BANK AL-MAGHRIB

ANNUAL REPORT ON BANKING SUPERVISION

2014

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ANNUAL REPORT
ON BANKING SUPERVISION

YEAR 2014

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GOVERNOR'S FOREWORD

In 2014, the banking activity was carried out in a persistently sluggish international macroeconomic environment, which was however improving gradually. For its part, the national economy expanded at a rate of 2.4 percent, covering a decline in agricultural activities and a slight recovery in the non-agricultural value added. Meanwhile, budget and current account deficits of the balance of payment narrowed significantly.

Benefiting from the diversification of its activities and the easing monetary conditions, the banking sector achieved good performance overall, despite the increased provisioning to hedge identified and potential credit risk.

Banks' liquidity position in 2014 eased markedly, due to an improvement in the country's foreign exchange balance, a further decline in reserve requirements and the repatriation of cash held abroad by Moroccan residents as part of the contribution in full discharge decided by the Government. Thus, deposits collected by banks grew by 6.6 percent. Refinancing from the central bank was down 42 percent, and almost half of its total amount was allocated to the new mechanism put in place to support very small, small and medium-sized enterprises (VSMEs).

Credit growth continued to slow down, increasing by a mere 2 percent, albeit with higher lending to the non-financial sector. Loans to households, driven by home loans, were up 6 percent, a rate similar to that of 2013, and those granted to non-financial corporations strengthened by 1.4 percent, after stagnating in the previous year. Meanwhile, the average rate of non-performing loans rose from 5.9 percent to 6.9 percent between 2013 and 2014.

However, despite the proportion of risk-related costs, which absorbed on average one third of their gross operating income, banks were able overall to increase their net profit by 1 percent, on an individual basis, after stagnating in 2013, driven by market activities in a context of lower bond rates. Therefore, the return on equity stood at 10.2 percent and that on assets remained at 1 percent.

On a consolidated basis, the eight banking groups, profiting from the good contribution of asset management activities, achieved overall a higher net income - group share, up 9.7 percent, as against a 6.5 percent decline in 2013, despite an 8 percent drop in profit from cross-border activities caused by provisioning effort to enhance credit risk hedging in some host countries.

Meanwhile, banks continued to consolidate their capital base, generating an average capital adequacy ratio of 13.8 percent and a core capital ratio of 11.6 percent, calculated for the first time on the basis of the Basel III standards. These ratios allowed banks to have adequate buffers fostering their resilience. In the same vein, the new Basel III liquidity coverage ratio averaged 130 percent while liquid and realizable assets of banks strengthened overall to 13.3 percent of their assets.

Despite the difficult economic conditions, the consolidation of the banking system's fundamentals reflects efforts made to strengthen banks' risk management practices and continuously enhance the regulatory and supervisory framework, in compliance with international standards. In a bid to further enhance banking sector governance, Bank Al-Maghrib amended the circular on internal control applicable to credit institutions and the directive on their governance, in light of the most recent standards of the Basel Committee.

Turning to the legal side, the year 2014 was marked by the Parliament's adoption of the new Banking Act. This structuring law particularly defines the legal framework for macro-prudential supervision and strengthens crisis resolution mechanisms available to Bank Al-Maghrib. It also introduces the legal basis aiming to allow the emergence of new financial actors and services, notably in the area of participatory finance.

As part of preparations for the implementation of this new law, especially regarding participatory finance, the Bank this year sped up work on drafting circulars governing participatory products and licensing, and worked with the relevant authorities to adapt taxation to participatory banking. It also contributed to the establishment of a Sharia'a committee for participatory finance within the Higher Council of Ulemas (religious scholars) and actively participated in the technical training of members of this Council.

Alongside these reforms, Bank Al-Maghrib continued to closely supervise risk areas in the banking system caused by economic conditions. It carried out onsite inspections that targeted not only banks' downgrading and watch lists of claims, but also the level of their provisioning.

The supervision of cross-border activities represents an increasingly important segment in regulation and control activities, given the significant development of the three major Moroccan banking groups abroad. This year, these groups sought to enhance their presence internationally and upgrade the related risk management arrangements. Coordination between the Bank and the host supervisory authorities increased further and led, in addition to distant periodic exchanges, to more joint onsite inspections and the establishment of colleges of supervisors, consisting of the regulatory authorities concerned.

At the level of macro-prudential supervision, the Coordinating Committee of Financial Sector Supervisory Authorities, comprising banking and financial system regulators and responsible for identifying systemic risks, held its biannual meetings, based on the risk mapping developed by its members and the assessment conducted by Bank Al-Maghrib's Financial Stability Committee. Thus, the first Financial Stability Report was published in 2014 and a second stress testing exercise was carried out, in collaboration with the World Bank and with the participation of financial authorities.

This exercise showed that information processing, the operation of resolution procedures and tools, and decision-making by the authorities were appropriate. Nevertheless, improvements need to be introduced to formalize public communication in times of crisis and establish a cross-border resolution framework.

Regarding financial inclusion, initiatives undertaken by Bank Al-Maghrib, in consultation with the Groupement Professionnel des Banques du Maroc – GPBM (Moroccan Bankers Association), helped to increase the rate of access to banking services to 64 percent at the end of 2014. Meanwhile, Bank Al-Maghrib's survey on how households perceive financial services, conducted in partnership with the World Bank and whose findings were published in the fourth quarter of 2014, revealed the progress achieved in this area and the challenges still ahead.

Concerning the protection of credit institutions' customers in 2014, the Moroccan Center for Banking Mediation started its activities and a customer mobility mechanism was under consideration.

In terms of financial education, further to the actions undertaken in recent years, the Moroccan Foundation for Financial Education, established in 2013, organized with its partners the third edition of Financial Literacy Days, benefiting nearly 80,000 people in all regions of Morocco. It also started to implement its strategic plan following the signing of partnership agreements with private and public stakeholders, while focusing on the preparation of the communication program to implement over the coming years.

With regard to actions aiming to promote the financing of VSMEs, the financial support fund came into operation in 2014, after being set up in 2013 to co-finance jointly with banks, viable corporations going through economic difficulties. The year also saw the institutionalization of VSMEs' observatory and the participation of the Bank in a new national awareness-raising tour among these enterprises.

These numerous achievements, making the banking sector and Bank Al-Maghrib recognized benchmarks in the region, will be assessed by a joint financial sector assessment mission of the International Monetary Fund and the World Bank in April 2015, upon the request of the Moroccan authorities. This mission attaches particular attention to the assessment of banking system's resilience, through stress tests. In particular, it should assess the compliance of banking supervision with the Basel Committee's principles and review the framework for crisis management, macro-prudential supervision and financial inclusion.

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HIGHLIGHTS OF 2014

January 16 : Working visit by a delegation headed by Bank Al-Maghrib's Governor to the headquarters of the Central Bank of West African States (BCEAO), in Dakar.

February 17 : Animation by Bank Al-Maghrib of a workshop on stress tests for the Banking Commission of the West African Monetary Union (WAMU), in Abidjan.

March 10 : Organization of the third edition of the Child Financial Literacy Days, by Bank Al-Maghrib jointly with other partners.

March 18 : First meeting of the Board of the Moroccan Center for Banking Mediation.

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

March 20 : Fifth Conference of the Financial Stability Board Regional Consultative Group for the Middle East and North Africa, in Rabat.

March 24 : Participation of Bank Al-Maghrib in a symposium organized by the Bundesbank on banking supervision, in Frankfurt.

April 2 : Organization of a workshop on financial inclusion, by the Alliance for Financial Inclusion (AFI) and Bank Al-Maghrib, in Casablanca.

April 4 : Participation of Bank Al-Maghrib in the conference of the French-Speaking Banking Union (UBF) on financial education, in Brussels.

May 14 : Participation of Bank Al-Maghrib in the 21st Conference of Governors of Central Banks of French-speaking countries, in Dakar.

May 21 : Participation of Bank Al-Maghrib in a meeting under the theme "A Chance for Change : Child and Youth Finance in the Post-2015 Agenda", in New York.

May 27 : Participation of Bank Al-Maghrib in the conference on successful financial integration in Africa, organized by the Bank of France and the Foundation for Studies and Research on International Development (FERDI), in Paris.

May 27 : Participation of Bank Al-Maghrib in the meeting of heads of banking supervision in Euro-Mediterranean countries, organized by the World Bank and the Bank of France, in Marseille

May 29 : Organization of the second financial system crisis simulation exercise by Bank Al-Maghrib under the aegis of the World Bank, with the participation of the Ministry of Economy and Finance, the Transferable Securities Board (CDVM) and the Insurance and Social Security Directorate (DAPS).

June 2 : Participation of Bank Al-Maghrib in a workshop on Islamic finance, organized by the Central Bank of Qatar, in Doha.

June 5 : Organization by Bank Al-Maghrib of a symposium on corporate social responsibility in the banking and financial sector.

June 9 : Participation of Bank Al-Maghrib in the 31st edition of "International Banking Supervision: Core Supervisory Issues", in Battenberg.

June 10 : Participation of Bank Al-Maghrib in the third edition of "Partnership Forum Finance Work for Africa", organized in Dakar by the German Cooperation Development Agency (GIZ) under the theme "New Frontiers of African Finance".

June 14 : Participation of Bank Al-Maghrib at the 19th plenary meeting of the Middle East and North Africa Financial Action Task Force (MENAFATF), in Manama.

June 14 : Organization by Bank Al-Maghrib of the first meeting of the supervisory college of a Moroccan banking group.

June 17 : Participation of Bank Al-Maghrib in the meeting of Crédit Agricole Group's college of supervisors, organized in Paris by the Prudential Supervisory Authority (ACPR).

June 26 : Meeting of Bank Al-Maghrib's Governor with the Professional Association of Finance Companies (APSF).

June 27 : 15th meeting of the Coordinating Committee of Financial Sector Supervisory Bodies.

June 30 : Fifth meeting of Bank Al-Maghrib's Internal Financial Stability Committee.

July 15 : Half-yearly meeting of Bank Al-Maghrib's Governor with the Moroccan Bankers Association (GPBM).

July 18 : Meeting of the Credit Institutions Committee (CEC).

September 12 : Participation of Bank Al-Maghrib in the Global Forum on "Global Partnerships, National Goals, Responsibilities of Populations", organized jointly by the Alliance for Financial Inclusion (AFI) and the Central Bank of Trinidad and Tobago, in Trinidad and Tobago.

September 14 : Participation of Bank Al-Maghrib in the 38th regular meeting of the Board of Governors of Arab Central Banks, in Algiers.

September 19 : Participation of Bank Al-Maghrib in Tunis in the 14th Conference of governors of Banks of the Union of Maghreb Banks (UBM), organized by the latter in partnership with the Tunisian Professional Association of Banks and Financial Institutions (APTBEF).

September 22 : Participation of Bank Al-Maghrib in the 18th International Conference of Banking Supervisors (ICBS), organized in Tianjin by the China Banking Regulatory Commission, in cooperation with the Basel Committee.

October 12 : Participation of Bank Al-Maghrib in the 9th African Development Forum (ADF), organized in Marrakech by the African Development Bank.

October 20 : Organization of the third regional awareness-raising campaign for VSMEs, by Bank Al-Maghrib in collaboration with other partners.

November 3 : Participation of Bank Al Maghrib in the workshop on remittances of migrants, organized in Beirut by the Sub-Regional Office for North Africa of the Economic Commission for Africa, in collaboration with the Economic and Social Commission for Western Asia (ESCWA).

November 5 : Participation of Bank Al-Maghrib in the Leadership Forum on "Mobile Banking for the Unbanked", organized in South Africa by GSM Association.

November 6 : Participation of Bank Al-Maghrib in the annual meeting of Governors of central banks and monetary authorities of member countries of the Organization of Islamic Cooperation (OIC), in Indonesia.

November 23 : Working visit by a delegation of Bank Al-Maghrib, headed by Bank Al-Maghrib's Governor, to the Central Bank of Qatar, in Doha.

November 25 : Participation of Bank Al-Maghrib in a seminar on "Financial Inclusion Strategy and Data", organized in Kuala Lumpur by the Central Bank of Malaysia and AFI.

December 2 : Starting up of the preparatory mission in the Financial Sector Assessment Program (FSAP) mission by a delegation of experts from the IMF and the World Bank.

December 3 : Participation of Bank Al-Maghrib in the workshop on "growth and transfers of workers in Egypt" organized in Cairo by the Economic and Social Commission for Western Asia.

December 8 : Participation of Bank Al-Maghrib in a seminar of senior banking supervisors, organized jointly by the Bank of France and the World Bank, in Paris.

December 15 : The 24th meeting of the Committee of Arab Banking Supervisors, organized jointly by Bank Al-Maghrib and the Arab Monetary Fund (AMF), in Casablanca.

December 18 : Half-yearly meeting between Bank Al-Maghrib's Governor and the GPBM.

December 24 : Sixth meeting of Bank Al-Maghrib's internal Financial Stability Committee.

December 24 : 16th meeting of the Coordinating Committee of Financial Sector Supervisory Bodies.

KEY FIGURES OF THE BANKING SYSTEM

1 - Structure du système bancaire

- Number of credit institutions and similar bodies : 84

- Banks : 19
- Finance companies : 34
- Offshore banks : 6
- Microcredit associations : 13
- Funds transfer companies : 10
- Other institutions : 2

- Network :

- In Morocco : 5,915 banking agencies, or 5,700 inhabitants per agency
  6,234 automated teller machines
- Abroad : 40 subsidiaries, 15 branches and almost 1,300 agencies

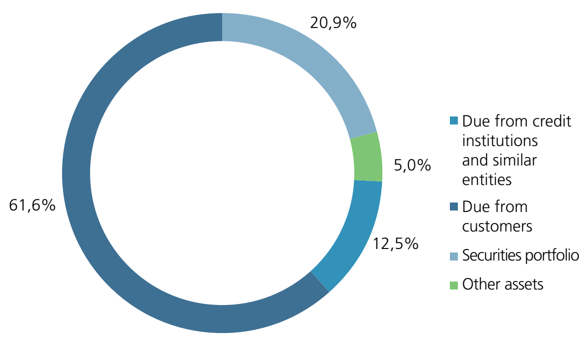
- Staff of credit institutions and similar bodies : 51,645

2 - BANKS' ACTIVITY AND PROFITABILITY INDICATORS

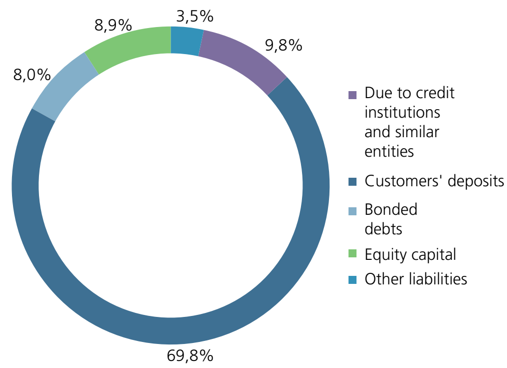
Billion of dirhams	2012	2013	2014
Total of Balance sheet	1.041	1.095	1.103
Loans to customers (net of provisions) [(1)]	704	726	734
Customers' deposits	697	722	770
Equity (excluding profit for the year)	88	94	98
Net banking income	38,6	40,3	44,0
Gross operating income	20,4	21,5	23,8
Net income	9,9	9,9	10,0
Average yield of assets	5,16%	5,19%	5,49%
Average cost of liabilities	1,95%	1,98%	1,94%
Average operating ratio	47,5%	47,7%	46,1%
Return on assets (ROA)	1,0%	1,0%	1,0%
Return on equity (ROE)	11,8%	10,6%	10,2%
Non-performing loans rate (NPL)	5,0%	5,9%	6,9%
NPL coverage ratio	68%	64%	65%

[(1)] Including loans to finance companies

Banks' assets structure



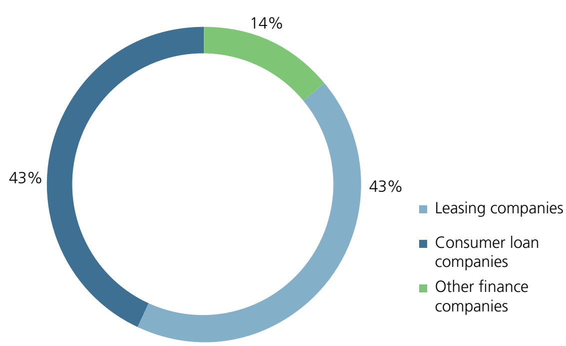
Banks' liabilities structure



3 - Finance companies' activity and profitability indicators

Billion of dirhams	2012	2013	2014
Total of Balance sheet	98	98	99
Loans to customers (net of provisions)	90	90	89
Net banking income	5,0	5,1	5,3
Gross operating income	3,2	3,2	3,3
Net income	1,5	1,4	1,5
NPL rate	9,7%	9,8%	10,3%
Return on assets (ROA)	1,5%	1,5%	1,5%
Return on equity (ROE)	16,8%	15,5%	15,9%

Share of each category of finance companies in the total assets



4 - Microcredit associations' activity and profitability indicators

Billion of dirhams	2012	2013	2014
Total of Balance sheet	5,4	5,7	6,5
Outstanding loans	4,6	4,9	5,5
NPL rate	6,1%	4,3%	3,7%
Net income	0,17	0,21	0,22

5 - Offshore banks' activity and profitability indicators

Billion of dirhams	2012	2013	2014
Total of Balance sheet	35,4	37,9	41,7
Outstanding loans	16,7	16,3	15,1
Customers' deposits	2,4	4,0	4,7
Net income	0,20	0,25	0,37

6 - Activity and profitability indicators of the eight banking groups

Billion of dirhams	2012	2013	2014
Total of Balance sheet	1 114	1 162	1 208
Loans to customers (net of provisions)	760	787	802
Customers' deposits	725	756	810
Equity - share of the Group	96	104	109
Net banking income	49	52	57
Gross operating income	25	26	30
Net income - share of the Group	10,1	9,5	10,4
Average operating ratio	48,6%	49,5%	48,0%
Return on assets (ROA)	1,0%	1,0%	1,0%
Return on equity (ROE)	10,5%	9,1%	9,5%

CHAPTER I

MOROCCAN BANKING LANDSCAPE

Despite a gloomy economic environment, banks in 2014 continued to expand their national network, albeit at a slower pace compared to previous years, while adapting their products to the population's needs. The rate of access to banking services stood, at year end, at 64 percent, a level close to Bank Al-Maghrib's target of two thirds of the population.

1 - Structure of the banking system and shareholding

At the end of 2014, the number of credit institutions and similar bodies licensed in Morocco remained at 84 institutions, including 19 banks, 34 finance companies, 6 offshore banks, 13 microcredit associations, 10 cash transfer companies, Caisse de Dépôt et de Gestion (Deposit and Management Fund () and Caisse Centrale de Garantie (Central Guarantee Fund).

In this year, the number of consumer loan companies decreased following the merger between an operator in the sector and its parent company. Meanwhile, the number of cash transfer companies increased following the licensing of a new company. The number of other operators in the banking sector remained unchanged.

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

	2010	2011	2012	2013	2014
Banks	**19**	**19**	**19**	**19**	**19**
Majority foreign-owned banks	7	7	7	7	7
Majority public-owned banks	6	5	5	5	5
Finance companies	**36**	**35**	**36**	**35**	**34**
Consumer loan companies	19	18	18	17	16
Leasing companies	6	6	6	6	6
Real estate loan companies	2	2	2	2	2
Surety companies	2	2	2	2	2
Factoring companies	2	2	2	2	2
Payment-means management companies	2	2	3	3	3
Other companies	3	3	3	3	3
Total number of credit Institutions	**55**	**54**	**55**	**54**	**53**
Offshore banks	**6**	**6**	**6**	**6**	**6**
Microcredit associations	**12**	**13**	**13**	**13**	**13**
Funds transfer companies	**8**	**10**	**10**	**9**	**10**
Other institutions	**2**	**2**	**2**	**2**	**2**
Total	**83**	**85**	**86**	**84**	**84**

In 2014, the State fully disengaged from the capital of Banque Centrale Populaire, following the sale of a 6 percent share to Banques Populaires Régionales. The presence of the public shareholding is still a majority in 5 banks and 4 finance companies.

The private shareholding has more than two thirds of the banking system capital. It consists mainly of foreign banking groups, insurance companies and social security bodies as well as holding companies.

The foreign shareholding continues to be majority in 15 credit institutions, including 7 banks and 8 finance companies, mainly of French origin.

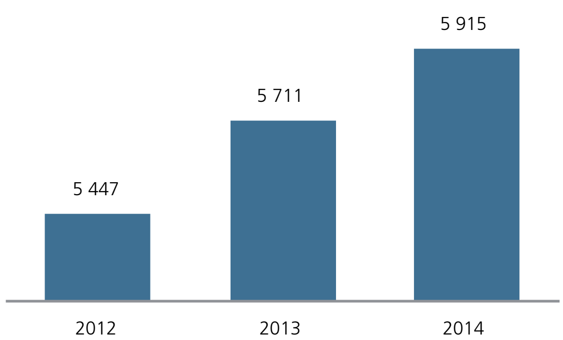
Fourteen credit institutions, including six banks, were listed at the stock exchange at the end of 2014, unchanged from recent years. They have over a third of the market capitalization.

2 - Change in financial inclusion indicators

In 2014, banks opened 222 new branches, as against 280 a year earlier, and closed 18, as opposed to 16 branches. The banking network stood at 5,915 banking points of sale, most of which are located in the region of Grand Casablanca, Marrakech-Tensift-Al-Haouz and Rabat-Salé-Zemmour-Zaer.

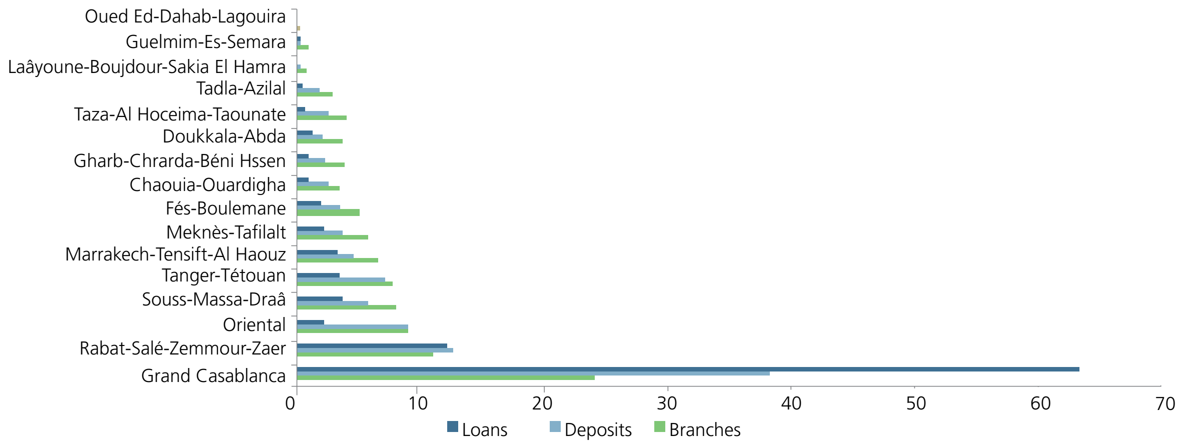
As a result, the banking density, measured by the number of inhabitants per branch, was 5,700. The one measured by the number of branches per 10,000 inhabitants, stood at 1.7 branch, as against less than one branch at the beginning of the decade 2000.

Chart 1 : Change in the banking network



The regional breakdown of branches, deposits and loans remained broadly stable compared to the previous years. Thus, the region of Grand Casablanca still ranks first with 24 percent of branches, 38 percent of deposits and 64 percent of loans, followed by the region of Rabat-Salé-Zemmour-Zaer, with 11 percent of branches, 14 percent of deposits and 13 percent of loans. The Oriental region is always positioned at third place, with 9 percent of branches and deposits and 2 percent of loans.

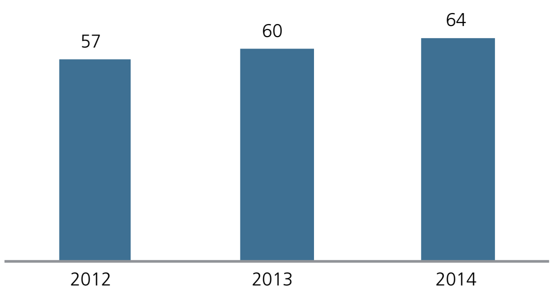
Chart 2 : Share of each region in the total banking network, deposits and loans (in %)



The rate of access to banking services, calculated as the ratio of accounts opened on banks' books to the total population, rose by almost 4 percentage points to 64 percent, close to the level targeted by Bank Al-Maghrib. This increase reflects the commitment of banks, spearheaded by the central bank, to attract new customers and to promote financial inclusion.

However, the territorial coverage of branches continues to include disparate situations. The rate of access to banking services is higher in urban areas and remains low in rural ones.

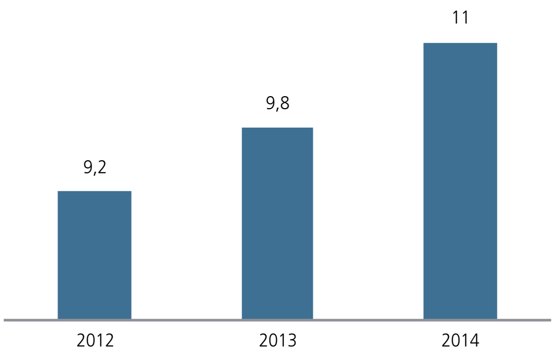
Chart 3 : Change in the ratio of the total number of banking accounts to population (in %)



The number of banking cards continued its upward trend and rose in 2014 by 1.2 million units (or 11.7 percent compared to 2013) to 11 million cards. Nearly 56 percent of these cards are issued by two banks. Meanwhile, the number of automated teller machines (ATMs) moved up by 341 ATMs to 6,234, or 1.8 ATM per 10,000 inhabitants and 9 ATMs per 1000 km², as against 0.6 and 2.4 ATMs, respectively, ten years ago.

Although the number of payment transactions continues to grow, cards are still used mainly for withdrawing money.

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



3 - Presence of Moroccan banks abroad

As part of a strategy aiming at ensuring external growth drivers and close support for Moroccan economic operators on the continent, the large Moroccan banks have developed their presence abroad especially in the African continent.

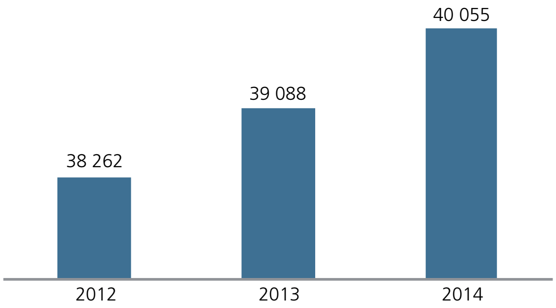
At the end of 2014, three Moroccan banking groups were present abroad through 40 banking subsidiaries held directly and indirectly and 15 branches. These subsidiaries have nearly 1,300 banking points of sale located in 22 African countries and a dozen of European countries. They are found mainly in sub-Saharan Africa in two monetary zones of West Africa (UMOA) and Central Africa (CEMAC). They are also located in the Arab Maghreb, in Tunisia and Mauritania, as well as in some English-speaking African countries.

Similarly, banks have about fifty representative offices, located mainly in European countries.

4 - Staff of credit institutions and similar bodies

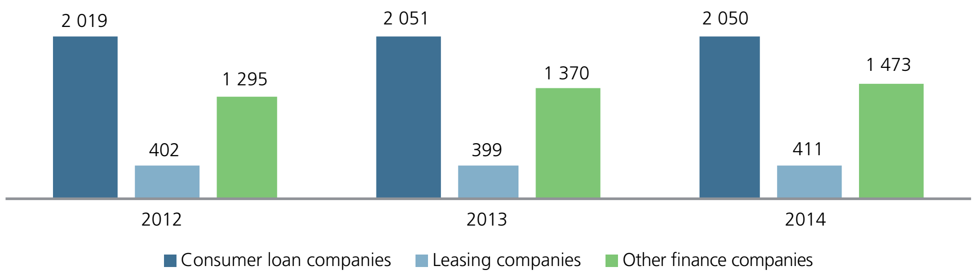
The staff of credit institutions and similar bodies stood at 51,645 employees, at end-December 2014, including nearly 78 percent hired by banks, 8 percent by finance companies and 12 percent by microcredit associations.

Chart 5 : Change in the number of banks' personnel



Banks increased their staff by recruiting 967 new employees (+6 percent), as against 826 in 2013. Their workforce stood at 40,055 employees, including more than 77 percent employed by privately-owned banks, in order to meet the needs resulting from the extension of their network.

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



The staff of finance companies amounted to 3,934 agents, at end-December 2014, up 114 persons compared to 2013. This concerned mostly finance companies other than consumer loan ones, whose workforce remained stable. The latter continue to employ nearly 52 percent of this workforce, as against 10 percent for leasing companies, 20 percent for payment means management companies and 9 percent for real estate loan companies.

5 - Change in banking concentration

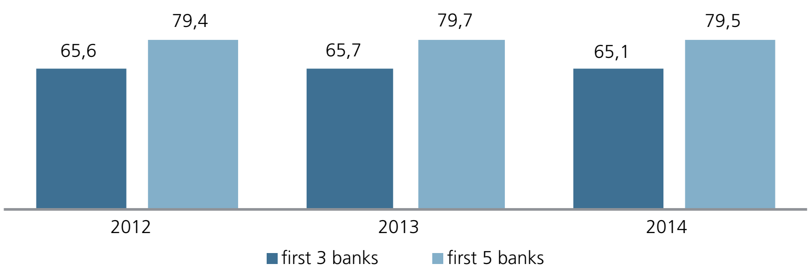
The banking concentration level is measured by the share of the three and five largest banks in total assets, deposits and loans, and based on the Herfindahl-Hirschman Index[2] and the status of the shareholding.

The structure of the banking market continues to be characterized by a relatively high concentration, but remains comparable with that of similar countries.

5.1- Concentration of banking activity on individual basis

As shown in Chart 7 below, the contribution of the three largest banks to total assets declined, from one year to another, by 0.6 point to 65.1 percent, while that of the five largest banks fell by 0.2 point to 79.5 percent.

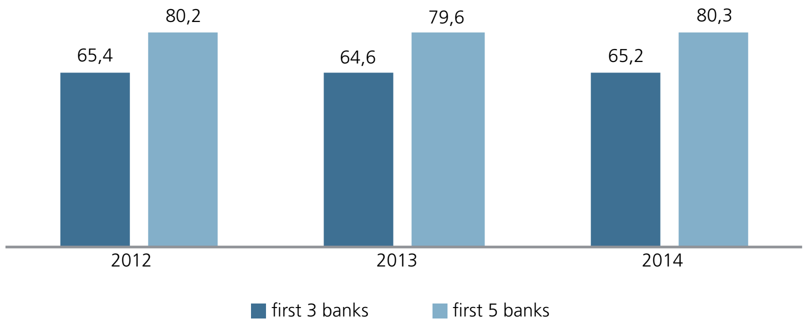
Chart 7 : Total assets' concentration (in %)



With regard to the collection of deposits, the concentration remains relatively high. The first three banks attracted 65.2 percent of the total, from 64.6 percent in 2013. This share grew to 80.3 percent for the first five banks, as against 79.6 percent.

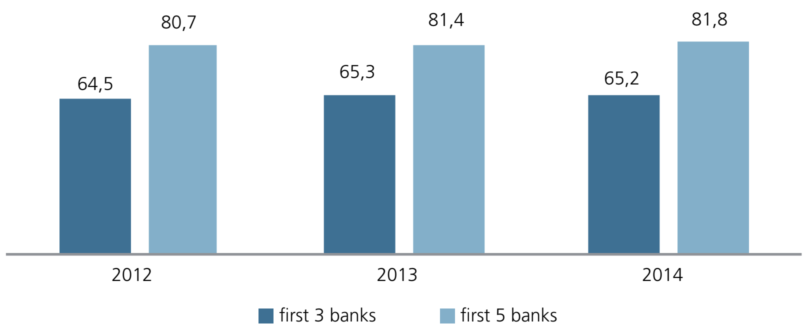
2 This indicator, which adds up the market shares of banks, ranges from 0 to 1. When the index is less than 0.1, it indicates a poorly concentrated market; when it stands between 0.1 and 0.18, it reflects a moderately concentrated market; and if its value is greater than 0.18 it points to a highly concentrated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

Chart 8 : Deposits' concentration (in %)



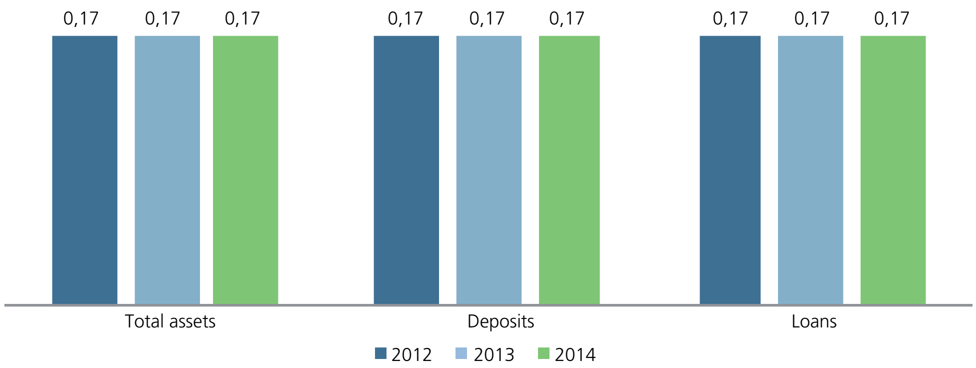
In terms of the breakdown of loans, the market structure remained almost unchanged. The three largest banks concentrated 65.2 percent of the outstanding loans distributed, a significant level similar to that of 2013. The first five banks were awarded a share of 81.8 percent.

Chart 9 : Loans' concentration (in %)



Meanwhile, the Herfindahl-Hirschman Index showed that the concentration level of the Moroccan banking market is moderate in terms of assets, deposits and loans, unchanged from the previous year.

Chart 10 : Banking concentration based on Herfindahl-Hirshman Index



Depending on the status of the shareholding, the average covers significant differences across banks' categories. Thus, the share of majority Moroccan private-owned banks increased by 0.6 point to 52.5 percent for branches and 0.5 point to 65.4 percent for deposits. Regarding total assets, their share fell by 0.6 point to 65.5 percent, while that of loans remained at 65.4 percent.

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

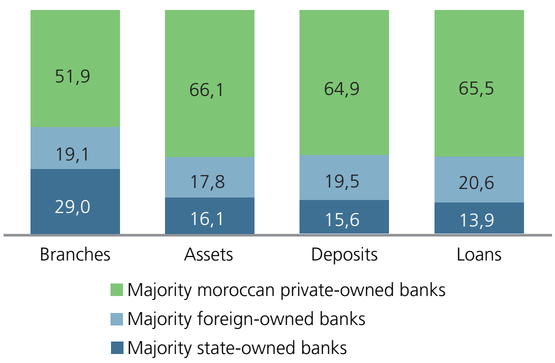
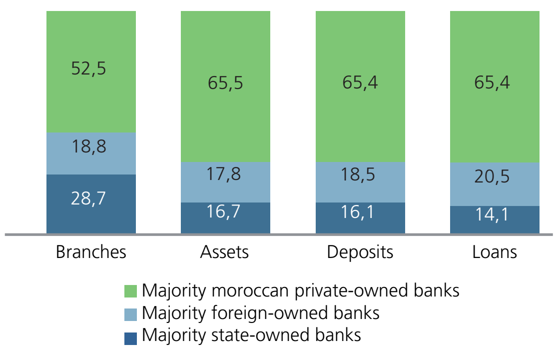


Chart 12 : Share ownership's concentration - 2014 (in %)



The share of deposits, loans and assets of majority state-owned banks increased by 0.5 point to 16.1 percent, 0.2 point to 14.1 percent and 0.6 point to 16.7 percent, respectively. However, their share in branches opened contracted by 0.3 point to 28.7 percent.

The market share of majority foreign-owned banks showed a decline. These banks had respective shares of 18.8 percent, 18.5 percent and 20.5 percent of branches (-0.3 point), deposits (-1 point) and loans (-0.1 point). Their share of assets remained at 17.8 percent.

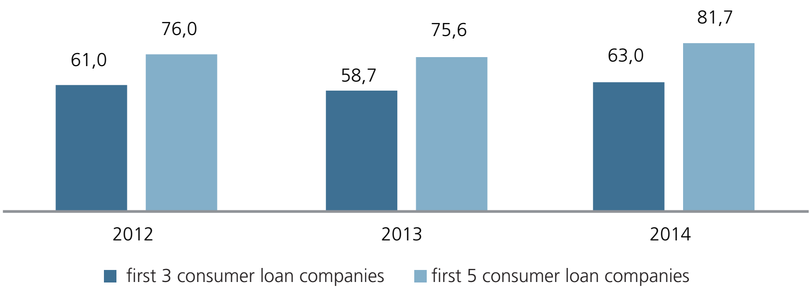
5.2- Concentration of finance companies' activities

The concentration level of finance companies, measured by the weight of the three and five largest companies in total assets, changed significantly for the consumer loan sector, affected by a decline in the number of institutions.

Thus, the three largest consumer loan companies held 63 percent of the sector's total assets, from 58.7 percent in 2013, while the five largest companies concentrated 81.7 percent, up 6 points compared to 2013.

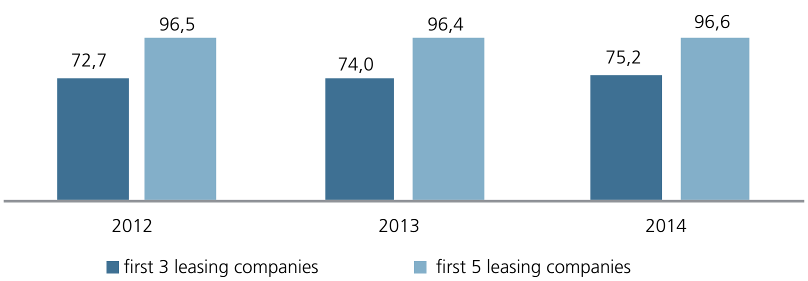
Nearly 98 percent of the sector's business is generated by ten companies affiliated to financial institutions.

Chart 13 : Total assets' concentration of consumer loan companies (in %)



Concerning leasing companies, the share of the first three companies in the total of assets stood at 75.2 percent, up 1.2 percentage point compared to 2013. The first five companies evolved by 0.2 point to 96.6 percent.

Chart 14 : Total assets' concentration of leasing companies (in %)



5.3- Concentration of the banking activity on a consolidated basis

On consolidated basis, the concentration level remained close to that registered on an individual basis. Indeed, the share of the top three banking groups in total loans remained at 65 percent and that of the five largest groups registered a year-on-year increase of one point to 82 percent.

Table 2 : Change in credit concentration on a consolidated basis (in %)

	Equipment loans and cash facilities to businesses			Real estate loans			Consumer loans			Total loans		
	2012	2013	2014	2012	2013	2014	2012	2013	2014	2012	2013	2014
The first 3 banking groups	64	64	64	64	64	65	64	65	63	64	65	65
The first 5 banking groups	82	82	83	82	82	81	82	82	81	81	81	82

Considered by object of loan, the first three banking groups distributed 64 percent of cash facilities and equipment loans, 65 percent of real estate loans and 63 percent of consumer ones. The first five banking groups held a share of 83 percent for cash facilities and equipment loans, and 81 percent for real estate and consumer loans.

CHAPTER II

ACTIVITY AND PROFITABILITY OF CREDIT INSTITUTIONS AND SIMILAR ENTITIES

In 2014, national economic growth slowed down from 4.7 percent in 2013 to 2.4 percent, covering a drop in agricultural activities and a slight recovery in the nonagricultural value added. However, external conditions improved, favoring a narrower deficit in the balance of payments.

Economic growth deceleration has resulted in a slowdown in the pace of banking activities, especially lending activities and the decline in banks investments in Treasury bills. Deposits collected from customers rose sharply, thus reducing banks' refinancing with the central bank.

1 - Activity and profitability of banks on individual basis

In respect of 2014, banks activities broadly slowed down on an individual basis. Their cumulative income improved owing to the good performance of market activities results.

1.1 - The deceleration of the banking activity covers divergent trends across assets and liabilities

1.1.1 - Banks' assets were marked by slower loans and lower portfolio of borrowed Treasury bills

At the end of 2014, the banking activity volume, measured by its total balance sheet, amounted to 1,103 billion dirhams, up 0.7 percent, as against 5.2 percent and 7.2 percent in 2013 and 2012, respectively. As measured by their ratio to GDP at current prices, banks' total assets accounted for 119 percent from 121 percent a year earlier.

Like previous years, the banking activity was still focused on the domestic market. The share of foreign currency assets of non-residents, amounting to 30 billion dirhams, remained below 3 percent of banks' assets.

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

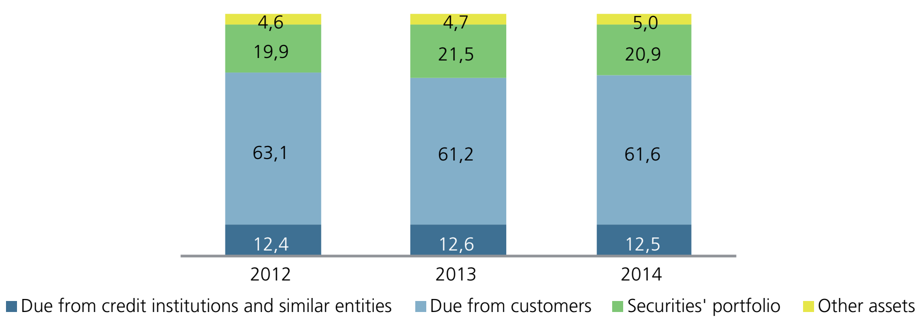
(Million of dirhams)

	2012	2013	2014	Variation 2013/2014 (en%)
Due from credit institutions and similar entities	**129 398**	**138 021**	**137 446**	**-0,4**
Due from customers	**656 371**	**670 451**	**680 010**	**1,4**
Securities' portfolio	**206 789**	**235 061**	**230 569**	**-1,9**
Including Treasury bills	105 309	136 676	116 826	-14,5
Fixed assets	**21 013**	**22 372**	**24 455**	**9,3**
Other assets	**27 077**	**29 207**	**30 822**	**5,5**
Total assets	**1 040 648**	**1 095 112**	**1 103 302**	**0,7**

Headings net of depreciation and provisions

The structure of banks' assets did not change significantly compared to 2013. The share of customer loans increased slightly to 61.6 percent, while that of securities' portfolio decreased by 0.6 point to 20.9 percent, reflecting a lower volume of borrowed securities.

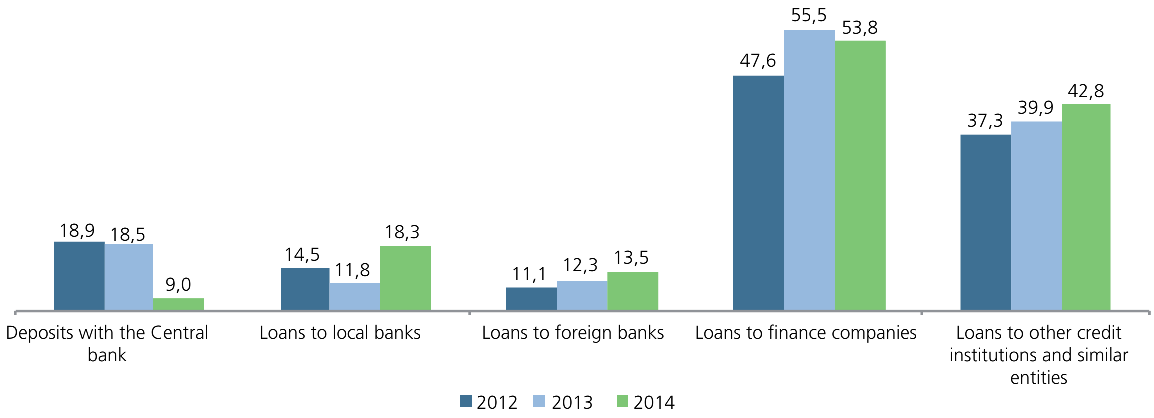
Chart 15 : Banks assets' structure (in %)



1.1.1.1 - The decrease in claims on credit institutions and similar entities is particularly attributed to a decline in banks' assets with the central bank

Claims on credit institutions and similar entities stood at 137.4 billion dirhams, down slightly compared to 2013 (-0.4 percent), after rising by 6.7 percent a year earlier. Further to the Bank Board's decision to reduce the required reserve ratio by 2 points to 2 percent, banks' assets with the central bank dropped by 50 percent to nearly 9 billion dirhams, after stagnation in 2013.

Chart 16 : Loans to credit institutions and similar entities (billion of dirhams)



Claims on local banks grew by 55.5 percent to 18.3 billion dirhams, mainly in connection with higher repurchase agreements operations, which more than doubled to 6 billion. Cash facilities and financial loans also grew by 38 percent and 31 percent, respectively, to 7.4 and 4.9 billion dirhams, in a context of monetary ease and improving the banking liquidity.

The 3.1 percent decrease in loans granted by banks to finance companies to 53.8 billion dirhams was attributed to the impact of a local bank's clearance of loans granted to its consumer loan subsidiary following an absorption operation. Excluding this impact, loans to these institutions moved up by 2.8 percent, as against 16.6 percent in 2013, reflecting a slower activity of consumer loan companies and leasing ones. 38.8 billion of these loans are financial loans and 15 billion are cash facilities.

Claims on banks located abroad rose by 9.4 percent to 13.5 billion dirhams, while those held on similar credit institutions, consisting mainly of offshore banks and microcredit associations, grew by 7.4 percent to 42.8 billion dirhams.

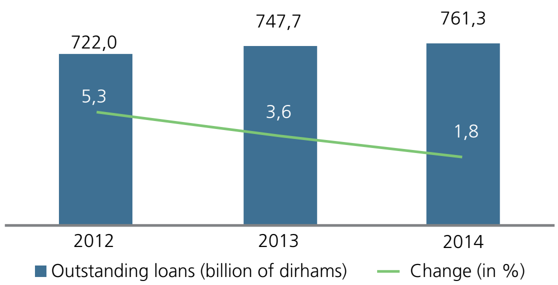
Foreign currency loans, which accounted for 24 percent of due from credit institutions and similar entities, rose by 10 percent to 33.5 billion dirhams, from 9.1 percent a year earlier, reflecting higher investments with foreign banks. Meanwhile, loans denominated in dirhams fell 3.4 percent to 104 billion dirhams, after a rise of 6 percent in 2013.

1.1.1.2 - Loans to customers decelerated overall, due to a decline in loans to financial customers

Gross outstanding loans continued to increase and reached 761.3 billion dirhams, though at a much slower pace, or nearly 2 percent, from 3.6 percent a year earlier and more than 5 percent in 2012. Excluding repurchase operations with customers, often volatile, which were down 24 percent, credit growth would stand at almost 3 percent.

Of this total, foreign currency loans, representing a 3.8 percent share, rose by 44.7 percent to 26 billion dirhams, as opposed to a 4 percent decline in the previous year. This trend benefited the oil companies, which raised their oil imports in 2014, taking advantage of lower international prices.

Chart 17 : Change in the total outstanding loans granted by banks to customers

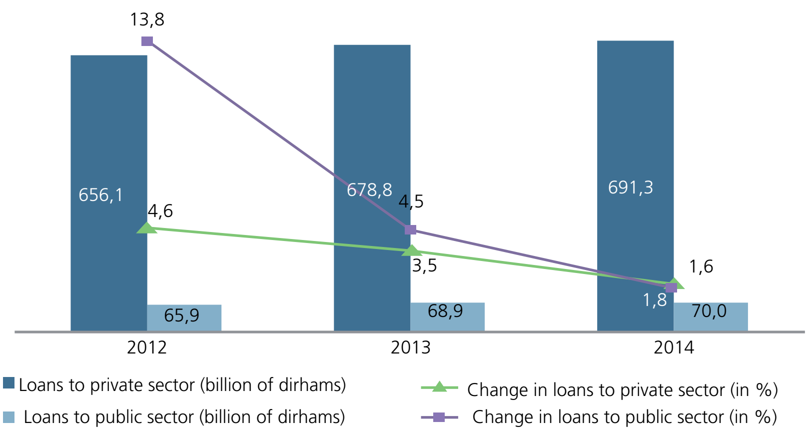


Taking into account its slowdown, global outstanding loans represented 82 percent of GDP, as against 83 percent a year earlier.

By customer category, loans to non-financial corporations (public and private) were tilted on the upside, by about 1.4 percent, after stagnating last year. Loans to households, benefiting from the good performance of housing loans, rose by 6 percent to almost 239 billion dirhams, representing 31 percent of total bank loans.

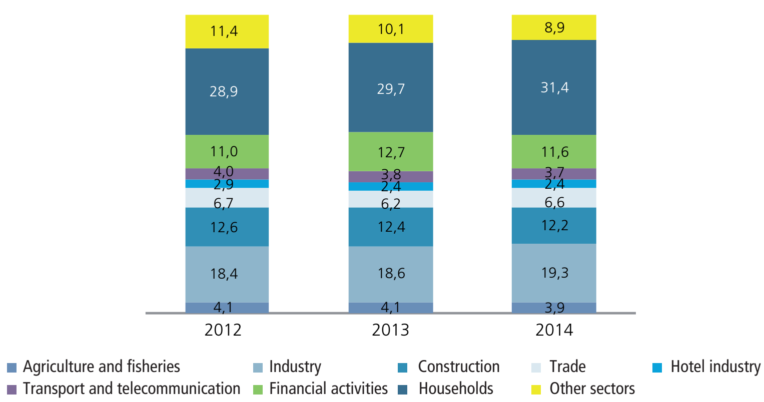
After rising 3.5 percent in 2013, credits to the private sector (businesses and households) registered an increase of 1.8 percent to 691.3 billion dirhams, accounting for 91 percent of total loans. Meanwhile, loans allocated to the public sector, which had risen 4.5 percent in 2013, displayed a weaker growth in 2014 to 1.6 percent to around 70 billion dirhams. However, this change, which was attributed to a 0.8 percent decrease in loans to the general government, covers a 4.1 percent increase in the financing of public enterprises with a view to supporting their development plans.

Chart 18 : Loans to private and public sectors



By sector of activity, the increase in loans benefited mainly households, industry and trade sectors. Meanwhile, the funding for the construction sector continued its downward trend, impacted by lower loans to property developers.

Chart 19 : Sectoral breakdown of disbursement loans granted by banks (in %)



Loans to the primary sector fell 1.1 percent to 30 billion dirhams and their share in total loans shrank by 0.2 point to 3.9 percent. The trade sector benefited from an outstanding amount of 50.5 billion, up 9.6 percent and its share in total loans increased by 0.4 point to 6.6 percent.

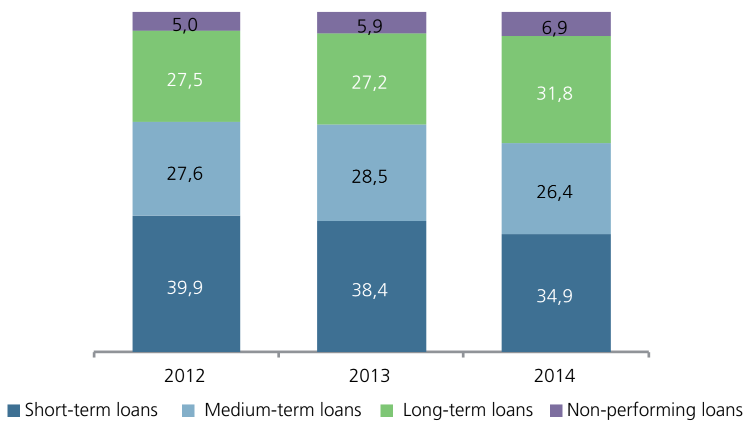
The industry sector, with a 0.7 point increase in their share to 19.3 percent, had an outstanding amount of loans of 147.3 billion dirhams, up 5.7 percent, albeit with divergent trends. Loans to companies operating in the production and distribution of water and energy grew by 31.4 percent, while those granted to other industries showed a 3 percent decline.

Credit to the tourism sector edged up 0.5 percent to an outstanding amount of 18.2 billion. The share of this sector in total loans remained at 2.4 percent. In contrast, the transportation and communication sector registered a drop of 1.2 percent, with a share remaining at 3.7 percent.

The construction sector had an outstanding amount of loans of 92.6 billion, down 0.4 percent, causing a 0.2 point decline in its share in total loans to 12.2 percent.

Due to the decline of loans to finance companies and financial loans, credit granted to financial activities dropped by 7.1 percent to 88 billion, representing a lower share of 1.1 point to 11.6 percent.

Chart 20 : Structure of disbursement loans granted by banks by their term (in%)

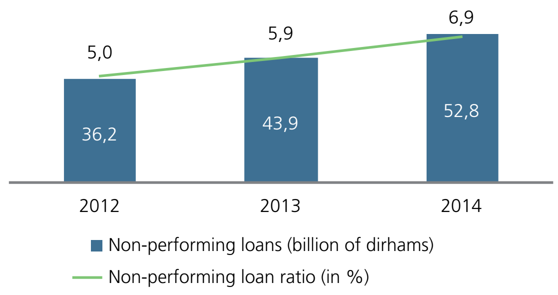


By maturity, the outstanding short-term loans fell by 7.5 percent to 265.8 billion dirhams, particularly due to a fall in cash facilities. Their share in total credits decreased, year on year, from 38.4 percent to 34.9 percent.

Thanks to higher housing loans, long-term loans strengthened by 19 percent to 242 billion dirhams, and their share increased by 4.6 percentage points to 31.8 percent. For their part, the outstanding amount of medium-term loans dropped by 5.8 percent to 201 billion, despite a slight recovery in equipment loans. Consequently, their share decreased by 2.1 points to 26.4 percent.

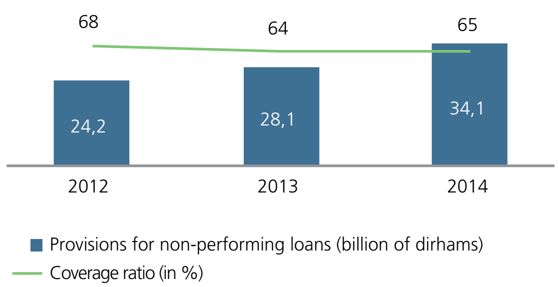
Reflecting the still sluggish economic conditions, the portfolio of non-performing loans held by banks increased again, reaching a total outstanding amount of 52.8 billion dirhams, up 20 percent. Thus, the non-performing loans ratio stood at 6.9 percent.

Chart 21 : Change in banks' non-performing loans



This change affected both individuals and corporations, mainly those operating in the sectors of tourism, real estate development and building materials. Thus, the non-performing loans ratio stood at 6.8 percent for households and 8.7 percent for non-financial corporations across all sectors.

Chart 22 : Provisioning ratio of non-performing loans held by banks



The provisioning ratio of non-performing loans increased by one point to 65 percent between 2013 and 2014. This average covers a rate of 15 percent for pre-doubtful loans, 46 percent for doubtful loans and 74 percent for impaired ones.

To cover the risks that are sensitive to economic conditions, banks continued to constitute general provisions, whose total amount reached, at end-December 2014, over 6 billion dirhams.

1.1.1.3 - The portfolio of Treasury bills, registered at banks' assets, decreased as a result of a decline in borrowed securities

At the end of 2014, the gross total outstanding securities' portfolio held by banks reached 229.9 billion dirhams, down 2.7 percent, which follows an increase of 12.2 percent a year earlier. Its share, on a net basis, accounted for nearly 21 percent of total bank assets, from 21.5 percent a year earlier. This decrease is attributed to the decline in the portfolio of Treasury bills.

Table 4 : Change in banks' securities portfolio

(Gross amount in million of dirhams)

	2012	2013	2014	Change 2013/2014 (in%)
Trading securities	102 394	111 904	98 974	-11,6
Held-for-sale securities	47 202	47 203	55 211	17,0
Investment securities	29 131	43 634	41 320	-5,3
Equity stakes and similar assets	31 985	33 575	34 376	2,4
Total of securities' portfolio	**210 712**	**236 316**	**229 881**	**-2,7**

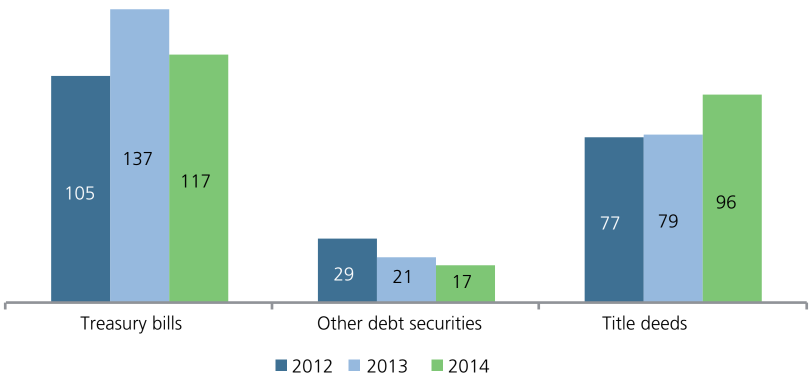
Analysis according to the purposive accounting shows that the trading securities' portfolio shrank by 11.6 percent, after rising 9.3 percent in the previous year, in connection with a decline in securities borrowed by banks, due to a lower use of central bank money.

Following the same trend, the investment portfolio registered a decline of 5.3 percent to 41.3 billion dirhams, of which 90 percent consists of Treasury bills.

However, the outstanding investment portfolio grew by 17 percent to 55.2 billion dirhams. This change is due to respective increases of 14.7 percent to 33.8 billion and 59.5 percent to 11.4 billion in the portfolio of Treasury bonds and title deeds, mainly under the form of UCITS. Meanwhile, other debt securities fell by 5.6 percent to nearly 10 billion dirhams.

Analysis of the securities' portfolio by legal nature shows that Treasury bills stood at about 117 billion dirhams, down 14.5 percent, after an increase of 30 percent in 2013. They constituted 50 percent of the total portfolio and 10.5 percent of banks' assets, as against 12.4 percent last year. This decrease is mainly due to a 93 percent decline in borrowed Treasury bills, driven by lesser use of advances from the central bank following an improvement in bank liquidity' situation.

Chart 23 : Change in banks securities' portfolio by legal nature (billion of dirhams)

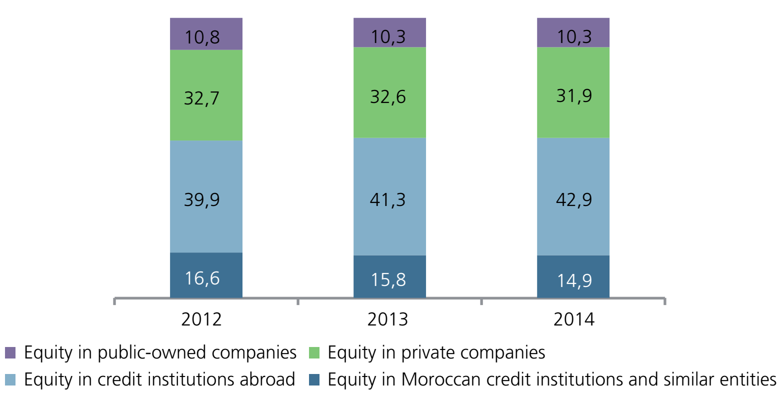


The portfolio of other debt securities, consisting essentially of bonds at 48 percent and other negotiable debt securities at 44 percent, fell by 18.4 percent, as against 27 percent in 2013.

Title deeds held by banks, across all portfolios, posted an increase of 22.5 percent, from 2.4 percent in 2013, reflecting a greater focus of banks' investments on UCITS' securities. Their share in the overall portfolio increased by 9 points to 42 percent.

The equity securities' portfolio grew by 2.4 percent to 34.4 billion, of which almost three quarters represented shareholdings in affiliated companies. This change is mainly due to a 5.6 percent increase in shareholdings in foreign credit institutions to 13.8 billion, or nearly 43 percent of this portfolio and 14.2 percent of banks' book value of capital.

Chart 24 : Breakdown of banks' equity portfolio by type of counterparty (in %)



The outstanding provisions for depreciation of securities' portfolio, nearly 93 percent of which is allocated to cover equity stakes and similar assets, increased by 7 percent to 2.3 billion dirhams.

1.1.2 - Change in liabilities was marked by a significant recovery of deposits collected from customers

Refinancing conditions of banks improved substantially in 2014 and pressures on banks' treasuries eased, following a strong recovery of deposits collected from customers. Meanwhile, equity of banks continued to strengthen, while the bonded debt issued by these institutions declined.

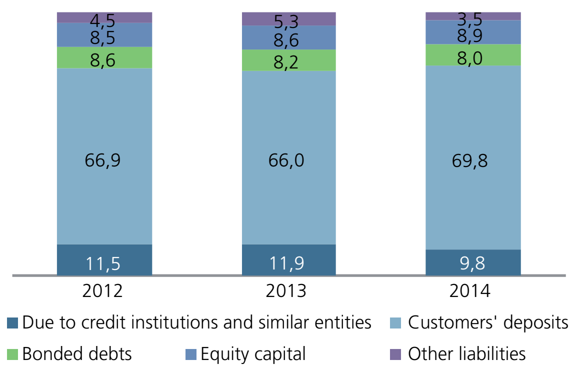
Table 5 : Change in banks' liabilities (activity in Morocco)

(Million of dirhams)

	2012	2013	2014	Change 2013/2014 (in%)
Due to credit institutions and similar entities	**119 592**	**129 882**	**108 418**	**-16,5**
Customers' deposits	**696 640**	**722 253**	**769 770**	**6,6**
Bonded debts	**89 566**	**89 844**	**87 963**	**-2,1**
- Issued debt securities	66 841	66 590	63 374	-4,8
- Subordinated debts	22 725	23 254	24 589	5,7
Equity	**88 147**	**94 232**	**97 801**	**3,8**
Net income	**9 890**	**9 914**	**10 011**	**1,0**
Other liabilities	**36 813**	**48 987**	**29 339**	**-40,1**
Total liabilities	**1 040 648**	**1 095 112**	**1 103 302**	**0,7**

The trend of banks' liabilities caused a change in their structure, with respective increases of 3.8 points to 69.8 percent and 0.3 point to 8.9 percent in the share of deposits from customers and equity. In contrast, the share of due to credit institutions and similar entities fell by 2.1 points to 9.8 percent, while that of bonded debts dropped by 0.2 to 8 percent.

Chart 25 : Structure of banks' liabilities (in %)



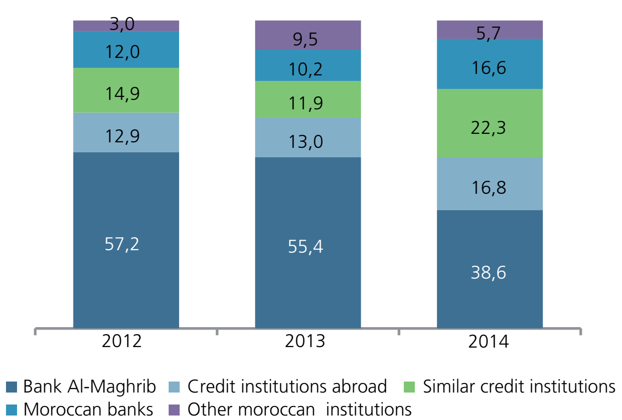
Banks' foreign currency liabilities held by nonresidents grew by 4.3 percent in 2014. Their share remains subdued at around 2 percent.

1.1.2.1 - Due to credit institutions and similar entities decreased significantly due to lower borrowing from the central bank

Due to credit institutions and similar entities fell by 16.5 percent to 108.4 billion dirhams, following an 8.6 percent increase a year earlier, reflecting a sharp decline in banks' recourse to cash advances from Bank Al-Maghrib.

Dirham-denominated loans, totaling an outstanding amount of 69.8 billion, decreased by 28.1 percent, while foreign currency loans, constituting nearly 36 percent of the total, appreciated by nearly 18 percent. Most of this increase resulted from loans of banks contracted from their offshore bank subsidiaries.

Chart 26 : Breakdown of banks' due to credit institutions by type of counterparty (in %)



In 2014, improved bank liquidity resulted in a decrease in cash advances from the central bank. Following a 5 percent increase in 2013, the outstanding amount of these advances shrank by 42 percent to 42 billion dirhams, bringing their year-on-year share of bank liabilities from 7 percent to 4 percent.

This outstanding amount consists of 7-day advances with 23 billion dirhams, down by nearly the half compared to 2013, and secured loans allocated to finance VSMEs, amounting to nearly 19 billion, from 6 billion dirhams a year earlier.

Interbank liabilities increased by 36 percent to 18 billion dirhams, owing to increases of 29 percent in cash debts, 33 percent in financial borrowings and 49 percent in repurchase agreements. Borrowings from credit institutions abroad appreciated by 7.8 percent to 18.2 billion dirhams.

1.1.2.2 - The uptrend in liabilities collected from customers was primarily driven by higher deposits of resident individuals

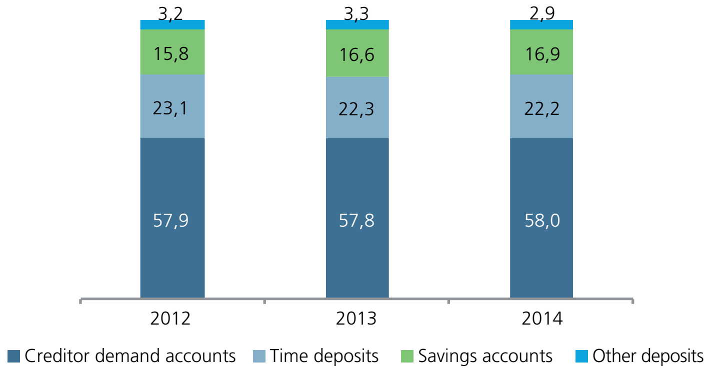
Deposits collected from customers, amounting to 770 billion dirhams, increased markedly in 2014, compared to the last four years. They recorded a growth rate of 6.6 percent, from 3.7 percent a year earlier and 3.6 percent on average over the period from 2009 to 2012. As a result, the average of loans-to-deposits ratio stood at 99 percent, up 5 points compared to 2013.

This increase was partly due to the favorable impact of repatriation to Morocco of funds held abroad by Moroccan residents, as part of the full discharge contribution operation decided by the Government.

The dirham-denominated deposits stood at 754 billion dirhams, up 5.8 percent from 3.8 percent in 2013 and foreign currency deposits, with a share of only 2 percent, appreciated by 63 percent, as against a decline of 5.8 percent in the previous year.

The overall rise in deposits reflects respective increases of 6.9 percent to 446.3 billion dirhams in demand deposits and 8.1 percent to 129.8 billion in savings deposits. Similarly, time deposits strengthened by 5.9 percent to 170.8 billion, after rising only 0.4 percent last year, reflecting a significant increase of 14.2 percent in cash bonds and, to a lesser extent, 2.7 percent in time accounts. Other deposits, consisting of repurchase agreements amounting to 35 percent, which had moved up 3.6 percent in 2013, declined by 2.2 percent to 22.9 billion dirhams at the end of 2014.

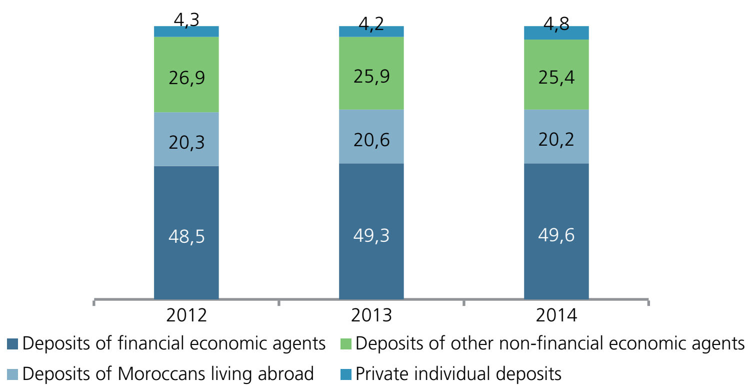
Chart 27 : Change in the share of various deposits' categories



The structure of deposits remained broadly stable compared to 2013. Almost 58 percent are demand deposits, 16.9 percent are savings accounts and 22.2 percent are time deposits.

Deposits by resident private individuals, which represent nearly 50 percent of the total, registered a marked increase of 7.5 percent to 381 billion dirhams, as against 5.4 percent. This growth stood at 7.2 percent for demand deposits, 12 percent for time deposits and 7.8 percent for savings accounts. Foreign currency deposits of private individuals more than doubled to 4.7 billion, as against 16.5 percent a year earlier.

Chart 28 : Structure of deposits by economic agent (in %)



Meanwhile, deposits of Moroccans living abroad, with a share of 20.2 percent, were up 4.4 percent to 154.8 billion dirhams, as against an increase of 5.1 percent a year earlier. Their demand deposits grew by 4.5 percent, as opposed to 3.1 percent for time deposits and 11.1 percent for savings accounts.

After stagnating in 2013, deposits of other non-financial units[2] recovered by 4.6 percent to 195 billion, reflecting an increase of 4.3 percent in demand deposits and 6 percent in time deposits.

Deposits of financial economic units, consisting primarily of UCITS and insurance companies, totaled more than 37 billion dirhams, showing a more sustained growth compared to the previous year, or 23.1 percent, as opposed to 1.1 percent.

Taken separately, UCITS' deposits, consisting up to 62 percent of time deposits, rose by 22.8 percent to 18.6 billion dirhams, from 9.8 percent in 2013. Following a decline of 21.2 percent in 2013, deposits of insurance companies, representing 12 percent of liabilities collected from financial agents, increased by 13.2 percent to 4.5 billion, including 62 percent as demand deposits, 29 percent of time deposits and 9 percent of other deposits.

1.1.2.3 - Banks' resort to the private debt market fell overall

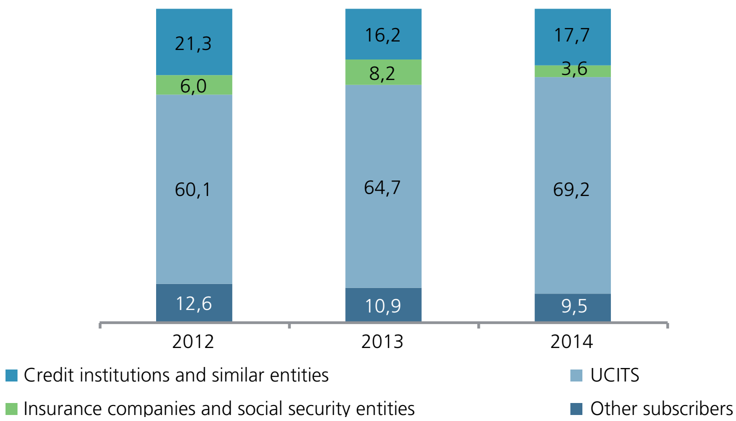
After a slight increase in 2013, the overall outstanding bonded debts decreased by 2.1 percent to nearly 88 billion dirhams. This change was attributed to the 6.8 percent drop in the outstanding amount of issued certificates of deposit to 55.7 billion and a decline of 11.9 percent in other debt securities to 1.7 billion, due to the amortization of old bonds issued by state-owned banks. However, this decline was partially offset by increases of 5.7 percent in subordinated debts to 24.6 billion, and 21.2 percent in issued bonds to 6 billion, reflecting banks' stance to further develop their stable liabilities, for better backing to medium and long-term assets.

Chart 29 : Change in bonded debts (billion of dirhams)

2 Other non-financial agents are composed of private corporations and the private sector.

Nearly 69 percent of issued certificates of deposit are still held by UCITS, 18 percent by credit institutions and similar entities and 4 percent by insurance companies and social security bodies.

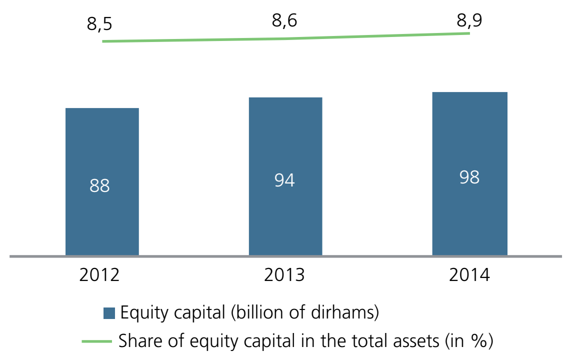
Chart 30 : Outstanding of the certificates of deposit issued by category of subscribers (in %)



1.1.2.4 - Banks' equity continued to strengthen

In connection with the new regulatory requirements, banks equity continued to increase, and rose 3.8 percent to 97.8 billion dirhams. As measured by its ratio to total assets, their amount represented 8.9 percent, from 8.6 percent in 2013.

Chart 31 : Change in banks' equity



1.1.3 - Banks' off-balance sheet commitments increased due to the growth in financing commitments received and commitments in derivatives

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

After rising by 3.9 percent in the previous year, given financing commitments declined by 5 percent to 75.3 billion dirhams, owing to a 6.1 percent contraction in commitments given to customers to 72.1 billion, in the form of confirmed credits openings. Those given to credit institutions and similar entities, representing nearly 4 percent of the total, were up 28.1 percent.

Guarantee commitments given, which stood at 119 billion dirhams, remained virtually stable compared to 2013. Of this total, commitments given on behalf of credit institutions rose by around 3.7 percent to 37.7 billion, reflecting a growth of 79 percent in confirmed export documentary credits, while commitments given on behalf of customers were down 1.9 percent to 81.3 billion.

Received commitments appreciated by 7.7 percent to 63.6 billion dirhams, including 60.5 billion as guarantee commitments. Those received from credit institutions and similar entities moved up 5.7 percent to 56.3 billion, as against an increase of 26.6 percent to 7.3 billion for commitments received from customers.

Regarding foreign currency commitments, spot foreign exchange transactions declined by 40.1 percent to 9.6 billion dirhams. This same trend was observed for foreign exchange forward operations, which decreased by 9.9 percent to 118 billion.

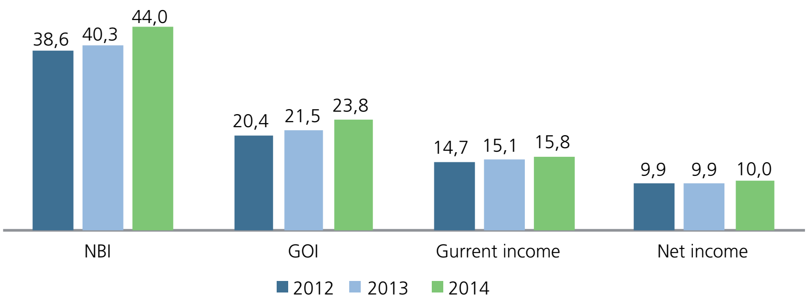
However, commitments on derivatives maintained their upward trend in 2014. They recorded a notional amount of 66.4 billion dirhams, up 24.5 percent, as against 28.7 percent in 2013. The value of contracts accounted for nearly 68 percent of the accounting equity and 6 percent of banks' total assets. This change was due to respective declines of 24.8 percent to 20.6 billion and 8.2 percent to 13.6 billion in commitments on exchange rate instruments and interest rate ones, and a sharp increase in commitments on other instruments, which almost tripled to 32.2 billion, following higher sales of forward securities on behalf of customers undertaken by some banks in 2014.

1.2 - Banks were broadly able to maintain satisfactory profitability, despite a slowdown in their activity and a further increase in the cost of risk

Despite a slowdown of credit activity, banks in 2014 were overall able to achieve satisfactory results, driven by a marked increase in net banking income, despite a renewed rise in the cost of risk and general operating expenses.

The analysis of bank profitability is examined below through the change in the major intermediate management balances, calculated on individual basis.

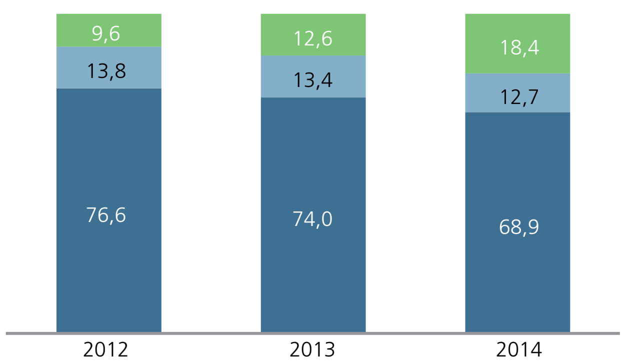
Chart 32 : Change in banks' management intermediate balances (billion of dirhams)



1.2.1 - The net banking income increased significantly, due to a strong growth of income from market activities

The net banking income stood at 44 billion dirhams, up 9.3 percent, as against 4.5 percent in the previous year. This improvement is attributable to an uptrend of market activities and, to a lesser extent, an increase in the interest margin and margin on commissions.

Chart 33 : Structure of the net banking income (in %)



In a context of concomitant decrease in the average rate of loans and the average cost of deposits, the interest margin, totaling 29.4 billion dirhams, grew by 2.9 percent, from 1 percent in 2013. However, its share in NBI dropped by almost 5 percentage points to 69 percent as opposed to 2.6 points in 2013.

Following a 1 percent decline in 2013, the net income from interest rates on operations with customers rose by 2.6 percent to 28.8 billion dirhams, reflecting a 2.3 percent increase in interest received on loans to 39.6 billion, while interests paid on deposits moved up by 1.5 percent to 10.8 billion.

With a share of 3 percent of the total, the net income from interest rates on operations with credit institutions and similar entities, fell by 1.7 percent to 806 million dirhams. This trend reflects a simultaneous drop by 2.1 percent in interests perceived and by 2.2 percent in interests paid.

Regarding securities' transactions, they generated a negative net interest income of 168 million dirhams, as against 268 million in 2013, particularly due to a rise of 4.7 percent in interest charges on debt securities issued to nearly 3 billion dirhams.

For its part, the margin on commissions stood at 5.6 billion dirhams, up 3.5 percent from 1.2 percent a year earlier. Commissions earned on services' delivery amounted to 5.8 billion, up 4.5 percent, from 2.2 percent last year. This change reflected increases of 1.7 percent in commissions on operating accounts to 1.2 billion, 3.3 percent in commissions on payment means to 2.1 billion, 10.5 percent in commissions on credit services to 474 million and 3.2 percent in commissions on management and deposit securities to 351 million dirhams.

In contrast, sales of insurance products and consultancy and assistance activities generated lower commissions, down 9.4 percent to 185 million and 45.4 percent to 66 million dirhams, respectively.

After rising 36.5 percent in 2013, the income from market activities recorded a stronger growth of 59.4 percent to 8.1 billion dirhams, thanks to lower rates in the bond market, particularly on short-term maturities. Nearly four-fifth of the income from these activities was generated by three banks.

The growth in the income of market activities was mainly due to higher gains on trading securities, which nearly doubled to 6.4 billion dirhams. Most of these gains were achieved on the portfolio of Treasury bills and, to a lesser extent, that of bond UCITS, composed mainly of T-bills. Almost 82 percent of this income corresponds to unrealized gains, reflecting improved valuation of the portfolios concerned.

Representing nearly 8 percent of the total income from market activities, revenues from operations on investment securities rose from 99 million to 680 million, year on year, owing to the added value generated by banks on sales of securities. Net gains of foreign exchange transactions remained at 1.6 billion, while net income from derivative transactions moved from a positive amount of 144 million to a negative income of 623 million dirhams, most of which resulting from a decrease in the income generated on forward sales of securities caused by a drop in bond securities in 2014.

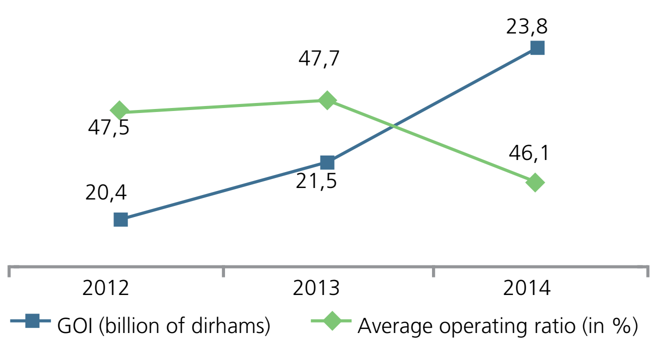
1.2.2 - The increase in the net income was burdened by the higher cost of risk and non-recurrent expenses

The general operating expenses amounted to 20.3 billion dirhams, up 5.4 percent, compared to 5 percent in 2013. This trend particularly covers increases of 3.7 percent in personnel expenses to 9.7 billion, 8 percent in external expenses to 7.8 billion and 6.5 percent in taxes and duties to 478 million dirhams.

Depreciation allocations and provisions of tangible and intangible fixed assets rose by 6.8 percent to 2.1 billion dirhams.

Thanks to the uptrend of NBI, banks improved their operating ratio[3] by 1.6 point to 46.1 percent. Against this backdrop, the gross operating income (GOI) grew by 10.6 percent to 23.8 billion dirhams, from 5.5 percent in 2013.

Chart 34 : Change in banks' GOI and average operating ratio



The difficulties encountered in certain sectors of activity continued to weigh on the cost of risks. The latter, measured by allocations net of reversals of provisions, accumulated 8 billion dirhams, up 7.4 percent, as against 29 percent in 2013. In fact, during 2013, the cost of risk was restated to include an exceptional allocation of provisions for general risks, amounting to 972 million dirhams, which is inscribed under non-operating income. Excluding the impact of this operation, the rising cost of risk would have been 23.6 percent. As measured by its ratio to GOI, the cost of risk stood at 33.5 percent, as against 34.3 percent in the previous year.

3 Corresponding to overheads ratio to NBI.

Chart 35 : Banks' cost of risk compared to GOI

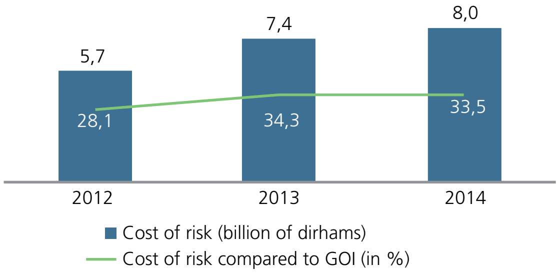
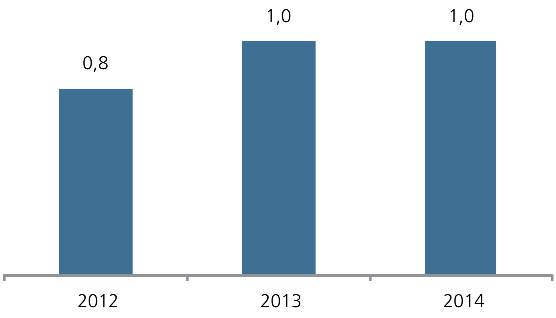


Chart 36 : Banks' cost of risk compared to outstanding loans (in %)



Given these developments, the current income appreciated by 5 percent to 15.8 billion dirhams, from 2.7 percent in 2013. While still negative, the non-operating income rose from 492 to 479 million dirhams.

In the end, the cumulative net profit generated by banks increased by 1 percent to 10 billion dirhams, after stagnating in 2013, causing the return on assets (ROA) to stand at around 1 percent and a return on equity (ROE) of 10.2 percent, as against 10.6 percent, a trend also attributed to the strengthening of banks' equity.

Chart 37 : Change in banks' return on assets (ROA)

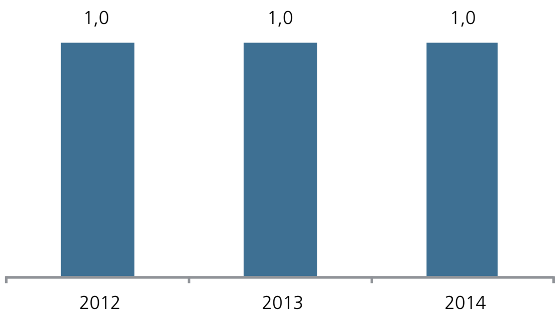
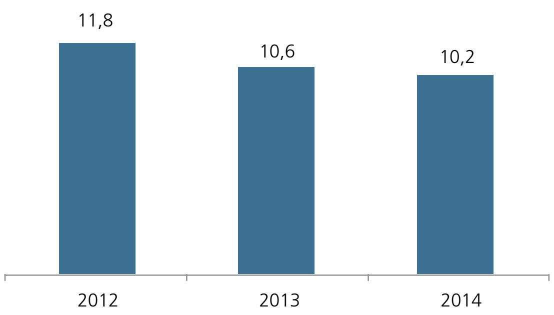


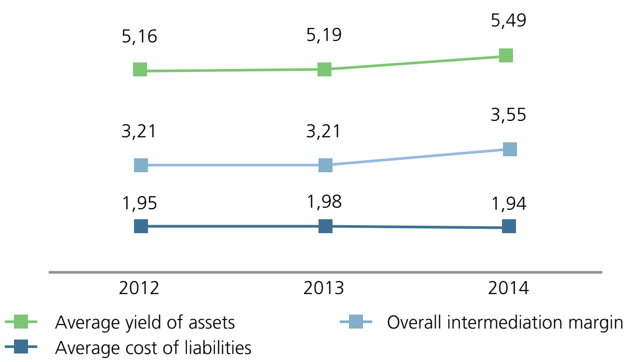
Chart 38 : Change in banks' return on equity (ROE) in %



1.2.3 - Banks' overall intermediation margin recovered while the margin on customers' transactions remained virtually stable

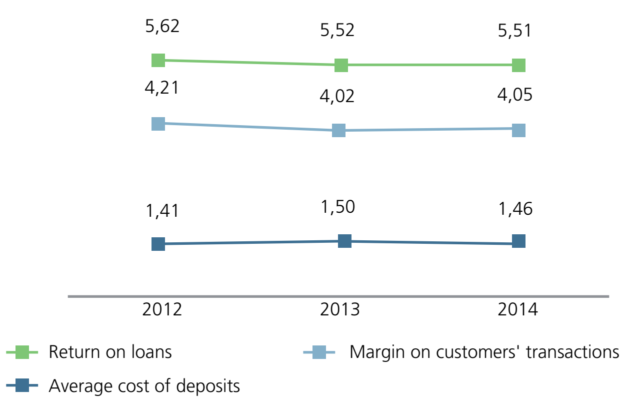
The average yield of banks' assets[4] stood at 5.49 percent, showing an increase of 30 basis points, particularly due to higher net gains on securities' transactions. The average cost of liabilities[4] contracted by 4 basis points to 1.94 percent. Given these developments, the overall intermediation margin rose by 34 basis points to 3.55 percent.

Chart 39 : Change in banks' overall intermediation margin (in %)



The margin on customer transactions appreciated slightly by 3 basis points to 4.05 percent, owing to the combined effect of decreases of 4 basis points in the average cost of deposits to 1.46 percent and one basis point in the return on loans to 5.51 percent.

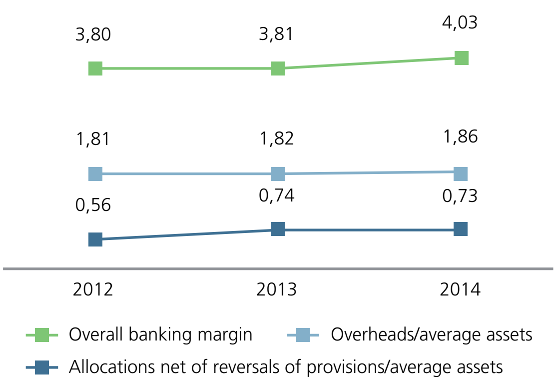
Chart 40 : Change in the overall margin on customer transactions



4 The yield of assets and cost of liabilities relate to customer transactions, operations with credit institutions and similar entities, and securities' transactions.

The overall banking margin, as measured by the ratio of NBI to average assets, improved by 22 basis points to 4.03 percent. It was absorbed by overheads at 1.86 percent, from 1.82 percent a year earlier, and by the cost of risk at 0.73 percent, as against 0.74 percent in 2013.

Chart 41 : Change in the overall banking margin, overheads and risks' costs (in %)



2 - Activity and profitability of finance companies

2.1 - Finance companies' assets showed differing trends across businesses

At the end of 2014, the number of finance companies decreased by one unit to 34 institutions, including 16 consumer loan companies, 6 leasing companies, 2 real estate loan companies, 2 surety companies, 2 factoring companies, 3 payment-means management companies, one alternative finance company, one company for financing micro-credit operators and another one for financing small farmers.

The number of consumer loan companies dropped by one unit in 2014, which had an impact on the sector's activity and profitability indicators, and on those achieved by finance companies across all categories. To counteract this impact, this chapter reviews the trends as determined at constant scope, based on a reprocessing of 2013 data. The aggregate Loans and Profit Statement of finance companies and that of consumer loan companies are appended without reprocessing of data.

The total assets of finance companies recorded rose by 5 percent in 2014 to 99.2 billion dirhams, after stagnating in 2013. The outstanding gross loans to customers, representing a share of 97 percent of assets, increased by 2.7 percent to nearly 96 billion dirhams. Due from credit institutions and similar entities moved up by 2.3 to 4.5 billion, in connection with a term investment operation carried out by a surety company.

Table 6 : Change in finance companies' assets

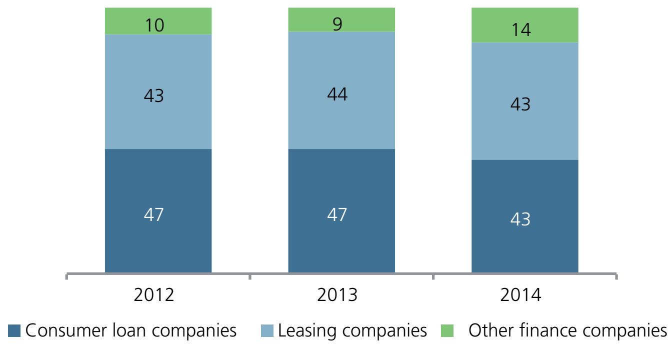
(Million of dirhams)

	2012	2013	2013 restated	2014	Change 2013 restated/2014 (in%)
Due from credit institutions and similar entities	3 025	2 340	2 283	4 518	97,9
Due from customers	89 242	90 150	86 724	88 766	2,4
Securities' portfolio	805	796	796	862	8,4
Fixed assets	1 418	1 396	1 388	1 374	-1,0
Other assets	3 847	3 337	2 299	3 653	10,7
Total assets	**98 337**	**98 019**	**94 490**	**99 173**	**5,0**

NB : Headings net of depreciation and provisions

Given a decline in the number of consumer loan companies, the share of their aggregated activity fell by 4 points to 43 percent, while the share of other finance companies moved up to 14 percent. That of leasing companies dropped by one point to nearly 43 percent.

Chart 42 : Share of different categories of finance companies in the sector's total assets (in %)



The change in the activity of finance companies covered disparate situations. In continuation of the deceleration registered since 2009, the activity of consumer loan companies, as measured by total assets, grew by 0.8 percent in 2014 to 43 billion dirhams.

Table 7 : Change in consumer loan companies' assets

(Million of dirhams)

	2012	2013	2013 restated	2014	Change 2013 restated/2014 (in%)
Due from credit institutions and similar entities	**530**	**606**	**549**	**501**	**-8,6**
Due from customers	**42 115**	**42 612**	**39 186**	**39 259**	**0,2**
Including lease with purchase option	9 629	9 621	9 521	10 255	7,7
Securities' portfolio	**46**	**56**	**56**	**22**	**-60,3**
Fixed assets	**826**	**812**	**804**	**779**	**-3,1**
Other assets	**2 321**	**2 130**	**2 092**	**2 457**	**17,4**
Total assets	**45 838**	**46 216**	**42 687**	**43 018**	**0,8**

NB : Headings net of depreciation and provisions

Over 92 percent of consumer loan companies' assets consist of loans to customers. Their outstanding gross amount stood, at the end of 2014, at 43.6 billion dirhams, showing a slight increase of 0.6 percent, the same rate as in 2013. Of this total, operations of lease with a purchase option increased by 7.7 percent to more than 10 billion dirhams, in connection with rising auto's sales.

Leasing companies accumulated total assets of 43 billion dirhams, up 1 percent, as against a stagnation at the end of 2013. Their outstanding gross loans grew by 1.6 percent to 44.3 billion dirhams.

Table 8 : Change in leasing companies' assets

(Million of dirhams)

	2012	2013	2014	Change 2013/2014 (in%)
Leasing fixed assets	41 434	41 431	41 888	1,1
Other customers' loans	104	75	78	4,5
Securities' portfolio	30	30	24	-20,2
Other assets	944	1 082	1 041	-3,8
Total assets	**42 512**	**42 618**	**43 031**	**1,0**

NB : Headings net of depreciation and provisions

Leasing operations consist of equipment and property leasing. In terms of outstanding amounts, equipment leasing transactions, with a share of 64 percent of the total, registered a decline of about 2.3 percent, as against 3 percent in 2013. Property leasing transactions continued their upward trend to 7.8 percent, from 6.6 percent last year.

Chart 43 : Change in the outstanding amount of equipment and property leasing transactions (million of dirhams)

In terms of production[5], leasing companies distributed nearly 13 billion dirhams in 2014, almost similar to 2013, corresponding to a number of 13,973 files, significantly up 7.6 percent. Around 76 percent of this production was allocated to equipment leasing.

Chart 44 : Breakdown of equipment leasing production by type of equipment (in %)

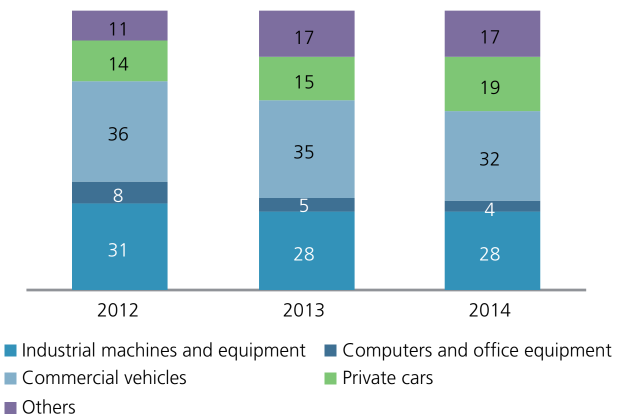
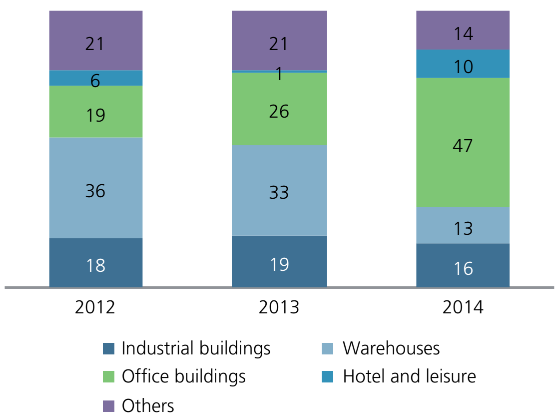


Chart 45 : Breakdown of property leasing production by type of financed fixed assets (in %)



Equipment leasing production, amounting to 9.7 billion dirhams, showed a further decline of 5.5 percent, as against 7.5 percent in 2013. This change covers a drop in the financing of commercial vehicles (-14 percent), industrial machines and equipment (-5 percent), computers and office equipment (-24 percent) and public works and buildings (-20 percent). However, the financing of passenger cars rose by 23 percent.

5 Data from the Professional Association of Finance Companies

Analysis by initial term reveals a predominance of medium-term loans with a share of 80 percent of total production, down one point compared to 2013.

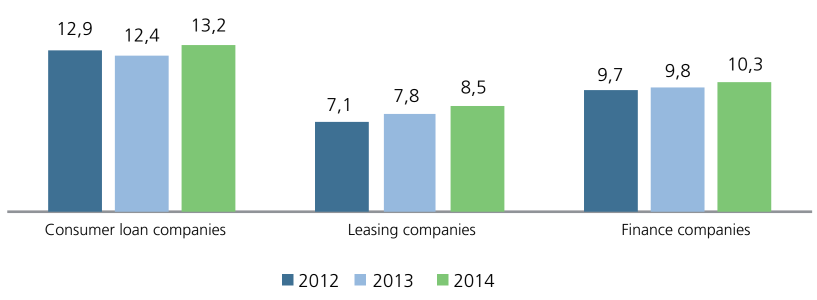
The sectoral analysis of this production shows that the financings allocated to industry sectors fell by 26 percent to 2.3 billion dirhams, a decline mainly affecting loans to metallurgical industries. They accounted for nearly 23 percent of total production. This decrease also affected the transport sector whose outstanding loans fell by 5 percent to 1.7 billion, as against an increase of about 7 percent a year earlier, bringing their share to 18 percent.

However, credit granted to the sector of construction and public works grew by 10 percent to 1.5 billion dirhams, as against a decline of 19 percent, bringing its share in total production to 16 percent. Trade sector credits stagnated at 1.7 billion dirhams, after a decline of 20 percent in 2013 and their share stood at 17 percent.

Property lease production grew by 24 percent to 3.2 billion dirhams. This change benefitted the financing of office buildings (+129 percent), hotels and leisure, which rose from 17.7 to 306.2 million dirhams, after falling 88 percent a year ago. Almost 97 percent of these financings are long-term maturity ones.

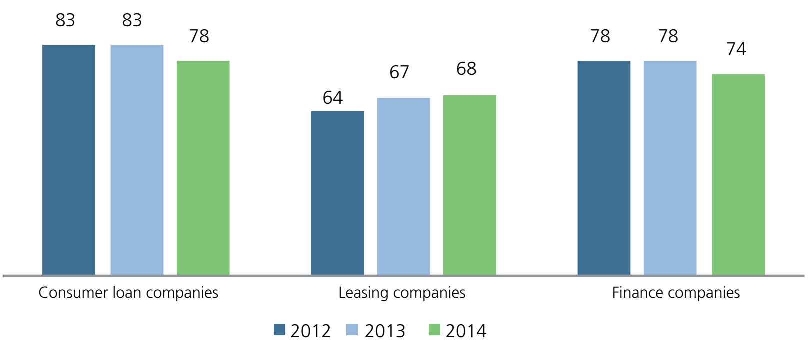
Outstanding **non-performing loans** of finance companies increased by 9 percent in 2014 to 9.9 billion dirhams, representing a risk ratio of 10.3 percent. Those of consumer loan companies rose by 8 percent to 5.8 billion dirhams, with a risk ratio of 13.2 percent, from 12.4 percent in 2013. Outstanding non-performing loans of leasing companies moved up further by almost 11 percent to 3.8 billion dirhams, representing an increase of 0.7 point in the risk ratio to 8.5 percent, in connection with economic conditions.

Chart 46 : Change in the risk ratio by category of finance companies (in %)



The **provisioning ratio** of non-performing loans reached 74 percent for finance companies, down 4 points from last year. It dropped by 5 points to 78 percent for consumer loan companies and increased by one point to 68 percent for leasing companies.

Chart 47 : Change in the coverage ratio by category of finance companies (in %)



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

At constant scope, finance companies' liabilities were marked in 2014 by increases of 5.6 percent in the banking indebtedness, 6.1 percent in due to customers and 3.8 percent in equity. In contrast, debt securities issued fell by 5.1 percent.

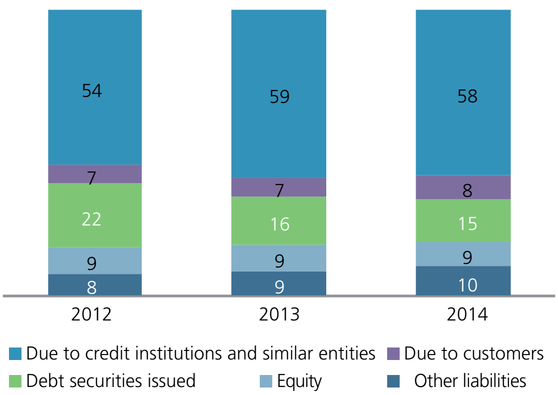
Table 9 : Change in finance companies' liabilities

(Million of dirhams)

	2012	2013	2013 restated	2014	Change 2013 restated/2014 (in%)
Due to credit institutions and similar entities	52 129	57 365	54 205	57 222	5,6
Due to customers	6 568	7 001	6 980	7 406	6,1
Debt securities issued	21 735	15 966	15 966	15 159	-5,1
Equity	8 602	9 253	9 112	9 460	3,8
Net income	1 453	1 433	1 466	1 504	2,6
Other liabilities	7 850	7 001	6 761	8 422	24,6
Total liabilities	**98 337**	**98 019**	**94 490**	**99 173**	**5,0**

The structure of finance companies' liabilities shows prevalence of bank debts, by 58 percent, followed by debt securities, issued with a share of 15 percent and equity, which represented 9 percent of liabilities, unchanged from the previous two years.

Chart 48 : Change in the structure of finance companies' liabilities (in %)



UCITS are the main investors in bills issued by finance companies, with a share of 79 percent, while the rest is split between credit institutions and similar entities (19 percent) and non-financial companies (2 percent).

Table 10 : Change in liabilities of consumer loan companies

(Million of dirhams)

	2012	2013	2013 restated	2014	Change 2013 restated/2014 (in%)
Due to credit institutions and similar entities	22 445	25 482	22 322	19 646	-12,0
Due to customers	4 653	4 825	4 804	5 464	13,7
Debt securities issued	10 251	6 758	6 758	7 865	16,4
Equity	4 760	5 257	5 116	5 262	2,9
Net income	876	750	782	845	8,0
Other liabilities	2 853	3 144	2 905	3 936	35,5
Total liabilities	**45 838**	**46 216**	**42 687**	**43 018**	**0,8**

Consumer loan companies' bank indebtedness, representing 46 percent of liabilities, amounted to 19.6 billion dirhams, down 12 percent compared to 2013. The outstanding amount of debt securities issued grew by 16.4 percent to 7.9 billion, bringing their share to 18 percent. Equity displayed by these companies rose by 2.9 percent to 5.3 billion dirhams, with a share of 12 percent of liabilities, almost similar to that of 2013.

Table 11 : Change in liabilities of leasing companies

(Million of dirhams)

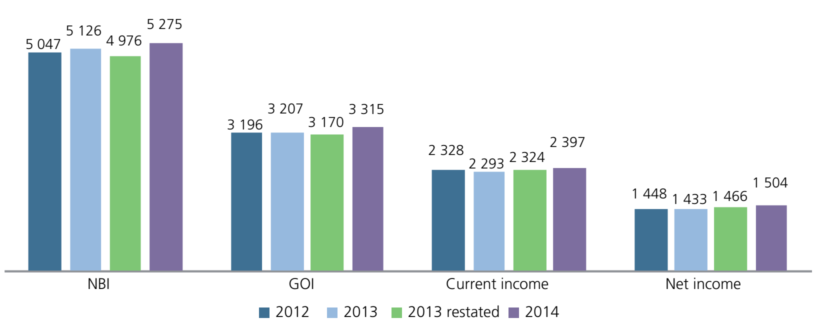
	2012	2013	2014	Change 2013/2014 (in%)
Due to credit institutions and similar entities	25 041	27 513	29 726	8,0
Due to customers	734	799	596	-25,3
Debt securities issued	11 924	9 208	7 294	-20,8
Equity	2 509	2 597	2 718	4,7
Net income	290	285	294	3,2
Other liabilities	2 014	2 216	2 403	8,4
Total liabilities	**42 512**	**42 618**	**43 031**	**1,0**

Leasing companies' bank indebtedness, representing nearly 69 percent of liabilities, appreciated by 8 percent to about 30 billion dirhams, from 10 percent in 2013. However, outstanding debt securities issued fell by 21 percent to 7.3 billion. Their accounting equity rose by about 5 percent to 2.7 billion, representing a stable share of 6 percent.

2.3 - The change in the profitability of finance companies showed disparate situations

Finance companies posted in the financial year 2014 a 2.6 percent increase in the net income to 1.5 billion dirhams, after a 1 percent decline in the previous year. This recovery was induced by higher profit margins generated particularly by consumer loan companies and surety ones.

Chart 49 : Change in finance companies' management intermediate balances (million of dirhams)

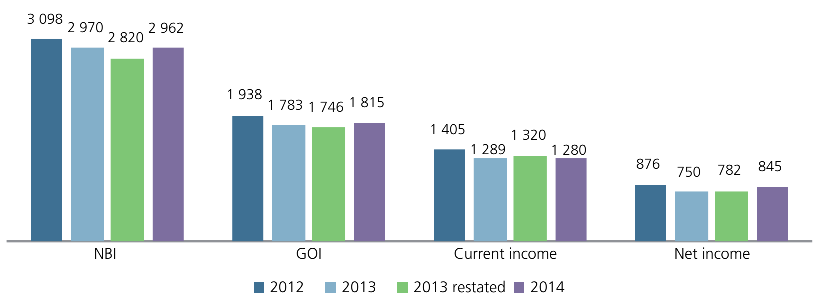


The NBI of finance companies, amounting to 5.3 billion dirhams, was up 6 percent, from 1.6 percent a year earlier. This trend covers a 16 percent rise in the margin on commissions to 1.3 billion dirhams, due to a development of consumer loan companies' management activities on behalf of banks and moreover an increase of 1 percent in income from leasing transactions to 3.3 billion dirhams. However, the interest margin was down 11.6 percent to 549 million dirhams.

General operating expenses rose by 6.6 percent to 2 billion dirhams, generating an average operating ratio of 39 percent, up one point compared to 2013. Gross operating income (GOI), amounting to 3.3 billion, increased by approximately 4.6 percent, from 0.3 percent a year ago. It was absorbed by the cost of risk, corresponding to allocations net of reversals of provisions, standing at 28 percent, unchanged from 2013.

The return on assets (ROA) stood at 1.5 percent, unchanged from 2013, and the return on equity (ROE) rose from 15.5 percent to 15.9 percent.

Chart 50 : Change in consumer loan companies' management intermediate balances (million of dirhams)



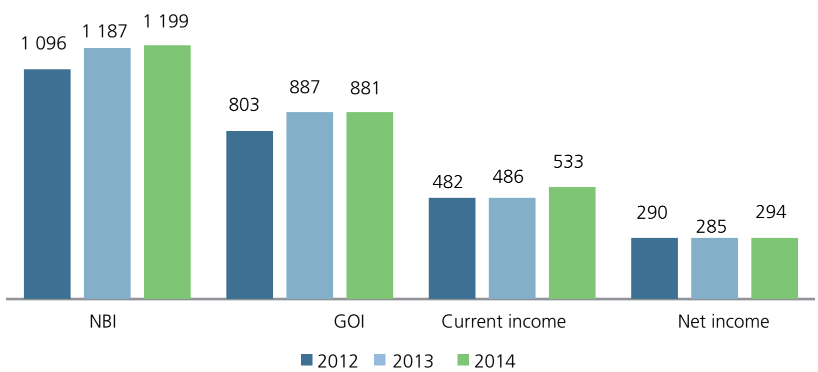
Consumer loan companies posted an NBI of 3 billion dirhams, up 5 percent, after a 4.1 percent decline in 2013. This recovery reflects increases of 15 percent in income from operations of lease-option agreement to 382 million, as against a decline of 23 percent a year ago, and 24.7 percent in the margin on commissions to 555 million, reflecting a development of service delivery activities undertaken by certain companies. However, these increases were partially offset by a 1.7 percent contraction of the interest margin, the largest component of NBI, to 1.9 billion dirhams, in connection with the slowdown in activity

Their general operating expenses moved up 4.7 percent to 1.2 billion dirhams, showing an average operating ratio of 40 percent, up 2 percentage points compared to 2013. The resulting GOI was up 4 percent to 1.8 billion, after a decline a year earlier.

The cost of risk rose by 25.7 percent to 535 million dirhams, representing nearly 30 percent of GOI, from 28 percent a year ago. The non-operating income moved from a deficit of 108 million to a surplus of 7.6 million. The year 2013 was marked by the recognition of allocations of provisions for tax adjustment.

Given these developments, the net income achieved by consumer loan companies stood at 845.2 million dirhams, up 8 percent as against a decline of 14.4 percent in the previous year. Thus, ROA stood at 2 percent from 1.6 percent a year earlier and ROE rose by 1.8 point to 16.1 percent.

Chart 51 : Change in leasing companies' management intermediate balances (million of dirhams)



Due to a rise of nearly 1 percent in the interest margin[6] to 1.2 billion, the NBI of **leasing companies** recorded an increase at the same level to 1.2 billion dirhams, as against 8.4 percent in 2013.

After a growth of 3 percent in 2013, general operating expenses were up 5.7 percent to 321 million dirhams, generating an average operating ratio of 27 percent, down one point compared to a year ago, and a drop of 0.7 percent in GOI to 881 million dirhams.

The cost of risk, standing at 348 million dirhams, fell by 13 percent, after rising 25 percent in 2013. It absorbed 40 percent of GOI, as opposed to 45 percent in 2013.

Therefore, the total net income of leasing companies grew by 3.2 percent to 294 million, after a 1.7 percent decline in 2013. ROA and ROE remained stable, from one year to the next, at 0.7 percent and 11 percent, respectively.

6 Including income from leasing transactions.

3 - Activity and profitability of offshore banks

In Morocco, the six offshore banks are owned by local banks and are governed by the provisions of Law No. 58-90 and some provisions of the Banking Act of 2006.

By virtue of the Banking Act No. 103-12 promulgated at the beginning of 2015, Bank Al-Maghrib's attributions are now extended to licenses granting and withdrawing to offshore banks, to their prudential regulations as well as to the sanctions regime.

Offshore banks can also carry out, on an exclusive basis, certain transactions achieved by participatory banks, provided that they are approved by Bank Al-Maghrib, after obtaining the opinion of the Credit Institutions Committee.

At the end of 2014, total assets of offshore banks, estimated in the dirham equivalent, reached nearly 42 billion, up 10.2 percent from 7.1 percent at the end of 2013. In terms of assets, lending to credit institutions grew by almost 23 percent to 22.8 billion dirhams, from 9.9 percent. After rising 80.7 percent in 2013, the securities' portfolio grew further by 23.6 percent to 3.5 billion, of which 48 percent as debt securities.

Table 12 : Change in offshore banks' assets

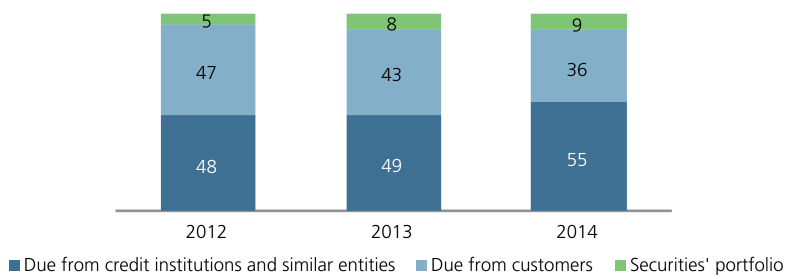
(Million of dirhams)

	2012	2013	2014	Change 2013/2014 (in%)
Due from credit institutions and similar entities	16 892	18 556	22 801	22,9
Due from customers	16 669	16 298	15 118	-7,2
Securities' portfolio	1 573	2 844	3 515	23,6
Other assets	221	173	294	69,5
Total assets	**35 355**	**37 871**	**41 728**	**10,2**

NB : Headings net of depreciation and provisions.

However, outstanding customer loans were down 7.2 percent to 15 billion dirhams, as against 2.2 percent last year, in conjunction with a further decline of 20.3 percent in equipment loans, as opposed to 4.3 percent at the end of 2013.

Chart 52 : Structure of offshore banks' assets (in %)



Given these developments, the structure of assets changed significantly in 2014. The share of claims on customers fell, year on year, from 43 percent to 36 percent, while that of due from credit institutions and similar entities increased by 6 points to 55 percent. Meanwhile, the share of securities' portfolio remained at 9 percent.

The outstanding amount of non-performing loans, whose share represents only 0.4 percent of loans, dropped by 26 percent to 61 million dirhams.

Regarding **offshore banks' liabilities**, debts to credit institutions and similar entities grew by 8.2 percent to 35.7 billion dirhams and customers' deposits rose by 17.4 percent to 4.7 billion, after respective increases of 2.8 percent and 65 percent in 2013.

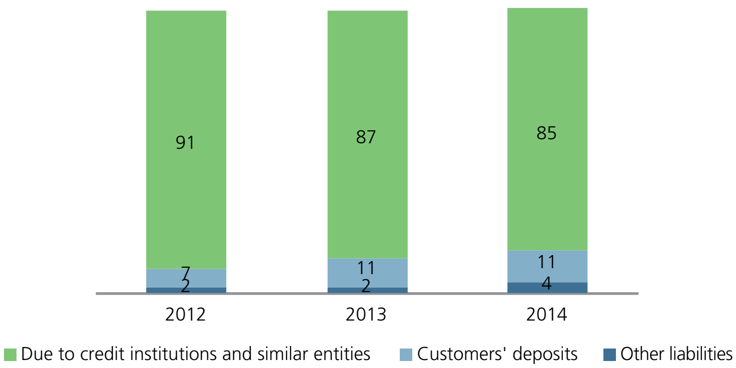
Table 13 : Change in offshore banks' liabilities

(Million of dirhams)

	2012	2013	2014	Change 2013/2014 (in%)
Due to credit institutions and similar entities	32 068	32 961	35 660	8,2
Customers' deposits	2 433	4 017	4 717	17,4
Equity	451	440	541	23,1
Other liabilities	403	453	810	78,5
Total liabilities	**35 355**	**37 871**	**41 728**	**10,2**

At end-December 2014, accounting equity, amounting to 541 million dirhams, increased by 23.1 percent compared to 2013. Its share in total liabilities remains weak and the risks incurred by offshore banks were carried by their parent companies.

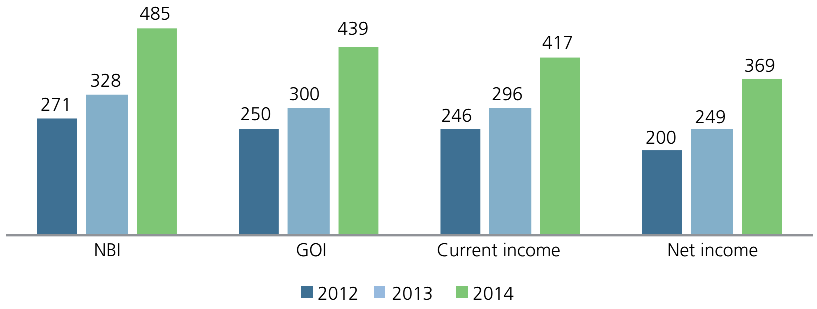
Chart 53 : Structure of offshore banks' liabilities (in %)



The structure of offshore banks' liabilities shows the predominance of claims on credit institutions and similar entities. They represented 85 percent of liabilities, albeit down 2 points from the previous year.

Financing commitments given by offshore banks in favor of especially their parent companies decreased by 11 percent to 331 million dirhams, as opposed to an increase of 19 percent last year. Similarly, guarantee commitments dropped by 48 percent, after rising 48 percent to around 1.2 billion dirhams, of which over 68 percent given to customers. Received guarantee commitments amounted to 14.2 billion, up 4 percent, as against 3 percent a year ago.

Chart 54 : Change in offshore banks' management intermediate balances (million of dirhams)



At the end of 2014, offshore banks generated a net banking income of 485 million dirhams, up 48 percent, from 24 percent in 2013, mainly owing to a growth of 58 percent in the interest margin to 413 million. Their net income amounted to 369 million dirhams, up 48 percent, as against 24 percent in 2013.

4 - Activity and profitability of microcredit associations

In 2014, the microcredit sector, composed of 13 associations, recorded a confirmed growth and enhanced its offer through partnerships with banking institutions and funds transfer companies.

While their workforce stagnated at just over 6,000 employees, microcredit associations expanded their network by 4 percent to 1,536 outlets and their active customers rose by 5 percent to 863,071 beneficiaries, nearly half of whom are women.

Table 14 : Change in the assets of micro-credit associations

(Million of dirhams)

	2012	2013	2014	Change 2013/2014 (in%)
Due from credit institutions and similar entities	557	657	834	27,0
Due from customers	4 351	4 685	5 260	12,3
Fixed assets	169	228	214	-6,3
Other assets	279	129	153	18,3
Total assets	**5 356**	**5 699**	**6 461**	**13,4**

Headings net of depreciation and provisions.

After an increase of 6 percent a year earlier, loans granted to customers by microcredit associations increased further by 11.5 percent, totaling a gross outstanding amount of 5.5 billion dirhams, while the average credit amount improved, from one year to another, by 6 percent to more than 6,000 dirhams. Nearly 92 percent of loans are distributed by three associations.

Lending patterns show that loans to micro-enterprises represented almost 89 percent, a share similar to that of 2013 and 63 percent are individual loans (61 percent in 2013). Urban areas concentrate 67 percent of loans, up one point from the previous year.

The various measures taken by microcredit associations on risk management are still contributing to the decline of non-performing loans. These loans showed a further decline of 4 percent to just over 200 million dirhams, representing a risk ratio of 3.7 percent as against 4.3 percent a year earlier. The provisioning ratio of non-performing loans stood at 86 percent, as opposed to 90 percent in 2013.

Table 15 : Change in micro-credit associations' liabilities

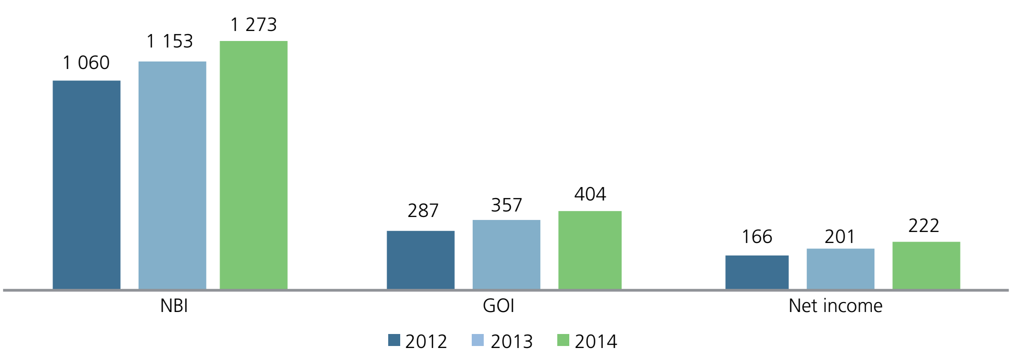
(Million of dirhams)

	2012	2013	2014	Change 2013/2014 (in%)
Due to credit institutions and similar entities	3 334	3 353	3 793	13,1
Equity and similar	1 666	1 897	2 067	9,0
Other liabilities	356	449	601	33,6
Total liabilities	**5 356**	**5 699**	**6 461**	**13,4**

In conjunction with the recovery of their activities, microcredit associations registered an increase of 13 percent to 3.7 billion dirhams in their due to credit institutions and similar entities, owing to a 52 percent rise in borrowing from foreign lenders to an outstanding amount of more than 800 million dirhams. They displayed a debt ratio of about two times their equity.

Bank indebtedness represents 59 percent of micro-credit associations' liabilities. Nearly 79 percent of this indebtedness is held by local banks and 21 percent by foreign institutions. Almost 91 percent of this indebtedness benefits the three major associations.

Chart 55 : Change in microcredit associations' management intermediate balances (million of dirhams)



Finally, the micro-credit associations sector closed the year 2014 with an increase of 10.4 percent in net profit to more than 220 million dirhams, as against 21 percent a year earlier.

5 - Activity and profitability of banking groups

The consolidated activity and profitability is analyzed through financial statements prepared in accordance with the International Financial Reporting Standards (IFRS) by eight banking groups[7], holding more than 88 percent of assets on an individual basis. This analysis helps to integrate all activities in various fields (banking, insurance, assets' management and other activities) and in different geographical areas, including subsidiaries owned abroad.

At the end of 2014, the eight banking groups showed overall satisfactory results in an economic environment less favorable than the previous year. Their results improved under the combined effect of revenue growth particularly from market activities and a good control of operating expenses, while the cost of risk continued to rise, albeit at a slower pace compared to the previous year.

However, over the past two years, the contribution of African subsidiaries expanded in terms of presence and restructuring of existing subsidiaries, as evidenced by the pace of acquisition or establishment of new subsidiaries abroad, which reached a standstill during the period under review.

5.1 - The banking groups' activity showed modest growth following the same trend as in 2013

At the end of 2014, the volume of activity conducted by the eight banking groups, measured by their total assets, recorded an increase of 4 percent to 1,208 billion dirhams, almost identical to the previous year. The deceleration of due from customers was coupled with a 1.3 point decline in its share in total assets to 66.4 percent, from one year to the next. Conversely, the share of financial assets held for sale, assets at fair value by result and held-to-maturity investments rose by 7.2 percent, 8.8 percent and 4.1 percent, respectively. Similarly, the share of claims on credit institutions and similar entities edged up 0.2 point to 5.1 percent.

7 Attijariwafa Bank, BMCE Bank, Crédit Populaire du Maroc, Société Générale Maroc, Crédit du Maroc, Banque Marocaine pour le Commerce et l'Industrie, Crédit Immobilier et Hôtelier and CDG Capital.

Chart 56 : Structure of banks' assets on a consolidated basis (in %)

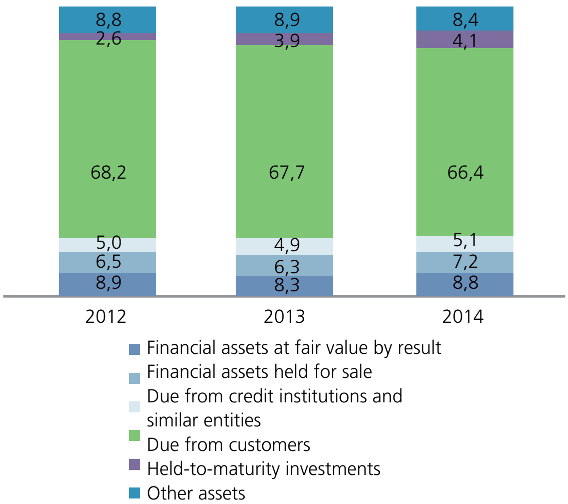
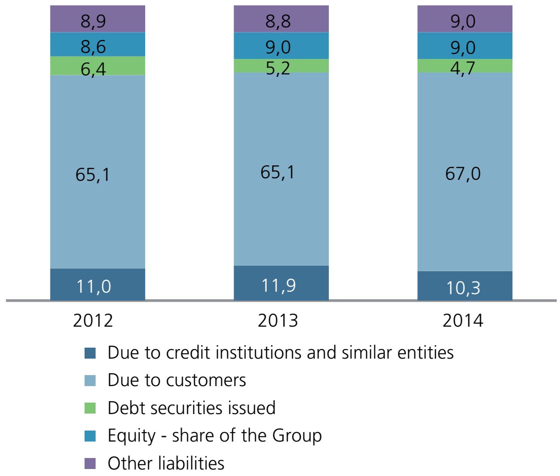


Chart 57 : Structure of banks' liabilities on a consolidated basis (in %)



As a result of their good performance on the domestic market, the share of deposits collected from customers in total liabilities consolidated by 2 points to 67 percent, while that of equityshare of the group was stable at 9 percent. However, the position of due to credit institutions and similar entities and that of debt securities issued were down from 11.9 percent to 10.3 percent and from 5.2 percent to 4.7 percent, respectively, between 2013 and 2014.

5.1.1 - The securities business boosted the growth of banking groups' assets

Table 16 : Change in banks' assets on a consolidated basis

(Million of dirhams)

	2012	2013	2014	Variation 2013/2014 (en %)
Financial assets at fair value by result	99 481	96 589	106 284	10,0
Financial assets held for sale	72 043	72 631	87 320	20,2
Due from credit institutions and similar entities	55 743	56 716	61 353	8,2
Due from customers	759 839	786 644	802 057	2,0
Held-to-maturity investments	28 493	44 823	50 006	11,6
Other assets	98 127	104 218	101 252	-2,8
Total assets	**1 113 726**	**1 161 621**	**1 208 272**	**4,0**

The change in assets was marked by a deceleration of loans and claims on customers, which totaled an outstanding amount of 802 billion dirhams, up 2 percent only, as against 3.5 percent a year earlier, driven by a decline in loans to financial customers.

Meanwhile, loans and claims on credit institutions rebounded. They posted an increase of 8.2 percent to 61.4 billion dirhams, from 1.7 percent in 2013, due to the rise in interbank lending.

Financial assets held at fair value by result, including held-for-trading securities, totaled an outstanding amount of 106.3 billion dirhams, up 10 percent, after dropping by 2.9 percent in 2013. This change is attributed to an increase in sovereign securities held in Morocco and, to a lesser extent, government securities held by African subsidiaries. Financial assets held for sale, accounting for almost 7 percent of assets, amounted to 87.3 billion, up 20.2 percent, from just 0.8 percent in 2013. Held-to-maturity investments[8] grew by 11.6 percent to 50 billion dirhams, after rising 57.3 percent in 2013.

5.1.2 - Banking groups' liabilities grew thanks to higher customers' deposits

Table 17 : Change in banks' liabilities on a consolidated basis

(Million of dirhams)

	2012	2013	2014	Change 2013/2014 (in%)
Financial liabilities at fair value by result	**1 024**	**3 797**	**4 900**	**29,0**
Due to credit institutions and similar entities	**122 990**	**137 723**	**124 329**	**-9,7**
Due to customers	**724 916**	**756 293**	**810 129**	**7,1**
Debt securities issued	**71 294**	**60 706**	**56 343**	**-7,2**
Equity - share of the group	**96 119**	**104 124**	**108 892**	**4,6**
including Net income	10 112	9 455	10 368	9,7
Other liabilities	**97 383**	**98 978**	**103 679**	**4,7**
Total liabilities	**1 113 726**	**1 161 621**	**1 208 272**	**4,0**

The growth of the eight banking groups' liabilities covered divergent trends. Deposits collected from customers increased by 7.1 percent to 810 billion dirhams, from 4.3 percent a year ago, as a result of to the good recovery of deposits on the domestic market. Owing to placing a proportion of the eight banking groups' income in the reserve, the volume of equity-share of the Group rose by 4.6 percent, as against 8.3 percent in 2013.

Benefiting from higher customers' deposits, particularly non-interest bearing deposits, and in an environment of credit slowdown, banking groups have reduced their recourse to the bonded debt market. The outstanding amount of bonded debts, standing at 56.3 billion, was down nearly 7.2 percent compared to the previous year.

Claims on credit institutions and similar entities also fell by 9.7 percent to 124.3 billion, in connection with banks' lower borrowing from the central bank.

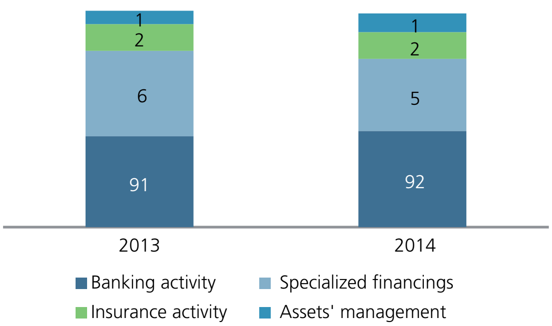
8 Held-to-maturity investments are valued at amortized cost, using the effective-interest-rate method.

5.1.3 - The contribution of various businesses to consolidated activity was primarily driven by the performance of non-banking activities

The consolidated activity of the banking groups includes businesses of domestic banking activities and those carried out abroad, insurance and assets' management businesses and specialized finance.

The business analysis shows that the banking activity continues to contribute nearly 92 percent to consolidated activity, as against 5 percent for specialized financings, 1 percent for assets' management businesses and 2 percent for insurances.

Chart 58 : Contribution of the different activities in banking groups' total assets (in %)

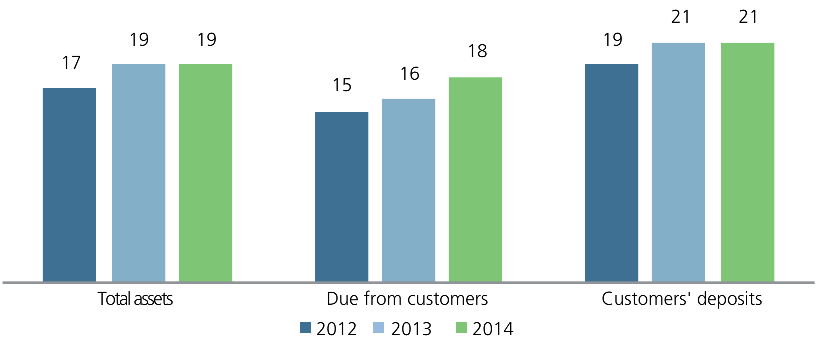


5.1.4 - The contribution of African subsidiaries to the three banking groups' activity continued to grow in terms of credit and stabilized in terms of deposits

At the end of 2014, the total assets of African and European subsidiaries increased by 9.3 percent to 185 billion dirhams compared to 2013, nearly double the level recorded in 2009. Almost 81 percent of this volume is implemented in sub-Saharan Africa. However, the activity of European subsidiaries dropped by nearly 4.2 percent, as opposed to 10.2 percent in 2013.

Meanwhile, loans moved up 13.5 percent to 112 billion dirhams, as against 17.4 percent and deposits appreciated by 9.7 percent to 137.4 billion, as opposed to 12.5 percent in 2013.

Chart 59 : Contribution of the banking subsidiaries abroad to the balance-sheet main headings of the 3 banking groups' assets (in %)



Thus, the contribution of the banking subsidiaries abroad reached 19 percent for the consolidated total assets, unchanged from 2013. This share stood at 18 percent for due from customers and 21 percent for collected deposits.

5.1.5 - Non-performing loans held by the banking groups increased again, in a still difficult economic environment

Banking groups continue to suffer the effects of the deteriorating economic conditions, which resulted in higher non-performing loans. In 2014, the outstanding amount of such loans increased by 13.9 percent to 66 billion dirhams, as against 18.8 percent a year earlier. The risk ratio stood at 7.7 percent, from 7.1 percent in 2013. These loans were covered by provisions at 68 percent, up 2 points.

Chart 60 : Change in non-performing loans and the risk ratio on a consolidated basis

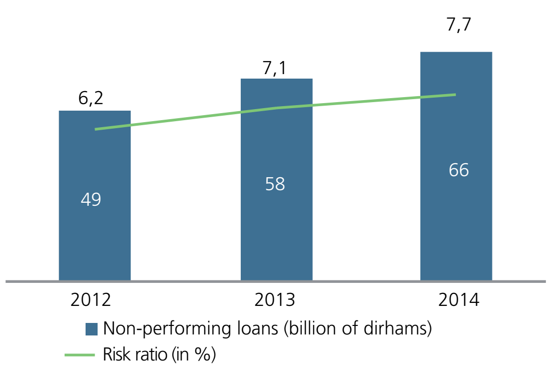
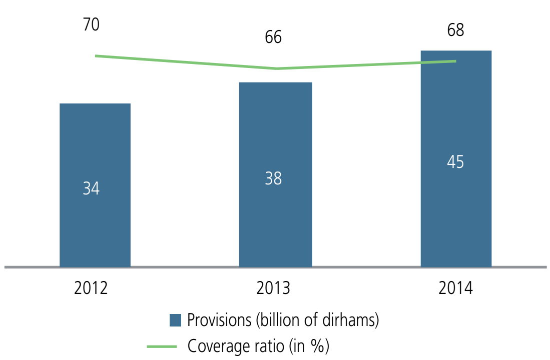


Chart 61 : Change in provisions and the coverage ratio on a consolidated basis



Regarding subsidiaries located in Africa, their non-performing loans totaled an outstanding amount of 10.5 billion dirhams, representing a risk ratio of 9.2 percent, as against 10.6 percent a year earlier. These loans are covered by provisions up to 69 percent, from 63 percent.

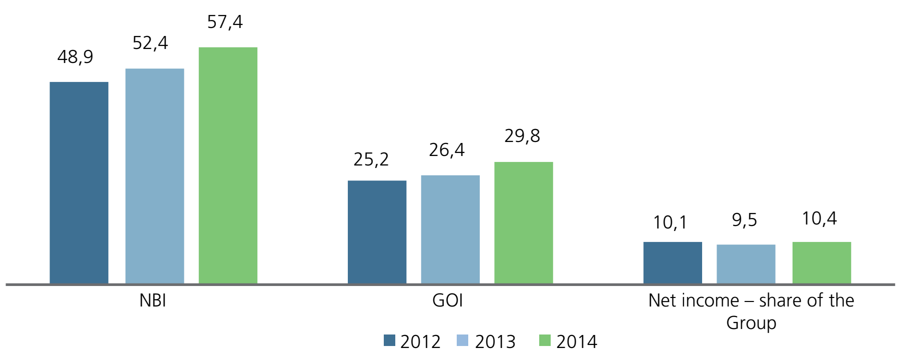
5.2 - The net income of banking groups appreciated significantly, thanks to the good contribution of non-banking activities

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

In 2014, the good performances of market and non-banking activities helped offset low revenues from banking intermediation operations. These developments, combined with a good control of general operating expenses, broadly helped the eight banking groups to consolidate their earnings.

The consolidated results are analyzed through the change in the main management intermediate balances.

Chart 62 : Change in major management intermediate balances on a consolidated basis (billion of dirhams)



The net banking income, amounting to 57.4 billion dirhams, rose by 9.6 percent, from 7 percent last year. This increase resulted mainly from that of the income from market activities, which benefited both banks and insurance companies of the banking groups, as well as the recovery of the interest margin.

Indeed, the interest margin, which had grown by 4.7 percent in 2013, rose by 6.4 percent to 37.8 billion dirhams, under the simultaneous effect of an increase of 4.4 percent in interest income and a slowdown to 1 percent in interest expenses. This final change is attributed to lower expenses on transactions with the central bank, due to a decline in its advances in 2014. The margin on commissions, consisting mainly of commissions on services delivery, moved up 4.5 percent to 9.6 billion dirhams, as against 10.4 percent a year earlier.

Income from market activities rose by 38.4 percent to 8.4 billion, from 20.7 percent in 2013, thanks to a 53.2 percent increase in gains on financial instruments at fair value by result, which benefited from favorable conditions in bond yields on markets. The income on financial assets held for sale was down 25.7 percent.

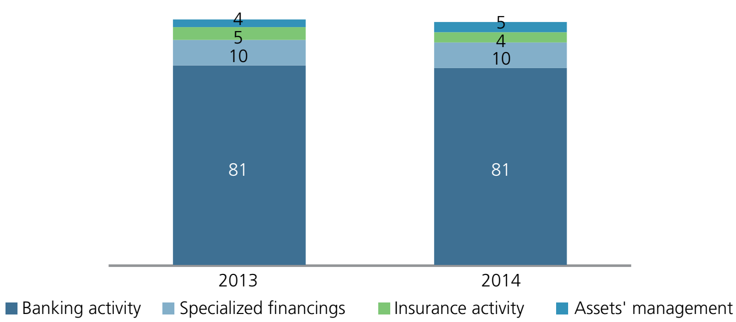
General operating expenses stood at 27.5 billion dirhams, up 6.2 percent, as opposed to 9.1 percent in 2013. Given this trend, the average operating ratio improved by 1.5 point to 48 percent and the gross operating income was up 12.9 percent to 29.8 billion dirhams.

The cost of risk amounted to 10.8 billion dirhams, up 40.5 percent, from 38.3 percent in 2013, due to higher impaired loans and stronger coverage by provisioning. It accounted for 36.4 percent of GOI, from 29.2 percent in the previous year.

Overall, the eight banking groups ended the year 2014 with a net profit of 10.4 billion dirhams, up 9.7 percent, after declining 6.5 percent in 2013. As a result, the return on assets stood at nearly 1 percent and the return on equity was 9.5 percent. This upward trend is not common to all groups, since three banks showed a lower profit in 2014.

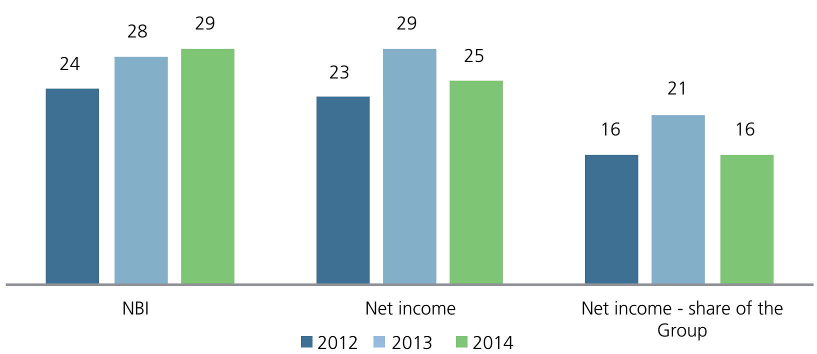
The breakdown of the net income-share of the group by business shows that the banking activity represents a major share, by nearly 81 percent, as against 10 percent for specialized financings, 5 percent for assets' management businesses and 4 percent for insurance activity.

Chart 63 : Contribution of various businesses to the net income-Group share of the banking groups (in %)



The international activity generated a higher net banking income of 15.4 percent to 13.2 billion dirhams, of which almost 93 percent was achieved in Africa. It contributed 29 percent to the net banking income of the groups concerned, up one point compared to the previous year, and 16 percent to the net income- Group share, albeit down 5 points compared to 2013, given the stronger provisions under cross-border activities.

Chart 64 : Contribution of the banking subsidiaries abroad to the main headings of the 3 banking groups' result (in %)



CHAPTER III

BANKING RISKS

بنك المغرب

بنك المغرب

In 2014, risks to the banking system increased, in a context of weak economic growth both nationally and in term of our main economic partners. In this regard and like in previous years, Bank Al-Maghrib continued to monitor closely the change in the banking indebtedness of households and non-financial corporations. The repayment capacity of these two economic units, which hold more than 85 percent of banks' financings, was adversely affected by economic conditions.

However, banks' solvency remained solid overall, thanks to stronger equity and risk control, which confirm banks' ability to absorb potential shocks.

Pressures on bank liquidity relatively eased, thanks to the good performance of deposits collected from customers. The refinancing of banks also benefited in 2014 from more accommodative conditions, as the Bank Board resorted twice, during the second half of 2014, to lowering the key rate by 25 basis points, bringing it to a historically low level of 2.50 percent.

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

Banks continued to increase their prudential capital, in order to meet the new standards enacted by the Basel III framework, which came into force in Morocco in 2014. They showed an average solvency ratio above the minimum regulatory required by Bank Al-Maghrib.

This new reform strengthened the prudential capital requirements both in terms of quality and quantity. From now on, credit institutions must have, on an individual and consolidated basis, a core capital equal to at least 8 percent of risk-weighted assets, a Tier 1 capital of at least 9 percent and a Tier 1 and Tier 2 capital of at least 12 percent.

Box 1 : Instruments eligible for regulatory capital

1. Tier 1 capital :

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

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

2. Tier 2 capital :

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

3. Transitional measures :

As part of the implementation of the new capital requirements and limitations, transitional provisions were determined and concerned the following treatments :

- Deductions, from Tier 1 core capital, of shareholdings and related franchise treatment;
- Deduction, from capital, of the treatment of start-up expenses and intangible assets, including software processing and computer patents;
- Treatment of coverage of expected losses;
- Deduction of capital from the amount of minority interests.

These treatments will be introduced gradually by a 20 percent level per year as of 2014 to reach 100 percent in 2019.

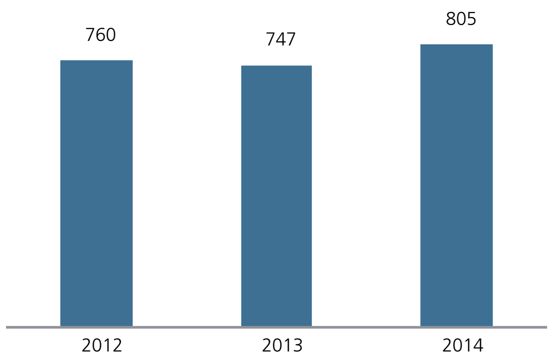
Furthermore, the equity instruments which no longer meet the necessary criteria for their inclusion in the additional Tier 1 or Tier 2 capital, on the date on which the new provisions enter into force, will be excluded gradually, over a period of 10 years..

Following the entry into force of the new definition of capital, the change in banks' solvency, set out hereafter, is analyzed on the basis of data extracted from new established prudential statements, on an individual base. The capital trend is partly attributed to this change. The components of banks' solvency, on a consolidated basis, are included in Box 2 below.

1.1 - Change in the net weighted risks

At the end of 2014, the net weighted risks of the banking sector amounted to 805 billion dirhams, up 7.7 percent, after falling 1.7 percent a year earlier. They comprised 85 percent of net credit risk-weighted assets, 6 percent of market risks and 9 percent of operational risks.

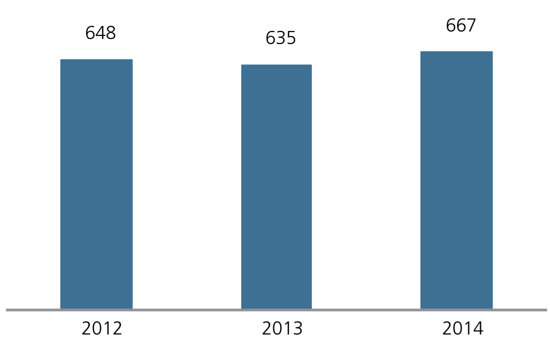
Chart 65 : Change in the total net weighted risks (billion of dirhams)



1.1.1 - Credit risk

The net credit risk-weighted assets, calculated using the Basel II "standardized" approaches, correspond to the credit risk-weighted exposures (balance sheet and off-balance sheet) calculated after the application of risk mitigation techniques. They reached 667 billion dirhams, up 5 percent, as against a decline of 2 percent in 2013, a change attributed to new Basel III rules and adjustments to weights for certain counterparts.

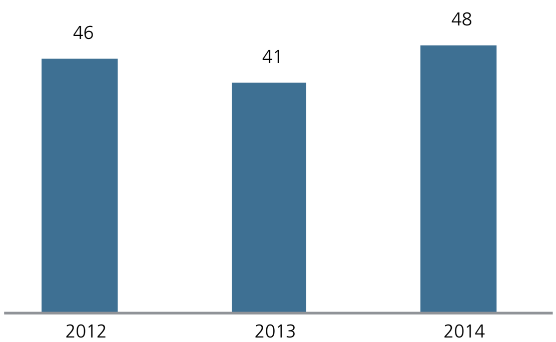
Chart 66 : Change of weighted exposures for credit risk (billion of dirhams)



1.1.2 - Market risk

At the end of 2014, the net market risk-weighted assets totaled nearly 48 billion dirhams, up15.7 percent, as against a 10.1 percent drop a year earlier. This change is due to a rise in the outstanding amount of the trading portfolio, causing additional requirements in terms of the interest rate specific and general risk.

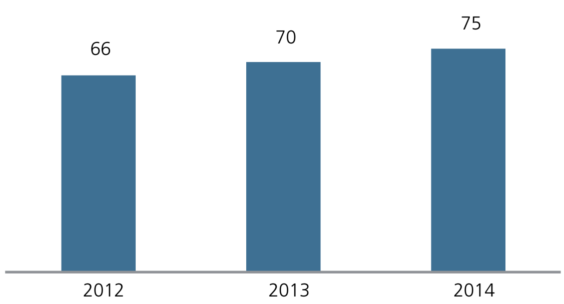
Chart 67 : Change in market risk-weighted exposures (billion of dirhams)



1.1.3 - Operational risk

Exposures to operational risk are calculated by most banks using the basic indicator approach[9]. They reached 75 billion, up 6.7 percent, due to a change in the net banking income.

Chart 68 : Change in operational risk-weighted exposures (billion of dirhams)



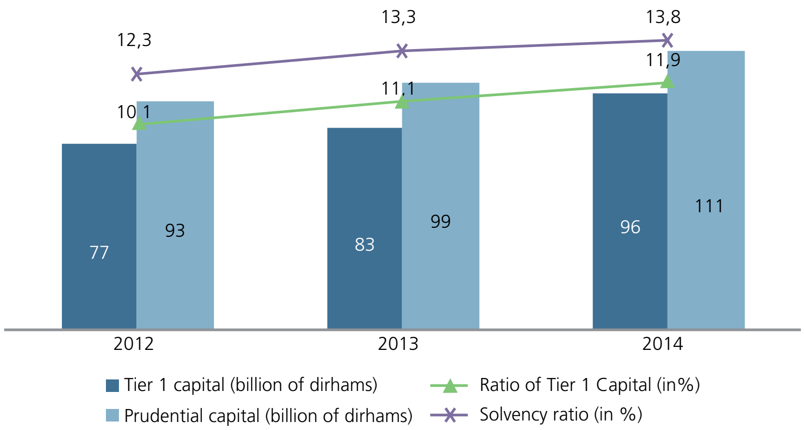
9 Under this approach, the equity requirement is equal to 15 percent of the three-year average of the net banking income.

1.2 - Changes in banks' prudential equity

At the end of 2014, banks' total prudential capital amounted to 111 billion dirhams, up nearly 11 billion compared to 2013. These changes are mainly due to an increase in capitalized income at the level of core capital as well as to the new regulations.

Regulatory capital is composed of Tier 1 capital, amounting to 96 billion dirhams, of which nearly 98 percent as core equity, and Tier 2 capital, amounting to15 billion dirhams.

Chart 69 : Change in regulatory capital and the solvency ratio - on individual basis



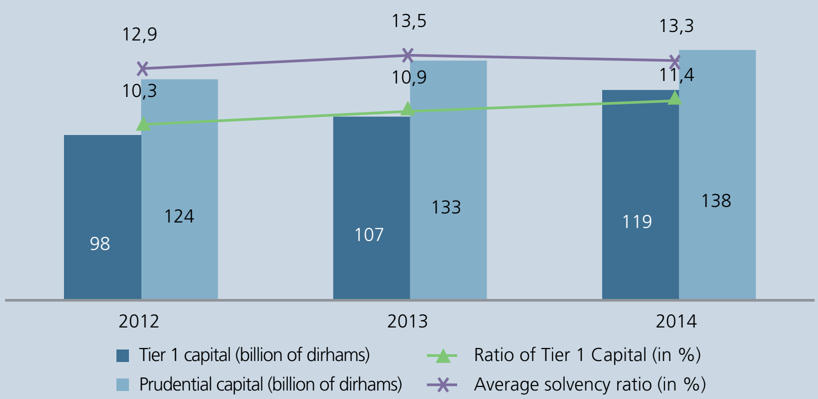
As at December 31, 2014, the average solvency ratio, measured as the volume of equity ratio to the sum of the net weighted assets, reached 13.8 percent, above the minimum threshold of 12 percent defined by the prudential regulations in force. This ratio increased by about 50 basis points compared to 2013.

The Tier 1 capital ratio stood at 11.9 percent to a regulatory minimum of 9 percent. The average core Tier 1 ratio, whose numerator only includes the capital used to absorb losses in going concern situation, stood at 11.6 percent to a minimum of 8 percent.

Box 2 : Banks’ solvency on a consolidated basis

On a consolidated basis, banks’ regulatory and Tier 1 capital showed respective increases of 4.4 percent to 138 billion dirhams and 11 percent to 119 billion. Risk-weighted assets stood at 1,041 billion, up 6 percent compared to 2013.

Thus, the average solvency ratio stood at 13.3 percent, down 20 basis points, and the average Tier 1 capital ratio was 11.4 percent, from 10.9 percent a year earlier.



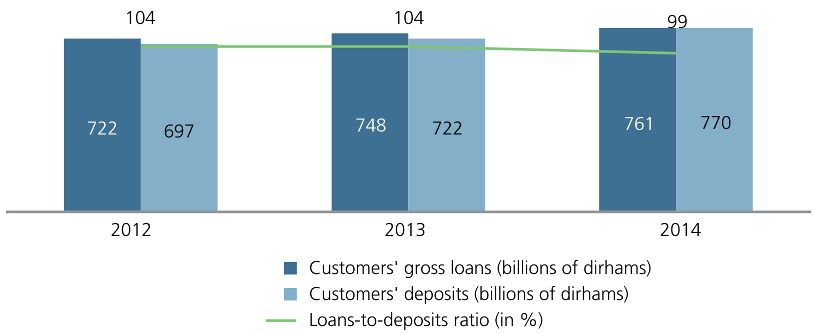
2 - Change in liquidity risk

2.1 - Backing banks’ assets and liabilities

In 2014, banks’ position eased markedly, due to an improvement in the country’s currency balance, a further drop in the monetary reserve and repatriation of cash held abroad by Moroccan residents as part of the contribution in full discharge decided by the Government, which had a positive effect on customers’ deposits. Refinancing with the central bank fell by 42 percent and nearly half of its amount concerned the new mechanism put in place for VSMEs.

Given a rise of 6.6 percent in deposits and 2 percent in loans, the loans-to-deposits ratio improved by 5 points to 99 percent. Adjusted to certificates of deposits, this ratio is 93 percent, as against 96 percent in 2013.

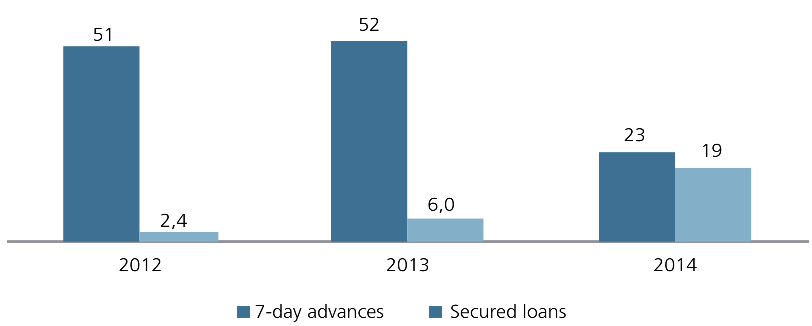
Chart 70 : Change in banks' deposits, loans and Loans-to-deposits ratio



Banks benefited from an improvement in the trade gap, which is measured by the difference between debts and loans to customers. In 2014, this positive gap rose from 16 to 47 billion, leading banks to reduce their use of cash advances from Bank Al-Maghrib. At the end of 2014, the central bank' intervention through 7-day advances was brought to nearly 23 billion dirhams, down nearly 29 billion compared to 2013. This drop is attributed to the improvement of banks' liquidity indicators and the reorientation of a portion of these advances towards loans secured by claims on VSME, amounting at the end of 2014, to nearly 19 billion, from 6 billion dirhams a year earlier.

By maturity, banks' assets consist of 47 percent of short-term assets, and 53 percent of medium and long-term ones. Meanwhile, 56 percent of liabilities are non-maturity liabilities, 26 percent are short-term ones and 18 percent are medium and long-term liabilities.

Chart 71 : Outstanding amount of 7-day advances and loans granted by Bank Al-Maghrib



Meanwhile, banks' net position on the repurchase agreement market, excluding transactions with Bank Al-Maghrib, continued to decline and posted a net negative balance of 597 million dirhams, under the combined effect of a decline of repurchase agreements received from customers.

The portfolio of Treasury bills fell by 14.5 percent to nearly 117 billion dirhams, in conjunction with a decline in securities borrowed by banks, while Treasury securities remained stable. This change occurred in a context of declining banks' needs for collateral that can be mobilized. However, the outstanding amount of UCITS securities rose 38 percent to nearly 60 billion dirhams.

For their part, the outstanding bonded debts issued by banks moved down 2.1 percent, after stagnation in 2013. Indeed, the outstanding debt securities issued, made up of 88 percent of certificates of deposit, decreased by 4,8 percent to 63.4 billion dirhams. Analysis by maturity shows that 34 percent of debt securities issued have a maturity of less than one year, as against 43 percent in 2013. Those with a duration between 1 and 2 years account for 18 percent of total emissions (21 percent in 2013) and the rest, representing 48 percent of the total, have a maturity of over 2 years.

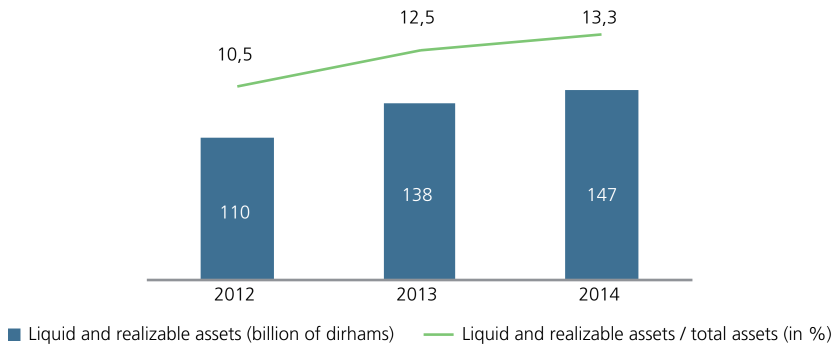
The outstanding amount of subordinated debts increased by 5.7 percent to 24.6 billion dirhams.

2.2 - Banks' liquid assets

In 2014, banks continued to strengthen their liquid and realizable assets to meet the relevant prudential requirements. These liquid assets, consisting mainly of cash, deposits with Bank Al-Maghrib, interbank transactions, Treasury bills and certificates of deposit, enable banks to guard against a potential liquidity shock.

These assets totaled, at the end of 2014, an outstanding amount of 147 billion dirhams, up 6.9 percent, as against 24.6 percent in 2013. Their share in total assets reached 13.3 percent, from 12.5 percent a year earlier.

Chart 72 : Change in the liquid and realizable assets



Banks' average liquidity ratio, calculated on the basis of regulations in force and defined as the ratio of liquid assets items and liabilities items due for payment within one month, stood at almost 110 percent, above the regulatory minimum, which is 100 percent.

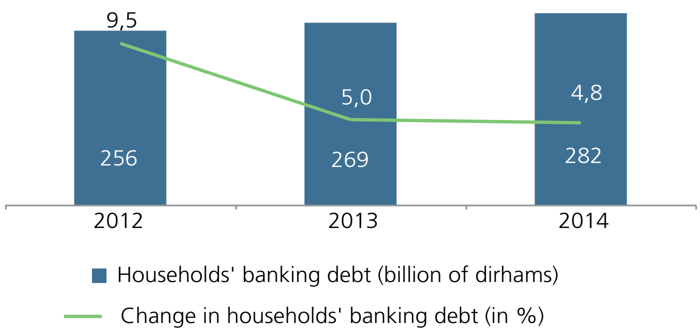
Meanwhile, the short-term liquidity ratio, implemented based on Basel III standards, stood at the end of December 2014 at 130 percent, above the required minimum. This ratio, which will come into force in July 2015, requires banks to have sufficient high-quality liquid assets to overcome an acute liquidity crisis over a 30-day period.

The numerator consists of level 1 and level 2 of high-quality liquid assets. Meanwhile, the denominator examines the net cash outflows, which equal excess cash outflows minus expected cash inflows over a 30-day horizon.

3 - Change in households' banking indebtedness

In continuation of its actions initiated since 2005 to monitor closely the trends of households' banking indebtedness, Bank Al-Maghrib conducted its 10th annual survey, with banks and consumer loan companies. This survey, which complements the monthly monitoring of the change in consumer and housing loans, helps overall to understand the profile of the beneficiaries of such loans according to various criteria. It covered in 2014 a sample of 9 banks and 13 consumer loan companies, with market shares of 99 percent in terms of housing loans and consumer ones.

Chart 73 : Change in the households' banking debt



At end-December 2014, the outstanding amount of households' banking indebtedness, which amounted to 282 billion dirhams, grew by 4.8 percent, almost the same level as in 2013 (5 percent), a trend mainly driven by higher housing loans, while consumer loans recovered slightly. It accounted for nearly 35 percent of loans distributed by credit institutions, from 34 percent a year earlier. Relative to the gross domestic product (GDP), this outstanding amount stood at 31 percent, from 30 percent in 2013.

Box 3 : Main findings of the households' credit conditions surveys

The banks surveyed reported having eased, in 2014, their criteria for granting housing loans and consumer ones. They noted that the favorable outlook for the housing market and increased competition in the banking sector are all factors contributing to this relaxation.

Banks also confirmed that households' credit demand stagnated, reflecting stable demand for housing loans and lower demand for consumer loans.

The average indebtedness level per household continued its upward trend and stood at end-December 2014 at 38,600 dirhams, or more than twice the level registered at the beginning of the decade 2000.

The low growth of consumer loans resulted in a decline of one point to 36 percent in their share in the households' banking indebtedness, while the share of housing loans rose to 64 percent.

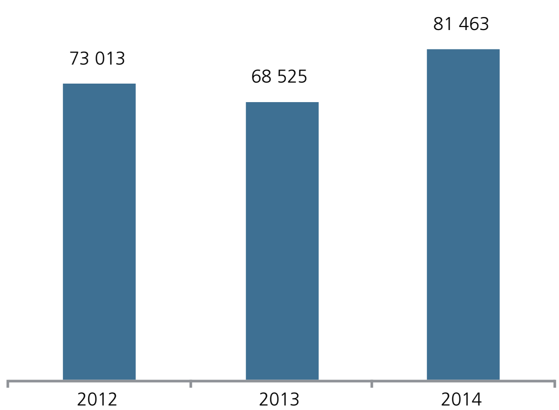
Banks further improved their market share to the detriment of consumer loan companies. They hold nearly 85 percent of this indebtedness, from 82 percent in 2013 and 71 percent in the early 2000s.

3.1 - Housing loans

3.1.1 - Change in features of housing loans

In 2014, the production of housing loans, which totaled an amount of over 27 billion dirhams, registered an increase of 12 percent after an 11 percent decline a year earlier. This rise, which concerned both free loans and loans supported by the government, occurred in an environment where real estate prices dropped by almost 1 percent. It was coupled with a 19 percent increase in the number of beneficiaries to more than 81,000 customers. The growth in the number of beneficiaries stood at 16 percent for free loans and 27 percent for loans supported by the government. As a result, the average amount of loans stood at 336,000 dirhams, down 20,000 dirhams, from one year to the next.

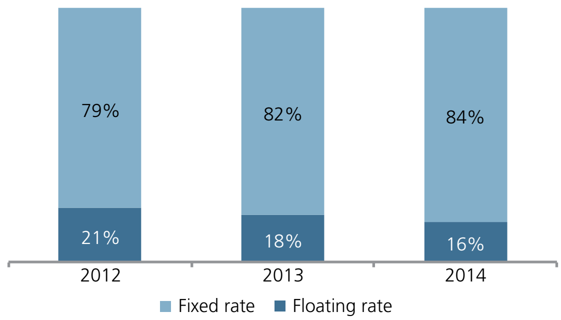
Chart 74 : Change in the number of housing loans' beneficiaries



Indeed, the gross outstanding amount of housing loans stood at 181 billion dirhams, up 6.7 percent as against 8 percent a year earlier. Of this total, outstanding free loans, with a share of 80 percent, rose by 5.2 percent, as opposed to 6 percent. The outstanding amount of loans supported by the government grew by almost 13.4 percent to 35.4 billion dirhams, including nearly 18.7 billion under FOGALEF[10] and FOGALOGE[11], 12.4 billion under FOGARIM[12] and 4.4 billion under Habitat Bon Marché (low cost housing).

10 Guarantee fund for housing loans to members of the Mohammed VI Foundation for the Promotion of Social Work for Education-Training Staff
11 Guarantee fund for housing loans to public sector staff
12 Guarantee fund for irregular and small incomes

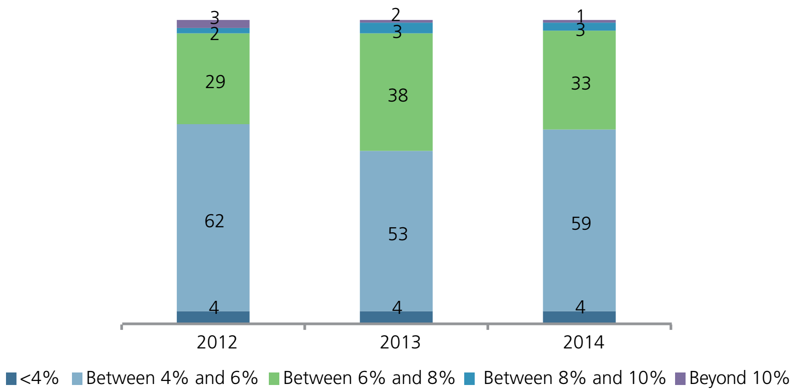
Chart 75 : Change in the outstanding amount of housing loans by nature of rate (in %)



The share of production generated at fixed rates increased further in 2014 to 95 percent, up 2 points compared to the previous year. These same loans continue to concentrate most outstanding amounts, with a share of 84 percent from 82 percent, as borrowers were largely protected from the risk of rising interest rates.

The average interest rate on housing loans fell by 5 basis points to 5.41 percent. This decrease occurred mainly in the rate range between 6 percent and 8 percent, whose share moved down from 38 to 33 percent in one year, while the range between 4 percent and 6 percent gained 6 points compared to 2013.

Chart 76 : Change in the outstanding amount of housing loan based on the applied rate range (in%)

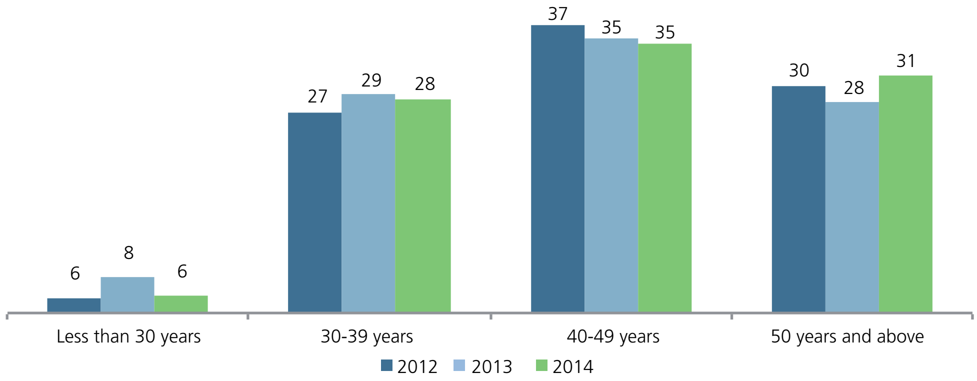


3.1.2 - Profile and features of housing loans' beneficiaries

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

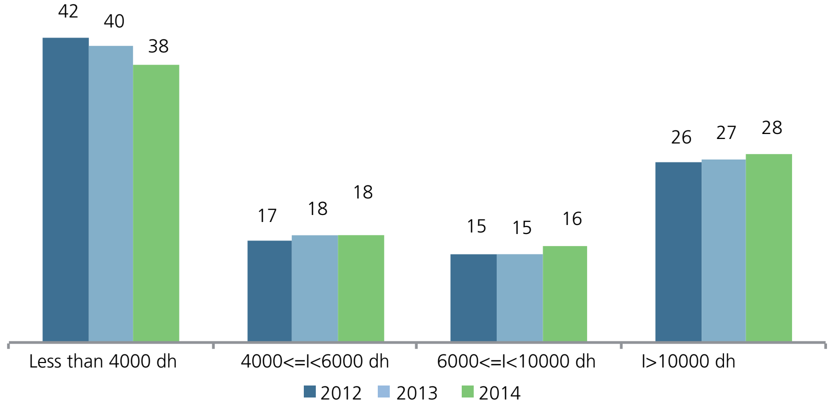
Based on the criteria of age and as in previous years, people aged over 40 years concentrated almost 66 percent of the total number of credit files, as against 28 percent for people aged between 30 and 40 years. Those aged less than 30 still represent very low rates compared to other segments of the population.

Chart 77 : Breakdown of the number of housing loans' files by age (in %)



In terms of income, people with income below than 4,000 dirhams have 38 percent of the number of credit files, down 2 points compared to 2013. In contrast, the share of people with higher incomes increased.

Chart 78 : Breakdown of the number of housing loans' files by income (in %)



In terms of socio-professional category, private and public sector employees still resort the most to credit, with respective shares of 51 percent and 35 percent.

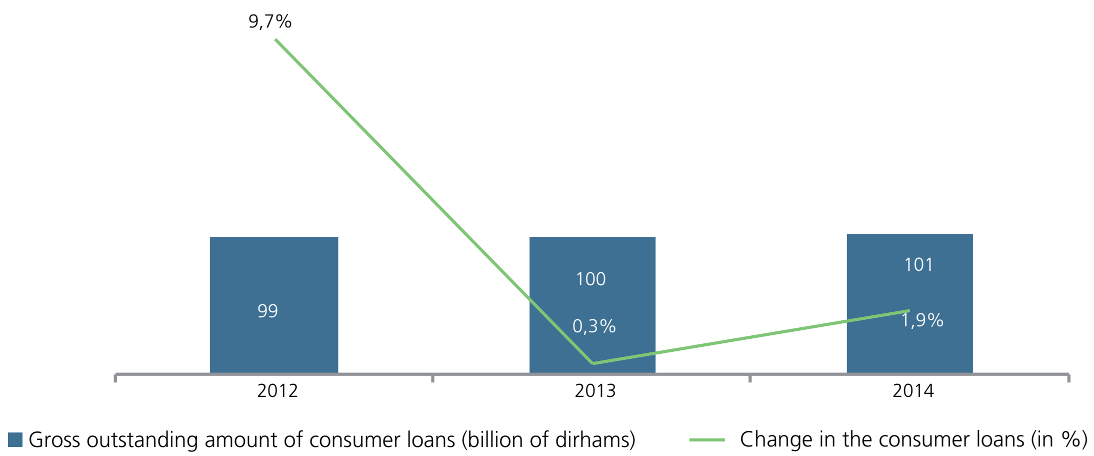
In terms of geographical distribution, the level of concentration of debtors stood at 33 percent in the Casablanca region and 16 percent in Rabat.

3.2 - Consumer loans

3.2.1 - Consumer loans recovered slightly

After stagnating in 2013, consumer loans recovered slightly in 2014. Their gross outstanding amount rose by 1.9 percent to 101 billion dirhams, under the impact of economic conditions. This trend is noticeable both in banks and in consumer loan companies.

Chart 79 : Change in the gross outstandig amount of consumer loans

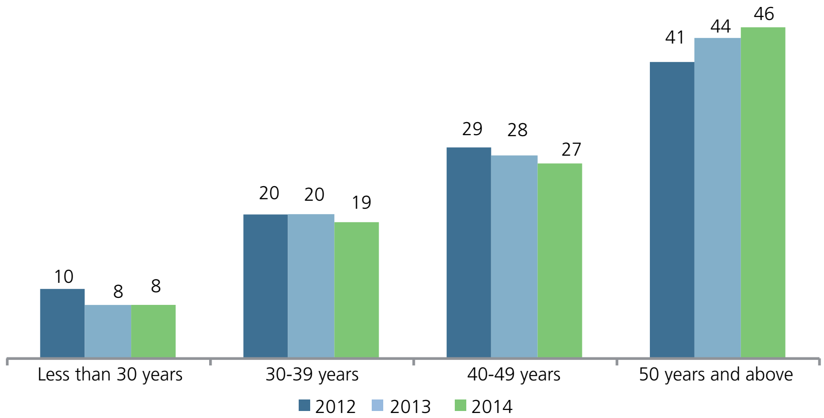


3.2.2 - Profile and features of consumer loans' beneficiaries

Just like housing loans, the profile of consumer loans' recipients is monitored on the basis of age, income, socio-professional category and residence.

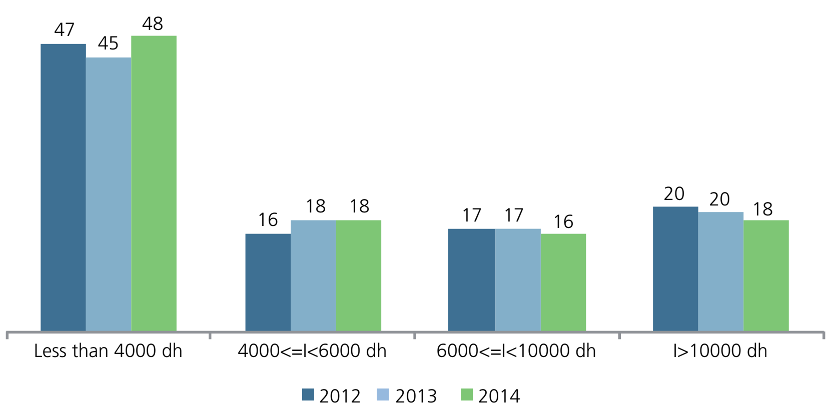
By age, the penetration rate of consumer loans among persons aged over 40 rose one point to 73 percent in 2013. This rate id lower among beneficiaries aged under 30 years, or 8 percent.

Chart 80 : Breakdown of the number of consumer loans' files by age (in %)



Income is the second most important variable, after age, which explains the recourse to consumer loans. Nearly 48 percent of credit files are held by persons with an income less than 4,000 dirhams, from 45 percent in 2013. In contrast, the share of people with an income of more than 10,000 dirhams fell by 2 points to 18 percent over the same period.

Chart 81 : Breakdown of the number of consumer loans' files by income (in %)



Private and public sector employees held, in 2014, respective shares of 39 percent and 37 percent, as against 43 percent and 35 percent in 2013.

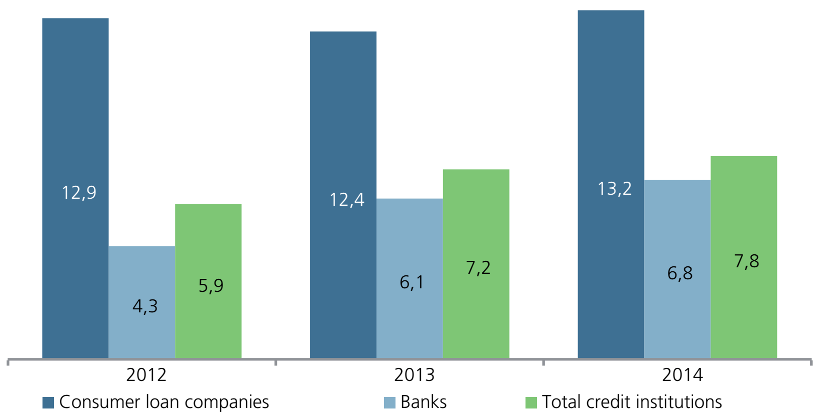
By geographical location, consumer loans' recipients remain concentrated in the urban areas of Casablanca (26 percent) and Rabat (18 percent), as against 28 percent and 17 percent in 2013.

3.3 - Quality of risks on households deteriorated further

In 2014, the outstanding non-performing loans of banks and consumer loan companies to households increased by 13,4 percent to nearly 22 billion, as against 29.3 percent a year earlier. Therefore, the risk ratio increased from 7.2 percent to 7.8 percent. This increase was more pronounced for non-resident households, whose rate of non-performing loans moved up from 7.8 percent to 8.7 percent, in conjunction with higher unemployment rate in some host countries of Moroccans living abroad.

The provisioning ratio of these loans stood at 67 percent, as against 69 percent in 2013.

Chart 82 : Change in the rate of households' non-performing loans (in %)



Banks' outstanding amount of NPLs to households rose by nearly 20 percent to 16.3 billion, with a risk ratio of 6.8 percent, as against 6.1 percent at the end of 2013. That of consumer loan companies increased, on a constant basis, by 8 percent to 5.8 billion dirhams, generating, however, an increase of 0.8 point in the risk ratio to 13.2 percent.

The risk ratio stood at 6.4 percent for housing loans, from 6 percent a year earlier and at 10.4 percent for consumer loans, from 9.3 percent. Households seem to prefer, in periods of financial hardship, to pay housing loans rather than consumer loans.

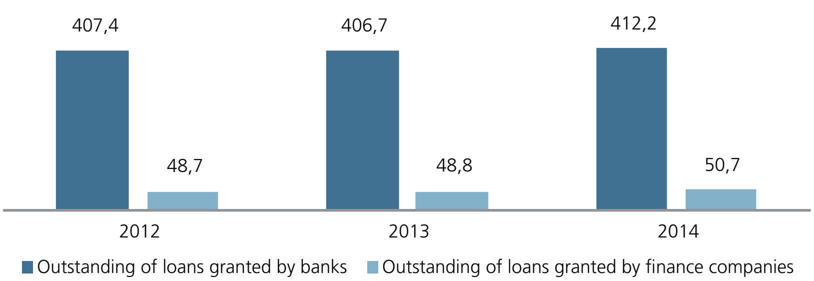
4 - Change in non-financial corporations' banking indebtedness

Contrary to loans to households, which are largely influenced by developments in the residential real estate market, financing of corporations broadly follows cyclical changes, adopting a pro-cyclical behavior. Against this backdrop, the slight recovery in the growth of non-agricultural value added caused a recovery of loans allocated to non-financial corporations.

4.1 - Loans to non-financial corporations recovered slightly

At the end of 2014, credit institutions granted an outstanding amount of 463 billion dirhams to non-financial companies, representing 58 percent of total loans, up almost 1.6 percent, after falling 0.3 percent a year earlier. This recovery is mainly attributed to public-owned companies whose outstanding amount grew by nearly 4.1 percent and to a lesser extent to private sector corporations whose financing moved up 1.4 percent.

Chart 83 : Outstanding of loans by disbursement granted by credit institutions to non-financial corporations (billion of dirhams)



Banks' outstanding amount, with a share of 89 percent of the total, grew by 1.4 percent to 412 billion dirhams, after a 0.2 percent decline, while finance companies' outstanding amount rose by 3.9 percent to 50.7 billion dirhams. This development benefited from improved supply conditions and higher demand, as shown by the findings of the lending conditions survey conducted by the Bank in 2014.

Box 4 : Main findings of the corporate lending conditions survey

Data from the lending conditions survey conducted by Bank Al-Maghrib in 2014 revealed that the increase in loans to corporations occurred in a context marked by positive changes in lending criteria and by higher demand.

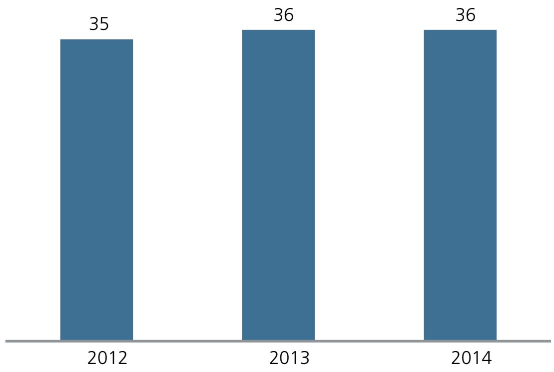
In this survey, banks stated that they eased lending criteria for businesses. This relaxation, which benefited both large and medium and small enterprises, was due to competition in the banking sector and the optimistic outlook for growth in Morocco. It resulted in granting higher amounts of credit and a requiring lower amount of the guarantee and of the banks' margin. Regarding the financing for real estate development, banks maintained their tightening policy, mainly due to risks related to this sector.

By company size, banks reported that the relaxation of credit criteria for VSME was initiated in early 2014 and in the last quarter of 2014 for large enterprises.

Credit demand from companies may have increased somewhat. Banks highlighted that the favorable prospects for growth in Morocco would have contributed to the improvement of this demand.

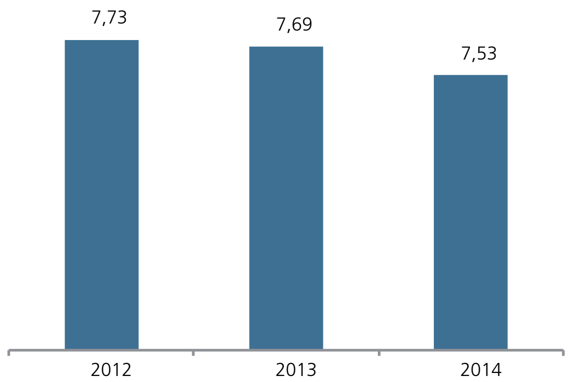
Owing to the better financing conditions, the credit share of VSME remained at almost 36 percent of total loans to non-financial corporations.

Chart 84 : Share of loans to VSME's in the total loans to corporations (in %)



VSMEs' segments benefited from a slight easing of interest rates. Particularly, the average interest rate on loans, amounting to less than 15 million dirhams, deemed as benefiting VSME, declined by 16 basis points to 7.53 percent.

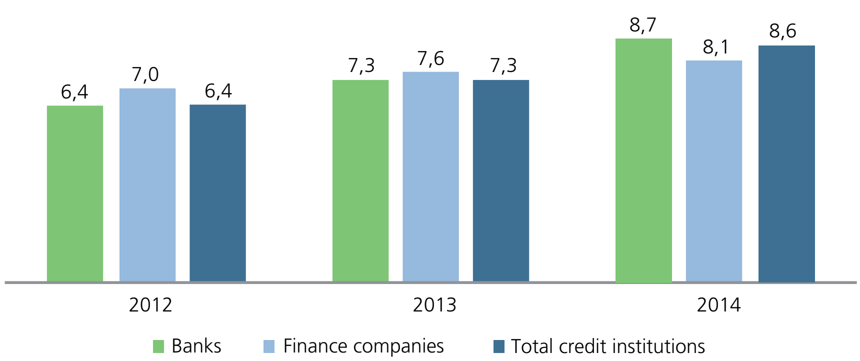
Chart 85 : Weighted average rate on VSME's (in %)



4.2 - Quality of non-financial corporations' risks declined further

Non-performing loans of non-financial companies continued their upward trend in 2014. They grew, from one year to the next, by 19.5 percent to an outstanding amount of 39.9 billion dirhams, representing a non-performing loans ratio of 8.6 percent, as against 7.3 percent a year earlier. These non-performing loans were covered by provisions, up to 66 percent, similar to the rate registered in 2013.

Chart 86 : Change in non-performing loans ratio to non-financial corporations (in %)



The outstanding non-performing loans held by **banks** on non-financial corporations increased by 20.6 percent to 35.8 billion, representing a risk ratio of 8.7 percent, from 7.3 percent in 2013. This average covers a non-performing loans ratio estimated at 6 percent for large enterprises and 13 percent for VSMEs. Up to 65 percent of these loans were covered by provisions.

The outstanding amount of **finance companies'** non-performing loans to non-financial corporations stood at 4.1 billion, up 10.1 percent. These loans accounted for 8.1 percent of total credit granted to this segment, from 7.6 percent in 2013. They were covered by provisions, up to 70 percent.

CHAPTER IV

LEGAL AND REGULATORY REFORMS

In 2014, the Parliament adopted Law No. 103-12 on credit institutions and similar entities, hereinafter referred to as “Banking Act” and preparatory works started to draft circulars for applying its main provisions. The Basel III standards on capital and liquidity also entered into force in this year and transitional provisions were laid down to support their implementation by the banking sector.

In anticipation of certain provisions of the Banking Act, the Bank also reviewed the circular on internal control applicable to credit institutions and the directive on their governance, in light of recent developments in relevant international standards.

1 - Reform of the Banking Act

The new Banking Act, which is the outcome of a broad discussion between Bank Al-Maghrib and the Ministry of Economy and Finance, was reformed again, after amendments in 1993 and 2006. The latest reform was adopted by Parliament on November 24, 2014 and was published in the Official Bulletin on January 22, 2015.

This important text, which took into account the lessons learned from the financial crisis and the need to align Moroccan legislation with international standards, defined mainly the legal framework for the exercise of macro-prudential supervision, while reinforcing crisis resolution mechanisms available to Bank Al-Maghrib. It also introduced the legal basis aiming to allow the emergence of new financial actors and services, particularly in participatory finance.

1.1 - A new macro-prudential surveillance framework and a stronger crisis resolution system

Under the new Banking Act, the mandate and composition of the Systemic Risk Monitoring and Coordinating Committee (CCSRS), which replaces the Coordinating Commission of the Financial Sector Supervisory Bodies (CCOSSF), were broadened.

This Committee is chaired by the Governor of Bank Al-Maghrib and will be composed of the Ministry of Finance in addition to the members representing the financial system regulators. It is particularly mandated to :

- coordinate the actions of its members regarding the supervision of institutions under their control;
- coordinate the supervision of the bodies that control the entities constituting a financial conglomerate;

- identify systemically important financial institutions and coordinate the regulation common to these institutions ;
- analyze the financial sector's situation and assess systemic risks ;
- ensure the implementation of all measures to prevent systemic risks and mitigate their effects;
- coordinate actions taken to resolve crises hitting institutions under their control and implying systemic risk ;
- and coordinate cooperation and the exchange of information with foreign bodies tasked with the same missions.

Regarding the management of difficulties facing credit institutions, the new law invests Bank Al-Maghrib with the power to enforce exceptional measures, in cases of emergency and when circumstances threatening the stability of the banking system so require. These measures include in particular :

- directly appointing an interim manager ;
- directly deciding on the application of one or more resolution measures provided for in the law.

In parallel, legal resolution options and mechanisms were extended in the new law. Moreover, the latter provides for a resolution-related role to the new company in charge of managing the Collective Deposit Insurance Fund. In addition to contributing to the resolution process, as an interim manager, it may acquire holdings in the capital of a credit institution or provide it with loans.

1.2 - Introduction of new financial actors and services

The law includes a chapter dedicated to participatory banks. It deals with the basic principles governing their functioning, the scope of their activities and their specific institutional framework, particularly the creation of a function in charge of identifying and preventing risks of non-compliance of their operations and activities with the assent of the Conseil Supérieur des Oulémas - CSO (Muslim Scholars Council).

These banks will be subject to the same licensing and supervision procedures, through the necessary adjustments to comply with the relevant standards.

With the development of electronic payment channels and the diversification of actors in the market of these payments, the law has established the payment institution status for entities that would be authorized, upon license, to provide payment services.

It has also introduced the status of financial conglomerate to take into account the risks that can weigh on the financial sector through the holding companies that control both banks and institutions under the other compartments of this sector. The law subjects these conglomerates to the provisions relating to governance, accounting rules, internal control and risk management.

With the aim of developing the Casablanca financial center and filling the legal void in the provision of investment services (management of financial instruments, advice and assistance on wealth management and financial management, financial engineering, etc.), the law defines the services that can be exercised either by the banks or by specialized institutions which would be supervised by the Transferable Securities Board (CDVM).

Professional associations will be strengthened, as a third one will be set up. Membership will be mandatory for payment institutions, including money transfer companies.

1.3 - Expanding the banking supervision scope

Under the new Act, Bank Al-Maghrib's mandate is extended to granting licenses to microcredit associations and offshore banks, developing their accounting and prudential regulations and managing difficulties facing them, including the revocation of licenses..

1.4 - Strengthening bank governance rules

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

The law reaffirms the obligation to establish audit committees in charge of assessing internal control arrangements and committees responsible for monitoring the process of risk identification and management. These committees should issue from the board of directors or, where appropriate, the supervisory board and have independent directors among its members.

1.5 - Strengthening customer protection

To align with best practices, the management of the two deposit guarantee funds provided for by the Banking Act is entrusted to a management company whose capital is held by banks and placed under the control of Bank Al-Maghrib.

In order to further facilitate the settlement of disputes between credit institutions and their customers and to strengthen the protection of customers' interests, the law entrusts Bank Al-Maghrib with stronger prerogatives and requires credit institutions to put in place internal arrangements for processing customer claims. It also requires these institutions to adhere to the banking mediation scheme.

Furthermore, the new law provides for connecting bridges between competition authorities and Bank Al-Maghrib and also includes provisions for the harmonization of its requirements with the law relating to personal data protection.

2 - Main draft implementing texts of the new Banking Act

In preparation for the entry into force of the new Banking Act, Bank Al-Maghrib embarked on the development of implementing regulations on the basis of a roadmap over the years 2014-2016. In 2014, work focused on the texts governing the minimum information and documents needed for dealing with applications for licenses, independent directors, equity holding, claim processing, participatory finance, collective deposit insurance fund and the framework for treating systemically important banks.

2.1 - Participatory finance

The Bank set the standard file for granting license to participatory banks showing all the requirements to be met by these actors, so that they can operate in Morocco. This file was approved by the Secretariat General of the Government (SGG).

It also prepared a draft circular on the technical specifications of six participatory finance products as well as on how to introduce them to customers. A series of meetings was initiated on this issue with members of the CSO. They focused in 2014 on the review of two of these products.

The Bank also finalized the elaboration of a draft circular on the general terms and procedures for the collection and investment of deposits. This text is also submitted to the CSO for approval.

Texts preparation work focused also on the prudential requirements for participatory banks. Two draft circulars on the capital and the compliance function were prepared and are being finalized.

On the other hand, a working group was established in Bank Al-Maghrib to develop proposals for instruments of liquidity management and monetary policy adapted to the specificities of participatory banks.

The Bank also initiated discussions with the Tax General Directorate to adapt the fiscal framework for participatory products and sukuk. Meanwhile, it participated with the General Secretariat of the Government (SGG) and the Insurance and Social Security Directorate (DAPS) in the development of the new text on Takaful products.

The Bank also contributed to the works aiming to amend the Dahir (Royal Decree) reorganizing the CSO and establish a Sharia'a Committee for participatory finance. Several meetings were held between the Bank and SGG. Dahir No. 1.15.02 reorganizing the CSO was published in the Official Bulletin on February 9, 2015.

Box 5 : Role and composition of the CSO

In addition to the Dahir dated April 22, 2004 relating to the CSO, Dahir No. 1.15.02 reorganizing this body established within it the "Sharia'a Committee for Participatory Finance". The main provisions of this Dahir are about the prerogatives of this Committee, its composition, organization and relationship with financial regulators.

The Committee is composed of 9 members, recognized for their in-depth knowledge of the precepts of Islamic Sharia'a, and a coordinator. Members of this Committee are appointed by the CSO Secretary General. Furthermore, it may consult at least 5 permanent experts selected from among natural and legal persons of recognized competence and experience in the fields of law and finance.

Its mission is to make opinions on the compliance of the following with the precepts of Sharia'a :

- the participatory financial products offered by credit institutions and similar entities to customers as well as contract models related thereto;
- the circulars issued by the Governor of Bank Al-Maghrib on participatory financial products, investment deposits, transactions by the deposit insurance fund for participatory banks;
- takaful transactions undertaken by insurance and reinsurance companies;
- operations of issuing sukuk certificates in accordance with the legislation in force regardless of the issuing party.

Participatory financial institutions wishing to have a "Sharia'a-compliant" opinion must submit their request through the financial regulators who are responsible for submitting the files to the CSO Sharia'a Committee.

2.2 - Texts governing the company managing the Collective Deposit Insurance Fund

The Act introduces new provisions to strengthen the governance of the deposit insurance system and to further align with international best practices in the field. It thus provides for the establishment of a limited company by Bank Al-Maghrib and member credit institutions. This company shall be responsible, inter alia, for managing the Collective Deposit Insurance Fund (FCGD), set up in 1996, and the Deposit Insurance Fund for Participatory Banks (FGDBP), to be set up, once this new category of banks start their business.

In addition, under the provisions of the Banking Act, this company will be able to contribute to handling the difficulties facing credit institutions, by ensuring, in particular and where appropriate, the role of interim manager and providing, on an exceptional and preventive basis, support through subordinated loans or equity holding.

The company, which was formally established in the first quarter of 2015 following the approval of its statutes, is called "Société Marocaine de Gestion des Fonds de Garantie des Dépôts Bancaires S.A." (Moroccan Company for Managing Banking Deposit Insurance Funds. Limited), known under its French acronym SGFG. Its first Board of Directors appointed the Director General.

Box 6 : Mandate of the Moroccan Company for Managing Banking Deposit Insurance Funds (SFCG)

The SGFG is mandated to :

- manage the Collective Deposit Insurance Fund and the Deposit Insurance Fund for Participatory Banks;
- collect annual contributions from member institutions;
- compensate depositors in case of unavailability of their funds;
- Participate in maintaining the banking system stability by (1) providing financial loans, on a preventive and exceptional basis, to credit institutions facing difficulties likely to ultimately generate unavailability of deposits of members in difficulty, (2) equity holding in the capital of such institutions, (3) its appointment as interim administrator.

The SGFG has a board of directors composed of 6 members and chaired by the Governor of Bank Al-Maghrib. This Board, which includes 3 representatives of the banking sector and 2 independent directors, is responsible for approving particularly decisions on :

- the company's strategy;
- the company's annual budget;
- the policy of investing the Funds' resources;
- the accounting system of Funds;
- the company's organizational structure and internal procedures.

Representatives of the banking industry do not deliberate on issues relating to the difficulties facing member credit institutions, which remain the exclusive responsibility of the intervention and resolution committee, chaired by the Governor of Bank Al-Maghrib and composed of two independent directors of the SGFG, the director of the Banking Supervision Department of Bank Al-Maghrib and the general director of the company.

2.3 - Framework for dealing with systemically important banks

The new Banking Act requires systemically important banks to comply with more binding prudential regulations and to present an internal crisis resolution plan. In this regard and in line with the recommendations of the Basel Committee on how to deal with systemically important banks, Bank Al-Maghrib started to examine the rules which should regulate these institutions in Morocco.

In this respect, Bank Al-Maghrib started to prepare a draft circular on the framework for dealing with systemically important banks. This text covers two main components : the identification of such banks and the prudential requirements aiming at strengthening the capacity to absorb the losses of banks identified as systemic.

The targeted approach used to identify systemically important credit institutions implements the methodology drawn up by the Basel Committee on the arrangements applied to systemically important banks at the domestic level, while making some adaptations taking into account the specificities of the Moroccan banking sector.

Three criteria are used at this stage, to identify these banks : the size, interconnections and complexity. Each of these criteria is divided into one or more sub-criteria assessed based on selected indicators.

Box 7 : Criteria for identifying systemically important banks in Morocco

The criteria used at this stage to identify systemically important banks in Morocco are :

- The size : a bank's financial distress is more likely to damage the economy or financial markets if its activities represent a large share of the system's activity. This criterion is assessed taking account of the size of the consolidated balance sheet.
- The interconnection : the financial distress of one institution can significantly raise the likelihood of distress at other institutions given interconnections between them. This criterion is measured through the exposures of the concerned bank to the financial sector and its debts vis-à-vis this sector.
- The complexity : the systemic impact of a bank's financial distress is positively related to its overall complexity, at the commercial, structural and operational levels. This criterion is measured through the weight of cross-border activities and market activities.

Systemically important banks will be subject to enhanced prudential requirements, particularly in terms of capital ratios. Work is under way to calibrate these requirements.

Meanwhile, systemically important banks should be subjected to a stronger monitoring and more binding requirements in terms of regulatory reporting.

On the other hand, Bank Al-Maghrib began to examine the rules to regulate the internal crisis recovery plans to be provided by banks, particularly systemically important ones.

These internal crisis resolution plans aim to urge banks to identify new sources likely to increase capital and liquidity levels, to anticipate and facilitate the rapid sale of assets or business lines and define a recovery strategy, in case of default, including the potential obstacles to the implementation of this strategy.

3- Review of the circular on credit institutions' internal control

Bank Al-Maghrib reviewed the circular on credit institutions' internal control, in such a way as to take account of recent international standards in the field, particularly those derived from the fundamental principles of an effective banking supervision, revised by the Basel Committee in September 2012. After consultation with banks and finance companies and a public consultation on Bank Al-Maghrib's website, the circular was published in October 2014.

This updated circular reinforces the quality requirements to be met by credit institutions so that they can have an adequate internal control system. It requires the establishment of an internal control system adapted to the risk profile and systemic importance of institutions, strengthens the role of the administration and management bodies in internal control monitoring, and confirms the importance of strong governance practices to ensure an effective internal control system. It requires that the governing body define the institution's degree of risk aversion, approve its risk-related strategy, permanently ensure its internal capital adequacy and have complete and relevant information to measure the risks to both the institution and its local and foreign subsidiaries.

The updated circular further clarifies the responsibilities and prerogatives of the four control functions : permanent, compliance, risk management and control, and internal audit, which should be independent from the operating entities under their control and provided with adequate means and positioning. It stipulates additional provisions for internal audit, mainly by requiring that the audit committee' members be immediately informed of any identified major anomaly that could have a significant impact on the institution.

In terms of risk management, the circular contains provisions relating to the development by banks of an overall strategy and a risk map, and defines conditions for using internal models to better evaluate and control these approaches.

Regarding the credit risk management, the circular also contains provisions relating to the arrangements for sensitive debt management and specifies certain requirements for the counterparty rating system. It complements the liquidity risk monitoring system, by imposing its intra-day monitoring. In addition, it incorporates the general principles governing the business continuity plan, country risk and transfer risk management, as well as claim processing.

In addition, the circular requires credit institutions to have effective, reliable and adequate information and communication systems, covering the significant activities and risks incurred.

4 - Revision of the directive on governance within credit institutions

The revision of the directive on governance within credit institutions has aimed to take account of the latest recommendations of the Basel Committee and align the text with the new provisions of the circular relating to credit institutions' internal control.

To adapt the new Basel provisions with the Moroccan context, a survey on governance practices in banks was carried out. It focused on banks' position in terms of remuneration policies, independent directors, management committees and committees under the administration body. In this context, an impact study was conducted on the representation of independent directors in the administration bodies of banks and their committees.

The new directive, enacted in October 2014, was the subject of a consultation with the Moroccan Bankers Association (GPBM) and the Professional Association of Finance Companies (APSF) before public consultation on Bank Al-Maghrib's web portal. It requires that a governance system adapted to institutions' risk profile and systemic importance be established.

It supplements the provisions relating to the group dimension of governance and the responsibilities of the governing bodies of both the parent company and bank subsidiaries regarding important risk management and monitoring. In this context, it strengthens the role of these bodies particularly in :

- Measuring the group's shareholding structure upstream and downstream;
- Simplifying the group structures that have a complexity level likely to hinder adequate risk supervision and control across the group;
- Checking access to information on the group entities and associated risks at the parent company;
- Managing and monitoring activities undertaken in jurisdictions or through complex structures, limiting transparency.

Regarding the independent directors, relevant eligibility criteria have been determined, while fixing the proportion of their representation within governing bodies and committees at one third of the members.

The text also requires the establishment of a risk committee within the independent governing body of the audit committee, while defining its role and responsibilities.

One chapter was devoted to the requirements for the compensation system within credit institutions, which must have a remuneration policy consistent with their long-term goals.

5 - Change in international prudential and accounting regulations

From a prudential perspective, the reforms and proposed reforms carried out by the Basel Committee in 2014 concerned mainly the supervisory framework for measuring and controlling large exposures, the long-term liquidity structural ratio, revisions to the standardized approach for credit risk and pillar 3 disclosure requirements.

On the accounting level, the main change concerned the publication of the final version of the "IFRS 9-Financial Instruments" standard.

5.1 - Main international prudential developments

5.1.1 Supervisory framework for measuring and controlling large exposures

In April 2014, the Basel Committee published the supervisory framework for measuring and controlling large exposures, which applies to banks operating internationally.

This framework will complement the risk-based capital standards, because the latter are not specifically designed to protect banks against large losses resulting from the sudden default of an individual counterparty or a group of connected counterparties.

It requires banks to take into consideration exposures to any counterparty, except sovereign ones. Some types of counterparties are exempted from the large exposure limit or exposures for which another specific treatment is necessary.

For the treatment of exposures to funds, securitization structures and collective investment bodies, the framework requires banks to apply the principle of transparency approach when appropriate, and to assess possible additional risks that do not relate to the structure's underlying assets, but rather to the structure's specific features and to any third parties linked to the structure. Once these risks are identified, a new exposure must be recognized, where appropriate, and be subjected to the large exposure limit.

Furthermore, the Basel Committee maintained the definition of large exposures at the preexisting threshold, which is 10 percent of the core capital (Tier 1) for a single beneficiary or a group of beneficiaries and the maximum exposure limit at 25 percent of Tier 1. Meanwhile, the standard lowers the maximum exposure limit to 15 percent for systemic banks.

The new standard rules out the application of risk weights that helped to reduce the weight of certain exposures and requires expanded reporting which aims to increase balance sheet transparency and visibility.

International banks have a deadline of January 1, 2019 to be in compliance with the reform.

5.1.2 Long-term structural liquidity ratio

In order to strengthen its liquidity framework and reduce banks' funding risk over a longer time horizon, the Basel Committee published in October 2014, the final version of the long term liquidity ratio - Net Stable Funding Ratio (NSFR), which should come into force in January 2018.

The NSFR requires banks to fund their activities with sufficiently stable sources of funding, allowing them to pursue in a healthy manner their activities over a period of one year in a scenario of prolonged tensions.

It is defined as the amount of available stable funding (liabilities) as a ratio to the amount of required stable funding (assets). In other words, the amount of available stable funding should be at least equal to the amount of required stable funding. This ratio must be equal to at least 100 percent and declared on a quarterly basis.

The NSFR should be applied to all internationally active banks on a consolidated basis, but may be used for other banks and any subset of entities of internationally active banks to ensure greater consistency and a level playing field between domestic and cross-border banks. This new standard, which is part of the Basel III framework, was discussed and amended several times, since the publication of the first version in December 2010. The objective is to correct some weaknesses identified when the ratio was being identified, namely :

- An excessively asymmetric treatment of asset and liability items that could lead, in some cases, to a "de-transformation" requirement ;
- A heterogeneous treatment of assets of over one year ;
- the potentially negative impact of the ratio on the operation of the interbank market and monetary policy transmission.

5.1.3 - Revisions to the standardized approach for credit risk

The Basel Committee published in March 2014 a consultation paper on the review of the standardized approach for credit risk in order to strengthen the current system.

This revision seeks to reduce national discretions and reliance on external ratings, enhance granularity and risk sensitivity as well as the comparability of capital requirements measured by banks and, ultimately, strengthen the link between the standardized approach and the internal ratings-based approach.

To this end, the Basel Committee plans to substitute the use of external ratings, as provided in the current standardized approach, with a limited number of risk drivers that provide a meaningful differentiation. These drivers reflect the category of exposure, inspired from financial ratios used in rating models and have been selected because they are considered to be simple, intuitive, easily accessible and capable of explaining risks across all jurisdictions.

Bank Al-Maghrib expressed its opinion on the consultative document as well as on the impacts that could be expected, by responding to a questionnaire prepared by the World Bank for this purpose.

5.1.4 Review of financial disclosure requirements

Pillar 3 of the Basel framework aims to promote market discipline through regulatory disclosure requirements, to enable market participants to access information relating to the adequacy of a bank's regulatory capital and risk exposures.

Following the international crisis, the Basel Committee published a revised document relating to financial disclosure requirements, which replaces that of 2004 and takes into account new recommendations of Basel III.

One of the goals of the revision is to improve comparability and consistency of disclosures, by introducing minimum harmonized framework and requirements for control, comprehensiveness and clarity of additional information deemed relevant to the market.

The disclosure frequencies, based on a predefined format and depending upon the nature of the specific disclosure requirement, can be quarterly, semi-annually or annually.

The Basel Committee expects these new requirements to be effective by late 2016.

5.2 Significant international accounting developments

On July 24, 2014, the International Accounting Standards Board (IASB) issued, in response to the financial crisis, the final version of "IFRS 9 - Financial Instruments", replacing "IAS 39 - Financial Instruments : Recognition and Measurement".

Like the previous one, this standard covers classification and measurement of financial instruments, their impairment and hedge accounting.

IFRS 9 is effective for annual periods beginning from January 1, 2018.

Box 8 : Major adjustments made by IFRS 9

Adjustments made by the IFRS are intended to improve information for investors through :

1- A logical and single approach for the classification and measurement of financial assets, which reflects the business model in which they are held and the type of contractual cash flow related thereto :

- When the objective of holding a financial asset is only to collect contractual cash flows, such asset is measured at the amortized cost.
- When the objective of holding a financial asset is to collect contractual cash flows and eventually sell that financial asset, the latter is measured at fair value whose value changes are posted to equity.
- Financial assets that are not held in either economic models mentioned above are measured at fair value and value changes are posted in income statement.

2- A single expected credit loss impairment model : Contrary to the IAS 39 rules, which were based on the incurred loss impairment model, the IFRS 9 introduces a new impairment model, leading to a faster recognition of expected credit losses. The new standard requires entities to account for expected credit losses from when financial instruments are first accounted and to recognize fulltime expected credit losses on a regular basis.

3- Substantially-reformed model for hedge accounting[1], more in line with risk management activity.

In Morocco, credit institutions subject to IFRS will be required to align with this new standard.

13 Hedge accounting reflects the reverse effects on the result of changes in the fair value of the hedging instrument and the hedged item.

CHAPTER V

BANKING AND MACROPRUDENTIAL MONITORING

Alongside the strengthening of the legal and regulatory framework for credit institutions and similar entities, Bank Al-Maghrib has given priority, in the control of such institutions, to risk areas caused by economic conditions.

At the micro-prudential level, focus was put on assessing the quality of banks' assets and governance practices as well as monitoring their cross-border activities.

The Bank also attached particular attention to the implementation of the Basel III standards for capital and short-term liquidity.

Moreover, it continued to work on financial stability adopting a broader perspective. This year was marked by the works to identify systemically important banks and conduct a crisis simulation exercise, with support from the World Bank and in collaboration with other financial authorities.

In the last quarter of the year, supervisory work was also directed towards preparations for the assessment mission of the Moroccan financial sector conducted jointly by the IMF and the World Bank in April 2015.

1 - Micro-prudential supervision

As part of its micro-prudential supervision, Bank Al-Maghrib monitors the compliance of credit institutions and similar entities with the Banking Law and relevant application texts.

As such, it is entitled to grant licenses to credit institutions so that they can undertake their activities, to approve the appointment of their statutory auditors, directors and managers, prescribe applicable accounting and prudential standards, control relevant institutions, impose penalties against offender institutions and address difficulties facing them.

1.1 - Licenses and approvals

In 2014, Bank Al-Maghrib granted 5 licenses, after obtaining the opinion of the Credit Institutions Committee (CIC), for :

- The establishment of a bank's subsidiary specialized in money transfer intermediation;
- The merger-takeover by a bank of its finance company subsidiary;
- The recapitalization of a money transfer intermediary company;

- The acquisition of a money transfer intermediary company by a bank subsidiary;
- The extension of a finance company' activity to factoring.

It also authorized, after consulting the CIC :

- The opening of the representative office of a Spanish bank in Morocco;
- The establishment of a subsidiary in Senegal by a money transfer intermediary company;
- The opening of a bank branch in China ;
- The establishment by a bank of two microfinance subsidiaries in Côte d'Ivoire and Mali;
- The opening of 7 representative offices abroad by 3 banks.

The Bank also approved :

- 25 files relating to the appointment of statutory auditors to assume functions within 7 banks, 7 finance companies, 4 money transfer intermediary companies and 7 microcredit associations;
- The appointment of 25 directors and managers in 12 credit institutions and 2 microfinance associations.

It rejected, after consulting the CIC, an application for licensing to set up a bank specializing in asset management for non-resident customers.

1.2 - Control activities

In 2014, Bank Al-Maghrib's control activities covered 83 institutions[14], including 19 banks, 34 finance companies, 6 offshore banks, 13 microcredit associations, 9 money transfer companies, the CDG and the CCG.

This work rests upon a combination of permanent (offsite) controls, carried out remotely, and onsite ones.

Bank Al-Maghrib monitors and assesses, through permanent controls, the risks incurred by institutions and the quality of their internal control and risk management systems. This work is based on the review of regulatory reports that institutions submit periodically to the Bank as well as the findings of onsite checks carried out by the Bank and reports of statutory auditors of the supervised institutions. These analyzes are complemented by regular contacts and meetings with the credit institutions' management and officials responsible for the functions of overall risk management, finance, compliance and periodic and permanent controls. Meetings are held annually with the statutory auditors of supervised institutions to review the findings of their auditing works and internal control and accounting arrangements.

14 This number does not include a money transfer intermediate company that was authorized in the second half of 2014.

The result of these activities help assess institutions' risk profile using an internal rating methodology adopted by Bank Al Maghrib and called "Credit Institutions' Rating Support System (SANEC)". Accordingly, this evaluation makes it possible to adjust the intensity of supervised institutions' controls and triggers preventive or corrective actions as soon as the rate reaches given thresholds.

The overall assessment of banks' financial and prudential situation, reflected by the SANEC notation, is brought to the attention of banks' managers at regular meetings.

Box 9 : Review of banks' rating support system

Bank Al-Maghrib has developed since 2006 a methodology for assessing banks' risk profile leading to the assignment of SANEC ratings. This methodology covers the risk factors facing these institutions and helps assess their exposure to such risks and the quality of relevant management systems. An institution is rated based on a scale from 1, the most favorable, to 5, the most unfavorable.

Given the evolution of regulatory standards and banking supervision practices, Bank Al-Maghrib reviewed the SANEC methodology. This revision aims to take into account the assessment of cross-border risks, the new regulatory requirements, including on governance and internal banking control. New risk-related criteria were also included in the SANEC perimeter and concern financial disclosure, due diligence and customer complaints handling.

The assessment now covers eighteen quantitative and qualitative risk criteria, grouped in six areas :

- asset quality;
- solvency;
- liquidity and overall interest rate risk;
- profitability ;
- governance and risk management;
- sensitivity to market risks.

Shades were also introduced in rating. Each rate can be accompanied by a positive "+" or negative "-"sign to refine the assessment.

Regarding the onsite inspection, its program for the year 2014 was adopted taking into account the institutions' risk profiles and systemic importance. As in the previous years, focus was put more on thematic surveys on risks areas, identified by offsite controls. Three general inspections were carried out to a bank and two finance companies. Moreover, thirteen onsite thematic inspections were conducted to 24 institutions, including 18 banks, 3 finance companies and 3 microcredit associations. Two thematic audits were attended by an inspector from the Banking Commission of the West African Economic and Monetary Union (WAEMU) and concerned the banks' monitoring of their foreign branches and subsidiaries. In addition, a control mission was conducted jointly with this Commission to a banking group subsidiary in Côte d'Ivoire.

1.2.1 - Review of banking governance practices

Bank Al-Maghrib carried out onsite checks at banks in order to assess their governance system, in preparation for the implementation of the new relevant laws and regulations.

These inspections reviewed mainly the composition and operation of banks' governance bodies, role of directors in risk monitoring and system for reporting risks brought to the attention of the governing body. The presence of independent directors on that body was also assessed.

Moreover, the missions examined the effectiveness of risk management and internal control systems in the governance of banking groups as well as the appointment and remuneration policies, and those relating to the management of conflicts of interest.

Meanwhile, meetings were held with credit institutions' managers, regarding the deployment of new regulations on governance provided for in the revised texts on internal control and governance.

1.2.2 - Monitoring the implementation of Basel III standards on capital and liquidity

In conformity with the terms of the technical notice on the practical arrangements for applying Bank Al-Maghrib' circular on capital adequacy under Basel III, the supervised institutions submitted the first reports pursuant to the new standards, under the statement of late June 2014. Controls were conducted to check the proper application of these standards. Given the transitional provisions, banks' solvency ratios stood above the regulatory minimum, with the exception of two banks that were invited to develop plans to strengthen their capital base.

Regarding the short-term liquidity coverage ratio (LCR), which will become effective as of July 1, 2015, banks have submitted to Bank Al-Maghrib quarterly reports since 2014.

These reports, which were reviewed by the Bank, were discussed with banks to secure their stabilization.

1.2.3 - Controls on the main risks incurred by credit institutions with a narrower focus on credit risk coverage

In 2014, Bank Al-Maghrib continued to closely monitor the quality of banks' assets both on an individual and consolidated basis. Particular attention was accorded to the coverage of non-performing loans by provisions.

Regular clarification meetings with risk management officials were held on the development of the situation of the main credit files. Thematic onsite inspections, conducted to major banks, reviewed in a comprehensive manner significant samples of business loan files. The onsite audit work also focused this year on the review of provisions hedging non-performing loans and the valuation of relevant eligible guarantees at the prudential level.

Missions also focused on internal rating models deployed by banks in the credit risk management process.

Following these checks, Bank Al-Maghrib requested banks to downgrade and supervise eligible loans. Some banks were required to make additional provisions for certain files, particularly due to the depreciation of the value of guarantees or high-risk level associated to them.

Concerning the concentration risk, some institutions were requested to regulate, within specified deadlines, some cases of excess with respect to the maximum risk division ratio on large debtors. The amounts of non-regulated overruns were deducted from capital.

Furthermore, given the significant increase in the income generated by banks on market activities, an onsite visit was conducted and concerned the trading portfolio valuation methods.

Banks' liquidity risk management also continued to catch sustained attention, although tensions on banks' liquidity eased in 2014.

Frequent periodic meetings with banks' financial managers continued in order to get an update on liquidity indicators. Meanwhile, the qualitative system was in this year under a thematic onsite inspection at certain banks. This control focused on the review of liquidity risk measurement arrangements, particularly the assessment models developed by banks.

These checks were completed in 2014 by the assessment of the findings of regulatory stress tests conducted by banks to examine their resilience to various hypothetical credit, liquidity, concentration and market shocks. Overall, the results of these tests indicate that banks can resist the selected scenarios. Requests were made to certain banks to undertake appropriate measures to mitigate the possible effects of these shocks.

The monitoring of compliance with the regulations on anti-money laundering and counter-terrorism financing remained central to the Bank. This control was conducted through the examination of replies to the annual regulatory questionnaire on due diligence and information contained in the compliance report elaborated by those institutions. Onsite visits were also conducted to certain banks to check the effective implementation of the due diligence obligations.

As part of its agreement with the Financial Intelligence Processing Unit (UTRF), Bank Al-Maghrib intervened through an onsite control mission to check with an institution, the compliance of the declarative system vis-à-vis this unit.

In terms of operational risk and following the incidents observed in certain banks, Bank Al-Maghrib requested that the functioning of some processes be reviewed and followed up on the implementation of relevant malfunction remedial measures.

Moreover, Bank Al-Maghrib carried out onsite controls of certain institutions to assess the arrangements put in place to ensure the continuity of their critical activities, in case of significant operational disruptions. These checks covered the compliance of business continuity plans, the organization and operation of relevant systems and the tests to implement such plans.

Finally, onsite controls focused on verifying the regulatory filings and implementing corrective actions requested earlier by Bank Al-Maghrib from institutions.

1.2.4 - Monitoring cross-border activities

Given the presence of the three Moroccan largest banking groups abroad, particularly in sub-Saharan Africa, cross-border supervision has an increasingly important share in the control of these groups.

In this context, the Bank formalized its internal cross-border supervision policy, resting on the prior authorization of projects of foreign branches, supervision and control of the cross-border group, the monitoring of the overall situation of banks' foreign branches and cooperation with the host country's supervisory authorities.

Box 10 : Prior authorization of projects of foreign branches

Any project of establishment or acquisition of subsidiaries abroad or strengthening of Moroccan banking groups' holdings in foreign banks is subject to prior approval by Bank Al-Maghrib in accordance with the Banking Law. Under the new version of this Law, this approval is expressly required in the case of acquisition of indirect holdings in entities, set up or being established abroad.

When examining an application for approval, Bank Al Maghrib assesses the planned organization and the risk profile of the new subsidiary and the creation of value added for both the banking group and the host country. It also examines the prudential impact of any expansion abroad on the group in terms of capitalization and the solvency ratio. The assessment also takes into account the quality of the system set up by the bank to monitor its foreign subsidiaries and its ability to adequately supervise any new branch.

Supervision requires that banking groups transmit to Bank Al-Maghrib three-yearly business plans of their foreign branches analyzing the expected change in their key activity and profitability indicators. The Bank also requires reporting on the activities of banks' foreign subsidiaries, relating to their financial and prudential data, the reports of their statutory auditors and those of inspections conducted by parent companies and host countries' supervisory authorities. If needed, a follow-up report on the implementation of the recommendations of the host country's authority is also required.

Given the increasing number of Moroccan bank branches abroad, a scoring approach of these branches aiming to streamline the monitoring process was established. This scoring is calculated on the basis of the scores of indicators relating to the weight of the subsidiary in the group, the quality of its assets, profitability, capitalization, country risk level and the assessment of its regulator.

Similarly, meetings with banks' management continued regularly to discuss matters relating to the situation of their foreign subsidiaries and the progress of projects to deploy risk management and internal control arrangements to the entire perimeter of the group abroad.

Regarding onsite inspection, a joint mission was conducted by the Banking Commission of WAEMU and Bank Al-Maghrib to a banking group's subsidiary in Côte d'Ivoire, in order to assess the quality of its assets and the governance and monitoring systems set up by the parent company.

Topics covered were prepared in collaboration with the host authority. Following this mission and in addition to the report submitted to the foreign subsidiary's managers, Bank Al-Maghrib reported to the parent company's managers on the conclusions of this mission.

Bank Al-Maghrib also carried out onsite inspections at the parent companies in Morocco on the effectiveness of supervising foreign branches and the soundness of the group's governance, internal control and management risk arrangements. An inspector of the WAEMU Banking Commission participated in two of these missions.

Bank Al-Maghrib carried on its efforts aiming to strengthen cooperation with foreign supervisors and started to review relevant conventions to incorporate provisions on cooperation in the area of crisis resolution.

At the operational level, the Bank put in place a set of channels of communication and cooperation with its counterparts. In addition to ad hoc exchange of information when applications for approval are being examined, the Bank has established a more regular relationship with the authorities responsible for supervising the entities of Moroccan banking groups, through multifaceted contacts.

In order to strengthen this cooperation and in conformity with the recommendations made by the Basel Committee and best practices, Bank Al-Maghrib organized, in June 2014, the first meeting of the College of Supervisors for a cross-border Moroccan banking group and began preparations for the organization of colleges for the other two cross-border Moroccan groups.

Prior to the meeting of the College meeting and during the preparation phase, the Bank collected from participating regulators assessment data according to pre-established frameworks. The group entities' risk profile was assessed by supervisors following a scale of 5 rates, reflecting the financial and prudential position of each subsidiary and the risk factors inherent to its business.

As in the previous three years, the Bank participated in the College of Supervisors of a foreign banking group with branches in Morocco. At this meeting, organized by the Prudential Supervision and Resolution Authority (ACPR), changes in the group's risk profile in the post-crisis stage was reviewed.

In light of the changes that occurred following the establishment of the single oversight mechanism in the euro area, cooperation under the terms of the agreement between Bank Al-Maghrib and the ACPR was extended to the European Central Bank.

1.2.5 - Regular follow-up of the implementation of Bank Al Maghrib' recommendations

Institutions subject to the Bank's control were urged to initiate corrective actions to address the shortcomings identified through onsite and offsite inspections. The implementation of corrective measures within the specified deadlines is monitored regularly and remotely on the basis of updates developed by institutions or in some cases through onsite controls.
Disciplinary sanctions were imposed against some institutions following breaches of regulations. They concerned two banks and a finance company.

2 - Macroprudential supervision

In recent years, Bank Al-Maghrib conducted several projects for the establishment of an institutional and analytical framework for Macroprudential supervision. In 2014, the Banking Law, adopted by the Parliament and promulgated in early 2015, introduced the legal basis for the exercise of this new mission.

Meanwhile, the Bank's internal Financial Stability Committee (FSC) and the Coordinating Commission of the Financial Sector Supervisory Bodies (CCOSSF), which was replaced in the new legal framework by the Systemic Risk Coordinating and Monitoring Committee, continued their regular work. The Bank also worked to enhance the analytical framework, supporting the oversight of systemic risks.

Regarding the crisis management framework, Bank Al-Maghrib adopted a banks' internal resolution manual. With other regulatory authorities of the financial system and the Ministry of Finance, it conducted a second crisis simulation exercise in collaboration with the World Bank.

It also focused on the preparatory works for outsourcing the management of the Collective Deposit Insurance Fund (FCGD) as provided for by the provisions of the new Banking Law.

2.1 - Meetings of the FSC and CCOSSF

During 2014, the FSC (Financial Stability Committee) and CCOSSF (Coordinating Commission of the Financial Sector Supervisory Bodies) held two meetings, chaired by the Bank's Governor.

Thus, financial authorities met, under the aegis of the coordinating commission to review on a semi-annual basis systemic risk maps covering the banking sector, the insurance industry and capital markets, and assess how financial stability is affected by the observed and expected developments at the macroeconomic, monetary, financial and regulatory levels.

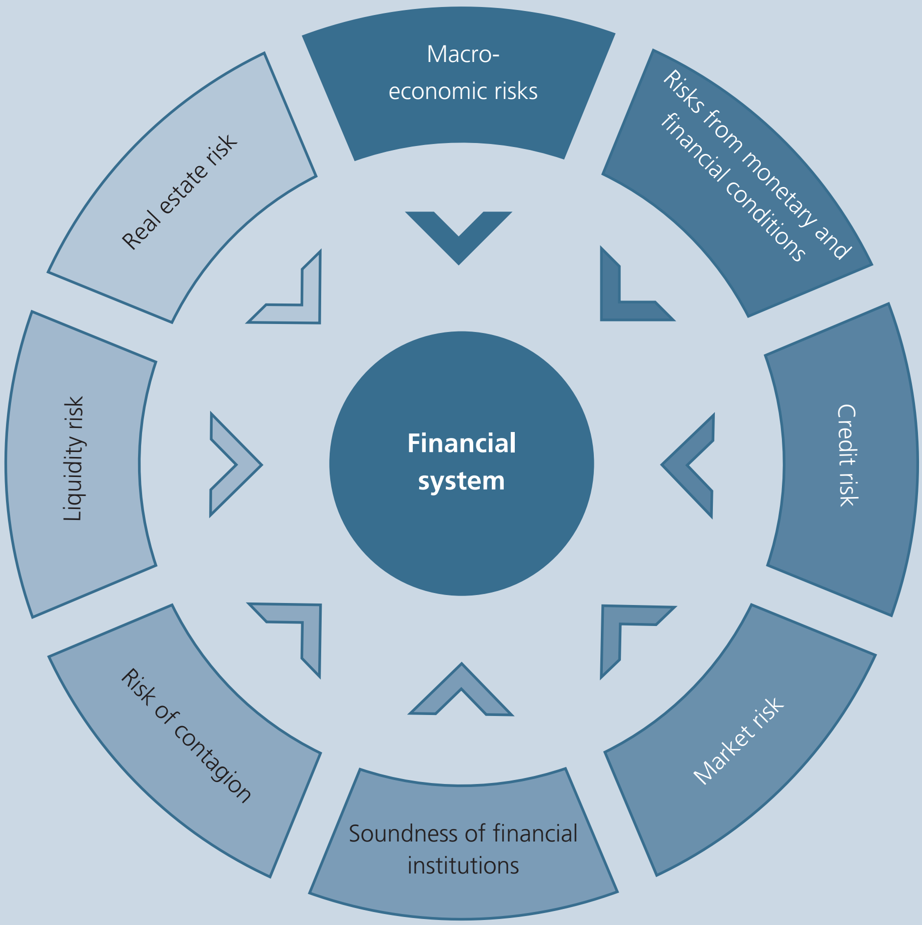
Prior to the meeting of the CCOSSF, the internal FSC examined the macro-prudential indicators composing the systemic risk map, their scores of risk to financial stability and stress tests conducted to assess banks' resilience. Furthermore, it handled in 2014 matters relating to the procedures for implementing the directive on granting emergency loans, the regulatory framework for the treatment of systemically important banks and approval of the publication of the first report on financial stability.

2.2 Strengthening the analytical financial stability framework

The analytical financial stability framework is based on two essential components : a global risk map, which consists of a global balanced scorecard of the main sources of risks to the financial system, and stress testing system designed to quantify these risks should they materialize.

Box 11 : Mapping of risks monitored by the FSC

The assessment of the financial system requires the evaluation of risks from the macroeconomic environment, financial institutions and markets, the real estate sector and the non-financial sector covering businesses, households and the Government. It is done on the basis of a set of coincident and forward-looking risk indicators, grouped into eight pillars risks deemed significant for financial stability in Morocco.



The overall risk mapping is formally assessed through a scoring approach of indicators and pillars. The scores obtained from these approaches may be adjusted by an expert's opinion. They ranged from 1 to 5 reflecting an increasing level of risk.

In 2014, the analytical macro-prudential oversight framework was supplemented by a framework established to identify systemically important financial institutions, covering banks and insurance companies. Similarly, the surveillance framework for corporate debts, carried out based on the monitoring of balance sheet ratios of a sample of over 1,300 businesses, was expanded this year to cover key state-owned enterprises.

The analytical and informational framework was also improved, to include the risk of contagion, by a quantification of direct cross-border interconnections between Moroccan banks and their foreign branches. The map of links between banks and insurance companies, reflecting the risk of intra-financial contagion in the domestic market, was also updated.

2.3 - Strengthening the framework of coordination between financial regulators

Taking into account the lessons learned from the financial crisis, the banking law established the Systemic Risk Coordinating and Monitoring Committee between regulators to ensure the oversight of systemic risks.

This oversight rests on the optimal sharing of information between the members of this Committee and those of the Crisis Committee set up by an agreement signed in 2012 between the Minister of Economy and Finance, Bank Al-Maghrib's Governor and the Director General of the Transferable Securities Board (CDVM). Coordination among the financial system regulators was reinforced in 2014 following the signing of a data exchange framework. This arrangement defines the information to be exchanged between such authorities in normal times and those that should be shared in the event of a crisis.

This system constitutes a target exchange framework, which should allow the financial sector regulatory authorities to conduct their actions aiming to regulate the financial sector. In normal conditions, these authorities exchange all information and data relevant to the performance of their respective missions and the identification of systemic risks.

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

Information to be exchanged also focus on structural data on the organization and activity of the financial sector supervisory authorities.

The exchange framework requires that data be shared on an aggregate basis across the sector and on an individual basis for systemically important institutions. Exchanges are made annually or biannually depending on whether they include structural or quantitative information. Some market-related data are exchanged on a monthly basis.

A computing platform is being developed to facilitate this exchange of information.

In the event of a crisis, information to be exchanged in normal times, aggregated data and information on financial institutions directly affected by shock are updated and shared by the regulatory authorities, based on the latest available data. They are supplemented by data helping to assess the impact of shocks on the financial sector.

2.4 - Conducting a second crisis simulation exercise

After a first exercise conducted in 2009, Bank Al-Maghrib participated in a second exercise in May 2014, with the assistance of the World Bank and the participation of the Ministry of Economy and Finance (MEF), the CDVM and the DAPS. The exercise aimed to test, through a crisis scenario, the functioning of existing operational and legal arrangements and mechanisms for information exchange and coordination among the financial sector regulators.

This second crisis simulation lasted one day without interruption and was conducted in conformity with the new banking law. The crisis scenario covered several shocks so that the crisis can have a systemic dimension. It was built by a local technical team composed of representatives of Bank Al-Maghrib, the MEF, the CDVM and the DAPS in addition to the team of the World Bank. It consisted of a series of events, which were brought to the attention of participants on the day of the exercise.

This exercise showed that information processing, operating procedures and resolution tools as well as decision-making by the authorities were appropriate. Nevertheless, improvements are expected in order to formalize public communication in the event of a crisis and establish a cross-border resolution framework.

2.5 - Outsourcing of the deposit guarantee system

The deposit guarantee system is one of the fundamental factors contributing to financial stability and is part of the financial protection system intended for securing depositors' funds.

In Morocco, the Collective Deposit Insurance Fund (FCGD) was established in 1993 and became operational in 1996. This Fund aims to protect the interests of depositors in the event of unavailability of their deposits. It has been managed since its establishment by Bank Al-Maghrib. Following the adoption of the new Banking Law, the Bank started to prepare the implementation of new legal provisions, mainly to outsource the management of this Fund. These provisions aim to align this management with international best practices as well as the key principles of the Basel Committee and International Association of Deposit Insurers (IADI). They provide in particular for the outsourcing of the management of the FCGD to a new company established for this purpose. The first meeting of the board of this new company was held in early 2015.

2.6 - Development of a bank internal resolution manual

In accordance with international standards, Bank Al-Maghrib adopted a bank internal resolution manual. This manual details the rules for the application of the legal and conventional framework governing the management of bank difficulties and crisis. It describes the actions that can be implemented in accordance with this framework, particularly as regards :

- The arrangements for activating, preparing and assessing possible resolution options;
- The terms for concretely implementing resolution steps and strategic choices to be considered.

3 - Preparatory works for the Financial System Assessment Program (FSAP) conducted jointly by the IMF and the World Bank

Moroccan authorities requested the IMF and World Bank to conduct a third Financial System Assessment Program (FSAP), after those of 2002 and 2007. Preparatory work for this program started in 2014 and accelerated in the fourth quarter of the year under review.

This mission attaches particular attention to the assessment of the banking sector resilience, through stress tests. Its scope covers in particular the assessment of the banking supervision compliance with the Basel Committee principles and the review of crisis management, macro-prudential surveillance and financial inclusion arrangements.

Against this backdrop, the Banking Supervision Department conducted a self-assessment of compliance with the 29 principles for effective banking supervision. The result of this work was communicated to the mission members at end-November 2014, accompanied by documents supporting that assessment.

Furthermore, in coordination with other financial authorities, the Bank responded to 3 questionnaires relating to banks’ stress testing arrangements, macro-prudential instruments and framework and crisis management system.

Stress tests, which are a central part of the mission, are based on two components :

1) “top down” exercise jointly conducted by the IMF and Bank Al-Maghrib : this exercise rests on a macroeconomic base scenario and two shock scenarios to measure banks’ resilience to credit risk and the channels through which extreme and plausible shocks can affect its stability. Stress tests on liquidity and market risks were also conducted by the mission.

2) "bottom up" exercise led by banks at their level : these stress sensitivity tests are designed to measure the instantaneous impact of credit risk, interest rates, exchange rates and sovereign rates shocks on banks' solvency.

Discussions between the mission and authorities in the last quarter 2014 helped to define the stress tests scope, the sample of banks subject to the test and assumptions of shocks considered.

4 - International cooperation

As a follow-up to its initiatives to be open to the world, Bank Al-Maghrib participated in several events organized by banks or foreign entities. It also hosted several events. Key topics covered the areas of banking supervision, financial stability, financial inclusion and antimoney laundering.

At the invitation of the Central Bank of the States of the West African Economic and Monetary Union (WAEMU), a delegation led by the Bank's Governor paid a working visit to the headquarters of the host Bank in Dakar in January 2014. During this visit, discussions focused mainly on the macro-prudential oversight system, crisis prevention and management framework, financing for economies, mainly mechanisms and tools for reducing information asymmetries and financial support to SMEs/SMIs. The housing sector and financial inclusion, including issues on banking competition were also addressed. Following this visit, a roadmap laying down common cooperation actions for 2014 was adopted.

Furthermore, on the margins of the first meeting of the FSC, the Bank of Central African States (BEAC) also invited Bank Al-Maghrib to present to officials from member states the Moroccan experience in macro-prudential policy and systemic risk assessment.

In Abidjan, Bank Al-Maghrib contributed in February 2014 to a workshop on stress tests for the WAEMU Banking Commission. At this workshop, Bank Al-Maghrib presented its experience in the field from a regulatory and operational perspective. An action plan was proposed to the Banking Commission so that it can implement a stress testing framework within the area of its intervention.

Similarly, the Bank was part of a technical assistance mission conducted by the World Bank for the Central Bank of Tunisia (BCT) with a view to establishing a deposit insurance system.

On the other hand, the Bank hosted in March 2014 the 5th Conference of the Financial Stability Board's (FSB) Regional Consultative Group for MENA. This meeting was mainly devoted to the examination of vulnerabilities weighing on financial stability in the region, the development of regulatory reforms, including Basel III arrangements, treatment of systemically important banks, shadowbanking and the insurance sector supervision framework.

Furthermore, in cooperation with the Arab Monetary Fund, it organized the 24th meeting of the Arab Supervisors Committee, held in December 2014 in Casablanca. The main legal and regulatory developments regarding supervision and financial stability in the Arab countries were discussed. The impact of regulatory changes on emerging and developing economies was also approached.

Regarding financial inclusion, the Alliance for Financial Inclusion's (AFI)[15] working group on financial inclusion indicators, in which Bank Al-Maghrib participates and whose work it coordinates, held a meeting in April 2014 in Casablanca. This group works on a project for establishing financial inclusion indicators intended to become the international benchmark in this area.

With regard to anti-money laundering, the Bank participated in the 19th plenary meeting of the Middle East and North Africa Financial Action Task Force (MENAFATF), held in Manama in June 2014. It focused on preparations for the second round of mutual evaluation, the establishment of a national risk assessment commission composed of experts from member countries, the voluntary regularization program in the MENA and the process for monitoring member countries. After this meeting, countries were reclassified from the normal monitoring process to the enhanced monitoring process, and vice versa[16].

5 - Consultation with professional associations

In 2014, the central bank held meetings with professional banking associations in order to examine the implementation of the roadmaps adopted as part of its dialogue and exchange-based approach to reforms and issues involving the banking sector either directly or indirectly.

In this year, the issues discussed with the Moroccan Bankers Association (GPBM) focused on changes in the financing conditions of economic agents, Basel III reform, reform of the banking law and financial inclusion. Other issues tackled concerned measures to support VSMEs, payment systems and means, information registry, the Casablanca Finance City project and preparations for the financial system assessment program led by the IMF and the World Bank.

Discussions with the Professional Association of Finance Companies (APSF) focused on the restructuring of the consumer loan sector, improvement of governance and transparency practices, customer protection and tax matters.

15 The AFI is the first independent global knowledge-sharing network designed exclusively for financial inclusion. It brings together policymakers from emerging and developing countries working together to increase access to appropriate financial services for the poor.

16 It was decided to keep Algeria, Egypt, Oman, Kuwait and Sudan in the normal monitoring process, to move Syria from the enhanced monitoring process to the normal one, to move Lebanon and the United Arab Emirates from the normal monitoring process to the enhanced one and to maintain Mauritania in the enhanced monitoring process.

6 - Resources and means of the Banking Supervision Department

To accomplish its tasks, the Banking Supervision Department had, as at the end of 2014, 90 staff members, almost half of whom were allocated to micro-prudential surveillance, 14 percent to regulatory activities and 20 percent to studies and macro-prudential oversight.

Nearly 57 percent of the Department' staff are below the age of 40 years, 20 percent are aged between 40 and 50 years and the rest is over the age of 50 years. The share of women staff increased to nearly 43 percent.

As in previous years, the staff received a training program covering topics related to the change in the Bank's standards and strategic priorities. Trainings addressed topics on Basel III, participatory finance, financial inclusion, macro-prudential surveillance and crisis management. 58 staff members received training in Morocco in 2014 and 26 participated in trainings held abroad.

Meanwhile, the Department continued to strengthen its working tools. To better monitor onsite control missions, it deployed a new tool called «SAGEM», whose main inputs concern the development and updating of a multiannual auditing program, an electronic management of onsite control records and an automated management of the follow-up of recommendations.

Similarly, another tool dedicated to the management of complaints from credit institutions' customers and third parties' claims is being implemented and should be ready in late 2015.

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CHAPTER VI

PROMOTING FINANCIAL INCLUSION AND PROTECTING CREDIT INSTITUTIONS' CUSTOMERS

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Morocco's initiatives to promote financial inclusion date back to 2007 and are part of a broader strategy aiming to deepen the domestic banking market, to ensure an integrated development of the financial sector by 2020 and to position the country as a regional financial hub.

Bank Al-Maghrib continued in 2014 its actions in this direction, in partnership with various public and private stakeholders, which helped increase the rate of access to banking services to a level close to the target set for banks.

In line with the international best practices, Bank Al-Maghrib conducted a survey in collaboration with the World Bank, on Moroccan households' perception of financial services, in order to understand their attitudes, behavior and knowledge in this field and thus identify the actions required to strengthen the population's financial capabilities.

It also continued its efforts to embed financial education as a vehicle for the financial inclusion policy. In this context, it partnered with the Moroccan Financial Education Foundation, established in 2013, in organizing the 3rd edition of the Finance Days.

Regarding the protection of credit institutions' customers, the Bank continued to strengthen the transparency of banking conditions, in coordination with the banking sector, while ensuring the production and monitoring of the Banking Services Price Index (BSPI). It also worked to develop banking mobility and facilitate customers' choice of their service provider in order to boost banking competition.

With regard to the resolution of disputes between banks and their customers, the Moroccan Banking Mediation Centre, which aims to help develop financial inclusion on a sound basis, started its activities in 2014.

The improvement of VSMEs financing conditions also remained central to the Bank's concerns. In addition to the mechanism for granting banks secured loans intended for these enterprises, it set up in coordination with the banking industry and the CCG, a financial support fund for viable VSMEs facing temporary difficulties. This fund has been operational since the third quarter 2014.

The Bank also contributed to the third edition of the national awareness campaign for VSMEs and continued to coordinate with stakeholders about the launching of the National Observatory for VSMEs.

1- Developing access to banking services

Alongside the extension of their own network, banks continued to develop partnerships for the distribution of banking services with intermediaries in banking operations (IOB), particularly micro-credit associations and funds transfer intermediary companies. This network of intermediaries reached over 2,546 units in 2014.

The number of points of access to banking services, including, as defined by the AFI, the banking network as well as the networks of intermediaries in banking operations and funds transfer intermediary companies, increased to almost 10,200 units providing cash-in/cash-out services. However, the distribution of these access points is disparate with a predominant presence in urban areas.

In terms of products, credit institutions continued their low-income banking policies for low-income households and developed innovative services tailored to the needs of different customer segments.

Bank Al-Maghrib also conducted inspections to ensure that banks comply with the provisions of the directive establishing the list of 16 banking services to be provided to customers free of charge. Meanwhile, as part of a joint commission with the GPBM, Bank Al Maghrib initiated a reflection with the profession to expand this list to new products and services.

These different actions as well as the measures taken to strengthen the transparency of banking conditions and the communication of credit institutions with their customers helped increase the rate of access to banking services to 64 percent at the end of 2014. They also allowed for improving financial inclusion indicators, measuring both the dimension of access to financial services and the extent to which these services are used.

Box 12 : Financial inclusion indicators

Access	**Number of access points per 10,000 people nationally**	**4,06 (*)**
	Percentage of administrative units with at least one access point	95,7%
	Percentage of adults living in an administrative unit with at least one access point	86%
	Percentage of adults with at least one regulated deposit account	77%
Use	Number of deposit accounts per 10,000 adults	7.263
	Percentage of adults with at least one loan	34%
	Number of loan accounts per 10,000 adults	3.432

(*)The access points taken into account are those allowing users to perform cash-in and cash-out transactions, in accordance with the definition adopted by the AFI. This number would be 6.51 access points per 10,000 people, if the whole ATM network is considered (even those allowing for withdrawals only).

2 - Results of the study on the population's financial capacity

In addition to the measures aiming to develop access to supply dimension of banking services, the demand-related assessment was deemed necessary, in order to have a global vision of how Moroccan households perceive financial inclusion and more specifically of their financial capacities.

Financial capacity is defined by the World Bank, as one's capacity to act in one's best financial interest, given socio-economic and environmental conditions. It therefore encompasses the knowledge, attitudes, skills and behavior of consumers with regard to understanding, selecting and making use of financial services and the capacity to have access to financial services that fit their needs.

Thus, in the light of international best practices and in collaboration with the World Bank, Bank Al-Maghrib conducted a survey on Moroccan households perception of financial services, the first of its kind in Morocco and the MENA region.

This survey was designed to assess the financial capacity of the Moroccan population and better understand its behavior, attitudes and knowledge of financial matters. It took place between September and December 2013.

Box 13 : Features of the sample used in the survey on households' perception of financial services

The survey on the perception of financial services was conducted among a sample of 3,000 adults representing the Moroccan workforce, selected on the basis of information from the High Commission for Planning.

The adult population targeted by this survey presents the following key features :

- **Location** : Two thirds of the sample are located in urban areas.
- **Gender** : women represent 45 percent of the sample.
- **Age** : 45 percent of the sample is in the age group below 35 years, 35 percent in the age group of 35-55 years and 20 percent in the age group over 55 years.
- **Income** : 24 percent have a very low income, 23 percent have a low income, 25 percent a modest income and 28 percent a high income. Nearly 83 percent of the sample have a steady income, while the remaining 17 percent have irregular incomes.
- **Education** : 4 percent of the sample had access to higher education, 46 percent reached secondary school, 21 percent completed the primary level, while nearly a third of the sample has never been to school.
- **Household size** : 42 percent of the sampled households are composed of 4 to 6 adults and 50 percent include 7 persons or more.

The questionnaire adopted for this survey is used in countries with low and average incomes. At the request of Bank Al-Maghrib, this questionnaire was completed by questions particularly on the use of Sharia'a-compliant financial products and awareness about deposit insurance.

This survey helped supplement the data collected from banks to measure public access to financial services and to which extent these services are used, by information on aspects that may influence demand.

Four dimensions were analyzed :

(1) The level of the population's financial inclusion, measured by the extent to which financial services in the widest sense are used, including banking services;

(2) The financial capacity of households, including their knowledge of basic financial concepts, financial institutions and products and services;

(3) The relationship between financial inclusion and financial capacity;

(4) Consumer protection, in particular the degree of consumer confidence in the financial system.

These lessons helped identify some gaps and areas for improvement for the various stakeholders, so that their operations can be more effective. They will also help provide input to the works of developing a national financial inclusion strategy.

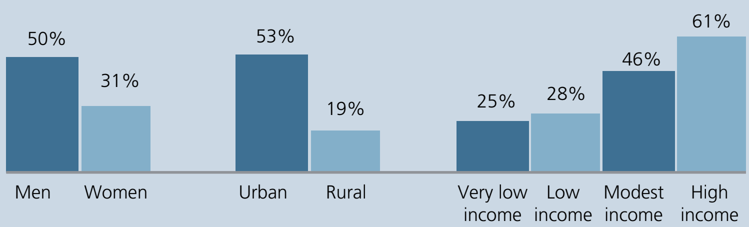
A workshop to present the survey results, a summary of which is given in Box 14 below, was organized by Bank Al-Maghrib and the World Bank, on November 28, 2014, and was attended by the public and private actors concerned.

Box 14 : Findings of the survey on households' financial capacity conducted between September and December 2013

1. Dimension of households' financial inclusion

Approximately 41 percent of surveyed adults use a formal financial product or service. This places Morocco well above the average level in the MENA region (18 percent). However, the figure covers sharp disparities across the different population segments.

Households' financial inclusion (Sample 3,000)



Source : World Bank

Men use more financial products than women (50 percent and 31 percent, respectively) and 61 percent of adults with a high income are financially included, as against only 25 percent of those with a very low income. Furthermore, people living in urban areas are more likely to be financially included (53 percent), compared to rural dwellers (19 percent).

53 percent of respondents report using bank products. Deposit accounts are the most commonly used financial product (28 percent). However, this value falls to 21 percent among women and to 10 percent among rural and very low-income respondents. Just over 10 percent of adults surveyed report having a credit from a bank or a consumer credit company. The same proportion reports using money transfer services. Fewer than 3 percent declare having a mortgage or pension product.

Microfinance institutions (MFIs) reach about 5 percent of the adult population. Nevertheless, 68 percent of respondents report being familiar with the services offered by these institutions. Just 1 percent of adults with an outstanding loan from a MFI report also having a loan from a bank, and only 8 percent of adults have a savings or deposit account with a bank.

Insurance is relatively known in Morocco (24 percent of respondents), mainly due to mandatory insurances. The vast majority of insurance holders (over 90 percent) report using a form of mandatory insurance. Just 2 percent of the adult population report using other types of insurance (health or life insurance).

Box 14 (continued) :

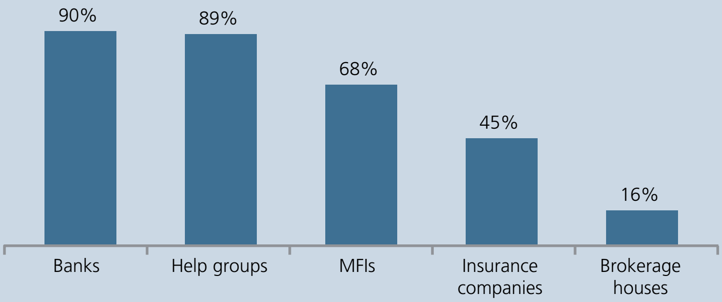
The survey shows that the financially excluded adults, estimated at approximately 13 million, are mostly women, people with low income and those living in rural areas. This is largely due to the lack of money (37 percent).

The lack of need for a formal account is mentioned by 27 percent of respondents followed by the high costs associated with owning and using a bank account (24 percent). Many adults, particularly those not participating in the financial system, use informal methods to save (33 percent of respondents) and borrow (10 percent). 49 percent of adults do not save at all and 72 percent of adults do not borrow.

2 - Dimension of households financial capacity

On average, respondents were able to correctly answer 3 out of 7 questions on financial literacy, as against an average of 5 correct answers in other countries.

Only 10 percent of respondents know all financial product providers, as against 54 percent who know 4 or less and 14 percent who know 2 or less. The main financial products known are those offered by banks (90 percent), followed by informal help groups (89 percent), MFIs (68 percent), money transfer operators (65 percent) and insurance companies (45 percent).



Source : World Bank

Only 20 percent of rural dwellers are familiar with the services offered by insurance companies, although insurance products are useful to smooth seasonal income fluctuations faced by a substantial proportion of such dwellers.

An international comparison shows that Moroccans outperform respondents from other countries when choosing financial products that suit them (89 percent as against an average of 53 percent in the benchmark countries) and tend to be more far-sighted (78 percent as against an average of 47 percent in the benchmark countries). However, they are among the most challenged with respect to managing their day-to-day finances and planning for expenses (including unexpected ones) and preparing for pension.

The survey reveals that people with information about the financial sector are more able to select better financial products that fit their needs than those with less information. Nevertheless, both financially included and excluded segments have the same knowledge of financial products and services. This result reflects the need to develop financial education programs tailored to each customer profile. Financial institutions must be more involved in this regard.

Box 14 (continued) :

In contrast to patterns observed for financial inclusion, there are no substantial differences in financial behaviors of respondents with regard to the use or not of formal financial products. This result suggests that the two segments experience similar level of difficulties with respect to managing their finances and planning for expenses.

3 - **Consumer protection dimension**

Although banking products are the most commonly used financial products, the survey indicates that banks are less able to meet the customer needs as compared to other financial institutions, with a satisfaction rate of only 43 percent. However, around 70 percent of respondents would be satisfied with the savings products and informal credit (self-help groups) and money transfer, foreign exchange and microcredit products.

25 percent of respondents, mostly women and rural residents, report having experienced a conflict with a financial service provider. More than half of these people did not take action to try to solve it, perceiving financial institutions as being too powerful (69 percent of respondents), financial authorities do not work properly (62 percent) or the law not adequately protecting consumers (27 percent). About 52 percent of respondents report that they do not know any government agencies they can approach for help.

The most common actions taken to resolve these disputes were approaching the service provider through acquaintances (69 percent), community elders (35 percent) and early termination of the contract (50 percent). The financial regulators or courts were sought in only 1 percent of conflicts.

Following this survey, the World Bank made several recommendations that can improve the level of financial capacity and, hence, households' inclusion. These recommendations were taken into account in Bank Al-Maghrib's action plans and the Moroccan Financial Education Foundation for the period 2015-2016.

3 - Promoting financial education

Financial education is a fundamental pillar in the development of financial inclusion. The Bank took the initiative to coordinate, with the various stakeholders, related actions as part of a long-term strategy, led by the Moroccan Financial Education Foundation, set up for this purpose on January 29, 2013.

In 2014, the Foundation organized the third edition of child and youth financial education days that benefited nearly 80,000 people across Morocco.

Box 15 : Third edition of child financial education days

The third edition of the finance week for children and youth took place from March 10 to 14, 2014.

The initial target set at 80,000 students was achieved, recording a positive gap of over 37 percent compared to the achievements of a year ago (60,000 beneficiaries in 2013).

Like the previous year, the event program contained :

- visits by secondary and primary schools' students to Bank Al Maghrib agencies, bank branches, insurance companies, the Casablanca Stock Exchange, Bank Al-Maghrib Museum and Dar As-Sikkah;
- Training sessions provided for secondary school students by staff from Bank Al-Maghrib, bankers, insurers and staff from the Casablanca Stock Exchange.

Like the editions of 2012 and 2013, the event was organized in partnership with "Child and Youth Finance International" (CYFI), a nongovernmental organization based in Amsterdam, gathering more than 100 countries also celebrating the finance week for children and youth.

Nearly 63 percent of students who attended the finance week for children and youth are in primary school and 37 percent of them are in preparatory or high school. About 78 percent of these students live in urban areas.

Approximately 430 bank branches and at least the same number of facilitators were mobilized for the event. Three quarters of these branches are located in urban areas.

Two major improvements were noticed during this third edition :

- adaptation of pedagogic materials to both primary and secondary education levels;
- organization of a preliminary awareness day on March 5, 2014 around financial education, with a view to exchanging views between the officials in charge of regional documentation and pedagogic support centers of the Ministry of National Education and Vocational Training, bank network managers and managers from Bank Al-Maghrib headquarters for a better coordination among stakeholders.

In addition, as part of its partnership with the Ministry of Education, the Foundation initiated a project that aims to integrate financial education into school curricula at primary and secondary levels, following a phased approach. A similar approach was also launched in partnership mainly with the Ministry of National Education and Vocational Training and the Ministry of Handicrafts and Solidarity Economy to develop a teaching kit for professionals.

In collaboration with the International Labor Office (ILO) and the Young Canada Work Program, supported by the Canadian government, the Foundation also provided several training sessions to more than 60 trainers from vocational training centers in all regions of Morocco.

Concerning households, the Foundation defined a media strategy and plan for financial education programs, launched during 2015, through various materials, including radio and social networks.

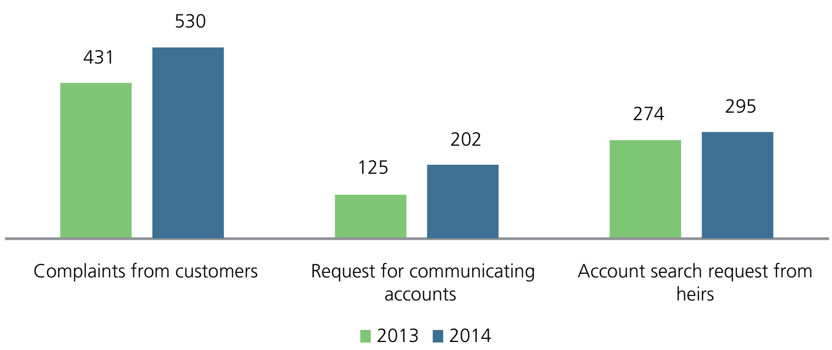
4 - Protecting credit institutions' customers

As part of protecting credit institutions' customers, Bank Al-Maghrib handles complaints from customers and monitors the developments in the banking services price index. Meanwhile, the banking mediation center, set up recently, showed encouraging results.

4.1 - Handling customers' complaints

At the end of 2014, the Bank received 1,027 requests from third parties, up 24 percent compared to the same period of the previous year. These requests included 530 complaints from credit institutions' customers, 202 requisitions from judicial authorities and 295 account search requests from heirs of deceased persons.

Chart 87 : Change in requests from third parties



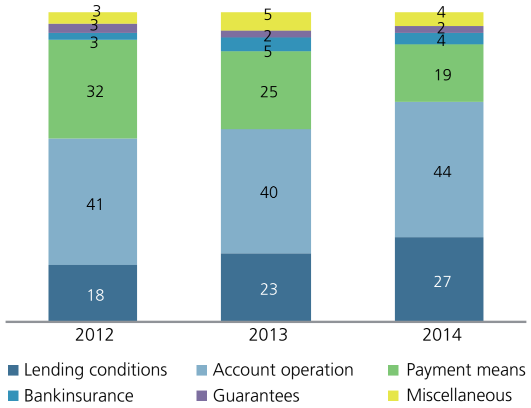
The breakdown of claims by city of residence of the complainant reveals that 44 percent come from Casablanca and 7 percent from each of the cities of Rabat and Oujda. Nearly 3 percent of complaints come from Moroccans living abroad.

Nearly 93 percent of the complaints come from individuals, as against 95 percent in 2013 and 90 percent in 2012. The share of claims against banks remains predominant, representing 88 percent in 2014, as against 84 percent in 2013 and 2012.

Complaints concerning the operation of accounts continue to constitute the bulk of claims with a share of 44 percent, of which more than half relating to the closing of accounts (or 129 complaints received at end-December 2014, as against 85 in 2013 and 77 in 2012).

These arrangements, monitored closely with the banking sector, helped improve the bank accounts closing process, particularly in terms of deadlines.

Chart 88 : Type of complaints from credit institutions' customers to Bank Al Maghrib (in %)



Complaints on lending conditions constitute 27 percent of claims received. It is mainly about requests to intervene with institutions to take account of customers' financial difficulties, or 28 requests as against 23 in 2013, as well as requests for correcting information contained at the level of the credit bureau (20 percent of such claims).

Complaints about payment means rank third with 19 percent of claims received, including 47 percent related to the use of checks and 20 percent on credit cards.

4.2 - Change in the banking services price index

As a follow-up to measures taken in recent years to improve the transparency of banking practices, Bank Al-Maghrib developed a banking services price index (IPSB), in consultation with the GPBM.

This index measures changes in prices for key banking services used by individual customers of deposit banks, included in its basket, from one year to another. It does not reflect the price levels of the above services. At the end of 2014, the index value stood at 106.9, representing an overall price increase of almost 7 percent, compared to the base year 2011.

Account maintenance fees, commissions on packages and commissions on bank cards constitute more than 80 percent of the IPSB basket. Also, any change in prices on any of these three items had a significant impact on the index value.

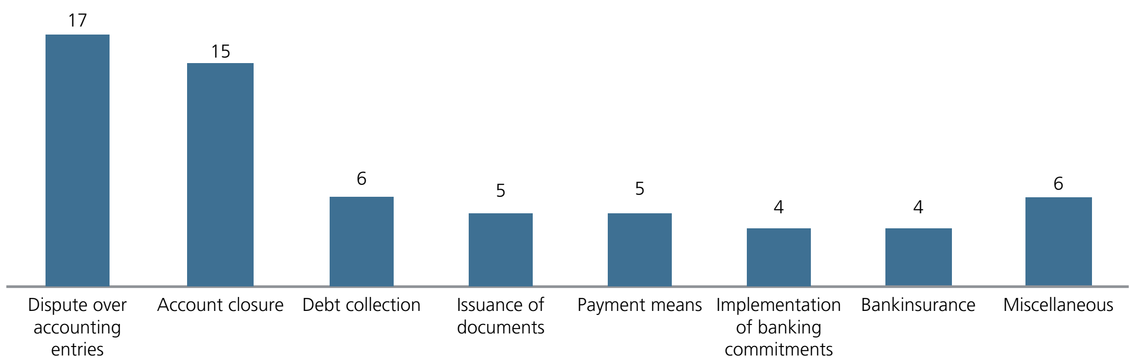
4.3 - Moroccan Banking Mediation Center

In 2014, the Moroccan Banking Mediation Center started its activities. The Center processed during this year 62 files, most of which concern banks, 18 files involve finance companies and 1 file relates to a microcredit association.

The Center was mainly approached by individual customers and by 10 companies, mostly VSMEs.

The main types of files submitted to the Center are as follows :

Chart 89 : Types of files submitted for mediation



4.4 - Banking mobility

As part of improving Banks/Customers relations and to boost competition between banks, Bank Al-Maghrib worked for the adoption of a banking mobility code of ethics by the banking sector, under which banks undertake to provide a minimum service to the customer to facilitate the transfer of accounts and associated services from one bank to another.

In this context, the host bank undertakes, after a customers' written consent and at his choice, to make the procedures on his behalf so that withdrawals made from his accounts and regularly received payments be transferred to the new account.

Through their network, banks will provide customers with a mobility guide, which aims to describe the procedures to be followed for the transfer of the demand account from one bank to another.

This mobility only concern the demand accounts opened by individuals only, without prejudice to the relevant legal and contractual arrangements. Also, the purchase of credit, if any, remains governed by the contractual provisions binding the customer to his bank.

5 - Strengthening the promotion of financing for VSMEs

Given the importance of VSMEs in the national economy and their role in creating jobs and wealth, Bank Al-Maghrib, in coordination with public and private stakeholders, continued to work for the promotion of an incentive and structured framework to support the development of these companies and improve their access to finance.

As a continuation of the previous awareness campaigns for VSMEs, Bank Al-Maghrib, the GPBM, the CCG, the General Confederation of Enterprises in Morocco and the National Agency for SMEs organized the third edition of this event from October 20 to December 9, 2014 in 15 Moroccan cities. Under the slogan "Together for the development of VSMEs in your region", the campaign was met with enthusiastic welcome and was attended by 2,000 people, including entrepreneurs, bankers and journalists.

Moreover, under the leadership of the central bank, a VSMEs financial support fund was established in partnership with the GPBM and the CCG.

Box 16 : VSMEs Financial Support Fund

Together with the granting of a bank credit, this Fund aims to co-finance the operations whose objective is to restore and sustain the financial balance of VSMEs, considered viable, but experiencing temporary difficulties. It was provided with a budget of around 1.2 billion dirhams, which will be increased over the next two years to 3.6 billion dirhams.

Eligible businesses are those :

- whose loans are not doubtful or non-performing;
- operating in any activity sector, but with priority given to the industrial and export sectors;
- whose turnover is less than 175 million dirhams, with some exceptions.

The Fund started its activity in the last quarter of 2014. During the first phase of launch, the Fund approved 7 files with a total amount of 44 million dirhams. The recipient corporations operate in the industry, construction, trade and agriculture sectors.

With a view of centralizing data and information on VSMEs environment at national and regional levels and establishing quantitative and qualitative indicators on the conditions of their access to bank financing and support mechanisms, Bank Al-Maghrib continued, with other stakeholders, to work on establishing a National Observatory for VSMEs.

Box 17 : National Observatory for VSMEs

This Observatory, whose statutes were adopted at the constitutive General Assembly held on November 11, 2013 in Casablanca, is established as a nonprofit organization under the name "Moroccan Observatory for VSMEs".

Its mission is to provide the public and private sectors with statistics on VSMEs, conduct general and thematic studies on VSMEs and propose service offerings.

In 2014, work focused on defining the demographic, economic and financial indicators of VSMEs and establishing statistical tools and methods for sampling and surveys, in collaboration with international experts in the field.

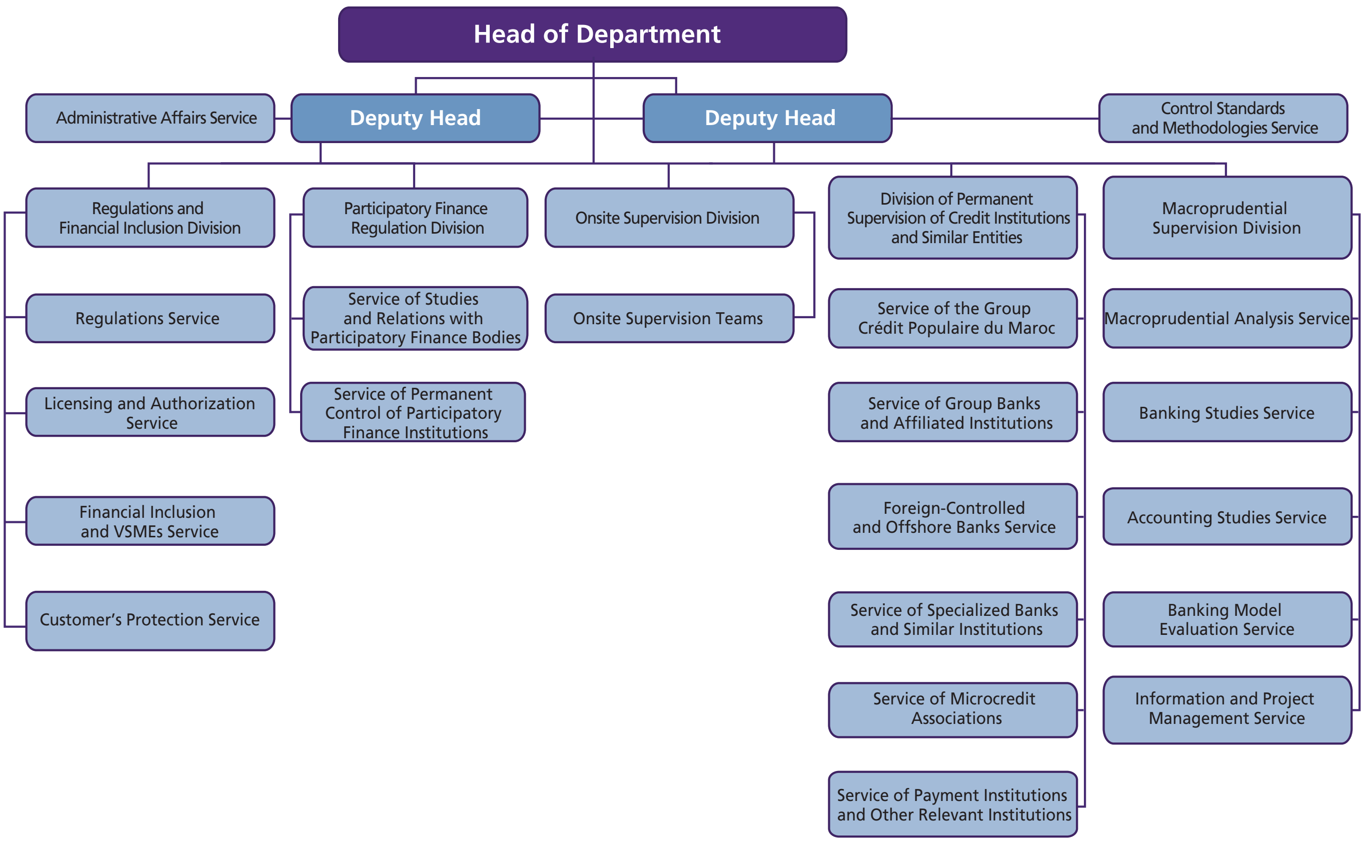
بنك المغرب

APPENDICES

بنك المغرب

Appendix 1

Organizational structure of the Banking Supervision Department



Appendix 2

List of credit institutions

Banks

Name	Head office address
AL BARID BANK	798, Angle Boulevard Ghandi et Boulevard Brahim Roudani - Casablanca
ARAB BANK PLC	174, Boulevard Mohamed V - Casablanca
ATTIJARIWAFA BANK	2, Boulevard Moulay Youssef - Casablanca
BANK AL-AMAL	288, Boulevard Mohamed Zerktouni - Casablanca
BANQUE CENTRALE POPULAIRE « B.C.P »	101, Boulevard Mohamed Zerktouni - Casablanca
BANQUE MAROCAINE DU COMMERCE EXTERIEUR « BMCE BANK »	140, Avenue Hassan II - 20000 - Casablanca
BANQUE MAROCAINE POUR LE COMMERCE ET L'INDUSTRIE « B.M.C.I »	26, Place des Nations Unies - Casablanca
BANQUE POPULAIRE DU CENTRE SUD	Avenue Hassan II - Agadir
BANQUE POPULAIRE D'EL JADIDA-SAFI	Boulevard Jamia Al Arabia - El Jadida
BANQUE POPULAIRE DE FES-TAZA	Angle Rue Allal Loudyi et Rue Abdelali Benchekroun - Fès
BANQUE POPULAIRE DE LAAYOUNE	9, Boulevard Mohamed V - Laâyoune
BANQUE POPULAIRE DE MARRAKECH - BENI MELLAL	Avenue Abdelkrim Khattabi - Marrakech
BANQUE POPULAIRE DE MEKNES	4, Rue d'Alexandrie - Meknès
BANQUE POPULAIRE DE NADOR-Al HOCEIMA	113, Boulevard Al Massira - Nador
BANQUE POPULAIRE D'OUJDA	Boulevard Derfoufi - Oujda
BANQUE POPULAIRE DE RABAT	3, Avenue de Tripoli - Rabat
BANQUE POPULAIRE DE TANGER-TETOUAN	76, Avenue Mohamed V - Tanger
CDG CAPITAL	Place Moulay El Hassan - Immeuble Mamounia. - Rabat
CREDIT AGRICOLE DU MAROC	2, Avenue d'Alger - Rabat
CASABLANCA FINANCE GROUP	5-7, Rue Ibnou Toufail - Casablanca
CITIBANK MAGHREB	Lotissement Attaoufik- Imm. I - Ensemble immobilier Zenith Millénium -Sidi Maârouf - Casablanca
CREDIT IMMOBILIER ET HOTELIER « C.I.H »	187, Avenue Hassan II - Casablanca
CREDIT DU MAROC	48-58, Boulevard Mohamed V - Casablanca
FONDS D'EQUIPEMENT COMMUNAL « F.E.C »	Angle Avenue Ben Barka et Avenue Annakhil - Hay Ryad Rabat
MEDIAFINANCE	27, Boulevard Moulay Youssef, 20060 - Casablanca
SOCIETE GENERALE	55, Boulevard Abdelmoumen - Casablanca
UNION MAROCAINE DE BANQUES « U.M.B »	36, Rue Tahar Sebti - Casablanca
BANCOSABADELL	Twin center, Tour ouest, 12ème étage - Casablanca
CAJA DE AHORROS Y PENSIONES DE BARCELONA « LA CAIXA »	179, Boulevard d'Anfa - Casablanca

Consumer loan companies

Name	Head office address
VIVALIS SALAF	3, Rue d'Avignon - Casablanca
DAR SALAF S.A	207, Boulevard Zerktouni -Casablanca
OMNIUM FINANCIER POUR L'ACHAT A CREDIT « FINACRED »	18, Rue de Rocroy, Belvédère- Casablanca
RCI FINANCE MAROC S.A	44, Bd Khaled Bnou Loualid - Aïn Sebaa - Casablanca
SALAFIN	Zenith Millenium, Immeuble 8, Sidi Maarouf-Casablanca
SALAF AL MOUSTAKBAL S.A.	20, Boulevard de La Mecque - Laâyoune
SOCIETE DE CREDIT A LA CONSOMMATION « TASLIF »	29, Boulevard Moulay youssef - Casablanca
SOCIETE DE FINANCEMENT D'ACHATS A CREDIT « SOFAC-CREDIT »	161, Avenue Hassan II - Casablanca
SOCIETE DE FINANCEMENT NOUVEAU A CREDIT « FNAC »	Sahat Rabia Al Adaouia, Résidence Kays Agdal - Rabat
EQDOM	127, Angle Bd Zerktouni et rue Ibnou Bouraîd - 20100 Casablanca
SOCIETE NORDAFRICAINE DE CREDIT « SONAC »	29, Boulevard Mohamed V - Fès
AXA CREDIT	79, Avenue Moulay Hassan 1er - Casablanca
SOCIETE REGIONALE DE CREDIT A LA CONSOMMATION « SOREC-CREDIT »	256, Bd Zerktouni - Casablanca
ASSALAF AL AKHDAR	1, Place Bandoeng - Casablanca
SOGEFINANCEMENT	127, Boulevard Zerktouni - Casablanca
WAFASALAF	72, Angle rue Ram Allah et Boulevard Abdelmoumen - Casablanca

Real-estate loan companie

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

Factoring companies

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

Leasing companies

Name	Head office address
BMCI - LEASING	Angle Rue Normandie et Rue Ibnou Fariss - Casablanca
COMPAGNIE MAROCAINE DE LOCATION D'EQUIPEMENT « MAROC- LEASING »	57, Angle Rue Pinel et Boulevard Abdelmoumen - Casablanca
CREDIT DU MAROC LEASING « CDML »	201, Bd Zerktouni - Casablanca
SOCIETE GENERALE DE LEASING DU MAROC « SOGELEASE MAROC »	55, Boulevard Abdelmoumen - Casablanca
SOCIETE MAGHREBINE DE CREDIT -BAIL (LEASING) « MAGHREBAIL »	45, Boulevard Moulay Youssef - Casablanca
WAFABAIL	39-41, Angle Boulevard Moulay Youssef & rue Abdelkader El Mazini, 20100 Casablanca

Surety companies

Name	Head office address
FINEA	101, Boulevard Abdelmoumen - Casablanca
DAR AD-DAMANE	162, Angle Rue Molière et Boulevard d'Anfa - Casablanca

Payment means management companies

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

Other companies

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

Appendix 3

List of offshore banks

Name	Head office address
ATTIJARI INTERNATIONAL BANK (ATTIJARI I.B B.O.S)	58, Boulevard Pasteur, Tanger
BANQUE INTERNATIONALE DE TANGER - BANQUE OFFSHORE (B.I.T B.O.S)	Angle Avenue Mohamed V et Rue Moussa Bnou Noussair, Tanger
BMCI - BANQUE OFFSHORE - GROUPE BNP (BMCI B.O.S)	Boulevard Youssef Ben Tachfine et Angle Boulevard Madrid, Tanger
SOCIETE GENERALE TANGER OFFSHORE (S.G.T O.S)	58, Avenue Mohamed V, Tanger
BMCE - BANQUE OFFSHORE	Zone Franche, Port de Tanger, BP 513, Tanger
CHAABI INTERNATIONAL BANK OFFSHORE (CIB BANQUE OFFSHORE)	Rue Cellini, Sidi Boukhari - Tanger

Appendix 4

List of microcredit associations

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

Appendix 5

List of funds transfer companies

Name	Adresse
DAMANE CASH	212, Avenue Mohamed V - Résidence Elite. Bureau 211 - Guéliz - Marrakech
EUROSOL	Résidence Ahssan Dar, Appart 3 et 4 ; Av Hassan II Rabat
QUICK MONEY	16/18 Lot.Attaoufik Espace Jet Business Class - Sidi Maarouf - Casablanca
MEA Finance Service	Résidence Hadi n°27, Rue Salim Cherkaoui. 6^{éme} étage - Casablanca
CASH PLUS	1, Rue des Pléiades - Quartier des Hopitaux - Casablanca
TRANSFERT EXPRESS	282, Boulevard de la Résistance et Angle Rue de Strasbourg - Casablanca
MONEYON MAROC	52, Boulevard Zerktouni Espace Erreada - Casablanca
Al Barid Cash	Bd Abdelmoumen, Immeuble Atrium, N°374 lotissement Manazyl Al Maymoune, Casablanca
UAE Exchange Morocco	3, Rue Bab Mansour, Espace porte d'Anfa - Casablanca
Maroc Traitement de Transactions «M2T»	Technopark, route de Nouaceur, BP 16430 - Casablanca

Appendix 6

Banks' aggregate balance sheet - activity in Morocco
As at December 31, 2014

(Thousands of dirhams)

Assets	31/12/2013	31/12/2014
Cash values, central banks, Public Treasury and Postal Checks Service	**29 967 592**	**21 577 196**
Loans to credit institutions and similar entities	**120 135 699**	**130 421 793**
. Demand	18 067 740	24 442 481
. Time	102 067 959	105 979 312
Due from customers	**665 692 849**	**675 163 692**
. Overdraft facilities and consumer loans	220 242 993	227 834 716
. Overdraft facilities and consumer loans	162 735 955	165 055 929
. Real-estate loans	230 021 932	236 643 463
. Other loans	52 691 969	45 629 584
Factoring loans	**4 758 108**	**4 846 189**
Trading and held-for-sale securities	**159 730 866**	**157 003 696**
. Treasury bills and the like	97 887 129	79 143 032
. Other debt securities	17 154 238	15 482 301
. Title deeds	44 689 499	62 378 363
Other assets	**15 767 011**	**15 270 873**
Investment securities	**43 621 399**	**41 310 480**
. Treasury bills and the like	38 788 681	37 682 692
. Other debt securities	4 832 718	3 627 788
Equity securities and the like	**31 709 158**	**32 255 277**
Subordinated loans	**1 357 645**	**997 690**
Fixed assets for leasing and rental	**1 485 490**	**1 808 029**
Intangible fixed assets	**4 827 777**	**5 102 532**
Tangible fixed assets	**16 058 499**	**17 544 132**
Total assets	**1 095 112 093**	**1 103 301 579**

(Thousands of dirhams)

Liabilities	31/12/2013	31/12/2014
Central banks, Treasury, Postal Checks Service	**23**	**100**
Due to credit institutions and similar entities	**129 882 001**	**108 418 119**
. Demand	11 324 853	12 147 699
. Time	118 557 148	96 270 420
Customers' deposits	**722 252 729**	**769 769 841**
. Creditor demand deposits	417 483 987	446 307 104
. Savings accounts	120 070 099	129 844 476
. Time deposits	161 323 004	170 765 624
. Other creditor accounts	23 375 639	22 852 637
Debt securities issued	**66 589 653**	**63 373 609**
. Negotiable debt securities	59 768 064	55 725 328
. Bond loans	4 946 290	5 996 085
. Other debt securities issued	1 875 299	1 652 196
Other liabilities	**40 656 299**	**20 101 000**
Provisions for risks and expenses	**7 921 679**	**8 827 717**
Regulated provisions		
Subsidies, allocated public funds and special guarantee funds	**2 576 865**	**2 724 498**
Subordinated debts	**23 254 215**	**24 589 213**
Reevaluation gaps	**409 848**	**409 849**
Reserves and premiums related to capital	**63 524 455**	**65 451 543**
Capital	**24 205 880**	**24 617 088**
Shareholders. Unpaid capital (-)	**-340 000**	**-228 000**
Retained earnings (+/-)	**4 257 528**	**4 810 079**
Net income before appropriation (+/-)	**7 038**	**425 489**
Net income for the year (+/-)	**9 913 880**	**10 011 434**
Total liabilities	**1 095 112 093**	**1 103 301 579**

(Thousands of dirhams)

OFF-BALANCE SHEET	31/12/2013	31/12/2014
COMMITMENTS GIVEN	**205 433 615**	**196 552 123**
Financing commitments to credit institutions and similar entities	2 552 876	3 269 625
Financing commitments to customers	76 767 396	72 063 555
Guarantee commitments to credit institutions and similar entities	36 407 017	37 747 718
Guarantee commitments to customers	82 852 052	81 279 993
Securities bought under repurchase agreements	6 746 319	
Other securities to deliver	107 955	2 191 232
COMMITMENTS RECEIVED	**62 044 054**	**66 245 948**
Financing commitments received from credit institutions and similar entities	2 815 496	3 041 922
Guarantee commitments received from credit institutions and similar entities	50 458 928	53 262 635
Guarantee commitments received from the government and sundry guarantee institutions	5 738 988	7 265 591
Securities sold under repurchase agreements		
Other securities to receive	3 030 642	2 675 800

Appendix 7

Banks' Aggregate Loss and Profit statement - activity in Morocco from January 1 to December 31, 2014

(Thousands of dirhams)

	31/12/2013	31/12/2014
+ Interests and related income	46 630 245	47 681 455
- Interests and related expenses	18 014 619	18 236 746
Interest margin	**28 615 626**	**29 444 709**
+ Gains on fixed assets leasing and rentals	156 631	314 760
- Expenses on fixed assets leasing and rentals	96 739	225 973
Income from leasing and rental transactions	**59 892**	**88 787**
+ Commissions received	5 966 539	6 145 846
- Commissions paid	568 592	560 822
Margin on commissions	**5 397 947**	**5 585 024**
± Gains on trading securities' transactions	3 248 577	6 444 106
± Gains on investment securities' transactions	98 654	680 170
± Gains on foreign exchange transactions	1 584 610	1 589 124
± Gains on derivatives transactions	144 230	-622 724
Income from market operations	**5 076 071**	**8 090 676**
+ Other banking income	3 006 135	2 806 161
- Other banking expenses	1 854 529	1 967 986
Net banking income	**40 301 142**	**44 047 371**
± Gains on financial fixed assets transactions	-73 215	-307 797
+ Other non-banking operating income	691 619	600 423
- Other non-banking operating expenses	185 938	282 410
- General operating expenses	19 238 696	20 284 489
Gross operating income	**21 494 912**	**23 773 098**
± Allocations net of provisions for non-performing loans and commitments by signature	-5 466 920	-7 158 383
± Other allocations net of reversals of provisions	-975 023	-805 124
Current income	**15 052 969**	**15 809 591**
Extraordinary income	**-492 066**	**-478 710**
- Income tax	4 647 023	5 319 447
Net income for the year	**9 913 880**	**10 011 434**

Appendix 8

Aggregate balance sheet of finance companies
As at December 31, 2014

(Thousands of dirhams)

Assets	31/12/2013	31/12/2014
Cash values, central banks, Public Treasury and Postal Checks Service	**160 426**	**165 226**
Loans to credit institutions and similar entities	**2 340 335**	**4 518 390**
. Demand	1 485 161	821 368
. Time	855 174	3 697 022
Due from customers	**34 370 544**	**30 773 776**
. Overdraft facilities and consumer loans	31 963 347	27 644 777
. Equipment loans	179 111	583 665
. Real-estate loans	1 064 536	1 281 299
. Other loans	1 163 550	1 264 035
Factoring loans	**4 727 450**	**5 849 012**
Trading and held-for-sale securities	**647 883**	**605 555**
. Treasury bills and the like	358	358
. Other debt securities	5 539	374
. Title deeds	641 986	604 823
Other assets	**3 176 856**	**3 487 224**
Investment securities	**99 271**	**148 957**
. Treasury bills and the like	99 271	148 957
. Other debt securities		
Equity securities and the like	**48 622**	**107 745**
Subordinated loans		
Fixed assets for leasing and rental	**51 051 926**	**52 143 312**
Intangible fixed assets	**794 897**	**793 704**
Tangible fixed assets	**600 640**	**580 035**
Total assets	**98 018 850**	**99 172 936**

(Thousands of dirhams)

Liabilities	31/12/2013	31/12/2014
Central banks, Treasury, Postal Checks Service		**695**
Due to credit institutions and similar entities	**57 365 497**	**57 222 097**
. Demand	7 296 983	8 382 271
. Time	50 068 514	48 839 826
Customers deposits	**7 000 777**	**7 405 863**
. Creditor demand deposits	646 219	743 933
. Savings accounts		
. Time deposits	581 499	339 662
. Other creditor accounts	5 773 059	6 322 268
Debt securities issued	**15 966 269**	**15 159 029**
. Negotiable debt securities	13 474 928	13 260 577
. Bond loans	2 478 204	1 865 598
. Other debt securities issued	13 137	32 854
Other liabilities	**5 681 790**	**6 307 473**
Provisions for risks and expenses	**357 993**	**359 810**
Regulated provisions	**37 966**	**25 363**
Subsidies, allocated public funds and special guarantee funds	**141 870**	**172 043**
Subordinated debts	**417 440**	**1 540 275**
Reevaluation gaps	**363 755**	**16 957**
Reserves and premiums related to capital	**3 918 369**	**3 964 933**
Capital	**3 826 806**	**3 772 687**
Shareholders. Unpaid capital (-)		
Retained earnings (+/-)	**1 507 388**	**1 722 038**
Net income before appropriation (+/-)		
Net income for the year (+/-)	**1 432 930**	**1 503 673**
Total liabilities	**98 018 850**	**99 172 936**

Appendix 9

Aggregate Loss and Profit statement of finance companies from January 1 to December 31, 2014

(Thousands of dirhams)

	31/12/2013	31/12/2014
+ Interest and related income	4 063 428	3 871 737
- Interest and related expenses	3 430 845	3 322 479
Interest margin	**632 583**	**549 258**
+ Gains on fixed assets leasing and rentals	17 688 342	18 017 742
- Expenses on fixed assets leasing and rentals	14 448 044	14 734 890
Income from leasing and rental transactions	**3 240 298**	**3 282 852**
+ Commissions received	1 618 224	1 838 894
- Commissions paid	507 593	572 563
Margin on commissions	**1 110 631**	**1 266 331**
± Gains on trading security transactions	14 882	11 332
± Gains on investment security transactions	19 615	35 353
± Gains on foreign exchange transactions	21 673	28 464
± Gains on derivatives transactions		
Income from market operations	**56 170**	**75 149**
+ Other banking income	90 833	112 557
- Other banking expenses	4 399	10 882
Net banking income	**5 126 116**	**5 275 265**
± Gains on financial fixed asset transactions	88	8
+ Other non-banking operating income	125 145	92 529
- Other non-banking operating expenses	6 146	4 269
- General operating expenses	2 038 007	2 048 665
Gross operating income	**3 207 196**	**3 314 869**
± Allocations net of reversals of provisions for non-performing loans and commitments by signature	-911 781	-1 147 850
± Other allocations net of reversals of provisions	-1 930	230 215
Current income	**2 293 485**	**2 397 234**
Extraordinary income	**22 981**	**-43 993**
- Income tax	883 536	849 568
Net income for the year	**1 432 930**	**1 503 673**

Appendix 10

Aggregate balance sheet of consumer loan companies
As at December 31, 2014

(Thousands of dirhams)

ASSETS	31/12/2013	31/12/2014
Cash values, central banks, Public Treasury and Postal Checks Service	**85 191**	**74 386**
Loans to credit institutions and similar entities	**606 121**	**501 472**
. Demand	553 126	467 766
. Time	52 995	33 706
Due from customers	**32 730 111**	**28 703 382**
. Overdraft facilities and consumer loans	31 529 979	27 403 063
. Equipment loans	179 111	246 681
. Real-estate loans	19 876	21 957
. Other loans	1 001 145	1 031 681
Factoring loans	**260 986**	**300 226**
Trading and held-for-sale securities	**36 727**	**3 328**
. Treasury bills and the like	358	358
. Other debt securities		
. Title deeds	36 369	2 970
Other assets	**2 045 055**	**2 382 604**
Investment securities		
. Treasury bills and the like		
. Other debt securities		
Equity securities and the like	**18 794**	**18 709**
Subordinated loans		
Fixed assets for leasing and rental	**9 621 259**	**10 255 163**
Intangible fixed assets	**389 851**	**378 722**
Tangible fixed assets	**421 677**	**400 355**
Total assets	**46 215 772**	**43 018 347**

(Thousands of dirhams)

Liabilities	31/12/2013	31/12/2014
Central banks, Treasury, Postal Checks Service		**695**
Due to credit institutions and similar entities	**25 482 481**	**19 646 180**
. Demand	1 438 901	1 005 755
. Time	24 043 580	18 640 425
Customers' deposits	**4 824 714**	**5 463 737**
. Creditor demand deposits		
. Savings accounts		
. Time deposits		
. Other creditor accounts	4 824 714	5 463 737
Debt securities issued	**6 758 355**	**7 864 966**
. Negotiable debt securities	6 745 218	7 864 966
. Bond loans		
. Other debt securities issued	13 137	
Other liabilities	**2 976 242**	**3 300 965**
Provisions for risks and expenses	**126 798**	**95 720**
Regulated provisions	**24 052**	**24 447**
Subsidies, allocated public funds and special guarantee funds		
Subordinated debts		**497 120**
Reevaluation gaps	**16 957**	**16 957**
Reserves and premiums related to capital	**2 603 598**	**2 646 339**
Capital	**2 011 319**	**1 892 200**
Shareholders. Unpaid capital (-)		
Retained earnings (+/-)	**641 605**	**723 848**
Net income before appropriation (+/-)		
Net income for the year (+/-)	**749 651**	**845 173**
Total liabilities	**46 215 772**	**43 018 347**

Appendix 11

Aggregate Loss and Profit statement of consumer loan companies from January 1 to December 31, 2014

(Thousands of dirhams)

	31/12/2013	31/12/2014
+ Interests and related income	3 637 233	3 281 658
- Interests and related expenses	1 531 700	1 349 489
INTEREST MARGIN	**2 105 533**	**1 932 169**
+ Gains on fixed assets leasing and rentals	3 122 323	3 557 031
- Expenses on fixed assets leasing and rentals	2 800 010	3 174 938
Income from leasing and rental transactions	**322 313**	**382 093**
+ Commissions received	545 586	632 474
- Commissions paid	81 616	77 067
Margin on commissions	**463 970**	**555 407**
± Gains on trading securities transactions	1 060	1 458
± Gains on investment securities transactions	2 115	4 961
± Gains on foreign exchange transactions	156	49
± Gains on derivatives transactions		
Income from market operations	**3 331**	**6 468**
+ Other banking income	75 613	94 863
- Other banking expenses	1 155	8 697
Net banking income	**2 969 605**	**2 962 303**
± Gains on financial fixed assets transactions	88	8
+ Other non-banking operating income	53 534	29 289
- Other non-banking operating expenses	9	428
- General operating expenses	1 240 332	1 175 818
Gross operating income	**1 782 886**	**1 815 354**
± Allocations net of reversals of provisions for non-performing loans and commitments by signature	-555 980	-551 806
± Other allocations net of reversals of provisions	62 388	16 882
Current income	**1 289 294**	**1 280 430**
Extraordinary income	**-107 993**	**7 633**
- Income tax	431 650	442 890
Net income for the year	**749 651**	**845 173**

Appendix 12

Aggregate balance sheet of leasing companies
As at December 31, 2014

(Thousands of dirhams)

Assets	31/12/2013	31/12/2014
Cash values, central banks, Public Treasury and Postal Checks Service	**624**	**120**
Loans to credit institutions and similar entities	**9 410**	**1 839**
. Demand	9 410	1 839
. Time		
Due from customers	**74 677**	**78 027**
. Overdraft facilities and consumer loans	24 563	20 900
. Equipment loans		
. Real-estate loans	21 764	19 463
. Other loans	28 350	37 664
Factoring loans		
Trading and held-for-sale securities	**454**	**374**
. Treasury bills and the like		
. Other debt securities	454	374
. Title deeds		
Other assets	**898 946**	**855 831**
Investment securities	**27**	
. Treasury bills and the like	27	
. Other debt securities		
Equity securities and the like	**29 723**	**23 723**
Subordinated loans		
Fixed assets for leasing and rental	**41 430 667**	**41 888 149**
Intangible fixed assets	**147 389**	**152 048**
Tangible fixed assets	**25 844**	**31 006**
Total assets	**42 617 761**	**43 031 117**

(Thousands of dirhams)

Liabilities	31/12/2013	31/12/2014
Central banks, Treasury, Postal Checks Service		
Due to credit institutions and similar entities	**27 512 580**	**29 725 735**
. Demand	2 997 819	3 801 939
. Time	24 514 761	25 923 796
Customers' deposits	**798 604**	**596 470**
. Creditor demand deposits	20 234	28 186
. Savings accounts		
. Time deposits	581 499	339 662
. Other creditor accounts	196 871	228 622
Debt securities issued	**9 207 914**	**7 294 063**
. Negotiable debt securities	6 729 710	5 395 611
. Bond loans	2 478 204	1 865 598
. Other debt securities issued		32 854
Other liabilities	**2 002 362**	**2 186 682**
Provisions for risks and expenses	**149 947**	**148 913**
Regulated provisions	**1 144**	**916**
Subsidies, allocated public funds and special guarantee funds		
Subordinated debts	**63 440**	**66 371**
Reevaluation gaps		
Reserves and premiums related to capital	**1 149 665**	**1 150 507**
Capital	**834 209**	**874 209**
Shareholders. Unpaid capital (-)		
Retained earnings (+/-)	**612 830**	**692 994**
Net income before appropriation (+/-)		
Net income for the year (+/-)	**285 066**	**294 257**
Total liabilities	**42 617 761**	**43 031 117**

Appendix 13

Aggregate Loss and Profit statement of leasing companies from January 1 to December 31, 2014

(Thousands of dirhams)

	31/12/2013	31/12/2014
+ Interest and related income	2 519	6 284
- Interest and related expenses	1 734 351	1 712 945
INTEREST MARGIN	**-1 731 832**	**-1 706 661**
+ Gains on fixed assets leasing and rentals	14 565 574	14 459 846
- Expenses on fixed assets leasing and rentals	11 648 034	11 559 952
Income from leasing and rental transactions	**2 917 540**	**2 899 894**
+ Commissions received	10 708	13 661
- Commissions paid	10 963	9 335
Margin on commissions	**-255**	**4 326**
± Gains on trading securities transactions		
± Gains on investment securities transactions		
± Gains on foreign exchange transactions	38	22
± Gains on derivatives transactions		
Income from market operations	**38**	**22**
+ Other banking income	1 929	1 327
- Other banking expenses	231	263
Net banking income	**1 187 189**	**1 198 645**
± Gains on financial fixed assets transactions		
+ Other non-banking operating income	8 723	6 961
- Other non-banking operating expenses	5 353	3 841
- General operating expenses	303 410	320 803
Gross operating income	**887 149**	**880 962**
± Allocations net of reversals of provisions for non-performing loans and commitments by signature	-343 994	-567 888
± Other allocations net of reversals of provisions	-57 477	219 893
Current income	**485 678**	**532 967**
Extraordinary income	**5 793**	**-58 598**
- Income tax	206 405	180 112
Net income for the year	**285 066**	**294 257**

Appendix 14

Consolidated balance sheet of the eight banking groups
As at December 31, 2014

(Thousands of dirhams)

Assets	31/12/2013	31/12/2014
Cash values, central banks, Treasury and Postal Checks Service	39 710 365	33 593 002
Financial assets at fair value by result	96 588 716	106 283 851
Hedging derivatives		
Financial assets held-for-sale	72 630 976	87 319 666
Claims on credit institutions and similar entities	56 716 471	61 352 655
Claims on customers	786 643 645	802 057 489
Asset revaluation gap on interest hedged portfolios		
Held-to-maturity investments	44 823 344	50 006 413
Current tax assets	1 996 621	2 199 838
Differed tax assets	2 432 405	2 534 701
Adjustment accounts and other assets	19 259 238	19 693 040
Non-recurrent assets held for sale	103 621	97 089
Participations in businesses-equity method	1 663 603	1 711 586
Investment property	2 716 781	3 401 722
Tangible fixed assets	23 671 394	25 163 446
Intangible fixed assets	3 650 560	3 892 691
Goodwill	9 013 664	8 964 679
Total assets	**1 161 621 404**	**1 208 271 868**

(Thousands of dirhams)

Liabilities	31/12/2013	31/12/2014
Central banks, Treasury, Postal Checks Service	**348 326**	**205 866**
Financial liabilities at fair value by result	**3 796 603**	**4 899 802**
Hedging derivatives	**47 633**	**2 018**
Due to credit institutions and similar entities	**137 723 091**	**124 328 753**
Due to customers	**756 293 261**	**810 129 231**
Debt securities issued	**60 706 333**	**56 342 805**
Liability reevaluation gaps on hedged interest portfolios		
Current tax liabilities	**2 664 998**	**4 064 530**
Differed tax liabilities	**4 537 463**	**4 741 968**
Adjustment accounts and other liabilities	**28 961 096**	**27 121 868**
Liabilities linked to non-current assets held for sale		
Technical provisions of insurance contracts	**20 312 549**	**22 338 247**
Provisions	**4 499 036**	**5 239 949**
Subsidies and similar funds	**2 711 866**	**2 866 837**
Subordinated debts and special guarantee funds	**22 307 352**	**24 272 758**
Equity capital	**116 711 797**	**121 717 236**
Equity - Share of the Group	**104 123 817**	**108 892 383**
Capital and related reserves	56 629 747	58 944 430
Consolidated reserves	36 784 970	36 992 803
Unrealized or deferred gains or losses	1 253 832	2 586 804
Income of the year	9 455 268	10 368 347
Minority shareholdings	**12 587 980**	**12 824 853**
Total liabilities	**1 161 621 404**	**1 208 271 868**

Appendix 15

Consolidated income statement of the eight banking groups
As at December 31, 2014

(Thousands of dirhams)

	31/12/2013	31/12/2014
+ Interest and related income	55 876 127	58 352 080
- Interest and related expenses	20 393 229	20 597 173
Interest margin	**35 482 898**	**37 754 907**
+ Commissions (Income)	10 472 669	10 914 881
- Commissions (Expenses)	1 313 672	1 342 029
Margin on commissions	**9 158 997**	**9 572 852**
+/- Net gains or losses on Financial instruments at fair value by result	4 919 307	7 537 622
+/- Net gains or losses on financial assets available for sale	1 136 436	844 551
+ Income from other activities	7 808 028	8 589 578
- Expenses on other activities	6 147 680	6 927 491
Net banking income	**52 357 986**	**57 372 019**
- General operating expenses	23 222 533	24 703 049
- Amortization and depreciation allocations of tangible and intangible fixed assets	2 705 568	2 839 224
Gross operating income	**26 429 885**	**29 829 746**
- Cost of risk	-7 721 222	-10 849 831
Operating income	**18 708 663**	**18 979 915**
+/- Share of the net income of equity-consolidated companies	171 156	178 426
+/- Net gains or losses on other assets	181 007	98 646
+/- Value change of goodwill	3 478	
Income before tax	**19 064 304**	**19 256 987**
- Income tax	6 767 081	6 266 959
+/- Net income of discontinued activities or activities being discontinued		
Net income	**12 297 223**	**12 990 028**
Minority shareholdings	**2 841 955**	**2 621 681**
NET INCOME - SHARE OF THE GROUP	**9 455 268**	**10 368 347**

Appendix 16

Core financial soundness indicators for banks– individual basis

	2012	2013	2014
Capital adequacy			
Solvency ratio	12,3	13,3	13,8
Core equity / total weighted risks	10,1	11,1	11,6
Non-performing loans net of provisions (as a part of capital)	13,6	16,8	19,2
Quality of Assets			
Non-performing loans rate (Non-performing loans/total loans)	**5,0**	**5,9**	**6,9**
Sectoral distribution of loans			
Loans to the primary sector	5,5	6,2	5,7
Loans to the building and public-work sector	12,6	12,4	12,2
Loans to the processing industry	17,0	16,5	17,6
Loans to the general government and local communes	5,0	5,0	4,7
Loans to the trade sector	6,7	6,2	6,6
Loans to the tourist sector	2,9	2,4	2,4
Households	28,9	29,7	31,4
Loans to other sectors	21,4	21,6	19,4
Income and profitability			
Return on assets (ROA)	1,0	1,0	1,0
Return on equity (ROE)	11,8	10,6	10,2
Interest margin / net banking income (NBI)	76,6	74,0	69
General operating expenses / NBI	47,5	47,7	46,1
Liquidity			
Liquid assets / total assets	**10,5**	**12,5**	**13,3**
Liquid assets / short-term liabilities	**14,7**	**17,4**	**17,7**
Net open foreign exchange positions / capital	**7,4**	**11,3**	**9,0**

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Dépôt légal : 2016 MO 1004
ISBN : 978-9981-873-77-3
ISSN : 2351-8774

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