MINISTRY OF ECONOMY AND FINANCE

بنك المغرب
BANK AL-MAGHRIB

CDVM
مجلس القيم المنقولة

FINANCIAL STABILITY
REPORT

2014 | NUMBER 2

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FOREWORD

Financial sector regulators publish this year the second edition of the annual Financial Stability Report. This document outlines risks to the Moroccan financial system which were identified by the macroprudential oversight process put in place in recent years by the various financial authorities.

Since early 2015, the exercise of this macroprudential surveillance induced by the consequences of the international financial crisis now has a legal basis, with the enactment of the new Banking Act[1]. The latter has entrusted this new mission to the Systemic Risk Coordination and Monitoring Committee, a collegial body gathering financial sector regulators and the Ministry of Economy and Finance -represented by the Treasury and External Finance Department. This committee has replaced the previous Coordination Commission of Financial System Supervisors.

The amendment of Bank Al-Maghrib's Statutes, currently in the approval process, should give the Bank a new explicit mandate to contribute to financial stability, without prejudice to its traditional missions, particularly that of price stability.

In addition, the laws establishing the autonomy of the Supervisory Authority of Insurance and Social Welfare (Autorité de Contrôle des Assurances et de la Prévoyance Sociale) and the Moroccan Capital Market Authority (Autorité Marocaine du Marché des Capitaux) were published in the Official Bulletin as well as the organic law on the appointment to senior positions, including the presidents of these two bodies.

In this new legal context, the inter-regulatory committee has been particularly tasked with the identification of systemic financial institutions and systemic risks, the coordination of crisis resolution measures and the joint regulation of financial conglomerates. It should also coordinate with similar foreign bodies. The operating procedures of this committee will be set by decree.

Operationally, several years before the systemic risk oversight mission is formalized by law, the authorities initiated a preparatory work to develop an analytical and coordination framework.

In 2014, regulators met under the aegis of the former Coordination Commission to review, each six months, systemic risk maps covering the banking sector, the insurance sector and capital markets, and assess the implications of macroeconomic, monetary, financial and regulatory developments on financial stability.

1 Official Bulletin No. 6328 of January 22, 2015.

Prior to these meetings, Bank Al-Maghrib's Financial Stability Committee carried out a detailed update on the development of macroprudential indicators included in the systemic risk map, their risk scores for financial stability and stress tests conducted to assess the resilience of banking institutions.

This year, the analytical framework of macroprudential oversight was complemented by the establishment of a framework for the identification of systemically important financial institutions, covering banks and insurance companies. The list of institutions qualified as such was submitted by Bank Al-Maghrib, for banks, and the Insurance and Social Welfare Department, in respect of insurance companies. It was then adopted by the inter-agency coordination committee. A mechanism for the exchange of information specific to these institutions between regulators is provided for, and an enhanced prudential framework is under consideration and will be implemented in light of international standards.

The analytical framework was also improved in respect of contagion risk assessment by quantifying direct cross-border interconnections between Moroccan banks and their foreign branches. The map of linkages between banks and insurance companies, reflecting the risk of intra-financial contagion in the domestic market, was also updated. Stress tests on the materialization of the aforementioned contagion risks were also conducted to complement the stress test tools developed to assess other risks faced by banks, especially for credit, liquidity and interbank contagion.

Regarding the preparation for crisis resolution, financial authorities conducted a second crisis simulation exercise in May 2014, with support from the World Bank, to test the crisis management and coordination framework. This exercise, which was part of the new tools and resolution mechanisms introduced by the new Banking Act, allowed assessing the progress made in this area. On the back of these positive results, the authorities have decided to expand the domestic crisis management framework to take into consideration the cross-border dimension. A project is underway to this end.

All these arrangements were incorporated for the first time -following the lessons learned from the international crisis- in the scope of a joint assessment mission of the Moroccan financial sector by the International Monetary Fund and the World Bank in April 2015, after the previous missions conducted in 2002 and 2007. In this context, comprehensive briefing files were presented by the Moroccan authorities to the joint expert mission of the two aforementioned international institutions.

Like the first Financial Stability Report of 2013, the second issue is the result of a close collaboration between Bank Al-Maghrib, the Supervisory Authority of Insurance and Social Welfare and the Moroccan Capital Market Authority.

The report is structured in four chapters tracing the economic and financial trends observed and expected, the developments of the financial system, and risks likely to affect it.

The first chapter deals with the main international and national macroeconomic developments, the related risks and actual or potential effects on the financial system. In a forward-looking approach, it includes forecasts for the international environment, partner countries and Morocco. In the second chapter, the analysis focuses on the financial position of households and businesses as well as elements to assess their ability to meet their financial obligations vis-à-vis the financial system.

The third chapter analyzes the soundness of financial institutions, highlighting the risks they face and their resilience. The analysis focuses on the main risks to banking and insurance sectors as well as the main interconnections between these two components. It provides, this year, an overview on the situation of pension funds.

The fourth chapter is devoted to developments in financial markets and market infrastructures. It focuses on the assessment of the main risks to market stability as well as to systemically important financial market infrastructures.

These four chapters are preceded by a general overview of economic and financial trends related to financial stability.

CONTENTS

OVERVIEW

The year 2014 was characterized by a slight, though still fragile, improvement in growth in advanced countries, especially Morocco's major European partners. The drop in energy prices from the second half-year, coupled with a significant inflow of grants, had favorable effects on the level of foreign exchange reserves. In this context, tension on bank liquidity abated and monetary conditions eased. The refinancing of banks from the central bank declined markedly, concurrently with the reconstitution of collateral that can be mobilized.

However, the factors contributing to mitigating the twin deficits, such as foreign grants and the trend in international prices, do not have a recurring nature. IMF's growth projections, published in April 2015, predict a new, but still slight, improvement in the global economy and partner countries.

This slow economic growth fed through to the domestic activity. Indeed, GDP growth in Morocco in 2014 decelerated sharply to 2.4 percent, dragged down by the counter-performance of agriculture and the limited increase in nonagricultural GDP to 3.1 percent, due in particular to the low performance of the services sector and the continued slowdown of construction activity. Domestic demand continued to weaken, reflecting less rapid increase in household final consumption and a decline -albeit limited- in investment.

The sluggish domestic economic activity was accompanied by weaker growth of bank lending, for the second consecutive year, up 2 percent, and a further rise in nonperforming loans (NPL), the overall rate of which reached 6.9 percent.

The financial debt of households stood at 31 percent of GDP, slightly higher than the rate seen in the last two years, and loan maturities continued to extend in 2014. Moreover, the study of a sample of households having renewed or obtained new loans over the last five years, totaling 786,000 credit contracts and representing nearly 20 percent of loans to households, shows an upward trend in the debt burden of this institutional sector compared to its income.

The financial debt of nonfinancial corporations rose again, reaching 73.3 percent of GDP. A study of a sample of 1312 nonfinancial corporations, with a total turnover of 255 billion dirhams and a financial debt of 168 billion dirhams, based on five-year balance sheet historical data until 2013, shows a significant increase in commercial credit and larger cash debt burden, which reach worrying levels for certain sectors, particularly real estate development and hydrocarbons. In this context, banks carried out loan restructuring operations for certain operators in crisis-hit sectors and subjected to extended terms of payment.

The year 2014 was not favorable for the real estate sector, the activity of which remained sluggish. The Real Estate Price Index fell 0.8 percent, which would explain the 12 percent rebound in the number of real estate transactions. Under these conditions, housing loans continued to grow, up 12 percent, while loans to property developers declined by 5.6 percent. The sector's persistently difficult situation in recent years, after a period of rapid and sustained growth, led to cash flow problems for some operators in the sector and affected their ability to repay debts. Restructuring plans are being undertaken by some of them to reduce their debt and enhance the recovery of their claims and the flow of inventory.

Treasury debt continued to rise, reaching 63.2 percent of GDP, despite the grants received and the lower subsidy costs which have reduced fiscal deficit to 4.9 percent of GDP. Overall, the trend in public debt, particularly its external component whose ratio increased to nearly 30 percent of GDP, should limit the room for maneuver in terms of foreign currency funding.

The financial debt of public enterprises posted a significant increase of 21.2 percent, largely led by steep rise in external financing. If the momentum in the investments of public enterprises has a positive ripple effect on the activity of the private sector, the fact remains that the level of the indebtedness of these enterprises calls for vigilance, especially as a significant share of it is denominated in foreign currencies.

In terms of markets, the Casablanca Stock Exchange got back on the growth path, especially early in the year, taking advantage of renewed investor confidence. However, insufficient liquidity and lack of depth in financial markets do not foster their stability and still limit refinancing alternatives for both banks and companies. It is urgent to accelerate reforms for the development of these markets, especially with regard to the supervision of financial futures, trading in Treasury bonds, the introduction of covered bonds and the reform of stock exchange units.

The banking sector has reconfirmed its strong fundamentals, despite a risky environment, and broadly maintained its good performance. Indeed, its profits were up 1 percent, generating a return on assets steady at 1 percent, while consolidating its financial base. Average capital adequacy ratio stood at 13.8 percent and core capital ratio at 11.6 percent, calculated for the first time based on Basel III requirements. Similarly, the Basel liquidity ratio, whose entry into force is planned for 2015, averaged 130 percent at end-2014, reflecting strengthened banks' liquidity coverage. However, the banking sector remains exposed to increased credit risk as well as to a concentration risk, from a share of loans, on major borrowers. The assessment of risks run by credit and financial institutions on groups of companies, sometimes large ones, suffers from the lack of a comprehensive view of the consolidated financial position of these groups and the fragmented information on bank funding and on markets from which they benefit or are likely to benefit. Prudential measures are being considered to mitigate this risk.

At the cross-border level, the expansion of the three major Moroccan banks in the African continent is undergoing a period of consolidation. Large-scale projects are being implemented to harmonize risk management and internal control arrangements at all offices abroad and adapt the related steering and risk monitoring mechanisms. The activity of these foreign subsidiaries, which represented 19 percent of the activity of the three Moroccan banking groups, recorded dynamic growth both in terms of loans and deposits. A relatively significant share of exposures in the balance sheets of these subsidiaries is to sovereigns and host country public enterprises. Nevertheless, the low direct exposure of Moroccan banks to these subsidiaries limits the risk of cross-border contagion, as shown by the stress tests conducted in this field.

The stress tests carried out to assess banks' ability to resist domestic macroeconomic shocks confirm, too, the resilience of the banking system, and indicate that the rate of NPL should remain at manageable levels. The strength of the Moroccan banking system was also underlined by the stress tests conducted by the International Monetary Fund and the World Bank as part of a financial system assessment mission during the first four months of 2015, the first results of which show that banks withstand adverse shocks.

The insurance sector continues to show signs of strength. The sector's net income grew by 4.5 percent, thereby contributing to a 3.7 percent year-on-year increase in capital. The solvency margin, covering the underwriting risk, represents nearly four times the regulatory minimum, but has shrunk in recent years and does not cover all the risks faced by insurance companies. Like banks, major insurers are expanding abroad, looking for growth opportunities in the African continent. This expansion brings new challenges for supervision.

The situation of pension schemes becomes more and more worrying, due mainly to the worsening demographic factor and the imbalance between benefits and contributions. Pension plans' unhedged debt over the forecast horizon is estimated at 91 percent of GDP, which threatens their financial sustainability, particularly for the civil service pension scheme. Without urgent parametric reform, drawings from reserves will accelerate and would heavily weigh on state budget, financial markets and even on household purchasing power.

CHAPTER 1

MACROECONOMIC DEVELOPMENTS

Over 2014, global economic growth remained below expectations, due in particular to a sluggish growth in the euro area and Japan, as well as a slowdown in the main emerging countries. As to the outlook, the IMF, in its April 2015 forecasts, projects slight improvement to 3.5 percent in 2015, driven by stronger activity in the advanced economies. In this context, the unemployment rate still lingers at high levels, especially in the euro area which hosts a large community of Moroccans living abroad. In international commodity markets, prices recorded a significant decline. Against this backdrop, world inflation fell from 3.9 percent in 2013 to 3.5 percent. Based on April-2015 projections of the World Bank, commodity prices are expected to continue overall their decline in 2015, before trending slightly upward in 2016.

At the national level, the current account deficit stood at 5.6 percent of GDP after 7.9 percent in 2013 and 9.5 percent in 2012. This improvement, coupled with the inflow of foreign direct investment and loans, contributed to the strengthening of net international reserves which reached 180.8 billion dirhams at the end of December 2014. They represented the equivalent of five months and eight days of goods and services' imports, as against four months and 12 days in 2013. National growth slowed sharply to 2.4 percent as against 4.7 percent a year earlier. This deceleration was reflected on the labor market situation which continued to deteriorate for the third consecutive year. The unemployment rate stood at 9.9 percent from 9.2 percent in 2013. Under these conditions, inflation stood at 0.4 percent as against 1.9 percent in 2013. However, core Inflation remained high, reaching 1.2 percent from 1.5 percent in 2013. As to the fiscal position, and after a strong recovery in 2013, the year 2014 saw a 0.2 point drop in budget deficit to 4.9 percent of GDP. Fiscal deficit is expected to continue to improve but remains surrounded by risks related to cyclical improvement of the major factors, particularly grants and falling oil prices. In terms of monetary policy, the Board of Bank Al-Maghrib decided, during its last two meetings of 2014, to lower its key rate from 3 percent to 2.75 percent on September 23, then to 2.5 percent in December 16. Thus, the weighted average interbank rate fell to 2.95 percent on average in 2014, down 11 basis points compared to 2013. Bank lending posted a limited rise of 2.2 percent from 3.9 percent in 2013 and 4.6 percent in 2012. The Real Estate Price Index (REPI) depreciated slightly by 0.8 percent in 2014 after rising 1.3 percent a year earlier. At the same time, real estate transactions rose 11.9 percent in 2014 after declining 4.7 percent. This growth affected all categories of property.

I.1 INTERNATIONAL DEVELOPMENTS

Stagnant global growth at 3.4 percent, below expectations

During 2014, global economic growth remained below expectations, reflecting in particular fragile activity in the euro area and Japan and economic slowdown in major emerging countries. Global growth thus stabilized at 3.4 percent, covering a slight rise from 1.4 percent to 1.8 percent in advanced economies and a slowdown from 5 percent to 4.6 percent in emerging and developing economies.

In the United States, improved investment and consumption has resulted in a consolidation of growth, which stood at 2.4 percent from 2.2 percent a year earlier. However, GDP fell by 0.1 percent in Japan after rising 1.6 percent, due to a decline in consumption following the VAT increase. In the euro area, GDP grew 0.9 percent after two consecutive years of decline.

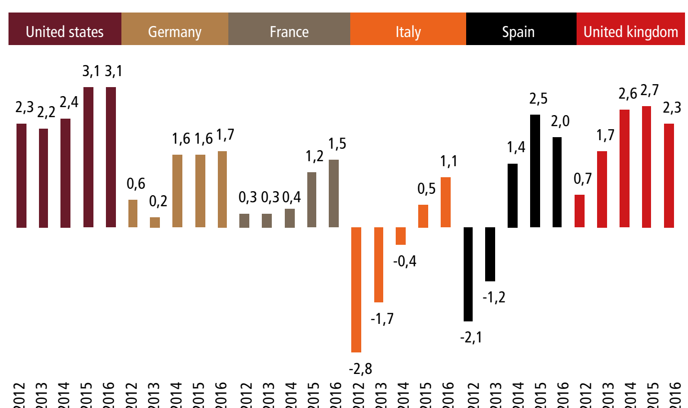
Regarding Morocco's main European partners, activity overall relatively improved, to varying degrees across countries. Thus, growth accelerated from 0.2 percent to 1.6 percent in Germany and from -1.2 percent to 1.4 percent in Spain. It edged up from 0.3 percent to 0.4 percent in France, while in Italy the contraction in GDP lessened from 1.7 percent to 0.4 percent. In the UK, having stood at 1.7 percent, growth reached 2.6 percent, its fastest pace since 2007, particularly reflecting the recovery of investment.

In emerging markets, growth decelerated from 7.8 percent to 7.4 percent in China, from 2.7 percent to 0.1 percent in Brazil, from 2.2 percent to 1.5 percent in South Africa and from 1.3 percent to 0.6 percent in Russia. However, it increased from 6.9 percent to 7.2 percent in India, driven by recent macroeconomic reforms and improved business climate.

In the Middle East and North Africa, growth remained moderate in 2014, standing at 2.4 percent instead of 2.3 percent a year earlier, on account of lower oil prices over the second half of the year and ongoing geopolitical conflicts. It sped-up from 2.8 percent to 4.1 percent in Algeria, almost stabilized at 2.2 percent in Egypt and at 2.3 percent in Tunisia, while it slowed down in the United Arab Emirates from 5.2 percent to 3.6 percent.

In Sub-Saharan Africa, growth remained strong despite a slight drop from 5.2 percent to 5 percent. It particularly slowed down from 8.7 percent to 7.5 percent in Ivory Coast and from 5.6 percent to 5.1 percent in Gabon. However, GDP grew by 9.1 percent against 8.5 percent in the Democratic Republic of Congo, by 4.5 percent against 3.5 percent in Senegal and by 6.8 percent instead of 1.7 percent in Mali.

Growth in the US and in the main European partner countries



Source: IMF

In 2016, global growth is projected to strengthen due to the expected recovery in emerging countries

In terms of outlook, the IMF, in its April 2015 projections, expects a slight improvement in global growth at 3.5 percent in 2015, driven in particular by activity in advanced countries whose GDP is expected to grow by 2.4 percent instead of 1.8 percent in 2014. Growth in emerging and developing economies is set to slow from 4.6 percent to 4.3 percent, impacted by a weaker performance in China, Russia and some oil-exporting countries. In 2016, GDP growth is expected to pick-up to 3.8 percent, covering a recovery of growth at 4.7 percent in emerging and developing countries and stabilization in advanced economies.

Regarding Morocco's main European partners, GDP growth is expected to stand in 2015 and 2016 respectively at 1.6 percent and 1.7 percent in Germany, 1.2 percent and 1.5 percent in France, 0.5 percent and 1.1 percent in Italy, 2.5 percent and 2 percent in Spain and 2.7 percent and 2.3 percent in the UK. These developments should lead to a relative improvement in foreign demand for Morocco. Concerning the MENA region, growth projections were revised downwards, in conjunction with the slowdown in oil-exporting countries. GDP growth is projected to stand at 2.7 percent in 2015, before picking up in 2016 to 3.7 percent.

Sub-Saharan African countries, where the big Moroccan banking groups are installed, are expected to register a slight slowdown of their activity in 2015.

Growth in Sub-Saharan Africa is expected to slow to 4.5 percent in 2015, before rising to 5.1 percent in 2016, impacted by the drop in commodity prices and the effects of the Ebola epidemic in some countries. In particular, it is expected to stand at 7.7 percent in 2015 and 7.8 percent in 2016 in Ivory Coast, at 4.6 percent and 5.1 percent in Senegal and at 4.4 percent and 5.5 percent in Gabon.

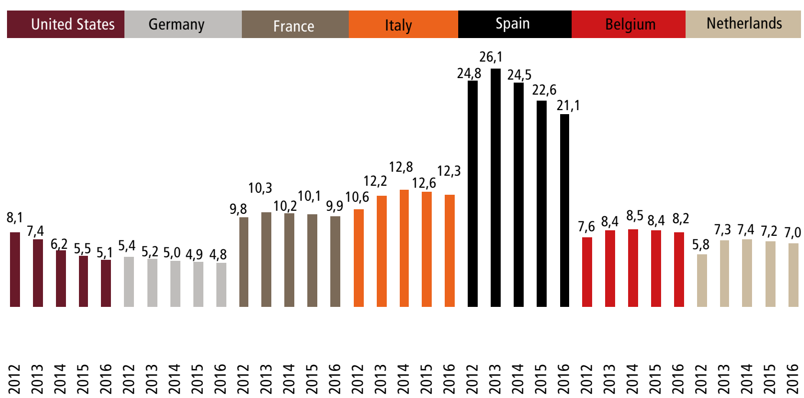
While global activity seems to strengthen over the medium-term, downside risks continue to weigh on growth. These include :

- Stagnation of economic activity and low inflation in advanced countries;
- Sooner-than-expected rise in oil prices;
- Persisting geopolitical risks, particularly in Ukraine, the Middle East and parts of Africa;
- Strong variations in financial asset prices.

Persisting high unemployment levels in the euro area excluding Germany

On the labor market, the unemployment rate registered varying trends in the countries of residence of Moroccans, especially in the euro area. It thus fell from 5.2 percent to 5 percent in Germany, from 26.1 percent to 24.5 percent in Spain and from 10.3 percent to 10.2 percent in France. However, it rose from 12.2 percent to 12.8 percent in Italy, from 7.3 percent to 7.4 percent in the Netherlands and from 8.4 percent to 8.5 percent in Belgium. The improved situation on the labor market in the medium term, as is evident from the IMF outlook, could have a positive impact on transfers of Moroccans living abroad.

Change in the unemployment rate



Source: IMF

Commodity prices declined significantly between 2013 and 2014

In a context of slower demand from emerging countries, commodity prices on international markets declined notably in 2014.

In fact, non-energy price index fell by 4.6 percent, reflecting prices drop by 6.6 percent for metals and minerals, by 3.4 percent for agricultural products, and by 11.6 percent for fertilizers. The price of iron recorded a sharp decline of 28.4 percent and copper was down 6.4 percent. Prices of barley and corn fell strongly by 32 percent and 25.6 percent respectively. As for crude phosphate, its price declined significantly by 25.6 percent, from 148.1 dollars per tonne to 110.2 dollars in 2014.

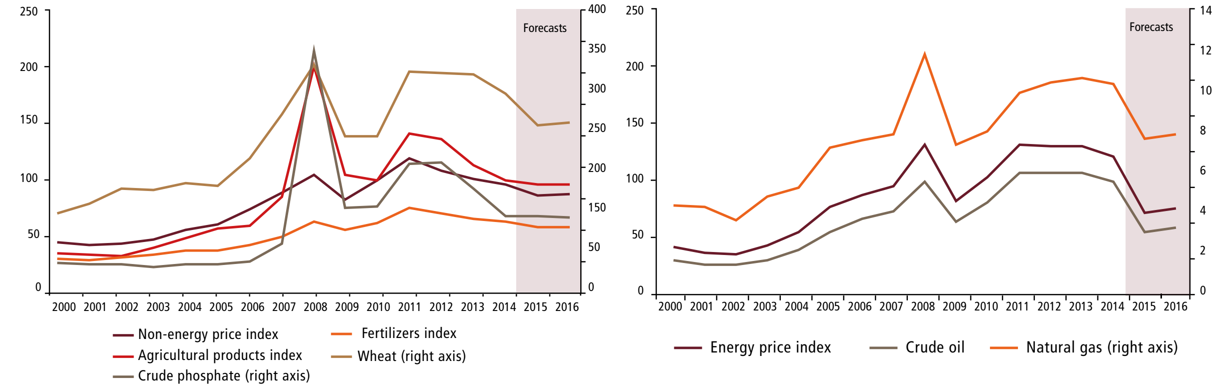
Similarly, the price of urea declined by 7 percent, while that of diammonium phosphate (DAP) and triple superphosphate (TSP) increased by 6.2 percent and 1.6 percent, standing at 472.5 and 388.3 dollars per tonne respectively.

Prices of precious metals continued the downward trend that began the previous year, down 12.1 percent. More particularly, gold price decreased by 10.3 percent while that of silver dropped by 20 percent.

Concerning energy products, their prices decreased by 7.2 percent, mainly due to slower activity and abundant supply. In fact, prices fell 17.1 percent for coal and 7.5 percent for oil, including a decline of 9.1 percent for Brent oil, from 108.86 dollars a barrel to 98.94 dollars. Price of natural gas fell slightly by 0.5 percent, as it declined by 14.7 percent in Europe and rose by 17.2 percent in the United States.

Energy products prices drop had a positive impact on the trade balance deficit and on the budget deficit of Morocco, while it negatively impacted the refinery activities which witnessed a write-down of their inventories.

Developments and projections of commodity prices (2000-2016)



Source : World Bank

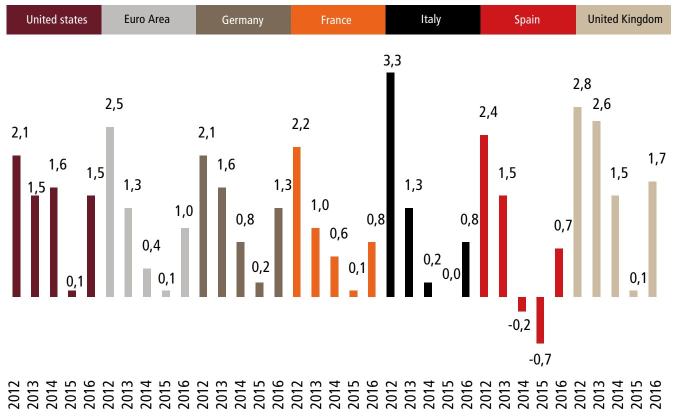
According to the April 2015 projections of the World Bank, commodity prices would broadly continue to trend down in 2015, and then increase slightly in 2016. Oil price is expected to stand at 53.2 dollars per barrel in 2015 and 57.2 dollars in 2016, after 96.2 dollars in 2014. As for wheat, its price would decline from 16 percent in 2015, before experiencing a slight rise of 1.4 percent in 2016. For its part, the price of crude phosphate would stabilize at around 110 dollars per tonne in 2015, and then slightly decline in 2016, to 107.8 dollars. Derivatives' prices are expected to drop in 2015, by 0.5 percent for the DAP and 8.3 percent for urea, while the price of TSP would increase by 0.4 percent. They would amount to, respectively, 470 dollars per tonne, 290 dollars per tonne and 390 dollars per tonne, before declining respectively by 0.7 percent, 0.3 percent and 1.1 percent in 2016.

World inflation eased in 2014, covering a decline in emerging and developing countries and stable rates in advanced economies

In this context of strong, fall of commodity prices, world inflation fell from 3.9 percent in 2013 to 3.5 percent in 2014. This trend covers its stabilization in advanced economies at 1.4 percent and its decline in emerging and developing countries from 5.9 percent to 5.1 percent.

In advanced countries, inflation rose slightly from 1.5 percent to 1.6 percent in the United States, and picked up from 0.4 percent to 2.7 percent in Japan, mainly as a result of the VAT hike. However, inflation witnessed a marked decline in the euro area, from 1.3 percent to 0.4 percent. In Morocco's main European partners, important decreases were recorded in the UK, from 2.6 percent to 1.5 percent, in Germany from 1.6 percent to 0.8 percent, in Italy, from 1.3 percent 0.2 percent, and in France from 1 percent to 0.6 percent. Meanwhile, consumer prices were down 0.2 percent in Spain after their 1.5 percent rise in 2013. As for emerging and developing countries, inflation decelerated from 2.6 percent to 2 percent in China and from 3.5 percent to 2.7 percent in Saudi Arabia, while it rose from 6.8 percent to 7.8 percent in Russia.

Inflation in Morocco's major advanced partner countries



Source: IMF

IMF projections for April 2015 show a decline in inflation, mostly in connection with the expected decline in commodity prices in 2015, before accelerating in 2016. Inflation would reach 0.4 percent in 2015 in advanced economies, and then increase to 1.6 percent in 2016. For their part, emerging and developing countries would record higher inflation rates in 2015, from 5.1 to 5.4 percent, and slow down to 4.8 percent in 2016.

Financial conditions improved further in advanced economies, while some pressures persist in emerging and developing countries

The year 2014 witnessed improved financial conditions in advanced economies, compared to macroeconomic imbalances in emerging markets.

States bond financing continued to improve in most developed countries, as the 10-year sovereign yield rate decreased from one year to another, reflecting renewed investors' confidence and lower inflation expectations. It thus dropped from 1.6 to 1.2 percent on average in Germany and from 2.2 to 1.7 percent in France. This rate fell from 10.1 to 6.9 percent for Greece, from 4.6 to 2.7 percent for Spain, from 4.3 to 2.9 percent for Italy and from 6.3 to 3.8 percent for Portugal. Yields on 10-year U.S. bonds averaged 2.5 percent instead of 2.3 percent. 10-year sovereign yields of the main emerging markets rose during the early stages of the FED's monetary policy normalization process.

Indexes of developed countries stock markets performed well, driven by the improved outlook of the economic situation and the continued accommodation of monetary policies. Hence, the EUROSTOXX50 increased by 12.6 percent on average, the Dow Jones Industrial rose by 11.9 percent and the NIKKEI225 by 14.2 percent. As for emerging economies, the MSCI EM[2] virtually stagnated, with a decrease in stock market indices in Russia, Brazil and Turkey and an increase in China, India and South Africa.

Bank credit witnessed a more favorable development compared to the previous year, particularly in the US where growth rate recorded, from one year-end to the other, a marked acceleration from 1.2 percent to 7.5 percent. In the euro area, credit crunch eased from 2.3 percent to 0.5 percent.

Regarding monetary policy, central banks of developed countries maintained their key rates at low levels, while trending differently in terms of quantitative easing measures. In the main emerging countries, China has lowered its key rate to facilitate its economy financing, while others have tightened their monetary policies to contain inflationary pressures and support their currencies. In sub-Saharan Africa, countries continued their prudent monetary policies. The Central Bank of West African State[3] (BCEAO) kept its key rate unchanged at 2.5 percent, while the Bank of Central African States[4] (BEAC) lowered its rate by 30 basis points in July to 4.70 percent.

The differences in monetary policy orientations induced important variations in exchange rates, particularly a sharp appreciation of the dollar and a depreciation of the euro and the yen.

2 Morgan Stanley Capital International for Emerging Markets is a composite index designed to measure equity market performance in emerging markets.
3 Central bank serving countries of the West African Economic and Monetary Union, namely Benin, Burkina Faso, Guinea-Bissau, Ivory Coast (Côte d'Ivoire), Mali, Niger, Senegal, and Togo.
4 Central bank serving countries which form the Economic and Monetary Community of Central Africa: Cameroon, Central Africa, Congo, Gabon, Equatorial Guinea, and Chad.

The situation of the banking systems of Morocco's main advanced partners has improved

The banking systems of Morocco's main developed partners continued their consolidation. The banking union established in the euro area constitutes an important phase in the process of reforming the financial sector in Europe. Monetary policy implementation was thus well supported by the new environment created for banks, which resulted in relatively sounder banking systems. As a result, more favorable conditions were provided for the growth of real economy, which, in turn, could support efforts of the banking sector todeal with corporate debt and improve Banks' balance sheets.

Risks to financial stability arising from the international environment are expected to ease further

Overall, analysis of the international economic and financial environment suggests a slight attenuation of external risks to financial stability.

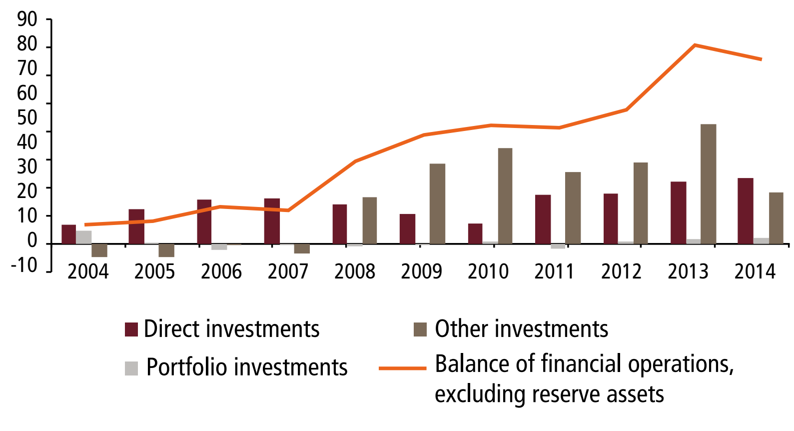
I.2 DOMESTIC MACROECONOMICS DEVELOPPEMENTS

The current account deficit narrowed markedly, resulting in a significant decline in banks' liquidity needs

The current account deficit stood at 5.6 percent of GDP in 2014, down from 7.9 percent in 2013 and 9.5 percent in 2012. Although this deficit is significantly lower from one year to another, its persistence still represents a source of risk for the national economy.

The goods deficit stood at 18.6 percent of GDP compared to 20.5 percent a year before, reflecting an increase of 0.3 percent in the imports of goods, lower than 8.7 percent for exports. The services surplus improved by 5.7 billion dirhams to 59.5 billion, or 6.4 percent of GDP. In particular, travel receipts increased by 2.9 percent to 59.3 billion or 6.4 percent of GDP. In parallel, the secondary income rose by 11.7 percent to 81.5 billion or 8.8 percent of GDP, covering an increase of 4.8 percent in the revenues from private sources and an expansion of 5.4 billion dirhams to 11.9 billion in income from public sources. Furthermore, the primary income was 21.2 billion or 2.3 percent of GDP.

Balance of financial transactions and its components, in billion dirhams



Source : Foreign Exchange Office

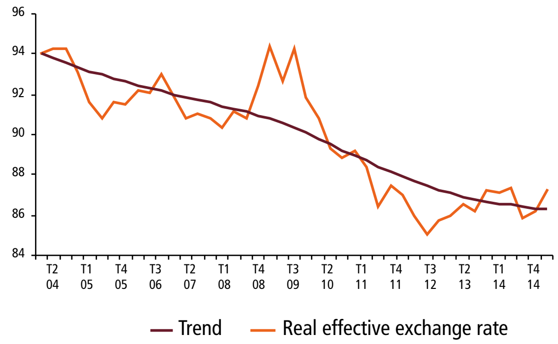
In turn, the financial account, excluding reserve assets, decreased by 79.2 to 73.3 billion dirhams, thus representing 7.9 percent of GDP against 8.8 percent in 2013. This trend covers in particular a decrease of 22.9 billion in the balance of other investments to 2.2 percent of GDP and a rise of portfolio investment by 15.3 billion to 2.9 percent of GDP and in direct investments by 1.5 billion to 2.9 percent of GDP.

Noticeable rise in net international reserves

In this context marked by the significant fall in the trade deficit and large inflows of grants and loans, net international reserves[5] continued to improve, their outstanding at end December 2014 having gained 20.3 percent to 180.8 billion dirhams. They thus represent the equivalent of 5 months and eight days of imports of goods and services, against 4 months and 12 days a year earlier.

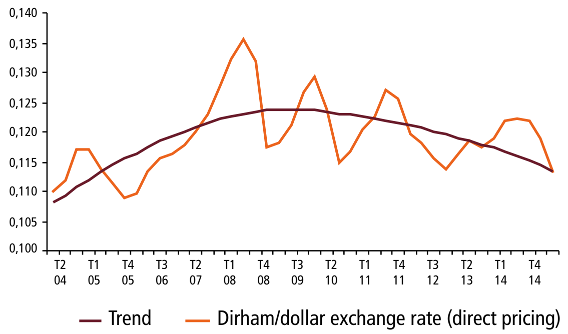
The nominal effective exchange rate gained 0.9 percent compared to 2013, but in real terms it decreased slightly due to the inflation differential in favor of Morocco.

Real effective exchange rate and its trend



Source: Foreign Exchange Office and BAM

Dirham/dollar exchange rate (direct pricing)



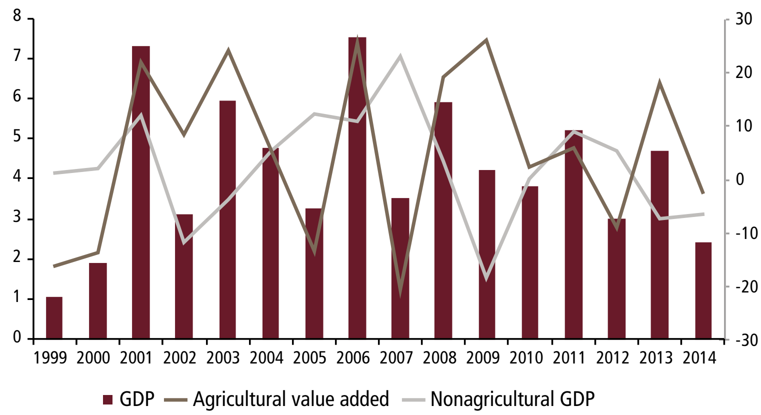
Source : BAM

5 Net international reserves (NIR) are defined as reserve assets under the control of the monetary authority minus short-term liabilities to nonresidents. NIR = monetary gold holdings + SDR holdings + assets in convertible foreign currencies + Morocco's reserve position with the IMF - Short-term foreign currency liabilities.

GDP growth slowed to 2.4 percent in 2014, covering a fall of 2.5 percent in the agricultural value added and a low performance of the nonagricultural value added, up 2 percent after 1.9 percent in 2013

In 2014, the national growth slowed sharply to 2.4 percent against 4.7 percent a year earlier. This is attributable to a decline of 2.5 percent in the agricultural value added, after a surge of 17.9 percent in 2013 and to a further slowdown in nonagricultural activities, the value added of which increased by 2 percent in 2014 compared to 1.9 percent in 2013. As a result of the strong growth of taxes on income less subsidies, the nonagricultural GDP increased by 3 percent in 2013 and 3.1 percent in 2014.

Change in GDP components



Source: High Commission for Planning

Slow recovery of nonagricultural activities

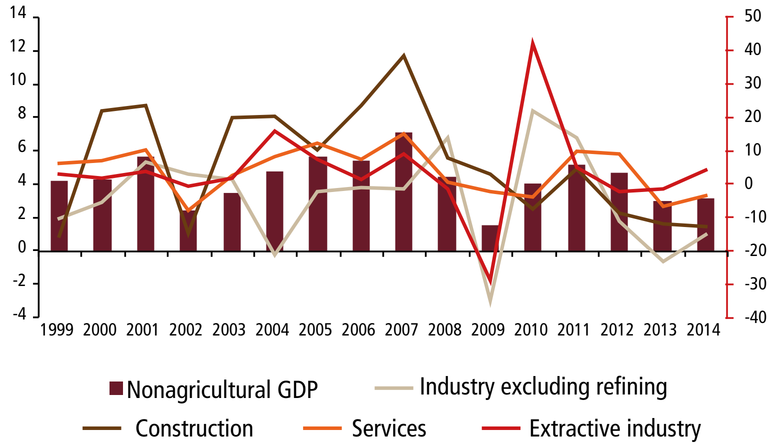
The slow recovery of nonagricultural activities mainly reflects the poor performance of services, the growth of which stood at 2.2 percent in 2014 from 2.1 percent in 2013 and 4.7 percent between 2008 and 2012. As for the secondary sector, its value added posted an increase of 1.7 percent against 0.6 percent, reflecting a recovery for mining and a relative revival for industrial activities. However, the construction sector continued its downturn started in 2009, with a growth rate of 1.4 percent compared to 3.1 percent, on average, between 2009 and 2013, which are levels well below those observed in the period from 2000 to 2008 (7.3 percent on average). After a 0.6 percent decline in 2013, the value added of processing industries grew by

1 percent, reflecting a 5.7 percent improvement in agribusiness activities compared to 2.3 percent a year earlier. Similarly, the value added of textile and leather industries was up 4.5 percent, following a decline of 1.3 percent a year earlier. As to the value added of mechanical, metallurgical and electronic industries, it rose by 1.9 percent in 2014, after a decline of 5 percent in 2013.

Taking into account these elements, the growth pace of nonagricultural activities remains below its potential reached during the 2000-2010 decade.

The nonagricultural value added rose by 1.9 percent, on average, between 2013 and 2014, as against 4.4 percent during the decade 2000-2010. This questions the ability of the Moroccan economic fabric to recover its pre-crisis dynamism.

Change in nonagricultural GDP, the value added of the construction sector, extractive industries, non-refining industry and services

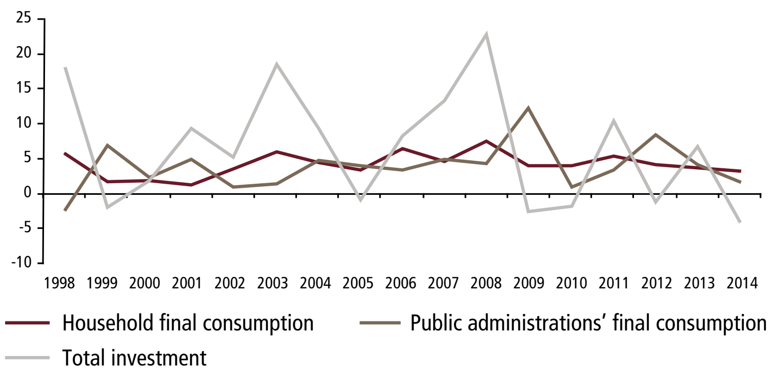


Source: High Commission for Planning

The contribution of domestic demand to growth continued to decelerate in 2014, along with a positive participation of net exports of goods and services

Domestic demand has seen continuous slowdown since 2011, with a growth of 0.8 percent in 2014. Its contribution to growth therefore decreased from 7.3 percentage points in 2011 to 3.3 points, on average, between 2012 and 2014. The growth in households' final consumption stood at 3.2 percent in 2014 after 3.7 percent in 2013, while that of the general government reached 1.8 percent from 4.2 percent. In parallel, investment recorded a 4 percent drop in 2014, covering a 0.4 percent decrease in the gross fixed capital formation and 23.2 percent in the change in inventories.

Change in investment and final consumption, in %

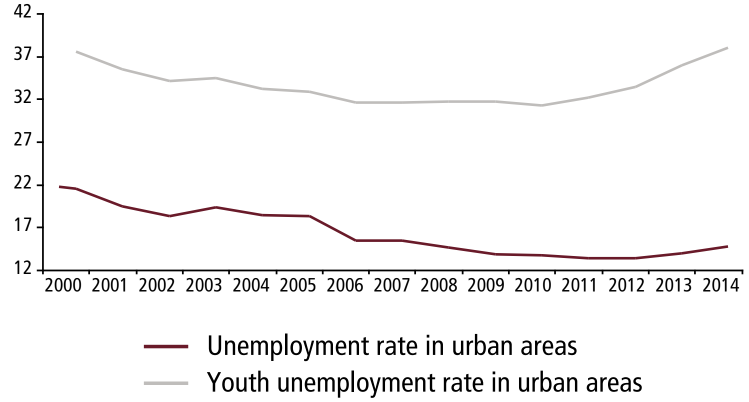


Source: High Commission for Planning

Continued deterioration in the labor market

These developments impacted the labor market which has continued to deteriorate, for the third running year. The unemployment rate stood at 9.9 percent against 9.2 percent in 2013. In urban areas, it rose from 14 percent to 14.8 percent, with in particular an increase from 36 percent to 38.1 percent for young people aged 15-24 years.

Change in the unemployment rate in urban areas, in %



Source: High Commission for Planning

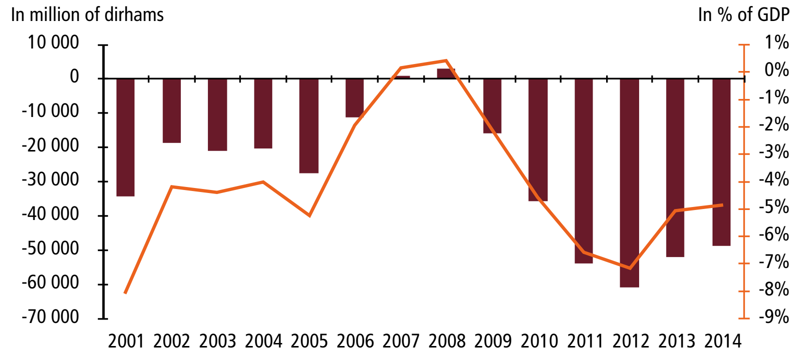
Against this background, inflation stood at 0.4 percent against 1.9 percent in 2013. This decline notably reflects the decline for foodstuff with volatile prices by 5.6 percent against an increase of 3.3 percent in 2013. In turn, underlying inflation reached 1.2 percent compared to 1.5 percent in 2013.

After noticeable recovery in 2013, fiscal position improved slightly in 2014

Regarding the fiscal position and after a major recovery in 2013, the year 2014 ended with a fall of the deficit by 0.2 GDP point to 4.9 percent. This decrease is mainly due to higher inflows of donations from the member countries of the Gulf Cooperation Council and lower subsidy expenses.

The fiscal position should continue to improve but is still surrounded by the risks relating to the cyclical nature of major improvement factors, especially revenues and donations and the drop in oil prices. Indeed, the budget deficit excluding donations from the countries of the Gulf Cooperation Council amounted to 6.3 percent of GDP in 2014 against 5.6 percent in 2013.

Change in the budget balance



Source: Ministry of Economy and Finance

Measures should be taken to consolidate fiscal sustainability, especially the reduction of the general government expenses, the improvement of investment efficiency and the reform of the pension scheme.

Despite the decline in domestic VAT revenues, tax receipts were up in 2014

Tax revenues improved by 1.6 percent to about 200 billion. The receipts of direct taxes grew by 0.3 percent, reflecting a 2.1 percent increase in revenues from corporate taxes, after a decline of 6.4 percent in 2013 and 0.7 percent in income tax revenues, after an increase of 2 percent. Indirect taxes yielded 98.8 billion, up 0.7 percent compared to 0.6 percent in 2013 and 4.7 percent in 2012, covering an increase in revenues from domestic consumption taxes by 4.3 percent and a fall of 0.4 percent in the receipts of the value added tax (VAT). The change in the latter is due to the 1.2 percent decline in domestic VAT and the 0.2 percent increase in the VAT on imports. As to revenues from customs duties, they increased by 0.7 percent while registration and stamp duties drained 15.8 billion, up 16.3 percent.

Change in main tax receipts

Source: Ministry of Economy and Finance

The decrease in monopoly revenues of were more than offset by the large drawings from donations

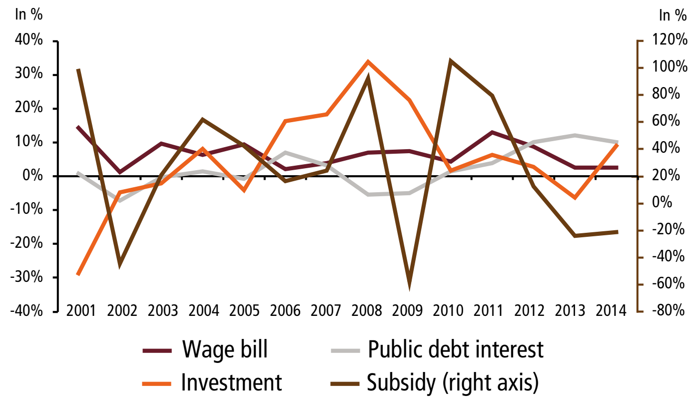
Nontax receipts, which amounted to 33.1 billion dirhams, rose by 14.6 percent after a surge of 52.4 percent in 2013 and a fall of 4.7 percent in 2012. This trend is chiefly attributable to the collection of donations from the countries of the Gulf Cooperation Council amounting to 13.1 billion dirhams compared to 5.2 billion received in 2013. The program of these transfers should be completed in 2016 and therefore calls for additional efforts to maintain the budget balance on a sustainable path. As for the monopoly revenues, they totaled 9.8 billion, down 26.7 percent, mainly reflecting the decline in the dividends of the Office Chérifien des Phosphates (National Phosphates Office) and the Agence Nationale de la Conservation Foncière, du Cadastre et de la Cartographie (Land Registry Office).

The reform of the subsidy system caused subsidy costs to decline significantly, helping rein in the increase of budget expenditures

The Treasury's ordinary expenses were up 0.3 percent to 232.9 billion. Operating expenses went up 5.1 percent, reflecting an increase of 2.6 percent in the wage bill to 101.6 billion and of 10.3 percent in the cost of other goods and services to 51.4 billion. Subsidy costs fell by 21.5 percent to 32.6 billion, following the lifting of subsidies for fuel and gasoline, the gradual reduction in diesel oil unit subsidy and falling oil prices.

The interest costs of the Treasury debt grew by 10.1 percent to 24.8 billion or 2.8 percent of the GDP.

Change in main expenditures



Source: Ministry of Economy and Finance

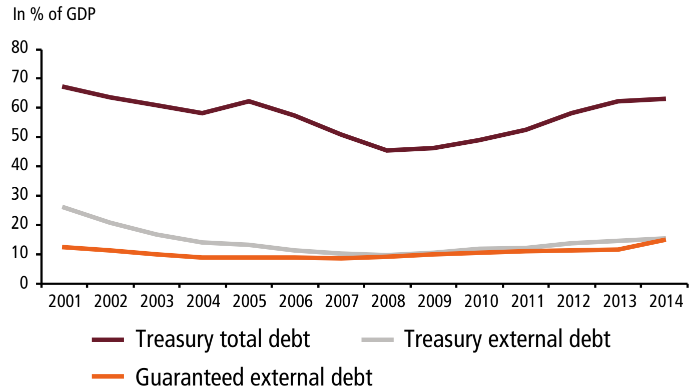
Under these conditions, the ordinary balance showed a surplus of 3.1 billion, after three years of deficit, thereby contributing to the financing of the Treasury's capital expenditures. The latter increased by 9 percent to 52.5 billion, following a decline of 6.3 percent in 2013. Given a positive balance of the Treasury's special accounts, at 4.5 billion, the budget deficit fell to 44.9 billion or 4.9 percent of GDP instead of 45.7 billion or 5.1 percent of GDP in 2013. Payment arrears dropped by 3.9 billion, thus bringing the cash deficit to 48. 8 billion dirhams, down 3.3 billion compared to 2013.

Lower cash deficit and the mobilization of debt noncumulative own resources enabled the Treasury to significantly reduce its recourse to the tender market. They were thus limited to a net amount of 11.4 billion instead of 47.7 billion in 2013. Similarly, net external financing declined fell, from 15 billion to 9.1 billion dirhams. In addition, the Treasury benefited from favorable financing conditions, with the average weighted rate down 27 basis points on issue.

Treasury debt continued to trend up, particularly its external component

Under these conditions, the Treasury's debt continued to rise at a rate of 4 percent to 63.2 percent of GDP, against 62.3 percent in 2013, 58.2 in 2012 and 52.5 percent in 2011. However, its average cost dropped to 4.4 percent as against 4.6 percent in 2013 and 5.1 percent in 2010. By component, outstanding domestic debt increased by 2.6 percent to 47.9 percent of GDP, the same ratio as in 2013. In contrast, the Treasury's external debt accounted for 15.2 percent of GDP, up 0.8 point compared to 2013. Including guaranteed external debt, whose outstanding amount increased by 30.3 percent, the ratio of external public debt amounted to 30 percent of GDP and that of public debt to 78 percent instead of 74 percent in 2013. The change in public debt, including the external one, is expected to limit the room of maneuver in terms of foreign currency funding in the future.

Change in debt



Source: Ministry of Economy and Finance

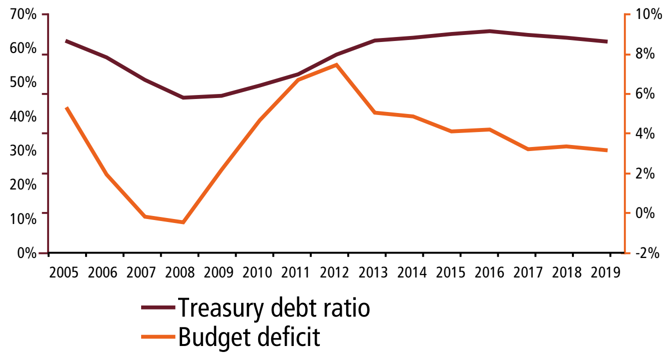
Despite its rising trend, debt is still sustainable if the assumptions of improved growth and continued consolidation materialize

The simulation of the change in debt over the period 2015-2019 is based on the budget estimates of the 2015 Finance Act and the macroeconomic outlook of Bank Al-Maghrib. The basic assumptions for sustainability analysis assume an average growth of 4.6 percent, an average inflation of 1.9 percent and the reduction of the budget deficit to around 3.2 percent of GDP in 2019, reflecting a gradual decrease of subsidy expenses, a slowdown in the growth rate of current expenditure and a better mobilization of tax resources.

According to this scenario, the upward trend observed in the debt ratio since 2010 is expected to reverse trend from 2017. This ratio is projected to rise from 63.2 percent of GDP in 2014 to 65.1 percent in 2016 and 62.1 percent in 2019.

In terms of sustainability indicators, the primary balance posted average levels close to debt stabilizing balances, which indicates a sustainable situation in the event of materialization of adjustment efforts of current expenditure and improvement of tax revenues.

Change in debt and deficit



Source: Ministry of Economy and Finance, BAM forecasts

The downward trend in lending rates continues

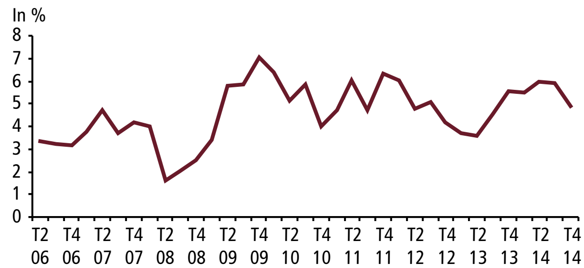
In terms of monetary policy, the Board of Bank Al-Maghrib decided in 2014, at its last two meetings, to lower the key rate from 3 percent to 2.75 percent on September 23 and to 2.50 percent on December 16.

Under these conditions, the weighted average rate on the interbank market fell to 2.95 percent on average in 2014, down 11 basis points compared to 2013.

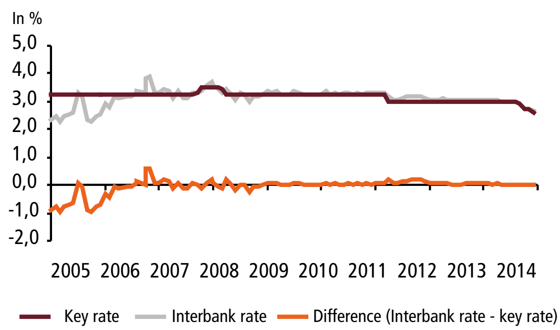
Lending rates continued their downtrend started in 2011. The overall lending rate fell again, from 6.23 percent in 2013 to 6 percent in 2014. This decrease concerned all loan categories, particularly cash facilities and equipment loans, whose rates stood respectively at 5.97 percent and 5.74 percent after 6.20 percent and 5.93 percent.

However, the real lending rate went upward, from 4.4 percent to 5.6 percent, due to the low inflation level compared to the previous year. However, the change during the year indicates a drop in this rate during the last quarter.

Real lending rate



Change in key rate and the interbak rate

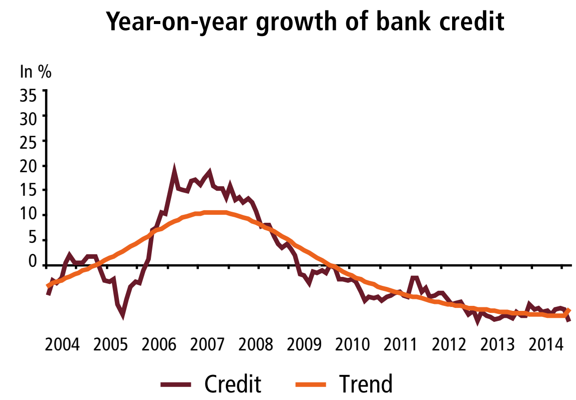


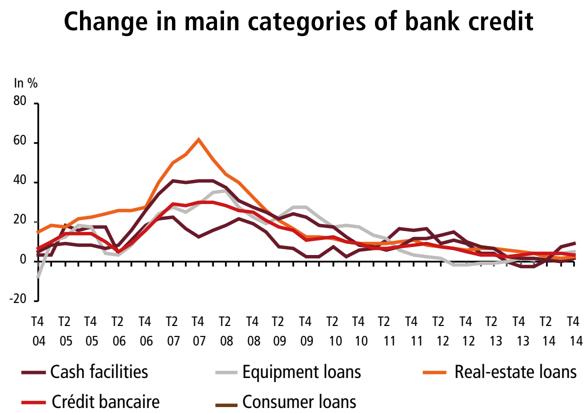
Source : BAM

Credit continued to slow with yet a rise in loans to the nonfinancial sector

In 2014, bank credit[6] recorded an increase of only 2.2 percent compared to 3.9 percent in 2013 and 4.6 percent in 2012. This change mainly reflects a 10.2 percent decline in loans to financial corporations, after a strong increase of 19.3 percent in 2013, while those intended for the nonfinancial sector accelerated from 1.7 percent to 4.2 percent.

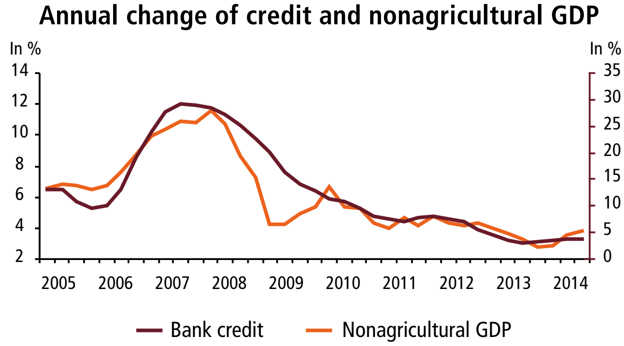
6 The concept of credit used in this chapter is calculated according to the "monetary statistics" methodology.





Source : BAM

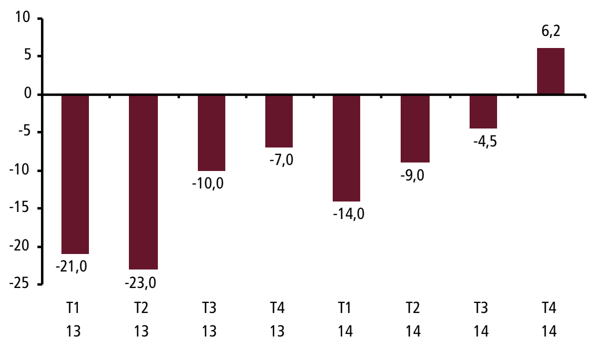
The breakdown of credit to the nonfinancial sector by purpose indicates an acceleration from 1.5 percent to 3.7 percent for equipment loans and an increase of 3.1 percent in cash facilities after a fall of 5.6 percent a year earlier. However, the growth rate of real-estate loans slowed down from 4.8 percent to 2.7 percent.



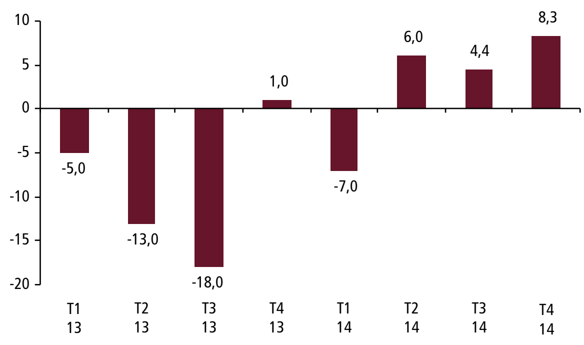
Sources : BAM

According to the survey of Bank Al-Maghrib with banks, the improvement of credit to the nonfinancial sector is attributable to the easing of supply conditions rather than a relative recovery in demand. Improving supply was due, according to banks, to the favorable economic outlook, and favored by the VSME financing support program set up by Bank Al-Maghrib. In terms of demand, it strengthened compared to 2013, reflecting in particular the increase of demand from very small and small enterprises as well as medium-sized enterprises, while it remained rather unchanged for large companies and individuals.

Change in lending criteria (Diffusion index)



Change in demand for credit (Diffusion index)



Source : BAM

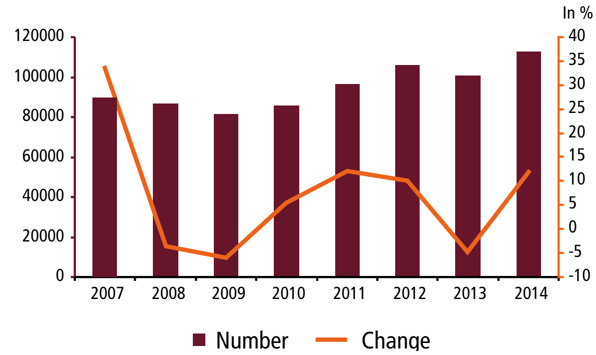
The year 2014 was a difficult one for the real-estate sector

The activity indicators available for the real-estate sector show that the year 2014 was marked by a downturn in the housing building sites started by 7.8%, compared to 23.7% in 2013 and a decline in the number of units completed by 3.3%, after a rise of 20.1% a year earlier. Similarly, sales of cement, main input in the production of housing, continued its downtrend, with a further decline of 5.4% after 6.3%.

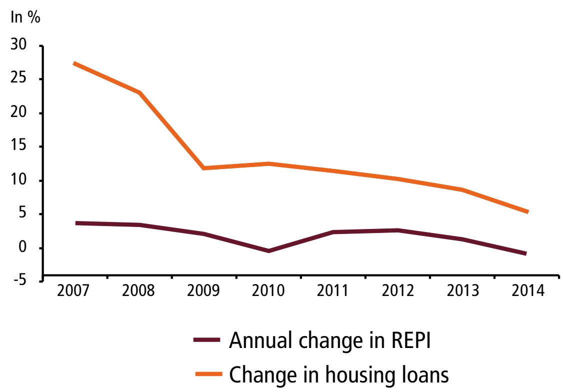
The real-estate price index (REPI) depreciated slightly by 0.8 percent in 2014 after rising 1.3 percent a year earlier. This change affected residential properties and urban land, whose prices fell by 0.6 percent and 1.4 percent respectively, after increases of 0.6 percent and 4 percent in 2013. As regards professional properties, prices were up 2.6 percent in connection with rising prices of commercial premises by 2.6 percent and offices by 2.8 percent.

In parallel, real-estate sales rose 11.9 percent in 2014 after declining 4.7 percent. This concerned all categories of assets.

Annual change in the number of transactions



Annual change in the REPI and growth of housing loans



Source : BAM

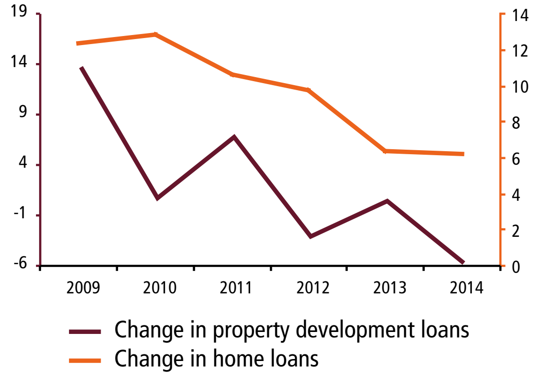
In this context, housing loans accelerated by 6.2, almost the same level compared to 2013, while loans to property developers fell by 5.6 percent after increasing 0.6 percent in 2013.

The absolute deviation between the growth of loans to developers and housing loansdit[7] widened from 5.7 percentage points to 11.8 points.

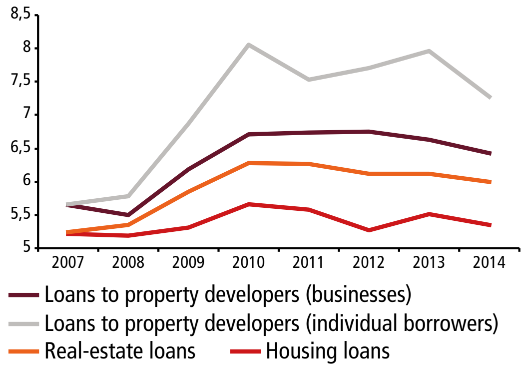
Concerning rates on mortgage loans, housing loans rates were virtually stable at 5.4 percent while rates for loans to property developers fell from 7.3 percent to 6.9 percent.

7 This indicator is calculated by the difference between the changes in housing loans and in loans to real estate development. It provides information on any possible imbalance between demand and offer in the real estate market.

Change in the gap between the growth in property development loans and home loans loans, in %



Change in lending rates on real-estate loans, in %



Source : BAM

CHAPTER 2

THE FINANCIAL SITUATION OF NONFINANCIAL SECTORS

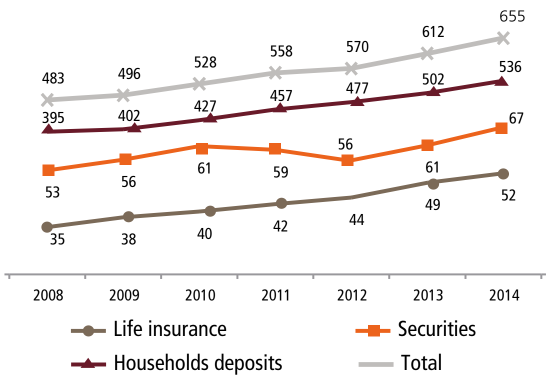
In 2014, the financial situation of households did not undergo any significant change. Households' financial assets held in Morocco increased again at a strong pace, reflecting a sustained growth of their investments in securities, mainly mutual fund shares/units, as well as an increase in their deposits with banks. In parallel, households' overall debt ratio stood at 31 percent of GDP, up nearly a point from the level observed over the past two years. In the mean time, the financial debt of nonfinancial corporations increased, primarily due to the significant increase of the debt of public enterprises, especially its external component.

The creditworthiness of both firms and households fell further, against a background of a sluggish economy marked by a new rise in unemployment.

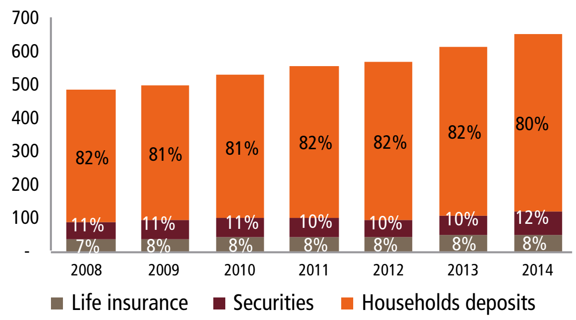
II.1 HOUSEHOLDS

The financial situation of households is evaluated notably through the value of their assets, the level of their indebtedness and their payment defaults.

Change in households' financial assets, in billions of dirhams



Structure of households' financial assets, in billions of dirhams



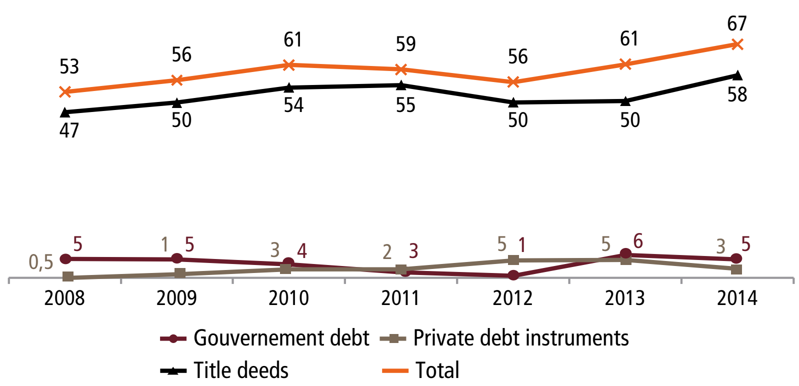
Sources : BAM et DAPS

The financial assets held in Morocco by resident and nonresident households increased

The financial assets held in Morocco by resident and nonresident households totaled 655 billion dirhams in 2014, up 7 percent against 7.3 percent a year earlier. This increase partly reflects a nonrecurring rise related to the contribution in full discharge enacted by the Government.

The structure of these assets changed slightly from one year to another. The share of bank deposits fell by 2 points to 80 percent, in favor of that of securities, which increased from 10 percent to 12 percent. The share of life insurance remained stable at 8 percent of households' financial assets.

Change in securities held by households, in billions of dirhams

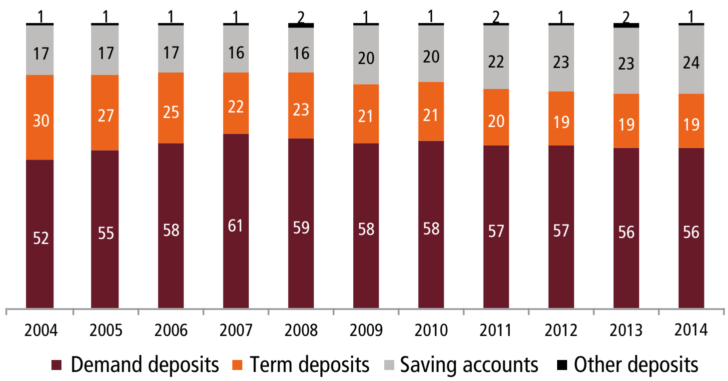


Source: BAM and DAPS (Insurance and Social Welfare Department)

In 2014, households' investments in securities rebounded mainly due to their revaluation. They reached an outstanding amount of 67 billion dirhams, up 9.8 percent. Out of this total amount, title deeds continued to represent the major investments of households with a share of 87 percent, up 4 points compared to 2013 (+ 16 percent). The proportion of private debt securities also dropped to 5 percent compared to 8 percent a year earlier, in a context marked by a lower outstanding amount of issues and a greater sensitivity to counterparty risk in this market.

Households' financial assets in the form of bank deposits also increased by 6.6 percent in 2014, compared to 5.3 percent in 2013, to a total of 536 billion dirhams. This growth was mainly driven by the increase in sight deposits by 6.4 percent, time deposits by 7.1 percent and passbook accounts by 8.1 percent.

Structure of households' bank deposits, in %



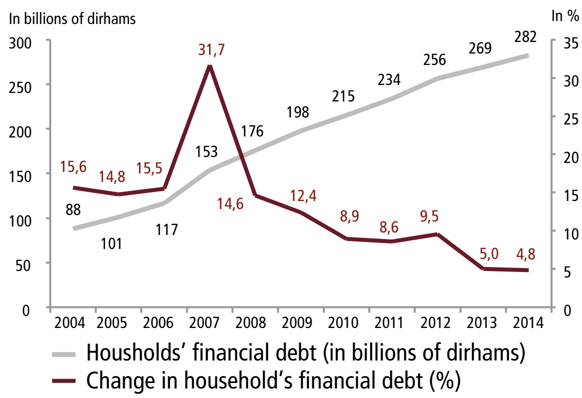
Source : BAM

The structure of households' deposits remained almost stable compared to the previous year. It is characterized by the predominance of demand deposits, which constituted 56 percent of total deposits. The share of savings accounts gradually went up in recent years to 24 percent in 2014, reflecting households' preference for liquid and interest-bearing investments. This rise was not favorable to time deposits, whose share has been declining in recent years, falling from 23 percent in 2008 to 19 percent in 2014.

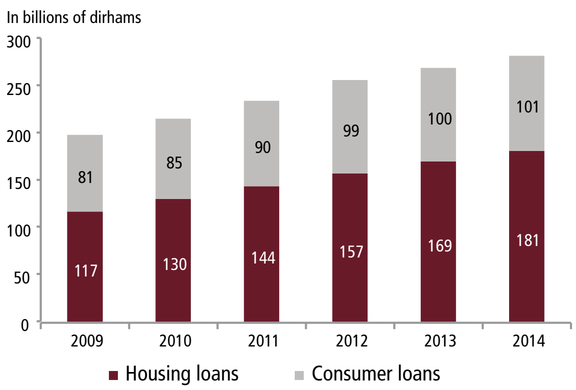
Households' financial debt continued to decelerate and its ratio to GDP remains moderate compared to many developed and emerging countries

Households' financial debt, composed of housing and consumer loans, decelerated to 4.8 percent at the end of 2014, to 282 billion dirhams at the end of 2014, against an average increase of nearly 10 percent in the 2009-2012 period.

Change in households' financial debt



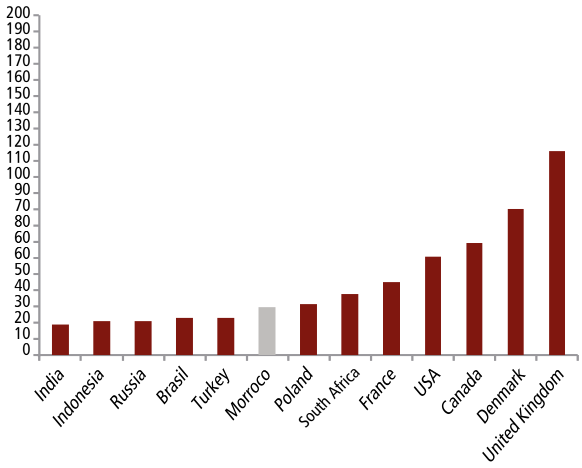
Change in the structure of households' financial debt



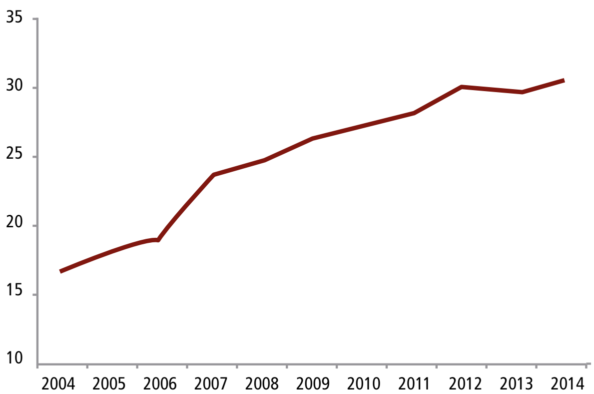
Source : BAM

Under these conditions, the ratio of households' debt to GDP stood at 31 percent, a level that is relatively subdued compared to other emerging and developed economies.

Households debt, in percentage of GDP, in 2014



Households debt, in prcentage of GDP

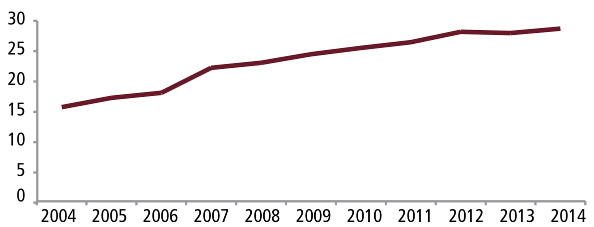


Source : BAM

The growth of the financial debt of households residing in

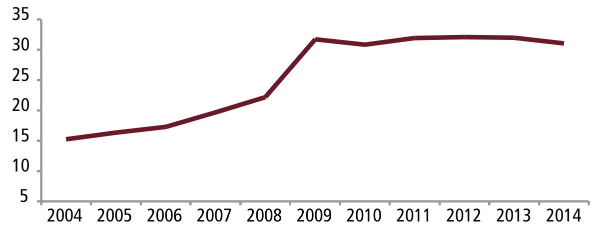
Morocco slowed slightly, with an annual increase of 5.3 percent in 2014, against 5.6 percent in 2013 to 264 billion dirhams. Thus, its ratio to GDP increased to 28.5 percent, against 27.8 percent a year earlier, mainly under the influence of the slowdown of GDP. As for Moroccan households residing abroad, their financial debt represented about one third of their total transfers, almost the same level since 2009.

Resident households' financial debt , in percentage of GDP



Source : BAM

Nonresident households' financial debt, in percentage of nonresidents' remittances

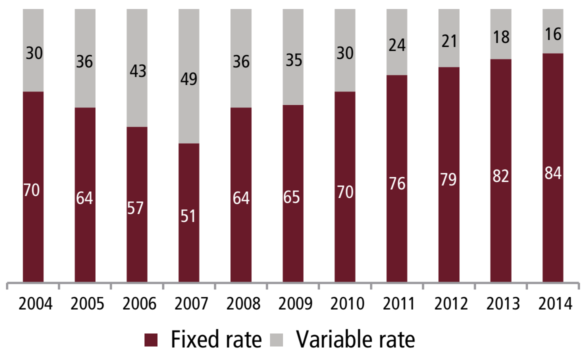


Source : BAM and Foreign Exchange Office

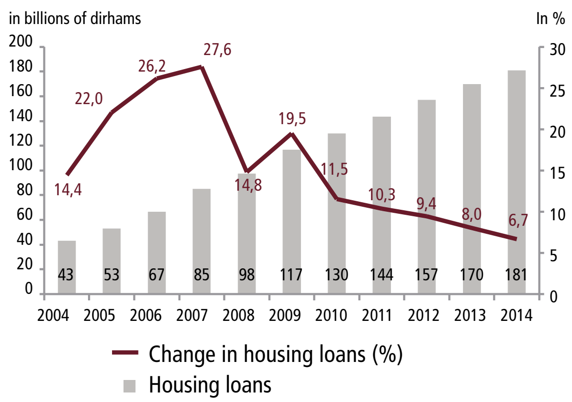
Real-estate investment is the main reason of households' debt, as the share of housing loans represents more than two thirds of households' financial debt

Households' debt continues to finance real-estate purchases mainly, as households' loans represented about 64 percent of their debt, against an average of 61 percent during the first 5 years. The deceleration of these loans' growth has continued since 2009, to 6.7 percent after the two-digit rises registered during the period 2005-2011.

Breakdown of housing loans : fixed /variable rate, in percent



Change in housing loans



Source : BAM

Downtrend in housing loan contracts with a floating-rate

The production of housing loans went up again to 27.3 billion dirhams, up 12.2 percent in 2014, against a decline of 10.6 percent a year earlier, due to the 37 percent rise in the production of state-backed loans. This change comes against a background of a fall of 5 basis points in the interest rate applied to this type of loans, a slight decline of 0.6 percent in the prices of residential properties and a recovery of 14.8 percent in transactions on these assets.

Box 1 : Housing loans – Damane Assakane Fund

Activities of Damane Assakane Fund

At the end of 2014, housing loans granted under Damane Assakane Fund totaled 24.2 billion dirhams, up 21.2 percent compared to 2013. FOGARIM represents 74 percent of them, with an outstanding amount of 17.4 billion granted to 99,000 people. As regards FOGALOGE[8], it rose by 30.8 percent to 6.2 billion-worth loans granted to 21,000 people.

The Fund's liquid assets, which were at the same level as in 2013, reached 1.1 billion dirhams and were invested mainly in Treasury Bonds (91.2 percent).

Beneficiaries and characteristics of loans granted by FOGARIM

The average age of beneficiaries of FOGARIM loans is 37 years. The average amount of loans granted in 2014 increased by 4.9 percent. The average rate remained stable at 6.35 percent, while the average duration has increased to 20.75 years, instead of 20.15 years in 2013.

	Beneficiaries' average age	Average loan (DH)	Durée moyenne	Average duration	Financing rate(%)
2012	36	148 628	20,5	5,92	80
2013	36	155 440	20,1	6,35	76
2014	37	163 018	20,75	6,35	70

Source : Central Guarantee Fund

However, the funding rate fell from 76 to 70 percent, as banks were more demanding as regards personal contribution.

Portfolio quality

Requests for guaranty use declared in 2014 were down 6 percent compared to 2013, with a total amount of 145 million dirhams, of which nearly 86 percent were related to FOGARIM loans.

Over the period 2006-2014, the cumulative requests for guaranty use by Damane Assakane Fund reached 751 million dirhams, representing 5 percent of the initial commitment of the Fund. A share of 95 percent of this amount concerned FOGARIM (713 million dirhams).

8 FOGALOGE : Guarantee Fund for housing loans for civil servants.

By type of interest rate, the share of new housing loans with fixed rates, including all segments, continued to strengthen from one year to another, from 93 percent to 94 percent. Their share in this total outstanding amount rose to 84 percent instead of 82 percent, a year earlier. Variable-rate loans accounted for only 16 percent, reflecting households' cautious attitude vis-à-vis a possible rise in interest rates.

Real-estate loans were contracted for increasingly long periods. Housing loans whose repayment[9] term ranges from 20 years to 30 years represented 55 percent, against 37 percent for those whose duration ranges between 10 and 20 years. These shares reached 42 percent for each in 2013.

Analysis of the profile of housing loan beneficiaries indicates a continued decline in the proportion of households with income lower than 4,000 dirhams, to 38 percent from 40 percent in 2013. Meanwhile, the share of households with an income between 4,000 and 10,000 dirhams increased from 32 percent to 34 percent over the past three years. Those with an income exceeding 10,000 dirhams represent approximately 28 percent, the same level as the previous year. Beneficiaries of this credit category are mostly employees or civil servants, with a share of 86 percent against 81 percent in 2013. A big share of the beneficiaries (63 percent) belongs to the group aged 30 to 49 years, as against 64 percent a year earlier.

Consumer loans contracted by households recorded a weak recovery against a background of slower final consumption by households

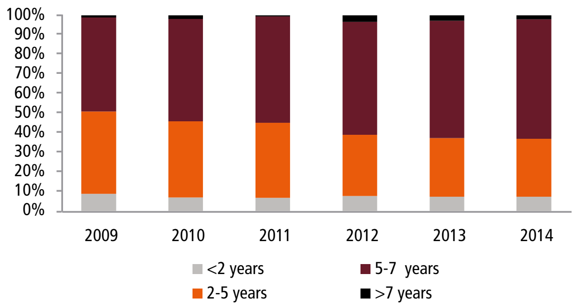
Against a background of a 3.2 percent increase in households' consumption, their consumer loans grew by 1.9 percent in 2014 to 101 billion dirhams. This debt continued to be contracted largely in the form of personal loans with a share of 70 percent and car loans for 29 percent of them.

The breakdown of consumer loans by maturity brackets indicates a further extension of their maturity, as loans contracted for terms exceeding 5 years represent 62 percent of the portfolio,

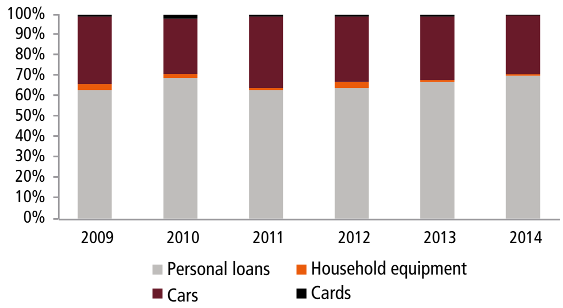
9 Data of Bank Al-Maghrib's annual survey on households' debt.

against 56 percent on average over the last five years, to the detriment of loans with maturities ranging between 2 and 5 years, the share of which accounted for 29 percent at end-2014, against an average of 36 percent between 2009 and 2013.

Breakdown of consumer loans by maturity, in percent



Breakdown of consumer loans by purpose, in percent



Source : BAM

Estimated on the basis of a sample of households, the debt burden on income rose again

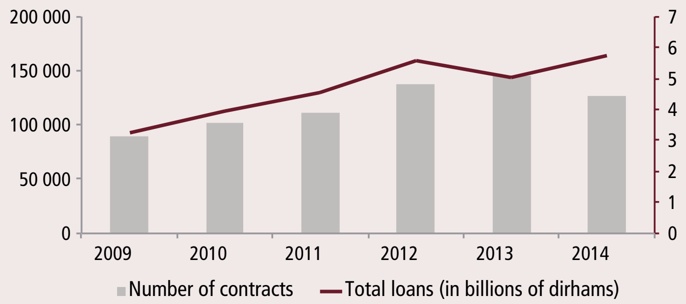
The study of the debt indicators of a sample of households which resorted to credit in the previous 6 years focused on a population with a debt burden higher than 40 percent of their income.

The lessons learned from this study, as shown in Box 2 below, do not reflect structural changes in the profile of households that contracted or renewed a loan in 2014. From one year to another, the debt ratio of households in the sample continued its upward trend from 29 percent to 30 percent. The share of households in the sample with a debt burden exceeding 40 percent of their income reached 23 percent instead of 20 percent.

Box 2 : Debt of a sample of households

The study on households' debt covered a sample totaling more than 786,000 loan contracts over the period 2008-2014, including 127,000 files for the year 2014. It aims to analyze the socio-demographic and professional profile as well as the indebtedness features of a sample of beneficiaries of loans granted each year.

Sample size



Source : BAM

The total amount of consumer loan production for files studied in 2014 is about 5.7 billion dirhams, or nearly 20 percent of the total consumer loans granted by banks and finance companies during this year.

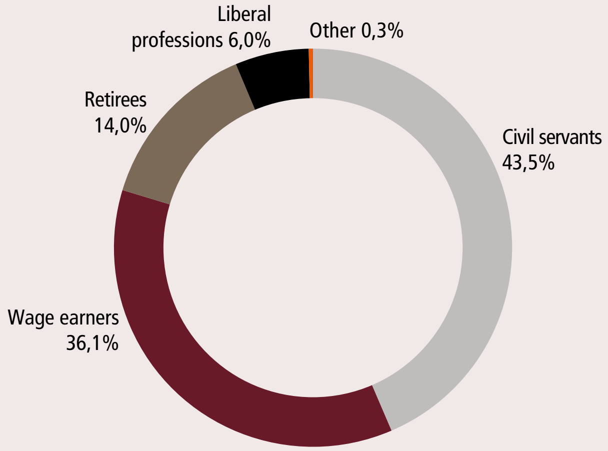
Evolution of the debt burden relative to income for a sample of households (*), in percent (sample base = 786,000 loan contracts)

Source : Credit Institutions Database, BAM calculations

Box 2 : Continuation

The debt burden of sampled households continued to grow in 2014, to 30 percent for the sample studied this year, instead of 29 percent for that of last year.

Distribution of indebted households surveyed in 2014 by socio-professional category



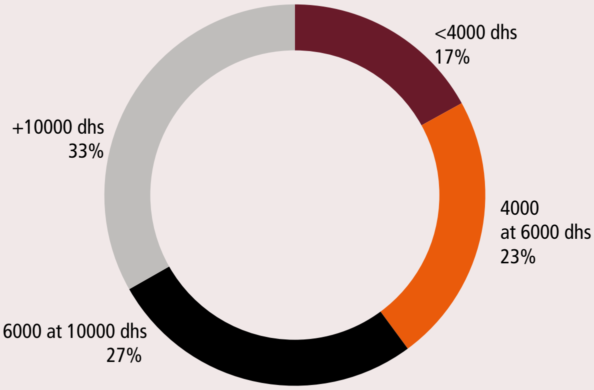
Source : Credit institution database, BAM calculations

By professional category, civil servants represented 43.5 percent of the sample in 2014, against 41.4 percent for that of 2013. Their average debt burden in 2014 amounted to 29.8 percent, against 32.7 percent in 2013. Employees, which account for 36.1 percent of the sample, hold the second position with their debt burden representing 31.6 percent of their income against 30.2 percent. Retirees have a debt burden of 26.1 percent against 28.8 percent. They account for 14 percent of the sample population.

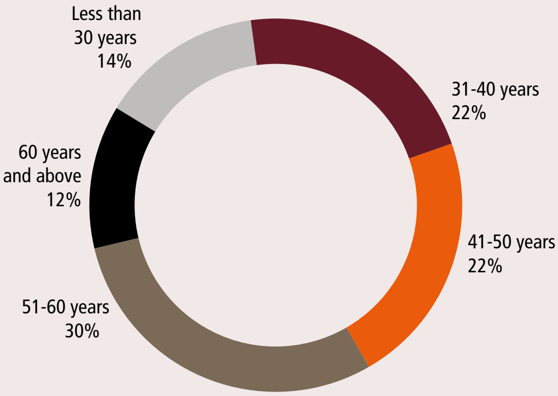
The breakdown of the debt burden by income category did not experience significant changes compared to 2013. The most indebted households of the 2014 sample are those with a salary greater than 6,000 dirhams, they account for 60 percent of the loans granted and their debt burden is about 32 percent. This burden reached 23.7 percent for households whose income is lower than 4,000 dirhams and who represent 17 percent of the sample.

Box 2 : Continuation

Distribution of indebted households surveyed in 2014 by income



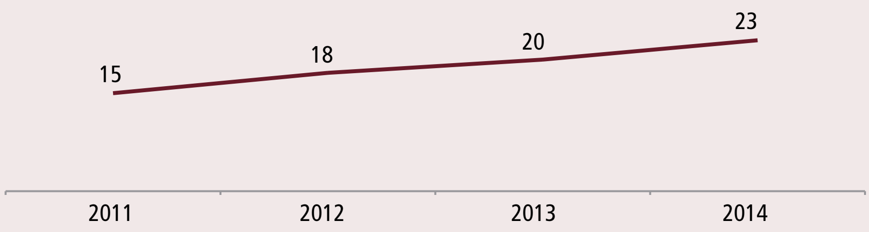
Distribution of indebted households surveyed in 2014 by age



Source : Credit institution database, BAM calculations

Individuals aged 51 to 60 years are the most represented in the sample (30 percent) and their average debt ratio is 32 percent. The same debt level is observed in the age group 41-50 years, which is 22 percent of the sample. That of 31-40 years, which account for 22 percent of the sample, has an average debt ratio of 30.1 percent. Young people under 30 have an average debt/income ratio of 25 percent.

Change in the share of households with indebtedness exceeding 40 percent of income



Source : Credit institution database, BAM calculations

Box 2 : Continuation

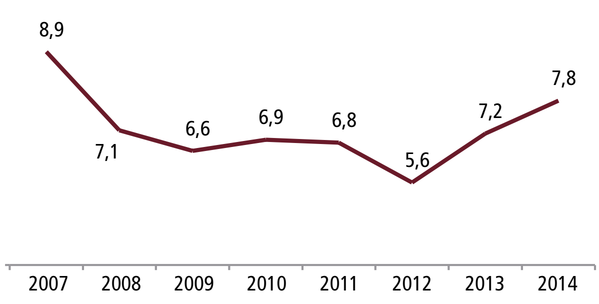
The population of sampled households whose debt burden is greater than 40 percent continued its uptrend, reaching 23.1 percent in 2014 against 20 percent for the sample studied in 2013. Almost 36 percent of this population belongs to the group aged 51 to 60 years against 35 percent the previous year. Individuals whose income ranges between 6,000 and 10,000 dirhams represent 33.1 percent of the sample, while 40.3 percent have an income exceeding 10,000 dirhams.

Households' payment defaults increased again in a context of higher unemployment and job losses in some sectors

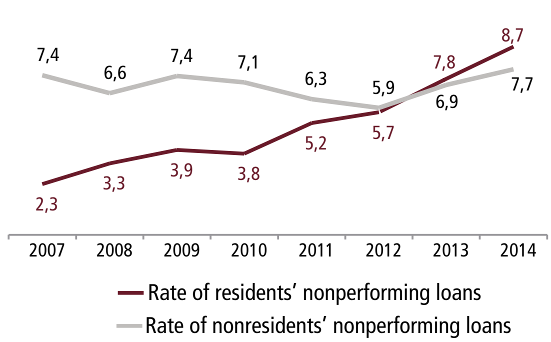
Households' default[10] rate increased again in 2014 to 7.8 percent instead of 7.2 percent in 2013. By type of credit, this rate stood at 6.4 percent for housing loans against 6 percent a year earlier, and at 10.2 percent for consumer loans compared to 9.3 percent the previous year.

The increase in nonperforming loans was more pronounced for nonresident households, accounting for 8.7 percent of the total debt as against 7.8 percent the previous year.

Rate of households' nonperforming loans, in percent



Rate of households' nonperforming loans by residence, in percent



Source : BAM

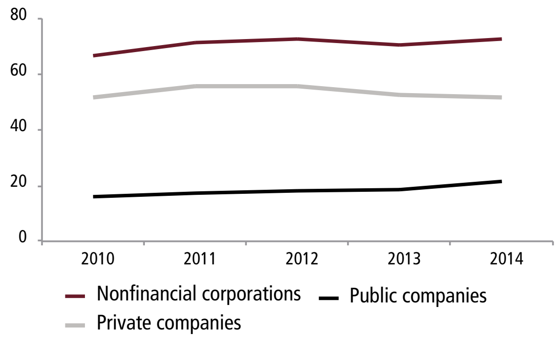
10 Households default rate corresponds to the share of nonperforming loans in total households' financial debt.

II.2 NONFINANCIAL CORPORATIONS

Nonfinancial corporations' debt increased during the year 2014 for both private and public companies

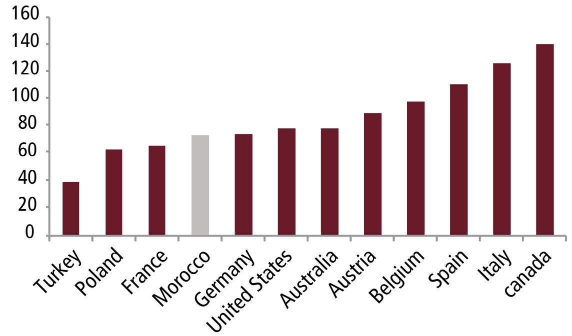
The financial debt of private and public nonfinancial corporations experienced a significant increase of 6.3 percent in 2014.

Change in financial debt of nonfinancial corporations, in percent of GDP



Source : BAM

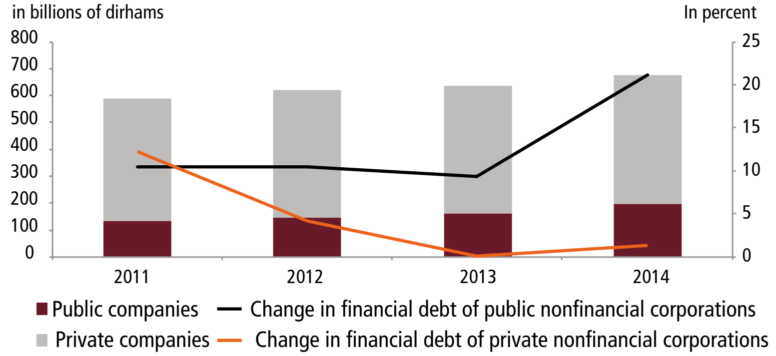
Financial debt of nonfinancial corporations, in percent of GDP



Source: IMF

The debt of private firms, which represents over 71 percent of the total debt of nonfinancial corporations, increased by 1.4 percent in 2014.

Change in financial debt of public and private nonfinancial corporations



Source : BAM

In parallel, the debt of public corporations rebounded by 21.2 percent to 198 billion dirhams, or 21 percent of the GDP and 29 percent of the total debt of businesses.

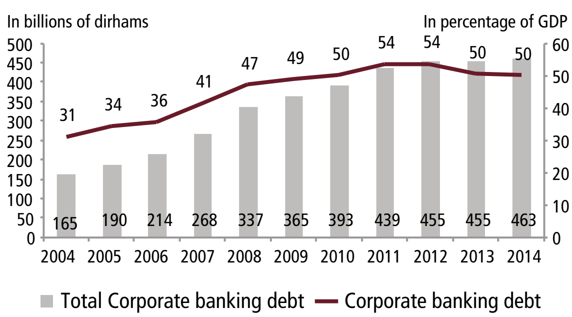
Businesses' financial debt increased considerably, especially its external component

Bank loans to nonfinancial corporations rose 1.6 percent to 463 billion dirhams, against a decline of 0.3 percent in 2013, representing 50 percent of GDP, down 100 basis points. Its share in the financial debt stood at 68 percent, down sharply compared to its level in the last five years and to the benefit of external indebtedness.

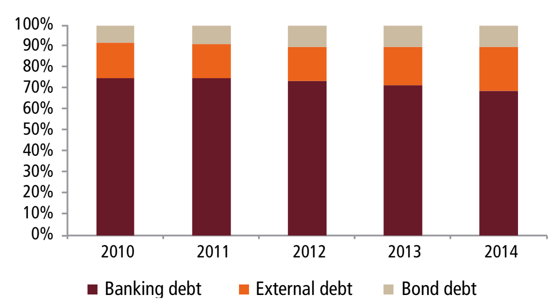
The external debt of businesses increased considerably in 2014, with a growth of 26.1 percent as against an average growth rate of around 11 percent over the past five years. Its outstanding amount reached 148 billion dirhams, against 118 billion at end-2013, representing 16 percent of GDP. This trend is likely to increase businesses' exposure to foreign exchange risk.

As to the bonded debt, it increased from one year to the other by nearly 2 billion dirhams, or 3 percent to 67 billion. Firms' recourse to the bonded debt to finance their projects reached around 10 percent of the average financial debt of nonfinancial corporations over the past five years.

Change in nonfinancial corporations' banking debt and its GDP ratio



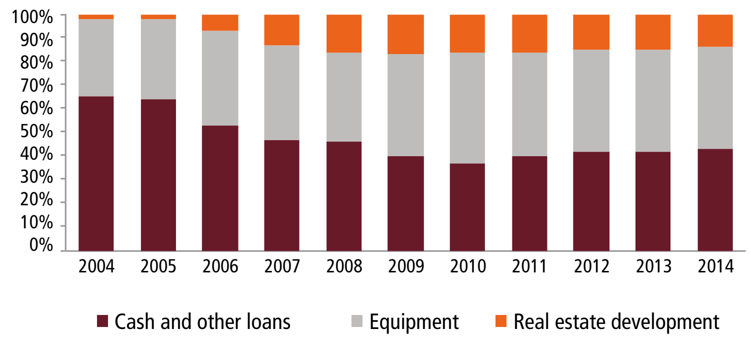
Breakdown of nonfinancial corporations' financial debt



Source : BAM

The banking debt of nonfinancial businesses was mainly geared towards financing the treasury and equipment, in equal proportion, at around 43 percent, while real-estate development loans represented nearly 14 percent.

Change in the breakdown of nonfinancial corporations' banking debt



Source : BAM

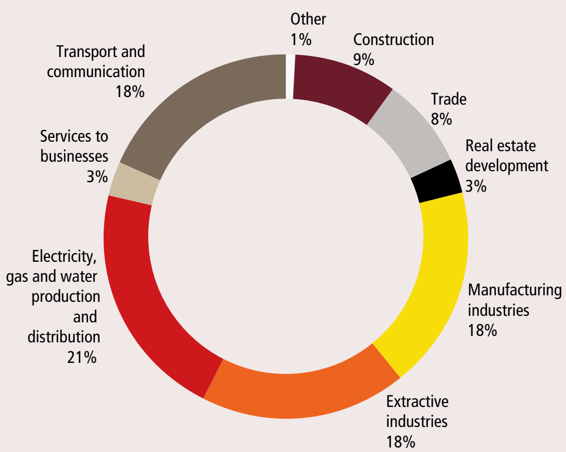
A study on a sample of 1312 nonfinancial businesses shows a stabilization of their long-term debt and an increase of the short-term debt, in conjunction with longer payment deadlines by their customers. This trend is particularly worrying for real-estate businesses. It is also notable in the sectors of energy, construction, transport and communication as well as in the agricultural sector.

Box 3 : A study of the indebtedness of a sample of non-financial businesses (*)

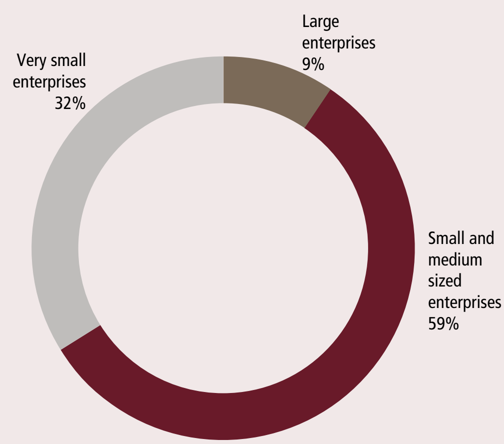
The study covers a sample of 1312 nonfinancial business (**) and relies on data as at end-December 2013, which is the most recent date for which the centralized financial statements are available. The sample accumulates a turnover of 255 billion dirhams in 2013 and financial debt of 168 billion dirhams. The coverage scope of businesses was extended this year to state-owned businesses. The latter represented 29 percent of the overall turnover and 55 percent of the sample's debt.

The sample is broken down as follows:

Breakdown of businesses in the sampling per sector of activity (***) on the basis of turnover



Breakdown of the number of businesses in the sampling by size (*****)



Source : BAM

(*) the study covers the period as at end-December 2013.

(**) the balance sheet data relating to the businesses of the sample are available for the last 5 years without interruption.

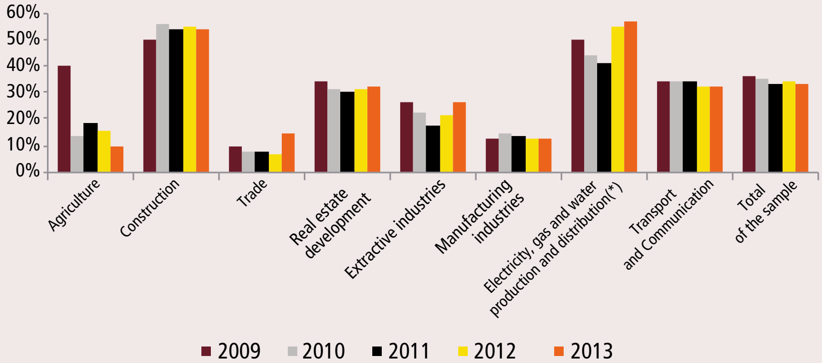
(***) Sectors of activity correspond to those adopted in line with the accounting plan of credit institutions, with however the regrouping of some sectors and the singling out of businesses operating in the real-estate development branch at the construction sector. For businesses operating in several activity sectors, the selected sector is the one with the most important weight in terms of turnover.

(****) including the hydrocarbons sector.

(*****) the size of businesses is defined as follows: large businesses: businesses with an annual turnover exceeding 175 million dirhams; SME: businesses with an annual turnover ranging from 3 million dirhams to 175 million dirhams; VSE: businesses with an annual turnover below 3 million dirhams.

Box 3 : Continuation

Change in the long term debt ratio[11] rof businesses on the per sector

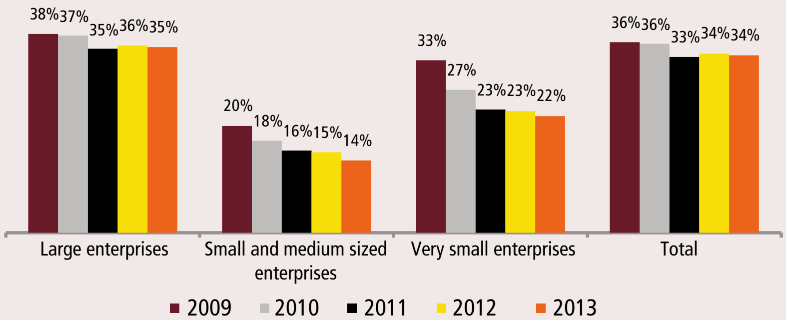


Source : BAM

(*) Including hydrocarbons

Businesses' long-term debt ratio stood at 33.8 percent in 2013, as against 34.2 percent a year earlier. This relative stagnation covers sectoral differences, as businesses in the trade sector registered the highest rise in their debt ratio (15 percent against 7 percent in 2012), followed by businesses operating in the extractive industries sector (27 percent against 22 percent), then businesses in the hydrocarbons sector (57 percent instead of 55 percent). The latter, together with construction businesses, post the highest debt ratios, compared to the average of the sample, with respectively 57 percent and 54 percent.

Change in businesses' long-term debt ratio by size



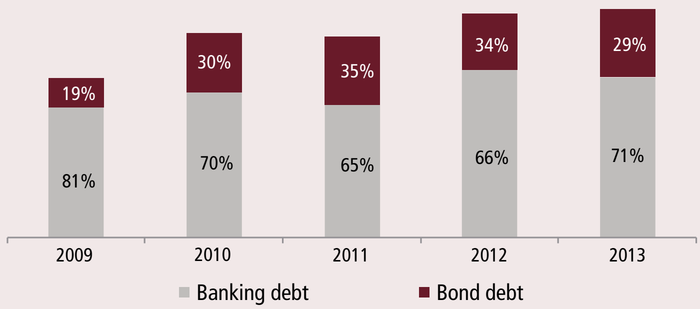
Source : BAM

11 The long-term debt ratio is the ratio between the long-term financing debt incurred by the company and its capital structure.

Box 3 : Continuation

By category of businesses, large enterprises (LE) are the most indebted of the sample with a long-term debt ratio of 25 percent on average, nearly unchanged compared to 2012. Small and medium-sized enterprises (SMEs) are the least indebted with a ratio at 14 percent. Very small businesses (VSEs) post a debt ratio at 22 percent of their permanent capital. The downward trend of the debt ratio compared to permanent capital until the end of 2013 was almost the same in the three segments.

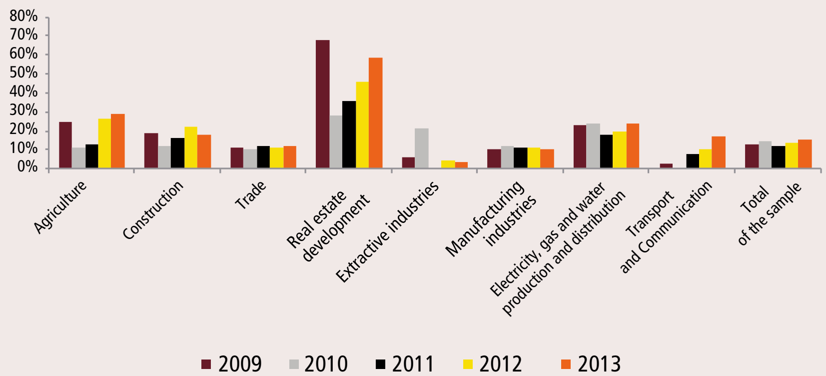
Change in the structure of the long-term debt of the samples' businesses



Source : BAM

Businesses of the sample had less access to bond debt in 2013, with a share standing at 29 percent of their financing liabilities, compared to an average 34 percent over the previous two years. This drop, which is related to the rise in bond rates in 2013, was offset by an increase in the share of bank indebtedness which rose to 71 percent in 2013.

Change in the ratio of cash loans to turnover, by sector



Source : BAM

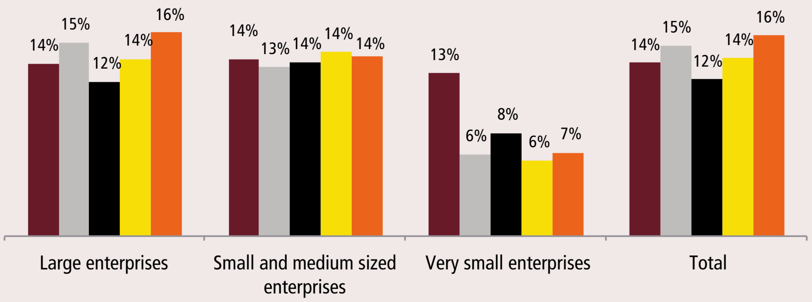
Box 3 : Continuation

In addition to long-term financing, businesses of the sample benefitted from short-term financing which represented nearly 16 percent of their turnover in 2013, from 14 percent in 2012.

By sector, cash debt shows disparities inherent to the type of activity. Businesses operating in the construction sector saw their cash debts jump by nearly 60 percent of their turnover compared to 47 percent in 2012 and 36 percent in 2011. This situation reflects a high short-term debt level which adds to the long-term indebtedness of real-estate companies, compared to the cash flows generated from the activity of businesses in this sector.

Businesses' cash debt in the agricultural sector reached 29 percent of their turnover, after registering a steady rise since 2010. In the Hydrocarbons sector, this rate stood at 24 percent. It varied between 4 and 19 percent at the level of other sectors.

Change in the ratio of cash loans to turnover, by size

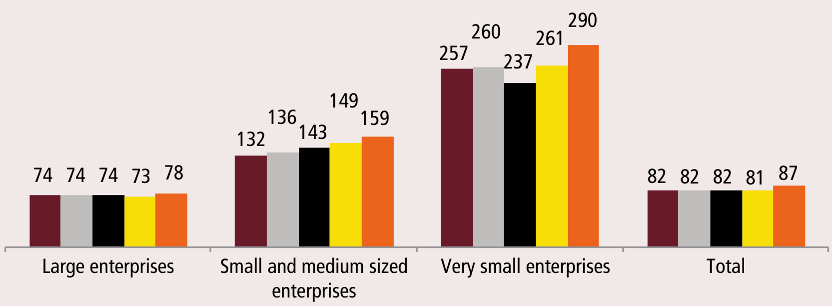


Source : BAM

By size, large businesses represented in the sample under review saw the weight of their cash debt increase since 2011, averaging 16 percent of their turnover, as against 14 percent for SMEs and 7 percent for VSEs.

Box 3 : Continuation

Change in businesses' commercial debt by sector and purchase days

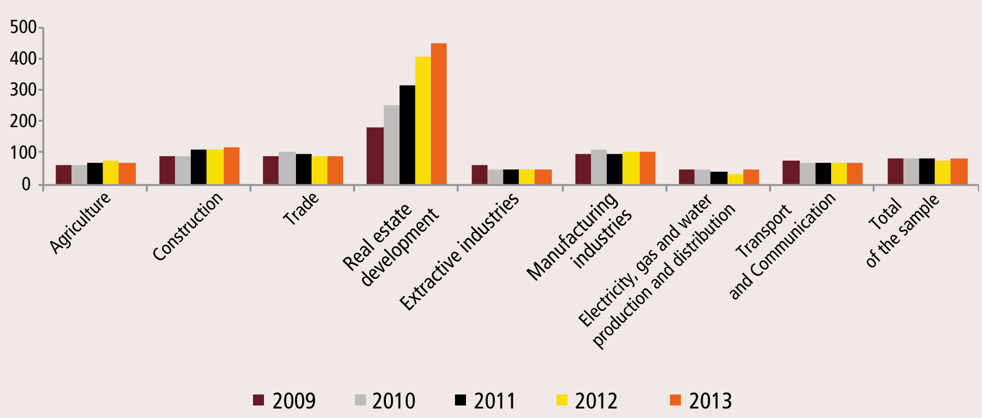


Source : BAM

Payment deadlines given to businesses of the sample by their customers rose significantly, in 2013, to reach 87 days against an average deadline of around 81 days in 2012.

By size, VSEs which in general have a very limited negotiation power, saw their payment deadlines extending further, culminating to 290 days, that is one month further than in 2012. Payment deadlines for SMEs of the sample also had followed an upward trend, reaching 159 days in 2013. The extension of deadlines also affected LE of the sample for the 1st time in 2009, although to a lesser extent, with an average deadline of 78 days in 2013.

Change in businesses' commercial debt by size and purchase days



Source : BAM

Box 3 : Continuation

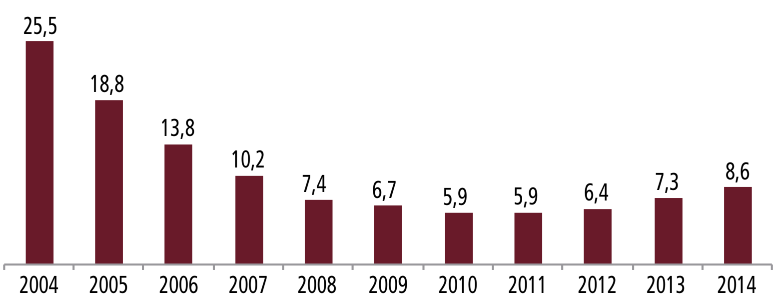
Payment deadlines reflect marked disparities from one sector to the other. Businesses in the "real-estate development", "Construction" and "Manufacturing industries" continued to stand out on account of the important payment deadlines of their customers, at respectively 454, 121 and 105 days in 2013. Deadlines for companies in real-estate development kept rising, from 185 days in 2009 to 454 days in 2013, which is reflected at the level of the ever increasing weight of their cash liabilities in the turnover. These payment deadlines, which reach worrying levels, seem to be related, in addition to the normal cycle of building and delivery of property, to difficulties in selling such property as well as delays in administrative procedures.

For their part, the "extractive industries", "hydrocarbons" and "hotel industry" sectors post the shortest deadlines to their customers, with respectively 47, 52 and 61 days in 2013, in conjunction with the type of activity of these sectors and the negotiating position of businesses vis-à-vis their customers.

Nonperforming loans in nonfinancial businesses continued their upward trend

At end-December 2014, nonperforming loans in nonfinancial businesses continued their upward trend registered over the last three years, although at a slower pace compared to the previous year. Indeed, these loans grew by 19.5 percent to stand at nearly 40 billion dirhams.

Change in the nonperforming loans of nonfinancial corporations, in percent



Source : BAM

The ratio of nonperforming loans in nonfinancial businesses stood at 8.6 percent overall from 7.3 percent at end-2013, with rates estimated at 5 percent for LE and nearly 13 percent for VSMEs. This increase impacted all the major activity sectors, albeit in a differentiated manner. Real-estate developers' nonperforming loans rose by 31 percent, due to the sluggishness in this sector. Pending claims on businesses operating in the industrial sector also grew by 27 percent. Those on businesses operating in the hotel industry registered, for their part, a strong growth of 63 percent.

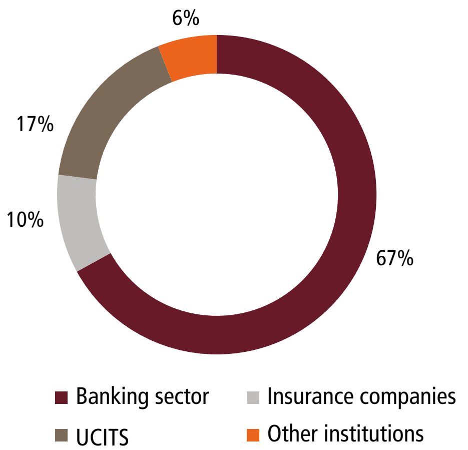
Against this background, nonperforming loans ratios registered varied levels depending on activity sectors. The Hotel industry recorded the highest rates in 2014 at 21 percent, followed by the transport and communication sectors (10.7 percent) and trade (10.2 percent). Nonperforming loans in the industrial sector stood at 7.6 percent, while they reached 5.7 percent in the construction sector as at-end 2014.

CHAPTER 3

THE SOUNDNESS OF FINANCIAL INSTITUTIONS

At the end of 2014, the size of the Moroccan financial system, measured by its outstanding assets, reached 186 percent of GDP. Its composition has not experienced any significant changes. It consists of 19 commercial banks, 6 offshore banks, 18 insurance and reinsurance companies and 447 other financial institutions, including 384 mutual funds, 34 finance companies, 13 micro-credit institutions and 4 pension funds. The banking sector is the main component of the financial system as it accounts for more than two thirds of it.

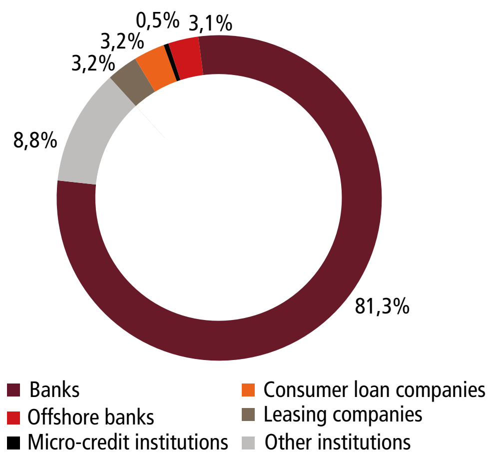
Breakdown of the financial system (*) - Share in total assets



Sources : BAM- CDVM - DAPS

(*) Other than the social welfare sector.

Breakdown of the banking sector - Share in total assets



Source : BAM

III.1 THE BANKING SECTOR[12]

The banking system continued to show good fundamentals, confirming its resilience in an environment that still bears a lot of risks. The slowdown in economic growth, which has affected the banking activities on the one hand and the continuous rise in credit risk on the other hand, have had impacts, which are yet manageable, on the soundness indicators of the banking sector. Meanwhile, banks continued to strengthen their capital base and liquidity buffers. Cross-border banking risks are considered to be under control in view of the diversification of banking activities at the international level and a limited level of direct exposures of Moroccan banks to foreign counterparties.

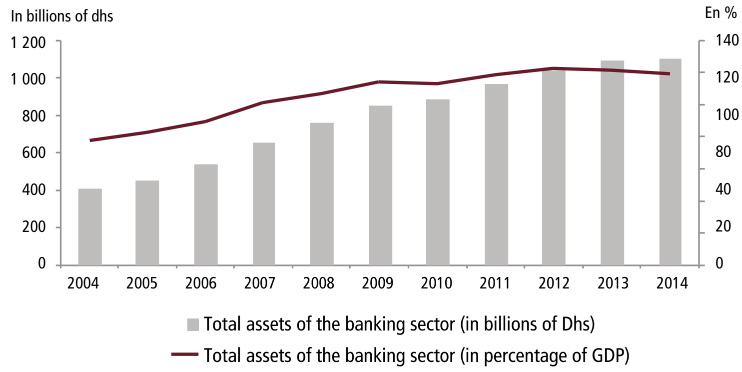
12 This section shows the main indicators of banks' financial soundness calculated on an individual basis.

In 2014, the banking sector consolidated its financial basis, despite an unfavorable economic context

Against a background of low economic growth, banks consolidated their financial basis with own funds and strengthened their governance and risk-management arrangements, notably under the impetus of reforms introduced by Bank Al-Maghrib.

Banking activity's growth in turn weakened, increasing by about 1 percent in 2014, a level well below the average growth rate recorded during the last decade which was around 12 percent. The size of the banking sector, expressed in terms of total assets as a percentage of GDP, lost almost 2 percentage points, from nearly 121 percent to 119 percent, from one year to another.

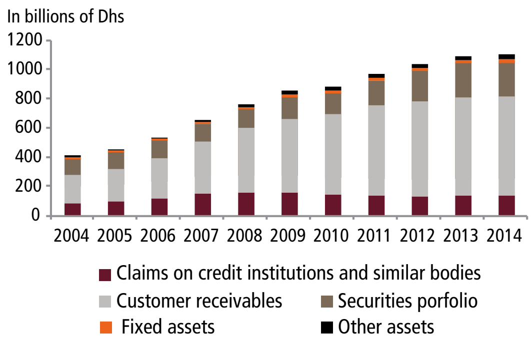
Change in the size of the banking sector



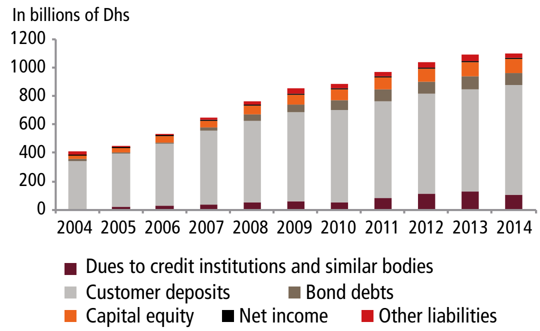
Source : BAM

The banking activity's growth pace in 2014 resulted, on the asset side, in a deceleration of loans by nearly 2 percent and a decline in the securities portfolio to nearly 2 percent from the end of 2013. On the liabilities side, the slowdown in activity reflects a fall in refinancing with the Central Bank by 42 percent from one year-end to the other and bond refinancing by 2 percent. Conversely, collected deposits increased by 6.6 percent.

Change in the structure of banks' assets



Change in the structure of banks' liabilities



Sources : BAM

An increase in bank deposits

The structure of assets remained broadly stable in 2014, with a predominance of loans to customers whose share stabilized at around 62 percent. The share of securities portfolio lost 0.6 point, to 21 percent. The structure of resources was marked by a substantial strengthening in the share of deposits, a stable component of liabilities, to 70 percent (66 percent at end-2013), to the detriment of dues to credit institutions and similar bodies which were down almost 16.5 percent against 8.6 percent at end 2013, reflecting a lower recourse to central bank money.

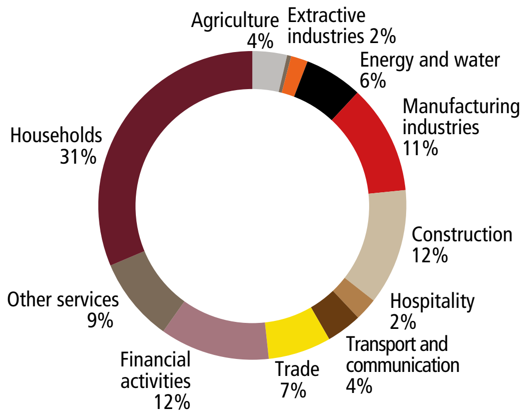
As in past years, the credit portfolio is diversified at the sectoral level, providing financing to all economic agents

Credits granted by banks to their customers were again affected by the modest level of economic growth and only increased by nearly 2 percent against 3.6 percent a year earlier. This change is significantly lower compared to the double-digit growth rates observed during the 2005-2011 period (average of 18 percent).

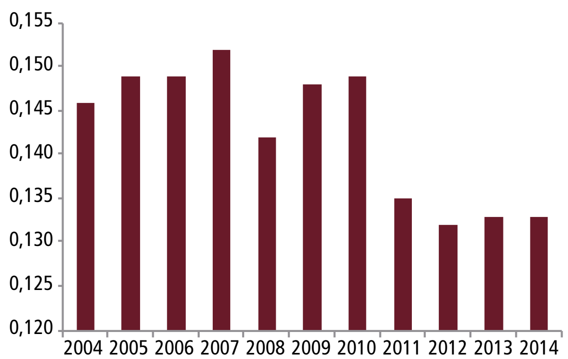
Credit growth covers contrasting trends, with a slower growth for loans to households (around 6 percent) and a recovery in loans to businesses (+ 1.4 percent) which benefited from the relaxation of the granting conditions, as shown by the results of the relating survey conducted by the Central Bank for the year 2014. On the contrary, loans to financial agents declined compared to last year (-7 percent). The breakdown of credits by business segment shows that nearly 64 percent of loans to nonfinancial corporations are intended for large businesses (65 percent in 2013) and the remainder is allocated to VSME.

Credit portfolios remain well diversified at the sectoral level. Loans to the construction sector and financial activities accounted for a proportion of 12 percent each, or almost the same level as in 2013, against a share of 11 percent for the manufacturing sector (12 percent in 2013), 7 percent for trade and 6 percent for the energy and water sector. Thus, the HHI[13] index, which measures concentration, remained at 0,133, the same as in 2013, as against an average of 0,144 over the 2005-2012 period.

Sectoral breakdown of loans by bank disbursements at end-2014



Herfindahi-Hirschmann index of the sectoral concentration of bank's loan porfolio



Source : BAM

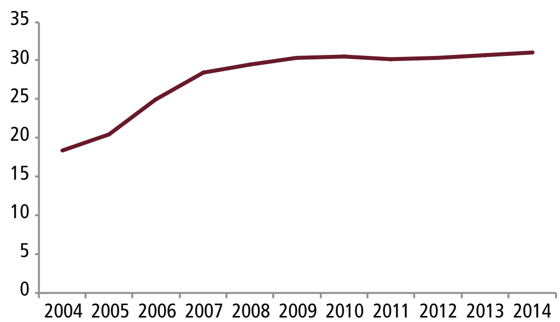
13 The Herfindahl-Hirschmann Index measures concentration. It ranges between 0 and 1. The higher the index, the bigger the concentration.

Banks' exposure to the property development sector has been decreased

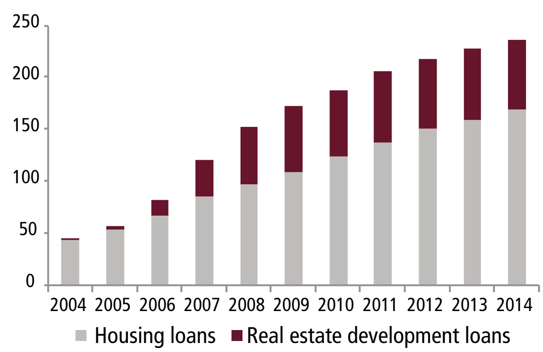
Banks' exposure to the real-estate sector stood at nearly 237 billion dirhams, of which 170 billion dirhams as housing loans and about 67 billion dirhams as property development loans. The coverage of housing loans by equity is in line with the Basel standards (see Box 4).

Given the sluggishness observed on the property market and cash requirements of property development companies, banks restructured their debts in favor of these businesses in particular. General provisions were made by banks to cover this sectoral risk.

Change in the share of real estate loans in the bank's loan portfolio, in %



Change in real estate development and housing loans, in billions of dhs



Source : BAM

Box 4 : Regulatory rules relating to real-estate financing

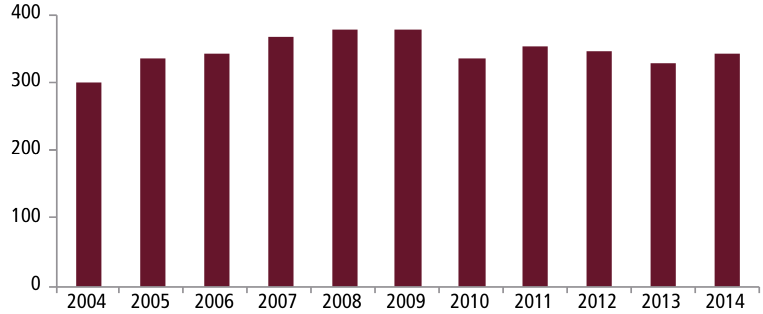
Prudential measures adopted to determine credit risk weights, considered for the determination of banks' capital requirements, reflect the level of risk faced by these institutions :

- a weighting of 0 percent is applied to real-estate loans guaranteed by the State;
- a weighting of 35 percent is applied to mortgage loans granted to individuals for the purchase of a property for residential use, when their loan/value ratio is less than 80 percent;
- when the loan/value ratio exceeds 80 percent, the weighting is raised to 75 percent for the fraction of the loan exceeding 80 percent of the mortgaged property's value;
- when the financed property is allocated to a use other than residential, the weighting is 100 percent;
- the weighting of real-estate loans intended for property developers ranges from 20 percent to 150 percent according to the rating of the developer and is set at 100 percent in the absence of a rating.

Banks are exposed to counterparty concentration risk, reflecting the structure of the national economy

The counterparty concentration, measured by outstanding credits granted by banks to major borrowers[14] - posted on and off-balance sheet- as a ratio of their equity, has become slightly stronger in 2014, representing 3.4 times banks' equity, as against 3.3 times at end-2013. However, this level is still lower than the average of 3.6 times recorded in 2005-2012.

Banks exposure to major debtors, in percentage of banks' prudential capital



Source : BAM

14 A major borrower is any counterparty or group of counterparties benefiting from a loan exceeding 5 percent of a bank's equity.

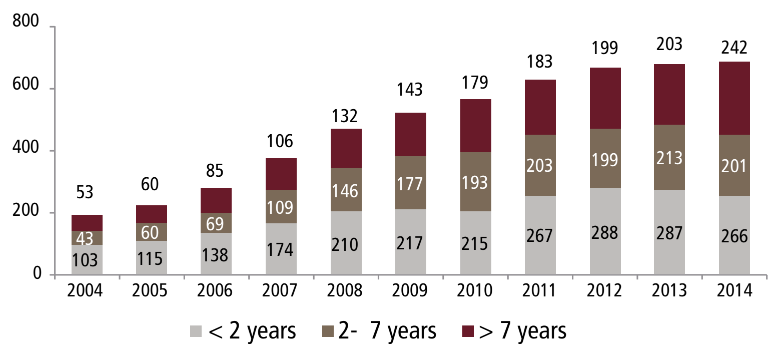
Although on the rise, the share of foreign-currency loans remains limited

As in the past years, the banking activity remained focused on local-currency financing. For foreign currency-denominated loans, although they significantly increased, their share in total loans remained limited to less than 4 percent in 2014.

The maturity of credit portfolios continued to extend

The underlying extension in the maturities of loans granted by banks to their customers continued in 2014. The share of loans with maturities longer than 7 years stood at more than 34 percent compared to 29 percent in 2013, particularly in connection with continuous increases in housing loans.

Breakdown of banks' loan porfolio by maturity, in billions of dhs



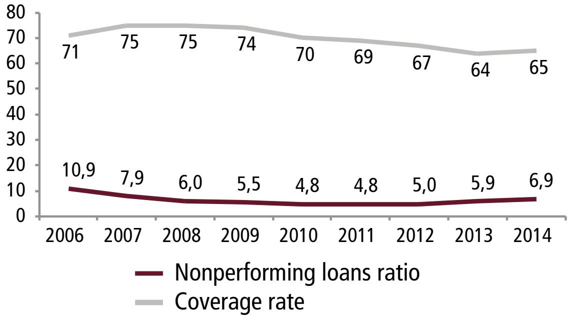
Source : BAM

Credit risk incurred by banks increased again, inducing additional substantial efforts in terms of specific as well as general provisions

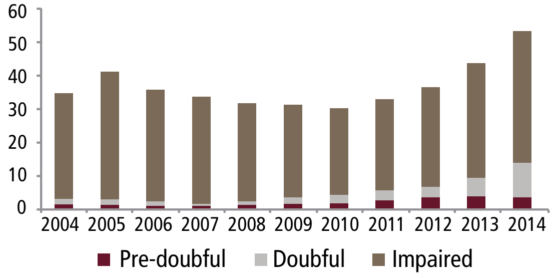
Nonperforming loans (NPL) portfolio held by banks increased again and their ratio stood at 6.9 percent. Yet, this level remains controllable compared to similar countries.

Nearly 75 percent of nonperforming loans (NPL) are classified as impaired loans, 19 percent as doubtful and 6 percent as pre-doubtful loans. In terms of flows, nearly two thirds of nonperforming loans have been classified as impaired.

Nonperforming loans ratio and banks coverage rate, in %



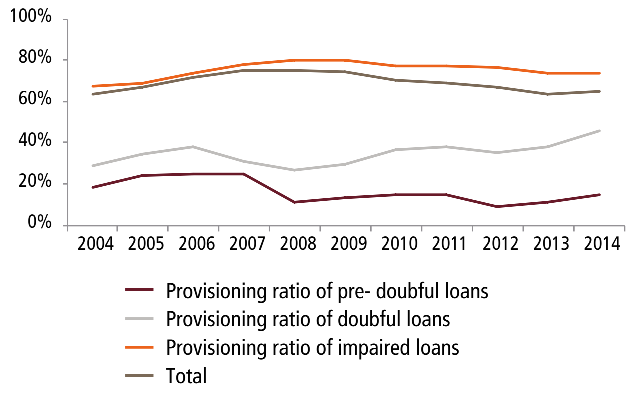
Banks' nonperforming loans ratio by category, in billions of dhs



Source : BAM

Overall, 65 percent of nonperforming loans were covered by provisions. This average reached 74 percent for the impaired category, 46 percent for the doubtful category and 15 percent for the pre-doubtful category. The coverage rate was 63 percent for households, unchanged from 2013, and 65 percent for nonfinancial corporations.

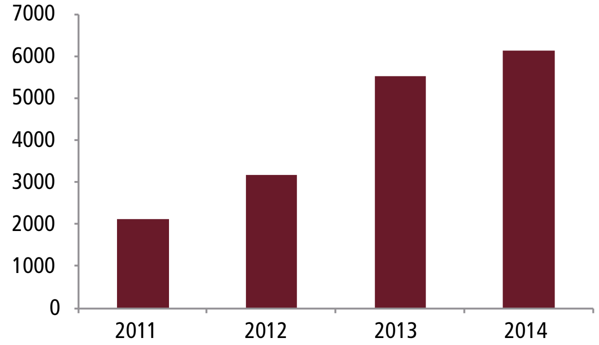
Provisioning ratio by category of loans, in %



Source : BAM

In addition to these specific provisions, banks constituted general provisions of more than 6 billion dirhams, up 11 percent compared to 2013, to cover risks that have not yet been materialized.

Change in general provisions constituted by banks, in millions of dhs



Source : BAM

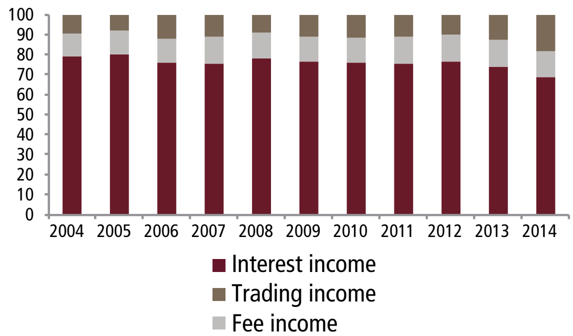
Banks' results are satisfactory overall, thanks mainly to the good performance of market activities

Despite the acceleration of credit, banks generally managed to increase their overall results compared to last year, due in particular to a sustained rise in gains on their securities portfolios amid lower bond rates. Risk cost continued to grow but at a slower pace compared to 2013.

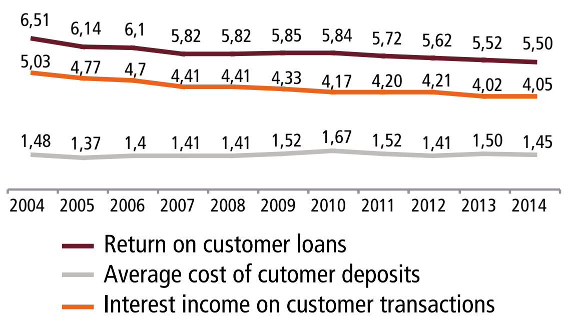
Most of the market income generated by banks in 2014 was of a one-off nature

After a sharp deceleration of its growth in 2012-2013 (5 percent), net banking income recovered significantly to 9.3 percent in 2014. This increase is chiefly related to the strong performance of trading portfolios, and, at a lesser extent, to the higher interest and commission margins. Results of market activities benefited from lower interest rates in the bond debt market and thus rebounded by 59 percent, compared to 37 percent in 2013. Their share in the NBI increased by over 5 points to 18.4 percent.

Breakdown of the banks' net banking income, in %



Change in the margin released by banks on customer transactions, in %

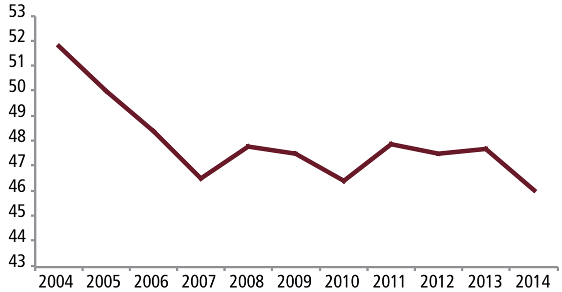


Source : BAM

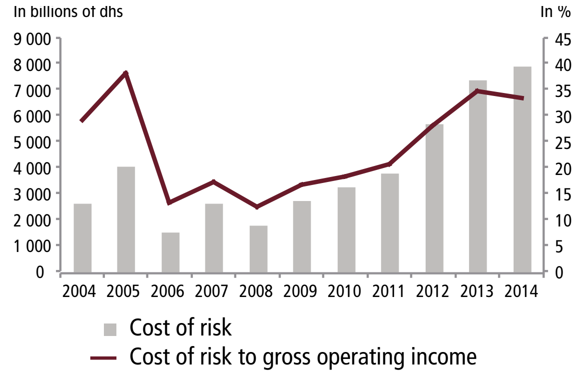
Meanwhile, interest margin, the main source of banks' recurring revenues, and which accounts for 69 percent of the NBI, rose by 3 percent, against 1 percent in 2013. This rise was limited by the decelerating activity, as well as by the decline in credit yield rate and in deposit costs. On the other hand, the commission margin rose by 3.5 percent, compared to 1.2 percent one year earlier.

Despite a 5.4 percent increase in the operating costs, after 5 percent in 2013, banks have managed, owing to the good performance of the NBI, to improve their average loan to deposit ratio by 1.6 point and reduce it to 46.1 percent, and to generate a 10.9 percent higher gross operating income, compared to 5.5 percent in 2013.

Average loan to deposit ratio, in %



Banks' cost of risk



Source : BAM

The constitution of provisions to cover claims induced a further rise in the cost of risk by nearly 7.4 percent, representing almost 33.5 percent of the gross operating income, after 34.5 percent one year before.

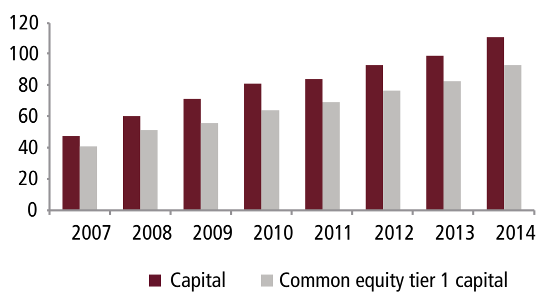
Given these elements, the cumulative net profit of banks was up 1 percent, after it stagnated the year before, generating a return on equity (ROE) of 10.2 percent and a return on assets (ROA) maintained at 1 percent. This overall positive trend masks a diversity of situations insofar as seven banks, totalizing around 35 percent of the total income, saw their profits fall.

Banks have until the end of 2018 to deploy fully the new Basel III standards on capital

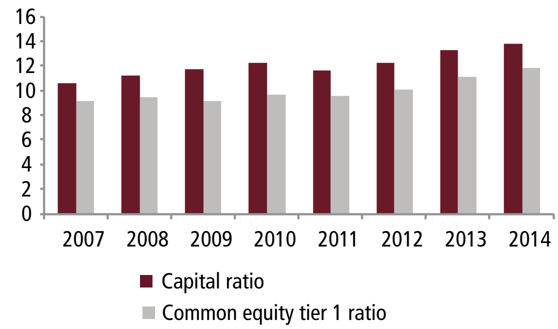
By preserving satisfactory results, banks were able to consolidate their financial basis. These results, which consist, up to 87 percent, of core capital, were strengthened by nearly 11 billion dirhams to around 111 billion at end-December. This development was due to the capitalized results representing almost the half in 2014 (57 percent in 2013) and to the impact of transitional regulations.

Meanwhile, 85 percent of risk weighted net assets are credit risk-weighted, 6 percent are market risk weighted, and 9 percent are operational risk weighted. They have registered an increase of 7.6 percent after their 1.7 percent drop a year earlier, largely due to the changing impact of the new Basel III provisions.

Change in banks' prudential capital on an individual basis, in billions of Dhs



Change in banks' prudential capital ratios on an individual basis, in percent



Source : BAM

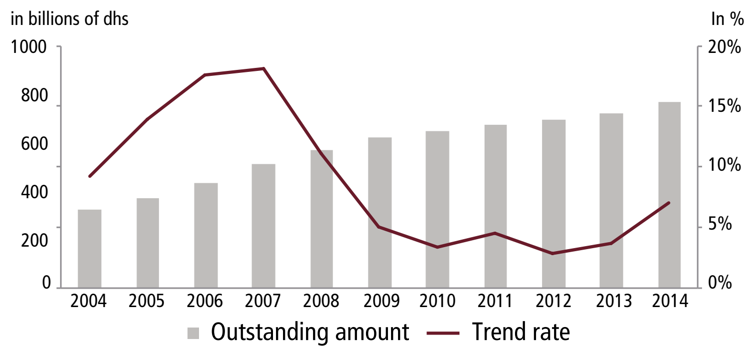
The average capital ratio, defined as equity capital divided by total risk weighted assets, stood at 13.8 percent at end 2014, while common equity tier 1 capital ratio reached 11.9 percent for a statutory minimum of 9 percent. The average Core Tier 1 ratio, whose numerator includes only the loss-absorbing capital, stood at 11.6 percent for a minimum of 8 percent. These ratios take into consideration the transitional regalutory measures set up to allow a gradual implementation of the new capital requirements of Basel III.

Excluding transitional provisions, the capital adequacy ratio, the common equity tier 1 capital ratio and the core capital ratio stood respectively at 13.6 percent, 10.5 percent and 10.5 percent.

Pressures on the banks liquidity have eased, especially following deposits' good performance and the monetary reserve decline

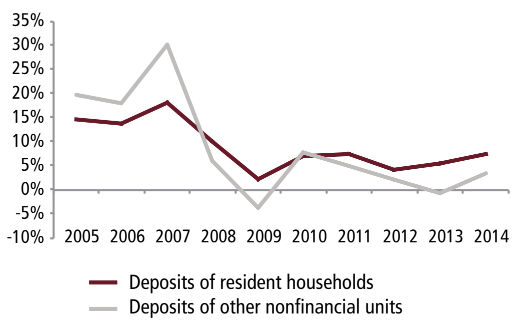
Pressures on banks' liquidity eased in 2014, particularly following the increase of deposits, especially non-interest bearing ones. After rising 3.7 percent the previous year, deposits increased more significantly by 6.6 percent to 770 billion dirhams. Deposits of resident individuals, which account for nearly 50 percent of total deposits, performed well, registering a growth of 7.5 percent against 5.4 percent. With regard to Moroccans living abroad, their deposits grew by 4.4 percent after 5.1 percent a year earlier, as their share stood at 20 percent.

Change in deposits collected by banks from customers

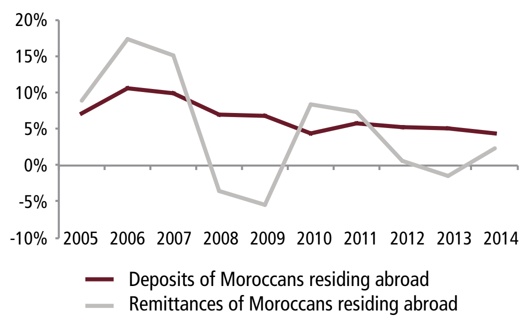


Source : BAM

Change in resident households and other nonfinancial units' deposits with banks, in percentage



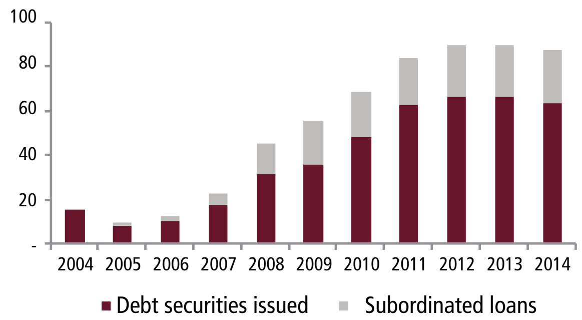
Change in deposits of Moroccans resident abroad and the volume of their remittances, in percentage



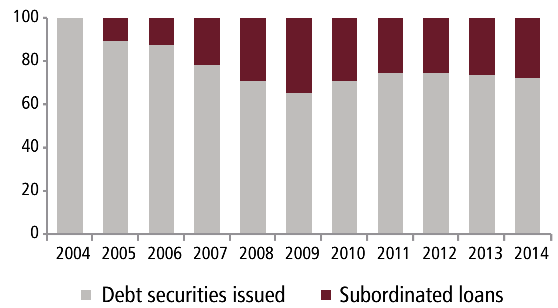
Source : BAM

Deposits of other nonfinancial units grew by 3.4 percent, after several years of decline. On the other hand, financial units, consisting primarily of mutual funds and insurance companies, saw their deposits grow at a faster pace than the previous year, 23 percent against 1.1 percent, as their share in the total stood at about 5 percent. The increase in mutual funds deposits in 2014 also seems to reflect the impact of remittances made as part of the contribution in full discharge, and used by households in the form of mutual funds investments

Change in bond debt issued by banks, in billions of dhs



Breakdown of bond debt issued by banks, in %



Source : BAM

In a context of deposits sharp rise, combined with credit slowdown, banks have resorted less to the bond debt market. In fact, after a slight increase in 2013, the total outstanding bond debt fell by 2.1 percent, reflecting a decline in outstanding certificates of deposit by 6.8 percent (-3.7 percent in 2013) and an increase by 5.7 percent in subordinated debt and by 21.2 percent in issued bonds.

Similarly, banks have reduced their use of advances from Bank Al-Maghrib. Thus, the Central Bank's interventions averaged nearly 55 billion dirhams in 2014 (42 billion dirhams at year end), against 70 billion dirhams on average in 2013 (72 billion dirhams at year end).

Hence, the loans to deposits ratio improved by 5 points, crossing downward the 100 percent threshold to stand at 99 percent.

Change in banks' loan-to-deposit ratio, in %

Source : BAM

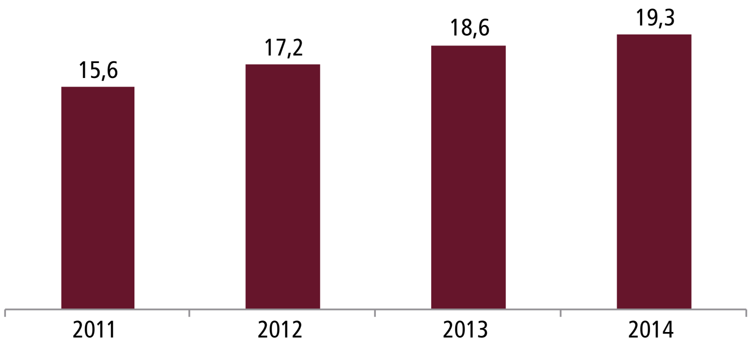
At the end of 2014, liquid and realizable assets, particularly consisting of cash values, deposits with Bank Al-Maghrib, interbank operations, Treasury bills and certificates of deposit, totalized almost 147 billion dirhams, up 6.9 percent, after 24.6 percent in 2013. This deceleration was particularly due to the decline of Treasury bills borrowed by banks. The share of liquid assets thus reached 13.3 percent, after 12.5 percent a year earlier.

The Basel III short-term liquidity ratio, called «LCR», defined as the ratio of high quality highly-liquid assets to the net cash outflows over a period of 30 days, stood at 130 percent at end-December 2014 for a minimum of 60 percent. This standard, designed to help banks overcome a liquidity crisis that would last 30 days, will come into force as of July 2015.

The development of banks activity beyond borders brings new challenges

At end-December 2014, the three Moroccan banking groups, most active abroad, hold in 30 countries more than 1,300 counters in 40 subsidiaries and 15 branches primarily located in sub-Saharan Africa. The contribution of subsidiaries abroad reached 19 percent of consolidated total assets, unchanged from 2013. This share has reached 18 percent for loans to customers and 21 percent for deposits. It represented 29 percent of NBI and 16 percent of the net income group share.

Contribution of banks' cross border activities in the consolidated activity, in %



Source : BAM

Activities of banks subsidiaries in Africa recorded a dynamic growth

Deposits collected via subsidiaries opened in Africa continued to progress strongly, rising by 11.4 percent in 2014. Similarly, loans granted increased by 12 percent.

The loss of receivables of banksubsidiaries in Africa stood at about 10 percent, while the coverage ratio by provisions under IFRS was reinforced to reach 63 percent, against 60 percent in 2013.

Moroccan banks are subject to supervision on a consolidated basis

Moroccan banks are supervised on a consolidated basis. Consolidating supervision requires prudential, accounting and corporate governance requirements that apply to the entire banking group and therefore extends to their subsidiaries abroad.

Box 5 : Consolidated supervision framework

- **At the prudential level :** banks are subject to the following requirements: (1) compliance with the 12 percent capital adequacy and the 9 percent tier one ratio according to the Basel III standards adopted in Morocco, while taking into account the transitional provisions, (2) deduction of the amount of the banks' holdings from the banks' equity, (3) weighting the risk of exposure to foreign sovereign risks in accordance with the Basel rules, according to their rating, and (4) regulations on the division of applicable risks on a consolidated basis.
- **At the qualitative level :** Requirements concerning governance, risk management, internal control and due diligence, aligned with the rules of Bank Al-Maghrib and applicable by banks across the groups.
- **At the accounting level :** Establishing consolidated accounts under IFRS, which cover activities outside the borders.

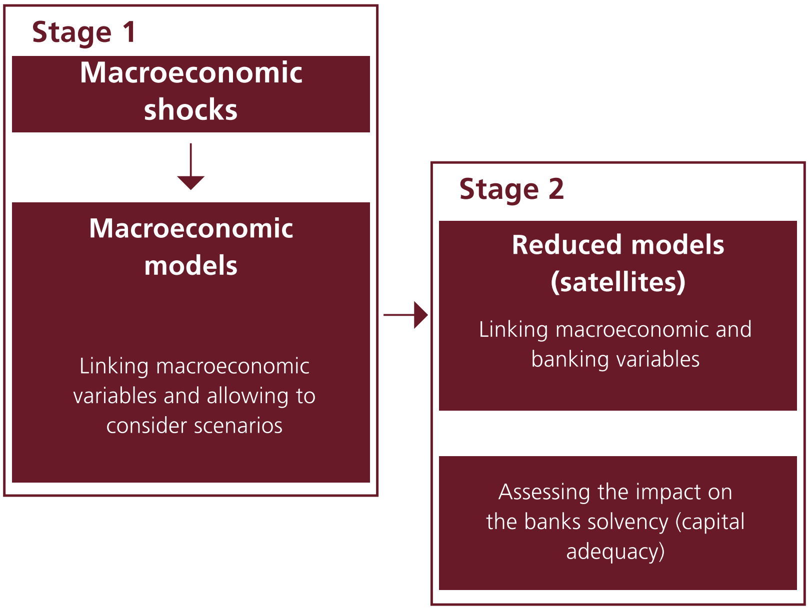
In addition to the regulatory framework, the Central Bank continued to strengthen the coordination of border control activities with regulators of host countries, notably through colleges of supervisors for banking groups with significant activities in foreign countries, the conduct of joint missions with these counterparts and through regular meetings with the latter.

The results of macro stress tests conducted by the Bank show that the banking system has sufficient capital to absorb plausible macroeconomic shocks

To assess the impact of the reversal of macroeconomic conditions on the stability of the Moroccan banking system, a macro stress test was performed by Bank Al-Maghrib on a group of eight banks accounting for over 90 percent of the banking system total assets. The data used concern the year 2014 and the retained simulation horizon is 2 years, covering the period 2015 and 2016.

Macro stress tests are structured in two phases. In the first phase, several macroeconomic scenarios are considered on the basis of an analysis of the national and international macro-financial environment. Two scenarios are chosen, a baseline scenario that traces a normal economic situation and an extreme scenario that reflects extreme but plausible economic conditions.

In the second stage, to measure the impact of these scenarios on the development of the banking system solvency, a credit risk reduced model, linking the macroeconomic variables (growth, inflation, credit and interest rates) to the quality of bank assets approximated by the ratio of pending claims, is used.



The scenarios adopted to measure the soundness of the Moroccan banking system are described in the table below. The baseline scenario corresponds to Bank Al-Maghrib's macroeconomic forecasts established in 2014. This scenario reflects a favorable economic growth on the forecast horizon in connection with the continued improvement of economic conditions in the euro area. As for the extreme scenario, it suggests deteriorating macroeconomic conditions induced by the worsening of both international and national factors.

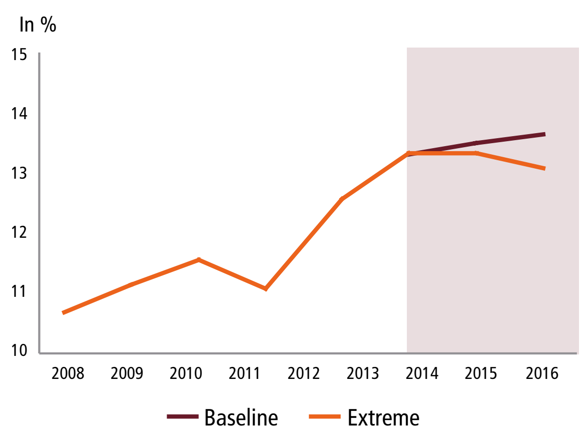
The results of macro stress tests show that the Moroccan banking system would maintain its resilience over the horizon of 2016. According to the baseline scenario, the rate of pending claims should remain at around 7 percent in 2015 before declining slightly to 6.5 percent. In the extreme scenario, pending claims should be around 7.9 percent in 2015 and 8.5 percent in 2016.

In such context, the capital adequacy[15] of the banking system would be around 13.6 percent in 2015-2016 under the baseline scenario. Similarly, in case of materialization of extreme macroeconomic risks, the Moroccan banking system would remain sound and meet the solvency requirements by posting ratios of 13.3 percent in 2015 and 13.1 percent in 2016.

Macroeconomic scenarios				
		2014	2015	2016
GDB growth rate	Baseline	2,4	4,8	2,5
	Extreme	2,4	0,2	0,3
Interest rate	Baseline	2,9	2,5	2,5
	Extreme	2,9	4,0	4,0
Inflation rate	Baseline	0,4	1,5	1,5
	Extreme	0,4	0,5	0,5
Credits growth rate	Baseline	3,7	4,9	5,1
	Extreme	3,7	0,8	0,9

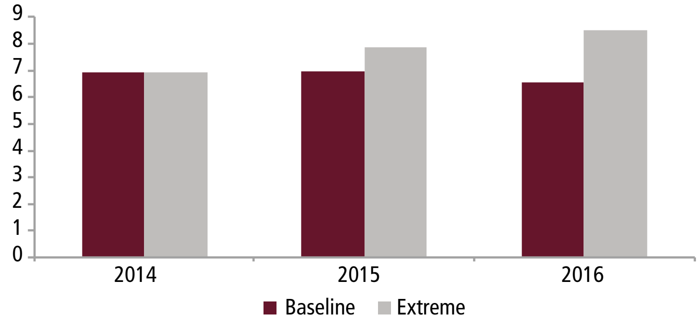
Source : BAM

Change in capital adequacy



15 Calculated on the basis of 2014 applicable standards, on a constant regulatory perimeter.

Change in NPL rate, in %



Source : BAM

Supervision was strengthened in 2014, both at the micro and macro prudential levels

On the legal side, the banking act reform was adopted by the parliament in 2014. This text particularly defines the legal framework for carrying out macro-prudential oversight while enhancing crisis resolution mechanisms made available to Bank Al-Maghrib.

To further preserve banks soundness, Bank Al-Maghrib has implemented in 2014, following a progressive schedule, the new prudential capital requirements of Basel 3, taking into account the transitional provisions. The Bank also prepared banks for the entry into force, in 2015, of the new Basel short term liquidity ratio, decided in 2013, through a regular reporting.

The rules of banks' good governance, risk management and internal control, as fundamentals of the banking sector's stability, were revised in 2014 in light of the latest recommendations of the Basel Committee.

A device to assist systemically important banks in Morocco is being studied, converged with the recommendations of the Basel Committee on the treatment of domestic systemically important banks. This tool will comprise prudential requirements specific to such banks, as well as standards governing these banks' preparation of an internal crisis recovery plan.

III.2 THE INSURANCE SECTOR

The insurance sector carries out conventional activities and has a comfortable solvency margin to cover the counterparty risk. Although this margin represents around four times the required minimum, it has declined in recent years and may not be able to cover all the risks to which insurance companies are exposed.

Activity of the insurance sector continued growing

In 2014, turnover of the insurance sector in Morocco, measured by issued premiums, reached 28.4 billion dirhams, up 6.3 percent compared to end 2013. The penetration rate, corresponding to the ratio of issued premiums to GDP, stood at 3.1 percent, including 1 percent for life insurance and 2 percent for non-life insurance.

Issuances included (1) life insurance and capitalization operations with 9.4 billion dirhams (33.1 percent of the total), against 8.6 billion dirhams in 2013, up 9.4 percent, (2) non-life operations with 18.8 billion dirhams (66.2 percent of total), against 18 billion dirhams in 2013, up 4.5 percent, and (3) reinsurance acceptances with 202.3 million dirhams against 131.9 million in 2013, thus recording a net increase of 53.4 percent.

With regard to dispersion, issuances are still concentrated in the Moroccan market. In fact, car insurances, insurance for work accidents and for persons (body injuries – sickness & maternity and insurance life and capitalization) alone account for 84 percent of the total.

Insurance investments were mainly used to finance the Treasury

Net investments of insurance and reinsurance companies grew by 5.6 percent in 2014 to over 121 billion dirhams and were mainly used to finance the Treasury debt.

Box 7 : Moroccan insurance companies in Africa

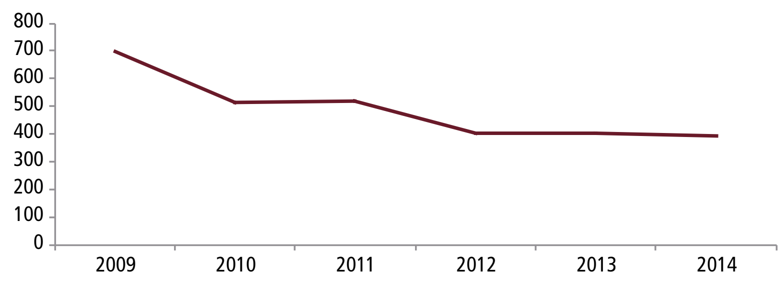
Moroccan insurance companies hold the second place in Africa, after South Africa. Although this market represents 1.5 percent only of the global market (US $ 72 billion), it recorded an annual growth rate of 9 percent over the last decade, while the global growth rate of the insurance sector did not exceed 4.4 percent over the same period.

Three major Moroccan insurance companies[16] are present on the African continent.

Although down from its historical level, the insurers coverage level of their solvency margin remains well above the regulatory requirements

The solvency margin, which refers to the coverage of technical provisions by equity capital, continued its downward trend in 2014, to reach 406 percent at end 2014, against an average of 580 percent over the period 2009-2011.

Coverage rate of insurers' solvency margin, in %



Source : DAPS

The solvency of insurance companies may weaken somewhat if some risks, other than the underwriting one, are taken into account. The other risks to which insurers are exposed, particularly market and operational ones, are not considered for prudential requirements. Hence, adopting the risk-based solvency in the amendment of the draft insurance code, could

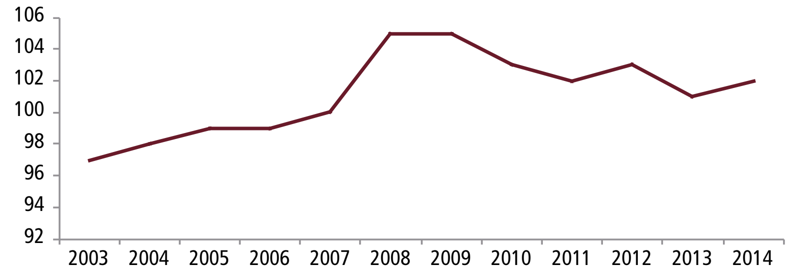
16 Saham Assurances, RMA Wataniya and Wafa Assurance.

impact the insurance sector, as some companies would resort to increasing their capital or reviewing their investment policies.

Commitments coverage rate has slightly degraded

Coverage of technical reserves by matching assets continued its downward trend started since 2010, albeit a slight improvement in 2014 to 102 percent, i.e. 2 points over the regulatory minimum. The level of this ratio varies according to the insurance companies and requires great vigilance on their part.

Coverage rate of insurers technical provisions by representative assets, in %

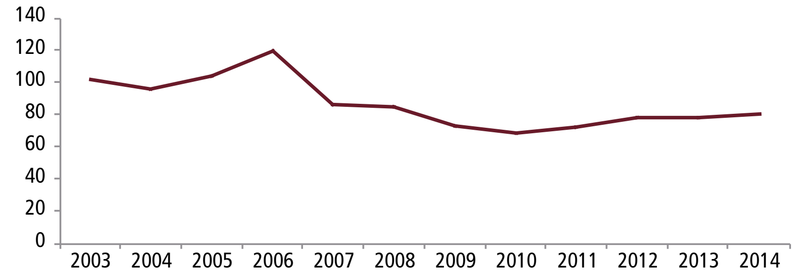


Source : DAPS

Higher exposure of insurance companies to the various investment instruments

The rate of capital exposure to underwriting risk rose from 78 percent to 80 percent, due to higher net premiums (7 percent), compared to equity premiums (3.7 percent).

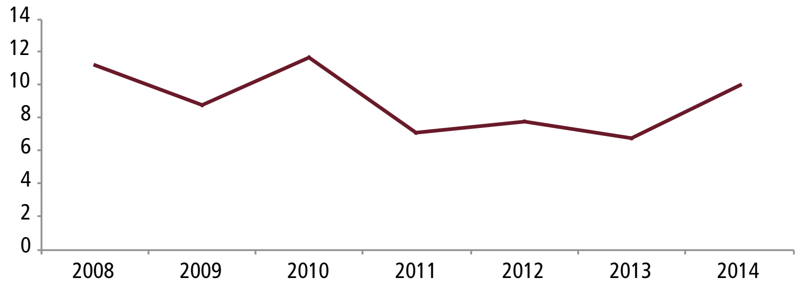
Capital exposure of insurance companies to underwriting risk, in %



Source : DAPS

For their part, unrealized gains recorded a significant increase in 2014, and accounted for around 10 percent of the covering assets.

Insurers unrealized gains/representative assets, in %

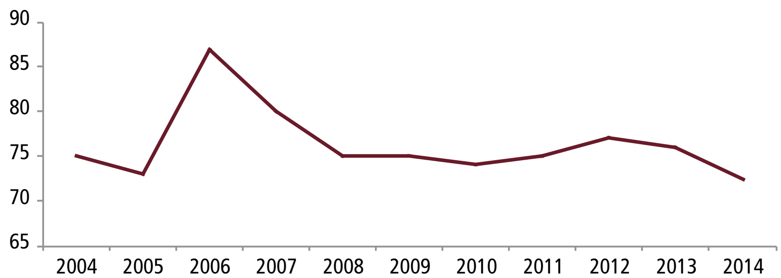


Source : DAPS

The level of claims compared to premiums improved

The claims to premiums ratio improved to reach around 72.5 percent against 76 percent in 2013, a level comparable to the average observed in OECD countries.

Net amount of losses/ net premiums, in %



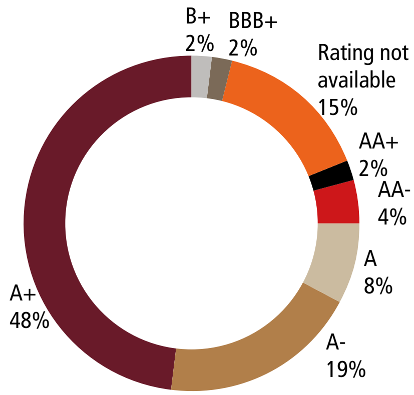
Source : DAPS

Reinsurers counterparty risk is controlled

On average, 27 percent of the shares of assignees are guaranteed by deposits, 71 percent are sold to the Central Reinsurance Company (SCR), which benefits from the State guarantee, and 2 percent are held by foreign reinsurers almost all of which are rated BBB minimum.

Up to 81 percent of the retrocession transactions by the SCR are made with reinsurers rated AA minimum.

Breakdown of reinsurer by rating category

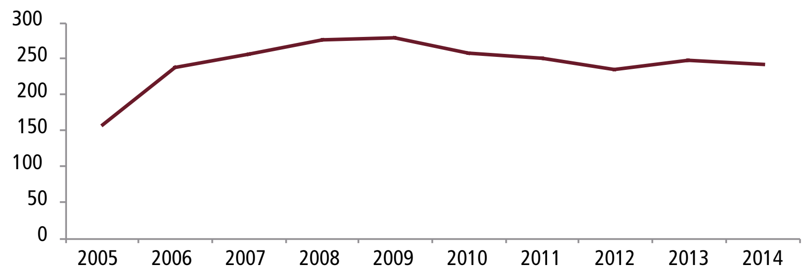


Source : DAPS

Insurance companies continue to post fairly comfortable liquid assets compared to their current liabilities

Liquid assets of insurance companies accounted for nearly 2.5 times their current liabilities, thus reflecting a strong ability to meet their potential cash outflows.

Liquid assets / liabilities on insurance companies in %

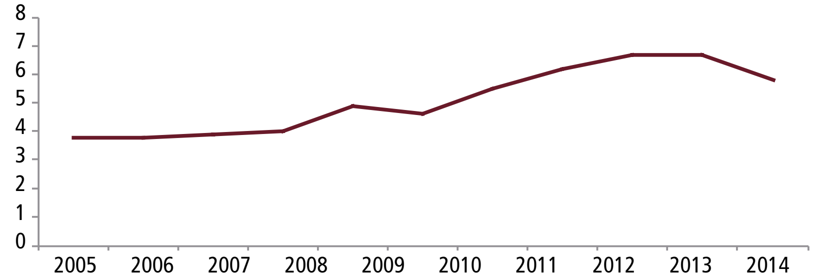


Source : DAPS

Exposure of insurance companies to redemption risk remains controlled

The share of repurchases in policy liabilities of insurance companies equals 5.79 percent, as against 6.7 percent in 2013.

Repurchase amount / mathematical provisions of insurance companies, in %



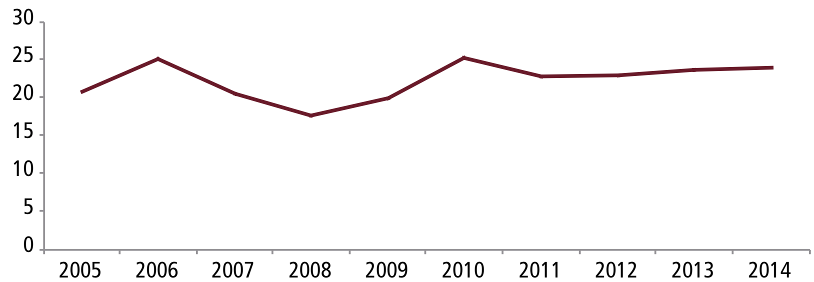
Source : DAPS

Exposure of insurance companies to interest rate risk, measured through a stress test calibrated with a bond portfolio rate shock of 100 basis points, is controlled. Indeed, the insurance sector was able to withstand such a shock, as the duration of the medium-term bonds has not registered a sharp decline, unlike the long-term one.

Exposure of insurance companies to the market risk was measured through a stress test based on a stock market shock, calibrated on the basis of a 10 to 25 percent decrease of the value of the listed shares they hold. Results of these stress tests show that as of a 10 percent decline in the valuation of the equity portfolio, two insurers need recapitalization. This scenario seems realistic given the unstable stock market, whereas the extreme scenario shows that 5 out of the 18 insurance companies are in trouble.

Exposure of insurance companies to the real estate risk was measured through a stress test based on a real estate shock, calibrated on the basis of a 10 to 25 percent decrease of investments value. Results of these stress tests show that one insurance company is probably impacted by this shock.
Although financial income of insurance companies has contracted, their return on equity stood at around 10 percent.

Insurers operating technical costs/ gross premiums, in %



Source : DAPS

Operating technical expenses have stabilized at around 24 percent of premiums.

Box 8: Provision for Financial Contingencies (PFC)

Insurance companies which have contracts with high guaranteed rates, can make a portfolio yield equal to, if not less than, the compensation to be paid to the insured. For this reason, insurers are called to provision the difference between commitments discounted at a safe interest rate depending on the revenues of their assets and liabilities, previously calculated. Thus, the provision for contingencies is intended to offset a decline in the return on assets compared to the commitments in the guaranteed rates contracts other than those in units of account.

III.3 PENSION SCHEMES

The retirement sector in Morocco is governed by various schemes covering 39 percent of the employed population. This coverage is provided by the Moroccan Pension Fund (CMR) for civil and military officials, the Collective Scheme of Retirement Allowance (RCAR) for employees of the semi public sector and by the National Social Security Fund (CNSS) for employees of the private sector. This last category may benefit from a complementary and optional coverage provided by the Moroccan Interprofessional Pension Fund (CIMR). These schemes mainly operate on a pay-as-you-go basis.

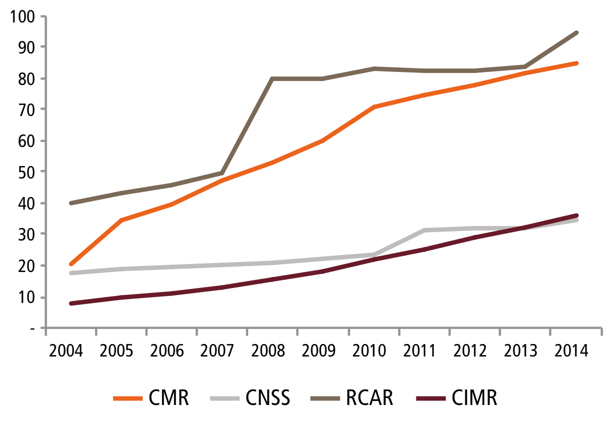
The structural imbalance of some schemes, including civil pensions, is of particular concern and could speed up the transfer from reserves if parametric reforms are not set up.

Services provided by the pension schemes recorded a more than proportional increase compared to the contributions collected

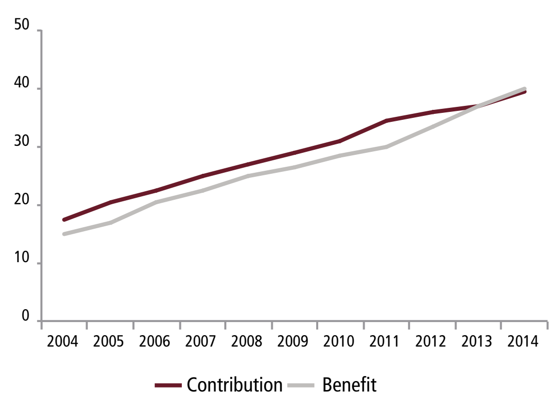
In 2014, contributions raised by pension schemes accounted for 4.23 percent of GDP. They were collected from an employed population which contributed to the basic pension schemes by 4.18 million, against 4.03 million in 2013. The services provided by schemes represented 4.30 percent of GDP and benefited 1.96 million people against 1.14 million in 2013.

Pension assets increased by 9.6 percent from 228.5 billion dirhams in 2013 to 250.3 billion dirhams in 2014.

Change in pension funds reserve, in billions of dirhams



Change in benifits and contributions of pension funds, in billions of dirhams

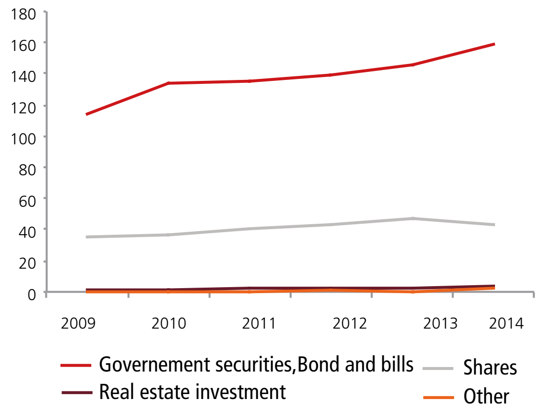


Source : Daps

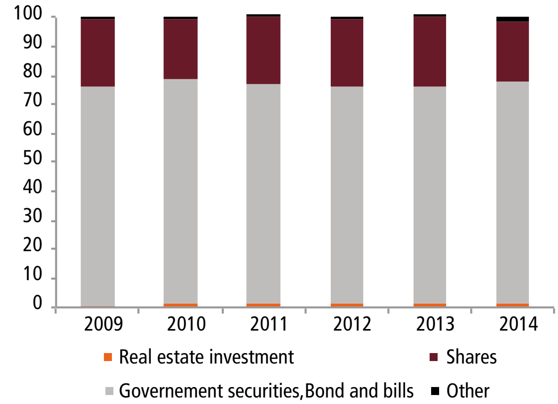
The rising investments of the pension schemes noted an increase in the share of mutual funds investments at the expense of equity, due to the sluggish stock market

Pension investments[17] in 2014 amounted to 207.76 billion dirhams, up 6.8 percent compared to 2013, against 5.3 percent a year earlier, thus marking an average annual increase of 6.7 percent over the last six years. The structure of these investments, which remained stable over the same period, is mostly made of government securities, bonds and bills, by 77 percent, followed by shares with a part of 21 percent.

Structure of pension investments, in billion of dirhams



Breakdown of pension funds investments, in %



Source : Daps

Continued deterioration of the financial viability of basic schemes[18]

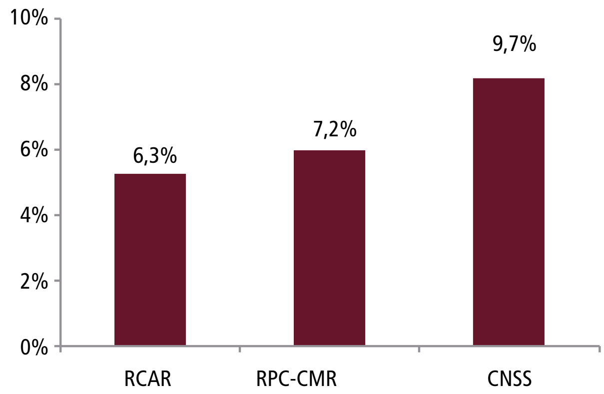
Overall, the retirement sector remains worrying, given the degradation of the demographic factor, as a result of the continued decline in the number of paid-up members compared to RCAR and civil pension beneficiaries.

The technical balance of the schemes is compounded by the mismatch between the levels of the services provided and the contribution rates applied.

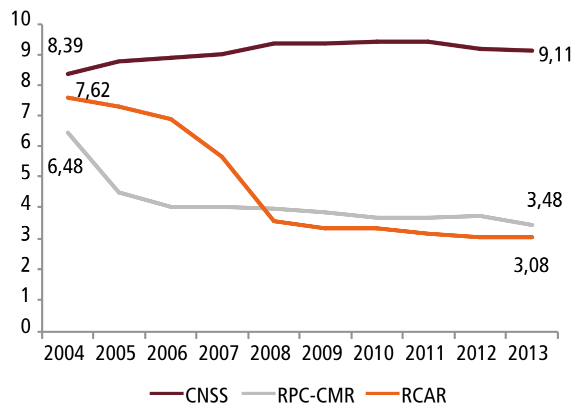
17 Investments of the RCAR, the CMR, and the CIMR. By virtue of the provisions of the Dahir bearing law No 1.72.184 dated July 27, 1972, available funds of the CNSS shall be deposited at the Deposit and Management Fund (CDG).

18 The system of civil pensions managed by the CMR, the general scheme of the RCAR and the CNSS.

Internal rate of return (IRR) of pension funds[19]



Demographic report of different pension funds[20]



Source : Daps

Accumulated unhedged debt of the three schemes over the forecasts horizon constitutes 91 percent of GDP. Hence, the financial sustainability of these schemes is at risk, at varying degrees, especially for the civil pension scheme. During fiscal year 2014, the latter combined a technical deficit of around 936 million dirhams, which was covered with exceptional financial products of about 5.01 billion dirhams. In the absence of an urgent parametric reform, transfers from reserves will accelerate in the coming years, pushing the CMR to liquidate its assets in the financial markets.

Status of the basic pension schemes[21]

Scheme/fund	RPC-CMR	CNSS	RCAR
Unhedged debt over the forecasts horizon (in billions of dirhams)	695	66,3	78,2
Date of the first deficit[22]	2015	2024	2022
Date of reserves depletion	2022	2040	2040
Prefinancing rate	32,08%	20,58%	52,9%
Liabilities coverage rate (in closed pension schemes)	11,09%	6,41%	61,62%

19 Calculations based on a typical profile per scheme, 2013 data.
20 The demographic ratio is the ratio of contributors to the number of retirees.
21 Based on actuarial balances of 2014 of the CPS and RCAR and those of 2012 for the CNSS.
22 This concerns the overall balance deficit (contributions + financial income - total expenses)

Box 9 : Government scenario of the parametric reform of the CMR-managed Civil Pensions Scheme (CPS)

The parametric reform of the CPS as suggested by the government concerns :

- The legal retirement age (raising the retirement age to 62 and extend it by 6 months/ year to 65 years with the possibility to receive a full pension after 41 years of service) ;
- Increasing employee and employer contribution rates, each by 4 points over two years;
- Defining the pension payment on the basis of average salary for the last 8 years gradually over 4 years ;
- Applying an annuity rate of 2 percent instead of 2.5 percent for the rights to be acquired as of the date of the reform.

By applying these measures, unhedged debt will be reduced by 70 percent and the maturity of depletion will be extended to around 2031. In fact, these two elements constitute the prerequisites for a comprehensive reform of the pension scheme.

III.4 INTERCONNECTIONS BETWEEN FINANCIAL INSTITUTIONS

Interconnections between financial institutions constitute a probable channel of contagion whereby risks spread within the financial system. It is important to study these interconnections in order to assess the risks weighing on the stability of the financial system. This is one of the criteria defined by the Financial Stability Board and the Basel Committee to identify systemically important financial institutions. Such analysis may concern financial institutions (banks, insurances, and mutual funds), capital markets and payment and settlement systems. The present section studies domestic interbank linkages, interconnections between banks and insurance companies in Morocco, as well as interconnections between banks and their subsidiaries abroad.

A. DOMESTIC INTERBANK LINKAGES

Interbank linkages in the domestic market do not foster any risk of contagion

In 2014, volumes traded on the money market were concentrated around a limited number of stakeholders, especially as regards borrowings, given that one bank mobilizes more than half of the exchanges.

Thus, the interbank contagion stress test, conducted quarterly since 2009 to assess the propagation of a liquidity problem from one institution to others, shows that the money market was resilient all through 2014. This resilience, perceived in the absence of a plausible domino effect, reflects the absence of any multilateral interconnection between the different actors, and thus confirms the concentration weighing on the various compartments of the Moroccan money market.

B. DOMESTIC INTRA-FINANCIAL LINKAGES

Insurance companies' exposures to the banking sector are important, while those of banks to the insurance sector are limited.

Banks' exposures to the insurance sector represent limited shares of their expenditure and income, with 0.2 percent and less than 1 percent, respectively.

Loans represent 2/3 of expenditure, followed by equity with nearly one third. Debt instruments and deposits constitute banks' main resources provided by insurance companies, followed by capital instruments.

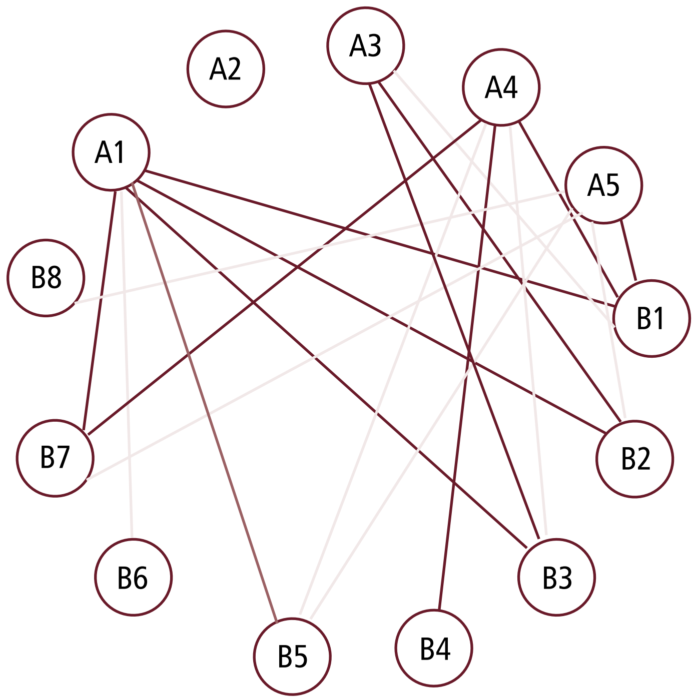
On the contrary, exposures of insurance companies to banks are more important and represent about 17 percent of their expenditure. The latter consist mainly of equity and property securities (73 percent), negotiable debt securities (18 percent) and deposits (9 percent).

Resources of insurance companies from banks are limited to 2 percent.

The contagion stress test reveals that insurance companies are probably vulnerable to bank failures, but not the reverse.

As part of a stress test carried out on eight banks, which account for over 90 percent of bank assets, and 5 insurance companies, representing more than 80 percent of insurance companies' assets, a study was carried out to analyze the network of bilateral exposures between banks and insurance companies. This analysis proved that insurance companies may be vulnerable to bank failures. Conversely, the stress test shows that failure of insurance companies does not lead to bank failure.

Exposures between banks and insurers



Legend:
Bi: Bank i
Ai: Insurer i
Nodes stand for banks and insurers. Arrows represent gross exposures. Width of the arrow refers to the degree of the exposure.

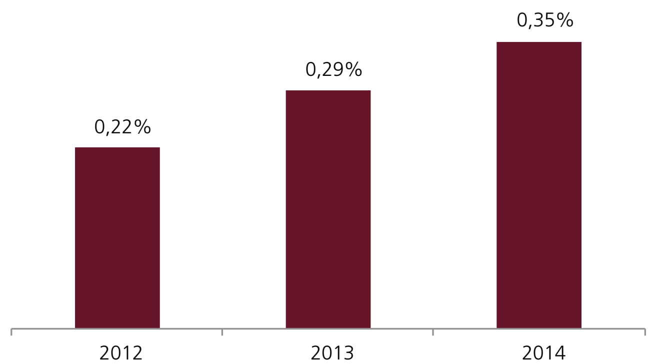
Source: BAM-DAPS

C. INTERCONNECTIONS BETWEEN BANKS AND THEIR OVERSEAS SUBSIDIARIES

Direct cross-border exposures of Moroccan banks vis-à-vis their overseas subsidiaries are limited, thus inducing a low risk of contagion

Direct loans granted by the three most active banks to their subsidiaries abroad are limited and represent not more that 0.35 percent of their consolidated assets at end-2014, as against 0.29 percent in 2013, therefore inducing a low risk of contagion.

Direct cross border exposures in % of total consolidated assets



Source : BAM

CHAPTER 4

DEVELOPMENTS OF CAPITAL MARKETS AND MARKET INFRASTRUCTURES

Financial system stability constitutes an important challenge for an orderly exit from the fixed exchange rate regime, which particularly requires developed and efficient markets. To this end, the soundness of capital and financial market infrastructures is reinforced through continuous assessment and monitoring of potential vulnerability risks and factors which may affect their stability.

IV.1 CAPITAL MARKETS

Bank liquidity improved in 2014, thus reversing the downward trend observed since 2007. In this context, the Central Bank continued its accommodative monetary policy by injecting the liquidity needed to maintain balance of the interbank money market while decreasing the average daily outstanding amount of its interventions from 70 billion dirhams in 2013 to 55 billion in 2014.

In the money and bond markets, 2014 was characterized by declining rates. Indeed, since the beginning of the year, Treasury debt conditions showed decreases across all maturities, due to a comfortable financial position, coupled with investors' expectations of lower key rate. This downward trend was confirmed as of September by the two successive key rate reductions decided during the last two bank board meetings of the year. These developments also impacted the private debt market that has gained renewed interest from investors.

Despite these improvements, the major risks weighing on market stability materialized, on the one hand, in the persisting concentration of liquidity in the Central Bank and in capital markets' lack of structural depth.

A. MONEY AND BOND MARKETS

Improved bank liquidity…

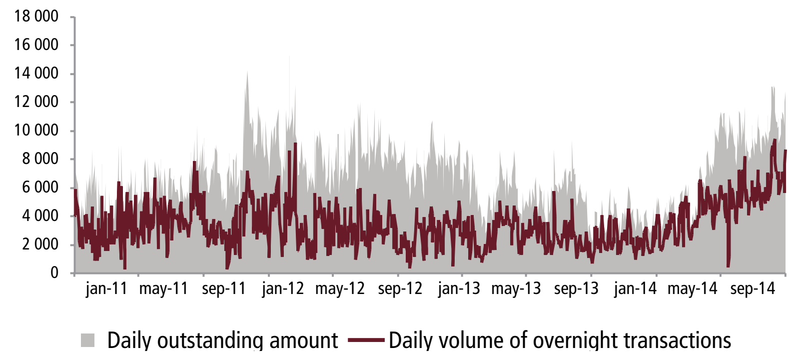
Banks' liquidity position[23] increased by nearly 28 billion dirhams, closing the year 2014 with a deficit of 40.8 billion. This reflects, on the one hand, the improved net foreign assets, and secondly, the lower reserve requirement ratio, which fell from 4 percent to 2 percent, further to a structural liquidity injection of 8 billion dirhams.

23 Liquidity position=banks accounts-reserve requirements-BAM interventions-Treasury's interventions on the money market.

However, the decline in the monetary reserves ratio, which constitutes an important safety cushion, led banks to resort to a tighter management of their treasuries, thus to a more frequent recourse to advance facilities. Hence, the volume of the intraday advances requested by SRBM members increased from 232 billion dirhams in the first quarter to more than 430 billion dirhams respectively during the next three quarters.

Improved bank liquidity resulted in less volumes traded on the interbank unsecured money market, which averaged 5.7 billion dirhams, as against 6.3 billion the previous year. Over 60 percent of the volumes were processed daily, compared to 45 percent in 2013.

Volumes traded in the interbank money market, in millions of DH

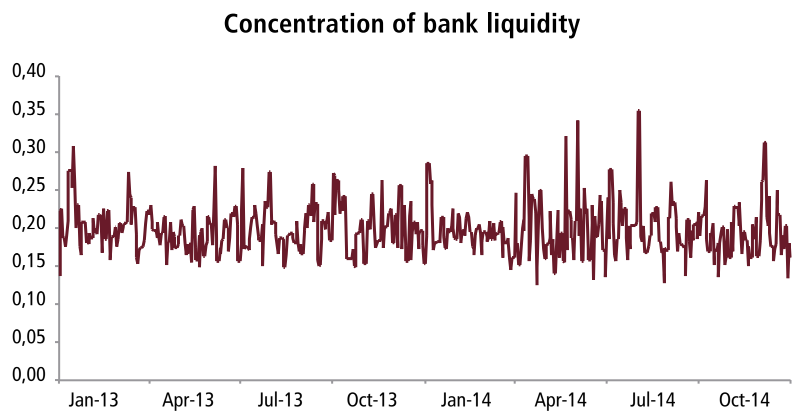


Source : BAM

...but persisting concentration in the money market

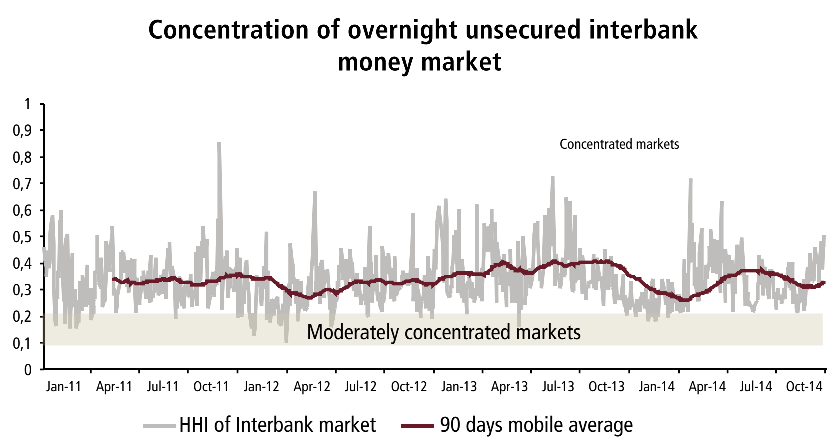
However, bank liquidity remains unevenly distributed among banks, as 70 percent of total reserves are held by the three largest institutions of the place. Thus, the Herfindahl-Hirschman[24] index of bank liquidity stabilizes at 0.20.

24 This index, calculated by squaring the market share of each bank, ranges from 0 to 1. An index below 0.1 indicates an unconcentrated index. An index between 0.1 and 0.18 indicates a moderate concentration. The market is considered highly concentrated if the index is above 0.18.



Source : BAM

This structure is also reflected on unsecured lending and borrowing, which are highly concentrated, especially borrowings, with an HHI index of 0.33, since only one bank has drained more than half of the resources on this market segment.



Source : BAM

On the other hand, due to its extension to other operators, particularly mutual funds, the repo market stands in the category of moderately concentrated markets, as it recorded a lower concentration, with an HHI index of 0.16. However, borrowings in the pension market remain concentrated around banking institutions, as primary borrowers, with a share of 65 percent of the overall volume.

Concentration of refinancing with the Central Bank

The high concentration of bank liquidity is reflected in the distribution of the Central Bank injections, as over 80 percent of the envelope being served is captured by a small number of institutions. The HHI of BAM injections has evolved around 0.3 over the last three years.

Concentration of refinancing with Bank Al-Maghrib

Source : BAM

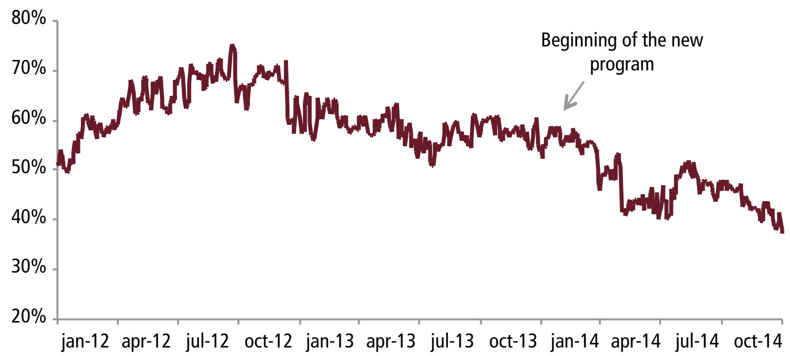
Reduced pressure on the collateral[25]

The pressure on eligible collateral for monetary policy operations continued to diminish during the year 2014. Indeed, the share of collateral mobilized by banks in relation to their own holdings of eligible assets stood, on a daily average, at 48 percent, against 58 percent in 2013 and 65 percent in 2012.

This improvement was due to lower intervention of the Central Bank, due to better liquidity conditions in banks. Furthermore, the significant increase of outstanding refinancing operations guaranteed by private effects (19 billion dirhams at the end of 2014 against 6 billion dirhams at the end of 2013) largely contributed to reduced pressure on the collateral in the form of Treasury bills.

25 Pressure on the collateral is an indicator of the banks' capacity to obtain financing from the central Bank. The higher is this indicator, the more important is the banks' exposure to the risk of liquidity pressure.

Share of the mobilized collateral by banks

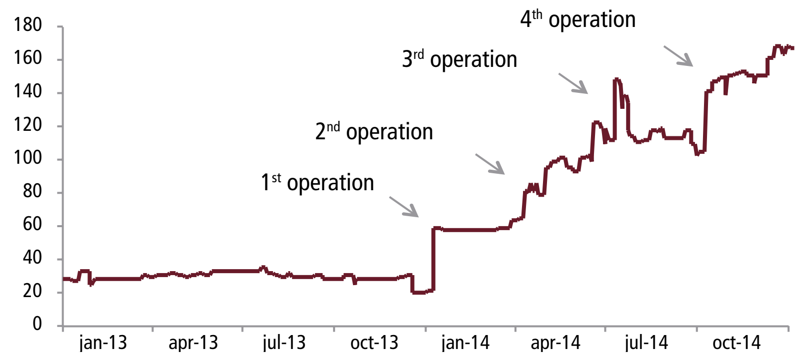


Source : BAM

Extension of the average duration of BAM's interventions

Building on the three-month loan scheme guaranteed by commercial bills, introduced in 2013, a new support program was launched in 2014 to support VSMEs financing, through one-year advances. Owing to new tool, the average maturity of the Central Bank's interventions increased significantly, from 30 days in 2013 to 104 days in 2014.

Average duration of BAM's interventions *



Source : BAM

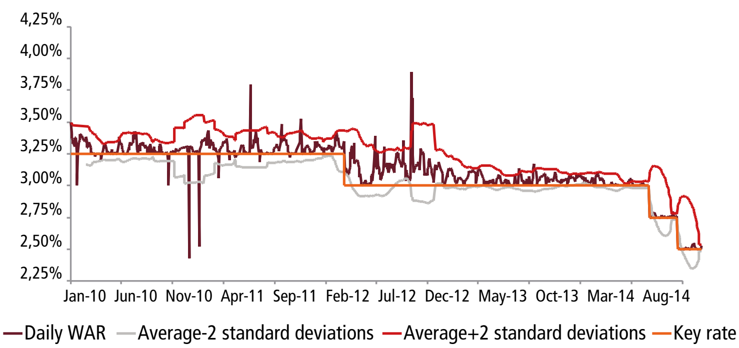
*Quarterly operations carried out under the guaranteed one-year loan program, for respective amounts of 7.85 ; 3.2; 2.8 and 5 billion dirhams.

Reduced market rates

Bank Al-Maghrib's continued accommodative policy has ensured a smooth running of the interbank market and an efficient management of short-term rates. Similarly, the two-stage allocation mechanism[26], set up by the Central Bank for the 7-day advances, allowed to satisfy more needs of small banks and thereby rectify any distortion. Thus almost all needs of these small banks, which could undergo market pressure, were met by the Central Bank.

Thus, the cost of overnight borrowing remained close to the key rate throughout 2014, thus inducing an average volatility of spreads between the Weighted Average Rate and the key rate of not more than 3 basis points.

Overnight unsecured interbank WAR: Trend and volatility



Source : BAM

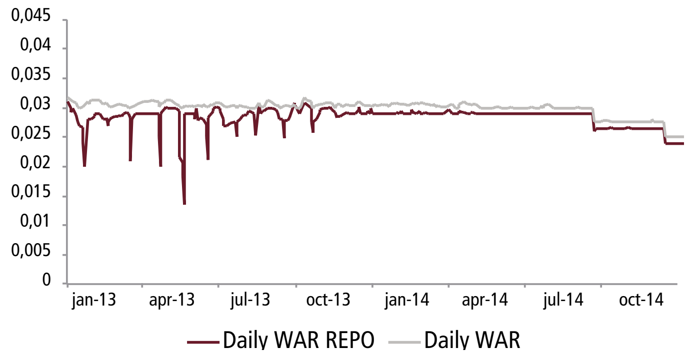
Efficient pricing in the money market

Similarly, the differences between the maximum and minimum interest rates observed in one day on the money market continued to narrow between 2013 and 2014, as they moved from 12 to 6 basis points for unsecured market and from 5 to 2 basis points for pension market, thus reflecting a more efficient pricing.

26 The overall amount withheld by Bank Al-Maghrib for its main transactions is divided in two phases :
- Phase1 : 50 percent of the overall amount withheld is distributed equally between the tenderers, depending on their demands.
- Phase2 : 20 percent of the overall amount withheld, possibly added to the remainder of the first phase, are distributed in proportion of the remaining tenders.

In addition, the spreads between financing in the unsecured market and collateralized market reached almost 12 basis points in 2014 against 20 basis points a year earlier, reflecting a lower risk aversion.

Overnight WAR in the pension market and in the unsecured interbank market

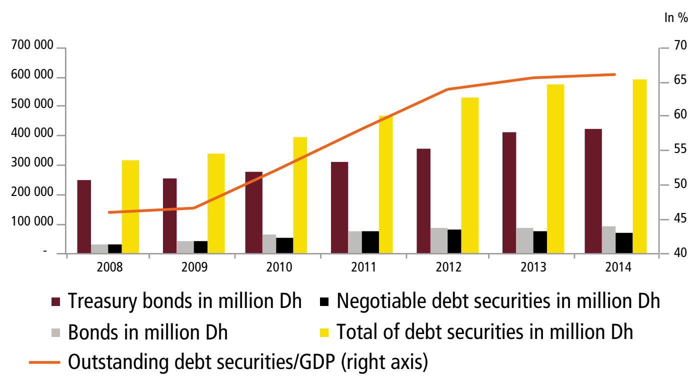


Source : BAM

Important debt securities market

The outstanding debt has increased steadily since 2008, moving from 317 billion dirhams (44.2 percent of GDP) in 2008 to 593 billion dirhams (64.1 percent of GDP) in 2014.

Change in outstanding debt securities

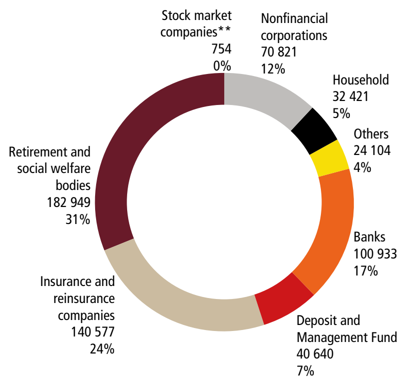


Source: Maroclear, Ministry of Economy and Finance, and CDVM estimates

A fairly wide exposure of economic units, mostly financial institutions and pension and social welfare bodies

In 2014, the debt securities market was linked to the country's various economic units. Indeed, statistics on the distribution of securities reveal that pension and social welfare organizations are the top investors, with 31 percent, or about 183 billion dirhams. Financial institutions combined (banks, insurance and CDG) account for nearly 48 percent of total debt securities with nearly 282 billion dirhams.

Direct and indirect holding of debt securities at end 2014, in millions of dirhams



Sources : Account keepers, Maroclear, DAPS.
(*) Through mutual funds. (**) Own account positions with Maroclear.

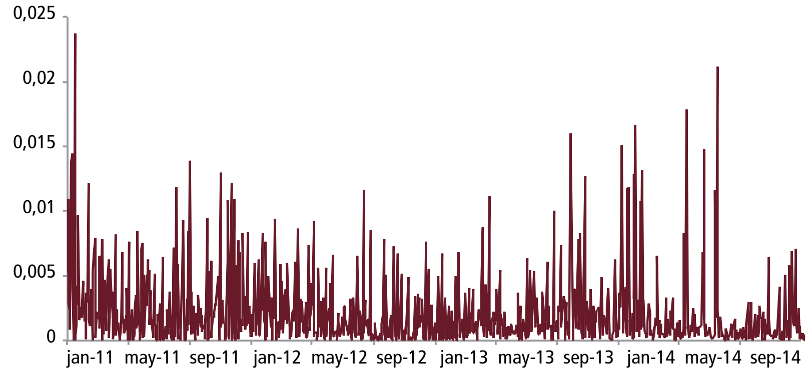
The public debt market is more dynamic, despite the shallow and relatively volatile secondary market

With an outstanding amount of 426 billion dirhams at end 2014, Public debt market constitutes the first alternative for investors, due to the security it offers and to the poor investment opportunities offered.

On the contrary, the secondary market continues to record a relatively low turnover rate, compared with other countries with liquid T-bills markets such as Japan (1.31) and Hong Kong (0.95). The annual turnover rate of the secondary market for Moroccan T-bills remains relatively small, as it stood at 0.4 in 2014, but comes ahead of Indonesia (0.34) and China (0.31)[27].

27 Source : AsianBondsOnline

T-Bills daily turnover rate in the secondary market : market depth



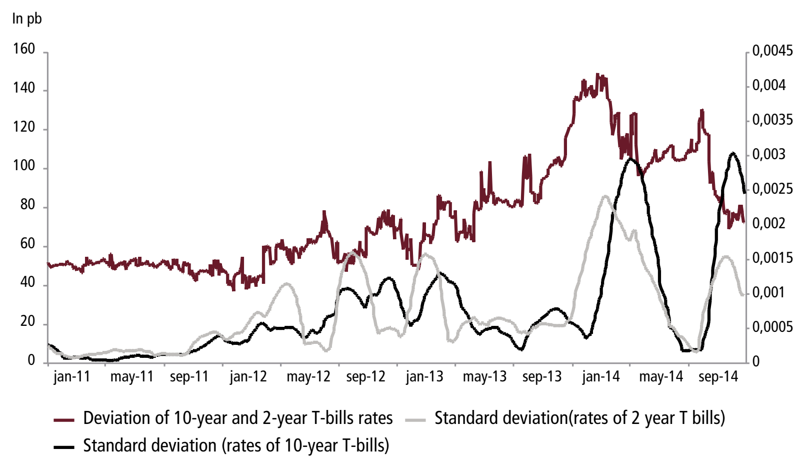
Source : BAM

Lower mid and long-term return rate

The downward trend of T-bills, observed since late November 2013, led to a rise in their historical volatility. Indeed, the standard deviation of 2-year and 10-year T-bills rates amounted respectively to 24 and 10 basis points at end-2014 against 6 basis points each the year before.

In addition, the spread between 2-year and 10-year rates dropped by 54 basis points, due to a more important decline in medium and long term rates.

Rates spread and volatility of 10-year and 2-year Treasury Bonds



Source : BAM

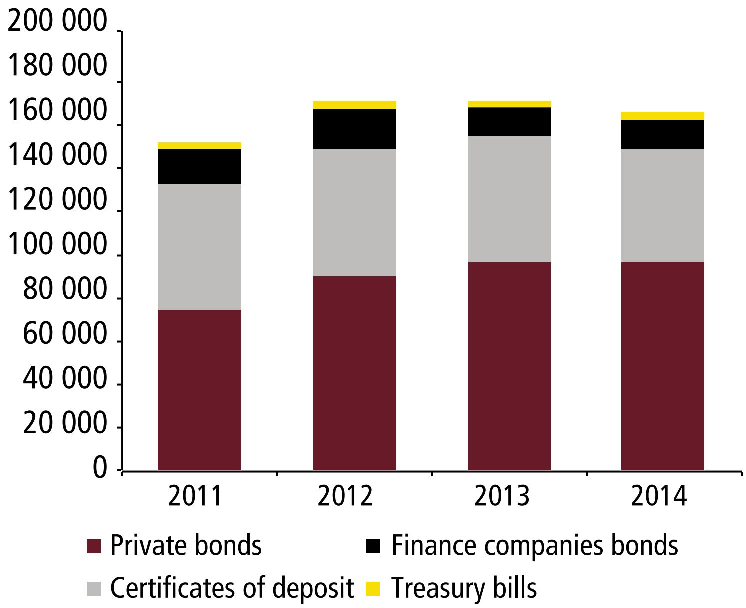
Underdeveloped private debt market

The private debt market, which constitutes an alternative financing for both financial intermediaries and businesses, is underdeveloped. Its secondary compartment is very narrow and not very transparent.

Slight decrease of the outstanding private debt

Standing at about 169 billion dirhams, total outstanding private debt slightly decreased by 2 percent in 2014 compared to 2013, thereby breaking the upward trend it started in 2007. Such a development was particularly due to the decline in the stock of negotiable debt securities which fell 2 percent to nearly 68 billion dirhams, as a result of the partial renewal of yields on CDs.

Outstanding of private debt, in million DH



Source : BAM-Maroclear

Resumed issuance of finance companies bills after a virtual absence in 2013.

Overall, negotiable debt securities issues rose by 7 percent to more than 66 billion dirhams in 2014, from one year to the other. This development was mainly driven by the resumption of finance companies issues after a virtual absence in 2013. In fact, following the decline in interest rates on 2-year T-bills, finance companies had a renewed interest in this segment and raised around 8 billion dirhams in 2014 against 40 million dirhams one year earlier, the highest level ever recorded in this segment.

Similarly, issues of commercial papers amounted to 11 billion dirhams in 2014, i.e. 1 billion more compared to the previous year.

However, certificates of deposit issued dropped by 9 percent, totalizing 47.4 billion dirhams.

Higher issues of private bonds

On the other hand, private bond issues almost doubled in 2014, from almost 7 billion to nearly 14 billion dirhams from one year to the other, mainly due to the decrease in bond rates, observed since late 2013. The main bonds issued in this segment concerned real-estate and banking sectors, which concentrated together almost 60 percent of the overall volume.

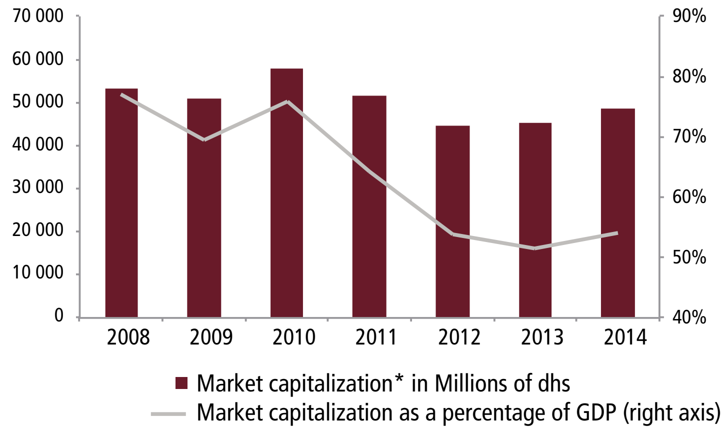
B. THE STOCK MARKET

Like banking institutions, the stock market's primary function is to drain savings with a view to financing the economy, especially businesses. Thus, stability of this market is important to sustain this source of funding and preserve the funds placed by stock market investors, be they households, nonfinancial companies or financial institutions.

An important market capitalization

With 484 billion dirhams and 52.3 percent of GDP, the size of the stock market is important to the Moroccan economy. Despite the downward trend recorded between 2010 and 2013, the delisting of some issuers, and the lower valuations, market capitalization recorded a slight rebound in 2014 both in volume and as a percentage of GDP, mainly due to a gain in valuation.

Market capitalization

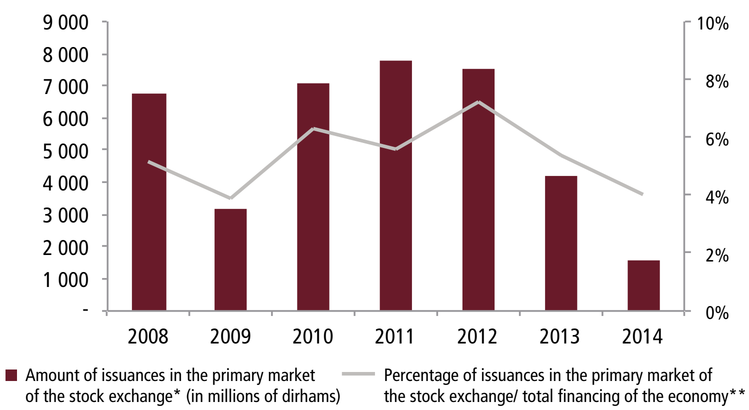


(*) Excluding bonds.
Source: Casablanca Stock Exchange, Ministry of Economy and Finance

Marginal contribution of the stock market to financing the economy

The stock market's contribution in financing the economy has been marginal. In fact, funds raised through the stock market fell from 7.5 to 1.5 billion dirhams. It represents 4 percent of total financing of the economy, down since 2012 when it accounted for 7 percent.

Issuances in the primary market of the stock exchange

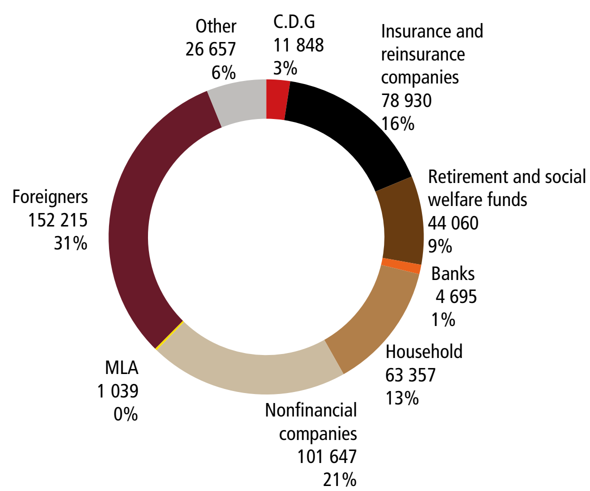


(*)Excluding bonds
(**) Primary market issues + change of outstanding debt securities, Securitization trust & Venture Capital Funds +Change of outstanding loans of finance companies.
Sources: Casablanca Stock exchange, BAM, Maroclear +CDVM calculations.

Exposure to the stock market is quite large except for the banking sector where it is very limited

The stock market is connected with the different categories of country's economic units. However, the level of exposure varies depending on the category. One of the first remarks is the low investment of banks in the stock market with less than 1 percent. The exposure of financial institutions as a whole (banks, insurance companies and the CDG) came to a total of 20 percent; that is 95 billion dirhams, mainly from insurance companies. Foreigners remain the largest investors at 31 percent, or 152 billion dirhams, followed by non-financial companies with 20 percent or nearly 102 billion dirhams, and households with 13 percent or 63 billion dirhams. On the other hand, exposure of pension funds and welfare institutions is relatively high at 9 percent or 44 billion dirhams.

Direct and indirect* ownership of market capitalization at end-2014 in millions of dirhams



Source : Banks, Maroclear, DAPS (Insurance Department)
(*)Through UCITS

The stock market enjoys a less unfavorable macroeconomic environment with improving prospects

Taking advantage of the beginning of improvement in the macroeconomic environment, the stock market bounced back in 2014 after a sluggish period that started in 2008. The return of the climate of investors' confidence in 2014 was facilitated by the ongoing economic growth, keeping inflation under control and the improved situation of public finances and the balance of payments. Furthermore, in terms of the global economic situation, the economic trend in Morocco's partner countries improved slightly in 2014. The outlook for 2015 is also expected to be positive mainly due to a more favorable domestic conditions.

Trend of stock market indices in partner countries

	2009	2010	2011	2012	2013	2014
USA (Dow Jones)	+18,8%	+11,0%	+5,5%	+7,3%	+26,5%	+8,7%
France (CAC 40)	+22,3%	-3,3%	-17,0%	+15,2%	+18,0%	-0,5%
Spain (Ibex 35)	+29,8%	-17,4%	-13,1%	-4,7%	+21,4%	+3,7%
Italy (FTSE MIB)		-13,2%	-25,2%	+7,8%	+16,6%	+0,2%

The valuation level of the Casablanca stock market remains high

The Casablanca stock exchange PER is increasing at end-2014. It is estimated to stand at 18.1 times against 17.5 times in 2013. This level of valuation is, however, significantly lower compared to end-2009 when it reached 20.4 times.

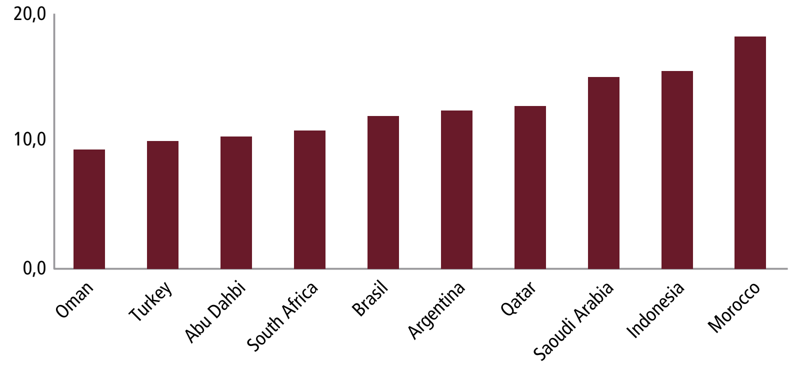
Trend of stock market indexes and the PER

Indicators		2008	2009	2010	2011	2012	2013	2014
PER of the Casablanca stock exchange	Global	17,8x	20,4x	16,8x	17,2x	16,5x	17,5x	18,1*
	Market excluding real-estate	16,5x	18,9x	16,6x	17,3x	16,9x	17,9x	18,1*
	Market excluding IAM	20,4x	23,6x	18,7x	18,1x	17,4x	18,2x	18,6*
MASI change in %		-13,5	-4,92	21,17	-12,9	-15,1	-2,62	5,55
MADEX change in %		-13,4	-6,58	22,1	-12,81	-15,5	-2,57	5,73

Source : Casablanca Stock exchange
(*)Estimates

However, it remains at a relatively high level compared to many emerging stock markets, which does not contribute to improving the attractiveness of the Casablanca Stock Exchange with investors.

PER 2014 of some countries (Estimation)

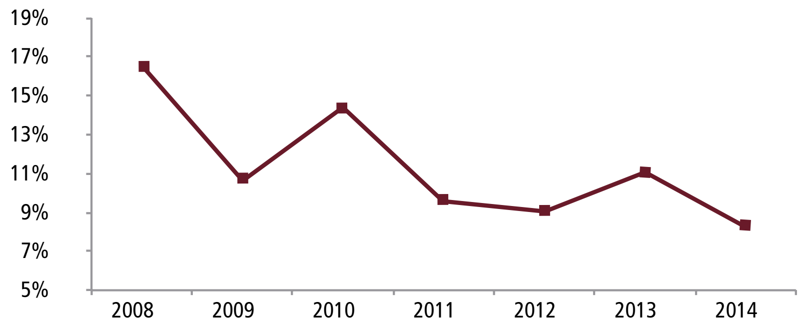


Source : CDVM estimates

Stock market liquidity tumbled to a very low level

The shortage of liquidity in the Casablanca stock market worsened in 2014. After the rebound registered in 2013 to 11.1 percent, the liquidity ratio fell again to 8.25 percent in 2014, its lowest level in six years. This weakness of liquidity is likely to affect market efficiency and may represent an aggravating factor, in the event of market pressures, that would increase transaction costs and accelerate a possible drop in prices.

Change in stock market liquidity*



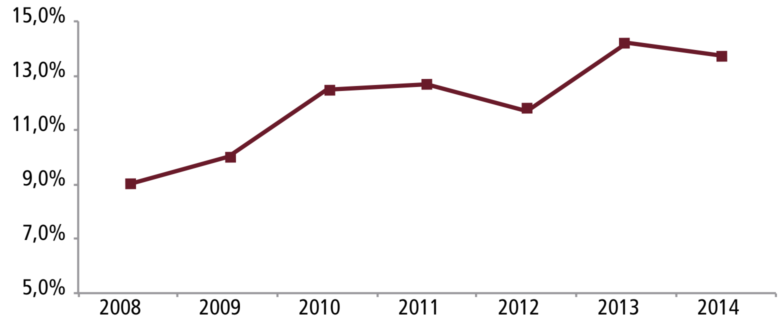
(*) The liquidity ratio is a moving average of the non doubled monthly volume of the central and block markets and the end-of-month capitalization, calculated on a year-on-year basis.

The entry into force of the securities loan law has not, so far, had a positive effect on liquidity in 2014; as such operations hardly covered listed securities.

Although limited to 13.7 percent, the share of foreign capital in the floating stock is quite important if we take into account the herd effect.

In the event of a global financial crisis, the domestic stock market remains exposed tothe risk of withdrawal of foreign capital. Foreigners, it is true, hold only 13.7 percent of the floating stock in 2014 against 14.2 percent in 2013. Yet, the impact of a possible withdrawal of foreign capital may be amplified by a herd behavior among investors.

Share of foreign capital in the floating stock



Source : Account keepers, CDVM. calculations

The high level of concentration in the stock market requires the implementation of measures to promote the diversification of the listed securities.

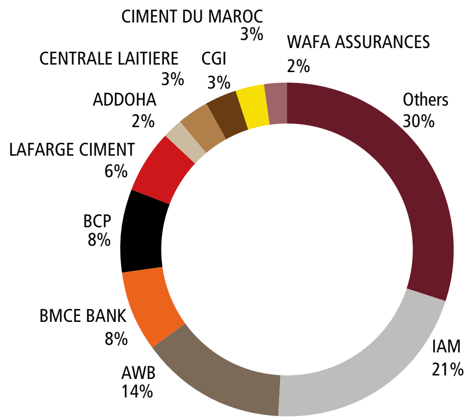
The concentration of the stock market on a very limited number of issuers represents a source of vulnerability for the financial system.

In Morocco, this concentration is on an upward trend, as five listed values represent 56.8 percent of total market capitalization compared to 54 percent in 2013. By itself, Itissalat Al-Maghrib represents 21 percent.

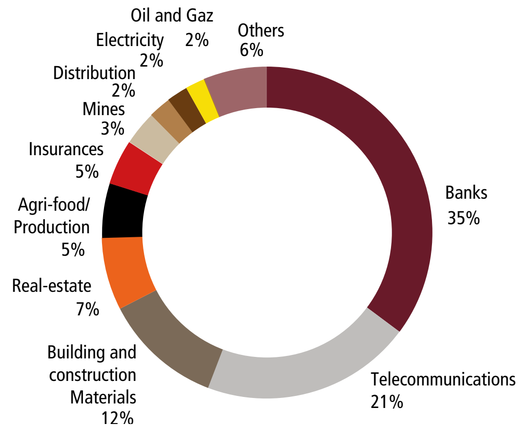
By economic sector, the important weight of banks remains at almost 35 percent in 2014 from 34.6 percent in 2013, followed by the telecommunications sector (21 percent) and the construction sector (12 percent).

This level of concentration requires, on the one hand, caution as regards the financial situation of large companies that have a strong relationship with the financial system and, on the other, improved access conditions to the stock market for companies in order to promote diversification of listed securities.

Breakdown of market capitalization by issuer at Dec.31 2014



Breakdown of market capitalization by economic activity



Source : Casablanca Stock exchange, CDVM Calculations.

The credit-worthiness of small-size intermediaries was affected but without an incident on market stability

The activity of brokerage firms decreased by 3 percent in 2014 mainly due to the deterioration in market liquidity. The total of their results, although positive overall, fell 36 percent in 2014. However, this situation does not represent a risk to the stability of the financial system given the small size of intermediaries.

Change in stock market companies' turnover

Indicators in millions of Dirhams	2011		2012		2013		2014	
	Amount	Change	Amount	Change	Amount	Change	Amount	Change
Total turnover of brokerage firms	251	-34%	172	-31%	173	1%	168	-3%
Total net result of brokerage firms	57	-59%	45	-16%	28	-38%	18	-36%

Source: Brokerage firms, preliminary 2014 data

Box 10 : Regulatory and market guarantee mechanism

The regulatory and guarantee framework ensuring the good functioning of the market is based on the following :

- Prudential rules applicable to brokerage firms;
- A performance guarantee procedure for stock exchange operations managed by the Casablanca Stock Exchange and based on margin calls depending on the transaction volumes of each brokerage firm;
- A segregation of customer securities holdings at the central depository (Maroclear) and at the securities accounting of account custodians;
- Restrictions in terms of investing customer cash holdings.
- A guarantee fund set up with the aim to compensate customers of brokerage companies into liquidation. It is funded by the brokerage firms (account custodians) semi-annual dues. The amount of such contributions is determined as a percentage of the volume of securities and cash held by each company. The amount of this fund reached to end in December 2013 almost 35 million dirhams.

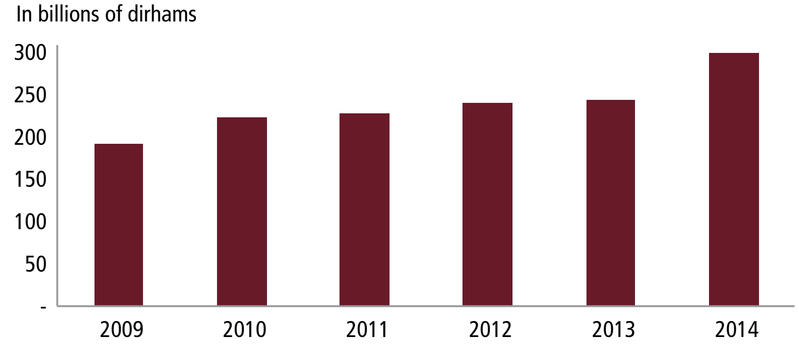
In light of these guidelines, the guarantee fund will be activated only when the bankruptcy of a brokerage firm is due to a fraud in customer assets. Recourse to this fund has not been necessary up to now during in the registered cases of liquidated brokerage firms.

C. ASSET-MANAGEMENT MARKET

The weight of UCITS (mutual funds) is increasingly important in mobilizing saving and funding the economy

Net assets of mutual funds rose from 245.5 billion dirhams at end-2013 to 300.54 billion dirhams at end-2014, up 28.1 percent. Over the last five years, the overall increase stood at 55.39 percent, an average annual growth of 9.22 percent. It represented, at end-2014, 32.5 percent of GDP, against 26.5 percent at end-2013.

Change in net assets of UCITS (last asset value registered by the end of the year)



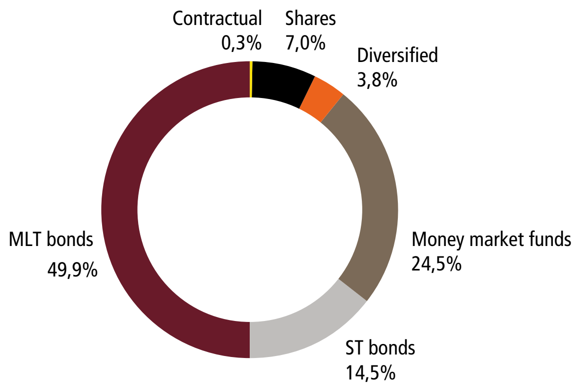
Source : UCITS management companies, CDVM calculations

The number of operating mutual funds reached 384 at end-2014 (from 373 a year earlier) and is divided into 45 SICAV (Open-ended investment company) and 339 FCP (Common investment funds). With 141 funds, «ILTB»[28]. funds remain the most numerous. This predominance is also observed in terms of assets under management since the category «ILTB» indicates, at end-2014, an outstanding amount of 149.8 billion dirhams, or nearly 50 percent of total net assets.

The net assets of contractual funds remains very limited and down compared to end-2012. It rose from 910.5 million dirhams in 2013 to 1.04 billion dirhams in 2014, an increase of 14.2 percent. This increase is mainly due to the collection of 93.3 million dirhams. All contractual funds in activity are accompanied by credit institution guarantees. Their structure must be validated upstream by the CDVM in line with the proposed contract.

28 Intermediate and long-term bond funds

Structure of UCITS net assets by category at end-2014



Source : Mutual funds management companies, CDVM Calculus

Mutual funds represent vehicles that may propagate risks within the financial system

With a portfolio of 213 billion dirhams, or 71.5 percent of the total volume of mutual funds, financial firms largely top the list of categories of economic units holding units or shares of mutual funds. Accordingly, mutual funds may pass the risk of capital markets to financial firms. In the opposite direction, mutual funds may also diffuse the possible failures of financial firms to the capital markets through massive redemptions of units or shares to recover liquidities.

Breakdown of net assets by type of investor at end-2014 (in %)

	Equity and diversified funds	Bond funds	Money market funds	Contractual funds	TOTAL funds
Financial corporations, including:	8,8%	50,7%	11,9%	0,1%	71,5%
Banks, CDG and finance companies	15%	35%	31%	21%	32%
Insurance companies and retirement and welfare institutions	82%	57%	58%	65%	60%
Mutual funds and other portfolio companies	3%	6%	6%	13%	5%
Brokerage firms	0%	0%	2%	0%	0%
Other financial corporations	0%	2%	3%	0%	2%
Nonfinancial corporations	0,3%	8,3%	10,1%	0,1%	18,8%
Resident individuals	1,5%	5,2%	2,0%	0,1%	8,8%
Non-resident individual and legal entities	0,3%	0,4%	0,1%	0,0%	0,9%
TOTAL	**11,0%**	**6 4,6%**	**24,1%**	**0,3%**	**100%**

SOURCE : MUTUAL FUNDS MANAGEMENT COMPANIES, CDVM CALCULATIONS

Mutual funds' stability is closely linked to that of stock exchange and debt securities markets.

In view of the assets composing them, mutual funds are largely exposed to market, counterparty, liquidity and indebtedness risks.

Regarding market risk, the stability of mutual funds is highly dependent on the stability of the market for debt securities and, to a lesser extent, on equity securities. Indeed, the mutual funds' assets composition shows an important link with those markets insofar as they represent respectively 71.77 percent and 7.25 percent in 2014 against 77.63 percent and 8.27 percent in 2013.

Breakdown, at end-2014, of the overall assets of mutual funds by asset category

CATEGORY	AMOUNT	STRUCTURE
Shares LV	**22 765 008 596,14**	**7,25**
Private bond LV	21 669 105 329,84	6,90
Bond LV issued or guaranteed by the State	1 079 955 913,06	0,34
Bond LV issued or guaranteed by the State	15 947 353,24	0,01
Nonlisted values (NLV)	**235 095 621 604,07**	**74,89**
Shares NLV	115 698 244,30	0,04
Private bond NLV	36 687 383 744,52	11,69
Bond NLV issued or guaranteed by the State	131 102 211 448,41	41,76
Negotiable debt securities NLV	57 507 107 367,93	18,32
Mutual funds share/units NLV	9 683 220 798,91	3,08
Other assets elements	**56 067 909 613,81**	**17,86**
Total assets	**313 928 539 814,02**	**100,00**

SOURCE : MUTUAL FUNDS MANAGEMENT COMPANIES, CDVM CALCULATIONS

A set of prudential rules is implemented in prevention of counterparty, liquidity and indebtedness risks. Indeed, mutual funds must comply at all times with the rules on the composition of assets which specify the proportions of securities, pensions and liquidities constituting the mutual funds' portfolio as well as the maximum level of debt they are allowed to contract.

Overall, mutual funds are required to act in the exclusive interest of their units/shares holders.

Box 11: Prudential framework on mutual funds

The prudential framework which governs the financial risks of mutual funds is based on the following :

Risk division rules

- A mutual fund may not use more than ten percent (10%) of its assets in securities of the same issuer, or 15 percent for listed equity securities whose weighting in the benchmark index exceeds ten percent (10%).
- The total value of equity securities that a mutual fund may hold with the issuers in which it invests more than ten percent (10%) cannot exceed, in any case, forty five percent (45%) of its assets.
- A mutual fund may not invest in more than a specified percentage of its assets in :
  - Negotiable debt instruments issued by legal entities whose shares are not listed on the stock exchange;
  - units of venture capital investment organizations (VCIO);
  - or securitization mutual funds investment (JTPF).

This percentage is set by an order of the Minister of Finance, after consultation with the Securities Ethics Council and cannot exceed 20 percent.

Rules on repo

- A mutual fund may hold in its assets the amount of receivables representing the repo operations it carries out as the transferee. These claims cannot exceed one hundred percent (100%) of its assets.
- Exposure of the mutual fund to counterparty risk on the same contractor as a result of the above repurchase agreements is limited to twenty percent (20%) of its assets.

Rules on securities lending operations

- A mutual fund may carry out securities lending operations within a maximum limit of ten percent (10%) of its assets.
- This limit may be increased to one hundred percent (100%) when the borrower provides cash or securities as collateral. Such securities must not be issued or guaranteed by the borrower or by an entity belonging to the same group of the borrower.
- The value of the collateral must, throughout the term of the loan, be at least equal to the value of the securities on loan.

Box 11 : prudential framework on mutual funds

Rules on indebtedness

- The cash borrowings which a mutual fund is authorized to contract may at no time exceed ten percent (10%) of the value of assets of the said body.
- When a mutual fund performs :
  - Repo operations as a transferee ;
  - securities lending operations as borrower ;

The sum of outstanding debts representing repurchase operation, outstanding debts representing borrowed securities and cash borrowings must not exceed the limit of the ten percent (10%) mentioned-above.

Rules on investment abroad

- Every mutual fund is authorized to make investments abroad within the limit of ten percent (10 %) of the value of its assets.

All prudential rules to which are subject Moroccan mutual funds remain applicable to investments abroad.

Securitization and venture-capital, still underdeveloped instruments

At end-2014, the number of operating securitization collective investment funds (SCIF) has reached 6 from funds in 2013 with a total outstanding of 4.49 billion dirhams, up 36% compared to 2013.

SCIF at end-2014

	CrediLog III	SAKANE	FT IMMOVERT Compartiment I	CrediLog IV	TITRIT (Emission Subséquente I)	IMMO LV
Transferee	CIH	Groupe BP	Credit Agricole Du Maroc	CIH	ONEE	Label'Vie
Date of issuance	2008	2012	2013	2014	2014	2014
Amount (in millions of dirhams)	1 500	1 000	534	1 200	1 000	457
Outstanding as at end-December 2014 (in millions of Dhs)	756	716	534	1 023	1 000	457

Source : Maghreb Titrisation

Regarding venture capital, the outstanding amount of investments reached 4.9 billion dirhams in 2014, up 16.7 percent compared to the previous year (source AMIC).

Despite the relatively high growth registered in these two segments of the asset management market, their size remains limited and far from representing a threat to the financial stability of the country.

Individual portfolio management, an activity to be regulated

The individual portfolio management activity is not subject yet to regulatory obligations in terms of reporting and business conduct rules. However, a draft law governing portfolio asset management for third parties is currently following the legislative adoption process and will allow, once taking effect, to have statistics on the volumes of assets managed through individual management contracts, necessary for the analysis of related risks.

This draft law is proposed by the Ministry of Economy and Finance in cooperation with the CDVM and professionals. It aims to regulate this activity in terms of authorizations, licensing and business conduct rules.

IV.2 MARKET INFRASTRUCTURES

Several major events have marked the Financial Markets Infrastructures domestic activity (FMIs) and their legal and regulatory environment over the year 2014.

Thus, as part of developing capital markets, the enactment of the Law on the futures market was of particular importance in the regulation of financial markets and the underlying infrastructure. This development will strengthen the stability of the financial system, through, inter alia, the establishment of a central counterparty clearing house in line with the best practices and international standards in this area.

In terms of supervision and control, the work initiated in 2014 enabled the start of a close collaboration between Bank Al-Maghrib and the Ethics Securities Council for the elaboration of the implementing laws relating to the operationalization of the Coordinating committee on the Futures Market, which will ensure the joint surveillance and control of this market.

In addition, in preparation for the FSAP assessment mission conducted in spring 2015, the Central Bank has invited the managers of the different systemically-important national infrastructures to conduct self-assessments of the compliance of the systems they manage with international principles (CPIM/IOSCO).

Meanwhile, an assessment mission of the conformity of Morocco's Gross Settlement System with the Principles set for FMIs was carried out in the last quarter of 2014. The findings of this assessment indicate a high level of compliance of the system with those principles, which shows the continued commitment of the Central Bank, the system manager, to raise itself up to the best international standards and norms.

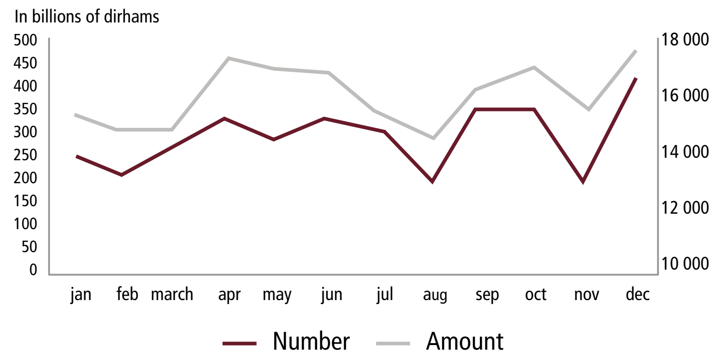
Finally, to assess the effectiveness of the regulatory, control and monitoring mechanism set up by Bank Al -Maghrib as part of its monitoring mission of FMIs, the Central Bank conducted a first self-assessment test of its compliance with the responsibilities incumbent on the regulatory authorities of financial markets infrastructure, as laid out by the CPIM / IOSCO Committee.

As essential components of the financial system and potential factors of destabilization in the event of a malfunction, financial markets infrastructures of systemic importance are analyzed below in terms of credit, liquidity and operational risks they entail.

A. MOROCCAN GROSS SETTLEMENTS SYSTEM (MGSS)

By end 2014, the MGSS enabled the aggregate processing of 175.655 transfer orders, up 3.40 percent compared to the previous year. The overall value of these orders rose 7.51 percent, from 4222 billion dirhams in 2013 to 4539 billion in 2014.

Change in the transfer orders settled in the MGSS in 2014



Source : BAM

Measuring the efficiency of the MGSS liquidity mechanisms is ensured through the calculation and monitoring of three key indicators, namely the delay indicator, the intraday liquidity ratio and the cash flow ratio, taking account of the data on intraday facilities provided on a daily basis by the Central Bank to direct eligible participants.

Increased number of operations in waiting line and drop in their amounts

The open positions are a warning indicator on the fluidity of settlements at the MGSS and, therefore, on the ability of banks to honor their intraday commitments. During 2014, the delay indicator[29] recorded a daily average of 28% against 30 % a year earlier, which shows a low rejection risk at the end of the day of pending payment orders in the system and denotes the fluidity of the system.

29 The delay indicator combines the two dimensions of the period during which the operation which remained open, its waiting time in the system and its amount.

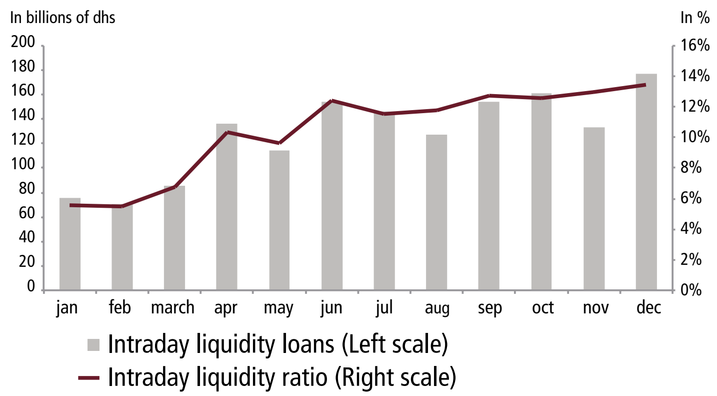
The number of queue-scheduled operations rose to 18.982 from 17.505 a year earlier, equivalent to an overall amount of 3294.62 billion instead of 3397.09 billion dirhams in 2013. Only 15 operations were rejected by the system at the end of the trading day due to unavailability or insufficiency of funds on the central settlement accounts of instructing participants.

No repayment default in intraday facilities

The provision of intraday credit[30], which is intended to ensure the smooth running of the settlement process and prevent blocking positions has become more important since the introduction of the real-time settlement.

The use of MGSS participants of advance facilities granted by Bank Al-Maghrib for the year 2014 stood at 6198.077 million dirhams on a daily average, representing over 10 percent of the total issued transfer orders by MGSS participants. No repayment default of intraday advances granted to participants was recorded during 2014.

Change in intraday liquidity ratio 2014



Source : BAM

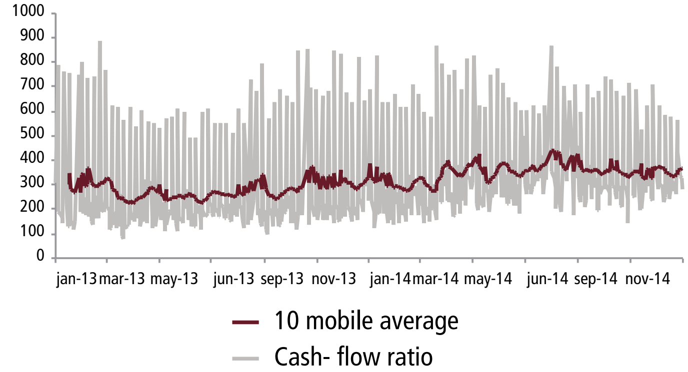
The cash-flow ratio increased on the back of lower banks' monetary reserve ratio

The cash-flow ratio[31] stood on daily average at 350.5 percent during 2014 while it reached 281.3 percent during 2013. The significant rise in this ratio (240.1 percent in 2012) is mainly due to the higher number of operations carried out in the MGSS as well as the drop in the reserve ration from 4 to 2 percent.

30 The intraday liquidity ratio is the ratio between the overall intrady liquidity and the total of operations carried out at the GSSM. It measures the use degree of intraday liquidity within the GSSM and may also reflect the level of difficulties registered at the money market which push banks to have recourse to intraday liquidity.

31 The cash flow coefficient, which reflects the efficiency of the structure of a payment system, is calculated by dividing total payments made through the RTGS to the sum of bank reserve requirements and intraday credit.

Change in the cash-flow ratio 2013-2014



Source : BAM

The MGSS platform presented a high reliability level

On the operational level, the system registered a reliability level of 98.81 percent in 2014. The incidents that took place over that year were mainly the result of unavailability of the SWIFT network or the central system. Immediate remedial measures were systematically taken, together with pre-emptive actions that would prevent the occurrence of such incidents in the future.

Therefore, the evaluation mission[32] of the Moroccan Gross Settlements System, carried out during the fourth quarter of the year in order to ensure the control of the different risks has allowed to evaluate the system with regard to several aspects :

- The soundness of the legal basis;
- The transparency and efficiency of the governance structure;
- The Objectivity, fairness and transparency of access criteria;
- The effectiveness of risk management mechanisms;
- The Safety, operational reliability and business continuity;
- Efficiency.

32 Assessment of compliance with the new principles for financial markets infrastructures, set out by the CPIM/IOSCO in April 2012.

This assessment highlighted highly satisfactory levels of reliability, resilience and availability of the system which allow participants to issue their payment instructions and proceed with their settlement in the best conditions of speed and safety. In addition, the mechanism governing the activity of the system can achieve a reasonable level of assurance as to the legal soundness and overall reliability of the system (enforceability of the rights and obligations of the system manager, its participants and other stakeholders, of the risk management framework and its mechanisms ...).

However, the findings identified in terms of the exhaustiveness of the legal framework (formalizing the relationship with the GSIMT (Tele-clearing Moroccan Interbank System Grouping), settlement finality, updating the balance release agreement of Maroclear, compliance with regulations applicable to electronic signature and protection of personal data ...), subtraction of collateral and assets pledged by participants in the system, to insolvency proceedings opened against them which require the implementation of actions to ensure full compliance with good practices and raising up the system to the best international norms and standards.

Ultimately, this assessment shows that the system is broadly consistent with the principles. The implementation of the set recommendations will enable the Bank to enhance ultimately the level of compliance of the system it manages.

Summary of the MGSS compliance with the IMFP

Category	IMF Principles	Compliance level
General organization	1. Legal basis	GO
	2. Governance	GO
	3. Risk Integrated management framework	O
Management of credit and liquidity risk	4. Credit risk	GO
	5. Sureties	GO
	6. Margin calls	NA
	7. Liquidity risk	O
Settlement	8. Final nature of settlement	GO
	9. Cash settlement	O
	10. Physical settlement	NA
SCD and values exchange systems	11. Securities central depositaries	NA
	12. Values exchange systems	NA
Default management	13. Applicable rules and procedures in the event of a participant default.	O
	14. Segregation and portability	NA
Management of activity risk and operational risk	15. Activity risk	NA
	16. Custody and investment risk	O
	17. Operational risk	GO
Access	18. Access and participation conditions	O
	19. Mechanisms at several participation levels	NA
	20. Linkages between FMIs	NA
Efficiency	21. Efficiency and effectiveness	O
	22. Communication procedures and norms	O
Transparency	23. Communication of rules, key procedures and market data	O
	24. Communication of market data by the central repositaries	NA

O : Observed. - GO : Generally observed. - NA : Non applicable.

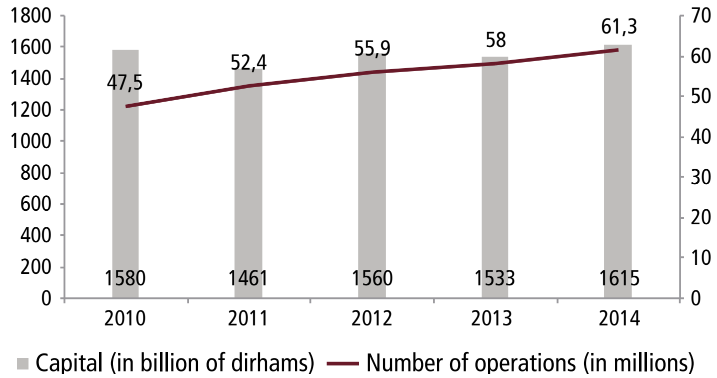
B. MOROCCAN INTERBANK REMOTE CLEARING SYSTEM (SIMT)

The SIMT, which ensures the interbank exchange of noncash means of payment (except credit cards), multilateral electronic clearing and the deferred net settlement, represents the only centralized system for mass operations (checks, bills of exchange, domestic transfers, transfers originating from abroad and direct debits).

Since the completion of the dematerialization of interbank exchange of payment instruments in 2009, the flows passing through the MITS followed a sustained upward trend, which increased gradually from 45.9 million to 61.3 million operations in 2014.

The netted gross capital rose from 1499 billion to 1615 billion dirhams during the same period, up 7.7 percent. It should be noted that the reported decline in 2011 was the result of setting a cap for transfers unit amounts at 10 million dirhams.

Annual growth of interbank exchanges of means of payment 2010-2014



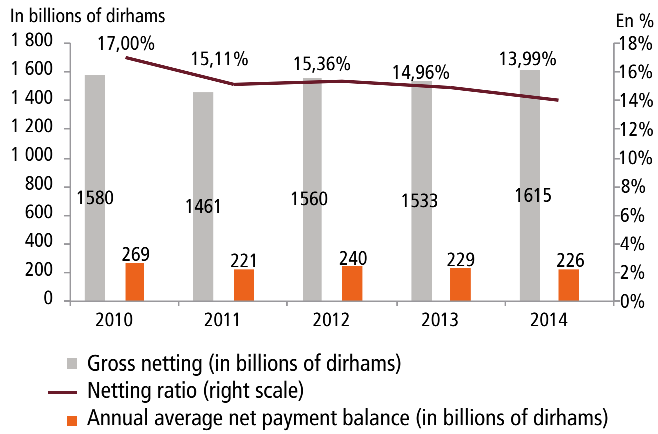
Source: 2014 Annual activity Report of the SIMT

A high netting level of the system

Over the year 2014, the netting ratio[33] stood at 13.99 percent, reflecting a high clearing effect of the system and lower liquidity needs for the settlement of participants' commitments of nearly 86 percent. The downward trend in this ratio since 2010 reflects the good performance of the multilateral clearing system in place, as it substantially reduces the funds intended for the reversal of settlement balances from the exchanged gross.

33 The netting ratio allows assessing the effectiveness and performance of the system in terms of clearing the exchanged gross amounts at its level. It measures the share of net settlements of the value of gross transactions. A low clearing ratio indicates that the system exerts a substantial clearing effect.

Annual change in the netting ratio 2010-2014



Source: 2014 Annual activity Report of the SIMT

Non-mobilization of the Permanent Guarantee Fund

The Permanent Guarantee Fund (PGF) put in place to control financial risks in the system aims at ensuring an average coverage of 85 percent of the end-of-day trading balances.

In 2014, the PGF amount stood at 420 million dirhams and allowed coverage, on average, of 83 percent of the end-of-day trading balances. No mobilization of the PGF took place despite the significant debtor positions registered during the year.

Elaboration of an IT back-up plan

To manage operational risk, the SIMT manager implemented in 2014, an IT Back-up Plan (IBP), regularly tested, to deal with any major incident that could affect the proper functioning of the business.

In this regard, the SIMT acquired an outsourced back-up site and a redundant network and telecom infrastructure, enabling the interconnection of all participants to the main and backup sites. Moreover, a policy for data safeguarding and restoration has been put in place to ensure the integrity and availability of data in case an incident occurs in computer systems.

In addition, the SIMT adopted the international standard ISO/IEC 27001 as the reference standard for the implementation, control and continual improvement of its information security policy. The group also commissioned an external IT security audit to assess the scope of the measures undertaken to strengthen the security of the system and identify any potential shortcomings and deficiencies.

Overall, the SIMT availability rate, which measures the performance of the system, recorded in 2014, a high level of around 100 percent.

Self-assessment of the Moroccan Interbank Remote Clearing System

As part of its surveillance mission of FMIs and in line with the « A » and « D » responsibilities of the Committee on the Payments and Market Infrastructures (CPMI) and the International Organization of Securities Commission (IOSC), Bank Al-Maghrib invited and accompanied the concerned operators in evaluating the compliance of the infrastructures they manage with the principles governing FMIs.

The self-assessment operation carried out by the SIMT, under the new regulatory framework for financial market infrastructures, showed that the Moroccan Interbank Remote Clearing system is broadly consistent with the principles in force. Some deficiencies relating to the management of operational risks were identified and included in a manager action plan.

C. SECURITIES SETTLEMENT-DELIVERY SYSTEM (MAROCLEAR)

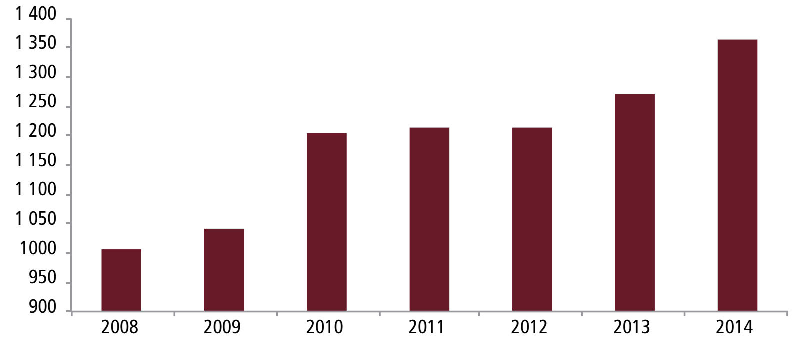
Being the sole securities central depository in Morocco, Maroclear stands at the heart of the securities industry as a post-market infrastructure, particularly through assuming key functions such as the ensuring custody of securities registered in accounts and management of the settlement/delivery system that allows the unwinding all types of transactions on securities accepted by to the central Depository.

Volumes of assets[34] kept under custody and important flows lead to an important exposure of the Moroccan financial system

Assets stood at 1365 billion dirhams and the volume of financial flows processed by Maroclear reached 11994 billion dirhams in 2014.

In addition, taking into account the important volume of generated flows and the great number of affiliates (around 252), the interconnection of the central depositary is far too high and represents a factor that may exacerbate the systemic risk in the event of a technical default of Maroclear.

Volume of assets held with Maroclear, in billions of dirhams



Source: Maroclear, Ministry of Economy and Finance, Bank Al-Maghrib, and CDVM calculations.

A position of the central depositary that cannot be substituted and which stands at the heart of post-market functioning

Maroclear assumes key functions such as the custody of securities held in accounts and the management of the settlement/ delivery system which enables the unwinding of all operations relating to these securities. Therefore, any operational default of Maroclear will likely impact the whole Moroccan financial system, taken into account its high interconnection level.

The settlement-delivery system meets most of the recommendations set for settlement/delivery systems, including those relating to the management of credit and liquidity risks through the implementation of appropriate mechanisms.

34 Assets under custody as well as the flows processed by Maroclear represent an important element in the assesslent of the systemic risk

Delivery against payment

Maroclear blocks the securities to be delivered and requires a cash settlement before their transfer at the MGSS. In doing so, it eliminates risk by linking securities transfer to cash settlement in a manner that enables the delivery against payment. However, it is worth noting the absence of a mechanism to ensure the flow of Payment/Delivery on the day of the theoretical settlement because it remains dependent on sufficient provisioning of the account «PONA» (authorized net buyer position) by affiliates.

Segregation of assets

In case of bankruptcy of a securities account holder, the protection of customer securities is ensured through the legal regime of Maroclear that separates customer assets from the own assets of the account holder. For each value, the authorized financial intermediaries are required to open separate current accounts with the central depository, for their own assets and the assets of their customers.

To protect customers ' assets against the claims made by creditors of the custodian, in case the latter would undergo liquidation proceedings, a special regime for prioritizing debt is devoted to assets registered in the securities accounts of an authorized financial intermediary (AFI).

As to operational risk, the infrastructures developed by Maroclear for the good functioning of post-market activity show overall a low level of default risk.

A new settlement platform to ensure processing reliability

Given the nature of its business, information systems represent the main component of the functioning of the Central Depositary. In this regard, a new technical settlement platform was installed in 2010 by Maroclear, which allowed the automation of much of the treatment of the various operational processes. In order to process their securities settlement/delivery instructions, market participants log in to the Maroclear platform via a secure network. Regarding the OTC market, operations are settled now in real time, simultaneously in securities and cash, thanks in particular to the direct link of Maroclear to the MGSS. The operation of this new platform has improved in 2014, since no incidents were reported by the central depository against some minor incidents recorded in 2013.

However, Maroclear has not yet developed performance or monitoring indicators of the processing capacity of volumes or data of the settlement platform. Only stress tests were carried out before its implementation to measure its capacity to process an important number of operations.

Continued improvement of security and business continuity arrangements

Maroclear developed and implemented a management system of information security (MSIS). This system can be measured and monitored through audits as it is based on a written reference document (ISO 27001). It is part of the overall risk management process which started in 2012.

The premises and data security mechanism, ISO 27001 certified, guarantees an acceptable security level and the business continuity plan is composed of several elements:

- A documentation in line with the ISO 22301 standard;
- A regularly-reviewed IT back-up plan;
- Adequate human, technical and organizational resources;
- An outsourced back-up (in two copies);
- A remote back-up site, located at the Casablanca stock exchange headquarters, tested on a regular basis.

The IT back-up plan is implemented as a process for incident management based on a web interface with affiliates.

Disaster recovery plans are also prepared with the involvement of affiliates. After testing its IT backup site conducted in 2013, the Central Depository continued in 2014 its policy of securing its technical infrastructure and continued improvement of services offered to affiliates by implementing several structural projects, including strengthening the electrical safety system and the establishment of a data center.

Setting up a risk map, while an internal control mechanism is being strengthened

The Central Depository has conducted several evaluations of its risks after finalizing its risk map in 2013. However, in order to meet all regulatory provisions on the matter and further improve the effectiveness and consistency of controls carried out, its internal control system should be complemented by the implementation of certain corrective measures in 2015. These measures focus on improving the internal control function in the organizational structure, the generalization of controls to all processes and the strengthening of the risk control action plan monitoring.

FSAP mission and self-assessment compared to the principles for MFIs

The self-assessment conducted 2014 revealed that the Maroclear settlement-delivery system is broadly in line with the principles for MFIs that apply. Nevertheless, some weaknesses were identified especially in terms of the scope of the business continuity plan that does not cover the risk «Casablanca» (lack of a backup site outside Casablanca) and lack of a recapitalization plan in case the capital fell near or below the required volume.

Control of incidents at the settlement platform

Since the implementation of the new platform in 2010, the number of reported incidents remains by and large limited and under control. The availability rate of the system stood at 100 percent in 2014. As to the Telecom network load, it reached a monthly average of 5.1 percent over the same year.

Strengthening the security of administrator access

As part of the improvement recommendations stipulated for in line with the adoption of the ISO 27001 standard, a solution for securing access to administrators, called "privilege endusers" was installed. This solution allowed the convergence of information protection procedures with the security policy of Maroclear.

Cryptographic architecture

In addition, a centralized PKI (Public Key Infrastructure) has been implemented. Its main objective is to harmonize the cryptographic processes and conform them to the good practices in this area through the unification of the management of encryption keys and digital certificates for all data exchange modes with affiliates (CFT, http, RSA, ...).

This new system has allowed in its first phase, the creation of a single trusted authority, ensuring the same level of confidentiality and integrity of all information exchanges both at the level of data transfer (files and messages) as well as at the level of access via screen.

Strengthening the governance system

To strengthen its governance, Maroclear proceeded in 2014 to the creation of key bodies, namely the Audit Committee and the Strategy and Investment Committee, which are responsible for ensuring the compliance of the operation Maroclear on the regulatory and legislative level and confirming compliance with the requirements of social and environmental responsibility. Moreover, the central depository appointed during the same year an independent director to its Board of Directors. This appointment enabled Maroclear to strengthen its compliance with international principles laid down by BIS for MFIs. This approach is also in the interest of the entire Casablanca financial place by providing a guarantee of objectivity and efficiency in the overall vision of Maroclear activity management.

Implementing internal control activities

The implementation of the internal control activities was initiated in August 2014. The project involves setting up checkpoints in the procedures of the Inspection and Audit Department (IAD) and the Operations Department (OD).

The definition of these checkpoints aims at covering the risks related to operations and ensuring compliance with procedures in accordance with the operating rules of Maroclear.

Setting up a central repository

In line with the directives set out by public authorities, Maroclear began over the year 2014, the development of implementation plans for a «Trade Repository»[35] or central register of market operations. This platform will enable Morocco to be the second African country after South Africa to have such an infrastructure.

UCITS order routing service

In response to the continued growth of subscriptions/ external purchases operations and on the basis of a «benchmarking» based on international practices, a fully integrated and standardized solution project of the UCITS chain, from the passing of orders until their settlement in the settlement/delivery platform was launched.

D. TRADING AND CLEARING SYSTEMS OF THE CASABLANCA STOCK EXCHANGE

Systemicity and deployment of the remote monitoring system by Bank Al-Maghrib

The Casablanca Stock Exchange has been classified as a systemically important payment system. This classification took into consideration the following items :

- The nature and volume of both the number and amount of operations processed and cleared by the Casablanca Stock Exchange ;
- The financial risks inherent to the system ;
- The type and number of affiliates ;
- The interdependence of the Casablanca Stock Exchange with the Maroclear settlement/delivery system and the gross settlement system in Morocco.

35 The trade repository centralizes all market operations allowing the different regulators to have a central base and to monitor whenever needed exposures to risks of any participant in any market type.

Similarly, Bank Al -Maghrib has deployed its remote monitoring mechanism of the Casablanca Stock Exchange through establishing the list and periodicity of the required documents and information.

Furthermore, the Casablanca Stock Exchange, as a payment system and clearing house, has conducted a self-assessment of its compliance with the Principles for Financial Market Infrastructures (PIMFs).

This self-assessment exercise showed that the Casablanca Stock Exchange is broadly in line with the principles for MFIs. However some major shortcomings were noted regarding the absence of independent directors, a viable recovery plan that allows the holding of liquid net assets funded by capital equity, a viable recapitalization plan if capital equity fell near or below the required volume and a secondary remote backup site.

Market infrastructures controlled by the management company generally carry a low operational risk

Over the last four years, the listing system of the Casablanca stock exchange showed an availability rate of 100 percent and has a capacity above the processed volume. This listing system as well as all IT systems of the Casablanca stock exchange represent one of the most critical aspects for the good functioning of the market. Indicators are developed to ensure real-time monitoring of the capacity and performance of the IT system.

In 2014, no incident was reported by the Casablanca stock exchange owing in particular to the different monitoring, surveillance and internal control mechanisms.

A constantly improving business continuity plan

The Casablanca stock exchange succeeded in 2014 to strengthen its IT security management system, obtaining thereby an ISO 27001 certification. A second version of the business continuity plan (BCP) was set up and tested in 2013, thus allowing a major improvement of this mechanism.

Risks relating to maintenance and development remain overall under control

The management company was able to renew maintenance contracts of existing tools until September 2016. This extension is part of the overall project of acquiring a new trading platform. The related agreements were concluded in June 2014 with the London Stock Exchange for the deployment of a new platform in addition to a strategic accompaniment. The project was initiated with the service provider with a provisional date for go live in April 2016.

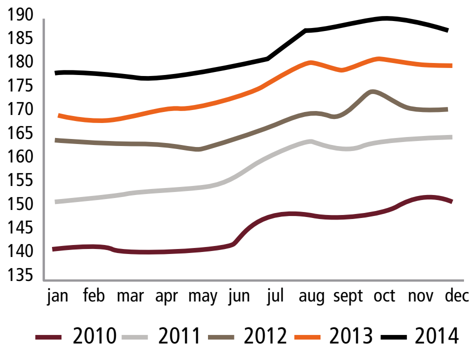
IV.3 SUPPLY OF CURRENCY IN CIRCULATION

Supply of currency in circulation to the economy by providing operational stocks based on a predefined geographical breakdown

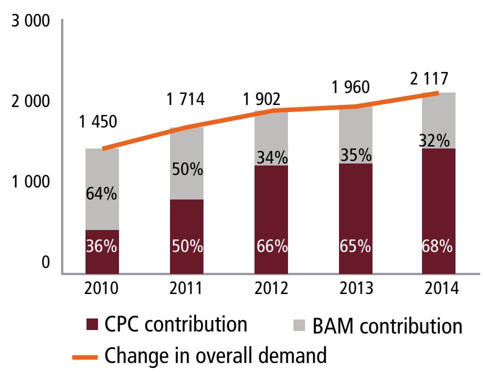
The overall demand of the national economy for local currency rose significantly over the last five years by 46 percent, mainly driven by the needs in terms of banknotes which neared 2.1 billion banknotes in 2014, the equivalent of 302.5 billion dirhams.

Consequently, the average value of currency in circulation grew by 5.16 percent between 2013 and 2014 to stand at 186.4 billion dirhams; a growth rate close to the annual average registered over the last five years and which stands at 6.9 percent.

Growth of currency in circulation in value (in billions of dirhams)



Demand in millions of banknotes and shares of banknotes issued by BAM and the CPC (contribution)



Source : BAM

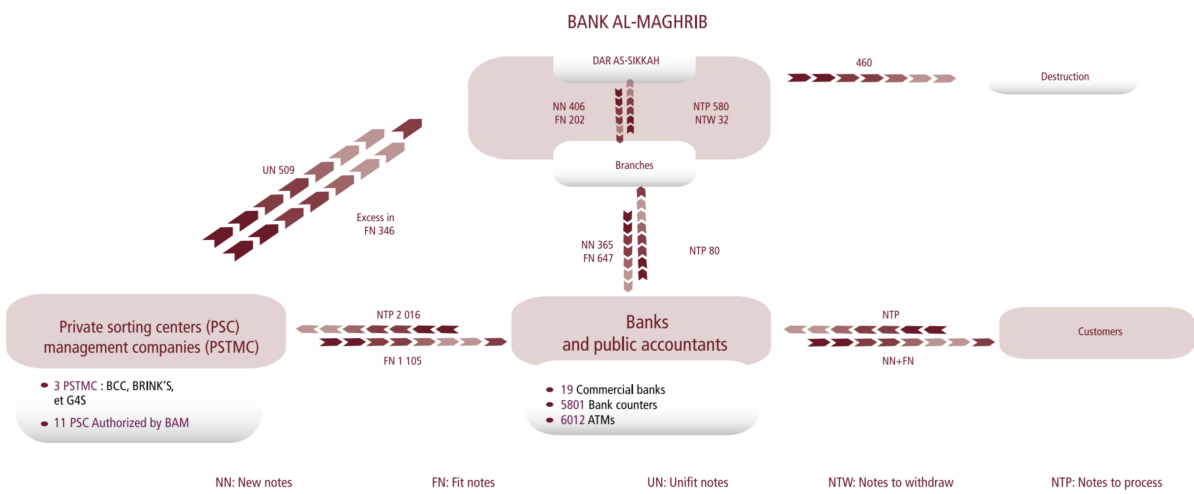
Setting up a currency business continuity plan (BCP) based on the development of strategic stocks

To anticipate this demand, Bank Al-Maghrib invested heavily in modernizing and strengthening its production capacity and cash processing and adopted organizational resources and cash cycle supervision mechanisms. Secondly, it has strengthened its supply strategy of different areas of the Kingdom by involving the private sector through revamped regulations defining in particular the delegation rules of currency processing to the benefit of managing companies of cash processing centers (MCCPC), as part of a broader policy known as "Clean Note policy".

To consolidate this policy at the local level, BAM relies on its 20 branches which cover the entire national territory. Action targets for each branch were defined based on the importance of local flows, security of persons and capital and the involvement level of of private actors in cash processing activities. This allowed a considerable optimization of logistical operations and qualitative processing deadlines of banknotes. Strengthening the supervision of the quality and authenticity of banknotes in circulation at the local level is one of the main corollaries.

BAM ensures, based on a predefined geographical breakdown, the supply of the economy by providing operational stocks to cover 1.5 month of demand locally and nationally in each of the denominations in circulation.

Change and contribution of BAM and CPC in the qualitative processing of banknotes – 2004 (in millions of denominations)

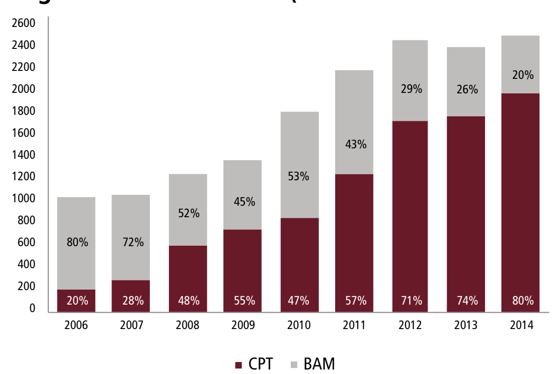


Sources : BAM

As part of its contribution to meet the overall demand for banknotes and have satisfactory operational and strategic stocks, BAM carried out in 2014 the printing of 368 million Moroccan banknotes and the qualitative processing of 530 million notes withdrawn from circulation, which allowed it to recover 202 million notes with the needed quality to be put in circulation once again (fit banknotes).

As for the private sector contribution, it is eleven cash processing centers (CPT) that perform the qualitative processing of banknotes and coins in circulation according to a balanced geographical coverage, which in 2014 allowed the qualitative processing of about 2 billion notes in circulation to extract 1.45 billion of fit notes, that is 80 percent of notes annually subject to quality and authenticity control at the national level.

Change and contribution of BAM and CPC to the qualitative processing of banknotes -2014 (in millions of denominations)



Sources : BAM

LIST OF ABBREVIATIONS

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BAM	BANK AL-MAGHRIB
CCP	CENTRAL COUNTERPARTY CLEARING HOUSE
CDG	CAISSE DE DÉPÔT ET DE GESTION (DEPOSIT AND MANAGEMENT FUND)
CDVM	CONSEIL DÉONTOLOGIQUE DES VALEURS MOBILIÈRES (TRANSFERABLE SECURITIES BOARD)
CPC	CASH PROCESSING CENTERS
CPMI	COMMITTEE ON PAYMENTS AND MARKET INFRASTRUCTURES
CPSS	COMMITTEE ON PAYMENT AND SETTLEMENT SYSTEMS
CSA	CENTRAL SETTLEMENT ACCOUNT
DAPS	DIRECTION DES ASSURANCES ET DE LA PRÉVOYANCE SOCIALE (INSURANCE AND SOCIAL WELFARE DEPARTMENT
ECB	EUROPEAN CENTRAL BANK
FDI	FOREIGN DIRECT INVESTMENT
FIFO	FIRST IN, FIRST OUT
FMI	FINANCIAL MARKET INFRASTRUCTURE
GCC	GULF COOPERATION COUNCIL
GDP	GROSS DOMESTIC PRODUCT
IAM	MAROC TELECOM
IMF	INTERNATIONAL MONETARY FUND
LCR	LIQUIDITY COVERAGE RATIO
MADEX	MOROCCAN MOST ACTIVE SHARES INDEX
MASI	MOROCCAN ALL SHARES INDEX
MENA	MIDDLE EAST AND NORTH AFRICA
OICV	INTERNATIONAL ORGANIZATION OF SECURITIES COMMISSIONS
PER	PRICE-EARNINGS RATIO
SIMT	SYSTÈME INTERBANCAIRE MAROCAIN DE TÉLÉ-COMPENSATION (MOROCCAN INTERBANK REMOTE CLEARING SYSTEM)
SMES	SMALL AND MEDIUM-SIZED ENTERPRISES
SRBM	SYSTÈME DES RÈGLEMENTS BRUTS DU MAROC (MOROCCAN GROSS SETTLEMENT SYSTEM)
TB	TREASURY BONDS
UCITS	UNDERTAKINGS FOR COLLECTIVE INVESTMENT IN TRANSFERABLE SECURITIES
VA	VALUE ADDED
VAT	VALUE ADDED TAX
VSES	VERY SMALL ENTERPRISES
VSMES	VERY SMALL, SMALL AND MEDIUM SIZED ENTERPRISES
WCR	WORKING CAPITAL REQUIREMENTS

BAM - CDVM - MEF