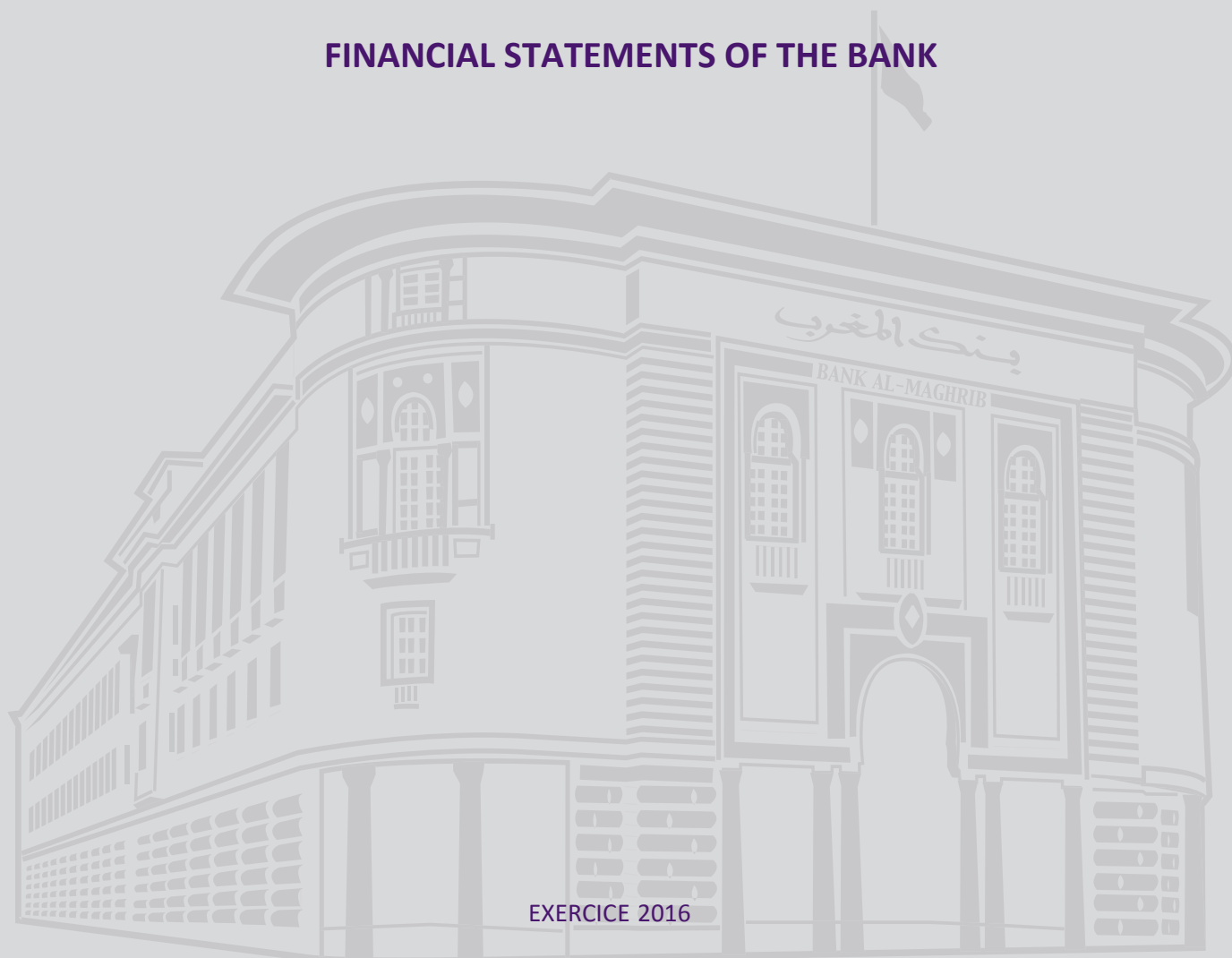




## FINANCIAL STATEMENTS OF THE BANK



EXERCICE 2016





In this 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 for the fiscal year<sup>(1)</sup>

**Table 3-1-1: Key figures**

In thousands of dirhams	2016	2015	Change in %
Total balance sheet	284 346 407	259 700 786	9%
Use of capital ratio	59%	57%	4%
Total revenues	5 340 854	4 141 195	29%
Total expenses (Including corporate tax)	4 283 261	3 590 715	19%
Net income	1 057 593	550 481	92%
Average outstanding amount of BAM's interventions	15 607 727	35 164 514	-56%
Operating ratio	60%	63%	-5%

### HIGHLIGHTS OF THE YEAR

- *March 22, 2016: Decision of Bank Al-Maghrif Board to reduce the key rate by 25 bps to 2.25 percent.*
- *June 21, 2016: Decision of the Board to raise the monetary reserve ratio from 2 to 5 percent and to establish related remuneration for banks making greater lending efforts.*
- *Continued growth in net foreign reserves<sup>2</sup>, which reached 251.9 billion dirhams.*
- *The bank liquidity deficit eased from 16.5 to 14.7 billion dirhams on weekly average between 2015 and 2016.*
- *The ECB extended its monetary easing cycle, reflecting both the reduction in its key rate and deposit facility rate in March 2016 to 0 percent and -0.4 percent, respectively, and the strengthening of its asset purchase program.*
- *The continued gradual normalization of the FED's monetary policy, by raising the target band of its rates by 25 bps.*
- *Divergent trends in rates between the US and the Euro area:*
  - *An increase in US rates as of the second half of the year after their decline in the first half;*
  - *A widespread decline in rates and negative levels until maturity of 8 years for countries with good credit quality.*

### 3-1-1 Balance sheet

**Table 3-1-2: Balance sheet by transaction**

In thousands of dirhams	2016	2015	Change in %
Including			
<b>Currency in circulation</b>	<b>215 746 812</b>	<b>205 884 204</b>	<b>5%</b>
<b>Transactions with foreign countries (Including)</b>	<b>-229 359 725</b>	<b>-203 000 047</b>	<b>13%</b>
Holdings and investments in gold	8 314 084	7 473 485	11%
Holdings and investment in foreign currencies	238 033 323	210 208 009	13%
SDR holdings	7 549 635	7 663 483	-1%
Reevaluation account of foreign exchange reserves	9 208 822	9 158 425	1%
<b>Transactions with the State (Including)</b>	<b>3 161 581</b>	<b>3 809 894</b>	<b>-17%</b>
Treasury account	2 782 845	3 276 541	-15%
<b>Net position of credit institutions</b>	<b>6 250 570</b>	<b>-9 685 821</b>	<b>&gt;100%</b>
Claims on Moroccan credit institutions	19 158 436	23 261 213	-18%
Deposits and liabilities to Moroccan banks	25 409 006	13 575 392	87%
Assets-liabilities			

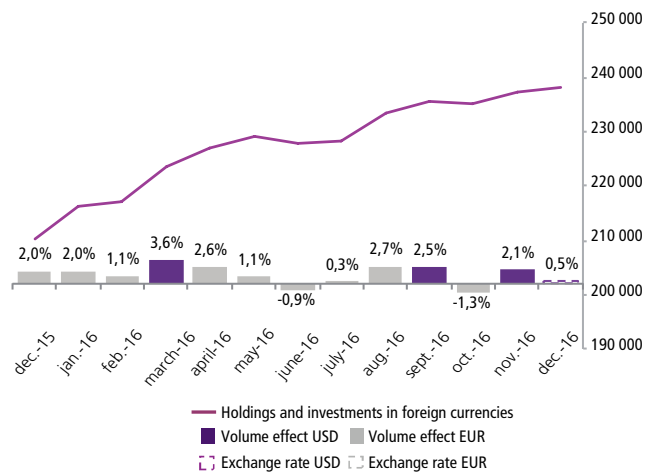
<sup>(1)</sup> Changes in the balance sheet and profit and loss account items are addressed in more details in the comments section of the financial statements. For purposes of analysis, the balance sheet and profit and loss account items were adjusted in this part of the report.

At the end of 2016, the **total balance** sheet reached **284,346,407 KDH**, up 9 percent compared to 2015. In the assets side, this change was mainly due to an increase in foreign currency holdings and investments, combined with a decline in loans granted to banks as part of the conduct of monetary policy. In the liabilities side, this trend was attributed to an increase in both notes and coins in circulation and Moroccan banks' current account holdings.

In a macroeconomic context, where national economic growth has deteriorated, **currency in circulation** stood at **215,746,812 KDH, up 5 percent, as against 8 percent in 2015**. Its weight in the balance sheet fell from 79 percent to 76 percent, year on year.

**Transaction with foreign countries** pursued their upward trend, for the fourth year running, up 13 percent, to **229,359,725 KDH**, owing to a continued consolidation of net foreign reserves. The latter grew by 12.1 percent, after a yearly average of 23 percent in 2014 and 2015. This change is mainly due to a deterioration in the trade deficit, reflecting a more marked increase in imports compared to exports, but whose impact was mitigated by higher transfers from Moroccan expatriates (4.0percent) and travel receipts (+5.0 percent) as well as by foreign exchange inflows, mainly under FDI inflows (33 billion dirhams), trade credits with a record balance of 19.8 billion and donations from Gulf countries (7.2 billion dirhams).

**Chart 3-1-1: Change in holdings and investments in foreign currencies in MDH (including FB)**



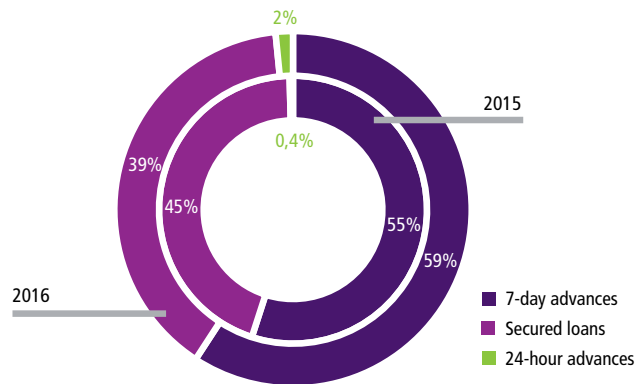
Foreign currency holdings and investments, the main component of foreign transactions with foreign countries, amounted to **238,033,323 KDH (+13 percent)**. Holdings and investments in gold grew by 11 percent to **8,314,084 KDH**, driven by the appreciation of the gold price, which earned 9 percent to \$1,159.1 per ounce at end-December 2016.

The balance of **Transactions with the State** stood at **3,161,581 KDH**, down 17 percent compared to 2015, mainly due to a decrease in Treasury current account holdings (-15 percent).

The easing of the bank liquidity deficit, combined with a 4 percent increase in the monetary reserve ratio as of June 23, 2016, equaling a liquidity drain of 9.3 billion dirhams, impacted the **net position of credit institutions**. At the end of 2016, this position amounted to **6,250,570 KDH**, as against **-9,685,821 KDH** a year earlier, reflecting- for the first time in several years- higher liabilities to Moroccan banks compared to claims against them, due to:

- The reduced volume of liquidity granted to banks to 19,102,446 KDH (-17 percent), following the improvement in banks' liquidity;
- The strong growth (+ 87 percent) of bank deposits in Bank Al-Maghrif to 25,409,006 KDH, following an increase in the monetary reserve requirement.

**Chart 3-1-2: Average outstanding amount of claims on banks**



### 3-1-2 Income

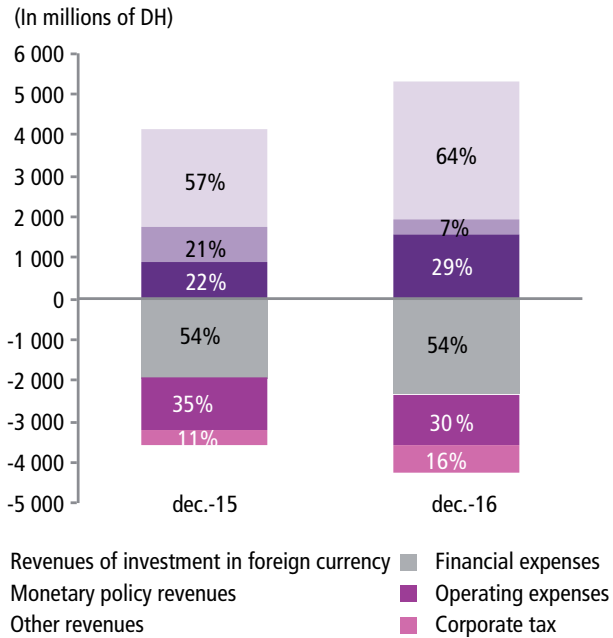
**Table 3-1-3: Net income of the fiscal year**

In thousands of dirhams	2016	2015	Change in %
Income of foreign exchange reserve management transactions	1 704 791	1 044 607	63%
Income of monetary policy transactions	355 265	880 414	-60%
Income of other transactions	714 934	691 814	3%
<b>Income of activities</b>	<b>2 774 989</b>	<b>2 616 835</b>	<b>6%</b>
General operating income	-1 667 779	-1 658 233	1%
<b>Gross operating income</b>	<b>1 107 211</b>	<b>958 601</b>	<b>16%</b>
Noncurrent income	634 132	-13 786	>100%
Corporate taxes	-683 750	-394 335	73%
<b>Net income</b>	<b>1 057 593</b>	<b>550 481</b>	<b>92%</b>

In a context marked by robust foreign currency assets, improved investment conditions in the dollar compartment and easing tensions on bank liquidity, **the Bank's net income** rose by 92 percent to stand at **1,057,593 KDH** in 2016, as against 550,481 KDH in 2015.

This income includes, over revenues of previous fiscal years, adjustment of the intermediation margin on foreign exchange transactions, amounting to 618,874 KDH for the period from June 2012 to December 2014.

**Chart 3-1-3: Structure of revenues and expenses**



When reprocessing the 2016 net income of the amount of this adjustment, its increase moved back to **21 percent** and is due to the combination of the rising income of foreign currency investment operations and the declining income of the conduct of monetary policy.

The income of **foreign exchange reserve management transactions** continued to trend upward in 2016, showing a marked increase of **63 percent to 1,704,791 KDH**. Such a performance benefited from a favorable stock owing to the investments made since 2015 as well as from the further consolidation of foreign exchange reserves and the improved investment rates on dollar-denominated assets.

Against this backdrop, foreign currency investment income reached 3,400,815 KDH at end-2016, with an annual increase of 1,031,091 KDH, of which 929,307 KDH in bond interests. In addition to the Bank's strengthening of investments on the "investment" tranche, prompted by consolidated foreign exchange reserves, this change is attributed to the improvement in the average remuneration of the securities portfolio resulting from the favorable conditions in the dollar exchange rate compartment.

The average yields of holdings in gold and foreign currency thus rose by 19 bps to 0.71 percent in 2016 from 0.52 percent in 2015.

Expenses of foreign exchange reserve management totaled 1,696,024 KDH. Their growth by 370,907 KDH was mainly due to the increase in the deferral of premiums on investment securities by 399,025 KDH, in connection with the acquisition in 2016 of stocks with higher coupon rates compared to their market yield, in addition to those acquired in 2015, whose deferral expenses covered one full year.

The year 2016 would have been marked by two monetary policy decisions: (i) the decision issued on March 23, 2016 to reduce the key rate by 25 bps (ii) and the decision to raise the monetary reserve ratio from 2 to 4 percent with the introduction of its remuneration as of June 23, 2016. Following these decisions and the improvement in the liquidity position, the income from **monetary policy operations** fell further to 60 percent instead of 46 percent in 2015 and 19 percent in 2014, to **355,265 KDH**.

Interest from banking refinancing fell by more than half (-59 percent) to 361,462 KDH, reflecting a decline in cash injections whose outstanding average was reduced from 35,164,514 KDH to 15,607,727 KDH (- 56 percent). Indeed, following the substantial easing in the liquidity deficit during the first half of the year, the Bank progressively reduced the amount of its 7-day advances, which were postponed between late March and late June then resumed following an increase in the monetary reserve ratio.

Similarly, the introduction of the monetary reserve remuneration resulted in an expense of 6,197 KDH.

Income from **other operations** covers particularly commissions paid to the Bank for services provided to customers and sales of Dar As-Sikkah. It stood at **714,934 KDH**, up 3 percent from 2015. Foreign exchange commissions amounted to 582,738 KDH, up 59,083 KDH compared to 2015, in conjunction with the higher volume of transactions. Sales of secured documents and export-oriented foreign banknotes progressed by 9 percent and 12 percent, respectively, totaling revenues of 235,939 KDH.

**General operating expenses**, consisting of personnel expenses, purchases of materials and supplies, overheads and net depreciations and provisions, stood at **1,667,779 KDH**, slightly up **1 percent** compared to 2015.



Chart 3-1-4: Operating ratio

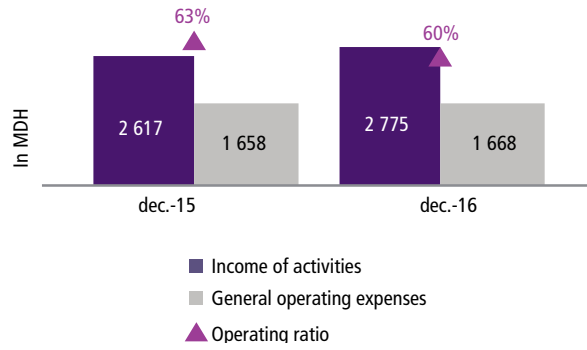
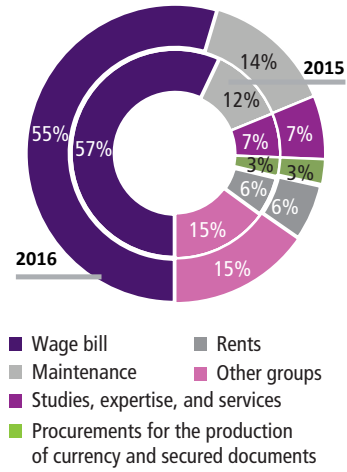


Chart 3-1-5: Structure of budget implementation by group of expenses



## 3-2 Financial statements and explanatory notes

### 3-2-1 Balance sheet (assets)

**Table 3-2-1: Assets as at December 31, 2016**

In thousands of dirhams	Notes	2016	2015
Holdings and investments in gold	<b>1</b>	<b>8 314 084</b>	<b>7 473 485</b>
Holdings and investments in foreign currency	<b>2</b>	<b>238 033 323</b>	<b>210 208 009</b>
- Holdings and investments held in foreign banks		12 103 752	13 386 160
- Foreign Treasury bills and similar securities		219 909 914	193 157 881
- Other holdings in foreign currency		6 019 656	3 663 968
Holdings in international financial institutions	<b>3</b>	<b>10 104 122</b>	<b>9 168 578</b>
- IMF subscription-Reserve tranche		2 195 742	1 168 843
- Special Drawings Rights holdings		7 549 635	7 663 483
- Subscription to the Arab Monetary Fund		358 744	336 252
Lending to the Government		-	-
- Conventional advances		-	-
- Overdraft facilities advances		-	-
- Other facilities		-	-
Claims on Moroccan credit institutions and similar bodies	<b>4</b>	<b>19 158 436</b>	<b>23 261 213</b>
- Securities received under repurchase agreements		-	-
- Advances to banks		19 102 446	23 016 982
- Other claims		55 990	244 231
Treasury bills - Open market operations		-	-
Other assets	<b>5</b>	<b>5 470 646</b>	<b>6 453 419</b>
Fixed assets	<b>6</b>	<b>3 265 796</b>	<b>3 136 081</b>
<b>Total assets</b>		<b>284 346 407</b>	<b>259 700 786</b>

### 3-2-2 Balance sheet (liabilities)

**Table 3-2-2: Liabilities as at December 31, 2016**

In thousands of dirhams	Notes	2016	2015
<b>Banknotes and coins in circulation</b>	<b>7</b>	<b>215 746 812</b>	<b>205 884 204</b>
- Banknotes in circulation		212 678 862	202 940 760
- Coins in circulation		3 067 949	2 943 444
<b>Liabilities in gold and in foreign currency</b>	<b>8</b>	<b>10 049 885</b>	<b>6 767 584</b>
- Liabilities in gold		-	-
- Liabilities in foreign currency		10 049 885	6 767 584
<b>Liabilities in convertible dirhams</b>	<b>9</b>	<b>213 277</b>	<b>217 586</b>
- Liabilities to international financial institutions		206 858	208 220
- Other liabilities		6 419	9 366
<b>Deposits and liabilities in dirhams</b>	<b>10</b>	<b>33 779 848</b>	<b>23 165 311</b>
Current account of the Treasury		2 782 845	3 276 541
Deposits and liabilities in dirhams to Moroccan banks		25 409 006	13 575 392
- Current accounts		25 409 006	13 575 392
- Liquidity-withdrawal accounts		-	-
- Deposit facility accounts		-	-
Deposits of general government and public institutions		2 097 777	2 571 885
Other accounts		3 490 221	3 741 493
<b>Other liabilities</b>	<b>11</b>	<b>10 348 126</b>	<b>9 876 385</b>
<b>Special Drawings Rights Allocations</b>	<b>3</b>	<b>7 619 820</b>	<b>7 706 430</b>
Equity capital and the like (including)	<b>12</b>	<b>5 531 046</b>	<b>5 532 805</b>
- Equity capital		500 000	500 000
- Reserves		5 001 340	5 001 340
- Retained earnings		25 547	25 066
- Other equity capital		4 158	6 398
<b>Net income of the fiscal year</b>		<b>1 057 593</b>	<b>550 481</b>
<b>Total liabilities</b>		<b>284 346 407</b>	<b>259 700 786</b>

### 3-2-3 Off balance sheet (liabilities)

**Table 3-2-3: Off balance sheet as at December 31, 2016**

In thousands of dirhams	Notes	2016	2015
<b>Spot foreign exchange transactions</b>			
Spot delivery of currencies		-	-
Spot purchase of dirhams		-	-
<b>Forward foreign exchange transactions</b>			
Foreign currencies receivable		-	-
Foreign currencies payable		-	-
<b>Currency exchange-deposit transactions</b>	<b>13</b>	<b>1 064 500</b>	<b>5 820 953</b>
<b>Foreign exchange transaction-arbitrage operations</b>			
Foreign currencies receivable		1 677 200	80 714
Foreign currencies payable		1 668 994	80 669
<b>Off-balance currency adjustment</b>		-	-
<b>Liabilities on derivatives</b>		-	-
<b>Liabilities on securities</b>			
	<b>14</b>		
Securities received on advances granted		18 647 940	17 604 798
Securities received on advances to be granted		12 159 100	15 425 600
Other guarantees received on advances granted		1 584 898	6 633 500
Advances to be granted		-	-
Foreign securities receivable		716 804	12 868 068
Securities deliverable		202 467	8 460 222
<b>Other liabilities</b>			
	<b>15</b>		
Received market guarantees		66 173	53 158
Liabilities of guarantees received for staff loans		934 239	736 090
Financing liabilities granted to the staff		36 569	39 673
Other granted liabilities		1 000	1 000

### 3-2-4 Profit and loss account

**Table 3-2-4: Profit and loss account as at December 31, 2016**

In thousands of dirhams	Notes	2016	2015
<b>Revenues</b>		<b>5 340 854</b>	<b>4 141 195</b>
Interests earned on holdings and investments in gold and foreign currency	<b>16</b>	2 935 852	1 981 270
Interests earned on claims on credit institutions and similar bodies	<b>17</b>	361 654	880 708
Other interests earned	<b>18</b>	10 813	9 977
Commissions earned	<b>19</b>	1 272 479	613 598
Other financial revenues	<b>20</b>	153 418	115 263
Sales of produced goods and services	<b>21</b>	228 188	205 819
Miscellaneous revenues	<b>22</b>	26 195	37 326
Reversal of depreciation		-	-
Reversal of provisions	<b>23</b>	335 105	293 809
Noncurrent revenues	<b>24</b>	17 150	3 426
<b>Expenses</b>		<b>4 283 261</b>	<b>3 590 715</b>
Interests paid on liabilities in gold and foreign currency	<b>25</b>	19 428	5 316
Interests paid on deposits and liabilities in dirham	<b>26</b>	207 998	166 054
Commissions paid	<b>27</b>	18 800	17 104
Other financial expenses	<b>28</b>	1 340 239	958 008
Staff expenses	<b>29</b>	727 835	726 640
Purchase of materials and supplies	<b>30</b>	233 182	208 112
Other external expenses	<b>31</b>	307 197	307 245
Depreciation and provisions expenses	<b>32</b>	738 480	795 989
Noncurrent expenses	<b>33</b>	6 352	11 911
Corporate taxes	<b>34</b>	683 750	394 335
<b>Net income</b>		<b>1 057 593</b>	<b>550 481</b>

## 3-2-5 Main accounting rules and evaluation methods

### 3-2-5-1 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 its fixed and other assets, and applies particular assessments for all its specific operations.

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).

### 3-2-5-2 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 liabilities in gold and foreign currency

Assets and liabilities 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 account of exchange reserves reassessment in the liabilities side of 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. This agreement sets the minimum threshold of 2.5 percent of BAM's net foreign assets, at which the balance of this account shall be maintained, and provides for a mechanism for allocation of provision to, or withdrawal from this account, in cases of deficit or surplus compared to the required minimum. This reassessment mechanism has no fiscal impact.

Revenues and expenses in foreign currencies are converted at the exchange rate on the date of the transaction.

## Securities

The securities acquired as part of the exchange reserve management are classified by purpose: portfolio of transaction, portfolio of securities held for sale or investment portfolio.

**Transaction portfolio** consists of securities purchased with the intention, right from the start, to re-sell them within a deadline not exceeding six months. They are recorded at their purchase price, including costs and, if need be, accrued coupons. Gains and losses resulting from the monthly evaluation of such securities at the market price are entered in the corresponding profit and loss accounts.

At end - 2016, Bank Al-Maghrib holds no transaction security in its portfolio.

**Portfolio of securities held for sale** consists of securities other than those classified under transaction or investment securities. They are purchased with the intention of holding them for more than six months, with no intention from the Bank to hold them to maturity. Their recording shall respect the following rules:

- Entries into the portfolio are recorded in the balance sheet at their purchase price, excluding purchase costs and accrued coupons, if need be;
- The differences (discounts or premiums) between securities' purchase price and redemption price are not amortized over the duration of these securities holding period;
- The unrealized losses resulting from the difference between the book value and the market value of these securities are subjected to depreciation provisioning 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 purchase price, including interests. Discount securities are spread over the life of the securities and entered in the revenue or expense accounts on a daily basis.

**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, when applicable, 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 the securities' purchase price and redemption price are amortized on a straight-line basis over the remaining life of the securities.

As at December 31, 2016, no provision is recorded for this portfolio.

### 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 recorded at their market value. In fact, they are initially recorded at their purchase price. The capital gains or losses incurred at the end of each month are then entered in the appropriate profit and loss accounts, on the basis of the month-end market values, duly audited and reported by authorized agents.

### 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 adopted, 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 export-oriented notes);
- 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

### Risk description

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.

In this context, the investment policy general guidelines set out the framework for managing risks, to which the Bank is exposed, and define its rules. Thus, the objectives of the holding and management of reserves, investment principles, allocation of foreign exchange reserves and foreign

currency investments as well as investment universe are formalized in the reserves management directive. In addition, the risk management framework defines the eligibility criteria for issuers and counterparties, concentration rules, appropriate limits to comply with and authorized investment terms.

### Governance framework

The implementation of the risk management governance system is based on a governance framework composed of the following committees:

- **The Monetary and Financial Committee (MFC)**, chaired by the Bank's governor, approves the reserves management strategy, investment guidelines and the strategic allocation of assets;
- **The Operational and Financial Risk Committee**, chaired by the Director General, reviews on a quarterly basis the key indicators of performance and risks related to the foreign exchange reserves management;
- **Two committees managed internally** by the foreign exchange reserves management unit:
  - The Investment Committee is mainly tasked with implementing the investment policy set by the Bank Board, proposing to the Bank's MFC the management strategy and following up on its implementation.
  - The Risk Committee is mandated to propose the strategic allocation of assets and benchmarks as well as investment guidelines, to approve the list of issuers and counterparties and relevant limits, to examine the deviations from management rules and to propose measures and actions to be taken.

From an operational perspective, all Bank's foreign currency exposures are controlled and monitored on a daily basis, in order to comply with the investment directive provisions. Monitoring is conducted through the Bank's information systems, which centralize all positions and check their compliance with the rules in place.

In this context, analyses and reports are prepared and submitted to the parties concerned in order to give continuous account of the Bank's exposures to international financial market.

Any deviation from the rules should be notified to decide on actions to be taken. It is also recorded in the report addressed to the MFC.

The Bank monitors risks and controls through:

- **The monthly risk and performance report**, addressed to the MFC, provides an overview of exposures in terms of market and credit risk;

- **The risk and performance report**, developed on a daily basis, presents a summary of exposures by reserve tranche and issuer as well as risk and performance indicators (duration, credit ratings, foreign exchange exposure and value at risk) ;
- **The investment directive follow-up report** helps monitor on a daily basis compliance with the limits defined by the investment directive. It also includes the monitoring of compliance with the adopted strategic allocation and duration limits by reserve tranches;
- **The management mandate follow-up report**, produced on a weekly basis, brings together the key risk and performance indicators and the monitoring of management rules, which authorized agents should comply with.

## Financial risk management

### Credit risk

Credit risk is managed on the basis of the setting of exposure limits in the investment directive and concerns, in particular:

- concentration limits by credit rating divided up by reserve tranche;
- country limits divided up by tranche based on the country's credit rating;
- concentration limits by asset class;
- limits per issuer based on credit rating;
- minimum rating limits;
- maximum maturity limits; and
- bank counterparty limits.

The aforementioned credit limits are monitored and supervised on a daily basis.

In addition to the previous arrangements and with a view to ensuring a better assessment of overall exposure to credit risk of foreign exchange reserves, a synthetic risk measurement 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.

### Market risks

The Bank's exposure to the market risk is measured through a set of indicators in place, such as the effective duration of portfolios, sensitivity to the risk of changes in rates and management constraints in terms of exposure.

### 3-2-7 Comments on the balance sheet items

#### Note 1: Assets and investments in gold

This item contains the equivalent value in 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 account of foreign exchange reserves, in accordance with the agreement governing this account concluded between Bank Al-Maghrib and the State.

**Table 3-2-6: Assets and investments in gold**

	2016	2015
Gold price per ounce in dirhams <sup>(1)</sup>	11 702	10 522
Quantity of gold ounces	710 467	710 250
<b>Market value<sup>(2)</sup></b>	<b>8 314 084</b>	<b>7 473 485</b>
<b>Gold stock (in tonnes)</b>	<b>22</b>	<b>22</b>

<sup>(1)</sup> Gold price USD/DH

<sup>(2)</sup> In millions of dirhams

The 11 percent-increase in the equivalent value of holdings and investments in gold was mainly due to an appreciation of 9 percent in the gold price per ounce, which reached \$1,159.1 at end-December 2016. The stock of gold held by the Bank remained virtually stable at 710,467 ounces (an equivalent of 22 tons).

In 2016, the Bank continued its gold lending operations on the basis of the level of remuneration relative to that of monetary deposits. At the end of this year, the amount of gold held stood at 100,000 ounces, as against 680,000 at the end of 2015.

#### Note 2: Assets and investments in foreign currency

Under Article 8 of its Statute, Bank Al-Maghrib holds and manages the foreign exchange reserves, which consist of assets in gold, SDRs and foreign currencies. This item represents the equivalent in dirhams of assets in convertible foreign currencies, which are held mainly in the form of demand deposits, time deposits and foreign securities.

**Table 3-2-7: Breakdown by type of investment**

In thousands of dirhams	2016	Part	2015	Part
Demand deposits	554 835	1%	976 853	1%
Time deposits	10 095 667	4%	7 745 835	4%
Securities held for sale <sup>(1)</sup>	58 652 034	25%	72 760 557	34%
Investment securities	161 257 880	67%	120 397 324	57%
Miscellaneous <sup>(2)</sup>	7 472 906	3%	8 327 440	4%
<b>Total</b>	<b>238 033 323</b>	<b>100%</b>	<b>210 208 009</b>	<b>100%</b>

<sup>(1)</sup> Taking into account provisions for depreciation of securities.

<sup>(2)</sup> Including accrued interest and management authorizations.

Foreign currency assets and investments rose, for the fourth year running, by 13 percent. Thus, their share in the balance sheet rose from 81% to 84%, from one year to the next.

In terms of the breakdown of these assets, bond investments remain preponderant, accounting for 92 percent of this item. These investments are dominated by investment securities, which account for almost three-quarters at the end of 2016, compared with 62 percent in 2015. This evolution reflects the foreign exchange reserves strategy which aims to strengthen the "investment" tranche by reducing the portfolio of "securities held for sale", which posts a decline of 19 percent, in particular its "euro" component, which fell from 48,407,661 KDH to 36,324,883 KDH.

**Table 3-2-8: Breakdown by remaining life<sup>(\*)</sup>**

	2016	2015
≤ 1year	16%	23%
> 1year	84%	77%
<b>Total</b>	<b>100%</b>	<b>100%</b>

<sup>(\*)</sup> Internally managed portfolios.

In order to reduce the impact of negative rates in the euro area, the Bank continued its monetary deposits, particularly in euros, with the Moroccan commercial banks, with largely positive rates.

### Note 3: Assets with international financial institutions

This item, reflecting positions with the IMF and AMF, increased by 10 percent to 10,104,122 KDH, primarily in conjunction with an increase in the reserve tranche with the IMF.

#### Position with the IMF

This includes on the assets side:

- IMF subscription - Reserve tranche, which compose the fraction (18.1 percent) of Morocco's quota in the capital of the IMF, paid by Bank Al-Maghrib. It is composed of:

- **The available tranche** represents the contribution paid by Bank Al-Maghrib 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 our Institute;

The amount of this tranche rose from 70.46 million SDR to 147.01 million SDR (KDH 1,995,310) between 2015 and 2016, as the Bank settled 76.55 million SDR in February 2016, representing its share (25%) in Morocco's quota increase under the 14<sup>th</sup> General Quota Review of the IMF.

- **The mobilized tranche:** 14.70 million SDR (200,433 KDH) equaling Bank Al-Maghrib's subscription in national currency, deposited in the IMF "Account No.1" open in the books of our Institute.
- **SDR holdings:** This account records the equivalent of Bank Al-Maghrib's assets with the IMF. It 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 SDR to restore a neutral position vis-à-vis the IMF. They fell from 7,663,483 KDH in 2015 to 7,549,635 KDH in 2016. The bank settled, during this fiscal year, an amount of 2,213,160 SDR (equivalent value of 30,245 KDH), under the commitment fee on the IMF Precautionary and Liquidity Line (PLL).

The SDR allocations item is registered in the liabilities side. It corresponds to the value in dirhams of the amounts 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 SDR) granted by the IMF to member countries.

Quarterly commissions are paid by the Bank to the IMF on these allocations. Between 2015 and 2016, these allocations remained unchanged at 561.42 million SDR, while their value in dirhams dropped by 1 percent, due to the depreciation of 3 percent in the SDR rate.

**Table 3-2-9: Position with the IMF**

In thousands of dirhams	2016	2015	Change in %
<b>Assets</b>			
IMF subscription - Reserve tranche	2 195 742	1 168 843	88%
SDR assets	7 549 635	7 663 483	-1%
<b>Total</b>	<b>9 745 378</b>	<b>8 832 326</b>	<b>10%</b>
<b>Liabilities</b>			
SDR allocations	7 619 820	7 706 430	-1%
Accounts No.1 and 2	200 553	201 747	-1%
<b>Total</b>	<b>7 820 372</b>	<b>7 908 177</b>	<b>-1%</b>

It should be noted that, as part of the IMF's review of the SDR basket every five years, the latter has been broadened to include the Chinese currency (renminbi) as a fifth currency as of October 1, 2016, alongside the US dollar, the euro, the yen and the pound sterling. Thus, the new method of calculating the SDR interest rate reflects this new basket and includes a representative interest rate for the renminbi.

### 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 38.57 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 (6,177 KDH);
- 18.93 million Arab dinars subscribed in foreign currency, of which 8.81 million Arab dinars subscribed by the Bank (358,744 KDH).

It should be noted that Bank Al-Maghrib began, in March 2016, settling the third 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 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 bodies

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

In 2016, the liquidity deficit recorded an overall contraction by 11 percent compared to 2015, with different evolutions throughout the year:

- The first half of the year was marked by a substantial reduction in banks' liquidity need compared to the fourth quarter of 2015, reflecting the continued expansion of foreign exchange reserves. During this period, the Bank gradually reduced the amount of its 7-day advances, which fell sharply in the first quarter (1,000,238 KDH on March 23, 2016, as against 7,000,831 KDH at end-December 2015), before suspending them until June 23, when the increase in the monetary reserve ratio from 2 to 4 percent became effective. Thus, at end-June 2016, the amount of 7-day advances stood at 12,000,900 KDH;

- Based on this decision, which led to a drain of 9.3 billion dirhams and the seasonal increase in the currency in circulation, which peaked in September (the start of the school year and Eid Al Adha festivities), the liquidity deficit deteriorated in the third quarter and therefore 7-day advances rose to 18,002,602 KDH at the end of this quarter;
- Finally, in the last quarter of the year, banks' cash improved considerably thanks to the fall in currency in circulation and the expansive effect of Treasury operations, leading the Bank to adjust its refinancing through 7-day advances.

The banks' liquidity needs were covered through:

- Main operations through 7-day advances at auction at the key rate, the main instrument for implementing the monetary policy. These advances stood at 11,001,599 KDH at the end of 2016;

**Table 3-2-10: Structure of claims on banks**

In thousands of dirhams	2016	2015	Change in %
<b>Repurchase agreements</b>	<b>15 002 446</b>	<b>9 516 982</b>	<b>58%</b>
7-day advances	11 001 599	7 000 831	57%
24-hour advances	4 000 847	2 516 151	59%
Three-month repos	-	-	-
<b>Secured loans</b>	<b>4 100 000</b>	<b>13 500 000</b>	<b>-70%</b>
<b>Total</b>	<b>19 102 446</b>	<b>23 016 982</b>	<b>-17%</b>

- Four secured loans totaling 4,100,000 KHD, corresponding to the partial renewal of transactions initiated in 2015 and matured in 2016. These operations are part of the program of supporting the financing of VSME, set up in December 2013 and renewed for a minimum period of two years, starting from December 2015. They are granted at the average key rate during the period under review;
- On an ad hoc basis, 24-hour advances, which are accorded at a key rate plus 100 basis points and whose amount stood at 4,000,847 KDH at year-end.

#### 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, expenses recognized in advance, and revenues due, and any other debtor amount pending equalization. This item posted a decline of 15 percent from 6,453,419 KDH to 5,470,646 KDH, year on year.



## Note 6: Fixed assets

**Table 3-2-11: Fixed assets**

In thousands of dirhams	2016	2015	Change in %
Fixed loans	727 061	712 422	2%
Equity securities	439 755	103 322	>100%
Tangible and intangible fixed assets	6 286 208	6 181 211	2%
<b>Gross fixed assets</b>	<b>7 453 023</b>	<b>6 996 955</b>	<b>7%</b>
Depreciation and provisions	4 187 227	3 860 874	8%
<b>Net fixed assets</b>	<b>3 265 796</b>	<b>3 136 081</b>	<b>4%</b>

The Bank's net fixed assets rose by 4 percent to 3,265,796 KDH. This change is due to the increase in financial fixed assets, combined with the decrease in the net value of tangible and intangible fixed assets, particularly owing to higher accumulated depreciation value, following the recognition of depreciations for the fiscal year 2016, amounting to 334,658 KDH.

### Equity securities and the like

Based on an authorization from the Board at its meeting of December 22, 2015, the Bank was brought in, in August 2015, as a major investor in two companies working under Africa50 Fund: Africa50 - Project Financing (AF50 - PF) and Africa50 - Project Development (AF50 - PD). The total amount of its subscription to the capital increase of this Fund stands at 20 million USD, 90 percent of which is for AF50 - PF and 10 percent for AF50 - PD (see box).

In addition, Bank Al-Maghrib granted to the Casablanca Finance City Authority, in August 2016, an advance credited to the associates' current accounts amounting to 141,549 KDH, as decided by its Board at its session in June 2016.

**Table 3-2-12: Equity securities and the like**

In thousands of dirhams	2016	2015	Change in %
<b>Securities held in Moroccan institutions and the like (including)</b>	<b>198 373</b>	<b>56 824</b>	<b>&gt;100%</b>
Dar Ad-Damane	1 265	1 265	-
Maroclear	4 000	4 000	-
Casablanca Finance City Authority	50 000	50 000	-
Société marocaine de gestion des fonds de garantie des dépôts bancaires (Moroccan Company for the Management of Deposit Insurance Funds)	59	59	-
Receivables attached to holdings	141 549	-	-
<b>Securities held in foreign financial institutions</b>	<b>241 382</b>	<b>46 499</b>	<b>&gt;100%</b>
Ubac Curaçao	23 228	23 228	-
Swift	519	519	-
Arab Monetary Fund	6 177	5 895	5%
Arab Trade Financing Program	16 856	16 856	-
Africa50-Project financing	175 142	-	-
Africa50-Project development	19 460	-	-
<b>Gross total of equity securities and the like</b>	<b>439 755</b>	<b>103 322</b>	<b>&gt;100%</b>

**Box 3-2-1: Africa50 Fund**

Africa50 is a new infrastructure investment platform designed and sponsored by the African Development Bank (AfDB) to address the challenge of infrastructure development in Africa and thereby contribute to the economic, social and human development of the continent.

This Fund was set up on Moroccan territory in September 2014 as a limited company with a capital of 300,000 DH, subscribed in equal shares by the AfDB and the Kingdom of Morocco.

Following the Constitutive General Assembly held on July 29, 2015, Africa50 Fund was legally structured into two entities: AF50 - PF and AF50 - PD. In addition to the AfDB, twenty African countries, including the Kingdom of Morocco, subscribed to the capital increase of these two companies decided by this Assembly.

In accordance with the strategy established by Africa50 Fund, a second capital increase of AF50 - PF and AF50 - PD was approved by the Ordinary and Extraordinary General Meeting of July 21, 2016 for other African countries and institutions (including Bank Al-Maghrib). Following this transaction, the subscribed capital of AF50 - FP and AF50 - DP amounted to 712 million USD and 83 million USD, respectively.

## Tangible and intangible fixed assets

**Table 3-2-13 : Tangible and intangible fixed assets**

In thousands of dirhams	Gross amount 2015	Increase	Decrease	Gross amount 2016
Operating properties	1 795 027	3 678	-	1 798 706
Operating furniture and equipment	2 317 511	26 618	12 372	2 331 758
Other operating tangible fixed assets	716 755	32 186	5 150	743 792
Non-operating tangible fixed assets	758 911	24 243	130	783 024
Intangible fixed assets	593 006	35 923	-	628 929
<b>Total</b>	<b>6 181 211</b>	<b>122 649</b>	<b>17 652</b>	<b>6 286 208</b>

At the end of 2016, the Bank's gross outstanding amount of investments in tangible and intangible fixed assets stood at 6,286,208 KDH, up 104,997 KDH compared to 2015.

The investments involved an amount of 122,649 KDH, broken down, mainly, as follows:

- 29 percent corresponding to investments as part of the infrastructure and the information system project and concern mainly the overhaul of the "front to back" trading room solution, the establishment of a new Internet portal of the Bank and the purchase of the computer software;
- 33 percent corresponding to real-estate investment related to operating and non-operating projects and concern basically the acquisition of real estate, the development of the Bank's headquarters and of Tangiers branch;
- 23 percent corresponding to the purchase of recurrent furniture and equipment, particularly the renewal of the IT equipment and cash processing machines;
- 13 percent dedicated mainly to the reinforcement of safety installations, upgrading electrical facilities and fixtures in various sites of the Bank.

Decreases amounting to 17,652 KDH consist mainly of sale of real estate, furniture and equipment as well as donations.

### 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, which remains the main component of liabilities, with a share of 76 percent, was up 5 percent, to 215,746,812 KDH at the end of 2016. Month on month, it recorded- in line with its seasonal pattern- peaks particularly in the third quarter of this year following summertime, the month of Ramadan and the celebration of the two main religious festivities.

### Note 8: Liabilities in gold and foreign currency

These liabilities mainly comprise currency deposits of foreign banks. They rose by almost the half to 10,049,885 KDH, due to an increase in Bank's liabilities in foreign currencies.

### Note 9: Liabilities in convertible dirhams

This item includes the Bank's liabilities in convertible dirhams towards foreign banks, international financial institutions (IMF, IBRD) and nonresidents.

The IMF "Account No.1" constitutes the major component of this entry. The assets of this account 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 at end-2016 to 200,553 KDH.

**Table 3-2-14: Liabilities in convertible dirhams**

In thousands of dirhams	2016	2015	Change in %
<b>Liabilities to international financial institutions</b>	<b>206 858</b>	<b>208 220</b>	<b>-1%</b>
Liabilities to foreign banks	2 764	2 723	2%
Ordinary accounts of international financial institutions	204 094	205 497	-1%
<b>Other liabilities</b>	<b>6 419</b>	<b>9 366</b>	<b>-31%</b>
<b>Total</b>	<b>213 277</b>	<b>217 586</b>	<b>-2%</b>

### 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 or equal to 2 billion dirhams is remunerated at the rate of 7-day advances minus fifty basis points;
  - The tranche above 2 billion dirhams and up to 3 billion dirhams is remunerated at the rate of 7-day advances minus one-hundred basis points;
  - The tranche higher than 3 billion dirhams is not remunerated.
- Current accounts of Moroccan banks, held mainly to honor their commitments regarding the required reserve, established by virtue of Article 25 of the abovementioned Statute. The rate of this reserve was raised from 2 percent to 4 percent following the Bank Board's decision taken

**Table 3-2-15: Deposits and liabilities in dirhams**

In thousands of dirhams	2016	2015	Change in %
Current account of the Treasury	2 782 845	3 276 541	-15%
Current account of Moroccan banks	25 409 006	13 575 392	87%
Liquidity withdrawals	-	-	-
Deposit facilities	-	-	-
Deposits of general government and public institutions	2 097 777	2 571 885	-18%
Other accounts	3 490 221	3 741 493	-7%
<b>Total</b>	<b>33 779 848</b>	<b>23 165 311</b>	<b>46%</b>

in June 2016, in view of the structural improvement in bank liquidity. The minimum amount required under this reserve must be respected on average over the period of observation.

- 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;
- 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.

Deposits and commitments in dirhams rose by 87 percent to 33,779,848 KDH, particularly due to the marked growth of 11,833,613 KDH in the accounts of Moroccan banks, following the increase in the monetary reserve ratio.

### Note 11: Other liabilities

This entry includes, mainly:

- Miscellaneous creditors, primarily consisting of tax and fiscal withholdings, other sums payable to the State, and third parties, and contributions to provident funds and institutions for social security pending settlement. At the end of 2016, they had a balance of 598,022 KDH.
- 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. The amount of these provisions increased to 188,434 KDH, following the recognition of an additional allocation of 50,000 KDH for the third consecutive year to cover liabilities of social funds, as part of the gradual provisioning of the uncovered fraction of these liabilities, which moved up from -166 MDH in 2015 to -23 MDH in 2016.

**Table 3-2-16: Other liabilities**

In thousands of dirhams	2016	2015	Change in %
Other securities transactions	361	1 086	-67%
Miscellaneous creditors	598 022	384 904	55%
Equalization accounts	209 654	178 917	17%
Amounts claimable after receipt of payment	142 834	19 128	>100%
Provisions for risks and expenses	188 434	133 926	41%
Foreign exchange reevaluation account	9 208 822	9 158 425	1%
<b>Total</b>	<b>10 348 126</b>	<b>9 876 385</b>	<b>5%</b>

- Foreign exchange reevaluation 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, in accordance with the provisions of the agreement signed between Bank Al-Maghrib and the Ministry of Economy and Finance.

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 fiscal year, nor distributed or allocated to any other usage.

### Note 12: Equity capital and the like

Under Article 2 of the Bank's Statute, the capital is set at 500,000 KDH. It is wholly held by the State. It can be increased by decision of the Bank Board, after having heard the government representative and 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 net profit until it reaches the amount of the capital.

**Table 3-2-17: Equity capital**

In thousands of dirhams	2016	2015
<b>Capital</b>	<b>500 000</b>	<b>500 000</b>
<b>Reserves</b>	<b>5 001 340</b>	<b>5 001 340</b>
General reserve funds	500 000	500 000
Special reserve funds	4 501 340	4 501 340
<b>Other equity capital</b>	<b>4 158</b>	<b>6 398</b>
<b>Retained earnings</b>	<b>25 547</b>	<b>25 066</b>
<b>Total</b>	<b>5 531 046</b>	<b>5 532 805</b>

### 3-2-8 Comments on off-balance sheet items

The Bank keeps record of off-balance sheet liabilities, detailing both given and received commitments. Off-balance sheet accounts 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.

The off-balance sheet liabilities include liabilities in foreign currency, liabilities on securities and other liabilities.

## Note 13: Foreign exchange transactions

**Table 3-2-18: Foreign exchange transactions**

In thousands of dirhams	2016	2015
<b>Foreign exchange transactions- currency deposits</b>	<b>1 064 500</b>	<b>5 820 953</b>
<b>Foreign exchange transactions-arbitrage operations</b>		
Foreign currencies receivable	1 677 200	80 714
Foreign currencies payable	1 668 994	80 669

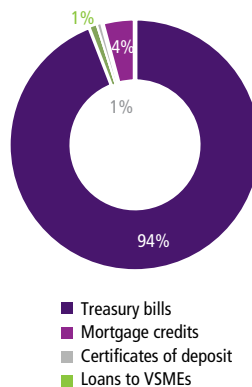
## Note 14: Liabilities on securities

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.).

**Table 3-2-19: Liabilities on securities**

In thousands of dirhams	2016	2015
Securities received on advances granted	18 647 940	17 604 798
Securities received on advances to be granted	12 159 100	15 425 600
Other guarantees received on advances granted	1 584 898	6 633 500
Advances to be granted	-	-
Foreign securities receivable	716 804	12 868 068
Foreign securities deliverable	202 467	8 460 222

**Chart 3-2-1: Structure of liabilities on securities<sup>(\*)</sup>**



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

## Note 15: Other liabilities

**Table 3-2-20: Other liabilities**

In thousands of dirhams	2016	2015
Received market guarantees	66 173	53 158
Guarantees liabilities received for staff loans	934 239	736 090
Financing liabilities granted to the staff	36 569	39 673
Other granted liabilities	1 000	1 000

## 3-2-9 Comments on profit and loss account items

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

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

- Bond market investments (investment portfolio and portfolio of securities held for sale);
- International money market investments (Treasury portfolio);
- SDR holdings reserve tranche available with the IMF;
- Foreign securities lending;
- Gold loans.

**Table 3-2-21: Interests earned on holdings in gold and in foreign currency**

In thousands of dirhams	2016	2015	Change in %
Investments in gold	18 556	23 560	-21%
Foreign Treasury bills and similar securities	2 862 171	1 932 865	48%
Holdings and investments in foreign banks <sup>(*)</sup>	39 025	14 610	>100%
Claims on the IMF	7 451	4 079	83%
Other interests	8 649	6 156	40%
<b>Total</b>	<b>2 935 852</b>	<b>1 981 270</b>	<b>48%</b>

<sup>(\*)</sup> Includes interest on loans of foreign securities and on assets.



Investment income from foreign exchange reserves amounted to 2,935,852 KDH, markedly increasing for the second year in a row, by 954,582 KDH (+48 percent) in 2016. Interest generated by the bond portfolio, representing 97 percent, amounted to 2,862,171 KDH, reflecting the continued expansion of investments in bond securities, supported by the consolidation of foreign currency assets and the improvement of their average remuneration caused by the slight rise in US rates.

Interest from the monetary segment also increased from 14,610 KDH to 39,025 KDH from one year to the next. This robust rise was attributed to an increase in the average remuneration ratio, which benefited from an increase in the Fed's key rate and the Bank's implementation of some deposit operations with Moroccan commercial banks in 2016 at rates higher than those offered by foreign banks.

The amount of interest on gold loans fell by 21 percent, as the Bank reduced the outstanding amount of this type of investment.

#### **Note 17: Interests received on claims on Moroccan credit institutions and similar bodies**

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

These interests continued their downward trend, falling by 59 percent in 2016, as the Bank reduced the volume of its liquidity injections, in conjunction with the improved liquidity of banks, as in the last two years.

In more detail, and by main instrument:

- 7-day advances generated interest of 210,366 KDH, down sharply from 2015 (-56 percent), following a 52 percent decline in their average outstanding amount to 9,237,247 KDH;
- and secured lending transactions, whose outstanding amount was reduced from 15,687,361 KDH to 6,125,278 KDH (-61 percent), resulting in a decrease by 248,962 KDH (-64 percent) in related interest.

**Table 3-2-22: Interests received on claims on Moroccan credit institutions and similar bodies**

In thousands of dirhams	2016	2015	Change in %
<b>Interest received</b>			
7-day advances	210 366	483 306	-56%
Repurchase agreements	-	-	-
24-hour advances	8 022	5 072	58%
Secured loans	143 074	392 036	-64%
<b>Total</b>	<b>361 654</b>	<b>880 708</b>	<b>-59%</b>

### Note 18: Other interests earned

This item covers mainly interests due to the Bank under loans granted to its staff. This interest amounted at the end of the year to 10,813 KDH, up 8 percent compared to 2015.

### 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.

In 2016, the amount of these commissions registered a significant growth of 658,881 KDH, essentially attributable to the settlement of an amount of 618,874 KDH, representing the intermediation margin on the foreign exchange operations of foreign banks' banknotes during the period from June 2012 to December 2014.

**Table 3-2-23: Commissions earned**

In thousands of dirhams	2016	2015	Change in %
Foreign exchange commission	1 201 612	523 655	>100%
Management of Treasury bills	52 413	70 386	-26%
Other commissions	18 455	19 558	-6%
<b>Total</b>	<b>1 272 479</b>	<b>613 598</b>	<b>&gt;100%</b>

Commissions deducted by the Bank on the centralization of the Treasury's auction operations decreased by 26 percent to 52,413 KDH, reflecting the Treasury's weak resort to the primary market to finance its deficit in 2016. These gross amounts raised by the Treasury equaled 86 billion dirhams this year, as against 126 billion dirhams in 2015.

### Note 20: Other financial revenues

The segment of "other financial revenues" mainly covers gains generated from foreign currency transactions and deferral of discounts on investment securities. At the end of 2016, they increased to 153,418 KDH, up 38,155 (+33 percent), due to higher deferral of discounts compared to 2015 (+27,249 KDH), taking into account the nature of investment securities comprising the portfolio.

**Table 3-2-24: Other financial revenues**

In thousands of dirhams	2016	2015	Change in %
Gains from investment securities sales	28 921	43 709	-34%
Deferral of discounts on foreign securities	61 168	33 918	80%
Gains in management authorizations	43 254	31 219	39%
Other revenues	20 074	6 417	>100%
<b>Total</b>	<b>153 418</b>	<b>115 263</b>	<b>33%</b>

Gains from investment securities sales dropped by 34 percent in 2016, following a sharp increase (+84 percent) in 2015, in conjunction with the sale during this year of securities in euro as part of implementing the weights of the dirham-trading basket, which came into force in April 2015.

**Note 21: Sales of produced goods and services**

This item includes revenues from sales of various goods produced by the Bank, which cover mainly 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 the end of the year under review, this item increased to 228,188 KDH, or +22,369 KDH compared to 2015, in conjunction with higher sales of:

- Secured documents rising to 183,723 KDH, of which 163,987 KDH for biometric passports; and
- export-oriented foreign banknotes, which totaled 52,216 KDH.

**Note 22: Miscellaneous income**

Miscellaneous revenues include, inter alia, the contribution of banks to the Moroccan Gross Settlement Systems and the recovery of fees paid by Bank Al-Maghrib. This item decreased to 26,195 KDH, representing an annual decline of 11,132 KDH.

**Note 23: Reversals of provisions**

This item reached this year 335,105 KDH, of which 314,608 KDH representing the reversals of the provisions constituted under the depreciation of foreign investment securities (see Table 3-2-31 of Note 32 of the PLA).

**Notes 24: Noncurrent revenues**

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

Noncurrent revenues increased from 3,426 KDH to 17,150 KDH between 2015 and 2016. This change was mainly attributed to the recognition of a sale proceeds amounting to 14,600 KDH, which resulted from a transaction involving one real estate of the Bank, authorized by the Bank's Board in March 2016.

**Note 25: Interests paid on liabilities in gold and in foreign currency**

The year-on-year increase in this item from 5,316 KDH to 19,428 KDH reflects rising interest paid on money deposits in euro made on negative rates (+11,009 KDH), which is attributed to an increase in outstanding investments and more negative rates compared to 2015. The latter was

impacted by the decision taken by the ECB in March 2016 to reduce its deposit facility rate by 10 bps to -0.40 percent.

### Note 26: Interests paid on deposits and liabilities in dirhams

This item covers particularly interests paid by the Bank, mainly on deposits at the account of Hassan II Fund for Economic and Social Development and the Treasury current account (for payment conditions, see Note 10 of the balance sheet). It also included the required reserve, whose remuneration was introduced by decision of the Bank Board in June 2016.

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.

The remuneration for the monetary reserve stood at 6,197 KDH in 2016. It was calculated on the basis of a rate of 0.75 percent applied to the additional monetary reserve of banks whose growth in outstanding loans to nonfinancial enterprises in the second half of 2016 is higher than the average for the whole of the market, in accordance with the provisions laid down by the Bank.

**Table 3-2-25: Interests on liabilities in Dirhams**

In thousands of dirhams	2016	2015	Change in %
<b>Interest paid</b>			
Required reserve account	6 197	-	-
Other accounts (including)	182 848	151 625	21%
Treasury account	45 415	52 003	-13%
<b>Total</b>	<b>207 998</b>	<b>166 054</b>	<b>25%</b>

Interest paid on the assets of the Treasury current account decreased by 13 percent to 45,415 KDH, due to a decrease in the average remuneration rate, following the Bank's decision to reduce its key rate.

### Note 27: Commissions paid

These are commissions paid in exchange for financial services provided to the Bank. In 2016, they amounted to 18,800 KDH, up 10 percent from 2015, following higher investments in bond securities, whose custody fees progressed by 36 percent to 13,490 KDH.

### Note 28: Other financial expenses

This item covers losses on foreign currency transactions, including losses on investment securities sales (taking into account the nature of securities comprising the portfolio) and deferral of premiums on investment securities.

These expenses posted an annual increase of 382,231 KDH (+ 40 percent) to 1,340,239 KDH at the end of 2016. They were significantly impacted by higher deferral of premiums on investment securities (+399,025 KDH), due to the acquisition in 2016 of securities with higher coupon rates compared to their market yields, in addition to those acquired in 2015 whose deferral of premiums involved one full year.

**Table 3-2-26: Other financial expenses**

In thousands of dirhams	2016	2015	Change in %
Losses in investment securities sales	369 123	381 256	-3%
Deferral of premiums on foreign securities	945 980	546 955	73%
Capital losses in management mandates	19 969	18 186	10%
Other expenses	5 167	11 612	-56%
<b>Total</b>	<b>1 340 239</b>	<b>958 008</b>	<b>40%</b>

**Note 29: Staff expenses**

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

Staff expenses remained virtually stable from one year to the next, at 727,835 KDH, mainly due to the controlled increase in the payroll.

**Table 3-2-27: Staff expenses**

In thousands of dirhams	2016	2015	Change in %
Staff salaries and social security contributions	707 085	705 680	0,2%
Training expenses	6 838	6 046	13%
Other expenses	13 912	14 914	-7%
<b>Total</b>	<b>727 835</b>	<b>726 640</b>	<b>0,2%</b>

**Note 30: Purchases of materials and supplies**

Raw materials (paper, ink, coin blanks, electronic chips and precious metals) are used in the manufacturing of coins and banknotes, secured documents and commemorative coins. This item 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.

The 12 percent increase in this item to 233,182 KDH, is mainly attributed to:

- an increase of 53,013 KDH in costs of purchases of raw materials and supplies for manufacturing banknotes and secured documents, following the postponement to 2016 of contracts planned in 2015. However, mention should be made of the reduced expenditure on ink and supply needed for production, particularly due to the downward revision of quantities, as well as to the measures aiming to optimize consumption and to the smoothing of existing stocks;
- a decrease to 6,838 KDH in the change in inventories of materials and supplies, as against 34,781 KDH in 2015.

### 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. Other external expenses stood at the same level as in 2015, amounting to 307,197 KDH, covering particularly higher electricity consumption costs owing to the increase in the overall production of Dar As-Sikkah and in the pricing of KWh.

**Table 3-2-28: Purchases of materials and supplies**

In thousands of dirhams	2016	2015	Change in %
Purchase of raw materials	168 555	157 924	7%
Purchase of consumable materials and supplies	29 105	26 684	9%
Other purchases	35 522	23 503	51%
<b>Total</b>	<b>233 182</b>	<b>208 112</b>	<b>12%</b>

**Table 3-2-29: Other external expenses**

In thousands of dirhams	2016	2015	Change in %
Maintenance and repair of fixed assets	82 405	94 740	-13%
Rents	35 772	36 617	-2%
Water, electricity and fuel purchases	26 554	19 862	34%
Postal and telecommunication costs	27 142	27 897	-3%
Taxes and duties	16 901	15 853	7%
Other expenses	118 424	112 275	5%
<b>Total</b>	<b>307 197</b>	<b>307 245</b>	<b>-0,02%</b>

## Note 32: Depreciations and provisions

### Depreciations

**Table 3-2-30: Depreciations**

In thousands of dirhams	2016	2015	Change in %
<b>Depreciations of tangible and intangible fixed assets</b>	<b>334 658</b>	<b>354 611</b>	<b>-6%</b>
Real properties <sup>(1)</sup>	110 828	115 255	-4%
Furniture and equipment	171 810	173 630	-1%
Other tangible fixed assets	13	48	-74%
Intangible fixed assets	52 008	65 678	-21%
<b>Amortization expenses of other costs to be spread out over many fiscal years</b>	<b>5 742</b>	<b>5 490</b>	<b>5%</b>
<b>Amortization expenses of previous fiscal years</b>	<b>3 874</b>	<b>10 844</b>	<b>-64%</b>
<b>Total</b>	<b>344 275 <sup>(2)</sup></b>	<b>370 944</b>	<b>-7%</b>

<sup>(1)</sup> Including fixtures, fittings and facilities

### Provisions

**Table 3-2-31: Provisions**

In thousands of dirhams	Outstanding amount 31/12/2015	Expenses	Reversals	Other changes	Outstanding amount 31/12/2016
<b>Provisions for depreciation</b>					
Foreign Treasury bills and similar securities	421 711	321 715	314 608	148	428 966
Miscellaneous stocks and values	8 915	6 333	8 915		6 333
Moroccan equity securities	9 300		1 000		8 300
Foreign equity securities		1 180			1 180
Other provisions	3 238	569	682		3 125
<b>Provisions for risks and expenses posted under liabilities</b>					
Provisions for risks and expenses	133 538	64 408	9 900		188 045
Other provisions	389				389
<b>Total</b>		<b>394 205<sup>(2)</sup></b>	<b>335 105</b>		

<sup>(2)</sup> Totalling 738,480 KDH corresponding to the amount of the PLA heading "depreciations and provisions".

For the terms of the constitution and reversal of provisions, see Section "Assessment Methods" and Note 11 of the balance sheet.

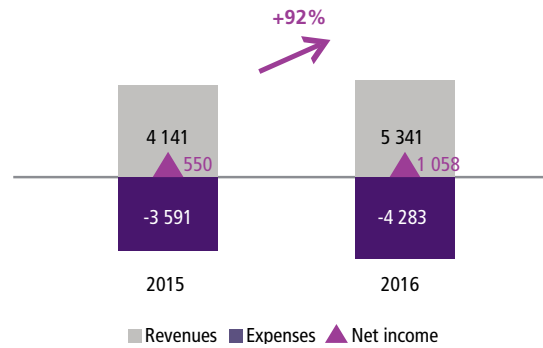
### Note 33: Noncurrent expenses

Noncurrent expenses decreased by 47 percent from 11,911 KDH to 6,352 KDH, in conjunction with the non-renewal of the social solidarity contribution on profits in 2016 (11,234 KDH in 2015).

### Note 34: 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 rose from 394,335 KDH to 683,750 KDH, from one year to the next.

Chart 3-2-1: 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 31<sup>st</sup>, 2016**

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 31<sup>st</sup>, 2016. Which include the balance sheet, the profit and loss account, and the attached disclosures. These statements present a net equity amounting to 5 531 046 thousands of Moroccan Dirhams, and a net profit of 1 057 593 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.

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Sarl au capital de 6.441.500 DH - RC : 89453 - Patente : 34773084 - IF: 1086314 - CNSS : 2733295 ICE : 001546303000074



**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-Maghrib on December 31<sup>st</sup>, 2016 in accordance with generally accepted accounting principles in Morocco.

Without disputing the above opinion, we would note that assets and liabilities in gold and currencies have been assessed according to the principles provided in the statement A1 of the attached disclosures.

**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 21<sup>st</sup> 2017

**Mazars Audit et Conseil**

  
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**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 21, 2017, 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 financial year 2016.



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**Bank Al-Maghrib**  
**Finance and Strategy Department**

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