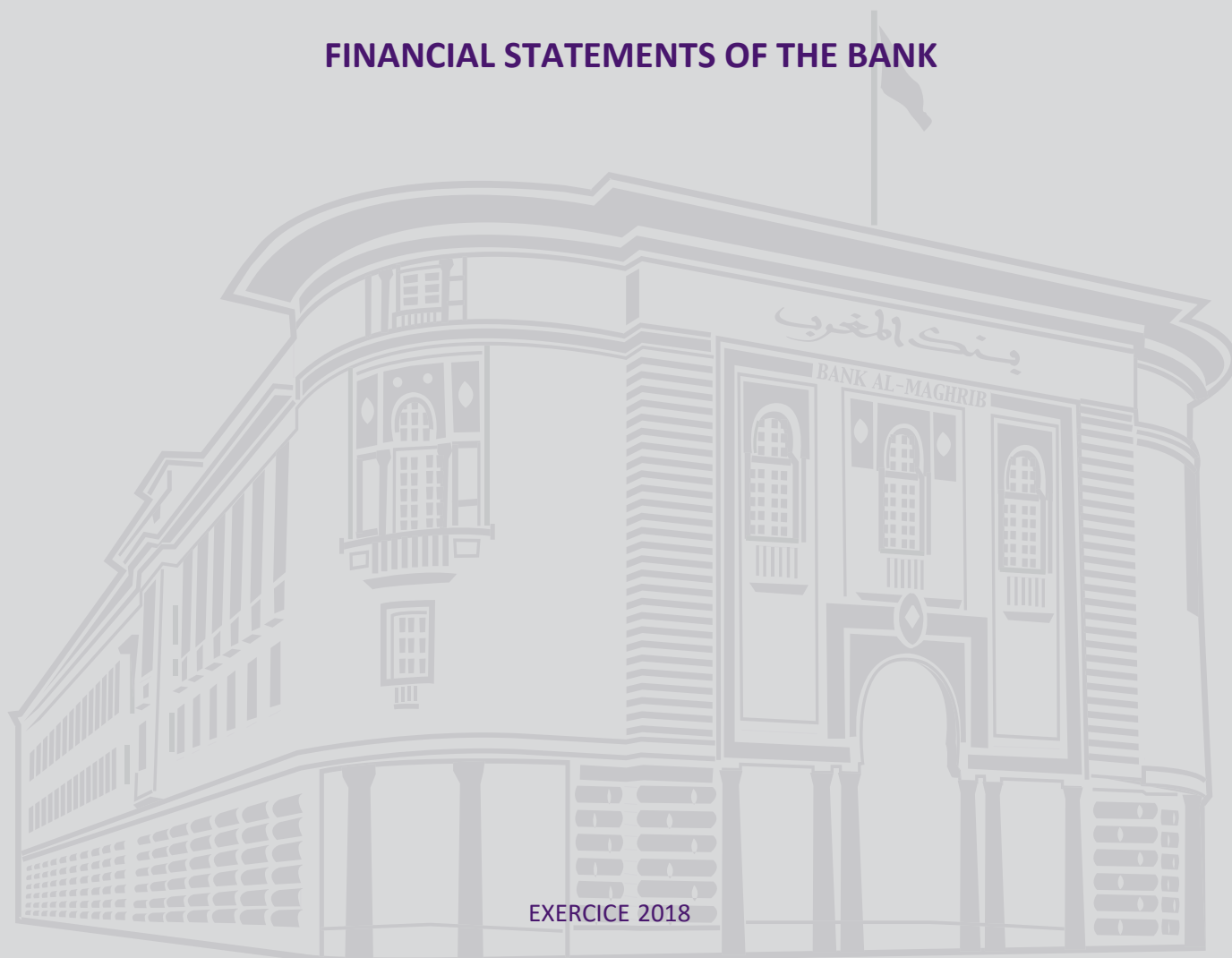




FINANCIAL STATEMENTS OF THE BANK



EXERCICE 2018

In this part of the report, figures are rounded to the nearest thousand dirhams. Therefore, totals and sub-totals do not always correspond to the sum of the relevant rounded off figures.

Macroeconomic data are taken from various economic, monetary and financial publications.



3.1 Overview of the financial position of the fiscal year⁽¹⁾

3.1.1 Balance sheet

As at December 31, 2018, the Bank's total balance sheet stood at 312,725,033 KDH from 295,374,535 KDH a year earlier, up 6 percent.

By main operation, this change is attributed to a 7 percent increase to 248,477,842 KDH in currency in circulation. It also reflects declines of 4 percent to 209,796,689 KDH in foreign transactions and 32 percent to 2,307,338 KDH in transactions with the State, mainly due to higher current account assets held by the Treasury (-672,452 KDH). Similarly, net position of credit institutions worsened markedly from -18,428,107 KDH to -43,857,909 KDH, as a result of the Bank's increased intervention in the money market to cope with a widening liquidity deficit.

Table 3.1.1: Balance sheet by transaction

In thousand dirhams	2018	2019	Change (%)
(of which)			
Currency in circulation	248 477 842	231 783 652	7
Transactions with foreign countries	-209 796 689	-219 310 119	-4
Transactions with the State	1 576 337	2 307 338	-32
Net position of credit institutions	-43 857 909	-18 428 107	<-100
Assets transactions	2 442 930	2 432 864	0.4

liabilities -Assets

3.1.2 Income

At the end of the 2018 financial year, the Bank's net income stood at 985,287 KDH, down 6 percent, covering an improved income from activities and higher general operating expenses.

Thus, net income from foreign exchange reserve management operations rose by 18 percent to 1,682,268 KDH, owing to higher yield rates of assets in dollar as well as a 30 percent decrease to 1,340,455 KDH in expenses related to foreign currency investments.

Monetary policy operations registered a robust increase (+ 51 percent) to 1,389,378 KDH, following a higher volume of Bank's interventions in the money market.

Conversely, income from other transactions fell by 40 percent to 548,165 KDH, particularly in connection with lower foreign exchange commissions (-106,072 KDH) and a lower intermediation margin, which fell to 11,409 KDH from 145,948 KDH at end-2017.

¹ Changes in the balance sheet and profit and loss account items are addressed in more details in the comments section of the financial statements. For purposes of analysis, the balance sheet and profit and loss account items were adjusted in this part of the report.

Table 3.1.2: Net income of the fiscal year

In thousand dirhams	2018	2017	Change (%)
Income from foreign exchange reserves management operations	1 682 268	1 426 049	18
Income of monetary policy operations	1 389 378	918 284	51
Income of other operations	548 165	916 170	-40
Income of activities	3 619 811	3 260 503	11
General operating expenses	-1 802 101	-1 641 333	10
Gross operating income	1 817 711	1 619 170	12
Noncurrent income	-252 332	72 786	<-100
Income tax	-580 092	-649 049	-11
Net income	985 287	1 042 906	-6

3.2 Summary statements and related notes

3.2.1 Balance sheet (assets)

Table 3.2.1: Assets as at December 31, 2018

In thousand dirhams	Notes	2018	2017
Assets and investments in gold	1	8 731 475	8 596 562
Assets and investments in foreign currency	2	216 223 579	226 510 350
Holdings and investments held in foreign banks		52 394 684	44 722 540
Foreign Treasury bills and similar securities		160 298 056	178 239 660
Other holdings in foreign currency		3 530 840	3 548 150
Assets with international financial institutions	3	9 863 989	9 846 591
IMF subscription-Reserve tranche		2 152 196	2 152 611
Special Drawings Rights holdings		7 308 650	7 317 075
Subscription to the Arab Monetary Fund		403 143	376 905
Lending to the Government		-	-
Conventional advances		-	-
Overdraft facilities advances		-	-
Other facilities		-	-
Claims on Moroccan credit institutions and similar ones	4	69 367 897	42 209 670
Securities received under repurchase agreements		-	-
Advances to banks		69 302 257	42 152 864
Other claims		65 640	56 806
Treasury bills - Open market operations		-	-
Other assets	5	5 452 636	5 114 561
Fixed assets	6	3 085 457	3 096 800
Total assets		312 725 033	295 374 535

3.2.2 Balance sheet (liabilities)

Table 3.2.2: Liabilities as of December 31, 2018

In thousand dirhams	Notes	2018	2017
Banknotes and coins in circulation	7	248 477 842	231 783 652
Banknotes in circulation		245 135 550	228 591 884
Coins in circulation		3 342 291	3 191 768
Commitments in gold and foreign currency	8	8 492 088	8 476 715
Commitments in gold		-	-
Commitments in foreign currency		8 492 088	8 476 715
Commitments in convertible dirhams	9	223 686	230 932
Commitments to international financial institutions		213 543	222 578
Other liabilities		10 143	8 354
Deposits and commitments in dirhams	10	31 659 471	30 619 347
Current account of the Treasury		1 216 398	1 888 850
Deposits and commitments in dirhams to Moroccan banks		25 509 987	23 781 564
Current accounts		25 509 987	23 781 564
Liquidity-withdrawal accounts		-	-
Deposit facility accounts		-	-
Deposits of general government and public institutions		1 598 074	1 921 892
Other accounts		3 335 011	3 027 042
Other liabilities	11	9 889 337	10 232 029
Special Drawing Rights allocations	3	7 468 935	7 459 290
Equity capital and the like	12	5 528 387	5 529 664
Capital		500 000	500 000
Reserves		5 001 340	5 001 340
Retained earnings		27 046	26 140
Other equity capital		0	2 184
Net income of the fiscal year		985 287	1 042 906
Total liabilities		312 725 033	295 374 535

3.2.3 Off-balance sheet

Table 3.2.3: Off-balance sheet as of December 31, 2018

In thousand dirhams	Notes	2018	2017
Spot foreign exchange transactions			
Spot delivery of currencies			-
Spot purchase of dirhams			-
Forward foreign exchange transactions			
Foreign currencies receivable			-
Foreign currencies deliverable			-
Foreign exchange transactions- currency deposits	13	6 428 495	1 679 310
Foreign exchange transactions-arbitrage operations	13		
Foreign currencies receivable		-	505 629
Foreign currencies deliverable		-	504 553
Off-balance currency adjustment		-	-
Commitments on derivatives		-	-
Commitments on securities	14		
Securities received on advances granted		70 599 743	41 128 646
Securities received on advances to be granted		10 025 700	13 462 900
Other guarantees received on advances granted		2 753 697	3 656 100
Advances to be granted		9 524 415	12 789 755
Foreign securities receivable		5 458 712	363 851
Foreign securities deliverable		2 102 925	-
Other liabilities	15		
Received market guarantees		58 583	47 989
Guarantees commitments received for staff loans		846 161	825 609
Financing commitments granted to the staff		32 165	35 300
Other granted commitments		1 000	1 000

3.2.4 Profit and loss account

Table 3.2.4: Profit and loss account as at December 31, 2018

In thousand dirhams	Notes	2018	2017
Profit		5 431 819	5 538 620
Interests earned on holdings and investments in gold and in foreign currency	16	2 681 949	2 917 861
Interests earned on claims on credit institutions and similar bodies	17	1 422 337	956 308
Other interests earned	18	13 374	12 958
Commissions earned	19	608 351	844 960
Other financial revenues	20	156 006	120 499
Sales of produced goods and services	21	225 852	271 242
Miscellaneous revenues	22	17 826	27 477
Reversal of depreciation		-	-
Reversal of provisions	23	297 623	316 721
Noncurrent revenues	24	8 501	70 595
Expenses		4 446 532	4 495 714
Interests paid on commitments in gold and in foreign currency	25	184 384	77 778
Interests paid on deposits and commitments in dirhams	26	326 354	271 095
Commissions paid	27	32 471	16 609
Other financial expenses	28	1 063 238	1 645 436
Staff expenses	29	988 860	739 420
Purchases of materials and supplies	30	243 702	250 114
Other external expenses	31	352 911	321 385
Depreciation and provision expenses	32	419 450	522 696
Noncurrent expenses		255 072	2 132
Income tax	33	580 092	649 049
Net income		985 287	1 042 906

3.3.5 Main accounting rules and evaluation methods

3.3.5.1 Legal framework

The financial statements are developed and presented in conformity with the BAM Chart of Accounts, approved by the National Accounting Board in May 2007.

The Bank applies the accounting requirements specified in the General Accounting Standard for issues common to companies in terms of assessing stocks and fixed and other assets, and applies particular provisions for the evaluation of its financial transactions.

The financial statements, as cited under Article 55 of Law No.76-03 bearing Statutes of Bank Al-Maghrib, include the balance sheet, off-balance sheet, profit and loss account (PLA) and additional information statement (AIS).

3.3.5.2 Evaluation methods

Foreign exchange operations

Foreign exchange operations include spot and forward purchases and sales of foreign currencies, whether for Bank Al-Maghrib's own account or as part of intermediation with banks. These transactions are entered in the corresponding off-balance sheet accounts on their commitment date. Then, they are recorded in the balance sheet accounts on the value date or on the date of liquidity delivery.

Assets and commitments in gold and foreign currency

Assets and commitments in gold and foreign currency are converted into dirhams based on the applied exchange rate of foreign currencies on the closing date of the fiscal year.

Profits and losses resulting from this operation are entered in the exchange reserves' revaluation account as liabilities on the Bank's balance sheet, in accordance with the agreement governing this account, concluded between Bank Al-Maghrib and the Government on December 29, 2006.

By virtue of this agreement, the "foreign exchange reserve evaluation account" shall maintain a minimum credit balance equal to 2.5 percent of Bank Al-Maghrib's net foreign assets. In the event that a foreign exchange loss causes to bring the balance of the "foreign exchange reserve evaluation account" to a level below the required minimum threshold, the amount of the deficit is deducted from the income of Bank Al-Maghrib of the relevant fiscal year, without exceeding 10 percent of the net profit of the relevant financial year, and placed in a "foreign exchange loss reserve" account. If the said deficit exceeds 10 percent of the net profit of the Bank, the "reserve for foreign exchange loss" account may be replenished over several years.

The balance of the “foreign exchange loss reserve” account is returned to the Treasury if the balance of the “foreign exchange reserve revaluation account” exceeds the required minimum threshold.

This reevaluation mechanism has no tax impact.

Securities

The securities acquired as part of the management of exchange reserves are classified according to the purpose for which they are held (in portfolio of transaction, of securities held for sale, or of investment).

Transaction portfolio consists of securities purchased with the intention, right from the start, to resell them within a short deadline. They are recorded at their purchase price, including costs and, if need be, accrued coupons. Gains and losses resulting from the daily evaluation of these securities at the market price are entered in the corresponding income accounts.

Investment portfolio consists of securities acquired with the intention of being held until maturity. They are entered according to the rules below:

- They are recorded at their purchase price, excluding costs and, if need be, accrued coupons;
- Gains on these securities are not recorded;
- Losses on these securities are recorded only when the Bank judges that the security, which suffers a loss, will be probably sold in the following fiscal year and in the case where there is a probable issuer’s default risk;
- The differences (discounts or premiums) between securities’ prices of purchase and redemption are amortized on a straight-line basis over the remaining life of the securities.

As at December 31, 2018, no provision is recorded for this portfolio.

Portfolio of securities held for sale consists of securities other than those classified as transaction or investment securities. Their recording comes as follows:

- Entries into the portfolio are recorded in the balance sheet at their purchase price, excluding costs and, if need be, accrued coupons;
- The differences (discounts or premiums) between securities’ purchase price and redemption price are not amortized over the duration for these securities holding;
- The unrealized losses resulting from the difference between the book value and the market value of these securities are recorded as depreciation provisions on a daily basis. However, unrealized gains are not counted.

It is worth reminding that as of October 2008, the Bank came up with a sub-category in its securities held-for-sale to include discount securities. These securities are recorded at their redemption price. Discount securities are spread over the life of the securities and entered in the revenue or expense accounts on a daily basis.

Other foreign assets

The Bank holds a portfolio of securities denominated in US dollars. The management of this portfolio is delegated to the World Bank by virtue of delegation contracts.

These securities are initially recorded at their purchase price. The gains or losses are entered in the appropriate profit and loss accounts, on the basis of the market values duly audited and reported by authorized agents and controlled by the Bank's staff.

Tangible and intangible fixed assets

Tangible and intangible fixed assets are recorded at their purchase cost. They are posted on the assets side of the balance sheet at a net value representing their acquisition cost minus accumulated depreciations.

Fixed assets, including incidental expenses, are amortized according to the straight-line method, depending on the estimated duration of use of the goods, and by applying the depreciation rate in force.

The depreciation periods retained according to the nature of each fixed asset are as follows:

Table 3.2.5: Fixed assets depreciation periods

Real properties	20 years
Fixtures, fittings and facilities	5 years
Dar As-Sikkah equipment	10 years
Office equipment, computing materials and software, vehicles and other materials	5 years
Office furniture	10 years

Financial fixed assets

Shareholdings in Moroccan and foreign financial institutions are entered in the assets side of the balance sheet for their net value representing their acquisition cost minus the provisions set up at the closing date. Regarding foreign holdings, their value is converted into dirhams at the historical rate of the currency.

The provisions for depreciation of these unlisted securities are evaluated at the end of the fiscal year following the net asset value method, based on the last financial statements available.

Inventories

Inventories are composed of:

- Consumable materials and supplies;
- raw material for the manufacturing of banknotes and coins (paper, ink, and blanks);
- finished goods and in-process inventory (secured documents and foreign banknotes); and
- commemorative coins.

Consumable materials and supplies are recorded in the balance sheet at their purchase price, minus the provisions for their depreciation, if need be, at the closing date.

Raw materials are recorded in the balance sheet at their purchase price plus the handling costs, and minus the provisions for their depreciation, if need be.

Finished goods and in-process inventory are recorded in the balance sheet at their production cost, minus the provisions for their depreciation, if need be.

3.2.6 Financial risk management system

The purpose of the financial risk management system is to identify, monitor and mitigate the risks inherent in the investment operations of foreign exchange reserves, namely credit, market and liquidity risks.

To achieve this goal, risk management within Bank Al-Maghrib is based on a top-down governance framework that clearly sets out roles and responsibilities.

Thus, the **Bank Board** validates the foreign exchange reserves investment policy and risk tolerances and approves the investment universe and the strategic asset allocation. The **Monetary and Financial Committee** (MFC), chaired by Bank Al-Maghrib's Governor, oversees the implementation of this strategic allocation and validates, on an annual basis, the management strategy proposed by the entity in charge of managing foreign reserves. Finally, the **Operational and Financial Risk Committee** (OFRC), chaired by the Director General, reviews on a periodic basis risk and performance indicators related to the foreign exchange reserves management.

All of the objectives of the holding and management of reserves, investment principles, investment universe, limits by asset category, eligibility and concentration rules for issuers and counterparties as well as the authorized investment terms are formalized in a Bank's directive.

Definition of financial risks

The financial risks to which the Bank is exposed while managing foreign exchange reserves are:

- The **credit risk**, defined as:
 - Firstly, the payment default risk (counterparty risk) which corresponds to a risk of economic loss due to the inability of a counterparty to fulfill its obligations;
 - Secondly, the credit rating reduction risk, relating to the risk of lowering credit rating by one or more rating agencies.
- The **market risk**, which is the risk of loss arising from adverse changes in market factors. It concerns, inter alia, risks related to movements in interest or foreign exchange rates.
- The **liquidity risk**, which represents the possibility of not being able to meet commitments, even by mobilizing assets or at least with a significant capital loss.

Financial risk management

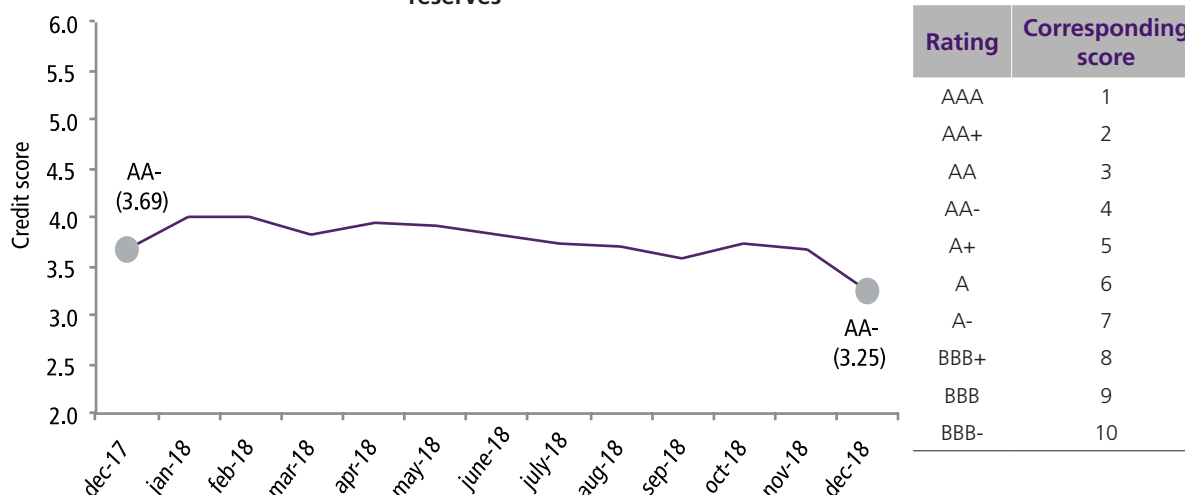
Credit risk

Bank Al-Maghrib ensures that investments made as part of the foreign exchange reserve management comply with its two main objectives, namely security and liquidity. Thus, in addition to the eligibility criteria for issuers and counterparties, the Bank uses more specific tools for credit risk management. These are exposure limits helping to avoid excessive risk taking and concentration. The different categories of limits applied and monitored are credit rating, asset category, country risk, issuer risk and counterparty risk.

In addition to the previous arrangements and with a view to ensuring a better assessment of overall exposure to credit risk, a synthetic indicator (credit risk score) is calculated and monitored on a daily basis. The approach consists in adopting the ratings used by the leading rating agencies (S&P, Moody's and Fitch), to which scores are assigned by a system of equivalence rating/score for each rating level. An average score is thus calculated making it possible to assess exposure in unitary or global manner.

During the year, the credit quality of the assets held improved with a credit risk score falling from 3.69 at end-2017 to 3.25 at end-2018, giving an average rating of "AA". This improvement is particularly due to the increase in the share of U.S. sovereign securities (rated AAA), following new investments in the excess reserves tranche.

Chart 3.2.1: Change in the level of credit risk of overall foreign exchange reserves



Market risk

The Bank manages market risk using a multi-level benchmark portfolios system and permitted deviations from these benchmark portfolios. Also, the management of overall market risk aims to ensure that each held-for-sale portfolio does not incur losses at given prudent levels of confidence.

The market risk exposure inherent in all held-for-sale portfolios, as well as the compliance of portfolio management with the framework defined for this risk, are analyzed on a daily basis using the Bank's information system. The market risk exposure is measured by a set of indicators, including duration, sensitivity, value-at-risk (VaR) and performance volatility relative to benchmark portfolios (tracking error).

3.2.7 Comments on the balance sheet items

Note 1: Assets and investments in gold

Under Article 8 of its Statute, Bank Al-Maghrib holds and manages foreign exchange reserves which consist of gold, SDRs and foreign currency assets. This item contains the dirham equivalent of gold assets deposited in Morocco and with foreign depositors, as well as investments in gold made with foreign counterparties. Since the end of 2006, these assets are evaluated at market prices. Gains and losses resulting from this operation are allocated to the reevaluation account¹ of foreign exchange reserves, in accordance with the agreement governing this account concluded in 2006 between Bank Al-Maghrib and the State.

¹ The credit balance of this account cannot be credited to the income of the financial year nor distributed or affected to any use.

The value of assets and investments in gold continued to rise reaching 8,731,475 KDH in 2018, in connection with the 1.5 percent appreciation in gold price, which stood at 12,280 DH at end-2018. The stock of gold held by the Bank remained virtually unchanged at 711,032 ounces (the equivalent of 22 tonnes), of which 250,000 ounces are placed abroad compared to 680,000 ounces in 2017.

Table 3.2.6: Assets and investments in gold

	2018	2017
Gold price per ounce in dirhams ⁽¹⁾	12 280	12 096
Quantity of gold ounces	711 032	710 712
Market value ⁽²⁾	8 731 475	8 596 562
Gold stock (in tonnes)	22.11	22.10

(1) Price of Gold/MAD

(2) In thousand dirhams

Note 2: Assets and investments in foreign currency

Under the aforementioned Article, this item presents the equivalent in dirhams of assets in convertible foreign currencies, held in the form of demand deposits, time deposits and foreign bond securities.

Table 3.2.7: Breakdown by type of investment

In thousand dirhams	2018	Share in %	2017	Share in %
Demand deposits	17 190 648	8	16 997 789	8
Time deposits	31 018 797	14	23 527 587	10
Securities held for sale ⁽¹⁾	51 287 243	24	31 476 987	14
Investment securities	109 010 813	50	144 570 491	64
Transaction securities	-	-	2 192 182	1
Other ⁽²⁾	7 716 078	4	7 745 313	3
Total	216 223 579	100	226 510 350	100

⁽¹⁾ Taking into account provisions for depreciation.

⁽²⁾ Including accrued interests, management authorizations, and foreign banknotes.

Assets and investments in foreign currency fell in 2018 by 5 percent to 216,223,579 KDH. Thus, the share of this item in the Bank's assets fell from 77 percent to 69 percent.

In terms of distribution, bond securities remain predominant, with a share of 74 percent. Within this category, portfolio of securities held for sale grew 63 percent to 51,287,243 KDH and the investment portfolio fell by 25 percent to 109,010,813 KDH. This change reflects the management strategy adopted in 2018, advocating the creation, within excess reserves, of a new "marked to market" portfolio (MTM) through the reallocation of losses of the "held to maturity" portfolio (HTM).

At the same time, for the management of assets in euro, the Bank maintained its positioning in the money market, given the unattractiveness of bond investments denominated in this currency (largely negative rates compared to money market investments). As a result, money market investments grew by 32 percent to 31,018,797 KDH, bringing their share to 14 percent in 2018 from 10 percent a year earlier.

Note 3: Assets with international financial institutions

This item, reflecting positions with the IMF and AMF, rose slightly to 9,863,989 KDH, mainly as a result of the settlement of the last tranche under the Bank's participation in the AMF capital increase.

Position with the IMF

This includes on the assets side:

- **IMF subscription - Reserve tranche**, which composes the fraction (18.1 percent) subscribed by Bank Al-Maghrib as Morocco's quota in the capital of the IMF. It is composed of:
 - **The available tranche**: 147.35 million SDRs (1,960,312 KDH), representing Bank Al-Maghrib's contribution to the IMF in foreign currency. This tranche, which could be used by our country when needed, is included in the foreign exchange reserves of the Bank. It should be reminded that the Bank had paid, in 2016, an amount of 76.55 million SDRs, equivalent to its share (25

Table 3.2.8: Breakdown by currency

En milliers de dirhams	2018	2017	Change (in %)
EUR	130 198 846	138 126 030	-6
USD	84 815 369	87 397 283	-3
Other currencies	1 209 365	987 037	23
Total	216 223 579	226 510 350	-5

Table 3.2.9: Breakdown by remaining maturity (*)

	2018	2017
≤ 1year	38%	22%
> 1year	62%	78%
Total	100%	100%

(*) Securities held in internally-managed portfolios, including certificates of deposit.

percent) in Morocco's quota increase in the IMF capital under the 14th General Quota Review of the IMF.

Table 3.2.10: Position with the IMF

In thousand dirhams	2018	2017	Change (%)
Assets			
IMF subscription-Reserve tranche	2 152 196	2 152 611	-0.02
SDR holdings	7 308 650	7 317 075	-0.1
Total	9 460 846	9 469 687	-0.1
Liabilities			
SDR allocations	7 468 935	7 459 290	0.1
Accounts No.1 and 2	192 942	199 280	-3
Total	7 661 878	7 658 569	0.04

- **The mobilized tranche:** 14.36 million SDR (191,883 KDH) equal to Bank Al-Maghrib's subscription in national currency, deposited in the IMF "Account No.1" open in the books of the Bank.
- SDR holdings record the equivalent of Bank Al-Maghrib's assets with the IMF. This account records, in the debit side, SDR purchase transactions by the Bank and the remunerations paid by the IMF, while in the credit side, it records payments of commissions on SDR allocations on a quarterly basis and reimbursement of Morocco's borrowings. These assets strengthened substantially in 2014, as the Bank purchased 320 million SDRs to restore a neutral position vis-à-vis the IMF.

At the end of 2018, the equivalent value of SDR holdings decreased by 8,425 KDH to 7,308,650KDH, due to a slight contraction in the number of SDRs combined with the changes in the SDR rate (-2.3 percent) and the US dollar rate (+2.5 percent). During this fiscal year, the Bank settled commitment fees on the IMF Precautionary and Liquidity Line (PLL) of 2,209,140 SDRs (equivalent to 29,394 KDH), as against 5,969,160 SDRs (79,800 KDH) a year earlier.

The SDR allocations item is registered in the liabilities side. It corresponds to the value, in dirhams, of SDR allocations granted by the IMF to Morocco as a member country. In 2009, this account was credited with 5.7 billion dirhams, representing Morocco's share in the general allocation and special allocation (475.8 million SDRs) granted by the IMF to member countries. Quarterly commissions are paid by the Bank to the IMF on these allocations. In 2018, they remained at the same level as the previous year, or 561.42 million SDRs, while their equivalent in dirhams increased to 7,468,935 KDH (+9,646 KDH), owing to the aforementioned variations in the dollar and SDR rates.

AMF subscription

This account represents the fraction paid by the Bank for the paid-in subscription in the capital of the AMF.

Morocco's participation in this institution amounts to 41.33 million Arab dinars, divided between Bank Al-Maghrib and the Treasury as follows:

- 200,000 Arab dinars paid in national currency and deposited in the AMF account open in Bank Al-Maghrib books. The share paid by BAM amounts to 150,000 Arab dinars (5,979KDH);
- 21.69 million Arab dinars, subscribed in foreign currency, of which 10.10 million Arab dinars subscribed by the Bank (403,143 KDH), compared to 9.46 million Arab dinars in 2017, following the Bank's settlement of the last tranche (0.65 million Arab dinars), under its contribution to the AMF capital increase, whose release by member countries is scheduled over the five-year period 2014-2018;
- 19.44 million Arab dinars, of which 9.11 million are attributable to Bank Al-Maghrib for the AMF capital increase by incorporation of reserves, which took place in 2005 (5.88 million Arab dinars) and in 2013 (3.23 million Arab dinars).

Note 4: Claims on Moroccan credit institutions and similar ones

This item covers refinancing operations of credit institutions made as part of the monetary policy conduct, in conformity with Article 6 of the Bank's Statute.

The year 2018 was marked by the continued widening of the banking liquidity deficit, mainly as a result of higher currency in circulation and lower foreign exchange reserves, thus leading the Bank to increase its interventions in the money market.

The analysis of the change in this deficit reveals four phases:

- A slight easing during the first quarter to 46.8 billion dirhams, on monthly average, as against 48.6 billion dirhams a quarter earlier, in connection with the recovery of foreign exchange reserves;
- An increase in banks' liquidity needs to 58.3 billion dirhams in the second quarter, due to both higher currency in circulation and lower foreign exchange reserves;
- A continued widening of the liquidity deficit between July and September with a peak of 76.3 billion dirhams on average in August, mainly reflecting the seasonal increase in currency in circulation and, to a lesser extent, the decline in foreign exchange reserves;
- A gradual easing in the liquidity deficit over the rest of the year, due to lower currency in

circulation and higher foreign exchange reserves, leading the Bank to reduce its injections into the money market to 69,302,257 KDH at the end of the year, divided as follows:

- 67,002,257 KDH through 7-day advances at auction granted at the key rate (2.25 percent since March 2016);
- 2,300,000 KDH corresponding to three operations of one-year secured loans. These operations are part of the program of supporting the financing of VSME, set up in December 2013.

Table 3.2.11: Structure of claims on banks

In thousand dirhams	2018	2017	Change (%)
Repurchase agreements	67 002 257	39 002 864	72
7-day advances	67 002 257	39 002 864	72
24-hour advances	-	-	-
Secured loans	2 300 000	3 150 000	-27
Total	69 302 257	42 152 864	64

Note 5: Other assets

This item includes, inter alia, cash accounts and equalization accounts, which are mainly composed of expenses to be spread out over many fiscal years, prepaid expenses, and accrued revenues, and any other debtor amount pending equalization. This item increased, from one year to the next, from 5,114,561 KDH to 5,452,636 KDH, up 7 percent.

Note 6: Fixed assets

Table 3.2.12: Fixed assets

In thousand dirhams	2018	2017	Change (%)
Fixed loans	747 806	732 977	2
Equity securities and the like	439 557	439 685	-0.03
Tangible and intangible fixed assets	6 685 630	6 414 906	4
Gross fixed assets	7 872 992	7 587 569	4
Depreciation and provision expenses	-4 787 536	-4 490 769	7
Net fixed assets	3 085 457	3 096 800	-0.4

Net fixed assets of the Bank fell to 3,085,457 KDH, slightly down 11,343 KDH, covering an increase of 285,424 KDH in the gross fixed assets and 296,767 KDH in depreciation and provisions.

Equity securities and the like

The gross value of Bank Al-Maghrib's equity securities portfolio remained virtually stable, from one year to the next, standing at 439,557 KDH at the end of 2018.

Table 3.2.13: Equity securities and the like

In thousand dirhams	2018				2017 Gross book value	change (in %) ⁽³⁾
	Gross book value	Net book value ⁽¹⁾	Net situation ⁽²⁾	Quote-part (en %)		
Securities held in Moroccan institutions and the like (including)	198 373	194 808			198 373	-
Dar Ad-Damane	1 265	0	206 633	1.69	1 265	-
Maroclear	4 000	4 000	297 270	20.00	4 000	-
Casablanca Finance City Authority	50 000	49 200	394 074	12.50	50 000	-
Moroccan Company for the Management of Deposit Insurance Funds (SGFG)	59	59	2 453	5.92	59	-
Receivables attached to equity	141 549	141 549			141 549	-
Securities held in foreign financial institutions	241 184	233 009			241 313	-0.1
Ubac Curaçao	23 228	23 228	90 583 USD	6.85	23 228	-
Swift	519	519	469 330 EUR	0.02	519	-
Arab Monetary Fund	5 979	5 979	1 262 880 DA ⁽⁴⁾	0.02	6 108	-2.1
Arab Trade Financing Program	16 856	16 856	1 138 893 USD	0.28	16 856	-
Africa50-Project Finance	175 142	167 837	207 284 USD	8.54	175 142	-
Africa50-Project Development	19 460	18 590	23 472 USD	8.48	19 460	-
Gross total of equity securities and the like	439 557	427 817			439 685	-0.03

(1) Reworked gross book value of provisions made for the impairment of the Bank's holdings

(2) Net position of the organizations in which the Bank holds investments, based on the financial statements of 2017.

(3) Change in the gross accounting value between 2017 et 2018.

(4) Arab Dinars.

Tangible and intangible fixed assets

Table 3.2.14: Tangible and intangible fixed assets

In thousand dirhams	2017 Gross amount	Increase	Decrease	2018 Gross amount
Operating real estate properties	1 823 831	38 029	1 214	1 860 647
Operating furniture and equipment	2 361 813	127 894	3 673	2 486 034
Other operating tangible fixed assets	783 951	53 384	1 557	835 778
Non-operating tangible fixed assets	784 604	2 011	1 607	785 007
Intangible fixed assets	660 707	57 456	0	718 163
Total	6 414 906	278 774	8 051	6 685 630

At the end of 2018, the Bank's gross value tangible and intangible fixed assets reached 6,685,630KDH, up 270,724 KDH compared to their level recorded in 2017. Investments for the

year reached 278,774 KDH and are distributed as follows:

- 21 percent in IT infrastructure and security projects as well as information systems. The latter mainly relates to the upgrade of the various modules of Indimaj integrated system, specific developments of the BACETE functionalities, following the establishment of the new exchange rate system and the purchase of ORACLE licenses;
- 14 percent in projects (i) for the redevelopment and extension of the Bank's sites, in particular, the headquarters, branch of Tangier and Dar As-Sikkah buildings (construction of a building for producing Secure Identity Cards) and (ii) for the construction of the new branches located in Dakhla and Er-Rachidia;
- 46 percent for the improvement of the Dar As-Sikkah production machinery, the purchase of recurring furniture and equipment, including upgrading the second banknote production line, renewal of the IT equipment, the acquisition of furniture, office equipment, as well as cash and secured documents processing machines;
- 16 percent mainly dedicated to the reinforcement and upgrade of electrical and safety installations, network wiring, carpentry, air conditioning, painting and fixtures in various Bank sites (operating sites and social facilities).

Decreases amounting to 8,051 KDH mainly concerned the sale of the Bank's former branch located in Laayoune, donations of computer equipment and sale of equipment discarded at the various operating sites and at the Bank's holiday centers and summer camps.

Note 7: Banknotes and coins in circulation

In accordance with Article 5 of its Statute, Bank Al-Maghrib shall issue banknotes and coins. The amount of this item covers the difference between banknotes and coins issued by the Bank and those deposited with the Bank.

Currency in circulation posted a 7 percent increase to 248,477,842 KDH, due to a higher demand for cash, thus representing 79 percent of the total balance sheet at the end of 2018 from 78 percent a year earlier.

Note 8: Commitments in gold and foreign currency

These liabilities mainly comprise currency deposits of foreign banks and non-residents. They stood at 8,492,088 KDH, recording a slight increase of 0.2 percent, compared to a 16 percent decline in 2017, due to an increase in Bank's foreign currency liabilities.

Note 9: Commitments in convertible dirhams

This item includes the Bank's commitments in convertible dirhams towards foreign banks, international financial institutions (IMF, IBRD) and non-residents.

Account No.1 of the IMF represents the major component of this entry. Its assets, as well as those of "Account No.2" of the IMF, which are readjusted annually to take into consideration the parity of the dirham against SDR, amounted to 192,942 KDH at end-2018, down 7,246 KDH.

This change is particularly due to the decrease in the Bank's commitments to international financial organizations (-10,264 KDH).

Table 3.2.15: Comitments in convertible dirhams

In thousand dirhams	2018	2017	Change (%)
Commitments to international financial institutions	213 543	222 578	-4
Commitments to foreign banks	20 211	18 982	6
Ordinary accounts of international financial institutions	193 332	203 596	-5
Other commitments	10 143	8 354	21
Total	223 686	230 932	-3

Note 10: Deposits and liabilities in dirhams

This item mainly includes:

- The current account of the Treasury, held by Bank Al-Maghrib by virtue of Article 12 of its Statute. It is remunerated according to the requirements below, in accordance with the agreement signed between the Ministry of Economy and Finance and Bank Al-Maghrib on July 28, 2009:
 - The tranche lower than or equal to 2 billion dirhams is remunerated at the rate of 7-day advances minus fifty basis points, or 1,75 percent;
 - The tranche above 2 billion dirhams up to 3 billion dirhams is remunerated at the rate of 7-day advances minus one-hundred basis points, or 1.25 percent;
 - The tranche higher than 3 billion dirhams is not remunerated.
- The current accounts of Moroccan banks, held mainly to meet their commitments regarding the required reserve, established by virtue of Article 25 of the above-mentioned Statute. The minimum amount required under this reserve equals 4 percent of banks' liabilities, as decided by the Bank board during its meeting held in June 2016 and shall be respected on

average over the period of observation. For banks whose growth of outstanding loans to nonfinancial enterprises is higher than the average for the whole market, the amount of their reserve exceeding 2 percent is remunerated at a rate of 0.75 percent, in accordance with the provisions enacted by the Bank;

- Deposits of general government and public institutions, including the account of Hassan II Fund for Economic and Social Development.

This item can also accommodate, in a context of excess liquidity:

- 7-day liquidity withdrawals as unsecured deposits by tenders, remunerated at the key rate minus fifty basis points, or 1.75 percent;
- 24-hour deposit facilities allowing banks to place, on their own initiative, a cash surplus. The remuneration applied to these deposits is the key rate minus one-hundred basis points, or 1.25 percent.

In 2018, this item posted a rise of 3 percent to 31,659,471 KDH, under the combined effect of the increase of 1,728,424 KDH in the assets of Moroccan banks and the decrease of 672,452 KDH in the Treasury's current account balance.

Table 3.2.16: Deposits and commitments in dirhams

In thousand dirhams	2018	2017	Change (%)
Public Treasury current account	1 216 398	1 888 850	-36
Moroccan banks' current account	25 509 987	23 781 564	7
Liquidity withdrawals	-	-	-
Deposit facilities	-	-	-
Deposits of general government and public institutions	1 598 074	1 921 892	-17
Other accounts	3 335 011	3 027 042	10
Total	31 659 471	30 619 347	3

Note 11: Other liabilities

This entry includes in particular:

- Miscellaneous creditors, primarily consisting of tax and fiscal withholdings, other sums payable to the State and third parties, and pending contributions to provident funds and institutions for social security.

At the end of 2018, they had a balance of 719,838 KDH, of which 309,968 KDH under debt to the suppliers. The breakdown of these debts by maturity, pursuant to the provisions of Law No. 32-10 relating to the payment periods which entered into force in 2013, is as follows as of December 31, 2018:

Table 3.2.17: Breakdown by maturity of trade suppliers' debt balance

In thousand of dirhams Closing dates	Amount of suppliers' debt at the end of the FY	Amount of unmatured debts	Amount of debts due			
			Less than 30 days	Between 31 and 60 days	between 61 and 90 days	More than 90 days
Financial Year 2017	233 528	233 011	41	-	33	444
Financial Year 2018	309 968	308 580	664	-	536	188

- The equalization accounts, mainly composed of transactions between branches, expenses to be paid and revenues recognized in advance and any other debtor amount pending settlement;
- Amounts claimable after receipt of payment, including accounts making up the counterpart of securities presented for payment;
- Provisions for risks and expenses allowing to note the existing losses and expenses related to operations executed during the fiscal year and that are most likely realized. Their amount dropped by 78,503 KDH to 109,270 KDH. At the same time, the provision constituted in 2014 to 2016 (150,000 KDH), to cover pension liabilities, following the implementation in 2018 of the financing plan for the gradual transition to the TV 88-90 mortality table was partially reversed for 70,000 KDH. That corresponding to the penalty relating to supplier payments exceeding the 90-day regulatory deadline, in accordance with the aforementioned Law No. 32-10, fell from 68 KDH in 2017 to 54 KDH in 2018 (see Table 3.2.33), note 32 of the profit and loss account);
- The foreign exchange reserves re-evaluation account, which includes the exchange variations resulting from the assessment of assets and liabilities in gold and in foreign currency, based on the year-end average exchange rates (See Section 3-2-5 relating to the main accounting rules and evaluation methods).

This agreement sets the rules for implementing Article 24 of the Bank's Statute relating to the periodic evaluation of assets in gold and foreign currencies. This agreement also stipulates that in case of an insufficiency vis-à-vis the required minimum, a reserve for foreign exchange losses deducted from the net profit is constituted. The credit balance of this account can neither be posted in the revenues of the financial year, nor distributed or allocated to any other usage.

Table 3.2.18: Other commitments

In thousand dirhams	2018	2017	Change (%)
Other securities transactions	361	361	-
Miscellaneous creditors	719 838	382 953	88
Equalization accounts	200 007	178 281	12
Amounts claimable after receipt of payment	22 218	6 213	>100
Provisions for risks and expenses	109 270	187 773	-42
Revaluation account of foreign exchange reserves	8 837 645	9 476 448	-7
Total	9 889 337	10 232 029	-3

Note 12: Equity capital and the like

Under Article 2 of the Bank's Statute, the capital is set at 500,000 KDH, totally held by the State. It can be increased by decision of the Bank Board, after consulting the government representative, subject to approval by regulation.

The general reserve fund was established in accordance with Article 56 of the Statute of Bank Al-Maghrib, by deducing 10 percent from the net profit until it reaches the amount of the capital.

Special reserve funds were constituted, pursuant to Article 56 above, by allocating part of the profits. They stood at 4,501,340 KDH since 2004, make the most part of equity capital.

Table 3.2.19: Equity capital and the like

In thousand dirhams	2018	2017	Change (%)
(of which)			
Capital	500 000	500 000	-
Reserves	5 001 340	5 001 340	-
General reserve funds	500 000	500 000	-
Special reserve funds	4 501 340	4 501 340	-
Retained earnings	27 046	26 140	3
Total	5 528 387	5 529 664	-0.02

3.2.8 Comments on off-balance sheet items

The Bank keeps record of off-balance sheet commitments, detailing both given and received commitments. The accounts on the off-balance sheet are registered to debit when the liabilities materialize on maturity or in case of realization by a debit on the balance sheet, and to credit

side in the opposite case. They include (i) commitments in foreign currency, (ii) commitments on securities and (iii) other liabilities.

Note 13 : Foreign exchange transactions

Table 3.2.20: Foreign exchange transactions

In thousand dirhams	2018	2017
Foreign exchange transactions- currency deposits	6 428 495	1 679 310
Foreign exchange transactions-arbitrage operations¹		
Foreign currencies receivable	-	505 629
Foreign currencies deliverable	-	504 553

¹ This item records currency transitional arbitrage operations initiated on the first day pending their unwinding on D + 2. No arbitrage operation is recorded in these accounts at the end of 2018

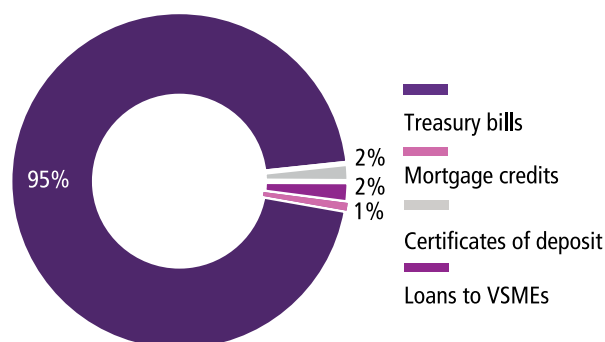
Note 14: Commitments on securities

This heading records mainly securities pledged to Bank Al-Maghrib to secure various advances to banks (debt securities issued or guaranteed by the State, negotiable debt securities, private claims, etc.) and advance facilities¹.

Table 3.2.21: Commitments on securities

In thousand dirhams	2018	2017
Securities received on advances granted	70 599 743	41 128 646
Securities received on advances to be granted	10 025 700	13 462 900
Other guarantees received on advances granted	2 753 697	3 656 100
Advances to be granted	9 524 415	12 789 755
Foreign securities receivable	5 458 712	363 851
Foreign securities deliverable	2 102 925	-

Chart 3.2.2: Structure of Commitments on securities received (*)



(*) Collateral received on the advances granted by the Bank as part of the monetary policy implementation.

¹ Possible advances to the participants in the Moroccan Gross Settlement System (SRBM) to avoid systemic bottlenecks.

Note 15: Other commitments

Table 3.2.22: Other commitments

In thousand dirhams	2018	2017
Received market guarantees	58 583	47 989
Guarantees liabilities received for staff loans	846 161	825 609
Financing liabilities granted to the staff	32 165	35 300
Other granted liabilities	1 000	1 000

3.2.9 Comments on profit and loss account items

Note 16: Interests earned on holdings and investments in gold and in foreign currency

This item is highly correlated with levels of foreign exchange reserves and interest rates. It includes interests from the transactions of investments in gold, SDR and foreign currency, made by the Bank as part of its mission of foreign exchange reserves management:

- Bond market investments (investment portfolio and portfolio of securities held for sale);
- Investments in the international money market and in other Moroccan commercial banks (Treasury portfolio);
- SDR holdings and the reserve tranche available with the IMF;
- Foreign securities lending;
- Gold loans.

Table 3.2.23: Interests earned on holdings in gold and in foreign currency

In thousand dirhams	2018	2017	Change (%)
Investments in gold	6 228	9 168	-32
Bond investments	2 351 455	2 770 302	-15
Money market investments	229 316	79 155	>100
Claims on the IMF	82 007	46 366	77
Other interests*	12 943	12 870	1
Total	2 681 949	2 917 861	-8

(*): Include interests on foreign securities loans and holdings.

Interest from these transactions declined again, to 2,681,949 KDH, or -235,913 KDH compared to 2017, including:

- A 15 percent drop in bond investment income to 2,351,455 KDH, reflecting a 19 percent decline in the investment portfolio income to 1,880,419 KDH, due to the gradual strategy for investments on the excess reserve tranche, to support the gradual rise in US rates observed throughout the year. Conversely, interest on held-for-sale portfolio improved by 2 percent to 471,036 KDH, following the increase in its outstanding amount;
- A continued increase in interest on money market investments to 229,316 KDH, or 150,161 KDH more than in 2017, due to the positive impact of (i) improved rates benefiting from an increase in the Fed's key rate and (ii) higher outstanding investments in dollar. These revenues have fully offset the negative impact of interest on money market investments in the euro area (114,793 KDH);
- A 32 percent decline in interest on gold investments to 6,228 KDH, owing to the decrease in both the outstanding amounts and the rates of these investments;
- An increase in interest earned on SDR claims from 46,366 KDH to 82,007 KDH from one year to the next, reflecting a 41 basis point increase in the average SDR rate (0.93 percent in 2018, as against 0.52 percent in 2017).

Note 17: Interests earned on claims on credit institutions and similar bodies

This item records interests received by the Bank on various advances to credit institutions as part of the monetary policy conduct (for payment conditions, see Note 4 of the balance sheet).

These interests reached 1,422,337 KDH, marking a further rise of 466,029 KDH, in connection with the increase by the Bank in the volume of its interventions in the money market.

By main instrument:

- 7-day advances, whose outstanding average amount stood at 60,171,910 KDH, generated interests of 1,353,175 KDH, up 508,600 KDH;
- Secured loans transactions, whose outstanding amount was 2,928,194 KDH, generated an amount of 65,884 KDH, down 28,951 KDH.

Table 3.2.24: Interests received on claims on credit institutions

In thousand dirhams	2018	2017	Change (%)
(Including)			
Secured loans	65 884	94 836	-31
7-day advances	1 353 175	844 574	60
24-hour advances	3 063	16 880	-82
Total	1 422 337	956 308	49

Note 18: Other interests earned

This item covers mainly interests due to the Bank under loans granted to its staff for the purchase and construction of housing. It reached 13 374 KDH at the end of 2018, up 3 percent compared to 2017.

Note 19: Commissions earned

Commissions are deducted by the Bank in payment of banking transactions for customers, which cover, mainly, foreign exchange operations and the centralization of the Treasury's auction operations.

At the end of 2018, the amount of these commissions fell by 236,609 KDH, particularly owing to the fall in foreign exchange commissions (-106,072 KDH) and the intermediation margin (-134,539 KDH).

The centralization of the Treasury's auction operations generated 57,263 KDH, up 6 percent, reflecting a stronger presence of the Treasury on the primary market to finance its deficit.

Table 3.2.25: Commissions earned

In thousand dirhams	2018	2017	Change (%)
Foreign exchange commissions	523 051	629 124	-17
Intermediation margin	11 409	145 948	-92
Management of Treasury bonds	57 263	53 863	6
Other commissions	16 628	16 025	4
Total	608 351	844 960	-28

Note 20: Other financial revenues

The other financial revenues item mainly cover gains generated from foreign currency transactions and deferral of discounts on investment securities.

At end-2018, they rose to 156,006 KDH, up 35,507 KDH compared to 2017, in connection with:

- An increase in gains under the management mandate to 57,069 KDH, as against a loss of 30,353 KDH in 2017 which was attributable to the negative impact of the depreciation of the dollar;
- An increase of 17,472 KDH in gains realized on transaction securities, resulting from the rise in the volume of these transactions and the dollar rates;
- A decrease in gains on foreign investment securities held for sale (-29,132 KDH), in connection with smaller transactions of sales and deferral of discounts on investment securities (-14,551 KDH) following the suspension of investments in excess reserves since 2017.

Table 3.2.26: Other financial revenues

In thousand dirhams	2018	2017	Change (%)
Gains from investment securities sales	11 028	40 159	-73
Deferral of discounts on foreign securities	49 140	63 691	-23
Gains in management authorizations	57 069	-	-
Gains from securities available for sale	31 246	13 774	>100
Other revenues	7 522	2 874	>100
Total	156 006	120 499	29

Note 21: Sales of produced goods

This item includes revenues from sales of various goods produced by the Bank, which mainly cover secured documents including the biometric passport, and export-oriented foreign banknotes. The selling price of these documents is fixed on the basis of data from the analytical system established by the Bank. This item also consists of changes in inventories of finished products, in-process production and commemorative coins.

At end-2018, these sales reached 225,852 KDH, down 45,390 KDH compared to their level in the previous year. This change resulted from the sale of secured documents amounting to 175,901KDH (-6 percent) and the negative changes in stocks of -11,583 KDH.

Note 22: Miscellaneous revenues

Miscellaneous revenues include the contribution of banks to the invoicing system of the Moroccan Gross Settlement System (SRBM) and the recovery of costs paid by Bank Al-Maghrib. This item fell to 17,826 KDH, down 9,651 KDH, particularly due to a base effect related to the participative banks' first payment in 2017 as fees of access to the SRBM.

Note 23: Reversal of provisions

This item reached 297,623 KDH in 2018, of which 192,240 KDH representing the reversals of the provisions constituted for the depreciation of foreign securities held for sale and 70,000 KDH relating to the partial reversal of the provision established to cover the pension commitment of 150,000 KDH, following the implementation this year of the financing plan of the gradual transition to the TV 88-90 mortality table¹ (see Table 3-2-33 of Note 32 of the profit and loss account).

¹ TV 88-90 mortality table was adopted in 2017 by the Bank in the actuarial valuations of its welfare plans, for reasons of adequate life expectancy and to comply with national prudential regulation. The cost of moving to this table amounts to 450 MDH, supported by the Bank with a five-year financing plan starting in 2018.

Note 24: Noncurrent revenues

This item includes exceptional noncurrent revenues, with a significant impact both in absolute and relative figures.

At the end of the 2018 financial year, noncurrent revenues fell to 8,501 KDH, of which 6,000 KDH from the sale of a Bank's land.

Note 25: Interests paid on commitments in gold and in foreign currency

These interests rose from 77,778 KDH to 184,384 KDH, or +106,605 KDH due to the increase of:

- 76,281 KDH in negative interest on money market deposits in euro, which reached 114,793KDH at the end of 2018, in connection with higher monetary investments in this currency. These interests were fully offset by the income from deposits in dollar (see Note 16 of the profit and loss account);
- 30,324 KDH in commissions paid by the Bank under SDR allocations granted by the IMF to Morocco as a member country. These amounted to 69,591 KDH, in line with the increase in the SDR rate.

Note 26: Interests paid on deposits and commitments in dirhams

This item covers particularly interests paid by the Bank, mainly on deposits at the Treasury current account and compensation on metary reserves (for payment conditions, see Note 10 of the balance sheet). It can also include, in a context of excess liquidity, interests paid by the Bank under liquidity withdrawals, deposits facilities and swap of dirhams against currencies.

In 2018, compensation on metary reserves stood at 32,744 KDH, from 38,007 KDH at the end of 2017. Interest on the Treasury current account fell by 3 percent to 42,254 KDH, due to the decline in interest-bearing average outstanding amount (-1 percent).

Table 3.2.27: Interests on committments in dirhams

In thousand dirhams	2018	2017	Change (%)
(of which)			
Monetary reserve accounts	32 744	38 007	-14
Other accounts (including)	280 455	221 223	27
Treasury account	42 254	43 471	-3
Total	326 354	271 095	20

Note 27: Commissions paid

These are commissions paid in exchange for financial services provided to the Bank as well as negative intermediation margins on foreign exchange transactions. In 2018, they amounted to 32,471 KDH, up 96 percent compared to their level of the previous year (16,609 KDH), in connection with the negative intermediation margin recorded this year with a global amount of 21,973 KDH.

Note 28: Other financial expenses

This item covers losses on foreign currency transactions, including losses on the sales of investment securities and deferral of premiums on investment securities.

It fell back from 1,645,436 KDH to 1,063,238 KDH, down 582,199 KDH. This change is mainly attributable to lower deferrals of premiums on investment securities (-290,958 KDH), mainly due to the suspension of investments of the "held to maturity (HTM)" portfolio since 2017, and losses recorded, on the date of maturity or sales of securities, which were less significant than in 2017 (-284,458 KDH), in view of a base effect related to the high sales of securities during this year. It should be noted that these securities offer higher coupon rates than the market ones and that these losses are offset by reversals of provisions previously constituted, amounting to 293,145 KDH in 2017 and 192,240 KDH in 2018.

Table 3.2.28: Other financial expenses

In thousand dirhams	2018	2017	Change (%)
Losses in investment securities held for sale ^(*)	239 009	523 467	-54
Deferral of premiums on foreign securities	789 101	1 080 060	-27
Losses in management mandates	-	30 353	-
Negative interest rates paid on investment securities	28 221	5 271	>100
Other expenses	6 906	6 285	10
Total	1 063 238	1 645 436	-35

^(*) * Result of the difference between the book value and the market value.

Note 29: Staff expenses

This item includes mainly the salaries and wages, allowances and bonuses paid to the Bank staff, employer contributions to Bank Al-Maghrib Staff Pension Fund and contributions to the Mutual Fund, various staff insurance premiums and vocational training expenses.

Staff expenses amounted to 988,860 KDH in 2018, up 34 percent compared to 2017, mainly

due to the special employer contribution paid this year to Bank Al-Maghrib Staff Pension Fund (210,000 KDH).

Table 3.2.29: Staff expenses

In thousand dirhams	2018	2017	Change (%)
Staff salaries	621 624	592 189	5
Social expenses	335 326	123 192	>100
Training expenses	9 376	7 529	25
Other expenses	22 534	16 510	36
Total	988 860	739 420	34

Note 30: Purchases of materials and supplies

This entry includes fees of raw materials (paper, ink, coin blanks, electronic chips and precious metals) used in the manufacturing of coins and banknotes, secured documents and commemorative coins. It also includes changes in inventories of raw materials and supplies as well as rebates, discounts and payment deductions obtained on purchases, and granted to the Bank by its suppliers.

These purchases decreased by 3 percent in 2018 to 243,702 KDH, under the combined effect of:

- an increase in purchases of paper for banknotes and secured documents and a smoothing of existing inventory in 2017;
- lower purchases of electronic covers for the biometric passport and coin blanks;
- lower stocks of raw materials and supplies, causing changes of 7,198 KDH at end-2018 compared to 14,352 KDH at end-2017.

Table 3.2.30: Purchases of materials and supplies

In thousand dirhams	2018	2017	Change (%)
Purchase of raw materials	168 378	175 906	-4
Purchase of consumable materials and supplies	33 221	34 255	-3
Other purchases	42 102	39 953	5
Total	243 702	250 114	-3

Note 31: Other external expenses

They include Bank overheads and current expenditure covering, inter alia, computer maintenance, building upkeep, rental, water and electricity consumption, donations and grants as well as various taxes and duties.

In 2018, they amounted to 352,911 KDH, up 31,526 KDH. This trend particularly covers higher costs relating to contracts of software maintenance and computer and production equipment, as well as lower computer software rental expenses.

Table 3.2.31: Other external expenses

In thousand dirhams	2018	2017	Change (%)
Maintenance and repair of fixed assets	110 030	82 191	34
Rents	41 854	43 707	-4
Water, electricity and fuel costs	26 617	28 772	-7
Postal and telecommunication costs	29 840	29 746	0.3
Taxes and duties	18 700	18 954	-1
Other expenses	125 870	118 015	7
Total	352 911	321 385	10

Note 32: Depreciations and provisions

Depreciations

Table 3.2.32: Depreciations

In thousand dirhams	2018	2017	Change (%)
Depreciations of tangible and intangible fixed assets	300 414	310 776	-3
Properties ⁽¹⁾	82 280	91 044	-10
Furniture and equipment	171 868	167 501	3
Other tangible fixed assets	13	13	-
Intangible fixed assets	46 253	52 218	-11
Depreciations of other costs to be spread out over many fiscal years	3 335	4 386	-24
Depreciations of previous fiscal years	3 820	5 216	-27
Total	307 569⁽²⁾	320 379	-4

⁽¹⁾ Including fixtures, fittings and facilities.

Provisions

Table 3.2.33: Provisions

In thousand dirhams	Outstanding amount 31/12/2017	Expenses	Reversals	Other changes	Outstanding amount 31/12/2018
Provisions for depreciation					
Foreign Treasury bonds and similar securities	306 135	90 401	192 240	-7	204 290
Miscellaneous stocks and values	12 238	8 050	12 238		8 050
Moroccan equity securities	4 400	1 265	2 100		3 565
Foreign equity securities	8 175				8 175
Other provisions	3 172		377		2 794
Provisions for risks and expenses posted under liabilities					
Provisions for risks and expenses (including)	187 384	12 165	90 668		108 881
Pension commitment	150 000		70 000		80 000
Late penalty fees	68	54	68		54
Other provisions	389				389
Total		111 881⁽²⁾	297 623		

⁽²⁾ Totaling 419,450 KDH corresponding to the amount of the profit and loss account item: "Depreciation and provisions".

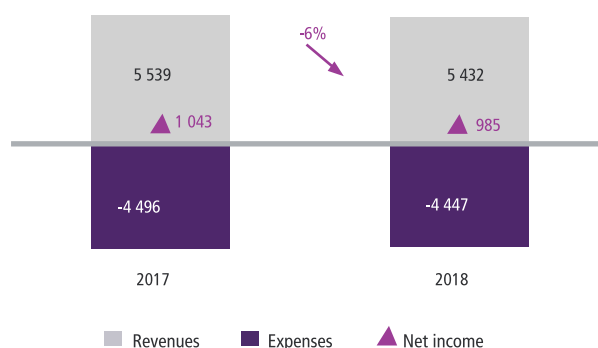
⁽³⁾ Includes, inter alia, provision for claims of customers with a high risk of non-recovery.

For the terms governing provisions constitution and reversal, see Section 3-2-5 "Evaluation methods" and Note 11 of the balance sheet.

Note 33: Income tax

The tax rate is fixed at 37 percent under Article 19 of the General Tax Code, which is the taxation level applied to credit institutions under common law. Income tax fell, between 2017 and 2018, from 649,049 KDH to 580,092 KDH.

Chart 3.2.3: Change in revenues, expenses and net income (in millions of dirhams)



3.3 Statutory Audit Report

BANK AL-MAGHRIB STATUTORY AUDITOR'S REPORT FISCAL YEAR ENDED DECEMBER 31st, 2018

In accordance with our engagement as statutory auditors by the Bank's Board, we have audited the accompanying financial statements of Bank Al-Maghrib, for the year ended December 31st, 2018. Which include the balance sheet, the profit and loss account, and the attached disclosures. These statements present a net equity amounting to 5 528 387 thousands of Moroccan Dirhams, and a net profit of 985 287 thousands of Moroccan Dirhams.

Management's Responsibility

Management is responsible for the preparation and fair presentation of these financial statements, in accordance with generally accepted accounting principles and standards in Morocco. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation of the financial statements that are free from material misstatements, and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the professional standards applicable in Morocco. These standards require that we comply with ethical requirements, plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment as well as the assessment of the risk that financial statements may include material misstatements. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the financial statements

We certify that the financial statements mentioned in the first paragraph show, in all material respects, a fair view of the results of the operations for the year ended as well as of the financial situation and assets of Bank Al-Maghrif on December 31st, 2018 in accordance with generally accepted accounting principles in Morocco.

Specific verifications and information

We have notably ensured the correspondence of the information provided in the management report with the bank's financial statements.

Casablanca, March 19th 2019

Mazars Audit et Conseil

MAZARS AUDIT ET CONSEIL
101, Boulevard Abdelmoumen
20360 Casablanca
Tél : 05 22 42 34 25
Fax : 05 22 42 34 00

Abdou SOULEYE DIOP
Managing Partner

3.4 Approval by the Bank Board

Pursuant to Article 55 of Law No. 76-03 bearing Statutes of Bank Al-Maghrib, the financial statements are hereby submitted by the Governor for approval by the Board.

At its meeting of March 19, 2019, after having taken cognizance of the statutory auditor's opinion on the sincerity of the financial statements and their conformity with the information provided in the Bank's management report, the Board approved the financial statements and net income distribution for the fiscal year 2018.

Bank Al-Maghrib
Finance and Strategy Department
