بنك المغرب
BANK AL-MAGHRIB

ANNUAL REPORT ON BANKING SUPERVISION

Year 2016

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FOREWORD BY THE GOVERNOR

In 2016, economic growth in Morocco slowed down to 1,2 percent, from 4,5 percent a year earlier. Adverse climatic conditions greatly affected the crop year, causing a marked deterioration in the agricultural value added. Non-agricultural GDP grew moderately amid an international environment characterized by sluggish economic activity in the major partner countries.

However, bank lending rebounded slightly to 4 percent from 2,5 percent in 2015, driven by household loans, up 4,1 percent, and the recovery in bank loans to businesses to 3,4 percent, after a decline in the previous year.

However, this trend adversely impacted banks' balance sheets, as credit risk increased and non-performing loans' ratio rose to 7,6 percent.

Against this backdrop and amid an increasingly competitive environment, the intermediation margin decreased, affecting banks' profitability which diminished further. These were partially offset by market transactions and commissions on services. Excluding a non-recurrent income from a significant divestment transaction carried out by a banking institution, banks' aggregate net income, on an individual basis, stood at 9,2 billion dirhams, down 1,7 percent after falling by 6,5 percent in the previous year.

On a consolidated basis, the net income of the nine banking groups picked up by 6 percent, owing to the good performance of their operations abroad and non-banking activities.

At the prudential level, the capital base of banks strengthened further, in compliance with the regulatory requirements transposing the Basel III capital standards. The sector's average capital adequacy ratio improved to 14,2 percent, and the core capital ratio averaged 11,5 percent.

At the same time, the situation of bank liquidity eased considerably, due to higher foreign exchange reserves. In order to structurally regulate interbank market liquidity, the Bank increased the required reserve ratio from 2 to 4 percent in June 2016.

Although the banking sector stands on a sound financial footing, some risk factors persist, requiring greater vigilance and stronger prudential framework.

For this reason, the Bank remained alert to the impact of the economic environment on the quality of credit institutions' loan portfolios, calling banks to make adequate general and specific provisions. Meanwhile, it initiated a reform of loan classification rules, which aims to strengthen institutions' resilience to credit risk. The reform brings in uniform criteria to identify sensitive loans requiring close monitoring by institutions and proactive provisioning, and complements payment default criteria, in line with relevant international standards. This reform is based on a wide-ranging process of consultation with the banking sector as well as several impact studies to define a phased-in implementation framework.

Credit concentration risk continues to receive specific attention. In this regard, Bank Al-Maghrib issued new standards to enhance the financial transparency of large business groups towards credit institutions. It called on banks to agree on a charter for the syndication of loans as of a predetermined threshold.

In response to the emergence of cybercrime risks, the Bank laid down information-system penetration testing rules for credit institutions to comply with. It also established a framework of cooperation with the National Defense Administration's General Directorate of Information Systems Security, with a view to promoting the banking sector' information systems security.

Risks arising from cross-border banking activities were closely monitored. In addition to inspection actions, the Bank monitors, on a regular basis, the projects launched by the largest three banking groups having affiliates and subsidiaries in Africa in order to implement group standards on risk management, control and compliance. The Bank also worked to enhance its own surveillance framework in terms of organization, methodology and resources. The scope of cooperation with host supervisory authorities was also expanded. Two new agreements were signed and two others, already existing, were amended to include coordination in crisis resolution. The Bank also organized, for the third year, the meetings of supervisory colleges for each of the Moroccan cross-border banking groups.

In the same vein, the Bank sought to strengthen the system for dealing with banking difficulties, particularly for systemically important banks, in line with the recommendations of the Financial Stability Board. As such, the Bank finalized a draft circular to regulate banks' preparation for ex-ante recovery plans. The purpose of these plans is to describe, in hypothetical cases of default, the solutions that banks intend to implement to restore their situation so as to limit impact on the financial system without incurring any additional costs for the State and taxpayers. This is a preventive tool that is part of the arrangements put in place to safeguard financial stability.

As part of its responsibilities for the protection of credit institutions' customers, the Bank stepped up its inspections and supplemented the related regulatory framework. Three circulars were issued in 2016 relating to the handling of customers complaints by credit institutions, the banking mediation system and the standard model agreement of demand deposit accounts. Prompted by Bank Al-Maghrib, banks also made six more services free of charge, in addition to the 16 services agreed upon in 2010.

Throughout the year, the Bank also took action to ensure that participatory banking activities start in the best possible conditions. The Credit Institutions Committee gave its approval for the licensing of five banks and three participatory windows. Circulars governing participatory products, investment deposits, participatory windows and the function of compliance with the opinions of the High Council of Ulemas (CSO) were drawn up and obtained, for the 3 circulars that require so, the compliance opinion of this body. The accounting and financial reporting framework was adapted to the specificities of this new activity and the prudential and reporting framework is being prepared. At the same time, the Bank worked with the relevant stakeholders to establish the other necessary prerequisites for the emergence of a complete participatory finance ecosystem, particularly in terms of taxation, issuance of sukuk certificates, takaful insurance and the development of a guarantee offer for participatory financing.

Moreover, the regulatory framework governing future payment institutions was also finalized and published in the Official Bulletin at the end of the first quarter of 2017. It sets out minimum capital rules, the operating conditions for these institutions and the methods for providing payment services. The implementation of this new framework will help strengthen the supply of electronic payment services, foster the development of innovative services and thereby further promote financial inclusion.

In line with our country's policy on climate change and sustainable development, the Bank worked with the Ministry of Finance and other regulators to develop a comprehensive green finance roadmap for the financial system in order to support our country in its transition to a low-carbon economy.

HIGHLIGHTS OF 2016

January 26	: Bank Al-Maghrib organizes a meeting jointly with the General Confederation of Moroccan Enterprises (CGEM) and the Moroccan Bankers Association (GPBM) in Casablanca under the theme "Ways to enhance understanding between banks and enterprises".
March 20	: Bank Al-Maghrib participates in a workshop on bank resolution, organized in Paris by the Banque de France and the World Bank.
April 20	: Bank Al-Maghrib organizes the 2nd meeting of the College of Supervisors of Crédit Populaire du Maroc Group.
April 21	: Bank Al-Maghrib organizes the 2nd meeting of the College of Supervisors of BMCE Bank Group.
April 26	: Bank Al-Maghrib takes part in the 23rd Plenary Meeting of the Middle East and North Africa Financial Action Task Force (MENAFATF), held in Doha.
May 16	: Bank Al-Maghrib participates in a meeting on de-risking, organized in Amman by the Union of Arab Banks.
May 23	: Bank Al-Maghrib participates in a seminar on regulatory innovations introduced in the Central African region (CEMAC), organized in Libreville by the Banking Commission of Central Africa (COBAC).
May 23	: Bank Al-Maghrib participates in the Euromed Seminar on financing post-crisis economy, held in Marseille by Banque de France and the World Bank
May 24	: Bank Al-Maghrib takes part in the 27th meeting of the Arab Monetary Fund's Committee of Supervisors, held in Abu Dhabi
June 1	: The Credit Institutions Committee holds its first meeting under the new banking law No. 103-12.
June 1	: The Governor of Bank Al-Maghrib meets with the Board of the Professional Association of Finance Companies.
June 13	: Bank Al-Maghrib organizes the 1st board meeting of the Moroccan Observatory for Very Small, Small, and Medium-sized Enterprises.
June 22	: Bank Al-Maghrib's Financial Stability Committee holds its 9th meeting.
June 27	: The Coordinating and Systemic Risk Monitoring Committee convenes its 3rd meeting.
June 30	: Bank Al-Maghrib holds a press conference in Casablanca on participatory finance.
July 5	: Bank Al-Maghrib participates in the annual meeting of the College of Supervisors of Société Générale group, organized by the Prudential Supervision and Resolution Authority in Frankfurt.
July 6	: Bank Al-Maghrib participates in the annual meeting of the College of Supervisors of Crédit Agricole group, organized by the Prudential Control and Resolution Authority in Paris "ACPR".
July 14	: Bank Al-Maghrib holds biannual meeting with the Board of the GPBM.

September 7	:	Bank Al-Maghrib takes part in the 8th Global Policy Forum on Financial Inclusion, organized by the Alliance for Financial Inclusion (AFI), in Nadi, Fiji.
September 22	:	Bank Al-Maghrib organizes, in Rabat, the 40th annual meeting of the Council of Governors of Arab Central Banks and Issuing Authorities.
October 27	:	Bank Al-Maghrib organizes the 3rd meeting of the College of Supervisors of Attijariwafa Bank group.
November 12	:	Bank Al-Maghrib takes part in the 24th plenary meeting of the MENAFATF, in Doha.
November 14	:	Bank Al-Maghrib participates in the 2nd week of COP22, in Marrakech.
November 29	:	The Credit Institutions Committee holds its meeting, giving its favorable opinion to the approval of five banks and three participatory windows.
December 7		Bank Al-Maghrib participates in the 12th High-Level Meeting on Financial Stability and Banking Supervision in the Arab Region, organized in Abu Dhabi jointly by the Arab Monetary Fund and the Bank for International Settlements' Financial Stability Institute.
December 14	:	Bank Al-Maghrib held biannual meeting with the Board of the GPBM.
December 14	:	The Africa Committee, composed of Bank Al-Maghrib and the three pan-African Moroccan banking groups, held its 3rd meeting.
December 21	:	Bank Al-Maghrib's Financial Stability Committee held its 10th meeting.
December 21	:	The Coordinating and Systemic Risk Monitoring Committee convenes its 4th meeting.

KEY FIGURES OF THE BANKING SYSTEM

1 - Structure of the banking system

- Number of credit institutions and similar entities : 83

- Banks : 19
- Finance companies : 33
- Offshore banks : 6
- Microcredit associations : 13
- Payment institutions specializing in fund transfer intermediation : 10
- Other institutions : 2

- Network :

- In Morocco : 6.283 banking agencies, or 5.400 inhabitants per agency
- 6.821 automated teller machines
- Abroad : 44 subsidiaries, 18 branches and almost 1.400 banking agencies

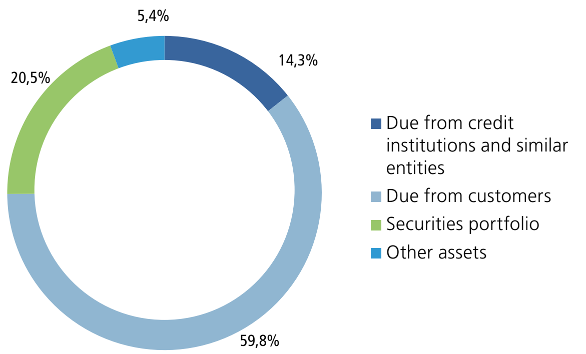
- Staff of credit institutions and similar entities : 53.801

2 - Banks' activity and profitability indicators - on individual basis

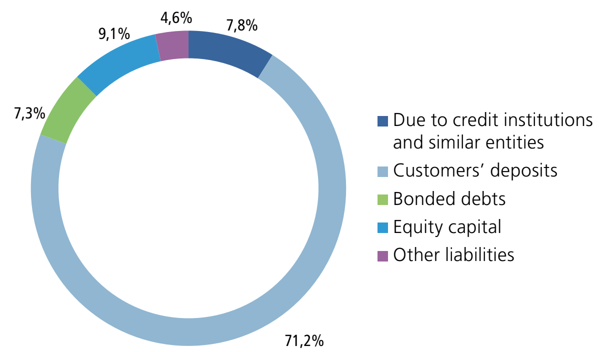
Amounts in billions of dirhams	2014	2015	2016(2)
Total of balance sheet	1.103	1.145	1.199
Loans by disbursement (net of provisions) (1)	734	750	775
Customers' deposits	770	819	854
Equity (excluding profit for the year)	98	104	109
Net banking income	44,0	43,6	45,0
Gross operating income	23,8	23,7	23,3
Net income	10,0	9,4	9,2
Average yield of assets	5,49%	4,82%	4,86%
Average cost of liabilities	1,94%	1,59%	1,50%
Average operating ratio	46,1%	49,1%	49,3%
Return on assets (ROA)	0,9%	0,8%	0,8%
Return on equity (ROE)	10,2%	9,1%	8,6%
Non-performing loans ratio (NPL)	6,9%	7,4%	7,6%
NPL coverage ratio	65%	68%	69%

(1) Including loans to finance companies
(2) Adjusted data due to the impact of a one-off operation

Structure of banks' assets



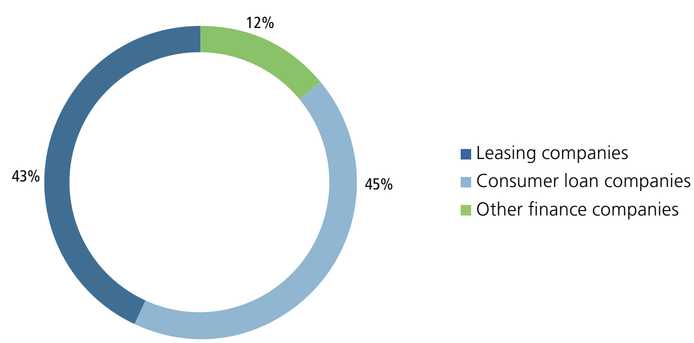
Structure of banks' liabilities



3 - Finance companies' activity and profitability indicators

Amounts in Billions of dirhams	2014	2015	2016
Total of Balance sheet	99	103	106
Loans by disbursement (net of provisions)	89	91	94
Net banking income	5,3	5,3	5,8
Gross operating income	3,3	3,3	3,6
Net income	1,5	1,5	1,6
NPL ratio	10,3%	9,8%	9,4%
Return on assets (ROA)	1,5%	1,5%	1,5%
Return on equity (ROE)	15,9%	15,0%	15,8%

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



4 - Microcredit associations' activity and profitability indicators

Amounts in billions of dirhams	2014	2015	2016
Total of Balance sheet	6,5	6,9	7,4
Gross outstanding loans	5,5	5,9	6,4
NPL ratio	3,7%	3,8%	2,9%
Net income	0,22	0,25	0,21

5 - Offshore banks' activity and profitability indicators

Amounts in billions of dirhams	2014	2015	2016
Total of balance sheet	41,7	41,0	48,1
Gross outstanding loans	15,1	13,3	18,1
Customers' deposits	4,7	4,3	5,6
Net income	0,37	0,49	0,46

6 - Activity and profitability indicators of the nine banking groups - on a consolidated basis

Amounts in billions of dirhams	2014	2015	2016
Total of balance sheet	1.293	1.359	1.432
Loans by disbursement to customers (net of provisions)	864	887	924
Customers' deposits	871	934	973
Equity - group share	110	116	124
Net banking income	60	61	64
Gross operating income	31	30	31
Net income - group share	10,9	11,5	12,2
Average operating ratio	48,4%	50,7%	50,8%
Return on assets (ROA)	0,8%	0,8%	0,8%
Return on equity (ROE)	9,5%	9,9%	9,8%

CHAPTER I

CHANGE IN THE BANKING SECTOR'S STRUCTURE, ACTIVITY AND PROFITABILITY

1 - Change in the banking sector landscape

In 2016, the network of banking agencies in Morocco continued to grow, albeit at a slower pace, bringing the rate of bankarisation to 69 percent, up 2 percentage points from 2015. Meanwhile, the increase in the number of bank staff decelerated markedly.

The development of the three Moroccan banking groups established abroad continued with the creation of a bank in Cameroon and another in Chad and the opening of a branch in Guinea Bissau.

1.1- Structure of the banking system and shareholding

As authorization was withdrawn from a consumer loan company, the number of institutions supervised by Bank Al-Maghrib was reduced to 83 institutions, including 19 banks, 33 finance companies, 6 offshore banks, 13 microcredit associations and 10 Payment institutions specializing in fund transfer intermediation, in addition to the Deposit and Management Fund (Caisse de Dépôt et de Gestion) and the Central Guarantee Fund (Caisse Centrale de Garantie).

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

	2012	2013	2014	2015	2016
Banks	**19**	**19**	**19**	**19**	**19**
Majority foreign-owned banks	7	7	7	7	7
Majority state-owned banks	5	5	5	5	5
Finance companies	**36**	**35**	**34**	**34**	**33**
Consumer loan companies	18	17	16	16	15
Leasing companies	6	6	6	6	6
Real estate loan companies	2	2	2	2	2
Surety companies	2	2	2	2	2
Factoring companies	2	2	2	2	2
Payment-means management companies	3	3	3	3	3
Other companies	3	3	3	3	3
Total number of credit institutions	**55**	**54**	**53**	**53**	**52**
Offshore banks	**6**	**6**	**6**	**6**	**6**
Microcredit associations	**13**	**13**	**13**	**13**	**13**
Payment institutions specializing in fund transfer intermediation	**10**	**9**	**10**	**10**	**10**
Other institutions	**2**	**2**	**2**	**2**	**2**
Total	**86**	**84**	**84**	**84**	**83**

Private shareholding accounts for a dominant proportion of the capital of Moroccan banks, or 70 percent, mainly consisting of holdings of private groups, insurance companies, social security bodies and foreign banking groups.

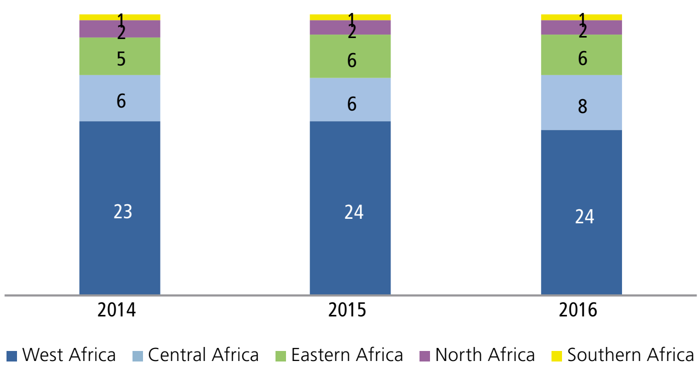
Seven banks and seven finance companies are mostly owned by foreign shareholders of French, Spanish, American and Jordanian origin. Public shareholding remains the majority in 5 banks and 4 finance companies.

Twelve credit institutions, including six banks, were listed on the stock exchange at the end of 2016, unchanged from previous years, representing more than 35 percent of market capitalization.

Abroad, Moroccan banks hold 41 subsidiaries in Africa, with nearly 1.400 banking agencies in 25 African countries, mainly in the two monetary zones of West Africa (UMOA) and Central Africa (CEMAC), which shelter 78 percent of Moroccan subsidiaries in Africa. Moroccan banks are also present in Europe and in other continents through 3 subsidiaries, 17 branches and 47 representative offices, mainly based in Europe, accounting for a share of 81 percent.

The expansion strategy has recently covered non-banking activities, such as insurance, microcredit and funds transfer.

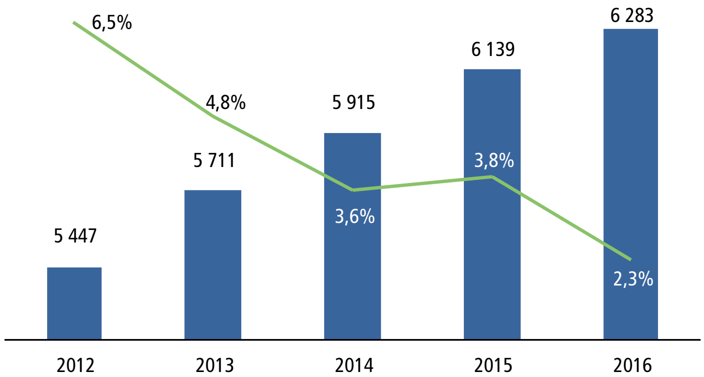
Chart 1 : Breakdown of moroccan banks in Africa by subsidiaries' area



The presence of Moroccan banks in Africa was strengthened in 2016 with the start-up of the activities of a branch in Guinea Bissau, the creation of a subsidiary in Chad and the granting of approval for the establishment of a bank in Cameroon.

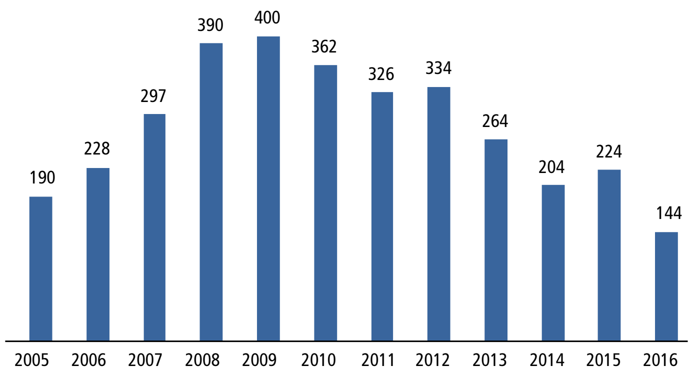
1.2- Change in financial inclusion indicators

Chart 2 : Change in the banking network



Banks opened 178 new branches, as against 231 a year earlier and closed 34, as opposed to 7 in 2015. Thus, their network includes 6.283 branches at end-December 2016.

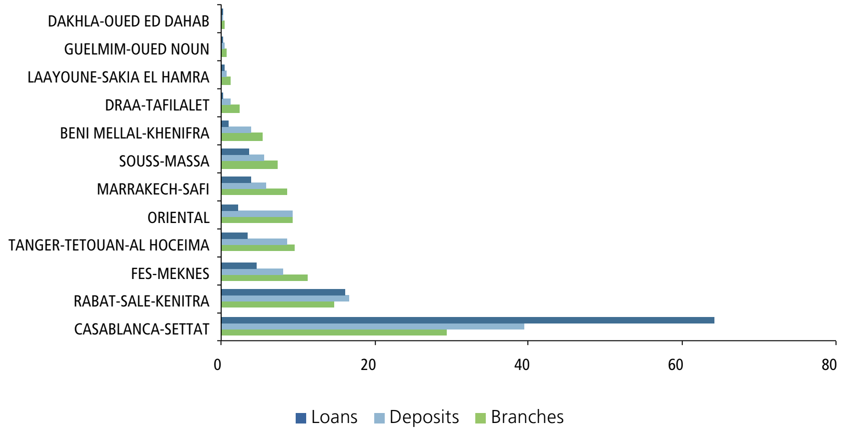
Chart 3 : Number of additional branches opened yearly 2005/2016



Over the last three years, the growth of the branches slowed down to 144 additional branches opened in 2016, compared with an average of 290 agencies between 2005/2015. In a context of digitization of the banking sector, banks are increasingly using new distribution channels, at low cost and based on innovative technological solutions.

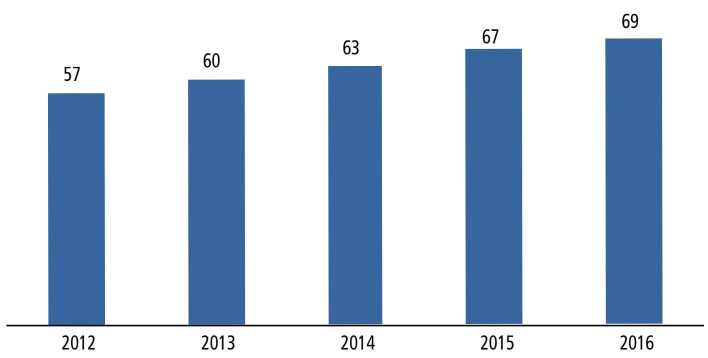
The banking density, measured by the number of inhabitants per branch, stood at nearly 5.400. The density, measured by the number of branches per 10.000 inhabitants, stood at almost 2 agencies, as against less than one branch at the beginning of the 2000’s.

Chart 4 : Share of each region in the total banking network, deposits and loans (in %)



The regional breakdown of the banking establishment did not change significantly from the previous year. The Casablanca-Settat region ranks first with 29,3 percent of branches, about 40 percent of deposits and more than 64 percent of loans, followed by the Rabat-Salé-Kenitra region with almost 15 percent of branches, 17 percent of deposits and more than 16 percent of loans. The Fez-Meknes region is placed in the third position with 11 percent of branches, more than 8 percent of deposits and about 5 percent of loans.

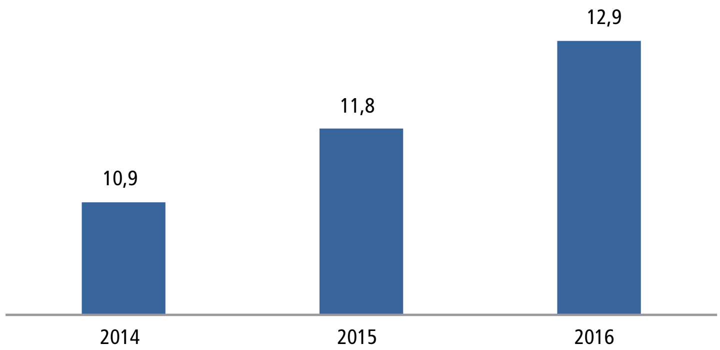
Chart 5 : Change in the ratio of the total number of banking accounts to population (in %)



The number of accounts opened with banks grew by 4 percent, year on year, to 24 million accounts, thus bringing the rate of public access to banking services to 69 percent from 67 percent in 2015[1]. Nevertheless, this situation continues to show disparities across regions. The level of bancarization services seems higher in urban areas and still low in rural ones.

1 The rate of access to banking services, calculated as a ratio of the number of bank accounts to the total population, was revised downwards in 2014 and 2015, following the inclusion of new population figures published by the HCP.

Chart 6 : Change in the number of banking cards in circulation (in million)

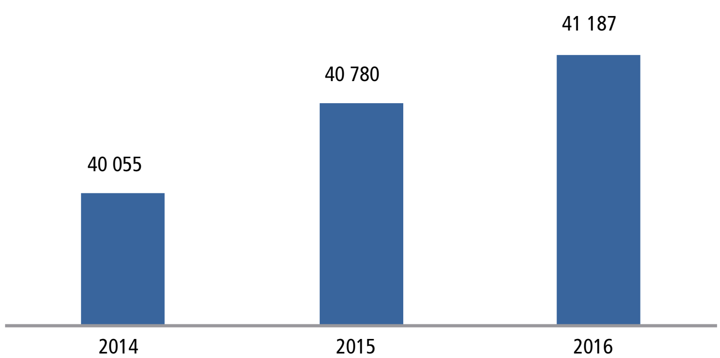


For its part, the use of bank cards continued to show progress in recent years. Their number grew from one million units to 12,9 million cards issued at the end of 2016, most of which remain used for withdrawal operations (87 percent). At the same time, the automated teller machine network continued to develop, as 292 new units were installed (+4,5 percent), thus taking the total number of ATMs to 6.821, or almost 2 ATMs per 10.000 inhabitants and 9,6 ATMs per 1000 km^2, as against 9,2 ATMs a year ago.

1.3 Staff of credit institutions and similar bodies

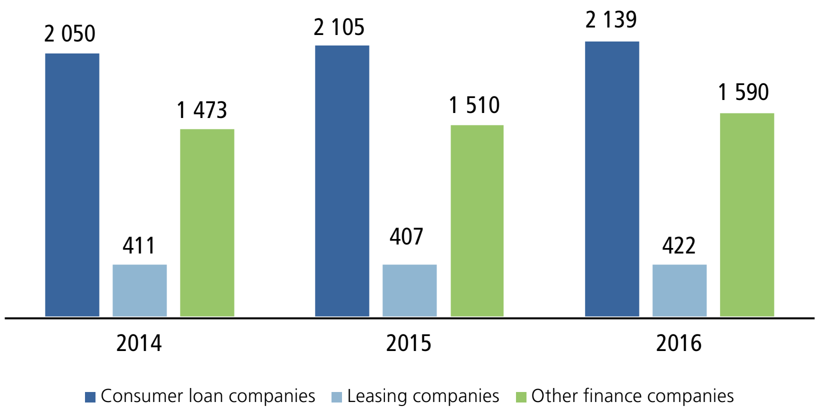
At the end of December 2016, the staff of credit institutions and similar bodies totaled 53.801, including nearly 77 percent employed by banks, about 8 percent by finance companies and a little more than 13 percent by microcredit associations.

Chart 7 : Change in the number of banks' personnel



Banks continued to increase the number of their staff, but at a slower pace than in the previous year, with 407 new employees recruited in 2016 compared to 725 a year earlier. Thus, their workforce totaled 41.187, 41 percent of whom are women. Nearly 48 percent of this staff is between 25 and 35 years of age.

Chart 8 : Change in the number of finance companies' personnel



The finance companies sector employs for its part a total of 4.151 employees, up 129 persons compared to 2015 (+3,2 percent), the clear majority of which were consumer loan companies (+1,6 percent), payment means management companies (+2,7 percent) and other companies (+18,3 percent).

Consumer loan companies accounted for nearly 52 percent of this workforce, compared with 10 percent for leasing companies, 20 percent for payment means management companies and 9 percent for real estate companies.

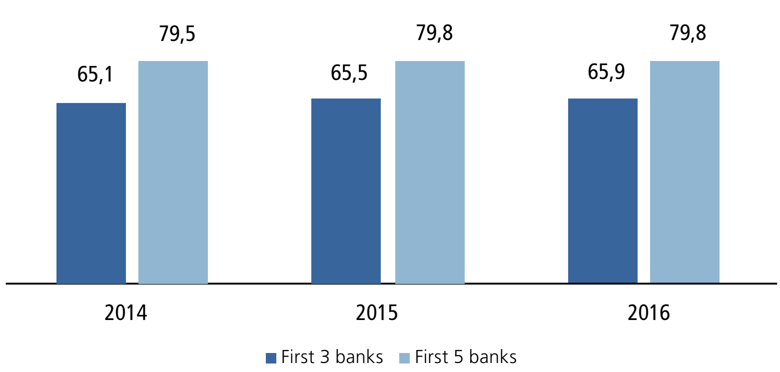
1.4- Change in the banking concentration

The level of banking concentration is measured by the proportion of the top three and five banks in total assets, loans and deposits. It is also measured by the Herfindahl-Hirschman index.

1.4.1- Concentration of banking activity on individual basis

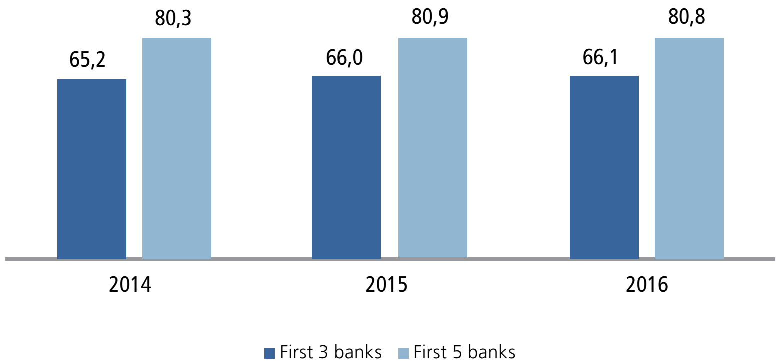
The contribution of the top three banks in the sector's total assets grew by 0,4 point to 65,9 percent, while that of the five largest banks remained stable at 79,8 percent.

Chart 9 : Concentration of total assets (in %)



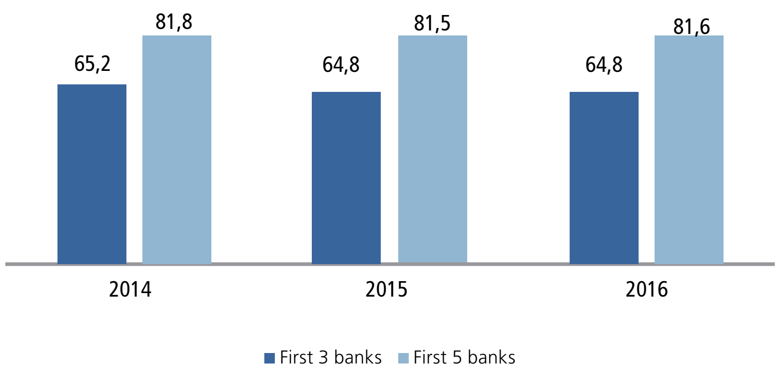
In terms of deposits, the share of the top three banks in the sector's total grew by 0,1 percentage point to 66,1 percent and the share of the first five banks dropped 0,1 percentage point, from one year to the next, to 80,8 percent.

Chart 10 : Concentration of deposits (in %)



In terms of loans, the share of the top three and five banks in total granted loans did not change from 2015, or 64,8 percent and 81,6 percent.

Chart 11 : Concentration of loans (in %)



According to the Herfindahl-Hirschman index, the concentration of total assets, deposits and loans remained unchanged from 2015, reflecting a moderately concentrated market.

The analysis of concentration depending on the status of shareholding confirms that the share of private-owned banks with mainly Moroccan capital expanded. These banks had 53,3 percent of branches, 66,6 percent of assets and deposits and 65,2 percent of loans.

Chart 12 : Concentration according to the status of shareholding -2016 (in %)

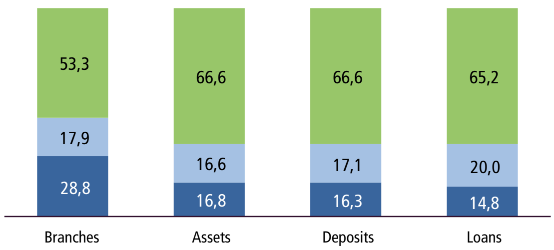
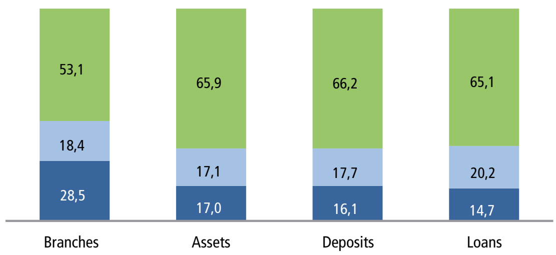


Chart 13 : Concentration according to the status of shareholding - 2015 (in %)



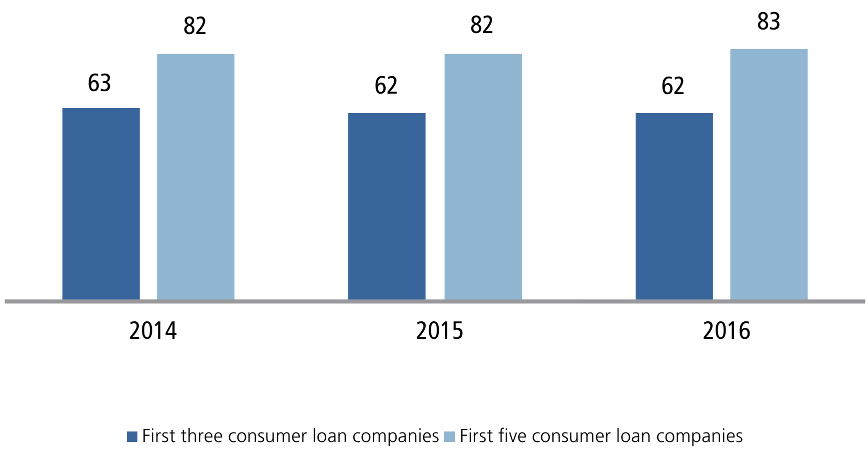
Majority state-owned banks ■ Majority foreign-owned banks ■ Majority moroccan private-owned banks

Majority state-owned banks had 28,8 percent of branches, 16,8 percent of assets, 16,3 percent of deposits and 14,8 percent of loans. The share of majority foreign-owned banks fell again to 17,9 percent of branches, 16,6 percent of total assets, 17,1 percent of deposits and 20 percent of loans.

1.4.2- Concentration of finance companies' activities

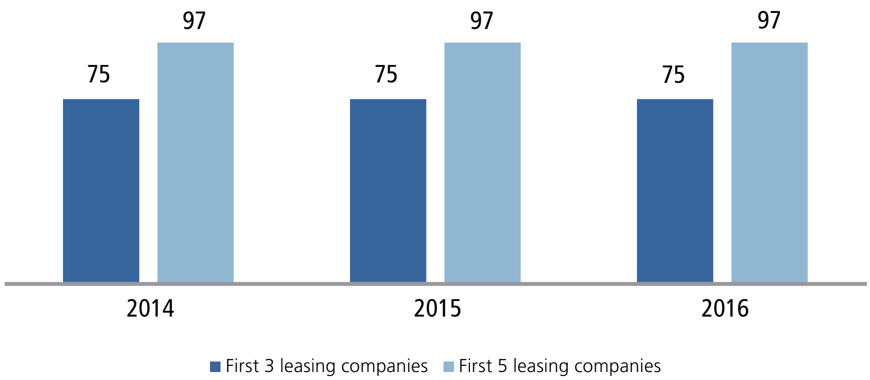
The concentration level of the three largest consumer loan companies in total assets remained unchanged at 62 percent. However, that of the top five companies increased by one point to 83 percent in 2016.

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



Nearly 98 percent of the sector's activity is operated by 10 companies affiliated to financial institutions.

Chart 15 : Total assets' concentration of leasing companies (in %)



Concerning leasing companies, the shares of the top three and five companies remained stable at 75 percent and 97 percent of total assets, respectively.

1.4.3- Concentration of banking activity on a consolidated basis

On a consolidated basis, there was no change in the credit activity concentration level compared to 2015, as the share of the top three and five banks remained at 65 percent and 81 percent, respectively.

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

	Equipment loans and cash facilities to businesses			Real estate loans			Consumer loans			Total loans		
	2014	2015	2016	2014	2015	2016	214	2015	2016	2014	2015	2016
The first 3 banking groups	64	63	64	65	65	64	63	63	63	65	65	65
The first 5 banking groups	83	83	83	81	81	81	81	80	79	82	81	81

The concentration analysis by type of loan operations shows that for cash facilities and equipment loans, the share of the three largest banking groups rose by one point to 64 percent and that of the five largest groups remained stable at 83 percent. Regarding real estate loans, the share of the first three groups fell by one point to 64 percent. In terms of consumer loans, the proportion of the top five groups fell by one point to 79 percent, while that of the first three banking groups was stable at 63 percent.

2 - Activity and profitability of banks on individual basis

In an environment marked by moderate credit growth and compression of the interest margin, banks registered a drop in the restated cumulative net income.

The banking activity data are identified on the basis of activity in Morocco. The activity carried out abroad, through bank branches and agencies, remains weak.

2.1- Banking activity recorded a moderate growth

2.1.1- Change in banking assets was driven by an increase in securities portfolio and loans

After a 3,8 percent increase in 2015, the aggregate total balance sheet of banks grew by 4,7 percent to 1.199 billion dirhams at end-December 2016, representing 118 percent of GDP at current prices, compared to 116 percent in 2015. Of this total, the share of foreign currency transactions with non-residents remains limited to 2,8 percent of assets.

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

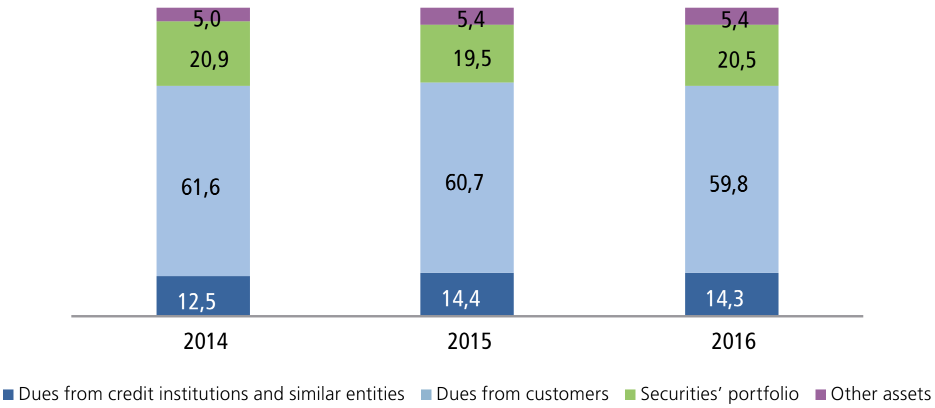
(In million of dirhams)

	2014	2015	2016	Change 2015/2016 (in %)
Due from credit institutions and similar entities	**137 446**	**164 774**	**170 930**	**3,7**
Due from customers	**680 010**	**695 345**	**716 444**	**3,0**
Securities portfolio	**230 569**	**223 732**	**245 522**	**9,7**
Including Treasury bills	116 826	118 552	118 343	-0,2
Fixed assets	**24 455**	**27 242**	**31 205**	**14,5**
Other assets	**30 822**	**34 381**	**34 658**	**0,8**
Total assets	**1 103 302**	**1 145 474**	**1 198 759**	**4,7**

Headings net of amortization and provisions

Regarding the structure of banks' assets, the share of customers' loans dropped by almost one point to 59,8 percent, while the proportion of the securities portfolio rose from 19,5 percent to 20,5 percent, year on year.

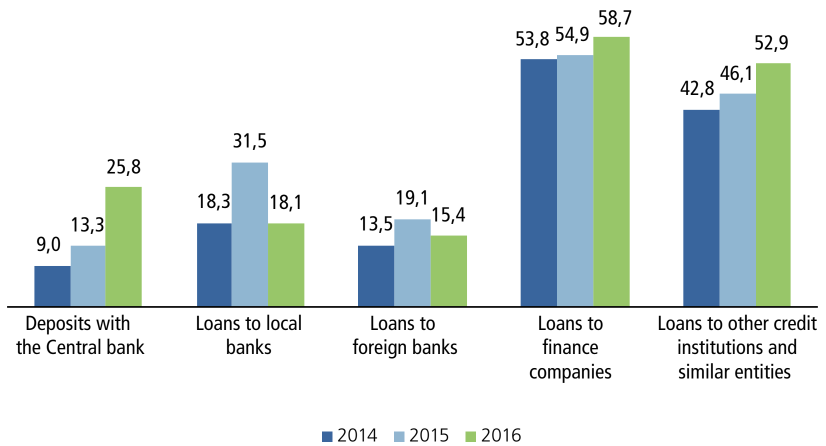
Chart 16 : Banks' assets structure (in %)



2.1.1.1- In a context of improved liquidity, claims on domestic banks fell, as against an increase in deposits with the Central Bank

After rising 19,9 percent in 2015, receivables from credit institutions and similar entities increased by 3,7 percent to nearly 171 billion dirhams, from one year to the next. This deceleration reflects the combined effect of higher deposits with the Central Bank and loans to finance companies as well as lower claims on domestic and foreign banks.

Chart 17 : Loans to credit institutions and similar entities (billions of dirhams)



Dirham-denominated receivables from credit institutions and similar entities moved up 4,1 percent to 127,9 billion dirhams, as against 18,3 percent in 2015. Those denominated in foreign currency rose by 2,7 percent, as against 24,9 percent a year earlier, to 43 billion dirhams, while their share in the total remained at 25 percent.

After a 72 percent growth in 2015, receivables from local banks fell by 42 percent to 18 billion, as a result of higher assets with Bank Al-Maghrib. This decline reflects decreases of 53 percent in cash facilities to 8 billion and 45 percent in securities received under repurchase agreements to 6 billion dirhams.

After a 48 percent increase in 2015, bank deposits with the Central Bank almost doubled to 25,8 billion dirhams, following the increase in the required reserve ratio from 2 percent to 4 percent.

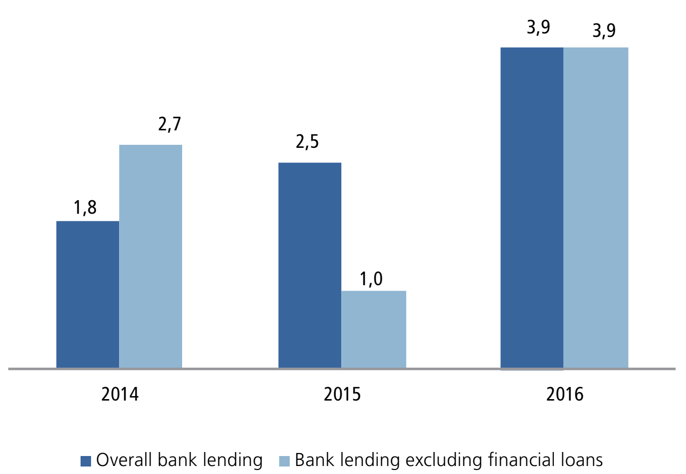
Finance companies have increasingly used bank loans. Indeed, banks' outstanding loans to finance companies rose by 7,1 percent to 58,7 billion dirhams, after a 2 percent increase in 2015. This increase took place in the context of a recovery of the finance companies' activity and better interest rate conditions. It covers increases of 12,1 percent in cash facilities to 16,7 billion and 5,2 percent in financial loans to nearly 42 billion dirhams.

With an outstanding amount of 15,4 billion dirhams, claims on banks operating abroad fell by 19,5 percent, after a 41,6 percent increase in 2015. The drop was attributed to the low return on investments with foreign correspondents. Those held on other credit institutions and similar entities grew by 14,7 percent to 52,9 billion dirhams, mainly for the benefit of offshore banks.

2.1.1.2- Bank lending activity edged up slightly from 2015

Gross outstanding loans totaled 811 billion dirhams, up 3,9 percent, following a 2,5 percent rise in 2015. As a ratio to GDP, this outstanding amount stood at 80 percent, from 79 percent in the previous year.

Chart 18 : Change in credit granted by banks to customers (in %)



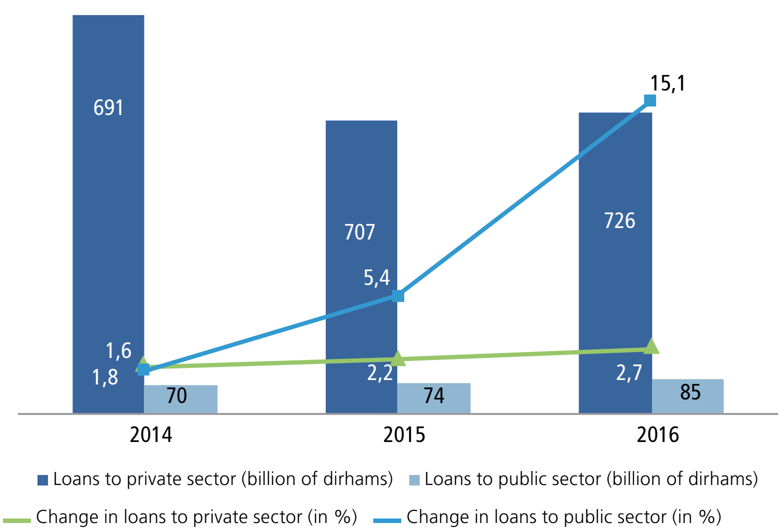
After dropping by 33,7 percent in 2015, foreign currency loans increased by 8,4 percent to 18,7 billion dirhams, in conjunction with the recovery of imports. However, their share in total loans remains limited to 2,6 percent.

The bank lending recovery was more relevant to non-financial companies. These companies benefited from a 3,4 percent increase in outstanding loans, after a decline of 1,7 percent in 2015, due to the recovery of investment.

On the same line as domestic demand, loans to households remained buoyant, although decelerating from the levels of recent years. They stood at 262 billion, up 4,1 percent, as against 5,6 percent in 2015. This trend reflects growth of 4,8 percent in housing loans and 1,8 percent in consumer loans[2].

Overall, loans to the private sector (private businesses and households) were up 2,7 percent to 726 billion dirhams, representing 90 percent of total loans. Meanwhile, outstanding loans to the public sector (state-owned enterprises and general administration), totaling an outstanding amount of 85 billion, increased by 15,1 percent, driven mainly by loans allocated to state-owned enterprises.

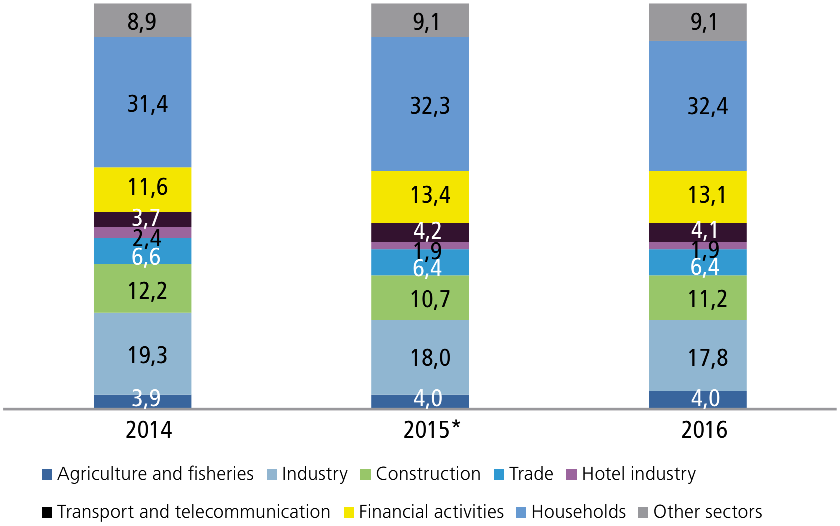
Chart 19 : Loans to private and public sectors



The breakdown of bank loans by sector of activity shows a good diversification. Households and tertiary sector activities account for 32 percent and 34 percent, respectively, followed by the secondary sector, with nearly 30 percent, while the agricultural sector activities represent almost 4 percent of bank loans.

2 Including account over drafts.

Chart 20 : Sectoral breakdown of disbursement loans granted by banks (in %)



* Figures at the end of 2015 were revised

Outstanding loans to the primary sector increased by 4,6 percent to 32,7 billion dirhams. Their share in the total stabilized at 4 percent.

Loans to the trade sector totaled 51,8 billion, up 3,3 percent in 2016, as against a drop by 0,7 percent in 2015, representing a 6,4 percent share of total loans.

However, outstanding loans to the industrial sector amounted to 144,3 billion dirhams, edging up by 2,8 percent, after dropping by 4,7 percent a year earlier.

This change reflects increases of 1,5 percent in loans to companies operating in the production and distribution of water and energy and 3,5 percent in those allocated to manufacturing industries.

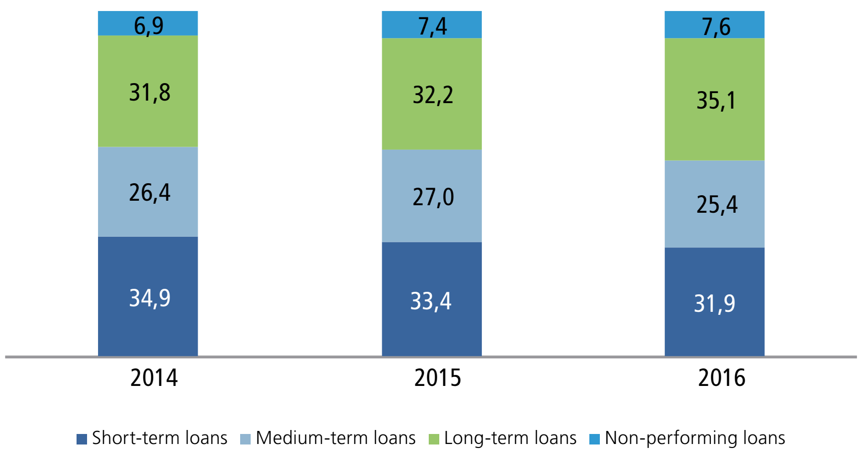
After a decline of 9,6 percent in the previous year, loans to the building and public works sector jumped by 8,6 percent, totaling an outstanding amount of 91 billion, while their share rose by 0,5 point to 11,2 percent. In this total, the financing allocated to real estate development continued its downward trend, dropping by 4,8 percent to 63,3 billion dirhams.

Bank Al-Maghrib's survey[3] shows that the financing of the secondary and tourism residences dropped by 46,5 percent in 2016, after a decline of 18 percent a year earlier. Similarly, the economic segment broke with its upward trend, dropping by 16,6 percent, after a rise of 24 percent a year earlier. On the other hand, the middle class segment returned to growth this year, rising by 11 percent, after a 9 percent decline a year earlier.

3 On the basis of responses from a sample of ten banks.

Lending to the tourism sector grew by 4,5 percent, totaling an outstanding amount of 16 billion, representing a 2 percent share of loans. For its part, outstanding loans allocated to the transport and communication sector rose by 0,7 percent and its share in the total stood at 4,1 percent.

Chart 21 : Structure of disbursement loans granted by banks by their term (in %)



Due to growth in equipment loans, medium- and long-term loans increased by 6 percent to nearly 490 billion. Similarly, their share in the total progressed by 1,3 percentage point to 60,5 percent. Conversely, the decrease in cash facilities was coupled with a 0,5 percent drop in short-maturity loans to 258,9 billion. Their share in total loans thus fell by 1,5 percentage point to 31,9 percent between 2015 and 2016.

2.1.1.3- The securities portfolio strengthened, owing to higher ownership securities held by banks as shares of UCITS

The outstanding securities portfolio held by banks grew by 9,6 percent to 247 billion dirhams, representing a 20,5 percent share of the balance sheet.

Table 4 : Change in banks' securities portfolio

(Gross amounts in millions of dirhams)

	2014	2015	2016	Change 2015/2016 (in %)
Trading securities	98 974	105 793	132 623	25,4
Held-for-sale securities	55 211	46 252	47 620	3,0
Investment securities	41 320	36 300	27 337	-24,7
Equity securities and similar assets	34 376	37 112	39 418	6,2
Total of securities portfolio	**229 881**	**225 457**	**246 997**	**9,6**

After a 6,9 percent increase a year earlier, the trading securities portfolio rose 25,4 percent to 132,6 billion dirhams, in conjunction with a new direction of investment strategies of some banks. This trend reflects a strong rise of 40 percent in title deeds to 63 billion, mainly as shares of UCITS, and a 10 percent increase in Treasury bills to 64 billion dirhams.

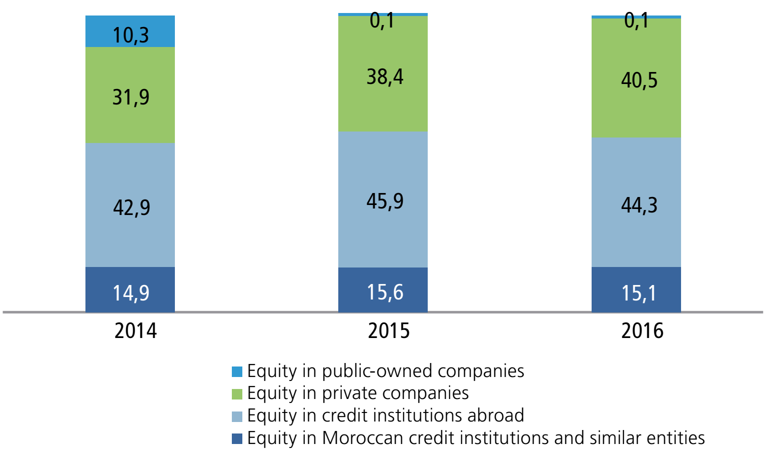
The trading portfolio was strengthened to ensure active management of the securities held, while the investment portfolio dropped by 24,7 percent to 27,3 billion dirhams, after a decrease of 12,1 percent in 2015. Nearly 95 percent of this portfolio consists of Treasury bills.

For its part, the held-for-sale securities portfolio moved up 3 percent to 47,6 billion dirhams, after a decline of 16,2 percent in 2015. This growth covers increases of 4,9 percent in the portfolio of Treasury bills to 28 billion and 16,2 percent in other debt securities to 9,5 billion, while title deeds dropped by 11,2 percent to 10 billion dirhams.

The equity portfolio grew by 6,2 percent to 39,4 billion, of which more than three quarters in affiliated corporations. This change reflects an increase of 13,7 percent in shareholdings in private companies to 14,9 billion, mainly in investment funds.

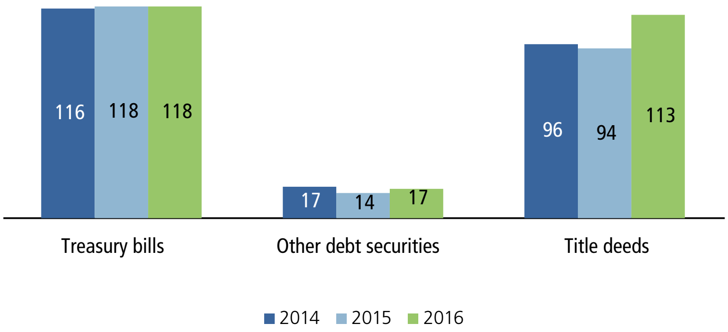
Following the capital transactions carried out this year, shareholdings in credit institutions based abroad increased by 4,3 percent to 16,3 billion, representing 44 percent of total equity portfolio and 15 percent of banks' equity capital.

Chart 22 : Breakdown of banks' equity portfolio by type of counterparty (in %)



By legal nature, Treasury bills amounted to 118 billion dirhams, showing virtual stagnation compared to 2015, due to a drop in the Treasury's levyings in 2016. They accounted for almost 48 percent of the securities portfolio and 9,8 percent of bank assets, as against 52 percent and 10,3 percent, respectively, in the previous year.

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



The portfolio of other debt securities, composed of bonds up to 53 percent, rose by 19,7 percent, after a drop by 20,3 percent in 2015.

Title deeds held by banks, including all portfolios, moved up 20,4 percent, after a 3 percent decline in 2015, reflecting a greater orientation of banks towards investments in UCITS shares. Their share in the overall portfolio stood at 46 percent.

The outstanding provisions for depreciation of the securities portfolio, mainly allocated to cover equity securities and similar assets, decreased by 7,5 percent to 2,4 billion, as a result of the improved financial situation of a banking subsidiary.

2.1.2- Deposits collected by banks from customers decelerated compared to the previous two years

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

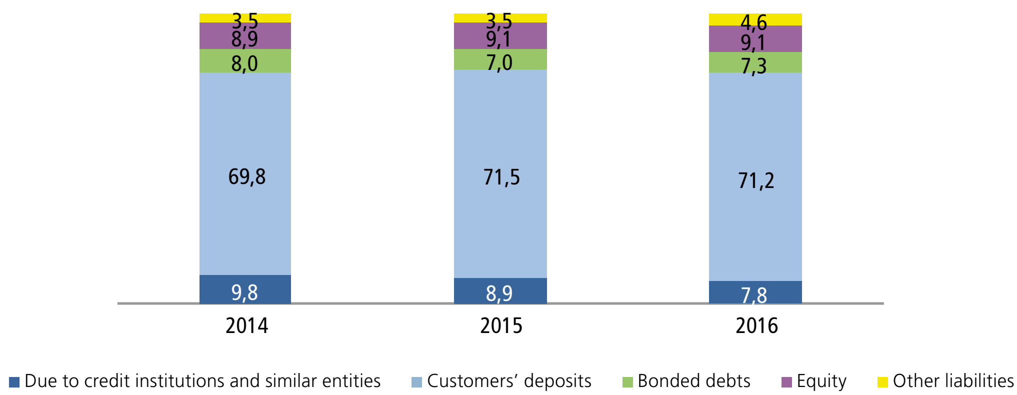
(In million of dirhams)

	2014	2015	2016	Change 2015/2016 (in %)
Due to credit institutions and similar entities	**108 418**	**102 843**	**93 687**	**-8,9**
Customers' deposits	**769 770**	**819 212**	**854 081**	**4,3**
Bonded debts	**87 963**	**79 971**	**87 034**	**8,8**
- Issued debt securities	63 374	49 721	52 645	5,9
- Subordinated debts	24 589	30 250	34 389	13,7
Equity	**97 801**	**104 280**	**108 792**	**4,3**
Net income	**10 011**	**9 362**	**12 258**	**30,9**
Other liabilities	**29 339**	**29 806**	**42 907**	**44,0**
Total liabilities	**1 103 302**	**1 145 474**	**1 198 759**	**4,7**

In a context of the dissipation of pressures on bank liquidity, dues to credit institutions decreased by almost 9 percent, reflecting lower use of the Central Bank's financing. Bonded debts recovered in 2016 by 8,8 percent, in light of favorable rate conditions. As a result, the share of dues to credit institutions shrank by 1,1 percentage point to 7,8 percent. The proportion of deposits collected dropped by 0,3 percentage point to 71,2 percent, while the share of Bonded debts in liabilities rose to 7,3 percent. The equity share remained unchanged at 9,1 percent.

Currency-denominated liabilities provided by non-residents remain below 3 percent of total banking liabilities.

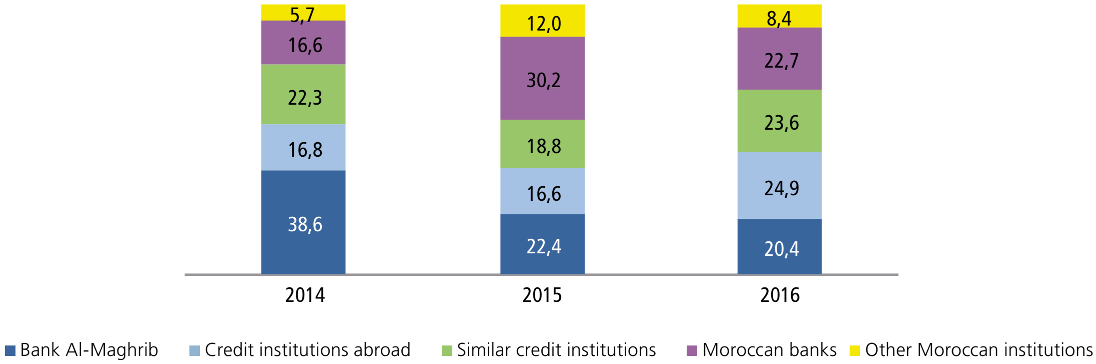
Chart 24 : Structure of banks' liabilities (in %)



2.1.2.1- Receivables from credit institutions and similar entities fell again, owing to lower refinancing with the Central Bank

Receivables from credit institutions and similar entities fell by 8,9 percent to 93,7 billion dirhams, as against 5,1 percent in the previous year. This decline is particularly attributed to a decrease in banks' use of advances from the Central Bank and borrowings on the interbank market. Of this total, dirham-denominated debts, totaling an outstanding amount of 45,7 billion, contracted by 25,7 percent, while foreign currency debts, accounting for nearly 51 percent of the total, rose by almost 16,1 percent, owing to higher foreign currency refinancing.

Chart 25 : Breakdown of banks debts due to credit institutions by type of counterparty (in %)



Borrowing from the Central Bank continued to decline in 2016, but at a slower pace. After falling by 45 percent in 2015, it again dropped by 17 percent to 19,1 billion dirhams, bringing its share in banks' liabilities from 2 percent to 1,6 percent. This outstanding amount consists of 7-day advances, amounting to 11 billion dirhams, as against 7 billion in 2015, and secured loans granted under the program of financing VSMEs, amounting to 4,1 billion, as against 13,5 billion dirhams a year earlier. The remainder consists of 24-hour advances.

Interbank debts contracted by 31,5 percent to 21,3 billion dirhams, due to declines of 53,4 percent in cash borrowings and 10 percent in securities received under in repurchase agreements, while financial borrowings increased by 21 percent. Borrowings from credit institutions abroad grew by 36,2 percent to 23,3 billion dirhams, also owing to higher foreign currency financing.

2.1.2.2- Customers' liabilities grew at a slower pace than in 2015

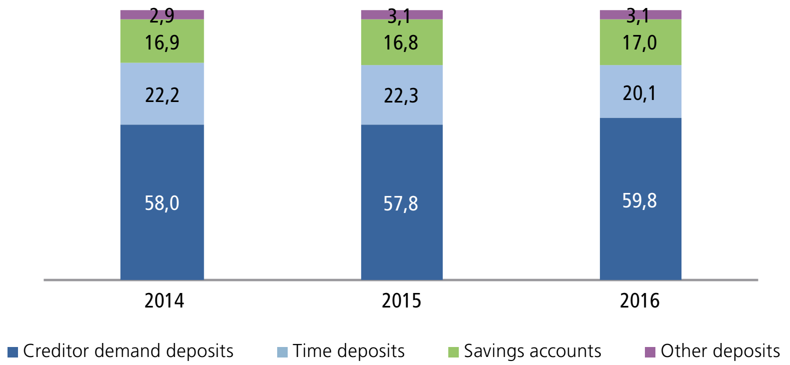
At the end of 2016, customers' deposits totaled 854 billion dirhams, rising 4,3 percent, as against 6,4 percent a year earlier. This trend results in an average ratio of loans-to-deposits of 95 percent, unchanged from 2015.

Dirham-denominated deposits amounted to 834 billion dirhams, up 4,1 percent, as against 6,2 percent in 2015, while foreign currency deposits, with a limited share of 2,3 percent, appreciated by 10 percent, after increasing 17,9 percent last year.

By component, demand deposits grew at a dynamic pace rate of 7,9 percent to 511 billion. Deposits in savings accounts, with an outstanding amount of 145,6 billion, were up 5,7 percent, as against 6,1 percent. Time deposits contracted by 5,9 percent to 172 billion, after a 7,1 percent rise in 2015. This decline, observed in time deposits of companies and resident individuals, occurs in a context of lower rates on these investment instruments.

As a result, the share of time deposits fell from 22,3 percent to 20,1 percent, while that of demand deposits progressed by 2 points to 59,8 percent. The proportion of savings accounts increased from 16,8 percent to 17 percent, year on year.

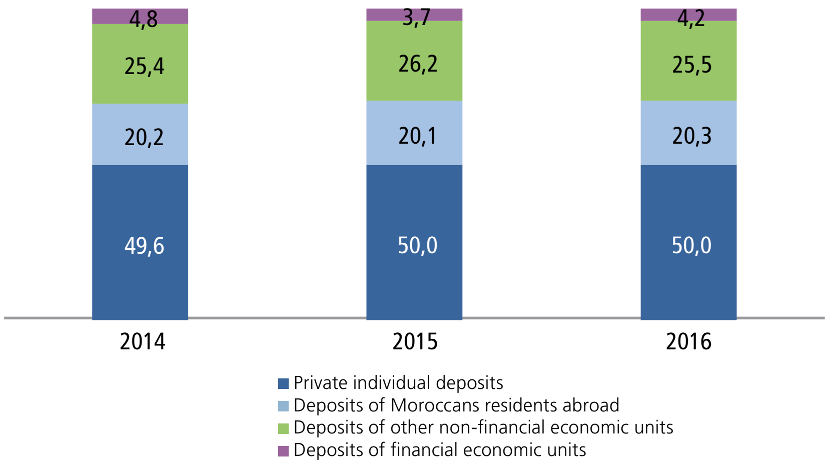
Chart 26 : Change in the share of various deposits' categories (in %)



The structure of customers' deposits remains dominated by deposits of private individuals and other non-financial units. With a share of 50 percent of the total, deposits of resident private individuals rose by 5,7 percent to 425 billion dirhams, unchanged from 2015. This trend shows an increase of 9,9 percent in demand deposits and 6,2 percent in deposits in savings accounts, while time deposits dropped by 9,4 percent.

Deposits of Moroccans residents abroad, representing 20,3 percent of the total, grew by 5,5 percent to 172,7 billion dirhams, as opposed to 5,7 percent a year earlier. Of this total, demand deposits increased by 7,4 percent, as against 2,3 percent for time deposits and 5,5 percent for savings accounts.

Chart 27 : Structure of deposits by economic agent (in %)



Deposits of other non-financial units[4] fell by 0,7 percent to 217 billion dirhams, reflecting a 4,3 percent increase in demand deposits and an 18,6 percent decrease in time deposits.

Deposits of financial units, consisting mainly of UCITS and insurance companies, of a volatile nature, posted a rise of 22,7 percent to 37 billion dirhams, after a decline of 19,9 percent in the previous year. Taken separately, UCITS deposits, composed up to 71 percent of time deposits, increased by 30,3 percent to 18 billion dirhams, as against a decrease of 24,3 percent in 2015.

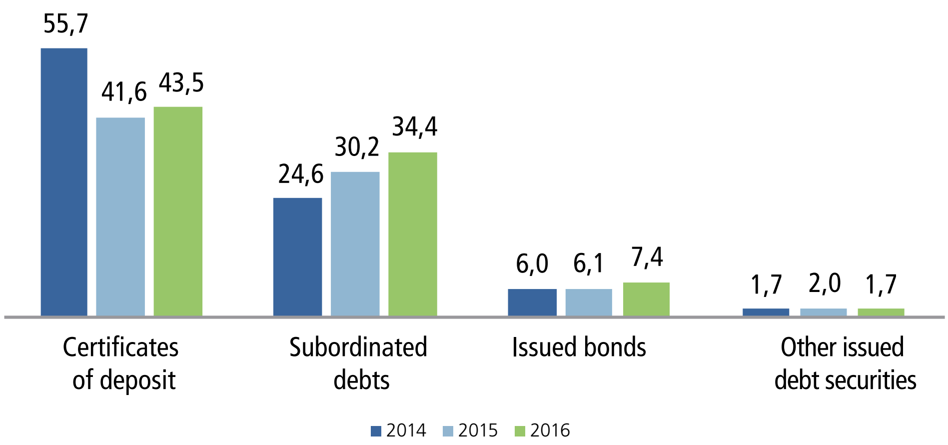
For their part, deposits of insurance companies amounted to 4 billion dirhams, down 17,7 percent, as against an 8 percent increase in 2015. This drop mainly affected time deposits (-29 percent), which account for 43 percent of the total.

2.1.2.3- Banks increasingly sought refinancing from debt markets to benefit from favorable rate conditions

In a favorable interest rate context, the overall outstanding amount of debts on securities issued by banks, consisting of debt securities and subordinated debt, rose by 8,8 percent to 87 billion, after a 9,1 percent drop in 2015.

Of this total, outstanding debt securities edged up 5,9 percent to 53 billion, reflecting increases of 4,7 percent in issued certificates of deposit and 21,1 percent in bonds.

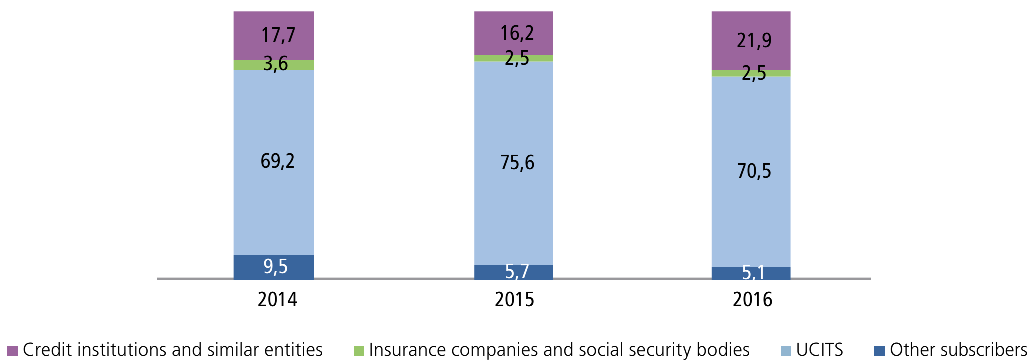
Chart 28 : Change in bonded debts (in billion of dirhams)



Subordinated debts grew by 13,7 percent to 34,4 billion, allowing banks to strengthen their prudential equity, while extending the maturity of their liabilities.

4 Other non-financial agents units include private corporations and the public sector.

Chart 29 : Outstanding certificates of deposit issued by type of subscribers (in %)

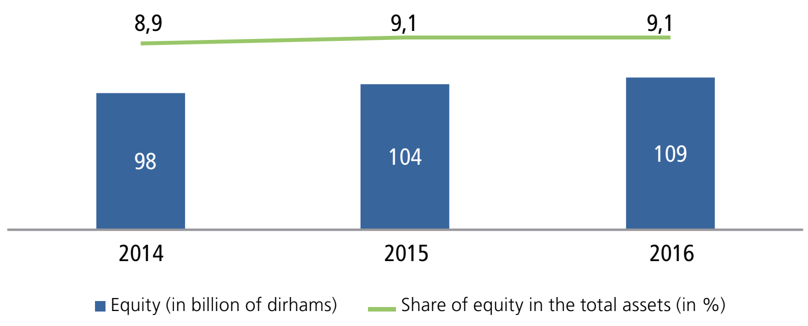


More than 70 percent of issued certificates of deposit are held by UCITS, 22 percent by credit institutions and similar entities and 2,5 percent directly by insurance companies and social security bodies, bearing in mind that a significant share of the investments made by the latter are carried out via UCITS.

2.1.2.4- Equity of banks strengthened, mainly thanks to the carry-over of a share of their income

Banks' equity amounted to more than 108,8 billion in 2016, up 4,3 percent, as against 6,6 percent a year earlier, the bulk of which comes from retained earnings. As a ratio to total assets, the amount of equity accounted for 9 percent, virtually unchanged from 2015.

Chart 30 : Change in banks' equity



2.1.3- Banks' financing and guarantee commitments rose in 2016

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

Commitments given by banks grew by 16,7 percent to 236 billion dirhams, due to increases of 12,8 percent in guarantee commitments to 136,2 billion and 22,6 percent in financing commitments to 99,8 billion dirhams, particularly in the form of confirmed credit lines.

Commitments given to customers, representing 79 percent of total given commitments, grew by 15,6 percent to 185,7 billion. In parallel, commitments given to credit institutions and similar entities, amounting to 94 percent of guarantee commitments, increased by 21 percent to 50,3 billion dirhams.

For their part, received commitments rose by 23,5 percent to 78,3 billion dirhams. Of this total, commitments received from credit institutions and similar entities, amounting to 68,7 billion, went up 25 percent. They consist of guarantee commitments to cover particularly risks exceeding regulatory requirements, amounting to 63,4 billion, and financing commitments, with an outstanding amount of 5,3 billion dirhams.

Regarding foreign currency commitments, spot foreign exchange transactions increased by 83 percent to 21 billion. The same trend was also observed for forward foreign exchange transactions, which rose by 13 percent to 89 billion, due to economic operators' increased use of mechanisms for hedging exchange rate risks.

Commitments on derivatives, corresponding to hedging transactions or transactions carried out for customers, fell by 19,3 percent to a notional amount of nearly 52 billion. This trend covers increases of 25,4 percent in commitments on exchange rate instruments to 28 billion and 27,2 percent in those on interest rate instruments to 14,6 billion. However, these trends were offset by a 70 percent decrease in commitments on other instruments to 9 billion dirhams, following a decline recorded by term securities sales transactions on behalf of customers.

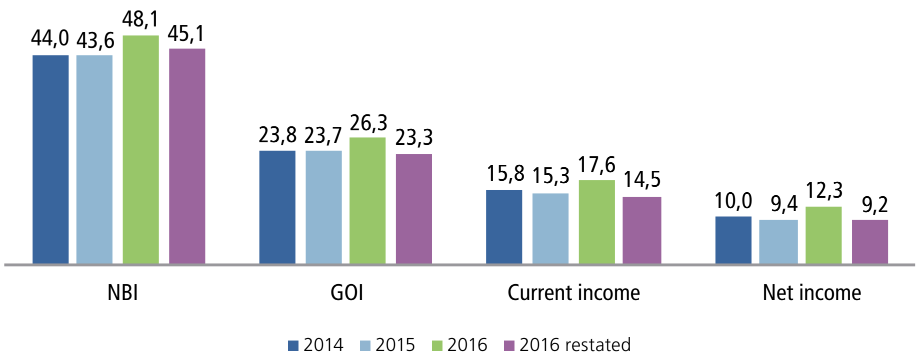
2.2 - Banks' cumulative net income improved thanks to growth in income from market activities and extraordinary income

Banks closed the financial year 2016 with an increase in their cumulative net income, driven by a significant non-recurring operation, in a context of limited credit growth and erosion of bank margins. Excluding this operation, this income would have been tilted to the downside.

Banks' profitability is analyzed based on the adjusted figures excluding the impact of this operation.

The change in bank profitability is examined below, through the main management intermediate balances of the banks established on the basis of the banking activity in Morocco.

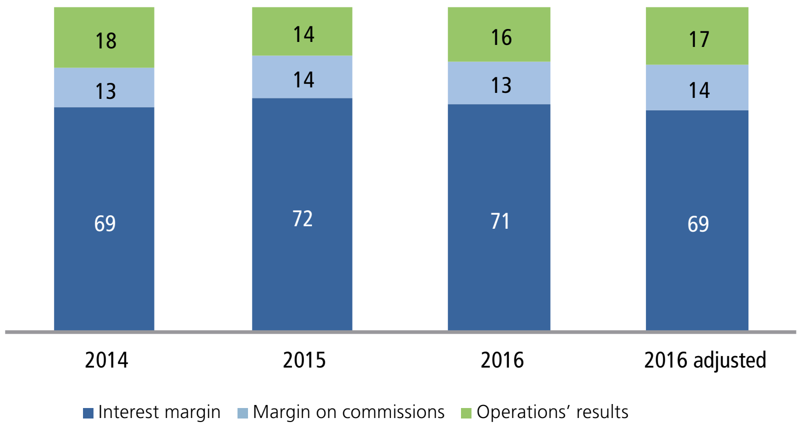
Chart 31 : Change in banks' management intermediate balances (in billion of dirhams)



2.2.1- Despite a fall in the interest margin, the net banking income appreciated owing to higher income from market transactions and higher fee margin

Net banking income (NBI) stood at 45 billion dirhams, up 3,4 percent, after a 1,1 percent drop in 2015. This improvement is due to the uptrend in income from market activities and higher margin on commissions, while the interest margin declined.

Chart 32 : Structure of the net banking income (in %)



Owing to the drop in lending rates applied by banks in 2016, the interest margin recorded by these banks fell by 2,2 percent to 29,7 billion dirhams, after rising 3,2 percent in 2015. Its share in NBI was reduced by 3 points to 69 percent.

Net interest income on customers' transactions totaled 27,8 billion dirhams, down 3,5 percent, following a decline of 3,3 percent in interest income on loans to 37,8 billion, in a context of falling rates and limited credit growth. Interest on deposits decreased by 2,8 percent to 10 billion dirhams.

Net interest income on operations with credit institutions and similar entities increased by 25 percent to 1,9 billion in 2016, mainly due to a decrease of 23,8 percent in interest on borrowings, in conjunction with a drop in the key rate.

Net interest income on debt securities fell by 62 percent to 23 million dirhams. This decline is attributable to decreases of 14 percent in interest received on securities held to 3,1 billion and 13,6 percent in interest paid on issued debt securities to 3 billion dirhams, in conjunction with lower interest rates on these securities.

The margin on commissions, amounting to 6,3 billion, grew by 6 percent, as against 6,4 percent a year earlier, reflecting increases of 8,6 percent in received commissions and 40,7 percent in paid commissions.

Commissions received on service delivery rose by 7,9 percent, from 4,9 percent last year to 6,6 billion. Of this total, commissions on operating accounts and means of payment, accounting for more than 50 percent of the total, grew respectively by 7,8 percent to 1,4 billion and 5,8 percent to 2,3 billion, thanks to a higher number of accounts opened and payment cards used. Similarly, commissions on sales of insurance products rose by 22,7 percent to 253 million, thanks to the dynamic bancassurance activity. Commissions received on management and deposit of securities increased by 5,4 percent to 384 million, those on credit services grew by 12,4 percent to 512 million, and those on consulting and assistance activities moved up 37,1 percent to 84 million dirhams.

Boosted by a downward trend in bond yields, income from market activities grew by 25,4 percent to 7,9 billion dirhams in 2016. This growth was mainly attributed to an increase of 60 percent in income from trading securities operations to 4,4 billion dirhams, as against a drop of 58 percent a year earlier. Most of this income corresponds to unrealized gains resulting from the valuation at market prices of the portfolios concerned. Thanks to the realized gains on disposals, income earned on held-for-sale securities increased by 49,5 percent to 1,7 billion dirhams, as against 67,2 percent.

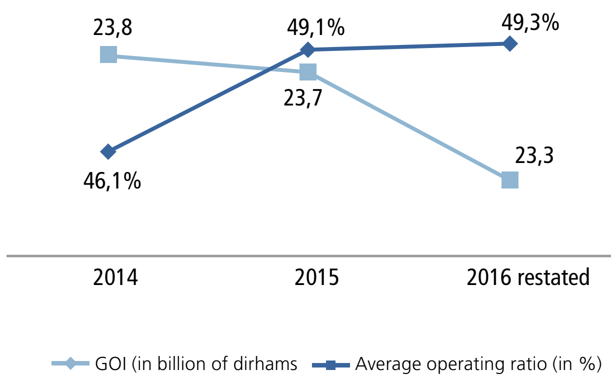
Income from foreign exchange transactions fell by 11,2 percent to 1,8 billion dirhams and that earned on derivative transactions fell by 96 percent to 16 million, due to a drop in forward sales of securities to customers.

2.2.2- Gross operating income declined in 2016

General operating expenses of banks increased by 3,9 percent to 22,2 billion, as against 5,4 percent in 2015, leading to an improvement of 3 points in the average operating ratio to 46,2 percent. After adjustment, this ratio stands at 49,3 percent, up 0,2 basis point from 2015.

By category, personnel expenses, representing 48 percent of general operating expenses, rose by 4,1 percent to 10,6 billion dirhams, as opposed to 4,9 percent in 2015, due to a limited growth of the workforce (+1 percent) and the network (+2 percent). External expenses[5], which make up 39 percent of the total, grew by 5 percent to 8,7 billion dirhams, as against 5,6 percent in 2015. Amortization and depreciation allocations of tangible and intangible assets rose by 5,5 percent to 2,2 billion dirhams.

Chart 33 : Change in GOI and average operating ratio of banks



After stagnating in 2015, gross operating income (GOI) fell by 1,8 percent to 23,3 billion dirhams.

2.2.3- The cost of risk increased again, but at a slower pace

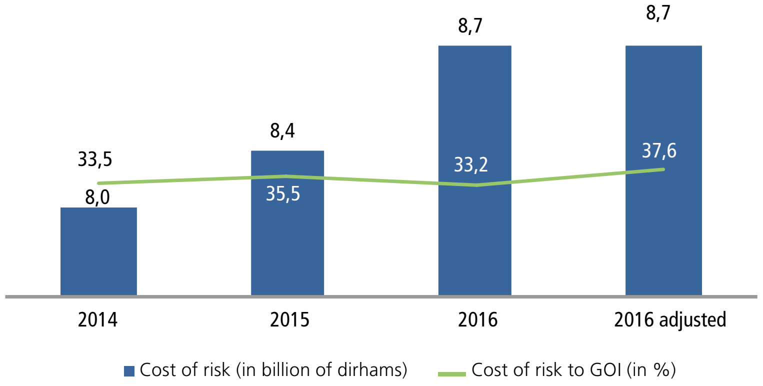
The cost of risk continued its slowdown since 2013. It stood at 8,7 billion dirhams, up 4 percent, as against 7,4 percent and 5,6 percent, respectively, in 2014 and 2015, thus absorbing 37,6 percent of GOI, from 35,5 percent a year earlier. Measured as a ratio to outstanding loans, the cost of risk stood at 1,1 percent, unchanged from 2015.

The deceleration in the cost of risk was due to an increase of 19,8 percent in reversals of provisions from 17,9 percent in 2015, coupled with 11,5 percent increase in allocations of provisions, as against 11,1 percent.

Of this total, the allocations net of reversals of provisions for non-performing loans amounted to 7,5 billion, down 7 percent, after a 12,5 percent increase in 2015. Conversely, other allocations net of reversals, covering other risks, including allocations of provisions for general and tax risks, tripled to 1,3 billion compared to 2015.

5 External expenses consist mainly of maintenance and repair costs, honorariums and fees for intermediaries, transport and travel, as well as advertising costs.

Chart 34 : Banks' cost of risk compared to GOI



Given these developments, the current income dropped by 5 percent to 14,5 billion dirhams, after a 3,3 percent decline in 2015. Non-current income, while remaining negative, moved down from 1,4 billion to 480 million dirhams.

Chart 35 : Change in banks' ROA (in %)

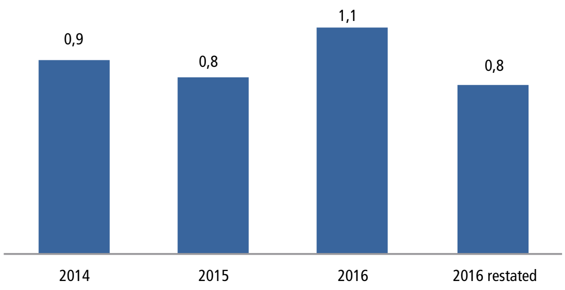
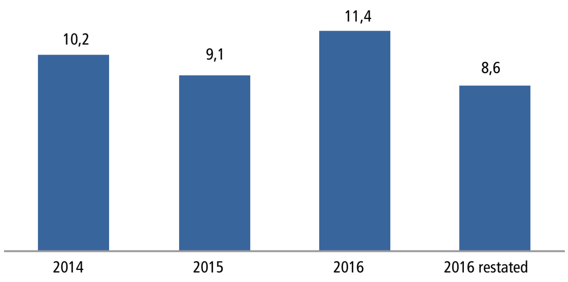


Chart 36 : Change in banks' ROE (in %)

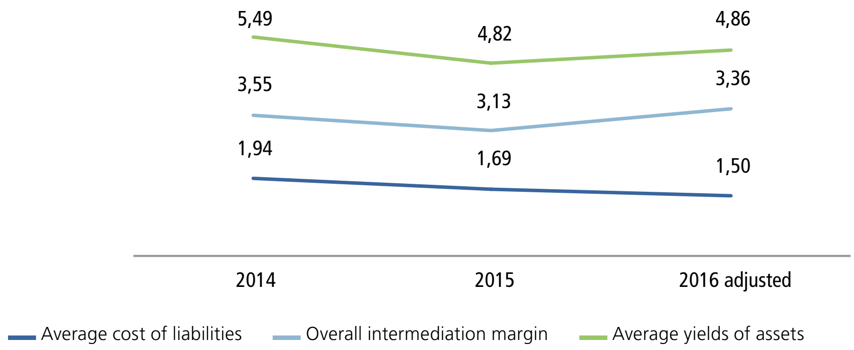


In all, the adjusted net income of banks amounted to 9,2 billion dirhams[6], showing a drop by 1,7 percent, as opposed to 6,5 percent in 2015. Return on assets (ROA) remained at 0,8 percent, and return on equity (ROE) declined from 9,1 percent to 8,6 percent, year on year.

6 For a non-adjusted net income of 12,3 billion dirhams.

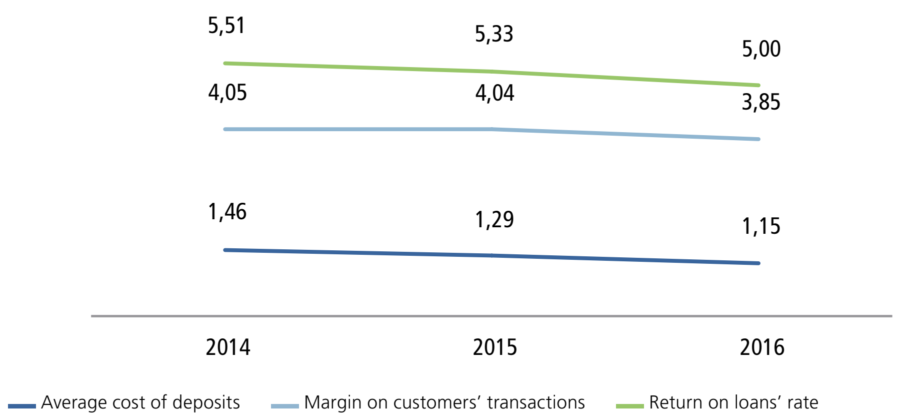
2.2.4 - The overall intermediation margin improved, owing to higher yields on securities

Chart 37 : Change in banks' overall intermediation margin (in %)



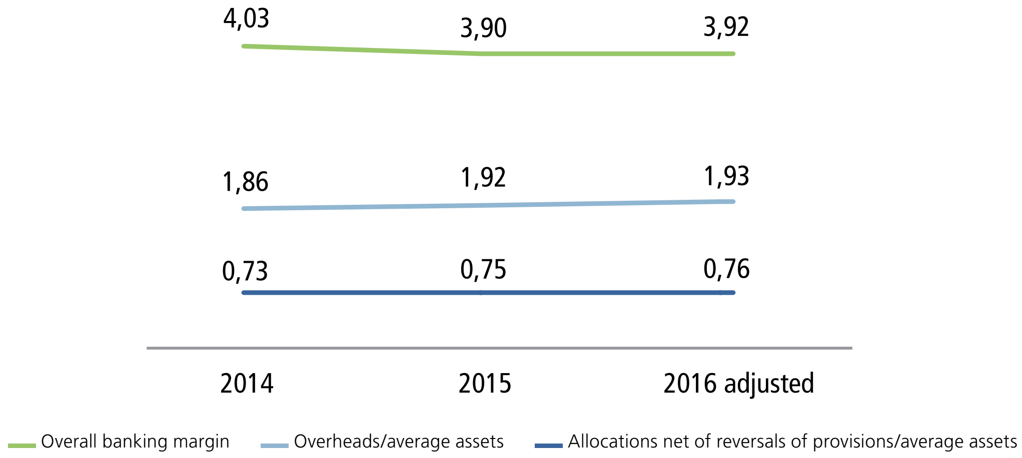
Banks' overall intermediation margin grew by 23 basis points to 3,36 percent, due to a rise by 4 basis points in assets' yield to 4,86 percent and a drop by 19 basis points in the cost of liabilities to 1,50 percent.

Chart 38 : Change in banks' margin on customers' transactions (in %)



The margin on transactions with customers shrank by 19 basis points to 3,85 percent, owing to a decline of 33 basis points in the return on loans' rate to 5 percent, partially offset by the 14 basis points decrease in the average deposit cost to 1,15 percent.

Chart 39 : Change in the overall banking margin, overheads and cost of risk (in %)



The overall banking margin, as measured by the ratio of NBI to average assets, increased by 2 basis points to 3,92 percent. It was absorbed by overheads at 1,93 percent, as against 1,92 percent and by the cost of risk at 0,76 percent as opposed to 0,75 percent in 2015.

3 - Activity and profitability of finance companies

3.1- The activity of finance companies evolved at the same pace as in the previous year

Like in 2015, finance companies' total assets rose by 3,4 percent in 2016 to 106 billion dirhams. The gross outstanding amount of loans by disbursement allocated to customers, accounting for more than 95 percent of assets, recorded the same growth rate (+3,4 percent) to more than 101 billion.

On the other hand, receivables from credit institutions and similar entities, reflecting mainly account deposits with banks, fell by 14,1 percent to nearly 5 billion, compared with a 25 percent increase in 2015.

Table 6 : Change in finance companies' assets

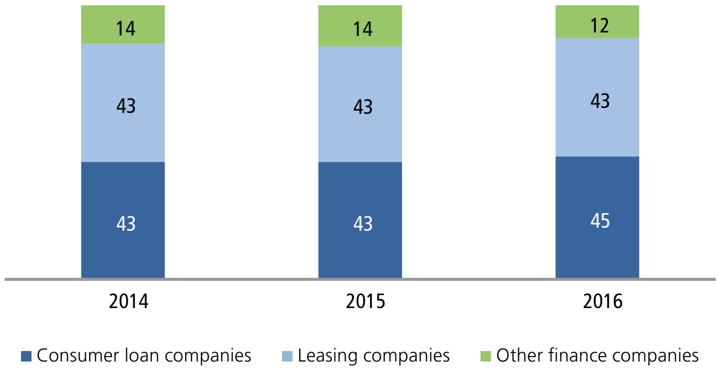
(In million of dirhams)

	2014	2015	2016	Change 2015/2016 (in %)
Due from credit institutions and similar entities	**4 518**	**5 664**	**4 864**	**-14,1**
Due from customers	**88 766**	**90 658**	**94 276**	**4,0**
Securities portfolio	**862**	**1 167**	**1 396**	**19,7**
Fixed assets	**1 374**	**1 419**	**1 428**	**0,6**
Other assets	**3 653**	**3 582**	**4 034**	**12,6**
Total assets	**99 173**	**102 490**	**105 998**	**3,4**

Headings net of depreciation and provisions

Following divergent trends across business lines, the share of total assets of leasing companies remained at 43 percent, while that of consumer loan companies increased by 2 points to 45 percent, to the detriment of factoring companies.

Chart 40 : Share of different categories of finance companies in the sector's total assets (in %)



The activity of consumer loan companies, measured by the total balance sheet, grew by 7,6 percent in 2016 to 47,4 billion dirhams, as against 2,6 percent at end-2015. Representing more than 90 percent of assets, loans totaled a gross outstanding amount of 46,7 billion dirhams at end-2016. They were tilted to the upside, registering 5 percent from 2 percent a year earlier, thanks to leasing operations with a purchase option which grew by 24,6 percent to 13,5 billion dirhams, mainly due to an uptrend in automotive sales market. Personal lending granted by these companies decreased by 3,7 percent to 22,2 billion dirhams.

Table 7 : Change in consumer loan companies' assets

(In million of dirhams)

	2014	2015	2016	Change 2015/2016 (in %)
Due from credit institutions and similar entities	**501**	**593**	**703**	**18,5**
Due from customers	**39 259**	**40 063**	**42 832**	**6,9**
Including lease with purchase option	10 255	10 830	13 496	24,6
Securities portfolio	**22**	**17**	**197**	**1 047,8**
Fixed assets	**779**	**746**	**713**	**-4,5**
Other assets	**2 457**	**2 588**	**2 923**	**13,0**
Total assets	**43 018**	**44 007**	**47 368**	**7,6**

Headings net of depreciation and provisions

Leasing companies reported total assets of 45,4 billion, up 3,4 percent, from 2,2 percent at the end of 2015. Their gross leasing outstanding grew by 3,6 percent to nearly 47 billion dirhams.

Table 8 : Change in leasing companies' assets

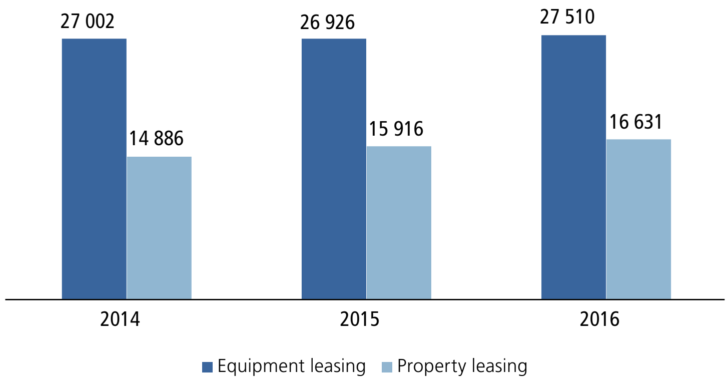
(In million of dirhams)

	2014	2015	2016	Change 2015/2016 (in %)
Leasing fixed assets	**41 888**	**42 841**	**44 141**	**3,0**
Other customers' loans	**78**	**125**	**197**	**57,0**
Securities' portfolio	**24**	**18**	**18**	**0,2**
Other assets	**1 041**	**901**	**1 034**	**14,9**
Total assets	**43 031**	**43 885**	**45 390**	**3,4**

Headings net of depreciation and provisions

Equipment leasing transactions represented the majority share, with 62 percent of the total. Their outstanding amount increased by 2,2 percent to 27,5 billion, after a decline of 0,3 percent at the end of 2015. Outstanding property leasing transactions reached 16,6 billion, thus continuing their upward trend to 4,5 percent, compared with 6,9 percent a year earlier.

Chart 41 : Change in the outstanding amount of equipment and property leasing transactions (in million of dirhams)



Credit production during the year stagnated at around 14 billion[7], of which almost 79 percent was allocated to equipment leasing. By category, equipment leasing rose by 6,5 percent, from 5,8 percent in 2015 to 11 billion dirhams. Financing went to commercial vehicles, passenger cars and computers and office equipment. For its part, financing of industrial machines and equipment dropped.

Chart 42 : Breakdown of equipment leasing production by type of equipment

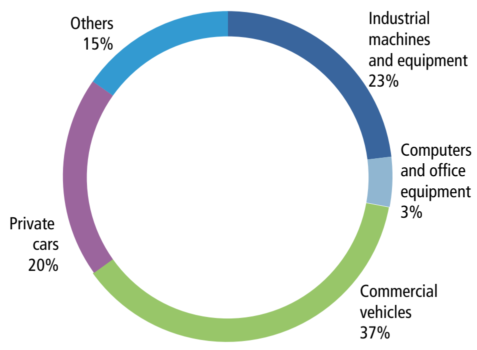
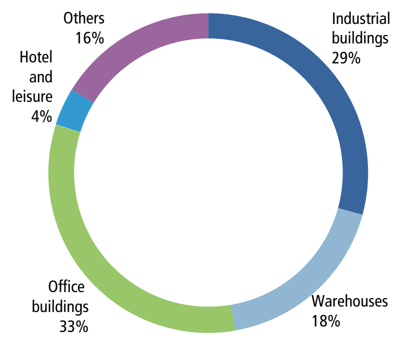


Chart 43 : Breakdown of property leasing production by type of financed fixed assets



The financing allocated to industrial sectors remained stable at 2,3 billion dirhams. This situation reflects decreases of 36 percent in loans to the food industry and 3,6 percent in those allocated to the textile and clothing industries. Loans to the IMME and the distribution of water and electricity sectors rose sharply by 31 percent and 93 percent, respectively.

Property leasing production posted a decrease of 16,4 percent to 3 billion, after an increase of 13 percent in 2015, which mainly affected the financing of warehouses (-33,3 percent) and hotels and leisure (-80 percent), while the financing of industrial buildings increased by 36 percent.

7 Data from the Professional Association of Finance Companies

3.2 - Finance companies’ banking indebtedness accelerated to the detriment of their market debt

Finance companies’ banking indebtedness grew by 9 percent to 63,8 billion dirhams. Other liabilities increased by 13,7 percent to 9,4 billion for dues to customers and by 4 percent to 10,4 billion dirhams for equity.

However, the market debt issued as bills of finance companies decreased by 26,3 percent to 11,9 billion, due to a decline in the banking refinancing cost.

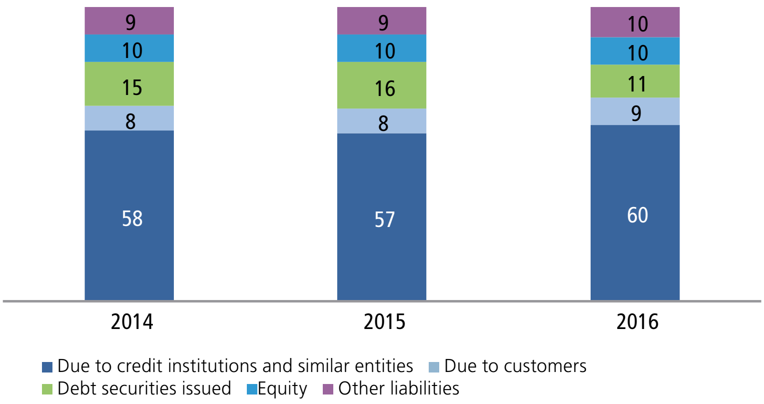
Table 9 : Change in finance companies’ liabilities

(In million of dirhams)

	2014	2015	2016	Change 2015/2016 (in %)
Due to credit institutions and similar entities	**57 222**	**58 554**	**63 800**	**9,0**
Due to customers	**7 406**	**8 283**	**9 421**	**13,7**
Debt securities issued	**15 159**	**16 196**	**11 942**	**-26,3**
Equity	**9 460**	**9 997**	**10 387**	**3,9**
Net income	**1 504**	**1 497**	**1 643**	**9,8**
Other liabilities	**8 422**	**7 963**	**8 805**	**10,6**
Total liabilities	**99 173**	**102 490**	**105 998**	**3,4**

As a result, the structure of liabilities increased by 3 points in the share of banking indebtedness to 60 percent, while the proportion of issued debt securities lost 5 points to 11 percent. In terms of equity, which represents the third resource, its share remained at 10 percent.

Chart 44 : Change in the structure of finance companies’ liabilities (in %)



UCITS are the main subscribers to bonds issued by finance companies with a 72 percent share, followed by credit institutions and similar entities (25 percent) and insurance companies and social security bodies (3 percent).

These trends were observed for both consumer loan companies as for leasing companies.

Table 10 : Change in liabilities of consumer loan companies

(In million of dirhams)

	2014	2015	2016	Change 2015/2016 (in %)
Due to credit institutions and similar entities	**19 647**	**18 244**	**21 318**	**16,8**
Due to customers	**5 464**	**6 021**	**6 944**	**15,3**
Debt securities issued	**7 865**	**9 480**	**8 020**	**-15,4**
Equity	**5 262**	**5 392**	**5 684**	**5,4**
Net income	**845**	**851**	**875**	**2,8**
Other liabilities	**3 935**	**4 019**	**4 527**	**12,7**
Total liabilities	**43 018**	**44 007**	**47 368**	**7,6**

Considered as the main source of financing for consumer loan companies, banking indebtedness rose by 16,8 percent to 21,3 billion dirhams, representing a share of liabilities which increased by 3 points to 45 percent in 2016. The outstanding amount of issued debt securities, with a 17 percent share, declined by 15,4 percent to 8 billion and customers' deposits, ranking third with a 15 percent share, grew by 15,3 percent to nearly 7 billion. Equity progressed by 5,4 percent to 5,7 billion dirhams, or 12 percent of total liabilities, unchanged from 2015.

Table 11 : Change in liabilities of leasing companies

(In million of dirhams)

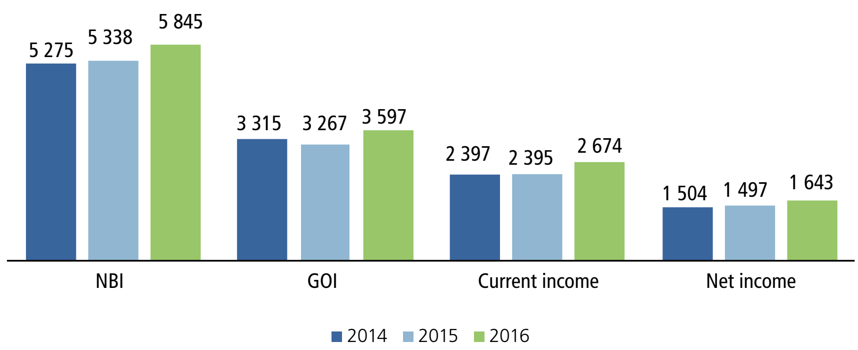
	2014	2015	2016	Change 2015/2016 (in %)
Due to credit institutions and similar entities	**29 726**	**31 156**	**35 051**	**12,5**
Due to customers	**596**	**514**	**518**	**0,8**
Debt securities issued	**7 294**	**6 510**	**3 715**	**-42,9**
Equity	**2 718**	**3 065**	**3 077**	**0,4**
Net income	**294**	**253**	**342**	**35,4**
Other liabilities	**2 403**	**2 387**	**2 687**	**12,6**
Total liabilities	**43 031**	**43 885**	**45 390**	**3,4**

The banking indebtedness of leasing companies, representing more than 77 percent of liabilities, also appreciated by 12,5 percent to 35 billion dirhams, as against 4,1 percent in 2015. Conversely, the outstanding amount of debt securities issued dropped by 43 percent to 3,7 billion, representing only 8,2 percent, as against 14,8 percent. Equity stabilized at around 3 billion dirhams, with a 7 percent share of liabilities.

3.3- Finance companies' income rebounded in 2016

After a stagnation of their profit in 2015, finance companies closed the financial year 2016 with a higher net profit, at 1,6 billion dirhams. This recovery is mainly due to the growth in the leasing and consumer loan businesses.

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



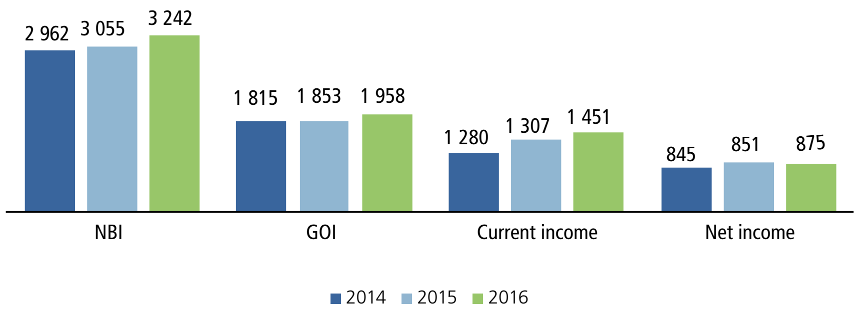
As a result, the NBI of finance companies grew by 9,5 percent to 5,8 billion dirhams, as opposed to 1,2 percent in 2015, reflecting an improvement in the interest margin, margin on commissions and income from leasing transactions.

With an increase in general operating expenses at a slower pace than the NBI, or 8 percent to 2,3 billion dirhams, the average operating ratio improved, year on year, by 0,6 point to 39,6 percent.

As a result, the gross operating income stood at 3,6 billion, up 10,1 percent, after a 1,5 percent drop a year ago. It was absorbed by the cost of risk, corresponding to the allocations net of reversals of provisions, at 25,7 percent, as against 26,7 percent in 2015.

In total, the net income generated by finance companies improved by 9,8 percent in 2016. The return on assets (ROA) stabilized at 1,5 percent and the return on equity (ROE) appreciated to 15,8 percent.

Chart 46 : Change in management intermediate balances of consumer loan companies (in million of dirhams)



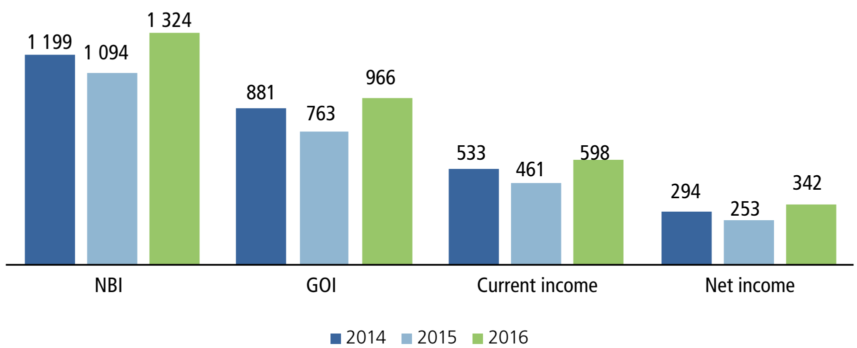
By category, consumer loan companies generated an NBI of more than 3,2 billion dirhams, up 6,1 percent from 3,1 percent in 2015. This change is attributed to an increase of 18,5 percent in the margin on commissions, in conjunction with the development of third-parties management activities, and an increase of 4,3 percent in the interest margin, boosted by lower refinancing costs.

The general operating expenses of these companies increased by 6 percent to 1,3 billion dirhams, resulting in an average operating ratio of 40 percent, which is the same level as in 2015. As a result, the GOI increased by 5.6 percent to nearly 2 billion, as against 2,1 percent last year.

In this year, the cost of risk fell by 6,5 percent to 506,5 million dirhams, representing almost 26 percent of GOI, as against 29 percent in 2015. A negative non-current income was recorded in 2016, as a result mainly of tax expenses.

Given these developments, the net income generated by consumer loan companies amounted to 875 million dirhams, up 2,8 percent from 0,7 percent last year. Consequently, the return on assets (ROA) stood at 1,8 percent (1,9 percent in 2015) and the return on equity (ROE) was 15,4 percent (15,8 percent in 2015).

Chart 47 : Change in management intermediate balances of leasing companies (in million of dirhams)



The NBI of leasing companies increased by 21 percent to 1,3 billion dirhams, after a 9 percent drop in 2015. This trend is attributable to an increase of 22 percent in interest margin, including income from leasing transactions, while the previous year was marked by a significant expense caused by the default of a large borrower. The margin on commissions grew by 12,5 percent.

The general operating expenses of these companies accelerated by 7,4 percent to more than 360 million dirhams, from 4,6 percent. Given the change in the NBI, the average operating ratio decreased by almost 3,5 percentage points to 27,2 percent. As a result, the GOI increased by 26,6 percent to 966 million, after a decline of 13,4 percent a year earlier.

The cost of risk to leasing companies amounted to 368 million, up 22 percent, after a drop of 13,2 percent in 2015, absorbing 38 percent of the GOI, as against almost 40 percent a year earlier.

The overall cumulative net income generated by leasing companies increased by more than 35 percent to 342,5 million dirhams, after a 14 percent decline in 2015. This trend is mainly due to growth in activity and the recovery of profit of a leasing company, which had suffered a loss in 2015. Thus, the return on assets (ROA) increased from 0,6 percent to 0,8 percent, and the return on equity (ROE) improved by almost 3 percentage points to 11 percent from one year to the next.

4 - Activity and profitability of offshore banks

Table 12 : Change in offshore banks' assets

(In million of dirhams)

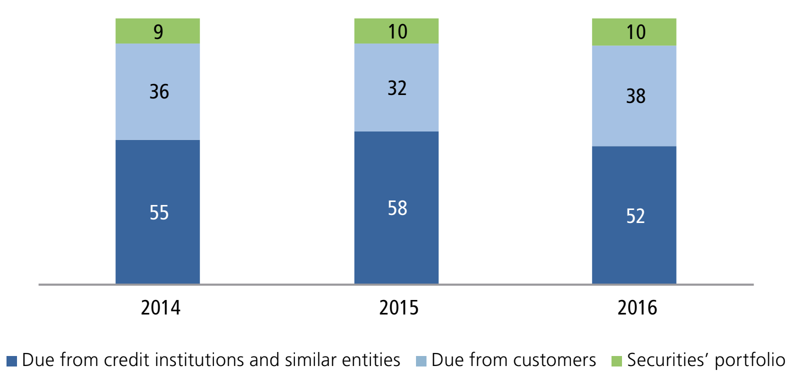
	2014	2015	2016	Change 2015/2016 (in %)
Due from credit institutions and similar entities	**22 801**	**23 699**	**25 181**	**6,3**
Due from customers	**15 118**	**13 294**	**18 147**	**36,5**
Securities portfolio	**3 515**	**3 796**	**4 484**	**18,1**
Other assets	**294**	**179**	**277**	**54,8**
Total assets	**41 728**	**40 969**	**48 089**	**17,4**

Headings net of depreciation and provisions

The activity of offshore banks, as measured by the total balance sheet corresponding to an equivalent dirham value, stood at more than 48 billion dirhams in 2016, up 17,4 percent, after a decrease of 1,8 percent in 2015. Of this total, loans to credit institutions, accounting for more than 52 percent, grew by 6,3 percent to 25,2 billion dirhams, from 3,9 percent a year earlier. Similarly, loans to customers rose by 36,5 percent to 18,2 billion dirhams. This change was driven by an increase of 31 percent in cash facilities to 12 billion and 71 percent in equipment loans to 5,6 billion. These financings benefited companies operating in the transport, hydrocarbons, automotive and food sectors. The securities portfolio progressed by 18,1 percent to 4,5 billion, of which 55 percent as debt securities and the remainder as ownership securities.

Outstanding non-performing loans remained stable at 86 million dirhams.

Chart 48 : Structure of offshore banks' assets (in %)



As a result, the share of receivables from customers showed a significant year-on-year increase from 32 percent to 38 percent, while the share of receivables from credit institutions and similar entities declined to 52 percent. The share of the securities portfolio remained stable at 10 percent.

Table 13 : Change in offshore banks' liabilities

(In million of dirhams)

	2014	2015	2016	Change 2015/2016 (in %)
Due to credit institutions and similar entities	**35 660**	**35 368**	**41 092**	**16,2**
Customers' deposits	**4 717**	**4 293**	**5 602**	**30,5**
Equity	**541**	**627**	**643**	**2,6**
Other liabilities	**810**	**681**	**752**	**10,6**
Total liabilities	**41 728**	**40 969**	**48 089**	**17,4**

Constituting 85 percent of offshore banks' liabilities, debts to credit institutions and similar entities increased by 16,2 percent to more than 41 billion, after falling 1 percent a year ago.

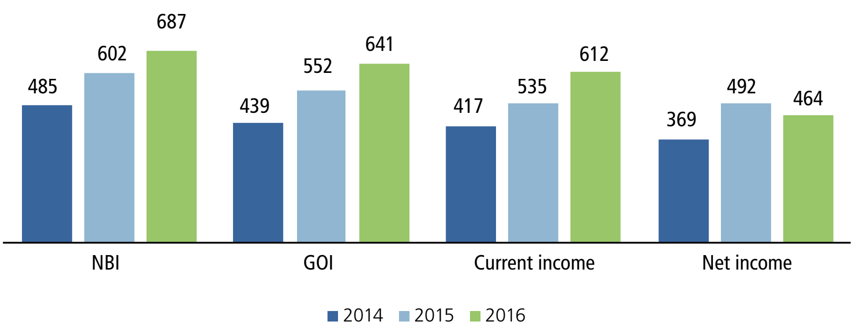
With a 12 percent share of liabilities, deposits collected from customers grew by 31 percent to 5,6 billion, from 9 percent, thanks particularly to higher deposits of companies operating in the offshore zone.

Amounting to 643 million dirhams at end-December 2016, offshore banks' equity progressed by 2,6 percent compared to 2015.

Financing commitments given by offshore banks dropped by 27 percent to 350 million dirhams, reflecting an 89 percent decline in commitments to customers to 54 million dirhams. On the other hand, commitments to credit institutions and similar entities increased significantly from 5 to 296 million dirhams, thanks to commitments given to foreign banks.

Guarantee commitments moved down 39 percent to more than one billion dirhams, after an increase of 48 percent in 2015, of which nearly 66 percent is given to customers. Received guarantee commitments were up 26 percent to 15,4 billion, after a 14 percent drop a year ago.

Chart 49 :Change in management intermediate balances of offshore banks (in million of dirhams)



At the end of 2016, offshore banks posted an NBI of 687 million dirhams, up 14 percent from 24 percent in 2015, due to improvements of 21 percent in the interest margin to 672 million and 22,6 percent in the margin on commissions to 25,5 million dirhams, while income from market transactions decreased by 90 percent to 2,7 million dirhams, following a decrease in income earned on the held-for-sale portfolio.

Net income generated by offshore banks dropped by 5,7 percent to 464 million dirhams, owing to an increase by 79,4 percent in the cost of risk to 30 million dirhams. The latter change is attributed to higher provisions for risks and expenses.

5 - Activity and profitability of microcredit associations

The sector has a network of 1.681 points of sale, up 6 percent from 2015. The number of customers grew by 2 percent to 900 thousand customers, of whom nearly 45 percent are women.

Table 14 : Change in the assets of microcredit associations

(In million of dirhams)

	2014	2015	2016	Change 2015/2016 (in %)
Due from credit institutions and similar entities	834	832	792	-4,8
Due from customers	5 260	5 746	6 234	11,1
Fixed assets	214	192	201	4,9
Other assets	153	172	183	6,4
Total assets	6 461	6 942	7 410	6,7

Headings net of depreciation and provisions

Loans granted by microcredit associations to customers totaled a gross outstanding amount of 6,4 billion dirhams, rising 7,7 percent, as against 8,9 percent a year ago, resulting in a stable average outstanding amount of 7.000 dirhams. The sector remains dominated by three associations which provide almost 92 percent of outstanding loans to customers.

In terms of typology, lending to microenterprises accounts for 90 percent of the total, unchanged from previous years and almost 66 percent is concentrated in urban areas, from 68 percent a year earlier. The share of individual loans continued to gain strength from 66 percent to over 68 percent.

Outstanding non-performing loans contracted by 19 percent to 183 million, after rising by 11 percent in 2015, generating a risk ratio of 2,9 percent, as against 3,8 percent a year earlier, following the writing-off of a share of these loans. The provisioning ratio increased by one point to 80 percent.

Receivables from credit institutions and similar entities, consisting mainly of the balances of microcredit associations' accounts with banks, represent 11 percent of total assets.

Table 15 : Change in liabilities of microcredit associations

(In million of dirhams)

	2014	2015	2016	Change 2015/2016 (in %)
Due to credit institutions and similar entities	3 793	3 876	3 989	2,9
Equity and similar	2 067	2 300	2 663	15,9
Other liabilities	601	766	758	-1,0
Total liabilities	6 461	6 942	7 410	6,7

Due to credit institutions, which is the first resource for microcredit associations, rose by 2,9 percent to 4 billion dirhams, from 2,2 percent. A share of 79 percent of this due is debt contracted with local banks.

Equity, the second resource for microcredit associations, represents 36 percent of the total. It appreciated by 15,9 percent, following the booking of the 2015 income in the reserves. Because of their status as associations, they do not make dividend distributions.

In terms of profitability, the microcredit sector closed the financial year 2016 with a net profit of 211 million dirhams, down 14 percent, as against an increase of 10,7 percent in 2015. This drop is due to an increase by 7 percent in operating expenses to 73 million dirhams and 49 percent in the cost of risk to 344 million dirhams.

The average yields of assets fell to 2,8 percent, as against 3,6 percent. Similarly, the average yields of equity decreased to 8 percent, as opposed to 10,8 percent.

6 - Activity and profitability of banking groups

The analysis of activity and profitability on a consolidated basis is based on the financial statements prepared in accordance with the International Financial Reporting Standards (IFRS) by nine banking groups, holding 93 percent of market share on an individual basis. This analysis makes it possible to integrate banks' activity and incomes achieved by the companies under their control in Morocco and abroad.

The nine banking groups broadly generated a higher cumulative net income, thanks particularly to the growing contribution of activities abroad and non-banking businesses. This change was also impacted by changes in the scope of consolidation, following changes in a number of equity holdings.

6.1- Activity of banking groups grew overall at a moderate pace

The total assets of the nine banking groups stood at 1.432 billion dirhams, up 5,4 percent from 5,1 percent in 2015. This trend reflects, on the assets side, higher loans and receivables from customers and acceleration in financial assets at fair value by result and those available for sale. On the liabilities side, the trend is mainly attributed to the increase in dues to customers.

As a result, the share of financial assets at fair value by result grew by 1,4 percentage point to 9,8 percent and that of financial assets available for sale rose by 0,8 percentage point to 7,6 percent. Conversely, the proportion of receivables from credit institutions and similar entities as well as receivables from customers fell by 1,2 and 0,7 percentage point to 4,6 percent and 64,5 percent, respectively.

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

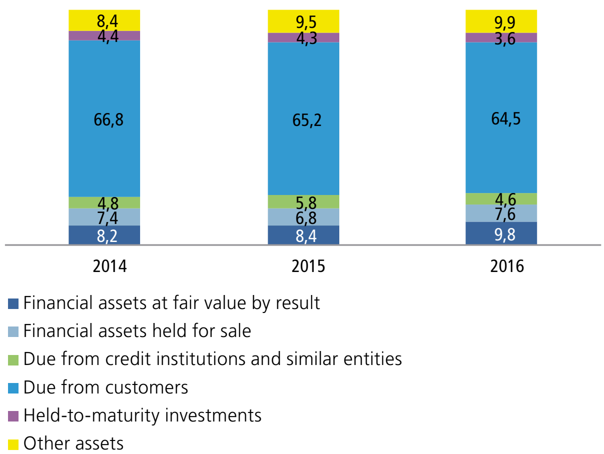
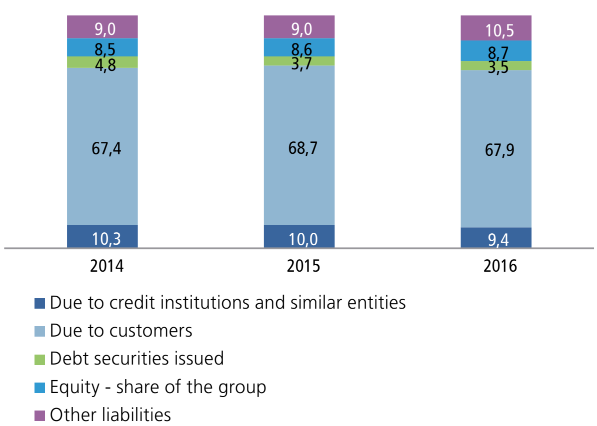


Chart 51 : Structure of banks' liabilities - on a consolidated basis (in %)



On the liabilities side, deposits collected from customers continue to be the largest item with a 67,9 percent share, down 0,8 point from the previous year. The share of due to credit institutions and debt securities issued contracted by 0,6 and 0,2 percentage point to 9,4 percent and 3,5 percent, respectively.

6.1.1 - The increase in banking groups' assets is mainly driven by the growth of loans to customers and a substantial rise in trading financial assets

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

(In million of dirhams)

	2014	2015	2016	Change 2015/2016 (in %)
Financial assets at fair value by result	106 303	114 798	139 906	21,9
Financial assets held for sale	95 045	92 819	108 345	16,7
Due from credit institutions and similar entities	62 484	78 784	65 185	-17,3
Due from customers	863 615	886 552	923 864	4,2
Held-to-maturity investments	56 439	58 157	50 882	-12,5
Other assets	108 865	127 639	144 018	12,8
Total assets	**1 292 751**	**1 358 749**	**1 432 200**	**5,4**

Following a 2,7 percent increase at the end of 2015, receivables from customers grew 4,2 percent to 923,9 billion, reflecting a slight acceleration in bank lending in Morocco and an uptrend in credit activity in other markets, particularly in Africa.

In a context of modest credit activity in the Moroccan market, banks' investments as securities portfolio rose significantly. Financial assets at fair value by result totaled almost 140 billion, registering a growth of 22 percent, from 8 percent a year earlier. These securities mainly comprise held-for-trading securities.

After a decline of 2,3 percent, financial assets available for sale rose 16,7 percent to 108,3 billion dirhams. They correspond to instruments that are not classified as loans and other claims, held-to-maturity investments or financial assets at fair value by result. They include mainly non-consolidated equity securities and other fixed securities.

On the other hand, a decline was observed in held-to-maturity investments, which contracted by 12,5 percent to 50,9 billion, as against a 3 percent increase at the end of 2015, reflecting banks' willingness to manage the held-for-sale portfolio dynamically, in conjunction with the improvement of bank liquidity and lower interbank loans.

Receivables from credit institutions stood at 65,2 billion, down 17,3 percent, after a 26,1 percent increase a year earlier.

6.1.2- Banks have moved more towards stable resources

The main banking groups favored stable sources of funding, considering the favorable rate conditions and the development of long-term assets as housing and equipment loans.

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

(In million of dirhams)

	2014	2015	2016	Change 2015/2016 (in %)
Financial liabilities at fair value by result	**5 030**	**3 248**	**3 229**	**-0,6**
Due to credit institutions and similar entities	**132 758**	**135 257**	**134 851**	**-0,3**
Due to customers	**871 309**	**933 478**	**972 611**	**4,2**
Debt securities issued	**62 384**	**50 418**	**50 590**	**0,3**
Equity - share of the group	**109 923**	**116 306**	**124 233**	**6,8**
Including Net income	10 881	11 478	12 167	6,0
Other liabilities	**111 347**	**120 042**	**146 686**	**22,2**
Total liabilities	**1 292 751**	**1 358 749**	**1 432 200**	**5,4**

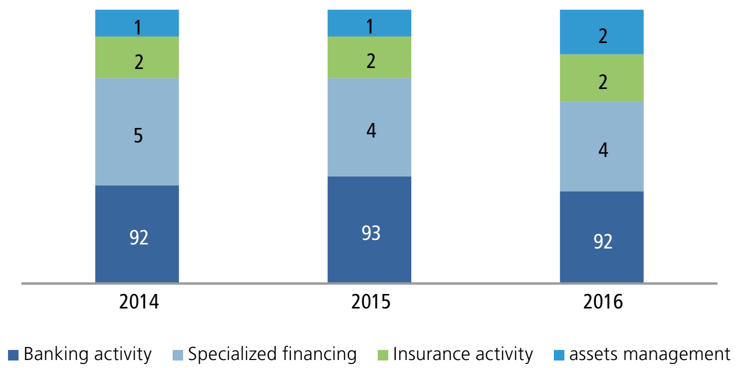
The banking groups' liabilities were driven by the collection of deposits. As a result, debts to customers, totaling 972,6 billion, grew by 4,2 percent, although at a slower pace than in the previous year (7 percent). The other categories of liabilities, such as debts on securities and debts from credit institutions and similar entities, remained broadly stable, in a context of moderate growth of assets.

The equity-group share grew by 6,8 percent to 124,2 billion dirhams, due to increases of 15,5 percent in consolidated reserves and 2,6 percent in capital and related reserves.

6.1.3- The structure of banking groups' activity by business line remained broadly stable

The consolidated activity of the banking groups covers domestic banking activities and activities conducted abroad through subsidiaries or branches, the sectors of insurance and assets management as well as specialized financing. It is still dominated by the large share of the banking component, which contributed nearly 92 percent, albeit down one point, as against an increase in assets management activities (2 percent), while the share of other businesses remained stable.

Chart 52 : Contribution of various businesses to total assets of banking groups (in %)

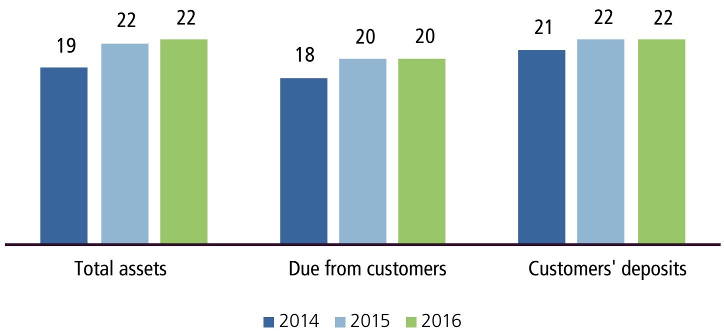


6.1.4- The activity of subsidiaries abroad continued to increase, albeit at a slower pace than in the previous year

At the end of 2016, total assets of the foreign-based subsidiaries of the three cross-border Moroccan banking groups posted an increase of 7,1 percent to 237 billion dirhams, contributing 22 percent to their activity. Nearly 81 percent of this volume is achieved in sub-Saharan Africa.

In terms of loans, the international activity of the three major banking groups showed a rise of 6,7 percent to 135,6 billion dirhams, as against 13,6 percent a year earlier. Its share in the overall portfolio of activity remained at 20 percent. Deposits collected by subsidiaries abroad amounted to 160 billion, up 3,2 percent, as against 12,8 percent a year earlier, or a 22 percent share of the total deposits of the three banking groups. This slowdown is attributed to macroeconomic developments and liquidity in a few host countries, particularly in central Africa.

Chart 53 : Contribution of banking subsidiaries abroad to the balance-sheet main headings of the three major groups (in %)



6.1.5- The ratio of non-performing loans on a consolidated basis remained broadly unchanged

In 2016, the outstanding non-performing loans continued to decelerate. After increases of 10,4 percent and 13,2 percent in 2015 and 2014, respectively, the outstanding amount of such loans rose by 6,4 percent to nearly 83 billion dirhams. As a result, the risk ratio remained at 8,4 percent. These non-performing loans were covered by provisions amounting to 69 percent, up one point from the previous year.

Chart 54 : Change in non-performing loans and the risk ratio on a consolidated basis

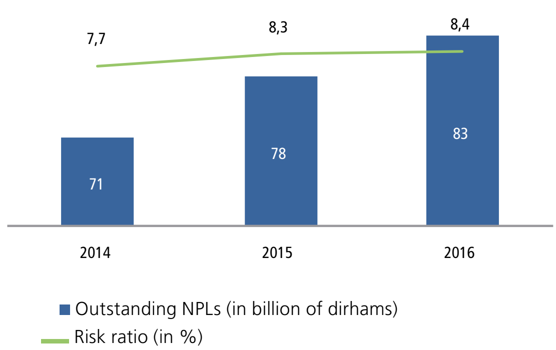
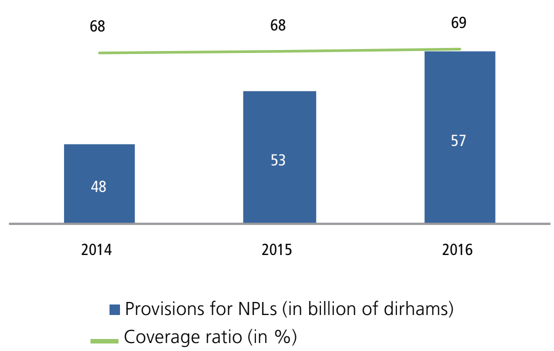


Chart 55 : Change in provisions and the coverage ratio on a consolidated basis

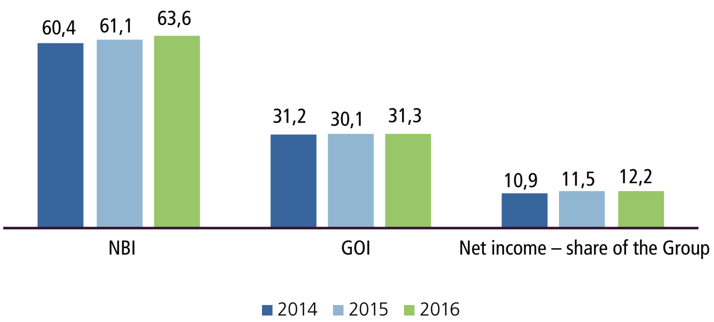


Non-performing loans of subsidiaries abroad, particularly in sub-Saharan Africa, totaled an outstanding amount of 13,2 billion dirhams, representing a risk ratio of 9,6 percent, from 9,7 percent a year earlier. These loans were covered by provisions at 72 percent, improving by 4 percent, year on year, due to reinforcement actions in line with Bank Al-Maghrib's instructions and recommendations made following on-site monitoring missions by local regulators.

6.2- Banking groups' net income continued to grow

The review of the consolidated income and expense accounts of the nine banking groups, as at end-2016, shows an improved income, reflecting higher NBI and lower cost of risk.

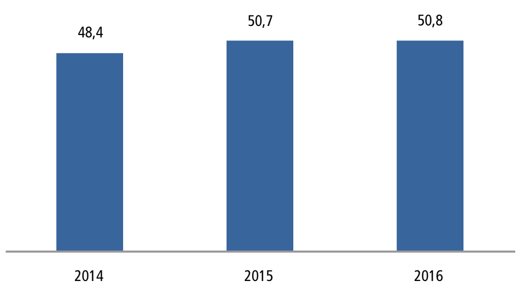
Chart 56 : Change in management intermediate balances on a consolidated basis (in billion of dirhams)



The NBI amounted to 63,6 billion dirhams, up 4,1 percent, from 1,1 percent last year. Representing 69 percent of the NBI, the interest income stood at 42,6 billion dirhams, decelerating to 1,1 percent (4,4 percent in 2015). The margin on commissions accelerated to 8,3 percent from 4,1 percent, standing at 11,2 billion dirhams. Its share in the NBI expanded by 0,7 point to 17,6 percent.

Income from market activities increased by 23 percent to 8,5 billion dirhams, owing to stronger portfolio of trading financial assets. Net gains on available-for-sale securities and financial instruments at fair value by result grew by 69 percent and 12 percent, respectively.

Chart 57 : Average operating ratio (in %)



The banking groups' general operating expenses increased by 4,1 percent, as against 6 percent at end-2015, to 32 billion dirhams. This change is due to the slower increase in personnel expenses (+4,1 percent) and external expenses (+5 percent), caused by the limited development in their staff and network in the Moroccan market.

These overheads evolved at a rate similar to that of the NBI, thus reflecting a stable average operating ratio at 50,8 percent.

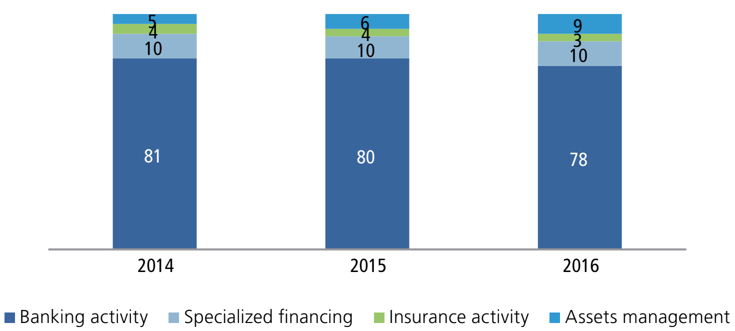
As a result, gross operating income improved by 4,1 percent to 31,3 billion dirhams. The cost of risk, on a consolidated basis, decreased by 4,1 percent to 9,9 billion and absorbed the GOI at 31,7 percent, from 34,5 percent in the previous year.

Overall, the nine banking groups closed the financial year 2016 with a net income-group share of 12,2 billion, up 6 percent, as against 5,5 percent in 2015. The return on assets (ROA) thus remained at 0,8 percent and the return on equity (ROE) at 9,8 percent.

The breakdown of net income - group share by business line shows that the banking activity continued to account for the largest share, or 78 percent, down 2 percentage points from 2015. This decline benefited the assets management activity, whose share rose by 3 points to 9 percent, due to stronger equity holdings in investment funds.

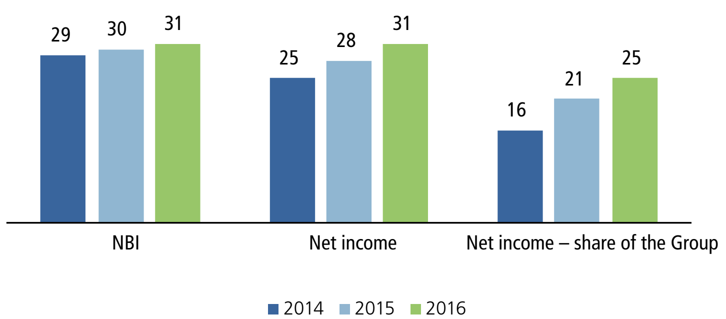
The contribution of specialized financing activities remained unchanged from the previous year at 10 percent, and that of insurance activities declined by one percentage point to 3 percent, owing to a change in the scope of consolidation.

Chart 58 : Contribution of various businesses to the net income - share of the Group of the banking groups (in %)



International activity generated a higher NBI, which increased by 6,5 percent to 14,8 billion dirhams, of which nearly 94 percent was achieved in Africa. It contributed 31 percent to the groups' NBI, up one point from the previous year. However, the contribution of international activity to the net income - group share increased by 4 points to 25 percent, due to an expanded scope of consolidation and lower cost of risk.

Chart 59 : Contribution of the banking subsidiaries abroad to the main income headings of the three major banking groups (in %)



CHAPTER II

CHANGE IN BANKING RISKS

1 - Change in banks' capital adequacy

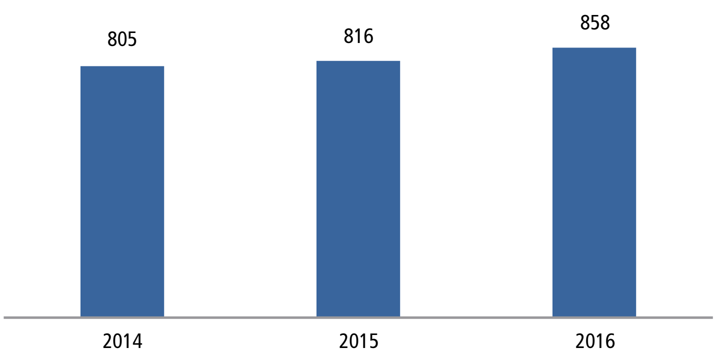
In 2016, weighted net risks, including credit, market and operational risks, increased at a slower pace than equity, leading to an improvement in the average capital adequacy ratio, compared to the previous year.

The change in banking risks and capital adequacy is analyzed below on the basis of data from banks' prudential statements prepared on an individual basis according to the transposed standards of Basel III.

1.1- Evolution of the weighted net risks

The net weighted risks incurred by banks amounted to 858 billion at 2016, rising by 5,2 percent, from 1,4 percent in 2015. These risks consist of 84 percent of credit risk, 6 percent of market risk and 10 percent of operational risk.

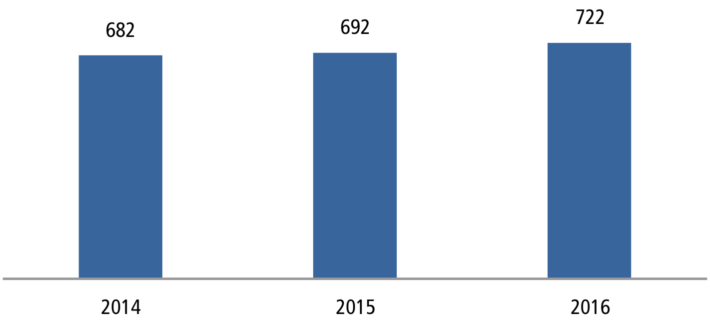
Chart 60 : Change in total net weighted risk (in billion of dirhams)



1.1.1- Credit risk

The credit risk weighted exposures, calculated after the application of risk mitigation techniques, increased by 4,3 percent, from 1,5 percent in 2015, to 722 billion dirhams, due to the recovery, albeit modest, of credits distributed.

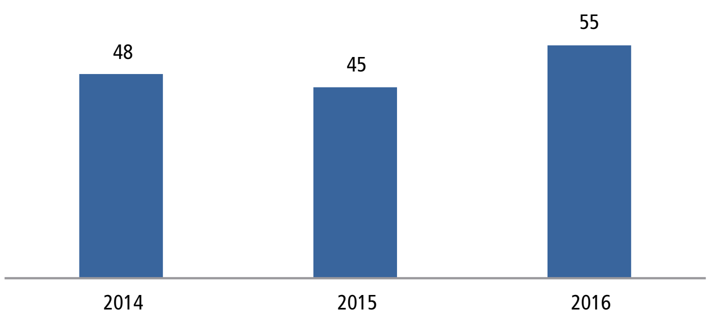
Chart 61 : Change in credit risk-weighted exposures (in billion of dirhams)



1.1.2- Market risk

The market risk net weighted assets amounted to almost 55 billion at end-December 31, 2016, up 23 percent, after a drop of 7 percent a year earlier, due to the increase in the portfolio of trading financial assets, resulting in increased requirements under the specific and general interest rate risk.

Chart 62 : Change in market risk-weighted exposures (in billion of dirhams)

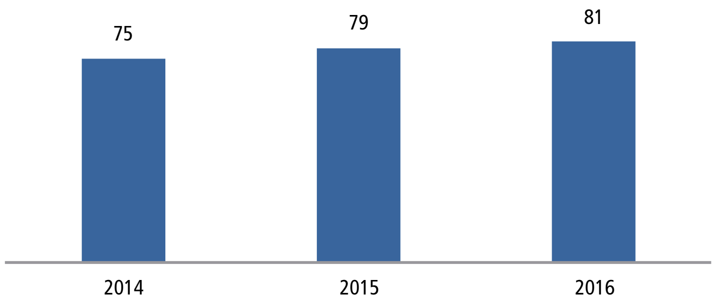


1.1.3- Operational risk

Operational risk exposures, calculated by most banks using the so-called basic indicator approach[8], reached 81 billion, showing a further increase, albeit at a slower pace, or 3,1 percent, as against 5 percent in 2015.

8 Under this approach, the operational risk is determined based on banks' overall NBI level.

Chart 63 : Change in operational risk-weighted exposures (in billion of dirhams)



1.2- Change in banks' prudential equity

Banks' prudential equity rose markedly by 9,1 percent from almost 1 percent a year earlier. Totaling 122 billion, this equity is divided into Tier 1 capital, amounting to 99 billion dirhams, of which 99 percent are core capital, and Tier 2 capital, totaling 23 billion dirhams.

Tier 1 capital consists of core capital and additional capital. The first category comprises common shares or the share premium issued by the institution, reserves, profit results and some equity instruments of mutual groups. The second category is composed of perpetual instruments, which may include a repayment option at the exclusive initiative of the borrower and exercisable under certain conditions.

Tier 2 capital includes debt instruments with an initial maturity of at least 5 years, revaluation surplus, a portion of unrealized gains on investment securities, subsidies, special guarantee funds, provisions for general risks, positive amounts resulting from the treatment of expected losses and positive hidden reserves of lease or lease with a purchase option.

Chart 64 : Change in capital and solvency ratio - on an individual basis

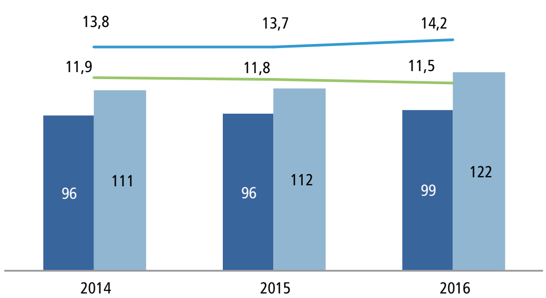
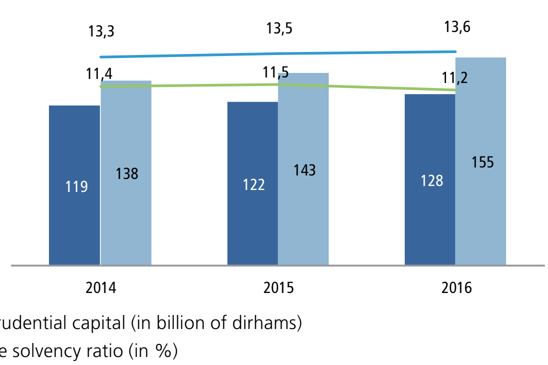


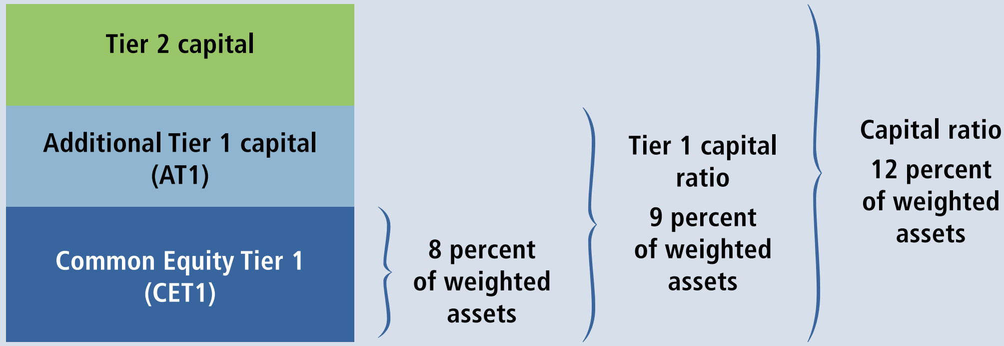
Chart 65 : Change in capital and solvency ratio - on a consolidated basis



The capital increase of 10 billion comes from Tier 1 capital, amounting almost to 5 billion, mainly as carry-over of income, and term-determined subordinated debts, totaling 5 billion. In this year, a bank issued a perpetual subordinated debt meeting the eligibility requirements as a Tier 1 capital instrument.

Box 1 : Additional capital instruments

Bank Al-Maghrib issued a circular in 2013 that transposes capital standards to improve the quality and quantity of this capital. This reform amends the definition of prudential equity and the instruments that are eligible as such. Indeed, it introduced additional Tier 1 capital, known as AT1 capital. This category is part of the prudential capital structure as follows:



Additional Tier 1 capital corresponds to perpetual debt instruments without any redemption incentive or obligation. It is subject to a loss absorption mechanism which is triggered when the CET1 ratio falls below a given threshold, fixed by Bank Al-Maghrib at 6 percent.

These instruments may be converted into shares or may be subject to a reduction in their nominal value. In addition, the full coupon payment flexibility is required and the suspension of their payment remains at the discretion of the issuer.

The average capital adequacy ratio, measured as the ratio of the volume of equity to the sum of net weighted assets, grew by around 50 basis points compared to 2015, to 14,2 percent, above the minimum threshold of 12 percent set by the regulations in force.

Tier 1 capital ratio stood at 11,5 percent for a regulatory minimum of 9 percent and the average core Tier 1 ratio, the numerator of which only includes capital serving to absorb losses on a going-concern basis, also stood at 11,5 percent for a minimum of 8 percent.

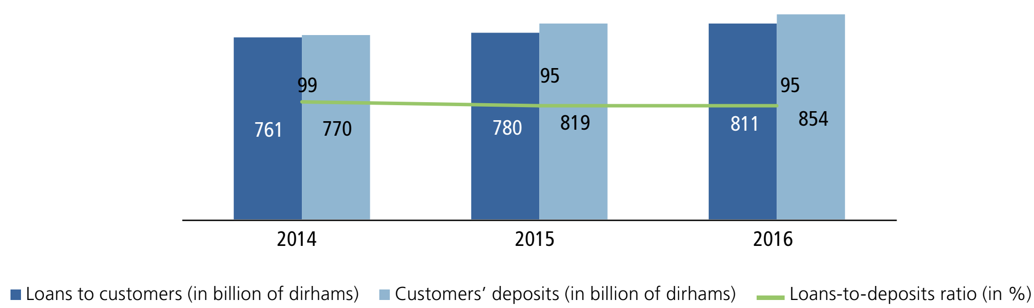
On a consolidated basis, banks' prudential equity and Tier 1 capital increased by 8,4 percent to 155 billion and by 4,9 percent to 128 billion, respectively. Weighted risks stood at 1.141 billion, up 7,3 percent from 2015. As a result, the average capital adequacy ratio stood at 13,6 percent, from 13,5 percent and the average Tier 1 capital ratio reached 11,2 percent, as against 11,5 percent a year earlier.

2 - Change in bank liquidity

In 2016, banks' position continued to ease, thanks to an improvement in foreign exchange reserves and an uptrend in deposits collected from customers, in a context of modest credit growth. Banks' refinancing conditions improved further, following the Bank Board's decision in March 2016 to once again cut the key rate by 25 basis points to a historically low level of 2,25 percent.

In this year, deposits rose by 4,3 percent, driven by an increase in demand deposits, in a context of low rates. Considering a credit growth of 4 percent, the loans-to-deposit ratio[9] remained stable at 95 percent. Adjusted by certificates of deposit, this ratio stood at 90 percent, down one point from 2015.

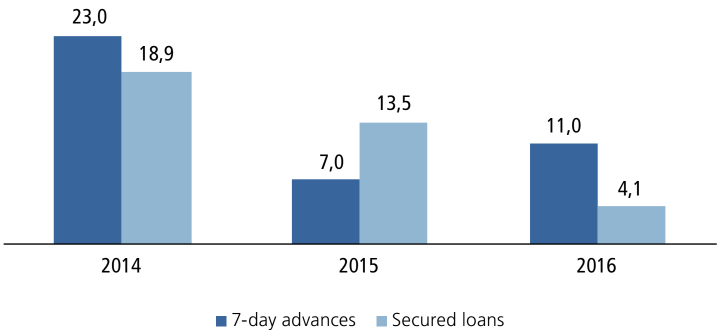
Chart 66 : Change in banks' deposits, loans and loans-to-deposits ratio



Refinancing with the Central Bank in 2016 totaled 19 billion dirhams from 23 billion in 2015. By instrument, 7-day advances rose from 7 billion to 11 billion, year on year, while refinancing in the form of loans secured by claims on VSME declined from 13,5 to 4,1 billion, while the remainder consisted of 24-hour advances.

9 Ratio of loans to deposits.

Chart 67 : Outstanding amount of 7-day advances and loans secured by Bank Al-Maghrib (in billion of dirhams)



Banks' net position on the repurchase agreement market, excluding transactions with Bank Al-Maghrib, generated a positive net balance of 10 billion dirhams, due to the combination of a decrease in the values received in pension and a slight decline in values given in pension.

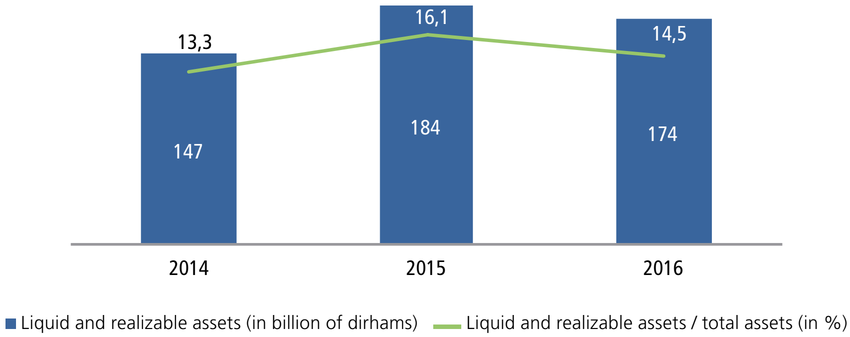
Bank refinancing in the debt securities market grew by 9 percent, representing 7 percent of banks' liabilities. The breakdown of these liabilities by maturity shows an increase in the average maturity of outstanding debt securities issued by banks. Indeed, the share of securities with a maturity of more than 2 years rose by 8 points to 57 percent of the total, while that of securities with a maturity of less than 2 years fell from 51 percent to 43 percent.

Subordinated debts with a long-term maturity recorded a further increase of 13,7 percent, as against 23 percent in 2015, reaching 34,4 billion dirhams.

In total, banks' assets are made up of nearly 47 percent of short-term assets and 53 percent of medium-term and long-term assets, unchanged from the previous years. Their liabilities are composed of 59 percent of liabilities without maturity, 21 percent of short-term liabilities and 20 percent of medium- and long-term ones, as against 58 percent, 24 percent and 18 percent, respectively, a year earlier.

Banks' liquid and realizable assets include mainly cash, deposits with Bank Al-Maghrib, interbank transactions, Treasury bills and certificates of deposit. They enable banks to protect themselves against a possible liquidity shock. These assets totaled 174 billion dirhams at end-2016, down 5,6 percent after a 25 percent increase in 2015. The share of these assets in total assets remains significant, or 14,5 percent, from 16,1 percent a year earlier.

Chart 68 : Change in liquid and realizable assets



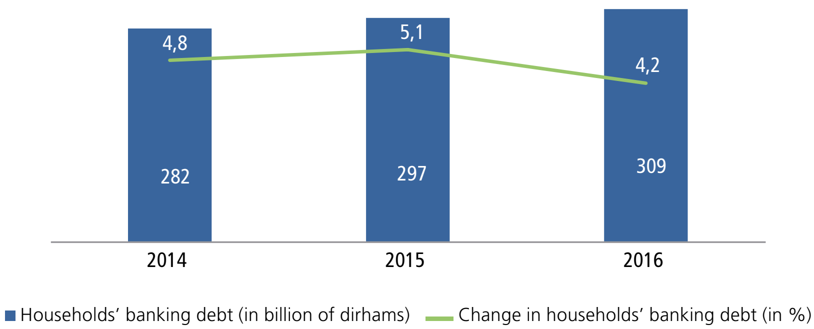
After a 1,5 percent increase last year, the portfolio of Treasury bills held by banks remained at 118 billion dirhams.

The short-term liquidity ratio (LCR) generated by banks averaged 143 percent, with a minimum of 70 percent in 2016, reflecting a comfortable liquidity situation for banks. This ratio measures the amount of liquid and high-quality assets available to banks to hedge, in the event of a crisis cash outflows over a one-month period.

3 - Change in households' banking indebtedness

In 2016, Bank Al-Maghrib conducted with banks and consumer loan companies its 12th annual survey on the monitoring of changes in consumer and housing loans as well as the recipients of these loans according to various criteria. This survey covered a sample of 10 banks and 12 consumer loan companies, with a market share of almost 100 percent in terms of housing loans and 97 percent in terms of consumer loans.

Chart 69 : Change in the households' banking debt



At end-December 2016, the outstanding households' bank debt amounted to 309 billion dirhams, up 4,2 percent, as against 5,1 percent in 2015. This change was driven by higher housing loans and consumer loans. It accounted for nearly 36 percent of lending by credit institutions, the same level as a year earlier. As a ratio to GDP, this outstanding amount remained at 30 percent.

Banks hold almost 85 percent of this debt, the same proportion as in the previous year. The bulk of this debt is made up of housing loans, which accounted for nearly 64 percent, unchanged from 2015, while the remainder corresponded to consumer loans.

The average debt level per household stood at end-December 2016 at 40.200 dirhams, from 39.500 a year earlier, up 2 percent.

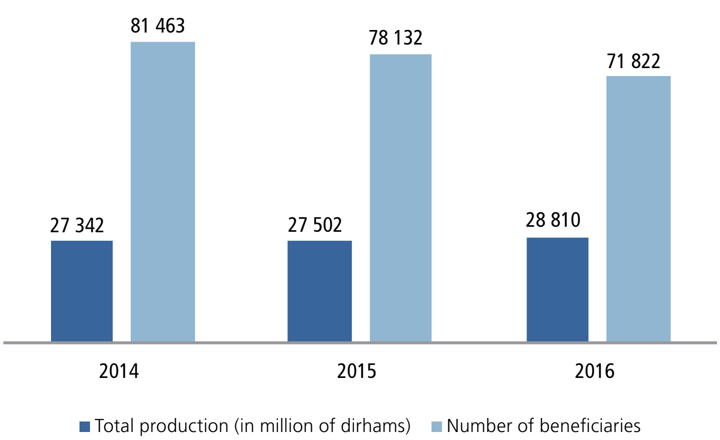
3.1- Housing loans

3.1.1- Housing loans continued to rise in 2016

Along with the rise in the real estate price index (+0,9 percent) and the number of transactions (+8,1 percent) in 2016, housing loan production grew 4,8 percent to 28,8 billion dirhams, as against 0,6 percent in 2015. This increase mainly concerned free loans, while the production of loans supported by the government remained stable.

On the other hand, the number of beneficiaries decreased by 8 percent to nearly 72.000 customers. This decline stood at 10 percent for free loans and 3 percent for loans supported by the government. This trend resulted in an average loan amount of 401.000 dirhams, up 49.000 dirhams, from one year to the next.

Chart 70 : Change in the production of housing loans and the number of beneficiaries



Gross outstanding housing loans amounted to 199,3 billion dirhams, up 4,8 percent from 5 percent a year earlier. Of this total, the outstanding amount of free loans, representing a share of 81 percent, increased by 4,9 percent, as against 5,4 percent. However, outstanding loans supported by the government grew by nearly 4,2 percent, after an increase of 3,6 percent. They stood at 38,3 billion dirhams, of which nearly 20,1 billion under FOGALEF[10] and FOGALOGE[11], 14,6 billion under FOGARIM[12] and 3,6 billion under low cost housing (Habitat Bon Marché).

Household financing conditions remained favorable in 2016, with low interest rates. Thus, the average rate on housing loans declined by almost 25 basis points to 4,96 percent. Nearly 75 percent of these loans were granted at rates below 6 percent, as against 70 percent in 2015.

Chart 71 : Change in the outstanding amount of housing loans based on the applied rate range (in %)

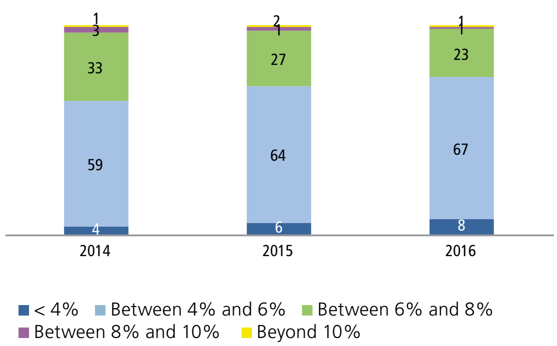
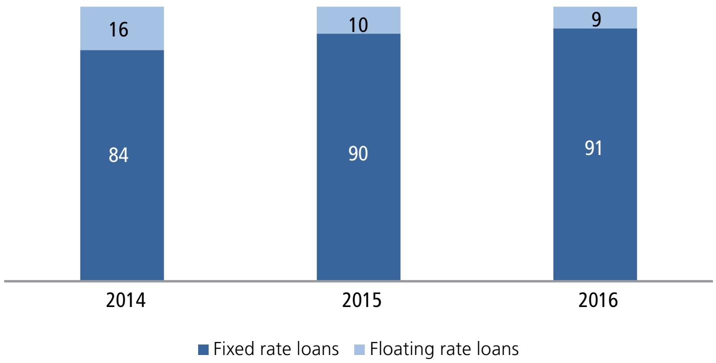


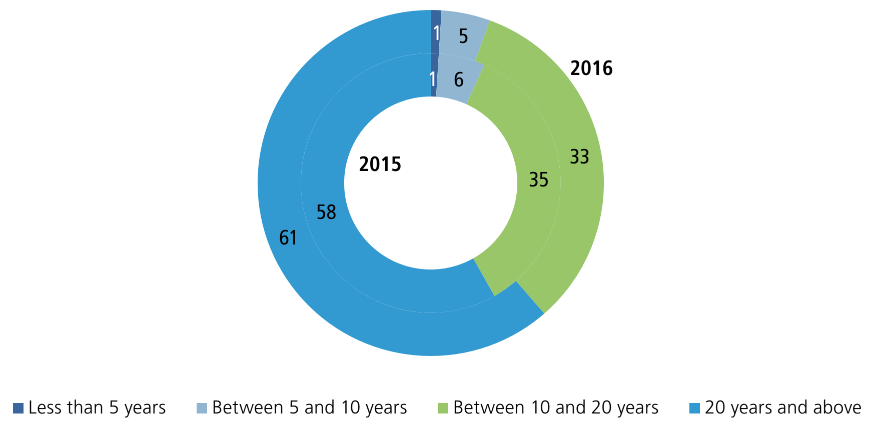
Chart 72 : Breakdown of the outstanding amount of housing loans into fixed and floating rate (in %)



In view of the historically low interest rates, loans at a fixed rate still account for the largest share in 2016, representing 97 percent in terms of production and 91 percent in terms of outstanding amount.

10 Guarantee fund for housing loans to members of the Mohammed VI Foundation for the Promotion of Social Works for Education-Training.
11 Guarantee fund for housing loans to public sector personnel.
12 Guarantee fund for households with irregular and small income.

Chart 73 : Breakdown of the outstanding amount of housing loans by initial maturity (in %)



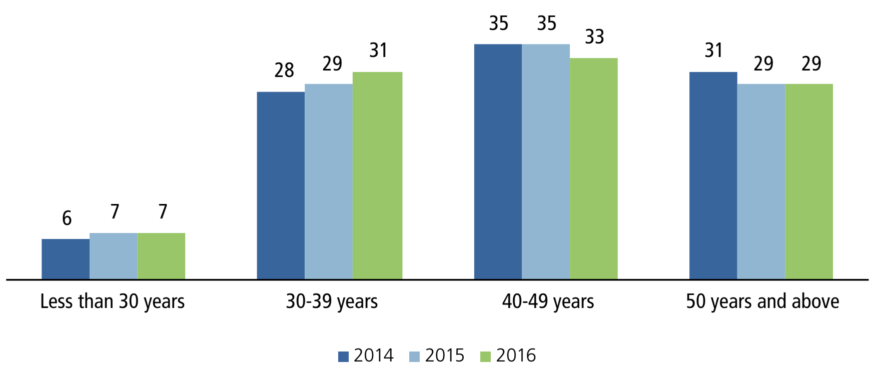
The initial duration of housing loans increased to an average of 20,7 years, compared with 20,3 years in 2015. Thus, the proportion of loans granted for an initial period of more than 20 years moved up 3 points to 61 percent.

3.1.2- Profile and features of housing loan beneficiaries

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

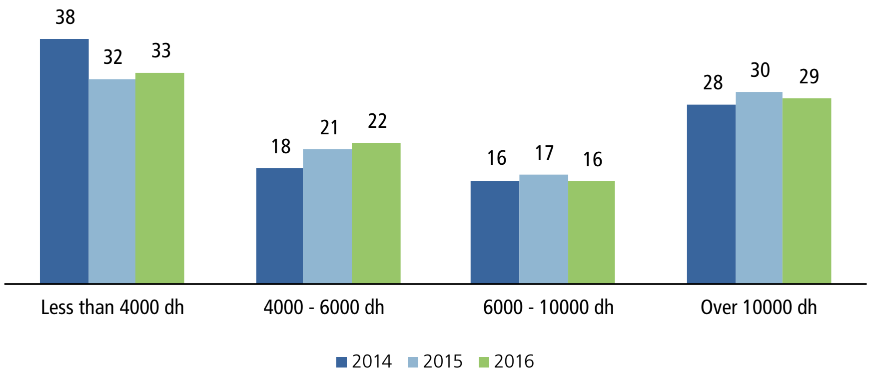
According to the age criterion, people aged over 40 years had almost 62 percent of the total number of credit files (64 percent in 2015), as against 31 percent of those aged 30-40 years (29 percent). The share of those under 30 years remains limited, accounting for 7 percent of the total number of files.

Chart 74 : Breakdown of the number of housing loans' files by age (in %)



In terms of income, people with an income below 4.000 dirhams had 33 percent of the number of credit files, up one point from 2015. However, the share of people with an income above 10.000 dirhams declined by one percentage point to 29 percent.

Chart 75 : Breakdown of the number of housing loans' files by income (in %)



By socio-professional category, private and public sector employees are still the categories who resort mostly to loans, with respective shares of 48 percent (46 percent in 2015) and 30 percent (33 percent in 2015). Other categories include craftsmen and merchants (14 percent), liberal professions (6 percent) and farmers and retirees (2 percent).

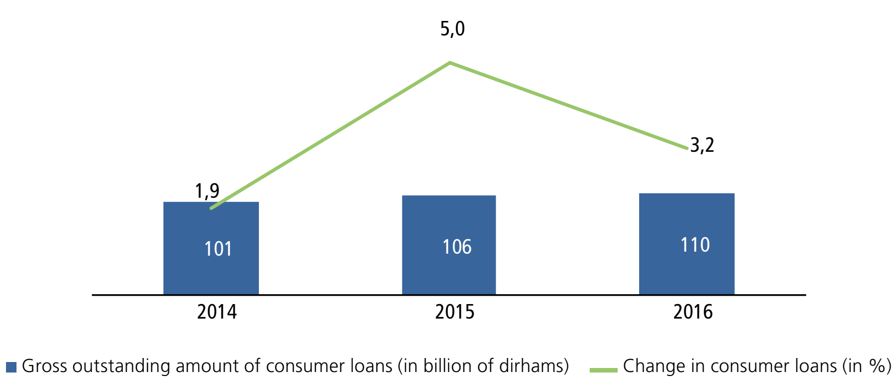
In terms of geographical distribution, the concentration of debtors increased and stood at 40 percent in the region of Casablanca and 19 percent in the region of Rabat, as against 36 percent and 18 percent, respectively, in 2015.

3.2- Consumer loans

3.2.1- Change in outstanding consumer loans

Outstanding consumer loans grew by 3,2 percent, as against 5 percent in 2015, to approximately 110 billion dirhams. Banks' outstanding loans[13] rose by 2 percent, as against 7 percent a year earlier, while loans from consumer loan companies accelerated to 5 percent, from 2 percent in 2015.

Chart 76 : Change in the gross outstandig amount of consumer loans

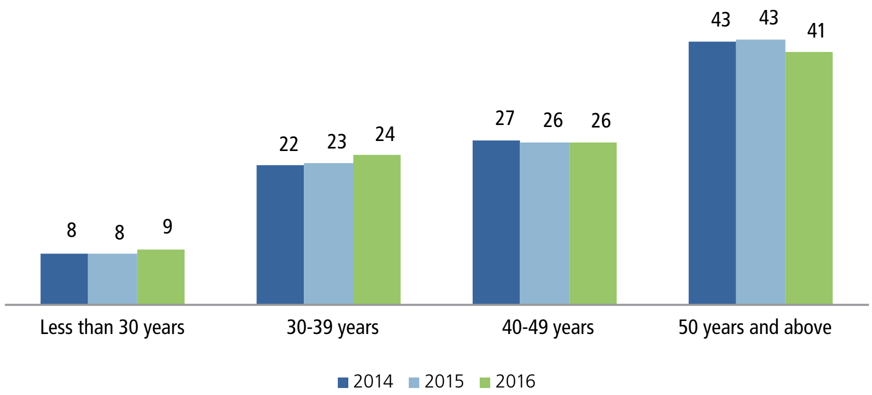


13 Including account overdrafts

3.2.2- Profile and features of consumer loan beneficiaries[14]

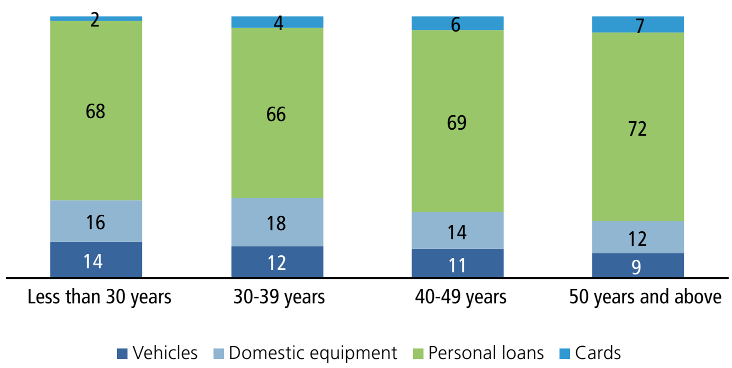
In the same way as for housing loans, the profile of consumer loan beneficiaries is assessed on the basis of age, income, socio-professional category and place of residence.

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



Based on the criterion of age, the share of persons aged over 40 decreased by 2 points to 67 percent in 2016, as against an increase in that of younger categories.

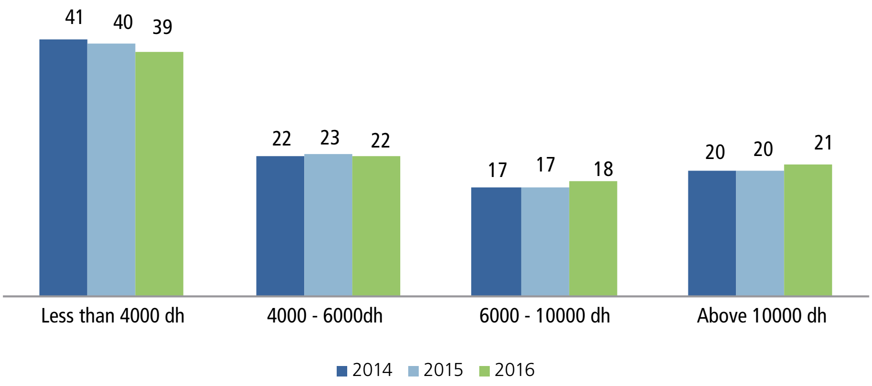
Chart 78 : Breakdown of the number of consumer loans' files by age and credit type (in %)



Personal loans are the most widely-used type of consumer loans by all age groups. Conversely, revolving cards represent 7 percent of loans contracted by people over 50 years and only 2 percent by people under 30 years. Conversely, car-purchasing loans are used more by the younger categories.

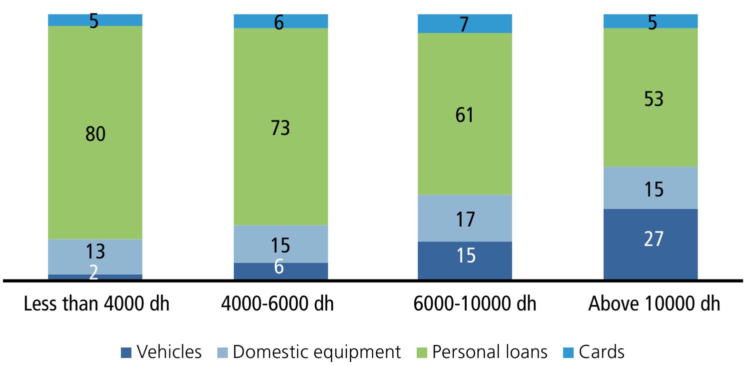
14 Data for 2014 and 2015 revised following the inclusion of data reported by banks.

Chart 79 : Breakdown of the number of consumer loans' files by income (in %)



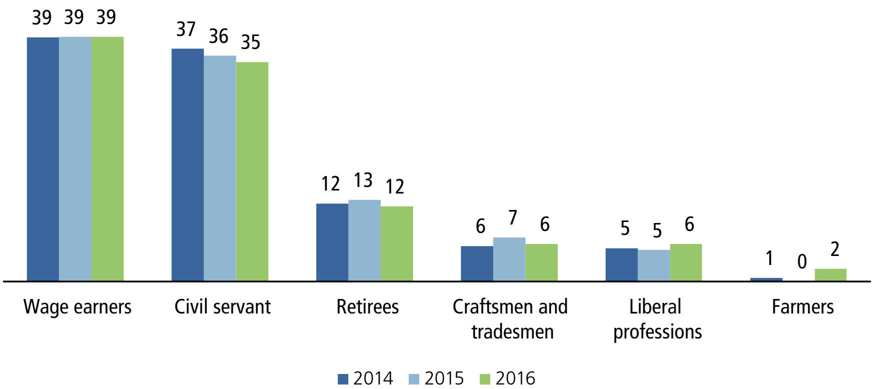
Income is, after age, a significant variable explaining why consumer loans are used. Nearly 39 percent of credit files are held by people with an income below 4.000 dirhams, from 40 percent in 2015. Conversely, the share of people with an income between 6.000 and 10.000 dirhams grew one point to 18 percent over the same period.

Chart 80 : Breakdown of the number of consumer loans' files by income and credit type (in %)



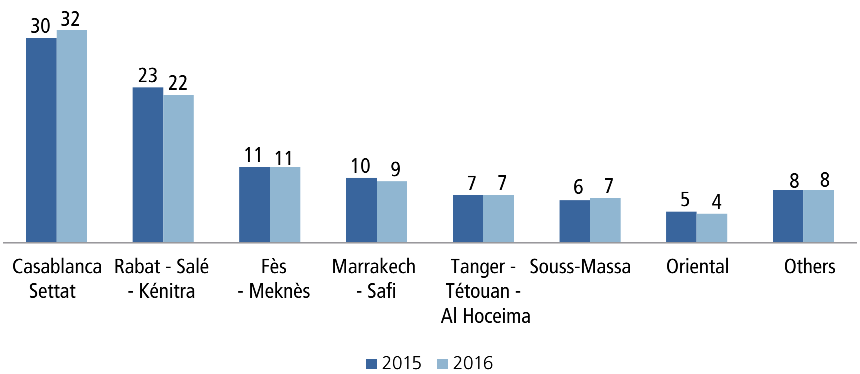
Personal loans, again, are the type of credit most used across all income brackets. Nonetheless, their share is higher among low-income earners. Conversely, vehicle-purchasing loans account for a significant share among higher income earners.

Chart 81 : Breakdown of the number of consumer loans' files by socio-professional category (in %)



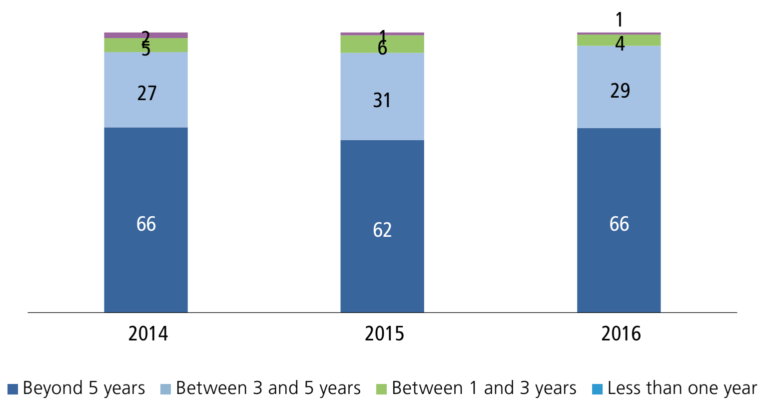
In 2016, private and public sector employees had respective shares of 39 percent and 35 percent, from 39 percent and 36 percent.

Chart 82 : Breakdown of the number of consumer loans' files by geographical location (in %)



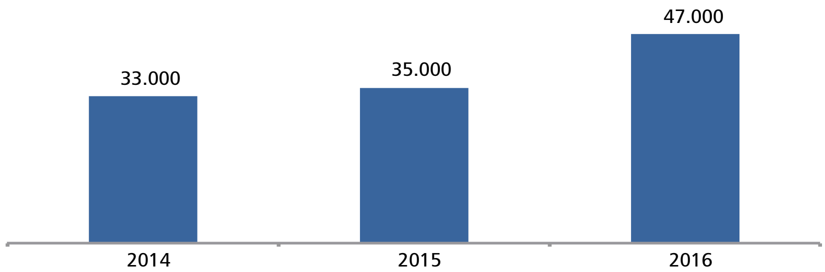
By geographical location, it appears that consumer loan beneficiaries remain concentrated in the urban areas of Casablanca (32 percent vs. 30 percent in 2015) and Rabat (22 percent vs. 23 percent in 2015).

Chart 83 : Breakdown of the outstanding amount of consumer loans by initial maturity (in %)



The analysis of consumer loans by maturity shows that the proportion of loans with a maturity of more than 5 years increased by 4 points to 66 percent, while that of loans with a maturity of less than 5 years decreased.

Chart 84 : Change in average amount of consumer loans' files (in dirhams)



Due to the extension of credit maturity, the average outstanding by credit file also increased, year on year, from 35.000 to nearly 47.000 dirhams (+34,8%).

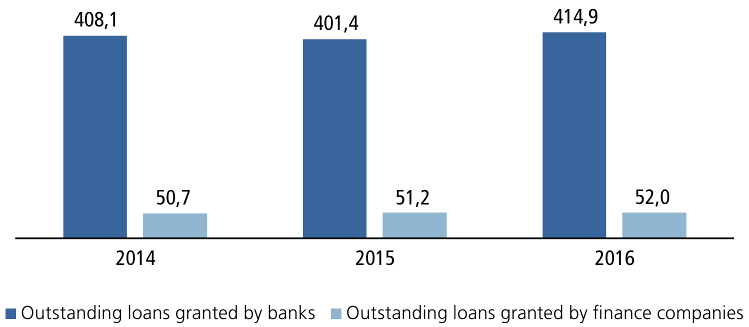
4 - Change in non-financial companies' banking indebtedness

At the end of 2016, non-financial companies' bank debt stood at 467 billion dirhams[15]. This outstanding amount increased by 3,1 percent, after a 1,4 percent decline a year earlier, in the context of sluggish demand for credit due to economic conditions. Of this total, outstanding equipment loans represented the most dynamic share, up 10 percent. Cash facilities fell again, but at a slower pace of 1 percent.

By category, state-owned enterprises benefited from a financing of nearly 47 billion, up 19,6 percent. Debt of private sector companies rose slightly to 1,6 percent to 420 billion dirhams.

15 Updated 2014 and 2015 data.

Chart 85 : Outstanding of loans by disbursement granted to non-financial corporations (in billion of dirhams)



Outstanding debts with banks, representing a share of 89 percent of the total, rose by 3,4 percent to 414,9 billion dirhams, after a drop by 1,7 percent. This trend occurred in a context of low interest rates. Thus, the reporting on lending interest rates declared by banks shows that rates on the new production of loans to enterprises decreased by 49 basis points to 5,10 percent. This average covers declines of 13 basis points for VSME to 7,37 percent and 43 basis points for large companies to 4,75 percent.

Debt contracted by finance companies increased by 1,5 percent to 52 billion dirhams.

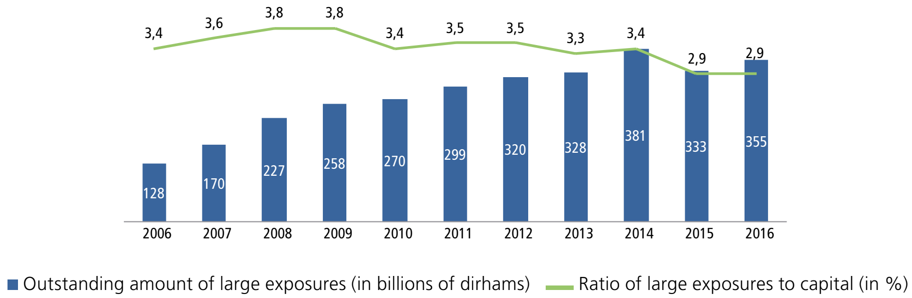
In the case of non-financial companies, loans granted to VSME[16] represent 33 percent of the total in 2016, unchanged from 2015.

5 - Change in banks' large credit exposures

Large exposures or "high risks" refer to beneficiaries or groups of beneficiaries of loans, whose outstanding amount is higher than or equal to 5 percent of a bank's capital. At end-December 2016, bank loans to this category of counterparties amounted to nearly 355 billion dirhams, up 6,6 percent, year on year, after a 13 percent decline in 2015. These commitments represented 2,9 times the banks' capital, unchanged from 2015.

16 According to prudential criteria according to which SMEs belonging to a group are considered as large enterprise.

Chart 86 : Change in banks' large credit exposures



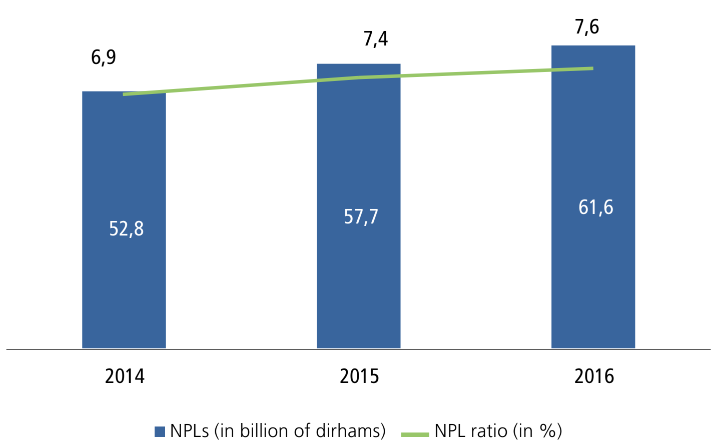
The increase in banks' large exposures is observed in the balance sheet commitments. These commitments, which consist mainly of loans and debt securities, increased by 10 percent to nearly 262 billion dirhams. Off-balance-sheet commitments contracted by 3 percent to 89 billion dirhams. Nearly 80 percent of these commitments are financing and guarantee commitments.

In sectoral terms, financial groups, other than banking, benefited from the largest share of loans (16 percent), followed by beneficiaries operating in the manufacturing sector (14 percent), transportation and communication (13 percent), property development (12 percent) and water and electricity distribution (11 percent). The remainder is divided between several other sectors.

6 - Change in non-performing loans

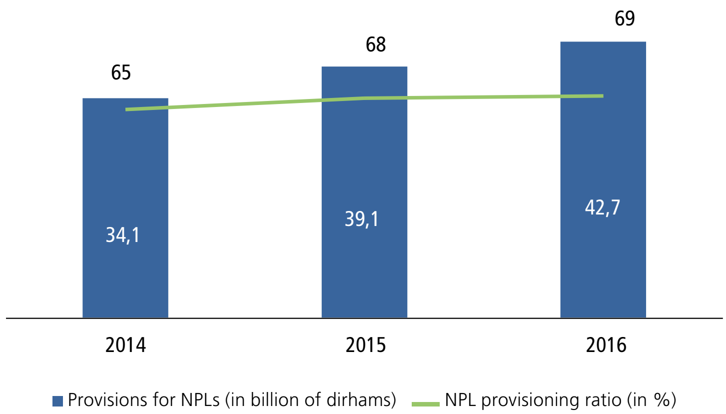
In 2016, growth of non-performing loans (NPLs) held by banks once again decelerated to 6,8 percent from 9 percent in 2015 and an average of 17 percent between 2012 and 2014. Their outstanding amount totaled 61,6 billion dirhams, representing a risk ratio of 7,6 percent, from 7,4 percent a year earlier.

Chart 87 : Change in banks' non-performing loans



In 2016, outstanding NPLs increased by nearly 4 billion dirhams. By category, impaired loans and pre-doubtful loans amounted to 6,3 billion and 290 million, respectively. Doubtful loans showed a negative trend of 2,6 billion. Considering these developments, the structure of NPLs changed, as the share of the impaired category rose by 6 basis points to 83 percent and that of pre-doubtful loans grew by one point to 4 percent, while the proportion of doubtful loans decreased by 5 points to 13 percent.

Chart 88 : Change in banks' NPL coverage ratio



Following the same trend of NPLs, provisions increased by 9,1 percent, as against 15 percent a year earlier. This resulted in one-point improvement in the provisioning ratio of NPLs to 69 percent. This ratio stands at 76 percent for impaired loans, 47 percent for doubtful loans and 18 percent for pre-doubtful loans.

In addition to these specific provisions, banks began to constitute general provisions, amounting to 7,4 billion to cover sensitive risks to economic conditions.

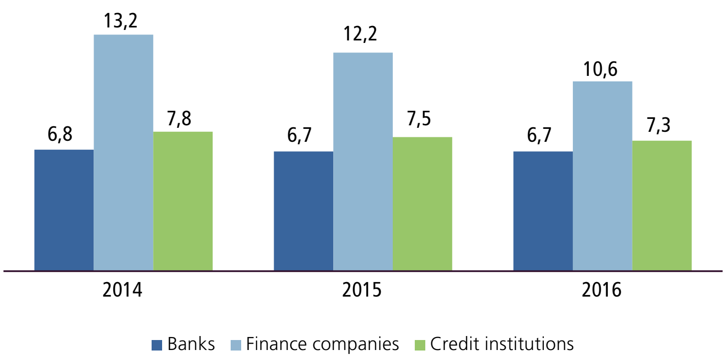
On the other hand, NPLs held by finance companies fell by 0,7 percent in 2016 to 9,5 billion dirhams, representing a risk ratio of 9,3 percent, as against 9,7 percent in the previous year. The provisioning ratio of these loans stood at 74 percent, down 2 percentage points from last year.

6.1- NPLs held by households

In 2016, outstanding NPLs of banks and consumer loan companies held by households increased overall at the same rate as last year, or 0,9 percent to 22,4 billion. The risk ratio thus decreased from 7,5 percent to 7,3 percent. This decline affected both resident households (7,2 percent vs. 7,4 percent) and non-resident households (7,8 percent vs. 8,2 percent).

The provisioning ratio of outstanding loans held by households stood at 69 percent, from 70 percent in 2015.

Chart 89 : Change in NPL ratio on households (in %)



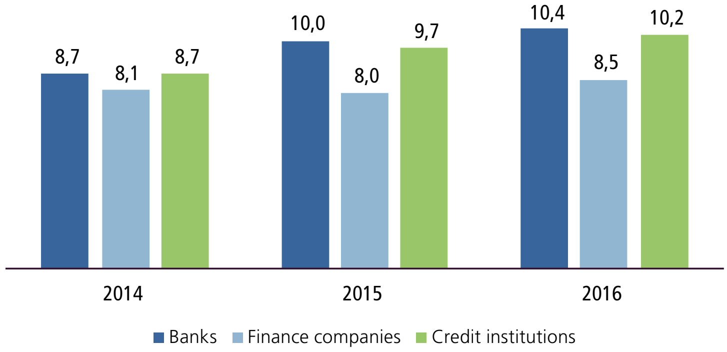
For banks, outstanding NPLs of households grew by 3,9 percent to 17,5 billion, after an increase of 3,3 percent a year earlier. As a result, the risk ratio stood at 6,7 percent, unchanged from 2015. NPLs of consumer loan companies contracted by 8,3 percent to 5 billion dirhams, bringing the risk ratio of the sector to 10,6 percent from 12,2 percent in 2015, following a write-off of old claims. The provisioning ratio of NPLs relating to these companies stood at 80 percent from 84 percent in 2015.

The risk ratio improved for housing loans to 5,8 percent, as against 6,1 percent a year earlier and remained at 9,9 percent for consumer loans.

6.2- NPLs of non-financial companies

NPLs' outstanding on non-financial companies continued their upward trend in 2016, but at a slower pace than in the previous year. After an increase of 10,5%, they recorded an increase of 8 percent to reach an outstanding of 47,7 billion dirhams, a NPLs' rate of 10,2 percent, compared to 9,7 percent a year earlier. These receivables were covered by provisions amounting to 70 percent, one point more than in 2015.

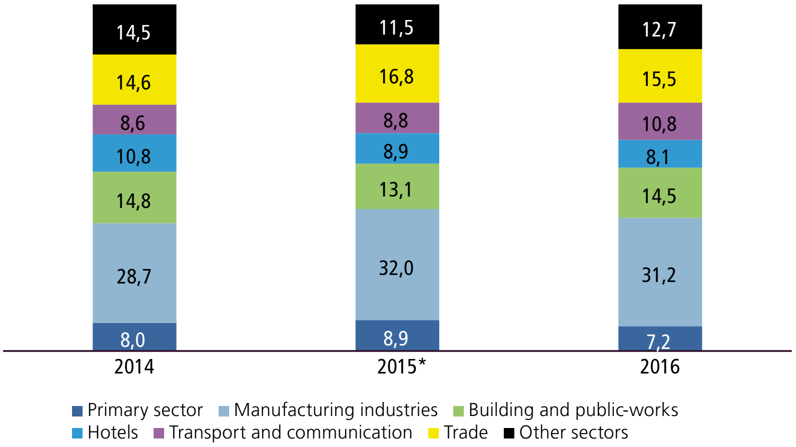
Chart 90 : Change in NPL ratio of non-financial corporations (in %)



Outstanding NPLs held by banks on non-financial companies rose by 8 percent to 43,3 billion, representing a risk ratio of 10,4 percent, from 10 percent in 2015. These loans were covered by provisions up to 71 percent. The outstanding amount held by finance companies totaled 4,4 billion, rising by 8 percent. These loans accounted for 8,5 percent of total loans granted to this segment, as against 8 percent in 2015. They were covered by provisions up to 68 percent.

The sectoral breakdown of these loans shows that those held on businesses operating in the industrial sector (including extractive industries) grew by 5,9 percent, resulting in a sector's risk ratio of 9,7 percent, from 9,4 percent in 2015. Outstanding loans held on the building and public works sector, which includes real estate development, increased by 17,6 percent, bringing the sector's risk ratio to 6,8 percent, from 6,3 percent in 2015.

Chart 91 : Sectoral breakdown of NPLs on non-financial companies (in %)



* 2015 data has been updated

Outstanding NPLs of the trade sector fell by 1,8 percent, after a 30 percent increase a year earlier, resulting in a decline in the sector's risk ratio to 12,8, from 13,4 percent in 2015. Those recorded on the primary sector declined significantly by 14,5 percent and accounted for 9,4 percent of loans to this sector, as against 11,4 percent a year earlier.

After a decline of 6,3 percent in 2015, outstanding NPLs of the hotel sector dropped by 3,5 percent in 2016. The relevant risk ratio moved down from 23,8 percent in 2015 to 22 percent.

CHAPTER III

CHANGE IN LEGAL AND REGULATORY FRAMEWORK OF CREDIT INSTITUTIONS AND SIMILAR ENTITIES

بنك المغرب

One year after the entry into force of the banking law, the Bank has been working in 2016 on the implementation of the legal enforcement texts. It also undertook reforms to better manage certain risks incurred by credit institutions, implement international standards in the field and consolidate the resilience of the banking sector.

In this respect, 18 regulatory texts were adopted in 2016 relating to participatory finance, prudential and accounting regulations, governance and risk management measures and the protection of credit institutions' customers.

In addition, the enforcement texts of Law No.31-08 enacting consumer protection measures relating to indebtedness entered into force in April of this year.

1 - New actors and services

1.1- Participatory finance

1.1.1- Reforms undertaken

In 2016, the Bank enacted four circulars governing the functioning of participatory banking, three of which required the assent of the Higher Council of Ulemas (CSO).

- **Circular N. 1/W/17 on participatory financing products** : This circular sets out the technical features of Mourabaha, Ijara, Moucharaka, Moudaraba and Salam products, the terms for presenting these products to customers and rules of compliance of relevant contracts with CSO's opinions. In particular, it specifies, for each product, the rules relating to its legality, the terms allowed with regard to its structuring, the elements to be mentioned and/or defined in the contract and the type of guarantees that may be required by the bank.

- **Circular No. 2/W/17 relating to the terms for collection and investment of deposits** : This text specifies the terms and conditions for collecting and investing deposits. It also defines the products of investments backed by these deposits and determines, for this purpose, the elements to be considered for calculating distributable profit, rules for calculating the bank's remunerations and rules to be applied in case of losses, if any.

  In addition, the circular sets out the terms and conditions for using investment deposits in bank's balance sheet assets, characteristics and rules applicable to the constitution and liquidation of reserves for the equalization of profits and reserves for investment risk and the bank's obligations in terms of traceability and transparency required for the key management decisions of investment deposits. In this context, it prohibits banks from using donations or any other means to guarantee implicitly or explicitly remuneration to holders of investment deposits or their deposited funds.

- **Circular No. 3/W/17 on conditions for operating participatory windows** : This text specifies the conditions and procedures for a conventional bank to carry out participatory operations and activities, subject to approval by Bank al-Maghrib Governor. It defines governance, accounting and prudential requirements as well as human and technical resources that should be dedicated to participatory activities. In addition, it specifies the limitations to be placed on participatory activities compared to conventional activities of the bank in terms of outstanding financial amount and the network of branches standing respectively at 10 percent of the outstanding total of financing granted by the bank and up to 10 percent of the total number of branches of the bank's network by 2020.

  These 3 circulars have been submitted to the CSO for review and were accepted by this body.

- **Circular No.16/W/16 on the function of compliance with CSO's opinions** : This text covers the terms and conditions for the operation of the function of compliance with CSO's opinions to be established by the institutions carrying out participatory banking activities. To this end, it details its statutory mandate, namely:
  - identify and prevent the risk of non-compliance of their operations and activities with the CSO's opinions ;
  - monitor and enforce the CSO's opinions of conformity and monitor that they are respected;
  - ensure that the procedures manual is established and respected ;
  - recommend the adoption of the measures required in the event of proven non-compliance with the conditions imposed for presenting to the public a product which has been subject to the CSO's opinion of conformity.

This circular covers in particular the following aspects:

- The requirement that the function keeps the management body and the committee for monitoring risk identification and management process informed of shortcomings and major weaknesses in relation to compliance with the opinions, guides and recommendations of the CSO so as to initiate appropriate corrective measures ;
- The contribution of this function to the development of new participatory products and to the related documentation ;
- Raising awareness and training participating institutions' staff on Shariah-related issues and developing a guide on participatory products ;
- The preparation of regulatory reports to be submitted to Bank Al-Maghrib and CSO.

In addition, the circular prohibits this function from issuing Sharia-compliance opinions on participatory operations and activities.

1.1.2- Ongoing reforms

1.1.2.1- Adapting the accounting framework to participatory finance specificities

The Bank focused on adapting the accounting framework of credit institutions to the activities of participatory banks and windows. This framework was submitted in early 2017 to the National Accounting Council for opinion. The adaptations were largely based on the standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). They involved accounting and assessment rules, chart of accounts and financial statements.

Box 2 : The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI)

AAOIFI is an international non-profit corporate body established in March 1991 and based in Bahraïn. Its mission is to prepare accounting, auditing and governance standards for Islamic financial institutions. It has more than 200 members representing 45 countries, including 6 founding members.

The institution has published more than 88 standards, including 27 accounting standards, 7 auditing and governance standards and 54 Shariah standards (Shariah implementing rules).

1.1.2.2- Prudential framework of participatory finance

The Bank continued its work to establish a prudential framework specific to participatory banks. In this regard, it examined the international standards issued by the Islamic Financial Services Board (IFSB) and conducted a benchmark study on the prudential frameworks of a selection of countries. The work focused on prudential capital and liquidity regimes.

Box 3 : The Islamic Financial Services Board (IFSB)

IFSB is an international organization based in Kuala Lumpur that was established in November 2002. It is mainly mandated to develop prudential standards or adapt them to Islamic finance. It has 183 members representing 57 jurisdictions, including 70 regulators including Bank Al-Maghrib and 7 international intergovernmental institutions, including the Islamic Development Bank and the World Bank.

IFSB has published more than 18 standards mainly on risk management, capital adequacy, corporate governance, supervision process, governance of Islamic investment funds, governance of Islamic insurances “Takaful” and the Sharia governance system

1.2- Payment institutions

The regulatory framework governing future payment institutions has also been finalized and published in the Official Bulletin at the end of the first quarter of 2017. It sets out the minimum capital rules and conditions for the functioning of these institutions as well as the terms for offering payment services.

The implementation of this new framework will help strengthen the offer of electronic payment services, encourage the development of innovative services, such as mobile payment and thus further promote the financial inclusion of the population.

In this regard, two circulars were issued by the Bank:

- **Circular No. 6/W/16 on payment institutions** : This circular sets out the terms and conditions for the functioning of these institutions in terms of accounting, prudential, governance and control requirements. This text sets out, in particular:
  - The requirement that accounts are kept in accordance with the provisions applicable to credit institutions, in addition to the appointment of a single auditor, after approval by Bank Al-Maghrib ;
  - The identification and isolation of funds entered in the payment accounts opened with the payment institution ;
  - The establishment of a governance, internal control and risk management mechanism which is adapted to the nature and volume of the institution's business ;
  - The requirement to put in place a control and security system ensuring the integrity, compliance and availability of the information system ;
  - The introduction of consumer protection provisions, in particular with regard to information and processing complaints.

- **Circular No. 7/W/16 concerning the terms and conditions for operating payment services** : This text specifies the manner in which the payment services operate as well as the provisions relating to payment accounts, particularly:
  - The definition of fund transfer operations and the obligation to respect the maximum amount of fund transfer operations ;
  - The compliance with the requirements for identifying payment account holders according to account types ;
  - Concerning the identification of payment account holders, the obligation to respect the ceilings of such accounts as specified by Bank Al-Maghrib, namely 200 dirhams for level 1 accounts, 5.000 dirhams for level 2 accounts and 20.000 dirhams for level 3 accounts ;

- The obligation to provide the necessary information relating to the execution of payment transactions to payment service users ;
- The compliance with the provisions on the protection of payment service users, in particular as regards information.

2 - Prudential regulation

2.1 - Reforms undertaken

In 2016, Bank Al-Maghrib introduced amendments to the rules governing equity and capital requirements for credit, market and operational risks. It also revised the rules for equity holdings by credit institutions in existing or new companies.

- **Amendment to the equity circular** : in line with the Basel III agreement, Bank Al-Maghrib introduced a provision in this circular allowing it to require banks to build, for macro-prudential considerations, a "countercyclical" capital buffer, composed of core capital, whose level ranges between 0 percent and 2,5 percent of weighted risks. At the date of entry into force of these new provisions, Bank Al-Maghrib set the level of countercyclical capital buffer at 0 percent.
- **Amendment to the circular relating to capital requirements for credit, market and operational risks** : This change concerned, in particular, the prudential treatment of securitization positions of credit institutions and deposits of Moroccan banks' subsidiaries abroad with the central banks of host countries.

  - **Treatment of securitization positions :** The amendment introduces a differentiated treatment of securitization positions of credit institutions, in order to determine capital requirements, according to whether they are or not initiators of securitization programs or whether they are investors in securitization fund units. It sets out risk weights depending on whether the securitization units are rated or not.
  - **Treatment of deposits with central banks** : Deposits with central banks were treated as exposures to sovereign and weighted counterparties according to the rating of these counterparties.
    A special treatment was introduced for deposits with central banks, when these deposits are denominated and financed in local currency. This treatment is to use the risk weight set by the bank regulator of the host country to determine the capital requirement for the credit risk to hedge these deposits. This risk weight can be 0 percent.

- **Circular on equity holding by credit institutions in the capital of corporations** : This text expanded the definition of "equity holding" which now refers to any direct or indirect holding of a fraction of the capital or voting rights in the issuing company, regardless of the fraction held and the intention which prevailed in this transaction.

  The limits of amounts of equity holding as a ratio to the amount of capital, which are set at 15 percent of the credit institution's capital for each equity holding and at 60 percent for all the shareholdings, are now expressed as a percentage of core Tier 1 capital. They must also include equity held in the capital of holding companies.

2.2 - Ongoing reforms

- **Revision of the circular on the classification of credit institutions' claims** : Bank Al-Maghrib has embarked on this reform to better manage the credit risk incurred by credit institutions and to strengthen their resilience. The reform also takes into account the recommendations made by the International Monetary Fund and the World Bank, in the aftermath of their mission to assess the Moroccan financial system in 2015. The reform covers the definition of uniform criteria for identifying the so-called sensitive claims that should be under close supervision by credit institutions, rules governing the treatment of restructured receivables and extension of default criteria in line with international standards. This draft is being subjected to a wide-ranging process of consultation with banking operators as well as impact studies with a view to defining a progressive implementation mechanism.

3 - Governance and risk management system

3.1 - Reforms undertaken

- **Circular on independent directors** : This text sets out the number of independent directors and outlines the independence criteria to be considered. It also introduces a number of requirements relating to:
  - The training, information and availability of independent directors for active participation in the work of the credit institutions' boards of directors ;
  - The establishment of a regular exchange framework between Bank Al-Maghrib and these directors ;
  - The independent directors' formalized evaluation of the functioning of the management body and its committees whose report is to be addressed to Bank Al-Maghrib.

- **Circular No. 4/W/16 on the publication of financial statements** : This text requires credit institutions with a total balance sheet of more than 30 billion dirhams to publish their financial statements on a quarterly basis and reduces the deadlines for publishing annual and half-yearly individual and consolidated accounts, in line with the best practices.

It stipulates that the publication of the individual annual financial statements and consolidated annual financial statements must take place simultaneously at least thirty days before the ordinary general meeting and no later than three months following the end of the financial year instead of May 31 deadline previously in force. As regards the half-yearly statements, the deadline for the publication of the consolidated financial statements was aligned with that of the individual financial statements, which is September 30 instead of October 15.

- **Directive No. 2/W/16 on the elements of information to be required by credit institutions for examining credit applications of groups' counterparties** : This text enhances the financial transparency of large groups of companies towards lending credit institutions.

  It includes the needed information to be collected by credit institutions as part of the examination of the credit files of groups' counterparties, whose total bank debt is greater than or equal to 500 million dirhams; otherwise, an additional capital requirement will be mandatory to cover exposures to such counterparties.

  These items concern the group's consolidated accounts, the auditors' report on those accounts as well as the group's bank and market debt.

  Credit institutions shall have a maximum implementation period of three years and at the latest at the end of the financial year 2018 to collect the consolidated accounts of the eligible groups of corporations in accordance with an annual calendar taking into account the size of such groups.

- **Directive No. 3/W/16 on intrusion testing to keep cybercrime risk under control :** In view of the emergence of cybercrime risks, Bank Al-Maghrib issued a directive setting out the minimum rules to be observed by credit institutions to carry out the intrusion tests of their information systems.

  The purpose of these tests is to analyze the security situation of the banking institutions' information system and to assess their ability to respond adequately to attacks targeting this system.

  To this end, credit institutions are required to develop a mapping of cyber risks and to regularly carry out, on the basis of this mapping, intrusion testing of their information systems.

  The findings of these tests and the progress of corrective action plans must be reported to the management and governing bodies of the institution. A report in this regard must be sent to Bank Al-Maghrib annually.

3.2- Ongoing reforms

- **Circular on the internal crisis recovery plan** : In accordance with the requirements of the new banking law, the Bank finalized a draft circular to particularly organize systemically important banks' preparation of an internal crisis recovery plan. These plans are designed to describe, in hypothetical cases of default, the solutions that these banks intend to implement to redress their situation so as to limit the impact on the financial system without causing any additional cost for the State and the taxpayer.
- **Review of circular No. 2/G/2012 on due diligence within credit institutions** : Bank Al-Maghrib undertook the revision of this circular with the objective of improving the convergence towards international standards on regulatory arrangements relating to due diligence within credit institutions. The reform makes it possible to introduce new provisions relating mainly to the establishment of a permanent mechanism to combat money laundering and terrorism financing, which is adapted to the size of the institution and the risks facing it. The reform should be finalized in the first half of 2017.

4 - Protecting credit institutions' customers

The regulatory framework for protecting credit institutions' customers has been strengthened by three circulars on handling complaints within credit institutions, the banking mediation mechanism and standard accounts agreement.

- **Circular No. 10/W/16 on handling complaints :** This circular was adopted in accordance with the provisions of Article 157 of Law No.103-12 and incorporates the content of Recommendation No. 1/G/2012 relating to handling complaints from credit institutions' customers.

Under this circular, credit institutions must :

- be equipped with a suitable organizational structure allowing for a central complaint handling and monitoring unit, well-defined circuits, a dedicated information system, and procedures for identifying and handling all claims within fixed deadlines ;
- regularly inform customers about the internal and external complaint handling mechanisms and how this handling takes place through acknowledgments of receipt and reply letters according to predefined deadlines ;
- set up a customer relations committee to oversee the efficiency of this mechanism and the improvement of the processes underlying it. This mechanism must be controlled permanently and periodically and evaluated, at least annually, by the audit committee ;
- provide adequate training on appropriate tools and procedures for the staff directly or indirectly involved in complaint handling ;

- introduce into the internal control report prepared by the credit institution a chapter dedicated to the description of the complaint handling system and control activities carried out in this area ;
- put in place a quarterly reporting to be addressed to Bank Al-Maghrib, on complaints received from customers, broken down by reception channel, object, location, status, amounts and average handling time.

- **Circular No.9/W/16 governing the banking mediation mechanism :** This circular was adopted pursuant to Article 158 of Law No. 103-12, requiring credit institutions to join a banking mediation mechanism. It lays down the basic principles governing this system, namely :
  - the indication in the constituent documents of the banking mediation mechanism, its purpose, governing bodies and their composition, its resources as well as its management and operating rules ;
  - the definition of the procedures for submitting cases before it and processing requests for mediation as part of its mediation rules ;
  - the appointment of the mediator, who must have good repute and impartiality and demonstrate professional experience and appropriate legal and financial expertise ;
  - the fixation of the mediator's term in the constitutive documents of the mediation system ;
  - any person involved in the process of handling mediation requests should be subject to a code of ethics setting out the rules guaranteeing the total impartiality of the mediation system ;
  - the mediation system should employ a sufficient number of qualified staff and have the required technical resources ;
  - internal procedures should be set up for the processing of mediation requests and deadlines should be fixed for appropriate processing times for each type of request for mediation, which may not exceed 30 days for any request deemed admissible.

This new text requires the mediator to report to Bank Al-Maghrib and stipulates that the conditions for the approval of reporting should be laid down by the Bank.

- **Circular No. 15/W/16 on the on demand, time and securities accounts agreement :** This circular was adopted pursuant to Article 151 of Law No. 103-12 and replaces Directive No. 3/G/2010 of May 3, 2010 on the minimum clauses to be contained in a deposit account agreement. It lays down :
  - the minimum clauses to be contained in the agreement for each type of account ;
  - the obligation that each credit institution should deliver, free of charge, to the customer a copy of the account agreement duly signed by both parties ;

- the period of two years granted to credit institutions for the progressive compliance of time account and securities account agreements concluded before the entry into force of this new circular.

- Decrees relating to indebtedness under Law No. 31-08 : The Bank contributed to the elaboration of 6 decrees, in collaboration with the Ministry of Economy and Finance and the Ministry of Industry, Trade, Investment and Digital Economy.

These decrees, which came into force in April 2016, concern the prior credit offer, the maximum default interest rate applicable to the amounts remaining due in the event of default by the borrower, the method of calculating the present value of lease payments that are not yet due, the maximum value of the costs for examining files retained or requested by the lender in the case of real estate loans as well as the amount of compensation required for interest not due in the event of prepayment of real estate loans.

CHAPTER IV

BANKING SUPERVISION ACTIVITY

The year 2016 coincides with the start of the Bank's 5th three-year strategic plan "2016-2018". Through this plan, the Bank has embarked on a new vision ***"becoming a performing central bank, a force for change in the service of the emergence of the country"***. The adoption of this plan was accompanied by the adaptation of the organization of the Bank, which particularly involved the banking supervision.

Operationally, the Bank paid special attention to the impact of the economic situation on bank balance sheets, particularly in terms of credit risk and its coverage. Control activities focused on governance arrangements, compliance with prudential requirements, and enhanced reliability of risk-reporting systems of supervised institutions. The control framework has been strengthened in the area of due diligence and anti-money laundering and terrorism financing and has been extended to address the emerging cybercrime risks. The Bank also strengthened cooperation with regulators in countries hosting Moroccan banks.

Regarding the protection of credit institutions' customers, the Bank undertook to monitor banks' implementation of new legal and regulatory requirements and to strengthen its operational framework in this area.

1 - Strategic guidelines on banking supervision - Triennial strategic plan "2016-2018"

Four strategic objectives, two of which on banking supervision, are part of the Strategic Plan 2016-2018. The first one centers on developing the needed capacities to supervise new institutions under control, services and risks and set up the bank resolution function. The second objective is to work towards a global strategy for financial inclusion, while strengthening the protection of banking service consumers.

1.1 - Strategic objective : To develop the needed capacities to supervise new institutions under control, services and risks and to set up the bank resolution function

In view of the profound changes in banking supervision, the Bank set the objective of enhancing its human, organizational and technical capacities to meet new regulatory and supervisory challenges. To this end, five priorities were identified :

- Establishing a framework to supervise new institutions, services and risks, as the new banking law significantly strengthened the banking system regulation and supervision framework, while allowing the emergence of new actors ;

- Supervising systemic players based on a specific framework by setting out prudential requirements specific to this category of institutions aimed at strengthening their capacity to absorb losses, specific obligations for regulatory reporting and transparency, as well as putting in place internal crisis recovery plans ;
- Strengthening cross-border risk monitoring through the deployment of a risk-based approach ;
- Establishing the bank resolution function to complete the mechanism for addressing difficulties experienced by credit institutions ;
- Upgrading the information systems in light of the new supervisory challenges, in order to coherently serve the strategic guidelines and meet the new challenges facing the bank.

1.2- Strategic objective : To work towards a global strategy for financial inclusion, while strengthening the protection of banking service consumers

Under this objective, the banking supervisory function contributes to protecting credit institutions' customers and promoting sustainable finance. The priorities in these areas are :

- Promoting sound banking competition and setting up a system to monitor customer protection practices of credit institutions ;
- Setting up and implementing a road map taking into account climate and environmental risks.

2 - Review of the banking supervision organizational structure

Since January 1, 2016, the adoption of the new strategic plan has been accompanied by the setting up of a new organizational structure. The Banking Supervision Department refocused on micro-prudential supervision, customer protection and bank resolution. Thus, activities related to macro-prudential supervision and financial inclusion have been entrusted to autonomous divisions separate from micro-prudential supervision.

This new organization was marked by the creation within the Banking Supervision Department of a division dedicated to the supervision of systemically important banks, including their cross-border activities. Due to the importance of the activities of the three Moroccan banking groups abroad, a dedicated service was set up to actively monitor risks arising from bank subsidiaries abroad, in line with international standards. This division is also in charge of monitoring and evaluating the internal crisis recovery plans that systemically important banks will be required to develop.

A service has also been set up to prepare the establishment of the resolution function and to deal with issues relating to addressing the difficulties facing credit institutions.

A division for special studies and risk was set up. It is responsible for work related to banking studies, assessment of cross-functional risks incurred by the banking sector in terms of financial risks, I.T risks and risks likely to affect the financial integrity of supervised institutions. It also provides support to the VSME observatory, set up by Bank Al-Maghrib and its partners and ensures follow-up of its activities.

3 - Banking supervision activity

Bank Al-Maghrib is responsible for the supervision of all credit institutions and similar bodies. In this respect, it issues the licenses and authorizations necessary for carrying out banking activities, prescribes prudential and accounting rules, controls the supervised institutions, reprimands breaches of legal and regulatory provisions and handles banking difficulties. In 2016, Bank Al-Maghrib supervised 83 credit institutions and similar bodies, including 19 banks, 33 finance companies, 6 offshore banks, 13 microcredit associations, 10 payment institutions specializing in funds transfer, the Deposit and Management Fund (Caisse de Dépôt et de Gestion) and the Central Guarantee Fund (Caisse Centrale de Garantie).

3.1- Licenses and approvals

The year 2016 was marked by the setting up of a process dedicated to the processing of applications for authorization to perform the activities of participatory banks and windows. As such, a standard application for authorization was prepared and transmitted to national and international financial institutions which expressed interest. The review and analysis of the files focused mainly on shareholdings, the value added to the Moroccan market, governance and risks. Meetings were also held with the applicants prior to the submission of the application files to the Credit Institutions Committee (CIC).

On November 29, 2016, a restricted meeting of the CEC was held to review applications for licenses to carry out the activities of participatory banks and windows. At this meeting, the committee gave its favorable opinion for granting approvals to 5 banks and 3 participatory windows.

In addition, Bank Al-Maghrib, after consulting the abovementioned committee, decided during the year to grant an authorization for the merger of two banks members of a grouping and refused to grant approval to:

- a foreign institution to establish in Morocco a finance company specializing in microfinance ;
- a foreign bank to establish a participatory bank in Morocco ;
- a finance company to extend its activity to leasing with a purchase option.

After consulting the CIC, Bank Al-Maghrib also authorized:

- a Moroccan bank to acquire 50 percent of the capital of a specialized credit institution based in France ;
- two Moroccan banks to set up banking subsidiaries in Chad and in Cameroon ;
- a foreign bank to open a representative office in Morocco with the status of Casablanca Finance City ;
- a Moroccan bank to open a representative office in Dubai.

During the year, a decision was also taken to withdraw authorization from a finance company specializing in consumer loan operations.

The Bank also issued its opinion on the appointment of auditors by supervised institutions. In this context, it examined 18 files for 7 banks, 7 finance companies, one fund transfer company, one microcredit association and two offshore banks.

It also approved the appointment of 38 directors and managers in 24 credit institutions, one funds transfer company and one microcredit association.

3.2- Control activity

Control by Bank Al-Maghrib is based on onsite and offsite inspection, following a risk-based approach focusing on areas of vulnerability in the banking system. The priority areas of permanent control remained essentially the same as in 2015 and focused on credit, concentration and cross-border risks as well as capital adequacy, governance and internal control. New areas were added to the cross-cutting themes covered, such as cybersecurity or the strengthening supervision of due diligence.

Permanent monitoring focused on understanding the strategies of banking groups and analyzing their risk profiles and the robustness of risk management mechanisms. In cases where vulnerabilities are observed, credit institutions are required to take preventive or corrective measures. The elements of risk profile analysis and assessment are reflected as a rating indicating in a synthetic way credit institutions' financial and prudential situation.

To carry out this assessment, permanent monitoring takes into account the findings of onsite inspection missions, the data collected through the financial and prudential reporting submitted periodically by the supervised institutions and information gathered during meetings and discussions with representatives and auditors of these institutions.

On an annual basis, the permanent supervision function organizes meetings with key functions of credit institutions, particularly the overall risk management function, financial function, audit, compliance and permanent control.

In close coordination with the permanent control units, onsite inspection during this year led to 6 general missions, 21 thematic missions and a mission to verify and follow up on the recommendations of an earlier mission.

The thematic surveys carried out with 7 banks focused on reviewing the quality of regulatory and prudential reporting, assessing the quality of the credit portfolio and risk governance, and evaluating market risk management and foreign currency asset-liability management. They also covered the assessment of anti-money laundering and the countering of terrorism financing arrangements and monitoring of banks' compliance with the legal framework governing consumer protection and closing of customer accounts.

The general missions covered a wide range of areas such as governance, internal control, risk management system, credit risk and asset quality, accounting and information systems.

In 2016, the supervision of credit, concentration, interest rate and cross-border risks remained a core part of Bank Al-Maghrib's control activities. The Bank continued to focus on the banks' implementation of the Basel III standards for capital and liquidity and paid special attention to due diligence and financial integrity. In addition, several works related to cybercrime risks have been carried out.

3.2.1 -Monitoring of governance and the overall risk management system

Bank Al-Maghrib continued to monitor credit institutions' implementation of the provisions of the circular on internal control governance and the directive on governance, adopted in 2014. The Bank carried out supervisory actions in these areas as well as the linkages of risk management and internal control mechanisms within the governance system of credit institutions. These controls also covered the operational risk management system and the business continuity plan prepared by credit institutions.

3.2.2 -Monitoring of implementation of Basel III standards on capital and liquidity

Bank Al-Maghrib continued to monitor, for the third consecutive year, banks' compliance with the transposed capital regime provisions of Basel III adopted in 2014. As such, it ensured that transitional provisions for the period 2014-2018 were respected by credit institutions. Some institutions were called upon to strengthen their prudential capital.

Bank Al-Maghrib also ensured banks' compliance with the short-term liquidity coverage ratio of Basel III (LCR).

3.2.3 -Controls on the main risks incurred by credit institutions

In a still difficult economic context, Bank Al-Maghrib continued to enhance its credit risk oversight. It called for close monitoring of the quality of the credit portfolio and its coverage by appropriate provisions, parallel to reducing the concentration risk within the banking system.

As such, Bank Al-Maghrib encouraged banks to strengthen the role and resources of the risk management function and to improve their credit granting and monitoring system, particularly by improving the management of overruns on credit lines, identifying and closely monitoring restructured debts, the use of which should be dependent on a high probability of recovery. In its onsite control missions, Bank Al-Maghrib ensures that the classification and provisioning rules for non-performing loans in the appropriate accounts are applied.

Bank Al-Maghrib drew attention to the use of transfer in kind of payment and repurchase agreements as a tool for dealing with debtors' difficulties, and encouraged banks to develop a procedure for the management, valuation, and depletion of the stock of assets acquired under these operations. It also recommended that the overall exposure to such assets be limited.

The Bank drew the attention of a few institutions to comply with the risk division rule. It called on banks to adopt, by conventional means, rules for syndicating loans to corporations exceeding a certain threshold.

In recent years, banks' profitability posted a decline in the interest rate margin on customers' transactions in a competitive environment exacerbated by sluggish credit growth. In this context, Bank Al-Maghrib drew banks' attention to their exposure to overall interest rate risk in an environment of low rate, particularly inherent to the outstanding housing loans granted at fixed rates on long maturities.

3.2.4 - Cross-border monitoring

In line with the actions carried out in previous years, Bank Al-Maghrib increased its monitoring of cross-border risks in view of the significant development of the three major Moroccan banking groups abroad, particularly in sub-Saharan Africa. To this end, the control system, relying on a formalized risk-based surveillance policy, was strengthened through the implementation of a scoring approach for the subsidiaries of these groups in Africa, in order to streamline the monitoring and programming of joint onsite inspections with foreign regulators.

Cooperation with foreign supervisors was strengthened. Two new cooperation agreements were concluded and two previously concluded agreements were reviewed to cover addressing banking difficulties and crisis management coordination.

At the same time, dialogue with the host countries' supervisory authorities intensified in 2016. Particularly, telephone conferences were held with the Banking Commission of the West African Economic and Monetary Union "CB-UMOA", the Central African Banking Commission "COBAC" and the Prudential Control and Resolution Authority "ACPR". Similarly, Bank Al-Maghrib organized meetings of colleges of supervisors of the three Moroccan banking groups for the third consecutive year in order to examine the financial and prudential situation of these groups, their strategies and their risk profile.

With a view to monitoring changes in the macro-financial conditions of the host countries and assess the presence of Moroccan banking groups on the continental level, the Africa Committee, composed of Bank Al-Maghrib and the three cross-border Moroccan banking groups, held its third meeting since its creation in 2014.

The Bank's internal statistical arrangements for banking subsidiaries in Africa were complemented by the preparation of a third report compiling their indicators of market shares, activity, profitability and risk.

Through periodic meetings, the bank continued to follow up on the progress of the plan to harmonize the compliance, risk management and internal control arrangements in subsidiaries of Moroccan banking groups. In particular, the credit risk management system covers mainly the implementation of standards relating to organization, delegation scheme, management and reporting, as well as the establishment of stress test and concentration limit mechanisms.

Some banking groups were required to simplify the capital structure of their subsidiaries' ownership in Africa, part of which was completed in 2016.

Bank Al-Maghrib also participated in the colleges of supervisors of two French banking groups based in Morocco.

3.2.5- Due diligence and financial integrity

Bank Al-Maghrib checks whether institutions under its control comply with anti-money laundering and counter-terrorism financing commitments. On this aspect, permanent control relies particularly on replies made by banks to AML CFT questionnaires and on their annual internal control reports. Their analysis paves the way to in-depth interviews with the compliance functions and follow-up actions. In addition to assessing management arrangements of credit institutions, onsite checks were extended to the verification of a sample of operations and transactions.

During the year, the Financial Intelligence Processing Unit (UTRF) and Bank Al-Maghrib organized bilateral meetings with banks to discuss the difficulties encountered as part of the exchanges and regulatory reporting. The Bank also coordinated the meeting between the UTRF, banks' compliance officers and representatives of the Professional Association of Finance Companies to discuss the latest decisions taken by the EGMON Group[17] at its meeting held in February 2016 in Monaco. It also organized the meeting held by this Unit with the President of the French Financial Intelligence Unit (Tracfin), which was attended by representatives of the banking profession.

In this year, the Moroccan authorities also launched a project to assess the risks of money laundering and terrorism financing (ML/TF). In this context, Bank Al-Maghrib was entrusted with coordinating the work carried out to assess the vulnerabilities of the financial sector.

17 Group of Financial Intelligence Units (FIU) met for the first time at the Egmont Arenberg Palace in Brussels, Belgium.

3.2.6- Diligences on illegal public fund-raising activities

Faced with the proliferation of some commercial companies that collect funds from their customers while promising them exceptional returns from the investment of these funds, Bank Al-Maghrib carried out controls with the banks holding the accounts of these companies in order to analyze the movements of these accounts and their activity profile.

The evidence gathered and the inspections carried out showed that these practices are similar to the illegal exercise of the regulated public fund raising activity governed under the banking law. Accordingly, the matter was referred to the competent judicial authorities concerning these companies.

At the same time, Bank Al-Maghrib urged banks to be more vigilant towards companies with the same profile, both during the entry into relation and in subsequent phases.

3.2.7- Cybercrime risk management

The financial sector is undergoing deep-seated changes following the use of the Internet and new technologies. It has become highly computerized and the digitization of its business processes is bound to progress. The interconnection level between the operational processes of the different financial players has become increasingly high.

Certainly, this computerization makes it possible to innovate and improve the offer of financial services and to contain certain operational risks. It nevertheless brings new risks, notably those linked to cyber-attacks.

A national regulatory framework for the IT systems security has been set up covering the banking sector, along with other sectors of the economy.

Bank Al-Maghrib, as a coordinator of the banking sector in the field of information systems security, is responsible for drawing up and finalizing the list of vital infrastructures in this sector.

In this vein, the Bank prepared a draft cooperation protocol with the Directorate General of Information Systems Security, working under the National Defense Administration, to define a general framework for cooperation regarding information systems security. This cooperation framework aims at promoting the exchange of information.

3.2.8- Monitoring implementation of Bank Al-Maghrib's recommendations

Institutions subject to Bank Al-Maghrib's control committed themselves to undertaking corrective actions in response to the findings reported following onsite and offsite inspections. A regular follow-up on the implementation of remedial measures was carried out remotely based on adjustments transferred by institutions or in certain cases through onsite checks.

Penalties may be imposed by the Bank for breaches of legal or regulatory provisions. This year:

- 11 disciplinary sanctions were imposed against 2 banks, 3 finance companies, 5 microcredit associations and one fund transfer company ;
- Two monetary penalties were imposed on two banks for non-compliance with regulatory requirements.

4 - Studies to strengthen the framework for handling difficulties by credit institutions

Bank Al-Maghrib is responsible for handling the difficulties faced by credit institutions in conformity with a legal framework based particularly on the provisions of Law No. 103-12 on credit institutions and similar bodies and the Commercial Code. This legal framework provides for:

- preventive measures through the preparation of an ex-ante recovery plan by systemically important or significantly large institutions ;
- the presentation of ad hoc recovery plans, in the event of major difficulties, under the auspices of management and shareholders ;
- the appointment of a provisional administrator, if necessary ;
- legal instruments at the disposal of the authorities for restructuring credit institutions ;
- coordination between the financial system supervisory authorities regarding crisis management ;
- intervention by a collective deposit guarantee fund for compensating depositors or exceptionally handling difficulties facing credit institutions ;
- the withdrawal of the license, if needed, and the appointment of a liquidator.

In the light of the lessons learned from the global financial crisis, Bank Al-Maghrib, in coordination with the Ministry of Economy and Finance, embarked on a project aimed at strengthening the crisis management and difficulty handling system in line with the standards of the Financial Stability Board[18] and in conformity with the recommendations of the IMF and the World Bank following the latest financial system assessment mission conducted in 2015. This mission had called for strengthening the legal framework by establishing a bank resolution mechanism, aimed at preserving financial stability.

Box 4 : Definition of banking resolution

Banking Resolution is defined by the Financial Stability Board as a set of legal rules entrusting an independent authority, called the resolution authority, with the power and legal instruments necessary to ensure the continuity of critical financial and banking functions in case of default of a bank and to avoid any impact on the financial stability, through mechanisms allowing a limited use of public funding.

In 2016, the main areas of legal reform, aimed at aligning the crisis management system with international standards, were identified with the assistance of the World Bank and the IMF.

The second step will be to carry out a legal study on the components of the targeted reform in light of the Moroccan legislative and regulatory law.

5 - Protecting customers of credit institutions

Law No. 103-12 on credit institutions and similar bodies and Law No. 31-08 on consumer protection measures entrusts Bank Al-Maghrib with the mandate of protecting the customers of credit institutions. This mainly consists in enacting regulatory standards in the field and monitoring their application by credit institutions.

The regulatory standards set out relate to:

- transparency of credit institutions towards their customers ;
- requirements from credit institutions in handling customers' complaints ;
- banking mediation.

18 International economic grouping created at the G20 meeting in April 2009. It brings together 26 national financial authorities (central banks, ministries of finance, etc.), several international organizations and groups developing financial stability standards. Its objectives relate to cooperation in the field of supervision and oversight of financial institutions.

Bank Al-Maghrib is also in charge of handling complaints filed to it from customers of credit institutions.

In accordance with the provisions of Law No.31-08, Bank Al-Maghrib is responsible for ensuring that credit institutions comply with the following requirements:

- providing appropriate and clear information to consumers about the products, goods or services they acquire or use ;
- abiding by some obligations when granting loans (advertising, prior credit offer, retraction period, etc.), during the life of credit and in the event of the credit agreement termination before maturity.

In addition, by virtue of the decree implementing Law No.31-08, under its Article 35, Bank Al-Maghrib is vested with ensuring that the provisions governing credit institutions are applied.

Regarding customer protection, the activities carried out concerned the compliance of credit institutions with legal and regulatory provisions, the handling of customer complaints and monitoring the activities of the bank mediation center.

In addition, under the supervision of Bank Al-Maghrib, the Moroccan Bankers' Association (GPBM) approved, on July 14, 2016, the Banking Mobility Code, which aims to stimulate competition and improve the quality of banking services.

5.1- Handling complaints from credit institutions' customers

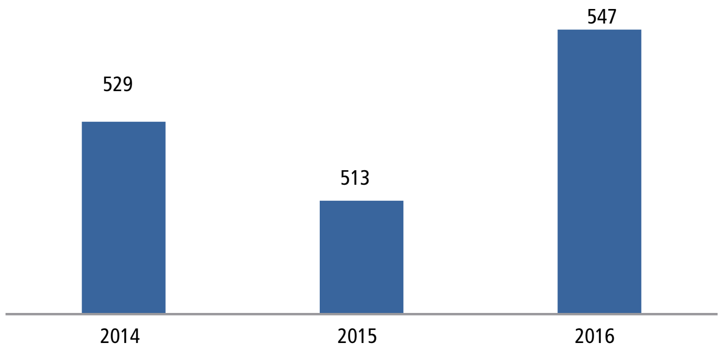
In 2016, the Banking Supervision Department handled :

- 547 complaints from customers of credit institutions, as against 513 in 2015, up 7 percent ;
- 321 account lookup requests from heirs of deceased account-holders, almost unchanged from 322 in 2015.

In addition, it handled 367 account disclosure requests from judicial authorities, as against 212 in 2015, up 73 percent.

Overall, the number of requests from third parties stood at 1.235, as against 1.047 a year earlier, up 18 percent.

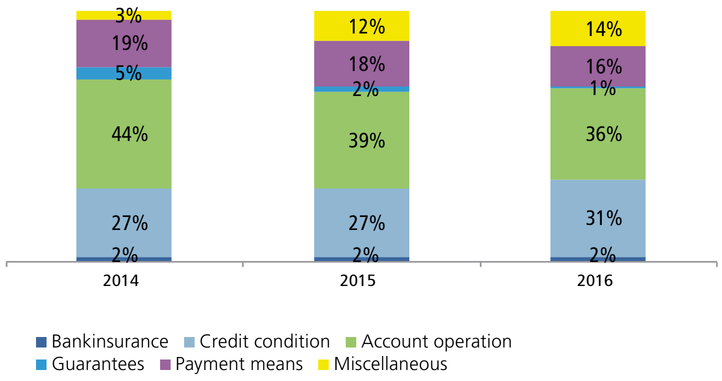
Chart 92 : Change in the number of complaints from customers of credit institutions processed with Bank Al Maghrib



More than 96 percent of complaints were received from individuals and 81 percent related to relations with banks.

Almost 78 percent of files were settled in favor of complainants, as opposed to 70 percent in 2015.

Chart 93 : Change in the number of complaints by category

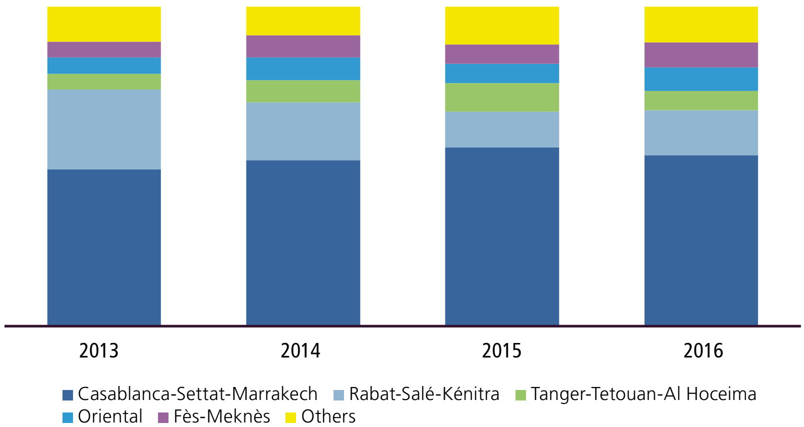


Complaints about the operation of accounts decreased to 36 percent of the total, 57 percent of which concern account closure. Complaints about lending conditions accounted for 31 percent of the complaints received. These are related in particular to disputes over loans, wrong debiting of maturities, commissions or fees as well as personal information provided on the credit bureau file.

Complaints about means of payment represent 16 percent of the total complaints received, relating mainly to the use of checks (27 percent).

In order to improve the handling of third-party requests, the Bank is developing a data-processing platform, which will be accessible to credit institutions to investigate complaints filed by customers with Bank al-Maghrib

Chart 94 : Regional breakdown of complaints



Like in previous years, the regional breakdown of complaints shows that the majority come from complainants living in Casablanca.

5.2 - Banking mediation activity

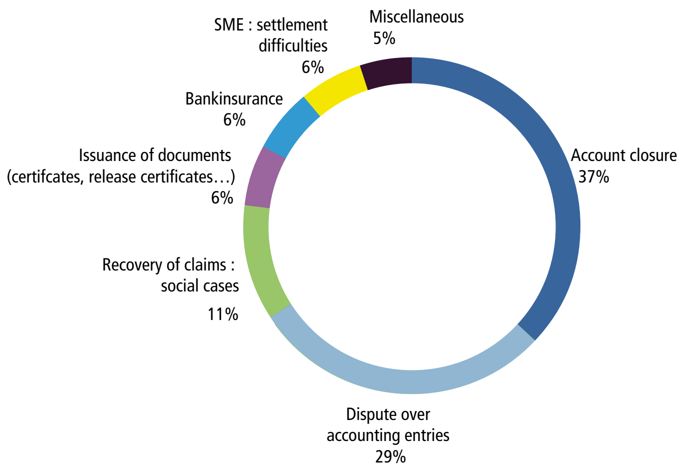
In 2016, the activity of the Moroccan Banking Mediation Center (CMMB) continued to grow for both the first "institutional" compartment, which is voluntary and free of charge for disputes involving an amount equal to or less than 1,000,000 dirhams, and the second "conventional" compartment, which is a paid service and covers disputes of an amount exceeding 1,000,000 dirhams.

On the first compartment, the Center received 829 requests for mediation, as against 590 in 2015, for disputed amounts of 22 million dirhams (21 million in 2015) and for a total amount of settlement agreements of more than 8 million dirhams, as against 6 million a year earlier. Of this total, almost 298 were considered by the Mediator to be complete and eligible, compared to 216 files in 2015. Of the total number of complete and eligible files, 166 files were successfully resolved, while no conciliation was achieved concerning 62 files and 70 files are still being processed.

Disputes received mainly concerned :

- account closure (37 percent, as against 29 percent in 2015) ;
- disputes to accounting entries (29 percent, unchanged from 2015) ;
- recovery of claims relating to social cases (11 percent, as against 9 percent in 2015) ;
- issuance of documents such as certificates, release certificates ... etc. (6 percent, as against 9 percent in 2015).

Chart 95 : Typology of files submitted to banking mediation



Banking mediation requests are mainly filed by individual customers (91 percent) and 87 percent of these requests concerned banks while 13 percent related to finance companies.

As is the case for complaints received by Bank Al-Maghrib, the majority of requests are received from the Casablanca region, with 47 percent, as against 41 percent in 2015.

Regarding the second compartment, called "conventional", one out of five cases was successfully resolved and about which a settlement agreement was signed by the parties. It covers an overall amount of 23 million dirhams.

5.3 - Adoption of the Banking Mobility Code

A banking mobility code was drawn up on the initiative of Bank Al-Maghrib and adopted by the Moroccan Bankers' Association (GPBM) in July 2016. It is expected to enter into force in early 2017.

By virtue of this code, banks shall undertake a series of commitments to ensure prompt and efficient processing of account transfer requests made by customers and to carry out the necessary formalities to ensure that debits from accounts and transfers regularly received be transferred to the new account.

This mobility concerns demand accounts opened by individuals. The loan repurchase is still governed by the contractual arrangements binding the customer to his bank.

5.4 - Support for the implementation of the Consumer Protection Law

Bank Al-Maghrib supported banking sector efforts in getting prepared to comply with the provisions of Law No. 31-08, whose implementing texts concerning its chapter on "Indebtedness" entered into force in April 2016.

For a uniform implementation of these texts, meetings between Bank Al-Maghrib and the banking actors were held in order to coordinate the implementation of the provisions relating to :

- the early repayment of a loan ;
- the handling of arrears and default of the borrower ;
- the period of cancellation and conclusion of a loan contract ;
- the conversion of the prior credit offer into a credit contract.

The Bank also contributed to the amendment of Law No.31-08 initiated by the Ministry of Industry, Trade, Investment and Digital Economy to align its provisions with international standards in the field.

5.5 - Checking the customer protection mechanism in place within credit institutions

Bank Al-Maghrib carried out control missions on the compliance of credit institutions with regulatory provisions regarding customer protection. These missions mainly concerned the compliance with the provisions of Law No.31-08, Article 503 of Law No.15-95 on the Commercial Code relating to account closure, as well as compliance with regulatory requirements relating to handling customers' complaints.

Verifications carried out with certain credit institutions revealed non-compliance, particularly regarding the closure of accounts receivable that remained unchanged for more than 12 months. In this context, Bank Al-Maghrib asked the credit institutions concerned to upgrade their account closure process.

Concerning complaint handling, a few supervised credit institutions have been required to improve their mechanisms in order to comply with the relevant regulatory deadlines.

6 - Operations of the VSME Observatory

In 2016, Bank Al-Maghrib contributed, alongside the parties concerned, to the start-up of the Moroccan Observatory for VSME, established by 11 founding members[19].

Box 5 : Observatory for VSMEs

The purpose of this observatory is to centralize data and information on the environment of VSME nationally and regionally and to set up quantitative and qualitative indicators on the conditions of their access to bank financing and assistance mechanisms. Its products and services will help provide a global, common and shared vision at the national level on the issue of financing VSMEs.

The Observatory aims to remedy the lack of reliable and regular data on VSMEs in Morocco and to improve access to various services and information.

The 1st meeting of the Board of Directors of the Observatory was held in June 2016. This body approved its mission and governance, overall data exchange framework with partners, financial budgand and its three-year strategic plan 2016-2018.

In order to enable it to carry out its mandate, Bank Al-Maghrib started with the main data providers[20] to work on the establishment of data exchange agreements based on a legal framework for long-term cooperation.

At the same time, preliminary work to launch a study of the information system targeted by the Observatory has begun.

Since November 2016, the Observatory has also been equipped with its own resources and an operational team.

7 - Promotion of sustainable finance

On the occasion of the Moroccan presidency of the 22nd session of the Conference of the Parties (COP 22), Bank Al-Maghrib was responsible for coordinating the development of the Moroccan financial sector climate roadmap, to which financial regulators and professionals contributed.

19 Maroc PME, Bank Al-Maghrib, CCG, OMPIC, CNSS, CGEM, GPBM, Ministries of General Affairs and Governance, Ministry of Economy and Finance, Ministry of Industry, Investment, Trade and Digital Economy and HCP.
20 DGI, OMPIC, CNSS, Ministry of Industry, Investment, Trade and Digital Economy, HCP and Bank Al-Maghrib.

This roadmap aims to promote sustainable finance that can support Morocco in its transition to a low-carbon economy.

Nationally, 5 major areas were identified to enable the financial sector to support our country's adherence to global efforts to combat climate change :

- Extending risk-based governance to cover socio-environmental risks ;
- Developing sustainable financial instruments and products ;
- Promoting financial inclusion as a vehicle for sustainable development ;
- Capacity-building in the field of sustainable finance ;
- Strengthening transparency and market discipline.

At the African level and as part of Morocco's efforts to promote South-South regional cooperation, Bank Al-Maghrib and the banking sector committed themselves to developing dialogue and the sharing of experiences with their counterparts in the continent on the issue of sustainable development.

8 - Consultation with professional associations

In 2016, Bank Al-Maghrib held meetings with professional associations to discuss reforms and issues of direct or indirect relevance to the banking sector.

With the GPBM, the topics discussed included preparations for the transition to a flexible exchange rate regime, key regulatory reforms, financial inclusion, customer protection and the development of means of payment.

During the year, emphasis was also put on preparatory work for the beginning of participatory banking activities, challenges of sustainable and digital finance, credit growth and financing for VSME.

In this context, Bank Al-Maghrib organized a tripartite meeting with CGEM and GPBM on January 26, 2016 in Casablanca on the theme : "Ways to strengthen understanding between banks and companies".

Box 6 : BAM-GPBM-CGEM Tripartite meeting on the financing of the economy

This meeting was attended by sectoral federations of the CGEM and representatives of the CCG and Maroc PME.

Discussions focused on factors behind the slowdown in the outstanding bank loans in terms of supply and demand from the point of view of the various stakeholders over recent years. It also shed light on the measures likely to boost the financing of the economy.

Following this meeting, a tripartite committee composed of Bank Al-Maghrib, CGEM and GPBM worked to translate the proposals made at the meeting into an action plan and concrete measures to support the financing of enterprises in general and VSME in particular.

To this end, a memorandum was prepared and sent to the Government in June 2016. This document provides an update on the measures taken by public and private stakeholders to support VSME and promote their access to financing. It also proposes a series of new measures decided by Bank Al-Maghrib, GPBM and CGEM to further support business financing, particularly VSMEs. Furthermore, this memorandum proposed to the Government other measures likely to help boost the financing of the economy.

With the Professional Association of Finance Companies, discussions focused on the entry into force of the legal texts governing consumer protection measures, the new status of payment institutions introduced by the banking law and the establishment of a professional association dedicated to these institutions.

With the National Federation of Microcredit Associations, discussions addressed the development of the sector, its prospects and legal and regulatory reforms as well as the achievements of the "Réseau Mutuel Solidaire" (RMS), whose aim is to enable small-size structures operating in the sector to acquire adequate equipment, particularly in terms of information systems, at an affordable price.

9 - International cooperation

As part of international cooperation, Bank Al-Maghrib took part in several events organized by foreign banks and institutions.

The Bank participated in the 12th High Level Meeting on Financial Stability and Banking Supervision in the Arab Region, organized in Abu Dhabi jointly by the Arab Monetary Fund and the Financial Stability Institute of the Bank for International Settlements (BIS). It mainly tackled supervision challenges following the implementation of the Basel III standards, the emergence of new risks linked to the development of technological innovations in the financial sector and the associated financial stability challenges in the Arab region.

The Bank also participated in the 4th Annual High Level Seminar of Supervisors of Euro-Mediterranean Countries, co-organized by the Banque de France and the World Bank, which focused this year on the financing of the post-crisis economy. The meeting discussed the impact of the new prudential rules on the financing of the economy, access to capital markets and infrastructures financing.

As part of the exchange of experiences, the Bank participated in a workshop organized by COBAC on new regulations introduced in the economic and monetary zone of Central Africa (CEMAC) and shared its experience in cross-border surveillance.

Regarding the fight against money laundering, Bank Al-Maghrib took part in the MENAFATF plenary meetings as well as the proceedings of the various working groups held in Qatar in 2016. The Bank also participated in the meeting of the Union of Arab Banks in Amman on de-risking[21], which aimed to discuss the measures that could be implemented by regulators to minimize the risks involved.

It also contributed to regional and international surveys and questionnaires on a variety of subjects. These surveys totaled seven, namely :

- Four surveys carried out by the AMF on the financing of VSME, the impact of Fintech on banking supervision, the implementation of Basel III and the consequences of de-risking practices conducted by foreign banking correspondents on banks operating in Arab countries ;
- A Basel Committee survey on arrangements between supervisory authorities of countries of origin and host countries ;
- A survey conducted by the Financial Stability Committee on correspondent banking relationships ;
- A Bundesbank survey on technical cooperation of central banks.

21 De-risking corresponds to a situation in which financial institutions terminate or limit their business relationship with some categories of customers for non-compliance with rules.

As part of the exchange of experiences, the Bank received two officials from the Bank of the Republic of Burundi to inquire about banking supervision practices and its experience in conducting the Basel III reforms.

10 - Human resources of the Banking Supervision Department

At end-December 2016, the total number of the staff in the Banking Supervision Department (BSD) totaled 94. Nearly two-thirds of this workforce is in charge of controlling activities of credit institutions and similar bodies, 24 percent are responsible for regulatory work and studies and 10 percent carry out support functions.

Almost 76 percent of the workforce of the BSD are under 45 years and nearly 48 percent are women.

In a context of constantly evolving national and international banking regulations and supervisory practices, nearly 92 percent of the BSD's workforce benefited from training in 2016. This program covered the areas of participatory finance in terms of supervision, risk management and ALM, prudential regulation including the Basel II and III agreements, banking resolution, cross-border banking supervision, protecting consumers of financial services and cybersecurity.

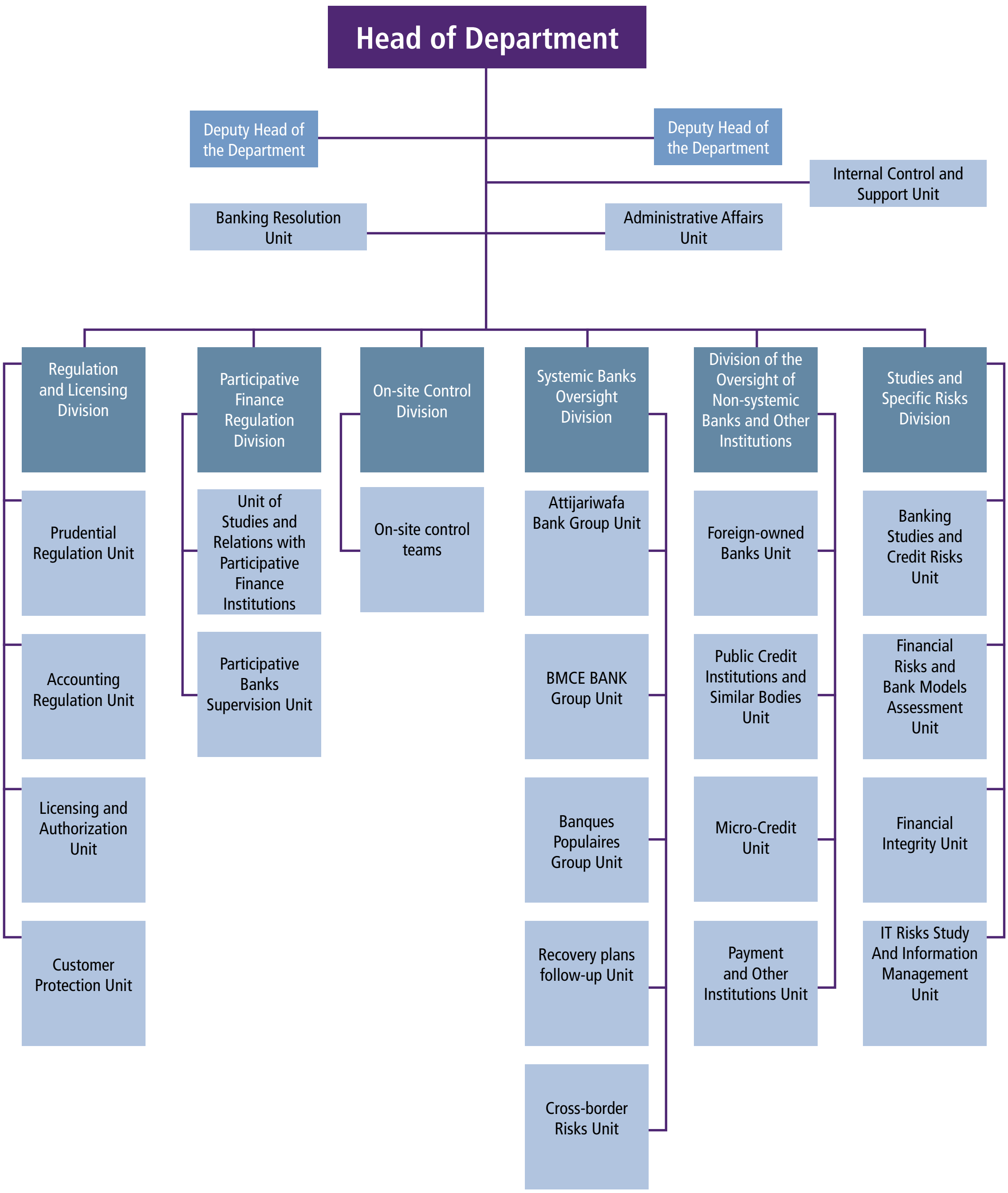
The training plan covered more than 54 themes related to the 2016-2018 strategic plan and the related projects.

The BSD also contributed to the training of students, by receiving 35 trainees in 2016, including 7 under end-of-study internships.

APPENDICES

Appendix 1

Organizational chart of the Banking Supervision Department



Appendix 2

List of authorized credit institutions - December 2016

Banks

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

Consumer loan companies

Name	Head office address
VIVALIS SALAF	369, Boulevard Zerktouni - Casablanca
DAR SALAF S.A	207, Boulevard Zerktouni -Casablanca
OMNIUM FINANCIER POUR L'ACHAT A CREDIT « FINACRED »	18, Rue de Rocroy, Belvédère- Casablanca
RCI FINANCE MAROC S.A	44, Bd Khaled Bnou Loualid - Aïn Sebaa - Casablanca
SALAFIN	Zenith Millenium, Immeuble 8, Sidi Maarouf-Casablanca
SALAF AL MOUSTAKBAL S.A.	20, Boulevard de La Mecque - Laâyoune
SOCIETE DE CREDIT A LA CONSOMMATION « TASLIF »	29, Boulevard Moulay youssef - Casablanca
SOCIETE DE FINANCEMENT D'ACHATS A CREDIT « SOFAC-CREDIT »	57, Boulevard Abdelmoumen - Casablanca
SOCIETE DE FINANCEMENT NOUVEAU A CREDIT « FNAC »	Sahat Rabia Al Adaouia, Résidence Kays Agdal - Rabat
SOCIETE D'EQUIPEMENT DOMESTIQUE ET MENAGER « CREDIT EQDOM »	127, Angle Bd Zerktouni et rue Ibnou Bouraîd - 20100 Casablanca
SOCIETE NORDAFRICAINE DE CREDIT « SONAC »	29, Boulevard Mohamed V - Fès
AXA CREDIT	122, Avenue Moulay Hassan 1er - Casablanca
SOCIETE REGIONALE DE CREDIT A LA CONSOMMATION « SOREC-CREDIT »	256, Bd Zerktouni - Casablanca
ASSALAF AL AKHDAR	1, Place Bandoeng - Casablanca
WAFASALAF	72, Angle rue Ram Allah et Boulevard Abdelmoumen - Casablanca

Real-estate loan companies

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

Factoring companies

Name	Head office address
ATTIJARI FACTORING	2, Boulevard Moulay Youssef - Casablanca
MAROC FACTORING	63, Boulevard Moulay Youssef - Résidence Adriana 1er étage - CP. 20060 Casablanca

Leasing companies

Name	Head office address
BMCI- LEASING	Lotissement La Colline II , Lot N°3, Route de Nouaceur - Sidi Maarouf - Casablanca
COMPAGNIE MAROCAINE DE LOCATION D'EQUIPEMENT « MAROC- LEASING »	57, Angle Rue Pinel and Boulevard Abdelmoumen - Casablanca
CREDIT DU MAROC LEASING ET FACTORING	203, boulevard Bourgogne Casablanca
SOCIETE GENERALE DE LEASING DU MAROC « SOGELEASE MAROC »	55, Boulevard Abdelmoumen - Casablanca
SOCIETE MAGHREBINE DE CREDIT-BAIL (LEASING) « MAGHREBAIL »	45, Boulevard Moulay Youssef-Casablanca
WAFABAIL	39-41, Angle boulevard Moulay Youssef & rue Abdelkader El Mazini, 20100 Casablanca

Surety companies

Name	Head office address
FINEA	101, Boulevard Abdelmoumen - Casablanca
DAR AD-DAMANE	288, Boulevard Zerktouni - Casablanca

Payment means management companies

Name	Head office address
CENTRE MONETIQUE INTERBANCAIRE	Espace porte d'Anfa, 8, Angle Bd d'Anfa et Avenue Moulay Rachid -20050 Casablanca
NAPS SA	16, Rue Abdelhak Ben Mahyou, Palmier - Casablanca
WAFA CASH	15, Rue Driss Lahrizi - Casablanca

Other finance companies

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

Appendix 3

List of offshore banks

Name	Head office address
ATTIJARI INTERNATIONAL BANK (ATTIJARI I.B B.O.S)	58, Boulevard Pasteur - Tanger
BANQUE INTERNATIONALE DE TANGER - BANQUE OFFSHORE (B.I.T B.O.S)	Angle Avenue Mohamed V et Rue Moussa Bnou Noussair - Tanger
BMCI - BANQUE OFFSHORE- GROUPE BNP (BMCI B.O.S)	Zone franche de Tanger, Route de Rabat - Tanger
SOCIETE GENERALE TANGER OFFSHORE (S.G.T O.S)	58, Avenue Mohamed V - Tanger
SUCCURSALE OFFSHORE DE LA BMCE (SUCCURSALE O.S BMCE)	Zone Franche, Port de Tanger, BP 513 - Tanger
CHAABI INTERNATIONAL BANK OFFSHORE (CIB BANQUE OFFSHORE)	Rue Cellini, Sidi Boukhari - Tanger

List of microcredit associations

Name	Head office address
AL AMANA MICROFINANCE	40,Rue Al Fadila, quartier industriel, Q.Y.M, RABAT 10 000
Association Al Karama pour le Micro-Crédit (AL KARAMA)	38 Boulevard Abdelmounen, Appt 23, 4ème étage Hassan RABAT
Association Ismailia pour le Micro-Crédit (AIMC)	115, Boulevard Lahboul-BP 2070 MEKNES
ATTADAMOUNE « Association Marocaine de Solidarité Sans Frontières »	1,Rue Abi Dar El Ghoufari-Quartier Prince Héritier-1er étage FES
Association Marocaine Oued Serou pour le Micro-Crédit (AMOS)	Rue oued Sbou, Hay Ettakadoum-El Kbab KHENIFRA
Association Tétouanaise des Initiatives Sociaux- Professionnelles (ATIL)	Avenue Hassan II N° 70-Résidence Paloma Blanca-1er Etage N° 1 TETOUAN
ATTAWFIK MICRO FINANCE	3, Rue Docteur Veyre-Résidence Patio CASABLANCA
Fondation « ARDI » micro-crédit	Avenue Hassan 2, Hay Ibn sina, rue Iran-Témara Centre
Fondation Micro Crédits du Nord	N° 6, Rue Rachid Réda, Résidence Hayat 2 entresol, appa. N° 34 TANGER
Fondation pour le Développement Local et le Partenariat (FONDEP)	Im. Saraya angle Br Riad et Av. Alarz Hay Riad Rabat 10100
TAWADA	N° 119, avenue de la Résistance, appartement 27 RABAT
BAB RIZK JAMEEL	82, Rue Soumaya, Angle Boulevard Abdelmoumen, CASABLANCA
Institution Marocaine d'Appui à la Micro-Entreprise (INMAA)	Angle Rue Maamora et Rue Reine Elizabeth II, Immeuble A 2ème étage apprt 2 - Kenitra

Appendix 5

List of money transfer companies authorized as payment institutions

Name	Head office address
DAMANE CASH	212, Avenue Mohamed V - Résidence Elite. Bureau 211 - Guéliz - Marrakech
EUROSOL	Résidence Ahssan Dar, Appart 3 et 4 , Av Hassan II Rabat
QUICK MONEY	16/18 Lot.Attaoufik Espace Jet Business Class - Sidi Maarouf - Casablanca
MEA Finance Service	Résidence Hadi n°27, Rue Salim Cherkaoui. 6^{éme} étage - Casablanca
CASH PLUS	1, Rue des Pléiades - Quartier des Hopitaux- Casablanca
TRANSFERT EXPRESS	282, Boulevard de la Résistance et Angle Rue de Strasbourg - Casablanca
MONEYON MAROC	52, Boulevard Zerktouni Espace Erreada - Casablanca
Barid Cash	202, Boulevard Roudani Casablanca
UAE Exchange Morocco	36, Boulevard El Massira Khadra, 2ème étage - Casablanca
Maroc Traitement de Transactions "M2T"	Technopark, route de Nouaceur, BP 16430 - Casablanca

Other institutions

Name	Head office address
CAISSE DE DEPOT ET DE GESTION	Place Moulay el Hassan - Rabat
CAISSE CENTRALE DE GARANTIE	Boulevard Ar Ryad, Hay Ryad - Rabat

Appendix 6

Aggregate balance sheet of banks - activity in Morocco
As at December 31, 2016

(Thousands of dirhams)

ASSETS	31/12/2015	31/12/2016
Cash, Central banks, Public Treasury, Postal Checks Service	**26 975 357**	**38 732 560**
Receivables from credit institutions and similar entities	**152 094 704**	**145 824 047**
. Demand	35 240 974	21 396 193
. Time	116 853 730	124 427 854
Receivables from customers	**692 108 931**	**712 632 562**
. Overdraft facilities and consumer loans	223 399 068	222 079 987
. Equipment loans	165 089 537	177 077 996
. Real estate loans	240 053 877	246 182 643
. Other loans	63 566 449	67 291 936
Factoring loans	**3 236 474**	**3 811 370**
Trading and held-for-sale securities	**152 628 689**	**180 874 442**
. Treasury bills and the like	85 356 775	92 477 388
. Other debt securities	11 057 210	15 358 293
. Ownership securities	56 214 704	73 038 761
Other assets	**19 120 554**	**20 231 443**
Investment securities	**36 291 718**	**27 326 364**
. Treasury bills and the like	33 195 000	25 865 539
. Other debt securities	3 096 718	1 460 825
Equity securities and the like	**34 812 043**	**37 321 050**
Subordinated loans	**963 075**	**799 812**
Fixed assets for leasing and rental	**1 568 028**	**833 305**
Intangible fixed assets	**5 324 804**	**5 393 924**
Tangible fixed assets	**20 349 223**	**24 978 150**
Total assets	**1 145 473 600**	**1 198 759 029**

(Thousands of dirhams)

LIABILITIES	31/12/2015	31/12/2016
Central banks, Public Treasury, Postal Checks Service	**13**	**17**
Due to credit institutions and similar entities	**102 842 769**	**93 687 199**
. Demand	28 374 133	25 054 751
. Time	74 468 636	68 632 448
Customers' deposits	**819 212 088**	**854 080 506**
. Creditor demand deposits	473 453 960	511 025 522
. Savings accounts	137 761 651	145 552 515
. Time deposits	182 880 003	172 066 035
. Other creditor accounts	25 116 474	25 436 434
Debt securities issued	**49 721 312**	**52 645 615**
. Negotiable debt securities	41 566 729	43 521 329
. Bond loans	6 125 877	7 416 238
. Other debt securities issued	2 028 706	1 708 048
Other liabilities	**19 922 486**	**31 595 321**
Provisions for risks and expenses	**9 882 740**	**11 311 640**
Regulated provisions		
Subsidies, allocated public funds and special guarantee funds	**2 648 498**	**3 213 980**
Subordinated debts	**30 249 780**	**34 388 647**
Reevaluation gaps	**420**	**421**
Reserves and premiums related to capital	**70 045 939**	**73 715 910**
Capital	**25 739 312**	**25 956 933**
Shareholders. Unpaid capital (-)	**-48 000**	**-48 000**
Retained earnings (+/-)	**5 850 967**	**5 907 963**
Net income before appropriation (+/-)	**42 996**	**45 265**
Net income for the year (+/-)	**9 362 280**	**12 257 612**
Total liabilities	**1 145 473 600**	**1 198 759 029**

(Thousands of dirhams)

OFF-BALANCE SHEET	31/12/2015	31/12/2016
COMMITMENTS GIVEN	**203 200 298**	**236 141 431**
Financing commitments to credit institutions and similar entities	3 334 804	3 019 250
Financing commitments to customers	78 086 599	96 783 044
Guarantee commitments to credit institutions and similar entities	38 167 934	47 252 580
Guarantee commitments to customers	82 558 850	88 947 732
Securities bought under repurchase agreements	78 357	78 357
Other securities to deliver	973 754	60 468
COMMITMENTS RECEIVED	**64 823 498**	**78 316 188**
Financing commitments from credit institutions and similar entities	2 085 342	5 296 486
Guarantee commitments from credit institutions and similar entities	53 064 233	63 378 357
Guarantee commitments from the government and sundry guarantee institutions	8 269 387	9 639 797
Securities sold under repurchase agreements		
Other securities to receive	1 404 536	1 548

Appendix 7

Aggregate loss and profit statement of banks - activity in Morocco
From January 1 to December 31, 2016

(Thousands of dirhams)

	31/12/2015	31/12/2016
+ Interest and related income	46 655 565	44 640 842
- Interest and related expenses	16 256 956	14 907 757
Interest income	**30 398 609**	**29 733 085**
+ Income from fixed assets in leasing and rentals	480 215	439 894
- Expenses on fixed assets in leasing and rentals	469 209	395 163
Income from leasing and rental transactions	**11 006**	**44 731**
+ Commissions received	6 419 146	6 970 190
- Commissions paid	477 231	671 645
Margin on commissions	**5 941 915**	**6 298 545**
± Income from transactions on trading securities	2 728 137	4 364 813
± Income from transactions on held-for-sale securities	1 137 407	1 700 457
± Income from foreign exchange transactions	1 996 875	1 773 423
± Income from derivatives transactions	403 168	16 409
Trading income	**6 265 587**	**7 855 102**
+ Other sundry banking income	2 960 256	6 354 843
- Other sundry banking expenses	2 001 346	2 181 854
NET BANKING INCOME	**43 576 027**	**48 104 452**
± Income from transactions on financial fixed assets	665 956	297 247
+ Other non-banking operating income	994 563	510 784
- Other non-banking operating expenses	152 838	364 054
- General operating expenses	21 380 853	22 220 763
GROSS OPERATING INCOME	**23 702 855**	**26 327 666**
± Allocations net of provision reversals for non-performing loans and commitments by signature	-8 055 636	-7 501 605
± Other allocations net of provisions reversals	-354 369	-1 247 363
CURRENT INCOME	**15 292 850**	**17 578 698**
EXTRAORDINARY INCOME	**-1 363 099**	**-479 923**
- Income tax	4 567 474	4 841 164
NET INCOME FOR THE YEAR	**9 362 277**	**12 257 611**

Appendix 8

Aggregate balance sheet of finance companies
As at December 31, 2016

(Thousands of dirhams)

ASSETS	31/12/2015	31/12/2016
Cash, Central banks, Public Treasury, Postal Checks Service	**171 614**	**166 946**
Receivables from credit institutions and similar entities	**5 664 083**	**4 864 071**
. Demand	1 797 756	1 308 831
. Time	3 866 327	3 555 240
Receivables from customers	**31 374 487**	**31 717 470**
. Cash advances and consumer loans	27 910 332	27 888 591
. Equipment loans	769 533	924 710
. Real estate loans	1 623 129	1 800 093
. Other loans	1 071 493	1 104 076
Factoring loans	**5 611 858**	**4 921 187**
Trading and held-for-sale securities	**854 652**	**1 033 537**
. Treasury bills and the like	207	207
. Other debt securities	211	211
. Ownership securities	854 234	1 033 119
Other assets	**3 409 714**	**3 867 393**
Investment securities	**179 624**	**219 127**
. Treasury bills and the like	179 624	219 127
. Autres titres de créance		
Equity securities and the like	**132 688**	**143 671**
Subordinated loans		
Fixed assets for leasing and rental	**53 671 712**	**57 637 077**
Intangible fixed assets	**784 863**	**790 080**
Tangible fixed assets	**634 211**	**637 845**
Total assets	**102 489 506**	**105 998 404**

(Thousands of dirhams)

LIABILITIES	31/12/2015	31/12/2016
Central banks, Public Treasury, Postal Checks Service	**0**	**12**
Due to credit institutions and similar entities	**58 553 930**	**63 800 149**
. Demand	8 841 448	6 232 264
. Time	49 712 482	57 567 885
Customers' deposits	**8 283 460**	**9 421 202**
. Creditor demand deposits	1 282 559	1 122 810
. Savings accounts		
. Time deposits	245 233	222 573
. Other creditor accounts	6 755 668	8 075 819
Debt securities issued	**16 196 250**	**11 942 089**
. Negotiable debt securities	14 499 859	11 708 300
. Bond loans	1 648 305	208 436
. Other debt securities issued	48 086	25 353
Other liabilities	**6 232 099**	**7 198 249**
Provisions for risks and expenses	**396 594**	**442 106**
Regulated provisions	**24 741**	**12 473**
Subsidies, allocated public funds and special guarantee funds	**173 244**	**173 028**
Subordinated debts	**1 020 608**	**962 151**
Reevaluation gaps	**114 232**	**16 957**
Reserves and premiums related to capital	**4 279 056**	**4 543 715**
Capital	**3 832 858**	**3 944 106**
Shareholders. Unpaid capital (-)	**-1**	**-1**
Retained earnings (+/-)	**1 884 498**	**1 899 109**
Net income before appropriation (+/-)	**738**	**0**
Net income for the year (+/-)	**1 497 199**	**1 643 059**
Total liabilities	**102 489 506**	**105 998 404**

Appendix 9

Aggregate loss and profit statement of finance companies

From January 1 to December 31, 2016

(Thousands of dirhams)

	31/12/2015	31/12/2016
+ Interest and related income	3 852 910	3 817 554
- Interest and related expenses	3 171 756	2 925 925
Interest income	**681 154**	**891 629**
+ Income from fixed assets in leasing and rentals	18 243 783	18 529 204
- Expenses on fixed assets in leasing and rentals	15 069 692	15 281 348
Income from leasing and rental transactions	**3 136 352**	**3 247 856**
+ Commissions received	1 996 575	2 228 417
- Commissions paid	612 486	681 527
Margin on commissions	**1 384 089**	**1 546 890**
± Income from transactions on trading securities	8 143	9 854
± Income from transactions on held-for-sale securities	19 123	18 674
± Income from foreign exchange transactions	-3 181	12 358
± Income from derivatives transactions		
Trading income	**24 085**	**40 886**
+ Other sundry banking income	123 753	129 716
- Other sundry banking expenses	11 010	11 063
NET BANKING INCOME	**5 338 423**	**5 845 914**
± Income from transactions on financial fixed assets	5 451	13
+ Other non-banking operating income	69 037	93 816
- Other non-banking operating expenses	1 708	26 034
- General operating expenses	2 144 648	2 315 102
GROSS OPERATING INCOME	**3 266 555**	**3 598 607**
± Allocations net of provision reversals for non-performing loans and commitments by signature	-799 131	-883 666
± Other allocations net of provisions reversals	-72 791	-39 500
CURRENT INCOME	**2 394 633**	**2 675 441**
EXTRAORDINARY INCOME	**9 136**	**-38 064**
- Income tax	906 570	994 318
NET INCOME FOR THE YEAR	**1 497 199**	**1 643 059**

Appendix 10

Aggregate balance sheet of consumer loan companies
As at December 31, 2016

(Thousands of dirhams)

ASSETS	31/12/2015	31/12/2016
Cash, Central banks, Public Treasury, Postal Checks Service	**58 061**	**74 621**
Receivables from credit institutions and similar entities	**592 509**	**702 854**
. Demand	550 799	655 562
. Time	41 710	47 292
Receivables from customers	**28 832 305**	**28 944 508**
. Cash advances and consumer loans	27 612 585	27 593 408
. Equipment loans	344 838	451 640
. Real estate loans	27 539	25 982
. Other loans	847 343	873 478
Factoring loans	**400 014**	**389 743**
Trading and held-for-sale securities	**1 181**	**181 323**
. Treasury bills and the like	207	207
. Other debt securities		
. Ownership securities	974	181 116
Other assets	**2 529 728**	**2 850 457**
Investment securities		
. Treasury bills and the like		
. Other debt securities		
Equity securities and the like	**16 004**	**16 104**
Subordinated loans		
Fixed assets for leasing and rental	**10 830 379**	**13 496 073**
Intangible fixed assets	**353 556**	**340 455**
Tangible fixed assets	**392 931**	**372 348**
Total assets	**44 006 668**	**47 368 486**

(Thousands of dirhams)

LIABILITIES	31/12/2015	31/12/2016
Central banks, Public Treasury, Postal Checks Service	**0**	**12**
Due to credit institutions and similar entities	**18 243 929**	**21 317 573**
. Demand	1 102 882	979 267
. Time	17 141 047	20 338 306
Customers' deposits	**6 021 100**	**6 944 276**
. Creditor demand deposits		
. Savings accounts		
. Time deposits		
. Other creditor accounts	6 021 100	6 944 276
Debt securities issued	**9 479 423**	**8 020 002**
. Negotiable debt securities	9 479 423	8 020 002
. Bond loans		
. Other debt securities issued		
Other liabilities	**3 115 681**	**3 727 690**
Provisions for risks and expenses	**137 200**	**136 821**
Regulated provisions	**24 054**	**12 015**
Subsidies, allocated public funds and special guarantee funds		
Subordinated debts	**627 098**	**634 011**
Reevaluation gaps	**114 232**	**16 957**
Reserves and premiums related to capital	**2 728 084**	**2 980 236**
Capital	**1 916 486**	**1 947 734**
Shareholders. Unpaid capital (-)		
Retained earnings (+/-)	**747 282**	**756 286**
Net income before appropriation (+/-)	**738**	**0**
Net income for the year (+/-)	**851 361**	**874 873**
Total liabilities	**44 006 668**	**47 368 486**

Appendix 11

Aggregate profit and loss statement of consumer loan companies
From January 1 to December 31, 2016

(Thousands of dirhams)

	31/12/2015	31/12/2016
+ Interest and related income	3 206 843	3 225 370
- Interest and related expenses	1 239 113	1 172 196
Interest income	**1 967 730**	**2 053 174**
+ Income from fixed assets in leasing and rentals	3 796 068	3 973 735
- Expenses on fixed assets in leasing and rentals	3 388 350	3 572 828
Income from leasing and rental transactions	**407 718**	**400 907**
+ Commissions received	632 433	733 556
- Commissions paid	58 394	53 149
Margin on commissions	**574 039**	**680 407**
± Income from transactions on trading securities	684	1 908
± Income from transactions on held-for-sale securities	2 587	0
± Income from foreign exchange transactions	-35	17
± Income from derivatives transactions		
Trading income	**3 236**	**1 925**
+ Other sundry banking income	110 967	115 668
- Other sundry banking expenses	8 815	9 142
NET BANKING INCOME	**3 054 875**	**3 242 939**
± Income from transactions on financial fixed assets	5 451	0
+ Other non-banking operating income	18 524	25 377
- Other non-banking operating expenses	27	9 753
- General operating expenses	1 225 744	1 299 352
GROSS OPERATING INCOME	**1 853 079**	**1 959 211**
± Allocations net of provision reversals for non-performing loans and commitments by signature	-502 737	-521 410
± Other allocations net of provisions reversals	-42 934	14 354
CURRENT INCOME	**1 307 408**	**1 452 155**
EXTRAORDINARY INCOME	**34 723**	**-99 859**
- Income tax	490 769	477 423
NET INCOME FOR THE YEAR	**851 362**	**874 873**

Appendix 12

Aggregate balance sheet of leasing companies
As at December 31, 2016

(Thousands of dirhams)

ASSETS	31/12/2015	31/12/2016
Cash, Central banks, Public Treasury, Postal Checks Service	**124**	**44**
Receivables from credit institutions and similar entities	**1 529**	**1 530**
. Demand	1 529	1 530
. Time		
Receivables from customers	**87 227**	**43 930**
. Cash advances and consumer loans	17 247	7 060
. Equipment loans		
. Real estate loans	16 985	14 651
. Other loans	52 995	22 219
Factoring loans	**37 771**	**152 578**
Trading and held-for-sale securities	**211**	**211**
. Treasury bonds and the like		
. Other debt securities	211	211
. Ownership securities		
Other assets	**632 139**	**740 349**
Investment securities		
. Treasury bills and the like		
. Other debt securities		
Equity securities and the like	**18 223**	**18 223**
Subordinated loans		
Fixed assets for leasing and rental	**42 841 333**	**44 141 004**
Intangible fixed assets	**158 602**	**157 519**
Tangible fixed assets	**107 548**	**134 488**
Total assets	**43 884 707**	**45 389 876**

(Thousands of dirhams)

LIABILITIES	31/12/2015	31/12/2016
Central banks, Public Treasury, Postal Checks Service		
Due to credit institutions and similar entities	**31 155 549**	**35 050 951**
. Demand	3 241 428	3 811 557
. Time	27 914 121	31 239 394
Customers' deposits	**513 837**	**518 307**
. Creditor demand deposits	38 401	77 645
. Savings accounts		
. Time deposits	245 233	222 573
. Other creditor accounts	230 203	218 089
Debt securities issued	**6 509 463**	**3 714 701**
. Negotiable debt securities	5 020 436	3 688 298
. Bond loans	1 440 941	1 050
. Other debt securities issued	48 086	25 353
Other liabilities	**2 175 390**	**2 445 995**
Provisions for risks and expenses	**142 739**	**169 661**
Regulated provisions	**687**	**458**
Subsidies, allocated public funds and special guarantee funds		
Subordinated debts	**68 571**	**70 552**
Reevaluation gaps		
Reserves and premiums related to capital	**1 379 481**	**1 388 560**
Capital	**910 095**	**910 095**
Shareholders. Unpaid capital (-)		
Retained earnings (+/-)	**775 562**	**778 116**
Net income before appropriation (+/-)		
Net income for the year (+/-)	**253 333**	**342 479**
Total liabilities	**43 884 707**	**45 389 876**

Appendix 13

Aggregate profit and loss statement of leasing companies
From January 1 to December 31, 2016

(Thousands of dirhams)

	31/12/2015	31/12/2016
+ Interest and related income	7 353	6 646
- Interest and related expenses	1 648 765	1 530 431
Interest income	**-1 641 412**	**-1 523 785**
+ Income from fixed assets in leasing and rentals	14 408 946	14 554 200
- Expenses on fixed assets in leasing and rentals	11 681 342	11 708 520
Income from leasing and rental transactions	**2 727 604**	**2 845 680**
+ Commissions received	12 191	5 956
- Commissions paid	8 265	7 065
Margin on commissions	**3 926**	**-1 109**
± Income from transactions on trading securities		
± Income from transactions on held-for-sale securities		
± Income from foreign exchange transactions	46	43
± Income from derivatives transactions		
Trading income	**46**	**43**
+ Other sundry banking income	4 100	3 773
- Other sundry banking expenses	268	205
NET BANKING INCOME	**1 093 996**	**1 324 397**
± Income from transactions on financial fixed assets		
+ Other non-banking operating income	5 678	3 700
- Other non-banking operating expenses	1 333	2 131
- General operating expenses	335 623	360 353
GROSS OPERATING INCOME	**762 718**	**965 613**
± Allocations net of provision reversals for non-performing loans and commitments by signature	-280 948	-324 989
± Other allocations net of provisions reversals	-21 029	-42 921
CURRENT INCOME	**460 741**	**597 703**
EXTRAORDINARY INCOME	**-35 796**	**-3 909**
- Income tax	171 612	251 315
NET INCOME FOR THE YEAR	**253 333**	**342 479**

Appendix 14

Consolidated balance sheet of the 9 banking groups
As at December 31, 2016

(Thousands of dirhams)

ASSETS	31/12/2015	31/12/2016
Cash, Central banks, Public Treasury, Postal Checks Service	42 810 158	53 678 953
Financial assets at fair value by income	114 798 273	139 906 100
Hedging derivatives	7 207	2 938
Available-for-sale financial assets	92 819 173	108 345 085
Loans and receivables from credit institutions and similar entities	78 783 669	65 185 171
Loans and receivables from customers	886 552 109	923 864 382
Asset revaluation gap on interest hedged portfolios		
Held-to-maturity investments	58 157 252	50 881 786
Current tax assets	2 724 838	2 736 497
Differed tax assets	2 905 300	3 290 831
Adjustment accounts and other assets	26 035 435	25 881 232
Held-for-sale non-recurrent assets	98 622	153 761
Equity interests in companies accounted for by the equity method	1 790 144	1 860 468
Investment property	8 147 605	8 703 072
Tangible fixed assets	29 419 144	33 562 124
Intangible fixed assets	4 200 358	4 584 804
Goodwill	9 499 978	9 562 831
Total assets	**1 358 749 265**	**1 432 200 035**

(Thousands of dirhams)

LIABILITIES	31/12/2015	31/12/2016
Central banks, Public Treasury, Postal Checks Service	**715 430**	**699 729**
Financial liabilities at fair value by income	**3 248 450**	**3 229 375**
Hedging derivatives		
Due to credit institutions and similar entities	**135 256 780**	**134 850 799**
Due to customers	**933 478 144**	**972 610 584**
Debt securities issued	**50 417 945**	**50 590 498**
Liability reevaluation gap on interest hedged portfolios		
Current tax liabilities	**2 900 516**	**4 157 536**
Differed tax liabilities	**4 909 137**	**5 827 735**
Adjustment accounts and other liabilities	**27 970 236**	**38 882 441**
Liabilities linked to held-for-sale non-current assets	**0**	**18 519**
Technical provisions of insurance contracts	**24 720 782**	**29 326 380**
Provisions	**6 198 756**	**7 111 949**
Subsidies and similar funds	**2 843 947**	**3 402 252**
Subordinated debts and special guarantee funds	**31 014 838**	**35 330 488**
Equity capital	**135 074 302**	**146 161 530**
Equity - group share	**116 306 063**	**124 233 013**
Capital and related reserves	67 892 235	69 684 795
Consolidated reserves	34 581 352	39 927 720
Unrealized or deferred gains or losses	2 354 634	2 453 103
Income of the year	11 477 842	12 167 395
Minority interests	**18 768 239**	**21 928 737**
Total liabilities	**1 358 749 265**	**1 432 200 035**

Appendix 15

Consolidated income statement of the 9 banking groups
From January 1 to December 31, 2016

(Thousands of dirhams)

	31/12/2015	31/12/2016
+ Interest and related income	63 104 696	62 722 248
- Interest and related expenses	20 954 462	20 104 063
INTEREST INCOME	**42 150 234**	**42 618 185**
+ Commissions received (income)	11 661 262	12 782 987
- Commissions paid (expenses)	1 346 969	1 617 167
Margin on commissions	**10 314 293**	**11 165 820**
+/- Net gains or losses from financial instruments at fair value by income	5 588 269	6 259 805
+/- Net gains or losses from available-for-sale financial assets	1 304 463	2 209 125
+ Income from other activities	9 593 188	12 860 300
- Expenses of other activities	7 856 079	11 524 901
NET BANKING INCOME	**61 094 369**	**63 588 334**
- General operating expenses	27 822 639	28 953 549
- Allocations to the amortization and depreciation of tangible and intangible fixed assets	3 180 770	3 323 646
GROSS OPERATING INCOME	**30 090 960**	**31 311 139**
- Cost of risk	10 369 357	9 940 338
OPERATING INCOME	**19 721 603**	**21 370 801**
+/- Share of the net income of companies accounted for by the equity method	182 196	207 543
+/- Net gains or losses from other assets	421 956	-46 171
+/- Value change of goodwill	0	-31 741
INCOME BEFORE TAX	**20 325 755**	**21 500 432**
- Income tax	6 808 225	7 178 700
+/- Net income of discontinued activities or activities being discontinued	0	-29 874
NET INCOME	**13 517 530**	**14 291 858**
- Minority interests	**2 039 688**	**2 124 463**
NET INCOME - GROUP SHARE	**11 477 842**	**12 167 395**

Appendix 16

Core Financial Soundness Indicators - individual basis

	2014	2015	2016
Capital adequacy			
Capital adequacy ratio	13,8	13,7	14,2
Regulatory Tier I capital to risk-weighted assets	11,6	11,4	11,5
Non-performing loans net of provisions to capital	19,2	17,8	17,3
Asset quality			
Non-performing loans to total loans	**6,9**	**7,4**	**7,6**
Sectoral distribution of loans			
Loans to the primary sector	5,7	5,4	5,7
Loans to the building and public works sector	12,2	10,7	11,2
Loans to the processing industry	17,6	16,6	16,2
Loans to the general government and local governments	4,7	4,5	4,7
Loans to the trade sector	6,6	6,4	6,4
Loans to the tourist sector	2,4	1,9	1,9
Households	31,4	32,3	32,4
Loans to other sectors	19,4	20,9	21,5
Results and profitability			
Return on assets (ROA)	1,0	0,8	0,8
Return on equity (ROE)	10,2	9,1	8,6
Interest margin to net banking income (NBI)	69,0	72,0	68,6
General operating expenses to NBI	46,1	49,1	49,3
Liquidity			
Liquid assets to total assets	**13,3**	**16,1**	**14,5**
Liquid assets to short-term liabilities	**17,7**	**21,2**	**18,6**
Net open position in foreign exchange to capital	**9,0**	**7,4**	**4,1**

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Dépôt légal : 2016 PE 0085
ISSN : 2509-0615

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