name	Head office address
FINEA (Ex. CMM)	101, Boulevard Abdelmoumen - Casablanca
DAR AD-DAMANE	288, Boulevard Zerktouni - Casablanca

Payment means management companies

Name	Head office address
CENTRE MONETIQUE INTERBANCAIRE	Espace porte d'Anfa, 8, Angle Bd d'Anfa et Avenue Moulay Rachid - 20050 Casablanca
M2M SPS	20, Rue Moussa Bnou Noussair - Casablanca
WAFA CASH*	15, Rue Driss Lahrizi - Casablanca

* This institution is also approved as a funds transfer company.

Other 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 BANQUE OFFSHORE	58, Boulevard Pasteur - Tanger
BANQUE INTERNATIONALE DE TANGER -BANQUE OFFSHORE	Angle Avenue Mohamed V et Rue Moussa Bnou Noussair - Tanger
BMCI - BANQUE OFFSHORE- GROUPE BNP	Boulevard Youssef Ben Tachfine et Angle Boulevard Madrid - Tanger
SOCIETE GENERALE TANGER OFFSHORE (SG.TANGER OFFSHORE)	58, Boulevard Mohamed V - Tanger
BMCE BANK - BANQUE OFFSHORE	Zone Franche, Port de Tanger, BP 513 - Tanger
CHAABI INTERNATIONAL BANK OFFSHORE (CIB BANQUE OFFSHORE)	Rue Cellini, Sidi Boukhari - Tanger

Appendix 4

List of microcredit associations

Name	Head office address
Association AL Amana pour la Promotion des Microentreprises (AL AMANA)	40,Rue Al Fadila, quartier industriel, Q.Y.M, Rabat - 10 000
Association Al Karama pour le Micro-Crédit (AL KARAMA)	38, Bd Abdelmounen Appt 23, 4ème étage Hassan Rabat
Association Ismailia pour le Micro-Crédit (AIMC)	115, Boulevard Lahboul-BP 2070 Meknès
Association Marocaine de Solidarité Sans Frontière (AMSSF)	1,Rue Abi Dar El Ghoufari-Quartier Prince Héritier-1er étage Fès
Association Marocaine Oued Serou pour le Micro-Crédit (AMOS)	Rue oued Sbou, Hay Ettakadoum-El Kbab Khenifra
Association Tétouanaise des Initiatives Sociaux- Professionnelles (ATIL)	Avenue Hassan II N° 70-Résidence Paloma Blanca-1er Etage N° 1 Tetouan
ATTAWFIQ MICRO FINANCE	3, Rue Docteur Veyre-Résidence Patio Casablanca
Fondation « ARDI »	Avenue hassan 2 , Hay Ibn sina, rue Iran-Témara Centre
Fondation Micro Crédits du Nord	N° 6, Rue Rachid Réda, Résidence Hayat 2 entresol, appt. N° 34 Tanger
Fondation pour le Développement Local et le Partenariat (FONDEP)	Im. Saraya angle Br Riad et Av. Alarz Hay Riad Rabat 10100
TAWADA	N° 119, avenue de la Résistance, appartement 27 Rabat
BAB RIZK JAMEEL	Rue Moulay Smail n°196, Roches noires, Casablanca
Institution Marocaine d'Appui à la Micro-Entreprise (INMAA)	Angle Rue Maamora et Rue Reine Elizabeth II, Immeuble A 2ème etage appt. 2 Kenitra

Appendix 5

List of funds transfer companies

Name	Head office address
DAMANE CASH	212, Avenue Mohamed V – Résidence Elite. Bureau 211 Guéliz – Marrakech
EUROSOL	Résidence Ahssan Dar, Appart 3 et 4 ; Av Hassan II Rabat
QUICK MONEY	16/18 Lot.Attaoufik Espace Jet Business Class – Sidi Maarouf – Casablanca
MEA Finance Service	Résidence Hadi n°27, Rue Salim Cherkaoui. 6éme étage Casablanca
CASH PLUS	1, Rue des Pléiades - Quartier des Hopitaux- Casablanca
TRANSFERT EXPRESS	282, Boulevard de la Résistance et Angle Rue de Strasbourg - Casablanca
MONEYON MAROC	52, Boulevard Zerktouni Espace Erreada - Casablanca
UAE Exchange Morocco	3, Rue Bab Mansour, Espace porte d'Anfa - Casablanca
Maroc Traitement de Transactions "M2T"	Technopark, route de Nouaceur, BP 16430 - Casablanca

Appendix 6

Banks' aggregate balance sheet - activity in Morocco as of December 31, 2013

(Thousands of dirhams)

ASSETS	31/12/12	31/12/13
Cash values, Central Banks, Public Treasury and Postal Checks Service	**28 484 660**	**29 967 592**
Loans to credit institutions and similar entities	**110 938 542**	**120 135 699**
Demand	17 949 798	18 067 740
Time	92 988 744	102 067 959
Due from customers	**649 704 147**	**665 692 849**
Overdraft facilities and consumer loans	231 285 855	220 242 993
Equipment loans	158 432 971	162 735 955
Real-estate loans	218 116 548	230 021 932
Other loans	41 868 773	52 691 969
Factoring loans	**6 667 169**	**4 758 108**
Trading and held-for-sale securities	**147 179 615**	**159 730 866**
Treasury bills and the like	80 895 452	97 887 129
Other debt securities	21 679 982	17 154 238
Title deeds	44 604 181	44 689 499
Other assets	**15 693 974**	**15 767 011**
Investment securities	**29 116 095**	**43 621 399**
Treasury bills and the like	24 414 310	38 788 681
Other debt securities	4 701 785	4 832 718
Equity securities and the like	**30 494 618**	**31 709 158**
Subordinated loans	**1 356 224**	**1 357 645**
Fixed assets for leasing and rental	**812 977**	**1 485 490**
Intangible fixed assets	**4 652 958**	**4 827 777**
Tangible fixed assets	**15 547 470**	**16 058 499**
Total assets	**1 040 648 449**	**1 095 112 093**

(Thousands of dirhams)

LIABILITIES	31/12/12	31/12/13
Central Banks, Public Treasury and Postal Checks Service	**28**	**23**
Due to credit institutions and similar entities	**119 591 572**	**129 882 001**
Demand	9 558 171	11 324 853
Time	110 033 401	118 557 148
Customers' deposits	**696 640 145**	**722 252 729**
Creditor demand accounts	403 055 686	417 483 987
Savings accounts	110 356 485	120 070 099
Time deposits	160 655 332	161 323 004
Other creditor accounts	22 572 642	23 375 639
Debt securities issued	**66 841 295**	**66 589 653**
Debt securities issued	62 083 520	59 768 064
Bond loans	2 673 142	4 946 290
Other debt securities issued	2 084 633	1 875 299
Other liabilities	**30 888 762**	**40 656 301**
Provisions for risks and expenses	**5 932 102**	**7 921 679**
Regulated provisions		
Subsidies, allocated public funds and special guarantee funds	**2 817 343**	**2 576 865**
Subordinated debts	**22 724 824**	**23 254 215**
Reevaluation gaps	**409 848**	**409 848**
Reserves and premiums related to capital	**59 269 364**	**63 524 455**
Capital	**22 585 303**	**24 205 880**
Shareholders. Unpaid capital (-)	**-340 000**	**-340 000**
Retained earnings (+/-)	**3 404 224**	**4 257 528**
Net income before appropriation (+/-)	**-6 841**	**7 038**
Net income for the year (+/-)	**9 890 480**	**9 913 878**
Total liabilities	**1 040 648 449**	**1 095 112 093**

(Thousands of dirhams)

OFF-BALANCE SHEET	31/12/12	31/12/13
Commitments given	**192 259 493**	**205 433 615**
Financing commitments to credit institutions and similar entities	4 470 868	2 552 876
Financing commitments to customers	71 880 706	76 767 396
Guarantee commitments to credit institutions and similar entities	35 059 512	36 407 017
Guarantee commitments to customers	79 872 007	82 852 052
Securities bought under repurchase agreements		6 746 319
Other securities to deliver	976 400	107 955
Commitments received	**56 862 341**	**62 044 054**
Financing commitments received from credit institutions and similar entities	3 760 081	2 815 496
Guarantee commitments received from credit institutions and similar entities	48 145 434	50 458 928
Guarantee commitments received from the government and sundry guarantee institutions	4 933 901	5 738 988
Securities sold under repurchase agreements		
Other securities to receive	22 925	3 030 642

Appendix 7

Banks' Aggregate loss and Profit – activity in Morocco from January 1 to December 31, 2013

(Thousands of dirhams)

	31/12/12	31/12/13
+ Interest and related income	45 405 008	46 630 245
- Interest and related expenses	17 044 717	18 014 619
Interest margin	**28 360 291**	**28 615 626**
+ Gains on fixed assets leasing and rentals	152 066	156 631
- Expenses on fixed assets leasing and rentals	102 128	96 739
Income from leasing and rental transactions	**49 938**	**59 892**
+ Commissions received	5 748 754	5 966 539
- Commissions paid	415 440	568 592
Margin on commissions	**5 333 314**	**5 397 947**
± Gains on trading securities' transactions	2 046 861	3 248 577
± Gains on investment securities' transactions	29 835	98 654
± Gains on foreign exchange transactions	1 428 574	1 584 610
± Gains on derivatives transactions	213 676	144 230
Income from market operations	**3 718 946**	**5 076 071**
+ Other banking income	2 879 387	3 006 135
- Other banking expenses	1 762 336	1 854 529
Net banking income	**38 579 540**	**40 301 142**
± Gains on financial fixed assets transactions	-133 549	-73 215
+ Other non-banking operating income	350 730	691 619
- Other non-banking operating expenses	101 106	185 938
- General operating expenses	18 321 108	19 238 696
Gross operating income	**20 374 507**	**21 494 912**
± Allocations net of reversals of provisions for non-performing loans and commitments by signature	-4 181 887	-5 466 920
± Other allocations net of reversals of provisions	-1 535 534	-975 023
Current income	**14 657 086**	**15 052 969**
EXTRAORDINARY INCOME	**-59 865**	**-492 066**
- Income tax	4 706 742	4 647 023
Net income for the year	**9 890 479**	**9 913 880**

Appendix 8

Aggregate balance sheet of consumer loan companies as of December 31, 2013

(in Thousands of dirhams)

ASSETS	31/12/2012	31/12/2013
Cash values, Central Banks, Public Treasury and Postal Checks Service	**87 562**	**85 191**
Due from credit institutions and similar entities	**530 447**	**606 121**
Demand	498 149	553 126
Time	32 298	52 995
Due from customers	**32 486 007**	**32 730 111**
Overdraft facilities and consumer loans	31 262 461	31 529 979
Equipment loans	112 286	179 111
Real-estate loans	33 202	19 876
Other loans	1 078 058	1 001 145
Factoring loans	**178 298**	**260 986**
Trading and held-for-sale securities	**28 384**	**36 727**
Treasury bills and the like		358
Other debt securities		
Title deeds	28 384	36 369
Other assets	**2 053 239**	**2 045 056**
Investment securities	**26**	**0**
Treasury bills and the like		
Other debt securities	26	0
Equity securities and the like	**18 403**	**18 794**
Subordinated loans		
Fixed assets for leasing and rental	**9 629 422**	**9 621 259**
Intangible fixed assets	**380 007**	**389 851**
Tangible fixed assets	**445 788**	**421 677**
Total assets	**45 837 583**	**46 215 773**

(in Thousands of dirhams)

LIABILITIES	31/12/2012	31/12/2013
Central Banks, Public Treasury and Postal Checks Service		
Due to credit institutions and similar entities	**22 444 850**	**25 482 481**
Demand	2 302 405	1 438 901
Time	20 142 445	24 043 580
Customers' deposits	**4 652 772**	**4 824 714**
Creditor demand accounts		
Savings accounts		
Time deposits		
Other creditor accounts	4 652 772	4 824 714
Debt securities issued	**10 251 380**	**6 758 355**
Negotiable debt securities	10 228 200	6 745 218
Bond loans		
Other debt securities issued	23 180	13 137
Other liabilities	**2 475 149**	**2 976 243**
Provisions for risks and expenses	**236 558**	**126 798**
Regulated provisions	**23 307**	**24 052**
Subsidies, allocated public funds and special guarantee funds		
Subordinated debts	**100 014**	
Reevaluation gaps	**16 957**	**16 957**
Reserves and premiums related to capital	**2 560 863**	**2 603 598**
Capital	**1 949 875**	**2 011 319**
Shareholders. Unpaid capital (-)	**-20 000**	
Retained earnings (+/-)	**269 727**	**641 605**
Net income before appropriation (+/-)	**-1**	
Net income for the year (+/-)	**876 132**	**749 651**
Total liabilities	**45 837 583**	**46 215 773**

Appendix 9

Aggregate loss and Profit statement of consumer loan companies from January 1 to December 31, 2013

(in Thousands of dirhams)

	31/12/12	31/12/13
+ Interest and related income	3 754 048	3 637 233
- Interest and related expenses	1 515 628	1 531 700
INTEREST MARGIN	**2 238 420**	**2 105 533**
+ Gains on fixed asset leasing and rentals	2 778 263	3 122 323
- Expenses on fixed asset leasing and rentals	2 359 790	2 800 010
Income from leasing and rental transactions	**418 473**	**322 313**
+ Commissions received	456 793	545 586
- Commissions paid	73 469	81 616
Margin on commissions	**383 324**	**463 970**
± Gains on trading securities' transactions	979	1 060
± Gains on investment securities' transactions	1 273	2 115
± Gains on foreign exchange transactions	276	156
± Gains on derivatives transactions		0
Income from market operations	**2 528**	**3 331**
+ Other banking income	66 531	75 613
- Other banking expenses	11 341	1 155
NET BANKING INCOME	**3 097 935**	**2 969 605**
± Gains on financial fixed asset transactions	-137	88
+ Other non-banking operating income	97 091	53 534
- Other non-banking operating expenses	3 684	9
- General operating expenses	1 253 580	1 240 332
GROSS OPERATING INCOME	**1 937 625**	**1 782 886**
± Allocations net of reversals of provisions for non-performing loans and commitments by signature	-600 770	-555 980
± Other allocations net of reversals of provisions	67 781	62 388
CURRENT INCOME	**1 404 636**	**1 289 294**
EXTRAORDINARY INCOME	**-29 013**	**-107 994**
- Income tax	499 491	431 650
NET INCOME FOR THE YEAR	**876 132**	**749 651**

Appendix 10

Aggregate balance sheet of leasing companies as of December 31, 2013

(in Thousands of dirhams)

ASSETS	31/12/12	31/12/13
Cash values, Central Banks, Public Treasury and Postal Checks Service	**269**	**624**
Due from credit institutions and similar entities	**14 502**	**9 410**
Demand	6 894	9 410
Time	7 608	
Due from customers	**104 186**	**74 677**
Overdraft facilities and consumer loans	26 872	24 563
Equipment loans		
Real-estate loans	26 590	21 764
Other loans	50 724	28 350
Factoring loans		
Trading and held-for-sale securities	**454**	**454**
Treasury bills and the like		
Other debt securities	211	454
Title deeds	243	
Other assets	**753 072**	**898 946**
Investment securities	**27**	**27**
Treasury bills and the like	27	27
Other debt securities		
Equity securities and the like	**29 723**	**29 723**
Subordinated loans		
Fixed assets for leasing and rental	**41 433 518**	**41 430 667**
Intangible fixed assets	**148 186**	**147 389**
Tangible fixed assets	**28 455**	**25 844**
Total assets	**42 512 392**	**42 617 761**

(in Thousands of dirhams)

LIABILITIES	31/12/12	31/12/13
Central Banks, Public Treasury and Postal Checks Service	**25**	
Due to credit institutions and similar entities	**25 041 552**	**27 512 580**
Demand	3 293 840	2 997 819
Time	21 747 712	24 514 761
Customers' deposits	**733 634**	**798 604**
Creditor demand accounts	14 970	20 234
Savings accounts		
Time deposits	591 788	581 499
Other creditor accounts	126 876	196 871
Debt securities issued	**11 924 138**	**9 207 914**
Negotiable debt securities	8 727 181	6 729 710
Bond loans	3 141 169	2 478 204
Other debt securities issued	55 788	
Other liabilities	**1 847 822**	**2 002 362**
Provisions for risks and expenses	**104 583**	**149 947**
Regulated provisions	**1 373**	**1 144**
Subsidies, allocated public funds and special guarantee funds		
Subordinated debts	**60 613**	**63 440**
Reevaluation gaps		
Reserves and premiums related to capital	**1 148 725**	**1 149 665**
Capital	**820 609**	**834 209**
Shareholders. Unpaid capital (-)		
Retained earnings (+/-)	**539 284**	**612 830**
Net income before appropriation (+/-)		
Net income for the year (+/-)	**290 034**	**285 066**
Total liabilities	**42 512 392**	**42 617 761**

Appendix 11

Aggregate loss and Profit statement of leasing companies from January 1 to December 31, 2013

(in Thousands of dirhams)

	31/12/12	31/12/13
+ Interest and related income	1 685	2 519
- Interest and related expenses	1 750 148	1 734 351
INTEREST MARGIN	**-1 748 463**	**-1 731 832**
+ Gains on fixed asset leasing and rentals	14 524 067	14 565 574
- Expenses on fixed asset leasing and rentals	11 676 811	11 648 034
Income from leasing and rental transactions	**2 847 256**	**2 917 540**
+ Commissions received	6 748	10 708
- Commissions paid	12 489	10 963
Margin on commissions	**-5 741**	**-255**
± Gains on trading securities' transactions		
± Gains on investment securities' transactions		
± Gains on foreign exchange transactions	16	38
± Gains on derivatives transactions		
Income from market operations	**16**	**38**
+ Other banking income	2 794	1 929
- Other banking expenses	198	231
NET BANKING INCOME	**1 095 664**	**1 187 189**
± Gains on financial fixed asset transactions		
+ Other non-banking operating income	7 971	8 723
- Other non-banking operating expenses	6 341	5 353
- General operating expenses	294 181	303 410
GROSS OPERATING INCOME	**803 113**	**887 149**
± Allocations net of reversals of provisions for non-performing loans and commitments by signature	-313 577	-343 994
± Other allocations net of reversals of provisions	-7 462	-57 477
CURRENT INCOME	**482 074**	**485 678**
EXTRAORDINARY INCOME	**-5 827**	**5 793**
- Income tax	186 213	206 405
NET INCOME FOR THE YEAR	**290 034**	**285 066**

Appendix 12

Consolidated balance sheet of the eight banking groups as of December 31, 2013

(in Thousands of dirhams)

ASSETS	31/12/12	31/12/13
Cash, Central Banks, Treasury and Postal Checks Service	36 415 593	39 710 365
Financial assets at fair value by result	99 481 276	96 588 716
Hedging derivatives		
Financial assets held-for-sale	72 043 133	72 630 976
Due from credit institutions and similar entities	55 743 042	56 716 471
Due from customers	759 839 250	786 643 645
Asset revaluation gap on interest hedged portfolios		
Held-to-maturity investments	28 493 277	44 823 344
Current tax assets	2 258 184	1 996 621
Differed tax assets	2 151 253	2 432 405
Adjustment accounts and other assets	18 671 651	19 259 238
Non-recurrent assets held for sale	27 698	103 621
Participations in businesses -equity method	1 521 213	1 663 603
Investment property	2 389 185	2 716 781
Tangible fixed assets	22 584 220	23 671 394
Intangible fixed assets	3 187 558	3 650 560
Goodwill	8 919 624	9 013 664
Total assets	**1 113 726 157**	**1 161 621 404**

(in Thousands of dirhams)

LIABILITIES	31/12/12	31/12/13
Central Banks, Public Treasury and Postal Checks Service	**534 282**	**348 326**
Financial liabilities at fair value by result	**1 024 499**	**3 796 603**
Hedging derivatives		**47 633**
Due to credit institutions and similar entities	**122 989 537**	**137 723 091**
Due to customers	**724 915 518**	**756 293 261**
Issued debt securities	**71 293 899**	**60 706 333**
Liability reevaluation gaps on hedged interest portfolios		
Current tax liabilities	**2 291 573**	**2 664 998**
Differed tax liabilities	**4 397 170**	**4 537 463**
Adjustment accounts and other liabilities	**29 735 454**	**28 961 096**
Liabilities linked to non-current assets held for sale		
Technical provisions of insurance contracts	**19 172 216**	**20 312 549**
Provisions	**4 237 514**	**4 499 036**
Subsidies and similar funds	**2 969 475**	**2 711 866**
Subordinated debts and special guarantee funds	**21 681 164**	**22 307 352**
Equity	**108 483 856**	**116 711 797**
Equity - share of the Group	**96 118 760**	**104 123 817**
Capital and related reserves	54 807 803	56 629 747
Consolidated reserves	30 167 876	36 784 970
Unrealized or deferred gains or losses	1 030 740	1 253 832
Income of the year	10 112 341	9 455 268
Minority shareholdings	**12 365 096**	**12 587 980**
Total liabilities	**1 113 726 157**	**1 161 621 404**

Appendix 13

Consolidated income statement of the eight banking groups from January 1 to December 31, 2013

(in Thousands of dirhams)

	31/12/12	31/12/13
+ Interest and related income	53 253 475	55 876 127
- Interest and related expenses	19 363 746	20 393 229
INTEREST INCOME	**33 889 729**	**35 482 898**
+ Commissions received	9 342 734	10 472 669
- Commissions paid	1 047 867	1 313 672
MARGIN ON COMMISSIONS	**8 294 867**	**9 158 997**
+/- Net gains or losses on Financial instruments at fair value by result	3 864 301	4 919 307
+/- Net gains or losses on financial assets available for sale	1 153 869	1 136 436
+ Income from other activities	7 543 602	7 808 028
- Expenses on other activities	5 835 719	6 147 680
NET BANKING INCOME	**48 910 649**	**52 357 986**
- General operating expenses	21 321 203	23 222 533
- Amortization and depreciation allocations of tangible and intangible fixed assets	2 437 297	2 705 568
GROSS OPERATING INCOME	**25 152 149**	**26 429 885**
- Risk cost	-5 581 488	-7 721 222
OPERATING INCOME	**19 570 661**	**18 708 663**
+/- Share of the net income of equity-consolidated companies	186 273	171 156
+/- Net gains or losses on other assets	-209 695	181 007
+/- Value change of goodwill	-298	3 478
INCOME BEFORE TAX	**19 546 941**	**19 064 304**
- Income tax	6 617 058	6 767 081
+/- Net income of discontinued activities or activities being discontinued	0	0
NET INCOME	**12 929 883**	**12 297 223**
Minority shareholdings	2 817 542	2 842 698
NET INCOME - SHARE OF THE GROUP	**10 112 341**	**9 455 256**

Appendix 14

Balance sheet of the Collective Deposit Insurance Fund as of December 31, 2013

ASSETS	Amounts in DH	LIABILITIES	Amounts in DH
INVESTMENT SECURITIES	14 238 507 607,10	PREMIUM FROM CREDIT INSTITUTIONS	11 990 820 111,18
INVESTMENT SECURITIES GUARANTEED BY THE GOVERNMENT	53 950 000,00	RESERVES	2 335 804 356,21
SECURITIES BOUGHT UNDER REPURCHASE AGREEMENTS	100 039 811,66	NET INCOME	398 320 917,68
CURRENT ACCOUNT WITH BANK AL-MAGHRIB	5 242 368,74	LIABILITY ADJUSTMENT ACCOUNTS	29 864 838,57
RECOVERABLE VAT	361 526,25		
GOVERNMENT - VAT CREDIT	3 244 678,76		
ASSETS ADJUSTMENT ACCOUNT	353 464 231,13		
TOTAL ASSETS	**14 754 810 223,64**	**TOTAL LIABILITIES**	**14 754 810 223,64**

Appendix 15

Core financial soundness indicators for banks – individual basis

	2011	2012	2013
Capital adequacy			
Solvency ratio	11,7	12,3	13,3
Core equity / total weighted risks	9,6	10,1	11,1
Non-performing loans net of provisions (as a part of capital)	12,9	13,6	16,8
Assets' quality			
Non-performing loans rate (Non-performing loans/total loans)	4,8	5,0	5,9
Sectoral distribution of loans			
Loans to the primary sector	5,8	5,5	6,2
Loans to the building and public-work sector	13,9	12,6	12,4
Loans to the processing industry	16,8	17,0	16,5
Loans to the general government and local communes	4,8	5,0	5,0
Loans to the trade sector	6,6	6,7	6,2
Loans to the tourist sector	2,8	2,9	2,4
Households	27,6	28,9	29,7
Loans to other sectors	21,7	21,4	21,6
Earnings and profitability			
Return on assets (ROA)	1,1	1,0	1,0
Return on equity (ROE)	13,4	11,8	10,6
Interest margin/net banking income (NBI)	75,8	76,6	74,0
General operating expenses/NBI	47,9	47,5	47,7
Liquidity			
Liquid assets / total assets	11,4	10,5	12,5
Liquid assets /short-term liabilities	16,1	14,7	17,4
Foreign exchange net open positions / capital	**7,3**	**7,4**	**11,3**

CONTENTS

بنك المغرب

LIST OF TABLES

LIST OF BOXES

LIST OF CHARTS

بنك المغرب

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