بنك المغرب

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BANK AL-MAGHRIB

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ANNUAL REPORT

ON THE CONTROL, ACTIVITY AND RESULTS OF CREDIT INSTITUTIONS

2008

CONTENTS

A WORD FROM THE GOVERNOR

Internationally, the year 2008 saw the worsening of the financial crisis caused by the collapse of the U.S. subprime market. The effects of the crisis soon spread to the global real economy. Several developed countries slipped into recession, while the growth rate in emerging countries has perceptively slowed down.

The bankruptcy of some financial institutions of systemic scale shook the confidence of financial market operators. This led to the rise in risk aversion and credit market turbulences.

As a reaction to this situation, central banks and supervisory authorities hastened to contain the impact of these turbulences and avoid that they spread to other sectors.

These developments revealed weaknesses in the oversight of markets, at the level of governance as well as regulation and control systems.

Bank Al-Maghrib, since the start of the crisis, has acted to assess its impact on the banking system and strengthen the Bank's supervisory and prudential control system.

The Moroccan Central Bank conducted in-depth investigations on direct and indirect exposures to subprime loans, and asked banks to submit more frequent and detailed reports on these exposures. The Bank also completed its permanent control system by a set of indicators, allowing for a closer monitoring of the risks to sectors that are vulnerable to a deteriorating economic environment.

At the same time, Bank Al-Maghrib invited banks' management bodies to strengthen diligence and be more involved in risk management within their institutions, especially those linked to international activities.

The Bank increased the exchange of information with the other supervisory authorities of the financial sector, within the Coordination Commission, in order to take timely measures and ensure their efficiency.

Against this background of widespread stagnation, the Moroccan banking system proved to be highly resilient. Indeed, its overall exposure to the crisis risk factors was almost of no significance. Banks' foreign-currency denominated assets held with nonresidents did not exceed, at the end of 2008, 4% of total assets, and banks' liabilities on this segment did not show any particular vulnerability.

Activity and performance in 2008 confirm the strength of the banking system and its capacity to adapt and develop in a very difficult international environment.

Credits granted by banks, up 29% in 2007, again rose by 23%, representing 75% of GDP compared with 69% a year earlier. This trend was accompanied by a decline in the average rate of non-performing loans to 6%, or 4.3% for private banks. Meanwhile, the banking network extended through the opening of nearly 400 branches, increasing the number of inhabitants per branch to 9,900 instead of 10,900 in 2007, as well as through important acquisitions of bank subsidiaries in countries of the region with a high growth potential.

The aggregate net income of all credit institutions, on an equity basis, stood at 10 billion dirhams, unchanged from the exceptional level of 2007. This stabilization is mostly attributable to the slowdown in the growth of the net banking income due to the deceleration of interest margin and margin on commissions, the decrease of market activity income and the lack of exceptional income. Moreover, the credit risk cost, which hit the record low of the decade in 2007, increased in 2008, but in some institutions only.

However, the eight banking groups that prepared their financial statements on a consolidated basis in line with IFRS standards saw their profits increase by 6.6% to 9.5 billion dirhams. This trend particularly reflects a greater contribution of activities abroad and such non-banking activities as insurance. Retail banking remains the core activity of these institutions and their main source of income, which constitutes a key factor of banking stability.

Although the banking system has been spared the international crisis effects, it is not entirely safe from the negative developments of the national and the international economic situation. It needs to be permanently prepared in case these risks, mainly the credit risk, happen to arise.

In this regard, in 2008, Bank Al-Maghrib continued to strengthen the prudential framework and the proactive risk management system, both at the micro and macro-prudential levels.

At the micro-prudential level, the Bank enacted the minimum rules to be observed by banks in terms of country risk management in order to better monitor and secure their investments abroad. It also set the conditions according to which credit institutions must publish their financial statements according to the IFRS standards. Bank Al-Maghrib granted particular importance to banks’ compliance with the minimum solvency ratio of which it decided to raise the level to 10% in 2008. This ratio, on a consolidated basis, averaged 11.7%, up from 10.7% in 2007. Calculated on the basis of tier one capital, the minimum solvency ratio reached 9.5%.

For the record, Basel II regulations, in force since 2007, provide for additional mechanisms within Pillar II. These aim at taking into account the risks that are not adequately dealt with by Pillar I. Accordingly, the conducting of stress tests relating to all risks, particularly concentration, liquidity and interest rate risks, should be among banks' priorities to ensure that sufficient capital is available to absorb financial shocks. As part of the structured dialogue held with each bank, Bank Al-Maghrib will review the additional capital requirements under Pillar II, while taking into account the constraints resulting from the economic situation.

Banks are also required to step up their efforts toward the implementation of Pillar III that provides for the minimum requirements related to qualitative and quantitative publication on capital and risks. The international financial crisis has prompted demand for more transparency, mainly regarding the transfer of risks.

On the macro-prudential level, Bank Al-Maghrib has sought to place its supervision actions in a broader perspective of financial stability. It is endeavoring to have a macro-prudential framework that helps it prevent and manage systemic crisis. To this end, stress tests are conducted to evaluate the banking system resilience to various financial shocks. Similarly, simulation exercises of systemic crisis are planned in cooperation with other national regulatory authorities.

The current crisis has taught us the need to accelerate the essential reforms in order to strengthen mechanisms of coordination between the financing sector regulatory authorities in view of a stronger supervision framework.

Additionally, the year 2008 was an important step toward the promotion of access to financial services. Indeed, the banking sector committed itself to increase the rate of access to banking services, on the short term, to more than 40%. In this respect, several banks adopted strategies based on new models of financial products distribution, adapted to the needs of the targeted segments, namely low income households and very small enterprises.

The microcredit sector, the other vector contributing to the development of the financial inclusion of very-low-income population, is at the crossroads. The diagnosis conducted by Bank Al-Maghrib showed that this sector, following the soaring growth it has registered during the recent years, needed a new vision toward the renewal of its governance and the strengthening of its risk management mechanisms.

Bank Al-Maghrib reviewed with microcredit associations the means to successfully go through this consolidation stage. To this end, collective structures need to be set up as well as tools to develop this activity within favorable conditions.

Actions conducted in 2008 concerned the improvement of relations between credit institutions and their customers. Measures taken were aimed at stronger transparency in banking conditions, fast file processing, and more efficient banking mediation.

Banks have proved, in recent years, their capacity to develop their activities and to find the necessary growth drivers to sustain their revenues. Major institutions made noticeable efforts to strengthen their presence abroad, especially in Europe, the Maghreb, and Central and West Africa.

Bank Al-Maghrib is supporting this strategy that helps better reach out for Moroccans living abroad. This also enables banks to efficiently accompany economic operators and play a front rank role in the region.

Parallel to this, Bank Al-Maghrib sees to it that all these developments take place on a sound basis, through the consolidation of reforms contributing to sustainable financial stability and the strengthening of cooperation links between supervisory authorities, notably at the regional level.

It is under these conditions that Morocco, capitalizing on the achievements made by its financial actors, may stand as a multi-activity regional financial hub, linking Africa to Europe and successfully integrate the global economy.

HIGHLIGHTS OF 2008

January 1	: Entry into force of the International Accounting Standards (IFRS/IAS)
January 14	: Meeting of the Financial Sector Supervisory Coordination Commission
January 17	: Meeting of the Credit Institutions Committee
February 11	: Signing of an agreement for the delegation of Bank Al-Maghrib's central risk register to a private company toward the creation of credit bureau
February 21	: Seventh ordinary session of the Board of Central Bank Governors of Maghreb Arab Union Countries, in Tripoli
March 6	: Closing of the awareness campaign on the fight against money laundering, launched by Bank Al-Maghrib and the GPBM (Moroccan Bankers' Association), in partnership with the Ministry of Economy and Finance and the Ministry of Justice
April 7	: Seventh meeting of the Middle East and North Africa Financial Action Task Force (MENA-FATF), in Abu Dhabi, the United Arab Emirates
May 23	: Meeting of the Financial Sector Supervisory Coordination Commission
May 26	: Fifth Meeting of Francophone Banking Supervisors Group, in Paris
June 12	: Signing of the agreement relating to safety in banks between the Ministry of the Interior and the GPBM
June 19	: Meeting between the Governor of Bank Al-Maghrib and the National Federation of Microcredit Associations
July 8	: Meeting of the Credit Institutions Committee
July 15	: Meeting of the National Council of Credit and Savings
July 15	: Meeting between the Governor of Bank Al-Maghrib and the GPBM board
September	: Publication by the IMF of the Moroccan financial system assessment report
September 22	: Meeting of the International Conference of Banking Supervisors in Brussels
October 7	: Meeting in Marrakech of the 32nd ordinary session of the Board of Arab Central Bank Governors
October 23	: Meeting between the Governor of Bank Al-Maghrib and the Professional Association of Finance Companies
October 27	: First meeting of the Banking Mediation Committee, chaired by the Governor of Bank Al-Maghrib
November 8	: Eighth meeting of MENA-FATF, in Al Fujaira, the United Arab Emirates
November 25	: Meeting between the Governor of Bank Al-Maghrib and the GPBM board
December 2	: Meeting of the Financial Sector Supervisory Coordination Commission
December 2	: Meeting between the Governor of Bank Al-Maghrib and the National Federation of Microcredit Associations.

KEY FIGURES OF THE BANKING SYSTEM

1 - Structure of the banking system

- Number of credit institutions and similar bodies: 84

- Banks: 18
- Finance companies: 37
- Offshore banks: 6
- Microcredit associations: 13
- Funds transfer companies: 7
- Other institutions: 3

- Network:

- In Morocco: 4,900 branches, including 1,762 for Barid Al-Maghrib (Moroccan post office), i.e. 6,300 inhabitants per branch.
- Abroad: 13 subsidiaries, 39 branches and 60 representative offices.
- Automated teller machines: 3,629.

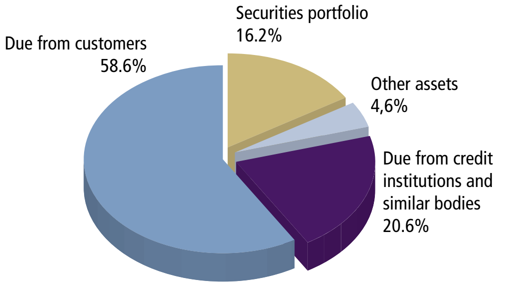
- Staff of credit institutions and similar bodies: 39,200

2 - Indicators of banks' activity and profitability on an equity basis

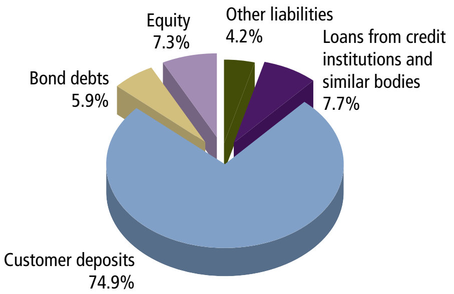
(in billion dirhams)

	2006	2007	2008
Balance sheet total	540	657	763
Cash loans (net of provisions)	304	402	500
Customer deposits	437	516	573
Equity capital (excluding financial year profits)	40	46	55
Net banking income	22,2	26	27,2
Gross operating income	11,8	15,7	14,6
Net income	6,7	9,0	8,6
Average yield of assets	5,42%	5,35%	5,11%
Average cost of liabilities	1,72%	1,75%	1,93%
Average operating ratio	48,0%	46,5%	47,8%
Return on assets (ROA)	1,3%	1,5%	1,1%
Return on equity (ROE)	17,4%	20,6%	15,5%
NPL rate	10,9%	7,9%	6,0%
Private banks' NPL rate	7,4%	5,3%	4,3%
NPL coverage ratio	71,2%	75,2%	75,3%
Private banks' NPL coverage ratio	77,7%	84,5%	82,0%

Structure of banks' assets



Structure of banks' liabilities

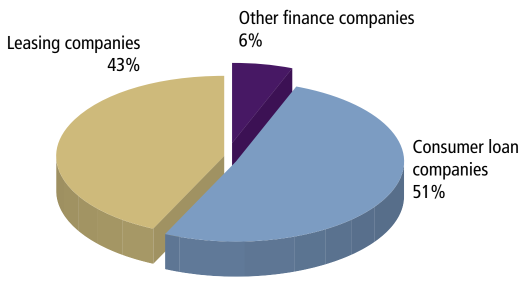


3 - Indicators of finance companies' activity and profitability

(in billion dirhams)

	2006	2007	2008
Balance sheet total	51	63.4	74.3
Net banking income	3.2	3.8	4.1
Gross operating income	2	2.4	2.6
Net income	1.1	1.2	1.5
NPL rate	11.9%	10.2%	9.1%
Return on assets (ROA)	2.0%	2.0%	1.9%
Return on equity (ROE)	22.7%	23.7%	22.4%

Share of each category of finance companies in the total assets



4 - Indicators of microcredit associations' activity and profitability

(in billion dirhams)

	2006	2007	2008
Balance sheet total	3.9	6	6.9
Loans outstanding amount	3.5	5.5	5.7
NPL rate	1.0%	2.4%	5.3%
Net income	0.19	0.3	0.03

PART 1

Legal and regulatory environment and banking supervision activities

I. LEGAL AND REGULATORY FRAMEWORK

The exercise of banking activity and supervision conditions in Morocco are governed by law No. 34-03 on credit institutions and similar bodies, promulgated by Dahir (royal decree) No. 1-05-176 of Muharram 15, 1427 (February 14, 2006), hereinafter referred to as the banking law, as well as by the regulatory measures related to its application.

The scope of application of the banking law covers credit institutions including banks and finance companies. The latter consist of companies specialized in specific activities, such as consumer loans, leasing, real estate loans and factoring, as well as of payment systems management companies and surety companies. Since 2006, this scope has been extended to other entities which exercise banking activities, referred to as similar bodies. They include the Caisse de Dépôt et de Gestion -CDG (Deposit and Management Fund), the Caisse Centrale de Garantie - CCG (Central Guarantee Fund), the financial services of Barid Al-Maghrib, offshore banks and microcredit associations. Funds transfer companies were also subjected to this law, whereas the framework governing the exercise of finance companies' activity was strengthened.

The provisions of the banking law, which are in line with the Basel Committee standards, mainly the 25 core principles for effective banking supervision, sanction the central bank's autonomy in terms of banking supervision. The entire process related to exercising and complying with the requirements of banking activities falls, indeed, under the general competence and control of Bank Al-Maghrib. The central bank is also responsible for enacting regulatory and accounting standards, seeing to their respect by the relevant institutions, and punishing the possible breaches reported. Eventually, Bank Al-Maghrib is entitled to deal with the difficulties that such institutions may face.

All the above-mentioned powers of the central bank are entrusted to the Banking Supervision Department (DSB). The Department operates in compliance with the institutional and regulatory framework in place.

1- INSTITUTIONAL ENVIRONMENT

The banking law established a framework for dialogue and exchange with the public authorities, mainly the Ministry of Finance and representatives of the banking sector, as well as with the other regulatory and supervisory authorities of the financial sector.

A - Advisory bodies

With the aim of coordinated and collective decision-making, the law has subjected to the prior opinion of ad hoc bodies several decisions, made by the Governor of Bank Al-Maghrib, which are relating to credit institutions, be it on an individual or general basis; mainly the licensing, prudential, and accounting rules, as well as certain penalties that might be pronounced against institutions that are disrespectful of legal or regulatory provisions.

1 - Credit Institutions Committee (CIC)

The Credit Institutions Committee (CIC), governed by the provisions of articles 19 and 20 of the banking law, submits its opinion to the Governor of Bank Al-Maghrib on all issues of general or particular interest pertaining to credit institutions' activity.

Chaired by the Governor of Bank Al-Maghrib, the CIC also comprises a representative of the Central Bank, two representatives of the Ministry of Finance, two representatives of the Groupement professionnel des banques du Maroc -GPBM (the Moroccan Bankers Association), and two representatives of the Professional Association of Finance Companies. When the opinion of the Committee is sought on questions of an individual nature concerning credit institutions, its composition is limited to the representatives of Bank Al-Maghrib and of the Ministry of Finance. Its operating conditions are set by the provisions of decree No. 2-06-223 of 17 Joumada II, 1428 (July 3, 2007).

The issues on which the opinion of the CIC must be required encompass, inter alia, licensing and authorization applications, as well as draft legal texts relating to regulation and accounting rules. They also concern other aspects relative to the application conditions of the banking law regarding, especially, the management of the Fonds Collectif de Garantie des Dépôts (Deposit Insurance Fund) and the cooperation agreements between Bank Al-Maghrib and its foreign counterparts. The Committee is also consulted for all steps that may lie within the competence of the Ministry of Finance in reference to the banking law, mainly those related to the funds that are collected from the public.

The Committee is also empowered to conduct studies relating to its scope of competence, especially on credit institutions' relationships with customers and the information of the public. These studies may result in circulars or recommendations issued by the Governor of Bank Al-Maghrib.

The CIC meets upon the initiative of its President at least once every semester and whenever necessary. In case its opinion is sought on a general issue, it may hold meetings upon the request of three of its members, at least.

The Secretariat of the Committee is provided by Bank Al-Maghrib.

2 - Disciplinary Commission of Credit Institutions

As part of the present disciplinary procedure, the banking law provided for a commission in charge of investigating disciplinary matters relating to cases of violation of legal and regulatory provisions, and of giving its opinion to the Governor of Bank Al-Maghrib on the disciplinary measures to be adopted against every faulty institution.

The Disciplinary Commission of Credit Institutions is made up of two representatives of Bank Al-Maghrib, including the General Director in his capacity as chairperson, two representatives of the Ministry of Finance, and two magistrates appointed by the Ministry of Finance upon the proposition of the Minister of Justice. The chairperson of the Commission may appeal to anybody's assistance and whose contribution would help in presenting the commission with an opinion on the cases referred to it. The commission's operating conditions are set by the provisions of Articles 23 and 24 of the banking law as well as by the commission's internal rules.

The Secretariat of the Disciplinary Commission is organized by Bank Al-Maghrib.

B - Consultation bodies

1 - National Council of Credit and Savings

The National Council of Credit and Savings "CNCE", which replaces the National Council of Money and Savings, established by the banking law of 2006, examines issues pertaining to the development of savings and of the growth of credit institutions' activity. Rather than giving mere opinions, the Council's vocation is to submit to the Government all proposals relative to areas that fall within its competence. The council is entitled to conduct all the studies it deems necessary, as well as those it may be entrusted with by the Minister of Finance or by the Governor of Bank Al-Maghrib.

Its composition and its operating conditions are set by decree No. 2-06-224 of 17 Jumada II 1428 (July 3, 2007). Thus, in addition to the Minister of Finance and the Governor of Bank Al-Maghrib, respectively President and Vice President, the Council includes 44 members, representing the general government, financial institutions, professional chambers and associations, and persons appointed by the Prime Minister for their expertise in economic and financial matters. The Council holds at least one meeting per year.

The Secretariat of the Council is ensured by Bank Al-Maghrib.

2 - Financial Sector Supervisory Coordination Commission

The Financial Sector Supervisory Coordination Commission "CCOSSF" set up, pursuant to Article 81 of the banking law, constitutes a framework within which regulatory and supervisory authorities coordinate their actions as regards control and exchange experiences and information about the institutions they oversee. It also stands as a consultation forum to coordinate the actions of these bodies in connection with the financial system's stability.

The Commission's composition and operating conditions are governed by decree No. 2-06-225 of 17 Jumada II 1428 (July 3, 2007), as well as by the Commission's internal rules.

The Commission is chaired by the Governor of Bank Al-Maghrib and includes one representative of the central bank, two representatives of the Transferable Securities Ethics Board and two representatives of Insurance and Social Security Directorate, attached to the Ministry of Finance. It convenes a meeting at least once every six months and, whenever necessary, upon the initiative of its Chairperson or upon the request of one of its members.

The Commission's Secretariat is provided by Bank Al-Maghrib

2 - LEGAL AND REGULATORY ENVIRONMENT

In 2008, new prudential standards, enacted as part of the implementation of the Basel II system, came to strengthen the legal and regulatory environment governing the banking sector in Morocco.

Also, the accounting framework was marked by the entry into force, in January 2008, of the International Accounting Standards (IAS/IFRS).

The conditions of practising activities related to the capital and insurance market were remodeled with a view to enhancing market integrity and financial information quality and strengthening supervision.

A - Framework governing entry to the banking business

The practice of the banking activity is governed by very strict conditions concerning not only project promoters but also the persons approached to take up management positions. The license to practise banking activities is governed as well by legal provisions and regulations in line with the fundamental principles of the Basel Committee.

1 - Licensing process

The exercise of credit institutions' activity is subject to the approval of the Governor of Bank Al-Maghrib, requested for and issued according to the conditions stipulated mainly by Article 27 of the banking law.

To this effect, Bank Al-Maghrib ensures that the applicant meets the requirements of this law and that its legal form is appropriate. Bank Al-Maghrib takes into account the applicant's program of activities, the technical and financial means it plans to set up as well as the intrinsic quality of the capital providers.

The Bank also assesses the applicant company's ability to attain its development goals under conditions that are compatible with the good functioning of the banking system and that are likely to provide customers with some feeling of satisfying reliability.

Applications for license emanating from credit institutions with headquarters that are settled abroad, either for setting up a branch or opening a subsidiary in Morocco shall be supported by the opinion of the origin country's competent authorities.

Besides, Bank Al-Maghrib ensures that legal and regulatory provisions applicable in the credit institutions' original country are not likely to hinder the monitoring of the entity to be set in Morocco.

The license may be, when necessary, limited to certain activities or subjected to particular conditions aiming at preserving the equilibrium of the institution's financial structure and at the good functioning of the banking system. Respect of the commitments undertaken by the applicant institution may also be a prerequisite to approval.

The rejection of an application may be pronounced in case Bank Al-Maghrib deems its control mission to be hindered, due to the existence of direct or indirect capital or supervision connections between the applicant institutions and other natural or legal persons; or because the company's promoters or managers lack the necessary integrity, skills or experience.

The duly justified decision to approve or reject the application is notified to the applicant within a maximum period of 120 days, starting from the date of receipt of all the required documents to examine the application.

2 - Scope of activity

The scope of credit institutions' activities covers all operations, including those exclusively reserved to a certain category of these institutions: collecting deposits, lending, and provision and management of payment means for customers.

Also, alternative financing products that credit institutions are authorized to offer since October 2007, fall within this scope, namely those called Ijara, Mourabaha and Moucharaka. The opening up on these products in Morocco complies with the framework of development and bancarization efforts via diversifying the offer of financial services adapted to the needs of the population.

Credit institutions are also authorized to offer other related activities including mainly foreign exchange, or gold and precious metals transactions, transfer of funds, assets management, transferable securities investment, and offering insurance products to the public. Exercising these activities is subject to the respect of the legal and regulatory conditions governing them.

3 - Conditions of managers' approval

The exercise of management duties within credit institutions is subordinate to satisfying the requirements related to moral soundness and professional competence. Under the banking law, persons absolutely convicted for certain offences or crimes are not allowed to exercise these kinds of duties. The law also defines the conditions of combining the responsibility of a credit institution manager with similar duties in other companies. Pursuant to the banking law, the founding members, shareholders and other members of the management and administrative bodies shall meet the reputation and the expert valuation requirements.

Within the framework of its continuous monitoring of credit institutions management quality, the central bank ensures that the managers of credit institutions meet all the required qualifications from a professional, ethical, and moral standpoint.

For this purpose, credit institutions are required to inform Bank Al-Maghrib of any effective or planned appointment of persons within their administrative, control, or management bodies. The implementation conditions of this provision are explained in Circular No. 27/G/2006.

4 - Provisions relating to statutory auditors

Pursuant to the legal and regulatory provisions in force, all credit institutions supervised by Bank Al-Maghrib must appoint, according to the status and size of each institution, one or two statutory auditors to control their accounts in compliance with the provisions of Title VI of law No. 17-95 relating to limited companies, ensure that they comply with the accounting and prudential rules as well as those relating to the internal control system, and check the veracity of their disclosures and their conformity with the accounts.

According to Circular No. 21/G/2006 of November 30, 2006, statutory auditors must fulfill all the conditions of independence and competence required for the exercise of their duties. Their appointment by an institution, for which they have ensured two successive mandates, may only take place after a period of three years. When two auditors are appointed, these cannot represent or belong to practices having any connection between them.

Any duly justified decision of approval or, when applicable, refusal shall be notified to the institution no later than 21 days starting from the date of receipt of all the required documents and information. Bank Al-Maghrib may ask the institution's management bodies to put an end to the mandate of any statutory auditor who fails to properly carry out his mission.

Statutory auditors shall perform their mission according to the relevant terms of reference established by Circular No. 4 dated June 28, 2007. They submit the reports they draw up to Bank Al-Maghrib and the members of the board of directors or supervisory board.

Statutory auditors must immediately report to Bank Al-Maghrib any deed or decision they know about during the exercise of their duties and that represents a violation of legal or regulatory provisions or could affect the financial situation of the institution, jeopardize its sustainability or lead to raising any reservations or refusal of accounts certification. They must also answer any request for clarification or explanation from Bank Al-Maghrib regarding conclusions or opinions expressed in their reports.

5 - Terms and conditions of network extension

As part of exercising their activities, credit institutions may freely open or close subsidiaries, branches or offices on the national territory, provided they inform Bank Al-Maghrib, which draws up a constantly updated list.

Extensions abroad in the form of subsidiaries or branches, as well as significant acquisitions of shares, are subject to the prior approval of the Governor of Bank Al-Maghrib, following the opinion of credit institutions' committee.

The opening of representative offices, either in Morocco or abroad, by credit institutions headquartered abroad, is subject to the prior approval of the Governor of Bank Al-Maghrib.

In application of the legal provisions in force thereon, representative offices shall not engage, either in Morocco or abroad, in banking activities such as collecting funds, opening bank accounts or granting loans, nor practising direct marketing in order to conclude financial transactions.

Besides, Moroccan credit institutions should extend their internal control and diligence mechanisms to their representative offices based abroad and inform Bank Al-Maghrib of the inspections conducted to this end. They must make sure that these offices are in total compliance, at a permanent basis, with all legal and regulatory provisions in force in the host country, mainly those related to financial, tax and social legislations, as well as those pertaining to anti-money laundering.

Bank Al-Maghrib can limit or ban the extension of a credit institution's network in Morocco or abroad in case these institutions fail to abide by prudential rules.

B - Prudential and accounting system

The prudential and accounting system has undergone, during the recent years, a complete overhaul with a view to harmonizing it with international best practices, mainly the standards stipulated by the Basel Committee.

1 - Prudential system

1.1 - The prudential system applicable to credit institutions

The prudential system applicable to credit institutions has been upgraded following the enactment of the 2006 banking law. It was enriched in 2008 by the legal provisions governing the country risk management and the decision to raise the minimum solvency ratio applicable to banks from 8% to 10%.

Bank Al-Maghrib also set the reporting conditions of the interest rate risk run by banks, in order to better monitor this type of risk.

1.1.1 - Minimum capital rule

Pursuant to the banking law, access to banking activities is subject to the effective contribution by the project promoters of a minimum capital to be fully paid up or an allocation that is fully paid, the amount of which must be equal to at least:

- DH 200 million for banks receiving funds from the public;
- DH 100 million for banks not receiving funds from the public;
- DH 50 million for finance companies licensed to carry out real estate loan operations or leasing operations and credit transactions other than those listed hereafter;
- DH 40 million for companies licensed to carry out surety operations other than mutual surety;
- DH 30 million for companies licensed to carry out factoring transactions;
- DH 20 million for companies licensed to carry out consumer loan operations;
- DH 10 million for companies licensed to carry out operations related to the provision and management of all means of payment;
- DH 3 million for intermediation companies specialized in funds transfers;
- DH 1 million for companies licensed to carry out mutual surety operations.

The assets of a credit institution must permanently exceed current liabilities by an amount at least equal to the minimum capital required for the category to which the institution belongs.

Implementation conditions related to this rule are fixed by Bank Al-Maghrib circular No. 20/G/2006.

1.1.2 - Solvency rules

1.1.2.1 - Prudential equity

The notion of capital is crucial for the implementation of prudential regulation. In fact, it serves as a benchmark for the calculation of several management standards to be respected by credit institutions. The Methods that are applied to determine capital are set by Circular No. 24/G/2006, which defines their constitutive elements and calculation methods, on an individual and consolidated basis, in accordance with the provisions of the Basel Committee.

After the entry into force of the International Financial Reporting Standards (IFRS), Bank Al-Maghrib specified the list of prudential filters to be introduced to capital in order to calculate the solvency ratio on a consolidated basis.

The control of capital compliance with the regulatory requirements is conducted through the half-yearly reporting that credit institutions are required to submit.

1.1.2.2 - Minimum solvency ratio

Banks, bound by the Basel II rules, must have enough capital to cover all their credit, market and operational risks, in accordance with the conditions specified in Circular No. 26/G/2006. The circular's provisions are in line with the Basel II standard approach.

They should respect, on an individual and consolidated basis, a minimum ratio of 10% between their equity and all their weighted risks.

Institutions subjected to Basel I must cover their credit and market risks by capital up to the minimum required, in line with the provisions of Circular No. 25/G/2006 of December 4, 2006 relative to the minimum solvency ratio. The methods of this ratio's calculation comply with the provisions of the 1988 Basel Capital Accord, as amended in 1996 and 2005 concerning market risks.

Control of solvency rule is conducted through the half-yearly reporting that credit institutions are required to submit.

1.1.2.3 - Internal capital adequacy with the institution's risk profile

Credit institutions, as part of the implementation of the second pillar of the Basel II, are required to have an internal capital adequacy assessment process (ICAAP).

The implementation of this process requires, according to the Directive No. 45/G/2007 of Bank Al-Maghrib, explicit definition of the institution's risk strategy. This strategy must be based on a comprehensive effective global policy of risk management which allows ensuring, permanently and into the distant future, the adequacy of the institution's capital with its objectives as well as the incurred and potential risks. It shall also rest on transparent and consensual working environment for the ICAAP implementation.

1.1.2.4 - ICAAP communication device

In accordance with the provisions of the third pillar of Basel II aiming at enhancing market discipline, Bank Al-Maghrib established a financial communication device requiring credit institutions under its control to disseminate an amount of information about their capital and the risks they run in the exercise of their activities.

The mechanism, governed by Bank Al-Maghrib Directive No. 44/G/2007 of August 31, 2007, mainly aims at providing parties concerned (shareholders, investors, financial analysts, etc.) with a coherent and homogeneous frame of reference to help them conduct better information analyses and reliable comparisons.

In this framework, credit institutions are required to publish, on an individual and consolidated basis, a minimum amount of information, both qualitative and quantitative, particularly relating to the composition of their capital, the system that is supposed to manage and measure the different risks and the level of exposure on each risk, as well as to the capital adequacy compared with their risk profile and with the system in place to assess and maintain adequacy.

1.1.3 - Mechanism to limit counterparty risks

The mechanism to limit counterparty risks is based on complementary qualitative and quantitative standards aimed to ensure the control of these risks with regard to one same beneficiary or a group of counterparties that belong to the same sector of activity or the same geographic area or country.

1.1.3.1 - Risk division

The regulation in force compels credit institutions to limit their commitments toward the same borrower in order to preserve their sustainability in case of counterparty failure.

Accordingly and in line with Bank Al-Maghrib Circular No. 3/G/2001 of January 15, 2001, the whole exposure of an institution on a single beneficiary, be it an individual customer or a group of customers constituting an interest group, must not exceed 20% of its capital. The calculation of these exposures includes cash loans and commitments by signature, and securities issued by the counterparty and subscribed by the institution. Exceptional and temporary waivers may be authorized by Bank Al-Maghrib, on a case by case basis.

Moreover, credit institutions submit to Bank Al-Maghrib quarterly reports on their large exposures, understood as the overall exposure on the same counterparty and whose amount is equal to or above 5% of their capital.

The control of adherence to this rule is conducted on the basis of reports submitted to Bank Al-Maghrib and through the on-site inspections. Violations are commonly subject to fines and/or administrative sanctions.

1.1.3.2 - Equity participation rules

Equity participation taken by credit institutions in businesses, already existing or in the process of creation, are subject to a ceiling in order to limit contagion risks due to the failure of companies issuing securities, and to avoid a strong involvement of banks in non-financial activities of which they do not master or know the risks very well.

Conditions governing these equity participations are laid down in Circular No. 29/G/2006 of December 5, 2006. Without prejudice to the rules applicable with regard to risks division, equity participations that credit institutions are allowed to acquire are subjected to the following conditions:

Individual equity participation shall not exceed one of the limits listed hereafter:

- 15% of the credit institution's capital;
- 30% of the registered capital or voting rights of the issuing company.

The total amount of equity securities portfolio cannot exceed 60% of the credit institution's capital.

Bank Al-Maghrib can revise downward the aforesaid limits, when it is deemed essential that the equity participation might expose the institution to an excessive risk or hinder its prudential control.

Excluded from these limits are equity participations in financial institutions and, under certain conditions, in holdings the aim of taking equity participation or managing a securities portfolio. Also excluded from these limits, provided they are sold within four years at the latest, is the equity held in companies subjected to a rehabilitation or bail out program approved by the lending institution or in return for the payment of non-performing loans that the debtor entities have been unable to reimburse.

1.1.3.3 - Concentration risk

Concentration risk refers to the risk inherent to exposure that could give rise to substantial losses that may eventually threaten the financial solidity of an institution or its ability to keep exercising its core activities. As part of the implementation of the second pillar of Basel II, Bank Al-Maghrib in 2007 published a directive inspired from international best practices, requiring banks to institute mechanisms of concentration risk management for credit risks on a single counterparty, an interest group, a sector of activity, or a geographical region. Mechanisms to be put in place should allow banks to identify, measure, manage, and control potential sources of risks.

1.1.3.4 - Foreign exchange positions

Besides the requirement to cover market risks by equity, banks, pursuant to Bank Al-Maghrib Circular No. 9/G/96 of March 29, 1996 relating to foreign exchange positions of banking institutions, amended by Circular No. 15/G/98 of December 30, 1998, must maintain their foreign exchange positions denominated in one single currency and all currencies together within a limit of 10% and 20%, respectively, of their total net equity.

Overruns reported at the end of the day shall be subjected to a leveling with Bank Al-Maghrib by way of acquiring or selling currency.

The foreign exchange position refers to the difference between the amount of assets and liabilities denominated in the same currency. Its calculation takes into account all currency- denominated assets and liabilities, as well as spot and forward foreign exchange transactions registered in the off-balance sheet, excluding elements the risk of which is supported by the State and allocations of branches abroad.

A position in a given currency which registers an exchange loss of more than 3% should be immediately reported to Bank Al-Maghrib, who specifies to the institution concerned whether it can proceed to booksquaring or not.

1.1.3.5 - Country risk

Given the upward trend in terms of the deployment of Moroccan banks overseas, Bank Al-Maghrib published in July 2008 a directive setting out the minimum requirements to be observed with regard to country risk management.

Pursuant to this directive, country risk corresponds to the possibility that a sovereign counterparty of a given country fails or refuses – and that other counterparties of this country fail- to meet their commitments abroad for sociopolitical, economic or financial reasons.

Country risk may refer to a transfer risk when it is the result of a restriction of free capital circulation or other political or economic factors. It can also be generated by the incurrence of events impacting the value of commitments on the country concerned.

A country risk management system should allow identifying balance sheet and off-balance sheet commitments representing such a risk and monitor them, on an individual and a consolidated basis. It should also be adapted following the importance and complexity of the institution's portfolio operations. Risks identified must be covered by general provisions.

Administration, management and monitoring bodies shall ensure the implementation of these mechanisms and monitor them. They mainly set country risk limits on the basis of the assessment of risk incurred, risk division and portfolio diversification.

1.1.4 - Liquidity risk management rules

Provisions applicable to liquidity risk management consist in quantitative rules completed by qualitative standards.

1.1.4.1 - Minimum liquidity coefficient

Circular No. 31/G/2006 of December 5, 2006 requires banks to permanently command resources sufficient enough to meet liabilities due in the forthcoming month.

The minimum liquidity coefficient is a ratio between the total amount of liquidities and assets realizable in the short term and the total amount of demand and current liabilities, which are weighted according, respectively, to their degree of liquidity and enforceability. This ratio must be equal to at least 100%.

Banking institutions should also specify their currency net liquidity gaps, on an individual and consolidated basis.

Control of the respect of this rule is accomplished by observing the declarations sent monthly to Bank Al-Maghrib by the relevant banks as well as in the framework of on-site inspections.

1.1.4.2 - Qualitative provisions

Credit institutions are required to establish, under the terms provided for by Bank Al-Maghrib Directive No. 31/G/2007 of April 17, 2007, liquidity risk management system to allow them identify, measure, manage and control potential origins of risk.

According to this directive, the system put in place shall contain the liquidity risk within acceptable limits. It also must allow institutions to permanently measure net liquidity requirements and assess the level of exposure to this risk while providing efficient monitoring of the liquidity situation.

In this respect, institutions should be able to monitor their net liquidity positions in local and foreign currencies, both at static and dynamic optical, while ensuring a satisfying diversification of financial sources. They should also put in place bail out mechanisms and procedures destined to manage their liquidity during critical situations. To this end, they are required to conduct stress tests on the basis of several scenarios and measure the impact on their profitability, equity and the normal behavior of their activity. Besides, institutions are required to re-examine their capacity to raise funds on the market.

1.1.5 - Risk management mechanisms

The preventive approach in terms of risk management is unquestionably a key asset for a prudent and sound behavior. Its efficiency lies in combining good governance, a boosted financial transparency and an appropriate risk control. To this end, Bank Al-Maghrib, early in 2001, enacted a circular on internal control, which was remodeled in 2007 for a better convergence with international standards in force, mainly those stipulated by the Basel committee. The provisions of this circular are completed with directives, inspired from the best practices that explain certain important aspects related particularly to the second Pillar of Basel II.

1.1.5.1 - Internal control system

The requirement for an appropriate internal control has become a major concern at the international level. In fact, the environment within which credit institutions are evolving is increasingly more complex and uncertain, and necessitates the implementation of performing tools to analyze, measure and control risks. These tools are supposed to efficiently boost the quantitative control based on ratios monitoring. Internal control, which is an integral part of this framework, provides credit institutions' management bodies with an efficient risk monitoring.

The internal control system, when well designed and used, can contribute to the early detection and prevention of difficulties. In this perspective, credit institutions are required to set up an internal control system matching its activities and making it possible to identify, measure and monitor all the risks it may face. The purpose of this system is to ensure that all types of risk are appropriately analyzed and monitored. Risks refer to both those related to the first pillar of Basel II (credit, market and operational risks) and the one pertaining to the second pillar (liquidity, interest rate, concentration, derivatives, etc.).

The internal control system should be adapted to the institution's size as well as to the nature and complexity of its activities. It also should operate in a continuous basis and at all the levels of the institution, which requires the dissemination of a strong culture of control among all staff members and a constant involvement and mobilization of management bodies.

For this reason, the aforementioned circular on internal control recommends a structured approach, based on the general guidelines set by the decision-making bodies and involving all staff (management and operational staff).

The architecture of internal control is based on two additional pillars: a permanent control system and a subsequent control system.

The permanent control system, operating at the level of the institution's different entities, includes all control mechanisms put in place at the level of operational processes, aiming at ensuring accurate and compliant transactions, and correct procedures that are in line with the activities and risks they pertain to.

The subsequent control system aims at ensuring the efficiency and coherence of the internal control systems in place. One of its functions is to check the appropriate functioning of the permanent control system and assess its capacity to control the risks the institution may face.

1.1.5.2 - Credit institutions' governance

The quality of the risk management process depends greatly on the quality of governance bodies. To this end, the circular on internal control lays emphasis on the respective roles of managing bodies (board of directors/ supervisory board/ general management/ board of management) and strengthens them through instances stemming from them or attached them, mainly the audit committee, the compliance function and the internal audit of which the attributions have been explained and strengthened with regard to operational entities.

All aspects related to credit institutions governance are governed by Directive No. 50/G/2007 of August 31, 2007. The provisions of this text explain in details the competencies and responsibilities of each of the two managing bodies. On the deliberating body specifically, the directive insists on the presence of independent director and the creation of ad hoc committees in charge of analyzing in depth certain specific issues and advise it thereon. Additionally, it stresses the fundamental principles that should give guidance on the appointment and compensation of managers and the way they should fulfill their duties, mainly in terms of integrity, diligence, and loyalty as well as the professional behavior and the absence of conflict of interests.

1.1.5.3 - The compliance function

The minimum rules to be observed by credit institutions in terms of non-compliance risk management have been specified in Directive No. 49/G/2007 of August 31, 2007. Pursuant to this directive, the compliance function should be independent and report directly to the management body.

Its prerogatives, to be fixed within the framework of the institution's policy, include the identification and the assessment of non-compliance risks and the checking of the existing internal procedures in order to implement a compliance policy and ensure their respect. The compliance function manager shall also elaborate a yearly report on the risk of non-compliance for the managing body and submit a copy to Bank Al-Maghrib.

1.1.5.4 - Due diligence

Money laundering and terrorist financing are a major challenge for all countries trying to institute systems to protect themselves thereof and preserve the soundness of their financial and banking system. Morocco has completed its legal system through the adoption of two acts of law organizing the prevention of and the fight against these two types of financial crimes. At the core of this system is the Financial Information Processing Unit (UTRF) the terms and conditions of which are set by Decree No. 2-08-572 of December 24, 2008.

The decree stipulates that the Unit shall carry out the duties set for pursuant to Law No. 43-05 by way decisions or directives that may be published in the official bulletin. The Unit chairman, nominated by the Prime Minister, sees to the completion of its duties and the execution of its decisions.

Besides the chairman and the secretary general who manages administrative and technical sections, the Unit is made up of 13 members representing the different authorities concerned with anti-money laundering.

The Unit establishes its own by-laws and sets the procedures governing its functions.

Concerning the banking system, Bank Al-Maghrib published a circular relative to due diligence in 2003 and updated it in August 2007 for its harmonization with the stipulations of law No. 43-05 relating to anti-money laundering and with the special recommendations of the Financial Action Task Force (FATF).

In application of the circular's provisions, institutions shall put in place the necessary procedures to help them identify and perfectly know their customers, follow up and monitor the transactions of customers showing a particularly high risk profile. The circular details the preventive measures to be taken by credit institutions in dealing with their customers and foreign correspondents. Under this circular, institutions are required to create structure in charge of managing the internal due diligence mechanism that shall centralize reports on suspicious operations and serve as an interface for the UTRF.

1.1.5.5 - Management mechanisms for other risks

In order to complete the circular on internal control, Bank Al-Maghrib published in 2007 several directives on particular risks and the means to control them. Besides the operational risk management and the business continuity plan, these new provisions pertain to risks related to interest rate risk, derivatives, outsourcing and new products.

1.1.5.5.1 - Operational risk

Within the framework of the implementation of the second pillar of Basel II, banks are required to set up mechanisms to help them identify, measure and control risks of losses that can result from shortages or failures inherent to procedures, staff, internal systems or external events. To this end, banks are required to establish an accurate risk-mapping and provide with the essential tools to control and mitigate these risks.

The mechanism to be put in place should allow for the identification of the most significant operational risks potential sources in relation with the size and the nature of the institution as well as the complexity of its activities, and the assessment of the latter's vulnerability to these risks. Also, it should integrate the alert indicators that can ensure the early identification of risk sources, as well as the efficient tools to monitor them and mitigate their impact. Within the framework of this mechanism, it is particularly necessary to prepare a business continuity plan to ensure sustained functioning of the activities, and to limit losses in the event of trouble due to major events in connection with operational risks. The elaboration of this plan is based on impact analyses to assess the level of risks linked to operational dysfunctions and to the different scenarios applicable in such situations. The efficiency of the business continuity plan should be tested at a regular basis.

1.1.5.5.2 - Interest rate and derivatives risks

Credit institutions are exposed, due to their intermediation and market activities, to risks linked to interest rate and the transformation of deposits. The interest risk processing dealt with in the circular on internal control, encompasses both banking portfolio rate risk and the overall rate risk. The mechanism necessary to manage this risk should be able to grasp the positions and flows, either sure or predictable, resulting from all balance sheet and off-balance sheet transactions, as well as the various risk factors, and to assess, on a periodical basis, the impact of these factors on income and capital once they become significant.

The principles to be observed in the implementation of such mechanisms are specified in Bank Al-Maghrib directive No. 30/G/2007 of April 13, 2007 related thereto. Pursuant to this directive, credit institutions should adopt clear-cut policies and procedures to mitigate and control the said risk and lay down the limits of responsibility and accountability regarding decision-making. Also to be provided is a system of appropriate limits allowing operational entities to control exposure to the different sources of interest rate risks and to assess the effective risk position with respect to the tolerance limits set by the administrative and management bodies.

The control of these risks is conducted by Bank Al-Maghrib on the basis of the reporting it receives from banks. In order to harmonize the latter's reporting and facilitate their processing, Bank Al-Maghrib set the conditions of the elaboration and transmission thereof in a letter-circular in 2008.

As far as derivatives are concerned, Bank Al-Maghrib published in 2007 a directive to define the fundamental elements and basic principles of a sound management of risks linked to the use of derivatives. Pursuant to this directive, banks should set up systems to manage the derivatives risks they face either as intermediaries or as end users. They should also adopt clear-cut policies and procedures, which are compatible with the type and complexity of their operations on derivatives. The unit responsible for managing this type of risk should be independent from operational entities in charge of taking positions on derivatives.

1.1.5.5.3 - Risks linked to outsourcing of banking activities and marketing of new products

The outsourcing of a part of commercial activities to private service providers of branches based overseas is increasing at banks' level. This increase is generally meant to rationalize costs and improve profitability. Outsourcing, which was initially limited to peripheral activities with a low added value, is being extended to more strategic activities. Extended delegation of responsibilities to service providers bears many risks, though: operational, strategic, reputation, legal and non-compliance risks, etc.

To define banking activity outsourcing, Bank Al-Maghrib specified the conditions thereof in the circular on internal control. Credit institutions are hence required to set a formal policy for the assessment and control of outsourcing risks as well as for relationships with service providers and the guarantees associated with outsourcing operations and the confidentiality of information transmitted to the said providers. Outsourcing of activities falling within the accreditation scope or of services having a significant effect on risk control are subjected to prior approval of Bank Al-Maghrib.

The exercise of new activities or the marketing of new products by credit institutions is subjected to the establishment of relevant risks' measurement, control and monitoring mechanisms. For this purpose, prior approval by the administrative body and good knowledge of the risks likely to occur in relation to the new product and the impact thereof on the institution's activity constitute indispensable prerequisites.

1.1.6 - Financial companies

Pursuant to Article 14 of the banking law, shall be considered as a financial company every company whose core business in Morocco is to hold and manage financial equity participations, and which controls, either directly or through companies with the same core activity, several financial institutions, including at least one credit institution.

Financial companies are required to permanently observe risk division and adequacy rules, on a consolidated or sub-consolidated basis, according to the terms set by Bank Al-Maghrib, and to provide for an internal control system matching their activities and allowing them to identify, measure, and control all risks they face.

They are required to appoint, after the approval of Bank Al-Maghrib, a statutory auditor to perform the duties provided for in the banking law.

Bank Al-Maghrib exercises an off-site control over financial companies. The latter are required to submit to the central bank all information asked for. They should also publish their consolidated or sub-consolidated financial statements in compliance with the provisions applicable to credit institutions.

1.2 - Prudential system applicable to other supervised institutions

The prudential system applicable to similar institutions is specified for each of them by an order of the Minister of Finance, defining the terms and scope of the central bank's control.

1.2.1 - Caisse de Dépôt et de Gestion - CDG (Deposit and Management Fund)

Prudential rules applicable to the Caisse de Dépôt et de Gestion -CDG (Deposit and Management Fund) are those related to solvency and risk division to be observed on an individual and consolidated basis. It also has to put in place a system of internal control matching its activities.

The CDG must keep its accounts in compliance with the provisions of credit institutions' Chart of Accounts and have them certified by two statutory auditors, under the conditions established by Bank Al-Maghrib.

Control of the CDG activities is accomplished through reportings addressed to Bank Al-Maghrib as well as through the on-site control missions.

1.2.2 - Caisse Centrale de Garantie - CCG (Central Guarantee Fund)

The Caisse Centrale de Garantie (Central Guarantee Fund) is required to permanently adhere to the risk division and solvency rule, and to have an internal control system that is adapted to its activities.

Moreover, the CCG is required to keep its accounts in compliance with the provisions of credit institutions' Chart of Accounts and have its financial statements certified by two statutory auditors, under the conditions established by Bank Al-Maghrib.

Bank Al-Maghrib carries out off-site and on-site inspections over the CCG, which is required to submit thereto all the information required for this purpose.

Two amendments were brought in 2008 to texts governing the CCG by Law No. 40-07, published by Dahir No. 1-08-96 of October 20, 2008. The first amendment concerns the withdrawal of Bank Al-Maghrib from the board of the Fund. The second confers upon the claims of the CCG the characteristic of government claims whose collection is governed by Law 15-97 relating to government debt collection.

1.2.3 - Offshore banks

Offshore banks are required to observe solvency, risk division and liquidity rules, and to set up an internal control system adapted to their activities, enabling them to identify, measure, and monitor all the risks they may face. However, offshore banks can be authorized by Bank Al-Maghrib to derogate from these rules when the latter deems that management of the risks they may face is provided under satisfactory conditions by the parent company.

In addition, they are required to keep their accounting in compliance with the provisions of Credit Institutions Chart of Accounts and have their financial statements certified by one statutory auditor, under the conditions established by Bank Al-Maghrib.

Control of offshore banks is accomplished through the examination of reports which they address to Bank Al-Maghrib as well as through on-site inspection missions. The results of these controls are submitted to the Ministry of Finance in its capacity as chairperson of the follow-up committee of these banks.

1.2.4 - Microcredit associations

Microcredit associations are required to submit to the Central Bank, under the conditions the latter stipulates, all documents and information necessary for conducting its control mission.

These associations are not authorized to receive deposits from the public. The provisions relating to the maximum conventional interest rates are not applicable to them. They are required to keep their accounting in compliance with the provisions of Microcredit Associations Chart of Accounts and have their financial statements certified by one statutory auditor, under the conditions established by Bank Al-Maghrib.

Control of these associations is exercised through the reportings addressed to Bank Al-Maghrib as well as through on-site verification missions. The results of these controls are submitted to the Ministry of Finance in its capacity as holding chairmanship of the follow-up committee of microcredit associations.

1.2.5 - Financial services of Barid Al-Maghrib

Barid Al-Maghrib (Moroccan Post Office) is required to have an internal control system adapted to its financial activities, in compliance with the provisions enacted for this purpose by Bank Al-Maghrib.

Barid Al-Maghrib must submit to the Central Bank all the documents and information required for conducting its control mission as well as those necessary for proper operation of common interest services.

Furthermore, Barid Al-Maghrib is called to ensure the respect by its financial services for the provisions relative to customer protection, in particular those regarding the posting of the conditions applied to the operations and services offered to customers (interest rates, commissions, value dates, etc.) and the obligation of signing an agreement for opening a deposit or a securities account by the passbook account units or the postal check units that specifies in particular the conditions of accounts opening and closing.

1.2.6 - Cash transfer intermediation companies

Cash transfer intermediation companies exercise their activities upon an accreditation issued by the governor of Bank Al-Maghrib under the terms and conditions stipulated in article 27 of the banking law. Cash transfer intermediaries must have internal information and control system that is adapted to their activity. They are also required to appoint, after approval by Bank Al-Maghrib, a statutory auditor and to keep their accounts in compliance with the rules applicable to the limited company.

Cash transfer intermediaries must display to the public the conditions applicable to their operations.

Control of cash transfer companies is carried out by examination of the documents and information they transmit to Bank Al-Maghrib and through the on-site inspection missions.

1.2.7 - Intermediaries in operations carried out by credit institutions

Intermediaries in operations carried out by credit institutions are defined by Article 121 of the banking law as persons who, as their regular profession, link the parties interested in concluding one of the operations referred to in Article One[1], without becoming a decredere agent. They exercise their activity by virtue of a mandate issued by a credit institution. This mandate contains the type and conditions of transactions the holder is authorized to handle. Any intermediary in transactions made by credit institutions, who, even on an occasional basis, is entrusted with funds as a proxy for these parties, is required to provide at all times a financial guarantee specially allotted to the repayment of these funds.

2 - Accounting system

2.1 - System applicable to credit institutions

Since January 2008, credit institutions are required to comply with international accounting standards called IAS/IFRS. To this end, many amendments were introduced to the Credit Institutions Chart of Accounts (CICA). These principles mainly concerned the rules of consolidation and preparation of financial statements as well as the accounting and assessment methods used for individual accounts to ensure their compliance with best practices and the IFRS.

For more transparency, Bank Al-Maghrib circular No. 1/G/08 of July 16, 2008 set the conditions according to which credit institutions should publish their financial statements in compliance with the new standards.

Individual statements shall include the balance sheet, the profit and loss statement, the management balance statement, the cash flow, and the statement of supplementary information. They should be elaborated in compliance with the provisions of chapter 3 of the CICA. As for consolidated financial statements, they should include the balance sheet, the income statement, the statement of changes in equity, the cash flow spreadsheet,

1 Operations provided for in Article One of the banking law are (i) accepting funds from the public, (ii) granting loans or other forms of credit, and (iii) offering customers all means of payment or the management thereof

and the notes. The statements should be established in compliance with the IAS standards, as stipulated by Chapter 4 of the CICA.

All the aforementioned statements should be verified, prior to their publication, by the institution's statutory auditors, pursuant to Bank Al-Maghrib's rules and conditions. They should be published in the official bulletin ads within the deadlines set by Bank Al-Maghrib circular.

The publication of individual financial statements should take place 30 days at least before the ordinary general assembly, along with the document of their certification by auditors. In case of unavailability of such document, the institution may specify that the statements are not certified. Half-yearly statements should be published on September 30, at the latest.

The publication deadline set for the consolidated financial statements is May 31 for yearly statements and October 15, for half-yearly statements.

2.2 - Rules of non-performing loans' classification and provisioning

The rules of classification and provisioning of non-performing loans are governed by circular No. 19/G/2002 of December 23, 2002, as completed and modified on December 9, 2004. Pursuant to the provisions of this circular, credit institutions are required to classify their claims, according to the extent of the loss risk, under one of the following five categories: sound, irregular, pre-doubtful, doubtful, and lost.

Pre-doubtful, doubtful and lost loans, called non-performing loans, should be respectively provisioned up to 20, 50 and 100% at least of their net amounts of the legally allowed guarantees.

The control of the respect of these rules is accomplished though on-site inspections and the verification of statutory auditors' reports.

2.3 - System applicable to other supervised institutions

Microcredit associations should elaborate their financial statements including the balance sheet and the income and expenses account on a yearly and half-yearly periodicity. These statements are established in accordance with the provisions of the Microcredit Associations Chart of Accounts, as it was enacted by order No. 1672-07 of July 25, 2007 of the Minister of Finance.

Financial companies and funds transfer companies are subjected to general accounting system applicable to limited companies. However, financial companies are required to establish and publish their consolidated financial statements under the same conditions as banks.

3. Provisions relating to customer protection

In order to establish relations between credit institutions and customers on a sound basis, the legislator has provided for a set of provisions, along with other measures taken by Bank Al-Maghrib in consultation with professional associations.

3.1 - Provisions governing credit institutions' relations with their customers

Access to banking services through the opening of a bank account is the right of any person desiring to do so. This relation is governed by an account agreement specifying the nature and the extent of the two parties' rights and obligations.

In order to ensure better transparency, credit institutions are required to display at the level of their branches the conditions applicable to their operations to the public. Bank Al-Maghrib has explained the conditions related to this measure, while the GPBM, at its own initiative, has set the foundations on which banking and free of charge services tariffs are based.

The banking law also grants to customers the right to refer to Bank Al-Maghrib any dispute opposing them to credit institutions. In this respect, Bank Al-Maghrib has created a section within the Banking Supervision Department to settle customers' complaints amicably.

Upon a proposal of Bank Al-Maghrib, the GPBM board has decided to establish a banking mediation procedure destined to help settle disputes between banks and their customers and thus reduce recourse to long and costly court procedures without limiting the rights of customers in that field.

3.2 - Deposit insurance system

The 1993 banking law had established a deposit insurance fund called the Fonds Collectif de Garantie des Dépôts (Deposit Insurance Fund) that entered into force in 1996. The Fund, which is not a legal entity, is managed by Bank Al-Maghrib.

The fund is financed by way of annual contributions from credit institutions receiving funds from the public and which are required by the law to adhere to this system. According to the law the contribution amount cannot exceed 0.25% of deposits and other reimbursable funds collected by each institution. The contribution rate is currently set at 0.20% by circular No. 22/G/2006 of November 30, 2006.

The deposit insurance system aims mainly at compensating depositors of credit institution members. The compensation mechanism is initiated by Bank Al-Maghrib as soon as it notices a shortage in deposits and other reimbursable funds received from the public and no signs to make for it shortly. The maximum compensation amount is currently set at 80 thousand dirhams per depositor, within the limit of the Fund's possibilities.

The Fund may also, as a preventive and exceptional measure, grant reimbursable contributions to one of its members of the situation presents an eventual problem of deposit unavailability, provided that this member offers recovery plans deemed acceptable by Bank Al-Maghrib.

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3. EVOLUTION OF THE LEGAL AND REGULATORY FRAMEWORK OF THE OTHER FINANCIAL SECTOR SEGMENTS

The legal and regulatory framework governing the activities of other financial sector segments has also witnessed certain developments in terms of regulations and supervision reinforcement.

A - Compartment of the capital market

The capital market was strengthened in 2008 by the introduction of new products. Hence, the scope of securitized assets that had been limited to only mortgages was extended to other categories of loans pursuant to Law No. 33-06 relating to debt securitization, amending and completing Law No. 35-94 relative to certain negotiable debt securities and Law No. 24-01 relative to repurchase agreements. Are now eligible for securitization the loans of credit institutions and similar bodies, as well as those of public institutions, state-owned companies and public subsidiaries, delegate legal entities, companies subjected to the insurance law, and negotiable debt securities. This covers either current or future debts, either sound or bad ones.

In the same direction, the Transferable Securities Board (CDVM) set in a circular the list of documents and information to be included in a request file to carry out business as capital risk investment entities.

The CDVM also enacted several provisions in order to specify the conditions of carrying out certain operations. In this respect, it set in circular No. 03-08 the terms of implementing the provisions of the Foreign Exchange Office circular authorizing Undertakings for Collective Investment in Transferable Securities (UCITS) to invest in currency-denominated assets up to 10% of their portfolio. The Board also set in circular No. 01-08 on transactions on listed shares the rules to be observed in this field by issuers, the stock-exchange, the central securities depositor and account keepers.

Additionally, the 2008 Finance Act authorized the Directorate of Treasury and Foreign Finance to carry out active management transactions of the domestic debt. In this respect, the Economy and Finance Minister order No. 1443-08 of August 4, 2008 allowed this Directorate to purchase and exchange treasury bills issued at auction.

In order to protect investors' interests and improve the profession of financial analysts, the CDVM published circular No. 04-08 pertaining to the minimum ethical rules to be observed by financial analysts while elaborating their analysis statements bearing their assessments and recommendations of the issued securities. These rules apply to all financial analysts due to the nature of their activities regardless of the status of their employer. The provisions of this circular, in line with international standards, call for the respect of certain fundamentals such as clarity in analysis, prevention and management of interest conflicts, transparency, competency and integrity, responsibility and independence.

Concerning UCITS classification, the Order of the Minister of Finance No. 1106-08 dated June 13, 2008 defined the characteristics of "equity UCITS" as those that must be permanently invested up to at least 60% of their assets, exclusive of "equity UCITS" securities and liquidity, in stocks, investment certificates and allotment rights or subscription rights listed on the stock market or on any other regulated market with regular functioning and open to the public.

B - The insurance compartment

In the field of insurance, certain implementation conditions related to Law No. 17-99 standing as the insurance code were specified by Decree No. 2-06-508 dated December 25, 2007, modifying and completing the provisions of Decree No. 2-04-355 dated November 2, 2004.

The decree came to reinforce the power of the supervisory authority of the Minister of Finance who now can require insurance and reinsurance companies to submit to him their solvency report, provided for by the aforementioned law No. 17-99, under the conditions he sets.

Besides, the Minister of Finance's power to make disciplinary measures has been strengthened toward the relevant institutions that violate legal and regulatory provisions and against which he can decide a formal notice or any other administrative fine provided for by the law.

Similarly, pursuant to this decree, auditors are required to inform the ministry of finance of any act or decision likely to affect the sustainability or reputation of insurance and reinsurance companies and submit to him all information related to the companies' activities and relevant to his supervision mission.

Besides, by way of application of Law No. 02-08, the association for the management of the Moroccan Inter-professional Pension Fund (CIMR) was excluded from the scope of application of the insurance law. The terms of its supervision by the government will be set in a separate law.

II. BANKING SUPERVISION ACTIVITIES AND FINANCIAL STABILITY

2008 was an exceptional year for the international financial system. It witnessed long periods of strong turmoil that have weakened the macroeconomic environment and, by way of consequence, the banking activities.

In this context, Bank Al-Maghrib took a series of steps to bolster prudential monitoring, adapt priorities and readjust supervision actions.

Even if banks did not suffer the impact of the crisis, the current situation calls for further consolidation of the risk management system in order to reinforce the resilience of the banking and financial system.

In fact, recent experiences have shown that efficient macroeconomic monitoring mechanisms are of paramount importance in the prevention and resolution of systemic crisis. Hence, Bank Al-Maghrib which boasts a large autonomy and a strong supervision authority has sought to place its supervision actions in a broader perspective of financial stability.

1. BANKING SUPERVISION ACTIVITIES

Bank Al-Maghrib exercises its monitoring of credit institutions and similar bodies through off-site and on-site inspection missions. It sees to the respect by relevant institutions of the accounting and prudential rules governing the banking system and penalizes the violations reported.

It also issues, upon the opinion of Credit Institutions Committee, the licenses necessary to engage in banking activities as well as approvals regarding credit institutions managers and statutory auditors.

A - Licenses and approvals

In 2008, the files examined by the Credit Institutions Committee concerned the expansion of certain banks at the continent’s level, the opening of the Moroccan banking market to new foreign operators and the standardization of several funds transfer companies’ activity.

Hence, Bank Al-Maghrib granted 9 approvals in favor of:

- Two Spanish banks for the opening of branches operating mainly with Moroccans living in Spain, the Spanish community in Morocco and Spanish businesses with economic interests with Morocco;
- Two finance companies for shareholder reorganization with a change in control for one company and the expansion of activities for the other one;
- Five funds transfer companies.

The Central Bank also granted prior approval for the following actions:

- The control by a bank of two foreign banks, one in Senegal and the other in Mali;
- The opening by two banks of branches in Mauritania;

- Equity participation by a bank in two banks, one in Niger and the other in the Democratic Republic of Congo;
- The setting up by a bank of a financial company in France for Moroccans living abroad;
- The opening by a bank of two representation offices in Italy and Spain.

Moreover, Bank Al-Maghrib examined 21 files related to the approval of the appointment of statutory auditors in 6 banks, 2 finance companies and 6 funds transfer companies. It also approved the appointment of 19 managers and directors within administrative or management bodies of 9 credit institutions.

B - Control activities

Following the entry into force of Basel II and IFRS, control activities, both off-site and on-site, were adjusted to take into consideration the new regulatory requirements. The body of procedures in place was complemented by new methodologies for the monitoring of interest rate and liquidity risks. The conditions to control institutions on a consolidated basis were reviewed in light of the impact caused by the introduction of IFRS standards.

In view of the increasing regional expansion of Moroccan banks, the surveillance system for external branches and offices was strengthened. The cooperation agreements concluded with the supervisory authorities of the host countries constitute an essential element of this mechanism.

1 - Permanent control activities

As part of surveillance of the financial situation of credit institutions and similar bodies and the verification of their compliance with the legal and regulatory provisions, off-site inspection rates them on the basis of the Support System for Credit Institutions Rating (SANEC). This mechanism, currently covering only banks, will be extended in 2009 to consumer loan and leasing companies.

The results and ratings of the SANEC are submitted each year to bank managers. This system has indeed helped to improve the banking supervision process and to structure dialogue with relevant institutions.

Box 1: The SANEC in center of dialogue with credit institutions

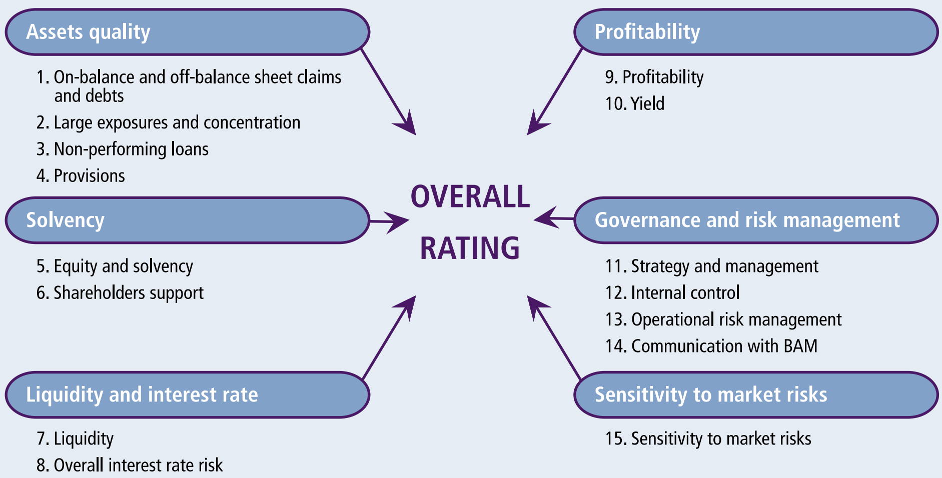
The objectives of the SANEC are as follows:

- give an overall idea on the credit institutions' financial and prudential situation;
- analyze the quality of their direction and management;
- establish their risk profile;
- set up an alert system aimed to strengthen the preventive aspect of prudential supervision.

The SANEC therefore is a tool of analysis and prevention that allows for a risk-based supervision. Besides, it represents an internal management instrument that helps measure the intensity of permanent monitoring, schedule on-site inspection missions and take corrective actions. In fact, when the rating reaches a predefined threshold, adequate measures are taken, in compliance with the procedures stipulated by the guide for processing credit institutions' difficulties.

With the entry in force of Basel II, particularly pillar 2, relations with banks were structured around this system. In fact, it is up to banks to convince the supervisory authority of their equity adequacy, compared with the level of their exposure to risks and the quality of mechanisms put in place to manage those risks. Similarly, the supervisory authority may ask for additional equity in case this is justified by the institution's risk profile.

Institutions are rated according to a scale ranging between 1, the most favorable, and 5, the most unfavorable. The assessment is based on 15 criteria covering six risk areas:



As shown in the chart, the rating process is based on a risk analysis which is qualitative and quantitative. It is done through an information system instrument that helps manage rating files in an interactive manner between the different actors involved in the process and provide them with all the necessary data.

In addition to the documents received at regular intervals by institutions, off-site inspection analyses held in the framework of rating are carried out on the basis of frequent interviews with these institutions' managers and executives, as well as with the statutory auditors. They also take into consideration the outcome of on-site supervision missions.

During 2008, the frequency of meetings with bank managers and audit committees has increased significantly. These meetings examined issues mainly concerning strategy, governance and risk management systems.

At the same time, off-site supervision, along with on-site supervision, served to evaluate the possible consequences of the international financial crisis on the banking sector. Close monitoring of the quality of claims on foreign counterparties was made in order to point out any risky exposures. Moreover, banks were invited to submit more detailed and more frequent reports on these exposures.

The off-site mechanism was completed by a set of indicators allowing for a more sophisticated assessment of credit risks facing sectors vulnerable to a deteriorating financial situation. These indicators mainly concern banks' claims on the sectors of real-estate development, tourism, textile, and car industry.

Following the decision of Bank Al-Maghrib to raise the minimum solvency ratio to 10%, off-site supervision focused on the implementation of the measures that banks had committed themselves to in order to comply with the new regulatory rate.

Along with the regional expansion of Moroccan banks, the follow-up of the activity of branches abroad was increased, through a monitoring procedure based on the transmission of quarterly financial data of these branches, the examination of statutory auditors' reports and the inspection reports of their parent companies. Cooperation with the supervisory authorities of the host countries is an important component of this mechanism.

The microcredit sector was also subjected to an in-depth monitoring, given the increasing risks.

2 - On-site control activities

The scheduling of on-site control missions was determined while taking into consideration the depreciating international economic and financial environment, as well as the results of the SANEC. This mechanism helps target the banking system vulnerable spots and allow for the preparation, organization, and management of inspection missions.

During 2008, Bank Al-Maghrib conducted 15 inspections in credit institutions and similar bodies, including 7 general missions, 5 specific missions and 3 transversal missions.

General missions covered 4 banks, a consumer loan company, a leasing company and a similar body. They focused on the quality of assets, governance, internal control, risk management, as well as on the accounting and information systems.

As part of specific missions, in-depth inspections were conducted with major banks to assess their direct and indirect exposures on subprimes and on failing or vulnerable institutions due to the crisis. These missions also covered off-balance sheet operations, real-estate development loans, and management mechanisms for some market activities.

Two transversal missions respectively concerned the display of banking conditions and the progress of IFRS implementation within banks. The third one aimed at assessing the risks facing microcredit associations, due to cross lending, and evaluating the rules followed in the classification of the sector's non-performing loans.

3 - Supervision conclusions and recommendations

Inspections conducted during 2008, either through off-site or on-site supervision, have showed the progress achieved in strengthening credit institutions' risk management systems and helped identify areas of improvement that led to recommendations.

As for risks caused by the international financial crisis, the inspections conducted confirmed the fact that banks do not hold any exposure on vulnerable international counterparties, and that the volume of assets held abroad remains limited with regard to total assets. Nonetheless, Bank Al-Maghrib asked bank mangers to be more involved in the management of these risks.

It also invited banks to remain vigilant in term of risks linked to real estate financing, in particular the tourist residential segment destined to foreign demand, and improve their risk division tools in order to monitor these risks.

At the level of accounting, banks prepared their accounts for fiscal 2008 in line with the IFRS' standards and published their consolidated financial statements in accordance with the new financial reporting rules. Bank Al-Maghrib underlined the necessity for a better follow-up of off-balance sheet claims that need to be taken into account in risk management, mainly in terms of liquidity and interest rate risks.

Concerning risk division, institutions by and large respected the maximum ratio. Large exposures[1] represented 380% of banks' regulatory capital, compared to 366% in 2007.

As regards solvency and in order to be in line the new 10% ratio, most banks started strengthening their equity through capital increase operations, the incorporation of a part of dividends or the issuance of subordinated debts of which some are of an undetermined duration. The banks' solvency ratio subjected to Basel II reached on average 11.2%, on a corporate basis, up 0.6 point compared to the previous year. The average ratio of tier one capital moved up 0.3 point to 9.5%. The solvency ratio, on a consolidated basis, increased one point to 11.7%.

The sector's average liquidity ratio decreased by about 19 points, to stand at 106% at the end of 2008. Liquid assets, despite their decrease, continued to constitute a significant part of the balance sheet. These developments call for improved measurement and management of liquidity risk within banks.

As far as internal control is concerned, certain institutions were asked to allot more means to off-site control and ensure a more scrupulous follow-up of the recommendations of internal and external audit missions. Besides,

1 Large exposures correspond to claims and securities held on the same counterparty and the amount of which represent 5% or over of the regulatory capital

some institutions were invited to accelerate the implementation of operational risk management mechanisms and business continuity plans.

The main recommendations addressed to microcredit associations concerned the improvement of credit risk management mainly through to a better control of cross lending, the resolution of weaknesses revealed in internal control systems and the upgrading of information systems.

In 2008, some institutions were coerced to pay fines for having failed to respect some regulatory provisions.

C - Work linked to the transposition of basel II advanced approaches

Within the efforts aiming at completing the regulatory framework governing the new capital adequacy mechanism, Bank Al-Maghrib continued, in consultation with the GPBM, preparing for the implementation of the advanced approaches related to credit, market and operational risks.

Box 2: Capital requirements under Basel II Advanced Approaches

Advanced approaches are based on the use of internal models for the assessment of all or some of the parameters involved in the calculation of capital requirements.

The use of these models for prudential requirements is subject to the approval of the regulatory authority and the respect of a number of minimum requirements.

CREDIT RISK:

Advanced credit risk approaches, called internal ratings-based approach (IRB), are based on the banking institutions' own internal methods in order to evaluate the credit risk, make internal ratings, and quantify the estimates of risk parameters, allowing for the calculation of equity requirements. The IRB defines the following risk parameters:

- **Probability of default (PD):** it measures the probability of a default on a given counterparty, within one-year term;
- **Exposure at default (EAD):** it represents the asset at risk due to the counterparty at the moment of default on a given commitment;
- **Loss given default (LGD):** it is the ratio between the loss on an exposure because of the default of counterparty and the amount of exposure at the moment of default.
- **Effective maturity (M).**

The advanced approaches include two methods:

- **Foundation IRB approach:** the bank estimates the PD while the other risk parameters are fixed by the regulatory authority.
- **Advanced IRB approach:** the bank estimates all risk parameters.

Capital requirements in terms of credit risk are calculated on the basis of a weighting function based on the aforementioned risk parameters and which varies according to the portfolio considered (major companies, small and medium-sized enterprises, housing, etc.).

MARKET RISK:

Within the framework of the advanced approach, banks use internal models to calculate capital requirements with respect to market risks. This assessment may be conducted through the value at risk (VaR) method. VaR represents the maximum potential loss due to a disadvantageous trend of markets prices, during a determinate period at a given probability level (also called confidence threshold). Thus, it constitutes an overall and probabilized measure of market risk.

OPERATIONAL RISK:

The advanced methodology approach (AMA) obliges banks to make an internal evaluation and monitoring of operational risks. This means the obligation to collect risk incidents and related risk data along with sufficient history in order to develop assessment models.

Within the framework of the implementation of internal rating mechanisms, a questionnaire was handed out to banks so as to enquire about the progress made in the work launched to this effect. The review of answers showed that banks generally prioritized the implementation of rating systems relative to businesses and professionals, with heterogeneous target models and different progress levels. They planned to later extend these systems to private individuals.

Exchanges with banks helped identify a number of issues to be dealt with immediately, mainly the historization of data, and the implementation of the default definition, as well as the effective use of the rating system in credit risk management.

D - Work linked to the entry into force of IFRS' standards

Bank Al-Maghrib conducted several actions in favor of banks to help them put into operation IFRS' standards, which entered into force in January 2008.

By way of recommendations, Bank Al-Maghrib has thus set the conditions and terms to be observed in the publication of the impact of transition to IFRS. This publication is to take place along with the publication of their consolidated accounts in line with IFRS until December 31, 2007 or their consolidated financial statements until June 30, 2008 at the latest. Similarly, Bank Al-Maghrib established the list of readjustments (called "prudential filters") relative to capital equity for the calculation of the solvency ratio on a consolidated basis, in order to counterbalance the IFRS' standards impact on capital equity.

Likewise, Bank Al-Maghrib examined with banks the options and procedures to be adopted in the elaboration of their balance sheet in line with IFRS' standards, in light of the impact study results.

Moreover, a transversal survey was conducted within six banks in order to check the compliance of the methods adopted with the IFRS provisions, mainly for the assessment and depreciations of financial instruments.

At the international level and in response to the financial crisis, the International Accounting Standards Board issued amendments to IAS 39 standard on financial instruments authorizing the previously precluded reclassifying of financial instruments into or out of the category of financial assets at fair value through loss/profit (transaction portfolio), in order to limit the results' volatility. The Moroccan banks have not retained these options, since the category of financial instruments at fair value through loss/profit is limited.

E - International cooperation

In application of the Article 82 of the banking law and in line with the Basel Committee's principles on banking supervision, Bank Al-Maghrib signed with the Central Bank of Tunisia an agreement on cooperation and information exchange in terms of banking supervision. Discussions were launched on the same issue with other banking supervisory authorities in the region.

In this vein, many meetings took place between Bank Al-Maghrib and its counterparts abroad on the financial and prudential situation of certain credit institutions and the impact of the international financial crisis.

Similarly, Bank Al-Maghrib took part in the meeting of the Banking Supervisory Group of Francophone Countries. The Group, chaired by Bank Al-Maghrib during the two first years of its existence, constitutes a forum to exchange experiences and ideas on all issues of importance as regards banking supervision, mainly the implementation of Basel II. The Bank is also member of the Arab Banks Supervisory Committee, whose secretariat is provided by the Arab Monetary Fund.

Bank Al-Maghrib, a member of the International Association of Deposit Insurers, participates in the proceedings of this association created in 2002 in order to promote international cooperation in the field of deposit guarantee and favor experience exchange in the field. It also follows, as an observer, the proceedings of the Islamic Financial Services Board (IFSB), in charge of enacting the prudential rules applicable to Islamic financial institutions.

Besides, the supervisors of certain partner central banks took practical trainings within the Banking Supervision Department (DSB).

Lastly, an executive from Bank Al-Maghrib took part in two missions jointly organized by the World Bank and the International Monetary Fund within the framework of the Financial Sectors' Assessment Program of the West African Monetary Union and Burundi.

F - Consultation with professional associations

During 2008, Bank Al-Maghrib intensified exchanges with the different professional associations toward a hands-on coordination of actions pertaining to major projects for the banking system and the financing of the economy.

Hence, Bank Al-Maghrib held several meetings with the GPBM board which dealt with issues pertaining mainly to the international economic and financial crisis, the financial sector's development perspectives over the next ten years, the contribution of the banking system to financing small and medium size companies and the major projects initiated by the Government, the payment systems, the establishment of a credit bureau and the improvement of relations between banks and their customers.

Bank Al-Maghrib has also examined with the professional association of finance companies the development perspectives of the consumer credit sector, the banking regulations and alternative financing products, and the banking fiscal system.

Besides, Bank Al-Maghrib has discussed with the national federation of microcredit associations issues pertaining to governance, information systems, non-performing loans classification rules and the restructuring of the sector.

G - Treatment of complaints

By the end of December 2008, the DSB examined 260 complaints and information requests, compared with 253 in 2007. Within this framework, the credit institutions concerned are contacted and on-site inspections, if necessary, are conducted.

The complaints examined concerned mainly the opening and running of accounts, payment means, banking services tariffs and banks conditions. Many requests concerned the disclosure of deceased persons' accounts.

About 70% of the complaints were solved in favor of customers, compared with 65% during the previous year.

Requests from judicial authorities reached 102 during 2008. They mainly concerned the right to information and assistance with regard to the freezing of assets belonging to persons undergoing a criminal procedure.

H - Banking supervision means and resources

In order to further its modernization efforts, Bank Al-Maghrib launched in 2008 a new human resources' master plan. The latter aims at putting in place new human resources' policies pertaining to hiring, mobility, training, performance management and compensation.

After having reshaped the staff status that set the fundamentals of the human resources' master plan, all members of the DSB staff, similarly to other departments, were subjected to a new functions' classification system called "career paths".

Similarly, a new objective centered evaluation system of contribution and performance based on evaluations interviews between agents and their managers was put in place during 2008.

The DSB staff members' number was kept unchanged in 2008, around 82 agents dealing mainly with supervision and regulation activities. In order to continuously upgrade their skills and catch up with national and international developments, supervisors benefited from several trainings inside and outside Morocco. The department has also trained some twenty university students on projects related to Basel II, IFRS, etc.

Concerning the information system, a new system called "credit risk analysis aid system" (SAARC) was put in place in 2008. The system is destined to smooth the progress of monitoring the risks incurred by credit institutions with regard to big debtors and following up non-performing loans at the banking system level.

At the same time, works related to implementing a harmonized framework for the accounting and prudential reporting transmission in line with the best practices have continued. This framework is called COREP (Common Reporting) for Basel II prudential data and FINREP for IFRS accounting data and is based on XBRL technology. Its purpose is to foster the best practices in the field.

The year 2008 was marked by the certification of all activities of the bank in line with the requirements of the ISO 9001 standard, the 2000 version. This achievement was made possible thanks a double dynamics: setting the bank's quality policy on the one hand, and, on the other hand, defining and implementing the elements likely to control and improve the transversal processes.

2 - Activities related to financial stability

Financial stability is a multidimensional concept referring to a situation where the functioning of the various financial system components, as well as their reciprocal relationships, is ensured in a sound and smooth way, without any major impacts. Beside the existence of an appropriate regulatory infrastructure and an efficient financial market, it requires strong financial institutions and an appropriate system of payment and settlement.

The recent international developments have shown that central banks are major actors in safeguarding financial stability, while their mission has been refocused during the two last decades on prices stability on the back of the recognition of their independence.

Even if its statutes do not explicitly include financial stability as one of the bank's missions, Bank Al-Maghrib cannot, by virtue of its quality of monetary authority, supervisor of the banking system and regulator of payment systems, ignore this dimension without causing prejudice to the achievement of its fundamental missions. Hence, it places its banking supervision activity within a larger perspective of financial stability. In this vein, it has launched several actions. The bank's efforts in this field depend greatly on fostering cooperation with other regulatory authorities of the financial sector.

A - Macro-prudential monitoring framework

There are many potential sources of financial instability risk. These can be due to the existence of some forms of vulnerability at the level of financial institutions, mainly those of systemic importance. This vulnerability impinges on other institutions or sections of the financial sphere. Risk sources can also stem from macroeconomic imbalances or disorders of specific markets that can, by way of consequence, affect the soundness of financial institutions.

Interpenetration of banking activities with activities of other financial operators requires a comprehensive approach and in-depth analysis of this interaction between several actors in order to grasp the contagion channels in critical situations. It is hence of vital importance to provide for the tools likely to allow for an early identification of transversal risks, in order to monitor them and measure their impact on financial and economic spheres.

In this respect, Bank Al-Maghrib embarked during 2008 upon the setting of a banking macro-prudential monitoring framework based on three main pillars: financial soundness indicators, stress tests and macro-stress tests.

1 - Financial soundness indicators

The assessment of the financial sector's soundness depends on a set of qualitative and quantitative tools related to factors that have a determining influence on the integrity of the financial system. The International Monetary Fund has elaborated a handbook for member countries which specifies the most relevant quantitative indicators to be put in place, with their definition and priority order with regard to financial stability.

Qualitative elements pertain to the financial sector's infrastructure. They mainly concern the quality and relevance of the supervision framework (institutional and regulatory mechanism, the supervision process, etc…), the accounting standards adequacy (including the rules of loans classification and provisioning) and obligations with regard to financial transparency and the efficiency of the judiciary system.

Quantitative indicators combine aggregated micro-prudential ratios, macroeconomic variables, as well as a wider range of indicators reflecting the main markets' situation (inter-bank money market, bond market, repo market, stock market, etc.), destined to identify any form of disorder accumulation within the financial system.

Aggregated micro-prudential ratios mainly reflect the risks incurred by credit institutions, the quality of their assets, their capital adequacy, their liquidity situation, as well as their profitability and vulnerability to the market risks. Those considered as fundamental by the IMF are twelve and pertain to prudential ratios of the institutions entitled to collect deposits from the public. The indicators called complementary / supplementary consist in a set of ratios related to the financial situation, the assets and balance structure of these institutions and of other financial institutions. They are completed by data pertaining to certain specific agents and economic structures.

Macroeconomic variables (economic growth, inflation, volatility of foreign exchange rates and interest rates, balance of payments, increase in loans and in asset prices, etc.) are chosen according to their ability to detect any accumulation of disorders at the level of the financial system.

Bank Al-Maghrib already disposes of the indicators considered as fundamental (see box 3) and which are largely covered by the rating system of credit institutions (SANEC), as well as many complementary indicators. This mechanism is to be completed by further data related to corporations, households and the real-state sector.

Box 3: Fundamental indicators of financial soundness during 2005-2008 in Morocco (in %)

	2005	2006	2007	2008
Capital adequacy				
Solvency ratio	**11.5**	**12.3**	**10.6**	**11.2**
Core equity/Total risks	**10.0**	**11.0**	**9.2**	**9.6**
Non-performing loans net of provisions/capital	**40.9**	**25.8**	**18.2**	**13.9**
Assets quality				
Non-performing loans/Total amount of loans	**15.7**	**10.9**	**7.9**	**6.0**
Credit distribution per sector/Total loans				
Loans to the primary sector	7.3	6.6	5.4	6.9
Loans to the building and public works sector	6.2	7.4	12.6	12.5
Loans to the processing industry	20.3	19.1	17.4	15.9
Loans to general government and local communess	3.9	3.4	2.8	3.0
Loans to the trade sector	7.8	6.7	6.5	6.5
Loans to the tourist sector	3.0	2.3	2.3	2.6
Households	6.0	28.6	28.4	26.5
Loans to other services and miscellaneous loans	25.5	25.9	24.6	26.1
Income and profitability				
Return on assets (ROA)	**0.5**	**1.3**	**1.5**	**1.2**
Return on equity (ROE)	**6.3**	**17.4**	**20.6**	**16.7**
Interest income / net banking income (NBI)	**80.4**	**76.1**	**75.9**	**78.1**
Overall operating expenses/ NBI	**50.0**	**48.0**	**46.5**	**47.8**
Liquidity				
Liquid assets/total assets	**29.0**	**27.4**	**22.7**	**18.6**
Liquid assets /short-term liabilities	**40.0**	**36.8**	**29.5**	**24.7**
Sensitivity to market risk				
Currency-denominated net open positions / capital	**15.8**	**7.2**	**8.2**	**6.5**

2 - Sensitivity stress tests

Stress testing models are normally used as assessment tools to measure the impact of a scenario characterizing an unfavorable evolution of the economic environment or of certain segments of money or financial market (exchange rate, interest rate) on profitability, solvency and liquidity at the level of the banking system as a whole or within banks at a separate level. These models also help appreciating the banking system's resilience capacity facing certain shocks supposed on the basis of sometimes extreme hypotheses and yet considered as plausible.

Bank Al-Maghrib developed a stress testing model which is inspired from the approach recommended by the IMF and that helps the Central Bank to analyze the incidence of deteriorating credit, liquidity and market risks.

Credit risk: many scenarios are considered to assess the impact -on banks' solvency- of certain shocks grasped through the 20% discount on guarantees held, or the gradual downgrading of sound loans in different categories of non-performing loans. Many simulations are carried out for certain sectoral risks (agriculture, textile, building, tourism, etc.) or for certain specific counterparties, such as large borrowers.

Liquidity risk: the simulation aims at assessing the banks' own capacity to resist the shock of massive withdrawals of deposits during five consecutive days without the help of the central bank.

Market risk: the model tests the possible impacts -on the banks' profitability and solvency- of interest rate variations by more (or less) than 200 basis points and a 20% exchange rate fluctuation vis-à-vis the euro or the US dollar.

3 - Macro-stress tests

By way of completing the sensitivity stress testing mechanism, macro-stress tests are carried out to enhance analysis tools. To this end, a first model specific to credit risk was elaborated in order to help connect the evolution of the banking activity's aggregates to the economic, monetary and financial variables. The priority was to retrace, over some thirty years, data on non-performing loans of banks, and to make modeling for this variable compared with the GDP, interest rates and inflation.

B - Process of coordinating the actions of financial sector regulators and supervisors

Sharing out the mission of supervising the financial sector between several separate and specialized authorities according to the different segments poses the question of coordinating their actions, given the increasing interrelation of banking activities with those of insurance and the capital market.

In fact, links between banks and other financial institutions are multiple and tend to increase through cross equity participations, bank insurance operations and counterparty risks.

Being the major component of the Moroccan financial system, given their weight and the essential role they play in financial intermediation, banks are also major operators on the capital market, since an increasing part of their assets and liabilities is in fact held as negotiable securities. At the same time, the capital market is growing more important, as reflected in the expansion of debt and equity markets.

Considering these evolutions, the legislator has provided for a mechanism to coordinate the actions of supervisory bodies. However, this mechanism still needs to be strengthened.

1 - Financial Sector Supervisory Coordination Commission

Information exchange and coordination of supervision activities are inevitable prerequisites for a monitoring mission related to financial stability. The lack of financial transparency or the incapacity of a prudential authority to obtain reliable data for its consolidated control can be an impediment to a good evaluation of the banking groups and financial conglomerates risk profile. The international financial crisis has clearly shown the dramatic consequences of such deficiency.

Supervising the financial system in Morocco is shared between Bank Al-Maghrib, the Transferable Securities Board and the Insurance and Social Security Directorate attached to the Ministry of Finance., in charge, each according to its scope of competences, of monitoring the good functioning of the segment under its control. The cooperation framework between these bodies has been ensured since 2006 through the Financial Sector Supervisory Coordination Commission. The commission has its own internal rules that govern its functioning conditions and the relationships linking its members.

The commission held three meetings in 2008 dealing mainly with the review of the international crisis' impact on the financial sector and the measures to take to control them. The other topics discussed during the commission's meetings related to implementation of the recommendations of the IMF and the World Bank assessment mission held in 2007, as well as the financial sector's development outlook and the establishment of a single monetary and financial code.

2 - Systemic crisis simulation exercises

In order to test their response capacity within a collective and coordinated framework in case of a systemic crisis situation affecting all segments of the financial system, the three supervising bodies have decided to launch, in cooperation with the Ministry of Finance, systemic crisis simulation exercises.

The first exercise took place in April 2009 with the support of the World Bank. Morocco was thus the first MENA country to have performed such an exercise destined to help countries develop or update their systemic risk management tools.

The exercise consisted in a situation scenario whereby senior decision-makers within the supervisory bodies, while simulating a systemic crisis, test their aptitude to manage the consequences of a wide shock and assess to what extent they are able to coordinate their actions all along the crisis resolution process. The lessons taught from experience will allow for the launching of reforms aimed at strengthening the financial supervision framework.

C - Deposit guarantee system

The confidence of the public, in financial institutions in general and banks in particular, is a prerequisite to the sustainability of their activities. This confidence is built up thanks to the satisfaction of customers with regard to the sound and prudent management of deposit corporations, and to the customers' conviction that their deposited funds are recovered, in case of serious difficulties faced by these institutions.

Within the framework of the implementation of the 1993 banking law, Morocco established the Deposit Insurance Fund that entered in force in 1996. The purpose of this Fund is to protect the interests of depositors in case of sudden unavailability of deposits.

At the end of December 2008, the cumulated amount of the Deposit Insurance Fund's resources reached DH 7.4 billion, representing the double of these resources in 2004. The Fund's main resources, about 86%, come from the contributions of member institutions, whereas the remainder comes from investments the Fund makes. The net benefit in 2008 amounted to DH 200 million, representing a 32% increase from one year to the other. To date, the intervention of the Fund has never been sought.

Internationally, Deposit Insurance Funds were at the center of the financial crisis management. In order to preserve confidence in markets, several countries resized these systems to raise the level of deposit guarantee.

Bank Al-Maghrib has closely followed these developments as well as regulatory evolutions and practices in this field, and will draw lessons in order to better strengthen the financial stability.

PART 2

Structure, activity and results of the banking system

I. STRUCTURE OF THE BANKING SYSTEM

Despite the international economic and financial crisis, banks have accelerated the expansion of their network, during 2008, both at the national and at the international levels. At the regional level, mainly in the sub-Saharan Africa, the banking system has expanded through the opening of new branches or representation offices and the purchase of new acquisition of subsidiary banks.

1 - TWO NEW BANKS OPENED IN 2008

In 2008, the number of institutions falling under Bank Al-Maghrib's control was enlarged following the granting of license to two new banks and 5 funds transfer intermediation companies. Hence, the total number of institutions covered by Bank Al-Maghrib's control went up from 78 to 84. These institutions include 18 banks, 37 finance companies, 6 offshore banks, 13 micro-credit associations, 7 funds transfer companies, the Caisse Centrale de Garantie- CCG (Central Guarantee Fund), the Caisse de Dépôt et de Gestion- CDG (Deposit and Management Fund) and the financial services of Barid Al-Maghrib.

Evolution of credit institutions and similar bodies' number:

	2004	2005	2006	2007	2008
Banks	**17**	**16**	**16**	**16**	**18**
Including:					
Foreign-owned banks	5	5	5	5	7
Public-owned banks	6	5	5	5	5
Finance companies	**40**	**36**	**36**	**37**	**37**
Consumer loan companies	22	19	19	20	20
Leasing companies	8	7	7	7	7
Real estate loan companies	2	2	2	2	2
Guaranty companies	2	2	2	2	2
Factoring companies	2	2	2	2	2
Payment-means management companies	4	4	4	3	3
Other Companies	-	-	-	1	1
Total number of credit institutions	57	52	52	53	55
Offshore banks	6	6	6	6	6
Microcredit associations	12	12	13	14	13
Funds transfer intermediation companies				2	7
Other institutions	3	3	3	3	3
Total	**78**	**73**	**74**	**78**	**84**

Following the approval granted to two major Spanish banking groups to open subsidiaries in Morocco, the presence of foreign investors in the banking sector has strengthened. Consequently, foreign interests are the major shareholders in 7 banks and 10 finance companies. They also own important shares in 5 other banks and 5 other finance companies.

On the other hand, State participation in the banking sector has shrunk, owing to the continuous opening up of the public-owned banks' capital to private investors. Therefore, at the end of December 2008, the State has become a majority shareholder in 5 banks and 4 finance companies while holding the minority of shares in 2 banks and 5 finance companies.

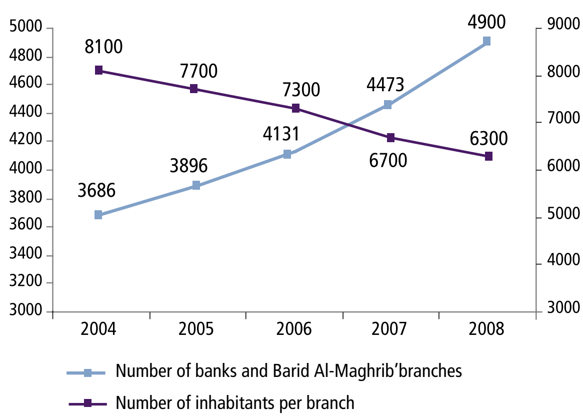
At the end of 2008, 14 credit institutions, including 6 banks, were listed on the stock market, representing 27% of the stock market capitalization.

2 - BANCARIZATION INDICATORS IMPROVED

The penetration rate of banking services have improved markedly in 2008 but remained below its optimum level with an insufficient network. This evolution was confirmed by the analyses of the Council for Research on International Relations, based in New Delhi, which ranks countries based on their financial inclusion[1]. According to this ranking, Morocco comes ahead of many countries with a comparable level of development, such as Chile, Kuwait, Egypt and South Africa.

During 2008, banks have opened 390 new branches, compared to 301 in 2007, bringing the overall number of branches to 3,138.

Chart 1: Evolution of banks' establishment



Bank density, measured by the ratio of the overall population to the number of bank branches, has thus improved to reach 9,900 inhabitants per branch and 6,300 if we take into account Barid Al-Maghrib network which totaled, all by itself, 1,726 branches. Calculated by the ratio of the population aged above 15 to the number of branches, bank density stood at 7,000 inhabitants per branch and 4,500 taking account of Barid Al-Maghrib network.

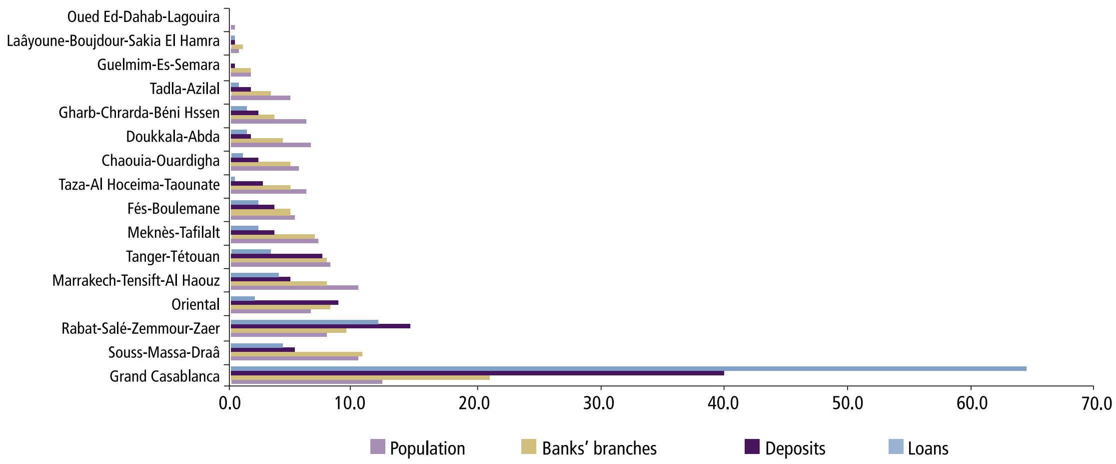
However, bank density remains unbalanced in favor of urban areas where it has attained 5,800 inhabitants per branch, compared to rural areas where it reached 112,000 inhabitants per branch. In 2007, it stood at 6,100 inhabitants in the cities against 126,000 in rural areas.

1 This indicator is published each year and calculated on the basis of a set of criteria such as the volume of deposits and the number of branches per 1 000 inhabitants.

The bancarization rate, measured by the ratio of the number of accounts opened in banks to the overall number of the population, improved by 2 points up to 29%, and 43% taking account of the number of Barid Al-Maghrib passbook accounts. When calculated on the basis of the number of population aged above 15, the bancarization rate stands at 34%, which is an improvement of 3 points against the previous year.

The deployment of the banking network in the country's regions has not witnessed any significant variations compared to last year. As it is shown in chart 2 hereunder, the Grand Casablanca Region is still showing the highest density with one branch for every 3,600 inhabitants. It accounts for 40% of deposits and 64% of distributed loans.

Chart 2: Share of each region in overall population, banks' branches, deposits and banks' loans (in %)



The Region of Rabat-Zemmour-Zaer came in the second position with one branch for every 5,200 inhabitants. The bank network in this region distributed nearly 12% of loans and collected about 15% of deposits.

Ranking third with one branch for every 5,300 inhabitants, the Oriental Region collected 9% of deposits and distributed only 2% of loans.

With one branch per 12,200 inhabitants, the Region of Doukkala-Abda ranked last. It accounted for 2% of deposits and 1.4% of loans.

The number of automatic teller machines went up from 3,159 to 3,629. 55% of these ATMs belong to three banks. This evolution came along with the increasing use of bankcards by over 3 million cards over 5 years, up to 5.1 million. Bankcards continue to be used essentially for withdrawal operations, the total number of which came to 91 million operations, up by 16.3%. The overall amount of these withdrawals settled at DH 78 billion, up by 15.7%. As for payment operations, their number increased by 21% to 6.7 million which corresponds to a volume of DH 4.1 billion, up by 26.4%.

3 - BANKS CONTINUED THEIR EXPANSION AT REGIONAL AND CONTINENTAL LEVELS

During recent years, banks have shown their capacity to develop their activities and growth opportunities to sustain their income. The major institutions have thus continued their expansion efforts mainly toward Europe, the Maghreb, Central and West Africa.

This strategy, supported by Bank Al-Maghrib, aims at getting close to Moroccans living abroad and ensuring an efficient accompaniment to economic operators, while allowing banks to stand as major actors in the region.

The year 2008 was marked by the setting up of branches and the acquisition of banks in countries with a high growth potential.

By the end of the year 2008, 13 subsidiaries, 39 branches and 60 representative offices were opened by banks. These also detained important holdings in several foreign credit institutions.

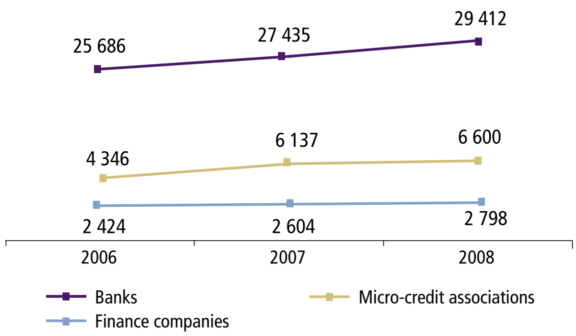
4 - THE BANKING SYSTEM'S STAFF INCREASED

At the end of December 2008, the staff of credit institutions and similar bodies amounted to nearly 39,200 employees, of which 75% are employed by Banks, 17% by micro-credit associations, and 7% by finance companies.

With the extension of the branches' network, the emergence of new businesses and new projects related to the development of information systems and risk management, new needs loom. Therefore, the banks were incited to enhance their staff in terms of quality and quantity. By December 31, 2008, the banking sector counted for 29,412 employees, representing an increase of 7.2% compared to the previous year.

The staff of finance companies increased by 7.5% to attain 2,798 employees, mainly hired by consumer loan companies (62%), and leasing companies (13%).

Chart 3: Evolution of banks staff, finance companies, and micro-credit associations



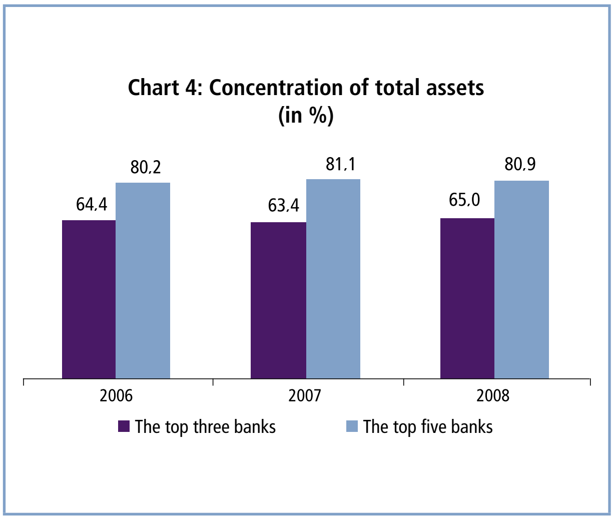
5 - THE CONCENTRATION OF LENDING ACTIVITY INCREASED

The banking system's concentration is measured by the weight of the major institutions. Compared to last year, the concentration level has slightly increased, though more regarding credits than deposits.

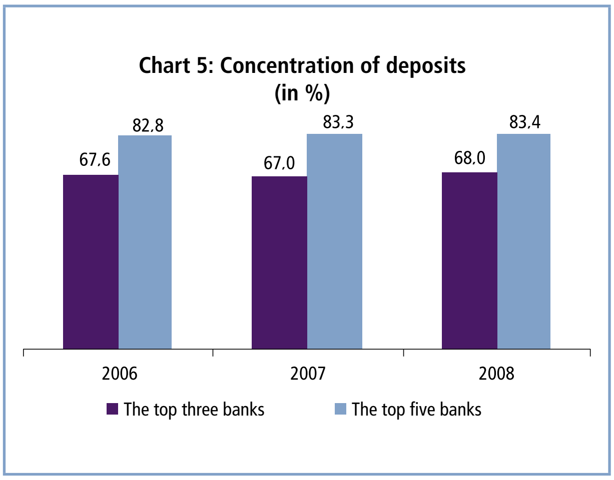
5.1 - Concentration of banks' activity

The consolidation and restructuring processes, launched during the recent years, led to a strengthening of the concentration level that remains relatively high compared to the level reported in developed countries, but in line with the standards of countries with a similar level of development.

The top three banks have concentrated 65% of total assets, up by 1.6 point compared to 2007. This share increased to 80.9% for the top five banks, without any significant variation compared to the previous year.

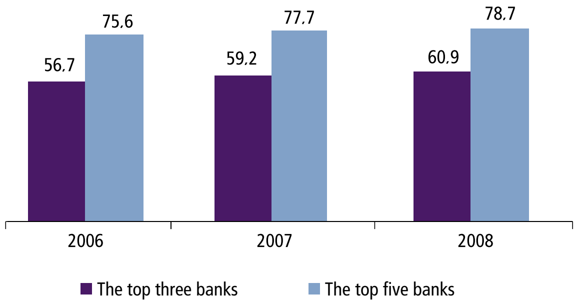


Concerning deposits, their concentration is traditionally stronger compared to credits. The level of concentration has strengthened by one point to reach 68% for the top three banks and remained unchanged at 83.4% for the top five banks.



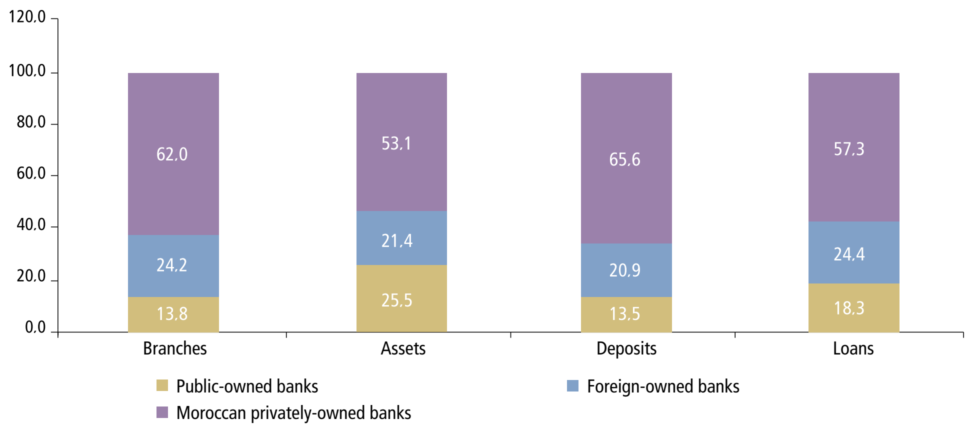
In terms of credit, the share of the top three banks stood at 60.9%, which represents an increase of 1.7 point. The share of the top five banks, on the other hand, increased to 78.7%, up by one point.

Chart 6: Concentration of credits (in %)



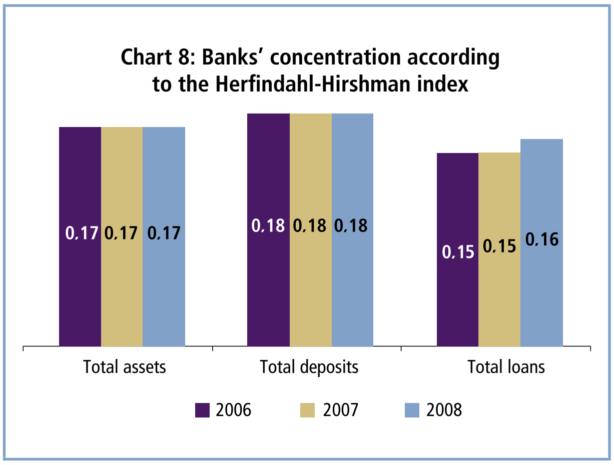
Considering the status of shareholders, the review of concentration has shown an increase in terms of total-asset and credits, from Moroccan private-owned companies. At the end of the year 2008, these owned 62% of branches, 53.1% of assets, 65.6% of deposits and 57.3% of credits. Foreign private-owned banks covered 24.2% of branches, 21.4% of assets, 20.9% of deposits and 24.4% of credits. As for public-owned banks, they concentrated 13.8% of branches, 25.5% of assets, 13.5% of deposits and 18.3% of credits.

Chart 7: Concentration according to shareholding (in %)



Concentration can also be measured by calculating the Herfindahl-Hirshman index that adds the banks' squared market shares.

The Herfindahl-Hirshman index has shown that the credit concentration level, despite its increase, remained moderate, just as the total assets. On the other hand, the deposit concentration level remained substantial as in the previous years.



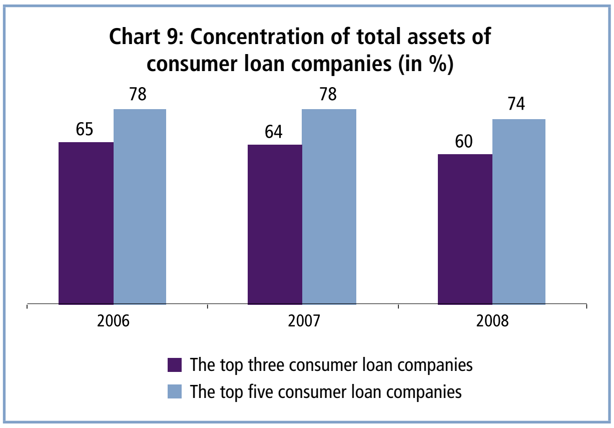
5.2 - Concentration of finance companies' activity

The restructuring movement witnessed by consumer loan companies since the end of the 90's has slowed down recently. In order to satisfy the new requirements of the prudential framework and to enhance its competitiveness, this sector needs to be more and more rationalized.

The consumer loan companies' activity concentration has dropped during 2008, due to the dwindling activities of lease-option agreement exercised by these companies. The leasing companies' concentration remained steady.

The share of the top three and five consumer loan companies in the total assets of the sector has dropped by 4 points to 60% and 74% respectively.

The weight of the 13 companies owned by financial institutions has strengthened by one point, up to 97%.



The share of the top three and five leasing companies in the sector's total assets remained unchanged standing at 59% for the first and 86% for the second.

Chart 10: Concentration of total assets of leasing companies (in %)

5.3 - Concentration of banking activity on a consolidated basis

Measured on a consolidated basis, the concentration level remained higher compared to that recorded on an individual basis. The share of the top three and five banking groups increased by 4 points, to 62% and 82%, respectively.

Evolution of loans concentration on a consolidated basis (in %)

	Equipment loans and cash facilities to businesses			Real estate loans			Consumer loans			Total loans		
	2006	2007	2008	2006	2007	2008	2006	2007	2008	2006	2007	2008
The top 3 banks	58	58	60	64	63	64	63	65	66	56	58	62
The top 5 banks	79	79	80	83	83	83	84	85	85	76	78	82

Sorted out by the type of credit operations, credit concentration proves to be globally stable for real-estate loans and consumer loans and slightly strengthened for cash facilities and equipment loans. The top three banking groups represented 60% of cash facilities and equipment loans, 64% of real estate loans and 66% of consumer loans. The share of the top five groups amounted to 80%, 83% and 85%, respectively.

II. BANKS' ACTIVITY AND RESULTS

During 2008, the international environment was characterized by the worsening of the financial crisis, which has gone beyond the real economy to affect the global environment, leading to economic slowdown.

Despite this deteriorated context, the banking system benefited from a favorable national economic situation and displayed a good performance in 2008.

1 - BANKS' ACTIVITY REGISTERED STEADY GROWTH, ALBEIT LOWER THAN IN 2007

The significant strengthening of the banks' activity volume, in terms of assets, was the result of the credit activity improvement, which kept increasing. In terms of liabilities, the activity was driven mainly by the growth of steady resources.

The evolution of banks' activity is assessed through balance sheets tracing back their activity in Morocco, as the share of their branches' activity abroad remains limited at less than 2%.

1.1 - The Expansion of banks' assets was boosted by the continuing increase of credits

At DH 764 billion, banks' total assets marked a rise of 16.7%, compared to 21.6% in the previous year. In these conditions, the ratio of banks' total assets to GDP, at current prices, stood at 111%, against 106%.

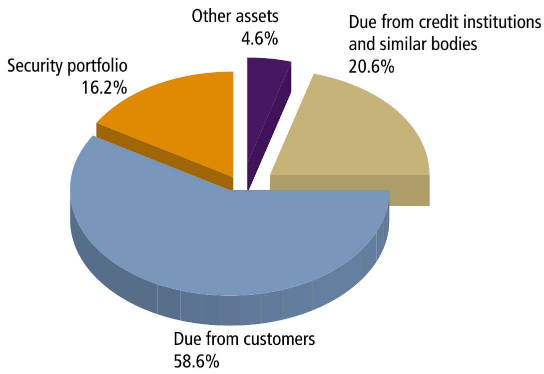
Evolution of banks' assets (activity in Morocco)

(in million dirhams)

Assets	2006	2007	2008	2008/2007 variation in %
Due from customers	119 248	152 193	157 520	3.5
Due from customers	276 256	359 493	447 729	24.5
Security portfolio	116 495	115 717	124 079	7.2
Including Treasury bills	78 977	75 862	72 452	-4.5
Fixed assets	13 219	14 063	15 256	8.5
Other assets	13 013	13 199	19 310	46.3
Total assets	**538 231**	**654 665**	**763 894**	**16.7**

The structure of banks' assets is still marked by the predominance of customer loans, whose share grew by 3.7 points to 58.6%. At the same time, the share of due from credit institutions and similar bodies decreased by 2.6 point to 20.6%. On the other hand, the share of security holdings declined by 1.5 points to 16.2%.

Chart 11: Structure of banks' assets



1.1.1 - Due from credit institutions and similar bodies reported a less significant growth

Due from credit institutions and similar bodies reached DH 157.5 billion, thus increasing by 3.5%, compared to 27.6% the year before. This evolution is due to the drop off in interbank loans and deposits at the central bank.

Dirham-denominated claims grew by 3% to DH 121.8 billion, while currency claims, representing 23% of the global claims on credit institutions and similar bodies, grew by 5.1% to reach around DH 36 billion.

Loans to local banks decreased to DH 12 billion by 15%. This decrease is mainly due to drop off in treasury loans by 5.4% to DH 6.4 billion, in financial loans by 11.4% to DH 5.5 billion, and in securities received through repos that dropped from DH 1.6 billion to DH 500 million.

Loans to foreign banks, representing no more than 12% of the total loans to credit institutions and similar bodies, reported a decrease of 14.5%, down to DH 17.7 billion. This decrease is due to the measures taken by banks to reduce further their foreign counterpart risks in connection with the international financial crisis.

Deposits with the central bank, mainly consisting of assets held as reserve requirements, dropped by 8.4% to DH 54.6 billion, mainly in connection with the bank board's decision, on December 23, 2008, to reduce the required reserve ratio from 15 to 12%.

However, loans to finance companies have increased by 22.8% to DH 51.6 billion, including 18.4 billion in the form of treasury bills and 33.2 billion in financial loans. This evolution illustrates the increasing demand from households and small and medium sized enterprises.

Loans to similar bodies increased by 64.7% to DH 20.5 billion. Such an increase was mainly of benefit to offshore banks and, to a lesser extent, to micro-credit associations.

1.1.2 - Loans improvement rhythm is steady but slower compared to 2007

After its exceptional increase during 2007, loans improvement rhythm (including loans to finance companies), though significant, slowed down in 2008. Boosted by the demand from households and companies, the overall outstanding loans amount increased by 23%, compared to 29% in 2007, to attain DH 519.3 billion. As a ratio to the current GDP, the loan outstanding amount represented 75% compared to 69% one year earlier.

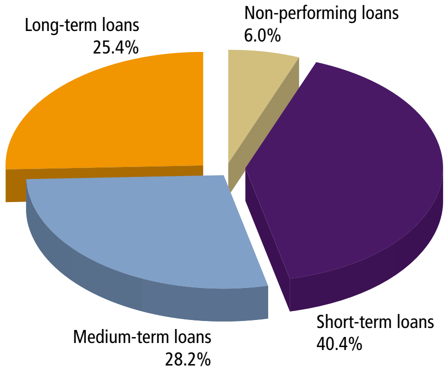
The growth of credit at a pace substantially higher than that of the collected resources contributed to strengthen the loan-to-deposit ratio by 9 points to 91%.

Currency loans, representing 2% of the overall outstanding loans, have increased by 30% to DH 10.8 billion.

Growing at a higher pace than short-term loans, the share of long and medium term loans in the overall loans to the customers has strengthened. Medium term loans have grown by 2.5 points, reaching 28.2%, while long-term loans settled at 25.4%. Short-term loans dropped by 0.8 point to 40.4%.

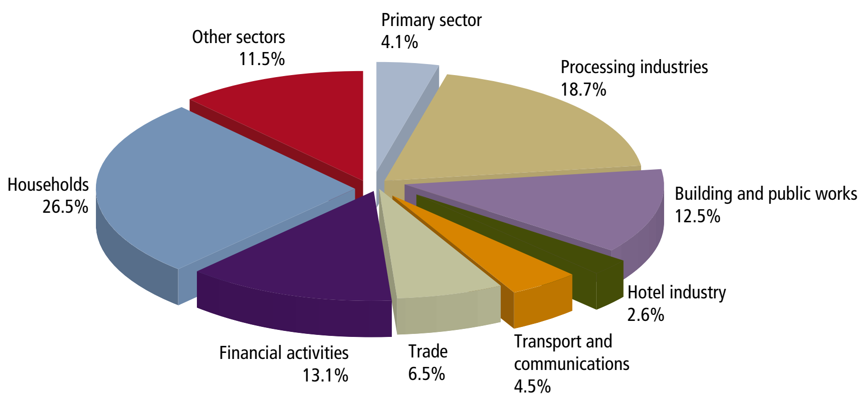
The share of non-performing loans continued its downward trend and reached 6% compared to 7.9% during the previous year. Their coverage by provisions settled at 75%. Except for public-owned banks, the share of non-performing loans fell down to 4.3% and their coverage by provisions attained 82%.

Chart 12: Disbursement loans sorted out by term



Similarly to the previous years, the per-sector breakdown of bank loans shows a rather diversified portfolio.

Chart 13: Per-sector breakdown of disbursement loans (in %)



Loans to the agricultural sector have totaled DH 21 billion, up by 12.6%, while they remained almost stable during 2007[1]. They represented 4.1% of total loans. This evolution was mainly due to the improvement of the agricultural sector.

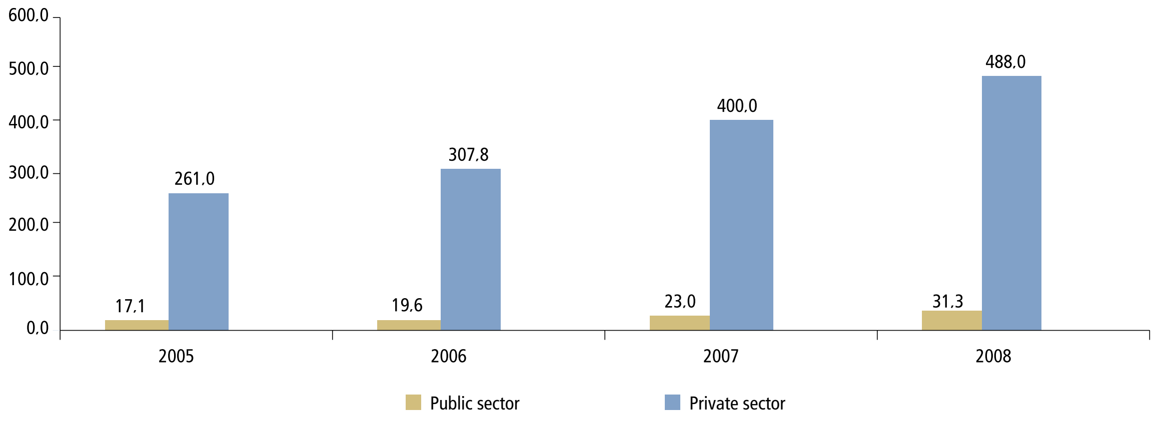
Despite a 25.3% growth, the share of loans to businesses in the processing industries grew by only 0.4 point, attaining 18.7%. With an outstanding amount of DH 65 billion, the share of loans to the building and public works sector did not change compared to 2007, settling at 12.5%.

Households remained the main beneficiary of banking loans. Their share attained 26.5% with an outstanding amount of DH 137.6 billion, of which housing loans represent 72%. On the total households' loans, those to Moroccans living abroad represented a 9% share.

Boosted mainly by the thriving activity of finance companies, the outstanding amount of loans to the financial activity grew by 13% to DH 68.3 billion, representing a share of 13%.

Both the private and the public sectors benefited from the expansion of loans. Outstanding loans to the private sector (companies and households) increased by 22%, reaching DH 488 billion, thus representing 94% of total credits. As a ratio to current GDP, this outstanding amount represented 71% compared to 65% at the end of 2007. This evolution was stimulated by the good economic condition, the continuing investment in buoyant sectors and the easing of loans' granting conditions.

Chart 14: Breakdown of loan disbursement per private and public sector (in billion dirhams)



Outstanding loans to the public sector increased by 35.8% to DH 31 billion, representing 4% of the current GDP. The various governments' sectoral development plans, often implemented within private-public partnerships, led to the growth of demands for financing from private companies and public administrations.

1 2007 figures have been updated

1.1.3 - The security portfolio structure has changed with the transition to IFRS standards

The reclassification operations carried out by banks during 2008 in order to bring the accounting rules in line with the IFRS standards have significantly changed the structure of these banks' security portfolio. Thus, the transaction portfolio, used for the first time, saw its share settle at 27% to the detriment of marketable securities portfolio, whose share decreased by 32% against 50% in 2007, and of the investment portfolio, whose share represented only 28% instead of 39%. The share of equity portfolio has strengthened by two points, up to 13%.

Box 4: Definition of securities portfolio under IFRS

As soon as they are purchased, securities shall be classified according to the purpose of the credit institution behind this purchase in one of the categories provided by the institution's accounting chart: transaction securities, marketable securities, investment securities, and equity securities.

Transaction securities are initially:

- Purchased or sold with the purpose of reselling or repurchasing them, in the short term, to make profit;
- Held by the credit institution within the framework of its activity as a market holder; they are classified as transaction securities provided that the securities stock constitutes a significant transactions volume, considering the market's opportunities.
- Purchased or sold within the framework of a specialized management of portfolio containing derivatives, securities or other instruments managed together, and presenting indicators of a recent short term profit
- Subject to a sale commitment within the framework of an arbitration operation.

Are considered as marketable securities those with a fixed income or floating income held in a perspective of investment for an undefined period and that the institution could at any moment sell. These are securities which cannot by definition be classified within another category.

Investment securities are debt securities with a fixed maturity that are purchased or belong to the category "investment securities" with the clearly set intention to hold them to maturity.

Equity securities are those owned for a long and determinate duration and are useful for the institution's activities. They represent a part of the capital held directly or indirectly.

Boosted by the growth of Undertakings for Collective Investments in Transferable Securities, the overall outstanding amount of security portfolio strengthened by 7.7% to DH 125.5 billion, despite the decrease of the treasury bills portfolio. The latter shrunk by 4.5% to 72.5 billion, bringing their shares in banking activities from 11.6% to 9.5%. This decline is due to the drop of banks' net subscriptions, in connection with the decrease in the treasury financing needs and the mobilization of foreign funds, which enabled the treasury to reduce its indebtedness at the domestic level.

Evolution of securities portfolio in gross amounts

(in million dirhams)

	2006	2007	2008	2008/2007 variation in %
Transaction securities			33 589	
Marketable securities	63 745	58 392	40 703	-30,3
Investment securities	40 764	45 164	35 158	-22,2
Equity securities and similar assets	12 850	13 052	16 096	23,3
Total Securities Portfolio	**117 359**	**116 608**	**125 546**	**7,7**

The transaction portfolio, composed up to 44% of treasury bills and up to 53% of title deeds, settled at DH 33.6 billion. Made up of 62% of treasury bills, 18% of other debt securities and 20% of title deeds, the portfolio of securities held for sale has shrunk by 30.3%, down to DH 40.7 billion. The investment portfolio, of which treasury bills represent almost 92%, has witnessed a drop in its outstanding amount by 22.2%, down to DH 35.2 billion.

The portfolio of equity securities grew by 23.3% to DH 16.1 billion, including holdings in affiliated companies, up to 65%. Holdings and allowances held in credit institutions based abroad, with a share of about 32% of total holdings, attained DH 4.8 billion, representing less than 9% of the banks' regulatory capital.

Provisions for securities portfolio depreciation have almost doubled to attain DH 1.5 billion, owing to the corrections brought to the prices of listed securities.

1.2 - Banks' paid resources registered a pick-up

To meet the increasing credit needs, satisfy the regulatory requirements, and continue their expansion programs, both at the domestic and international level, banks have developed the collection of stable resources, mainly time deposits and subordinated loans, while strengthening their capital. Consequently, the structure of resources has slightly changed compared to the previous year. Hence, deposits collected with customers have seen their share fall by 3.8 points to 74.9%. The share of loans to credit institutions and similar bodies has strengthened by about one point to reach 7.7%. The share of bonded debts settled at 5.9%, representing a 2.4-point increase. Equity represented 7.3% of resources against 6.9% the previous year.

Evolution of banks' liabilities (activity in Morocco)

(in million dirhams)

Liabilities	2006	2007	2008	2008/2007 variation in %
Due to credit institutions and similar bodies	30 357	44 245	58 922	33.2
Customers' deposits	436 036	515 171	572 294	11.1
Bonded debts	12 617	22 877	45 207	97.6
Issued debt securities	11 023	18 035	32 013	77.5
Subordinated debts	1594	4 842	13 194	172.5
Equity capital	39 657	45 337	55 400	22.2
Other liabilities	12 941	18 064	23 459	29.9
Net income	6 623	8 971	8 612	-4.0
Total liabilities	**538 231**	**654 665**	**763 894**	**16.7**

1.2.1 - Due to their liquidity crunch, banks are increasingly resorting to the central bank

Loans to credit institutions and similar bodies attained DH 59 billion, representing a 33% increase. With an outstanding amount of DH 45.4 billion, debts in dirham increased by 38.7%, while currency debts, whose share represents 23%, increased by 17.5% to DH 13.6 billion.

Due to liquidity squeeze that persisted in 2008, banks' need for central Bank money became more and more accentuated. By the end of December 2008, advances granted to banks by Bank Al-Maghrib have more than doubled to attain DH 16.5 billion.

At the same time, interbank indebtedness went up by 15.9% to reach 18.3 billion, including 6.7 billion in treasury loans, 5.6 billion in financial loans and 6 billion in securities given through repos.

With a share inferior to 13%, loans with foreign credit institutions have settled at 7.3 billion. Over this total, loans with international financial bodies, continued their downward trend, and totalized 2.2 billion, representing a 4.9%

1.2.2 - Evolution of deposits remained inferior to that of loans

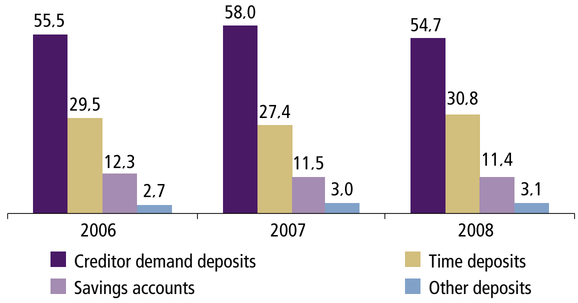
At DH 572 billion, deposits collected with customers grew by 11%, a rate inferior to that of 2007, yet comparable to the first five years of the decade. This growth was due to the increase in interest-bearing deposits, which represented 44.5% out of the total, against 41.2% the previous year. The ratio of deposits to current GDP stood for 83%, against 84% in 2007.

Currency and convertible dirham deposits represented 1% and 2% of the overall customers' deposits, respectively.

The structure of deposits shows a drop in demand deposits by 3.3 points to 54.7% in favor of time deposits whose share strengthened by 3.4 points, up to 30.8%. The share of saving accounts, a historically steady component, settled at 11.4%.

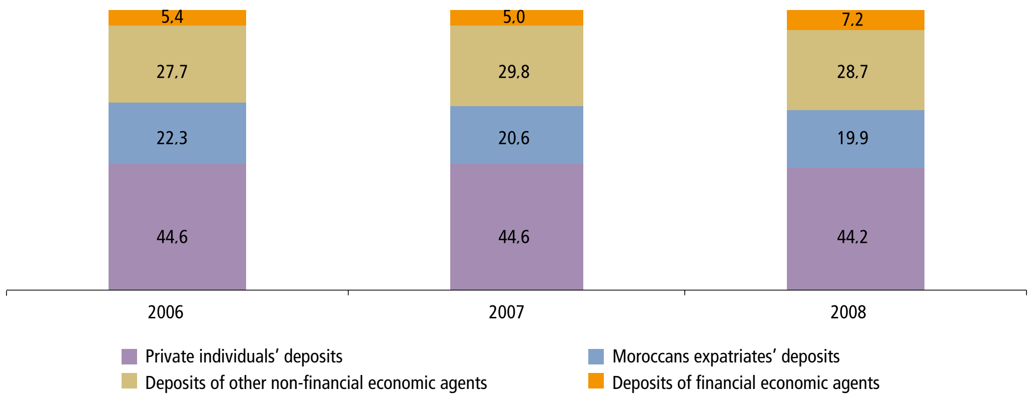
In terms of volume, demand deposits increased by 4.6% to DH 313 billion. Time deposits grew by 24.8% to DH 176.5 billion. With an amount of 65.5 billion, savings accounts grew by 10.6%.

Chart 15: Evolution of different deposit categories' share in the total amount (in %)



The breakdown of deposits' structure, per economic agent, shows a stronger share of financial agents to the detriment of that of Moroccans living abroad. Hence, the share of private individuals' deposits represented 44.2%, followed by that of non-financial economic agents, which corresponds to 28.7% and by Moroccan expatriates' deposits with a share standing at 19.9%. Financial economic agents witnessed an increase in their share by 2.2 points to 7.2%.

Chart 16: Structure of deposits per category of economic agents (in %)



Deposits by Moroccans expatriates attained DH 113.7 billion, up by 7% against 9.8% the previous year. They are made up of demand deposits up to 60%, time deposits at 36% and savings accounts at 4%. Currency and convertible dirham deposits represented 4% of the Moroccan expatriates' overall deposits.

1.2.3 - Recourse to loans in the form of securities strengthened

Bonded debts are made up of debt securities and subordinated debts. Their outstanding amount doubled in one year to attain DH 45.2 billion, representing 5.9% of the banks' total liabilities.

The outstanding amount of issued debt securities has substantially grown by 77.5% to attain DH 32 billion. This growth is mainly due to the increase in deposit certificates that have more than doubled, reaching 27 billion. On the opposite, the outstanding amount of issued bonds has registered, for the third year running, a drop of 33% to DH 1.6 billion, while the other debt securities fell by 5.1% to DH 2.8 billion.

Subordinated debts' outstanding amount moved up from DH 4.8 billion to DH 13 billion, mainly in connection with the purpose of meeting the regulatory capital requirements.

Box 5: Definition of subordinated debts and prudential limits

1. Definition of subordinated debts

Subordinated debts are resources generated by securities issuing. Their reimbursement, in case of the institution's winding up, is only possible if the other debtors' claims are settled. These debts consist of two categories: fixed maturity debts and non-fixed maturity debts. The first category has initially a fixed reimbursement date while the second has no fixed due date and can only be paid off, if need be, upon the initiative of the bearer institution.

Pursuant to the provisions of circular No. 24/G/2006 relating to the capital to be withheld for the calculation of credit institutions' prudential ratios, subordinated debts are part of the Tier 2 and Tier 3 capital according to their initial maturity and to certain prudential limits.

Complementary capital is composed of Tier 2 and Tier 3 capital.

Subordinated debts with an indeterminate maturity, which are totally paid up, are part of Tier 2 capital. Those with a maturity of 5 years and over, entirely paid up, are included in Tier 3 capital, while respecting the prudential limit.

Tier 3 capital is solely constituted to satisfy market risks requirements. It includes, on the one hand, subordinated debts with an initial maturity of 2 years or more, unsecured and entirely paid up and, on the other hand, debts with an initial maturity of 5 years and over not considered as part of complementary capital due to the prudential limitation.

2. Prudential limits

- Complementary capital can only be included in the calculation within the limit of the core capital.
- The amount of subordinated debts with an initial maturity of 5 years or more, included in complementary capital, should not exceed 50% of the core capital. This amount is reduced through a yearly 20% downgrading during the first five years preceding its final due date.

1.2.4 - Banks kept on strengthening their equity capital

In order to meet the new capital requirements, stipulating that the solvency ratio should be raised by 10% as of December 2008, banks took advantage of the positive results of 2007 and strengthened their equity capital. The latter grew by 22% up to DH 55 billion. This growth is due to the increase in reserves by 22.5% and that of capital by 6%, as well as to the drop in retained losses. The Equity capital ratio to total assets settled at 7.3%, up by 0.4 point.

1.3 - Off-balance sheet items increased notably following the application of Basel II

The off-balance sheet items consist of financing commitments given by or received from credit institutions and/or customers, mainly in the form of confirmed credit lines. They also include surety bonds given by or received from credit institutions and/or customers, as well as commitments on exchange transactions and derivatives.

The provisions of the New Capital Accord (Basel II), which provide a very broad definition of the unused part of the financing commitments given, have affected the registration mode of the said commitments, thus contributing to a substantial increase in their amount.

On the other hand, the regulatory requirements related to liquidity and risk division ratios have helped increase the financing commitments and surety bonds received by banks.

In this context, the financing commitments given increased by 30% to 73.3 billion, compared to 75% the previous year. Out of this total, financing commitments given for customers reached 70.5 billion, reporting a 28.4% growth rate. Commitments given to credit institutions have almost doubled, attaining DH 3 billion.

Surety bonds were up by 24% to DH 84 billion, including 58.6 billion in the form of commitments received from customers, while the remaining part was received from credit institutions and similar bodies.

The financing commitments received amounted to DH 5.1 billion, registering a rise of 41%. In parallel, surety bonds received increased by 21% to DH 55.6 billion.

Banks' total currency commitments at the trading decreased by 2.4% to reach DH 56 billion. Spot transactions came to 13.2 billion, down by 12.4%, while forward transactions amounted to DH 43.2 billion, up by 1.2%.

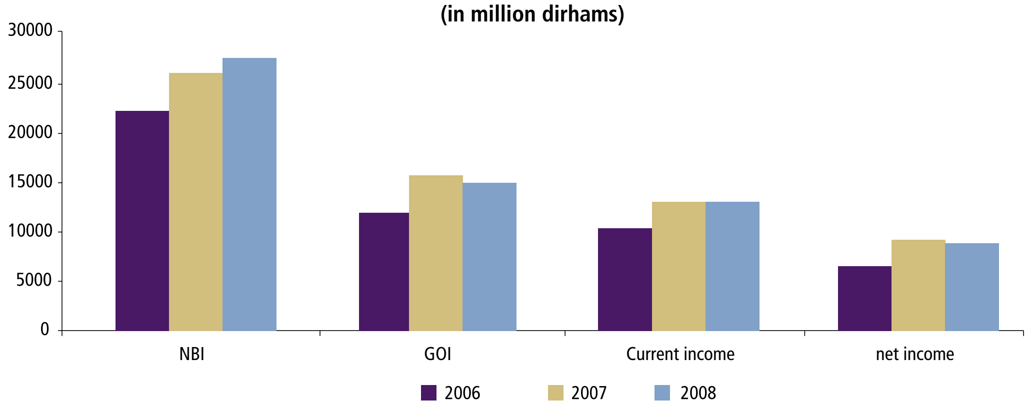
Commitments on derivatives fell by 44% to settle at DH 6 billion, in connection with the shrinking of the foreign exchange option, by 63% to DH 3.8 billion, by banks in favor of economic operators in order to cover the exchange risk due to their trade transactions or foreign financing.

2 - BANKS REGISTERED POSITIVE RESULTS, DESPITE A SLIGHT DROP

All banks reported beneficiary net results, despite its overall slight decrease compared to 2007, due mainly to the deceleration of the net banking income growth and the decrease in the results of non-banking operating transactions.

These evolutions are reviewed hereunder through the analysis of the main management intermediate balances.

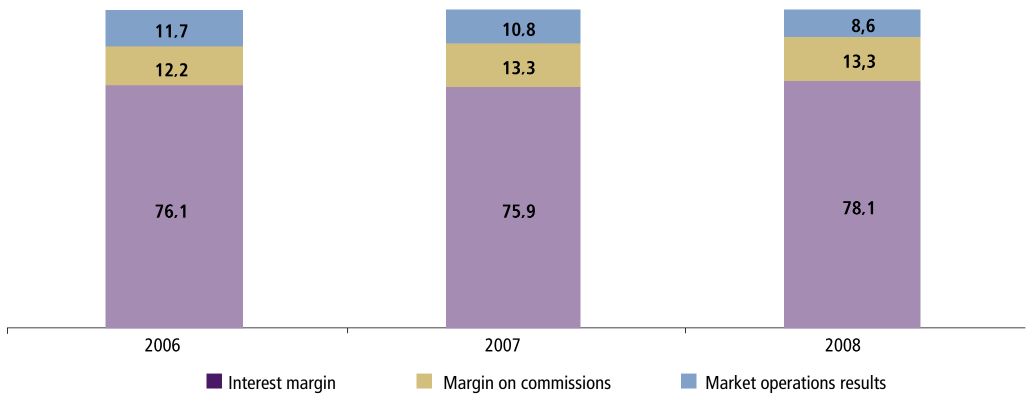
Chart 17: Evolution of banks' management intermediate balances (in million dirhams)



2.1 - A less marked evolution of the Net Banking income

The net banking income (NBI), amounting to 27.2 billion, rose by 4.7%, against 17,6% the previous year. This slowdown is due to the deceleration of the interest margin, the margin on commissions and of market operations results.

Chart 18: Evolution of the share of the interest margin, the margin on commissions and of the market operations results in banks' NBI



Representing 78% of the NBI, the interest margin stood at DH 21.3 billion, up by 10.7%, against 15.2%, in connection with the growth of interests paid by 27% and the interests received by 14%.

Net interest from transactions with credit institutions and similar bodies has shrunk by 19% to 1.7 billion, due to the increase of interests served by 46%, representing eight times the growth pace of interests received.

Transactions with customers reported a net interest income of DH 16.6 billion representing a 30% increase. This evolution is linked to the growth of interests received by 27% to DH 24.8 billion and interests given by 21% to DH 8.2 billion.

Net interest income on debt instruments decreased by 35.5% to DH 3.4 billion, mainly as a result of the decline in interests and similar products on securities held (including gain on sale of debt securities) by 20.7% to DH 5.2 billion, along with an increase in expenses on issued debt securities by 70% to DH 1.4 billion.

Up by 4.7%, against 28.7% during the previous year, margins on commissions attained DH 3.6 billion, representing 13.3% of the NBI, as the year 2007 was marked by a more substantial stock and consultancy activity.

Commissions received on services, up by 6.3% to DH 3.6 billion, have registered different levels of evolution according to each component. In connection with the growth of new accounts for customers and scriptural instruments, commissions on payment means and accounts operating have increased by 15.7% and 18.6% respectively to DH 1.1 billion and DH 701.8 million. They hence represented more than half of the commissions received. With a 10% share in overall commissions, those on loan services have amounted to DH 373 billion, up by 24%. On the opposite, commissions received on securities transactions and consultancy and assistance services, affected by the stock activities plunge during 2008, have registered a substantial decline. The first have decreased by 21% to DH 156 million and the second by 33% to DH 110 million.

Commissions net of financial commitments and surety bonds have increased by 9.7% to DH 713 million, while those on exchange transactions have decreased by 13% to DH 208 million.

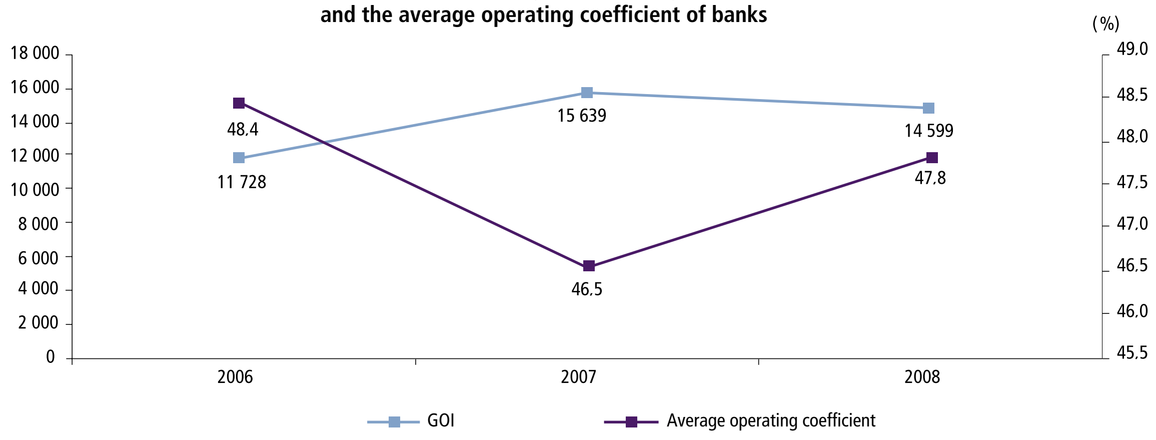
Market operations income, due to the different corrections of values and provisions thereto, resulting from the decline in financial assets prices, have registered a decrease by 16% to DH 2.3 billion, which brought their share in NBI down by 2.2 point to 8.6%. This counter-performance is particularly attributable to the decline in the income of transactions on securities held for sale by 1.6 billion to DH 354 billion.

2.2 - Banks' gross operating income decreased due to the lack of exceptional results

Overall operating expenses, boosted by investments on the increase thanks to the expansion policy of several banks, settled at DH 13 billion, which represents an increase by 7.7% against 13% the previous year. Considering the slower pace of the NBI growth, the operating coefficient registered a 1.3 point increase to 47.8%.

Staff expenses, representing 51% of overall expenses, have gone up by 5.4% to DH 6.6 billion, in connection with the growth of the banks' staff. External expenses moved up by 10.4% to 4.5 billion. Allowances for depreciation of tangible and intangible fixed assets increased by 8.4% to DH 1.3 billion.

Chart 19: Evolution of the gross operating income (GOI) and the average operating coefficient of banks



The gross operating income, amounting to DH 14.6 billion, fell by 6.7% compared to that registered in 2007 which was boosted by the income of financial fixed assets operations. By excluding this non-recurrent income, the gross operating income proves to have registered some improvement of about 1%.

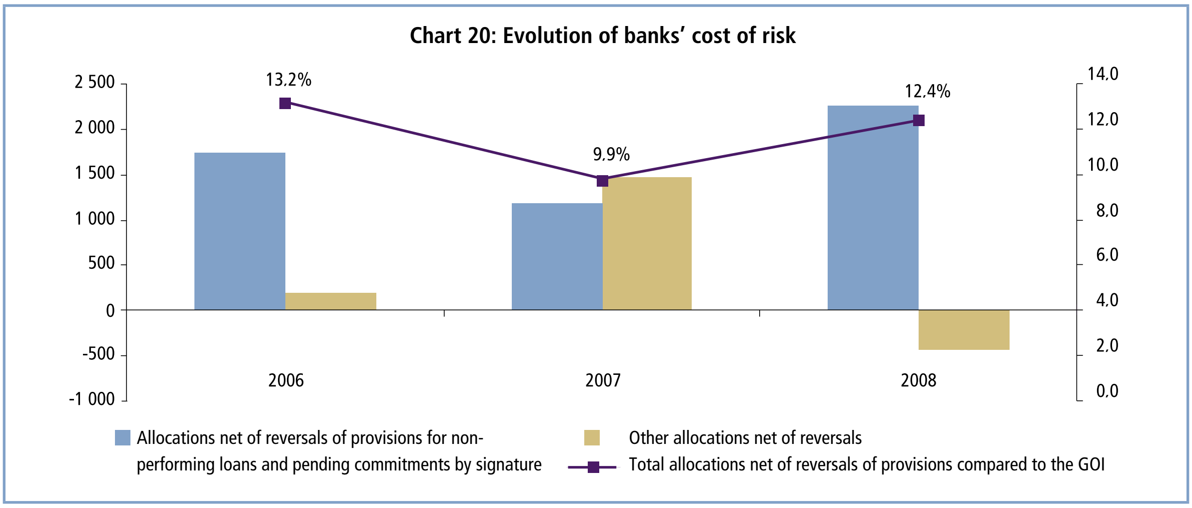
2.3 - Current income and net income slightly dropped following the increase in the cost of risk.

Allocations net of reversals of provisions for non-performing loans increased by 91% to DH 2.3 billion due to the increase of allocations by DH 808 million and the decrease of reversals of provisions by DH 263 billion.

The other allocations net of reversals of provisions settled at DH -445 billion against DH 1.5 billion registered in 2007. More than three quarters of these consist in allocations to provisions for investment.

These allocations altogether represent 12.4% of the gross operating income, against 9.9% during the previous year.

The current income decreased by 1.5% to DH 12.8 billion, while the non-recurrent income, though remaining negative, moved down from 330 to 197 billion dirhams.



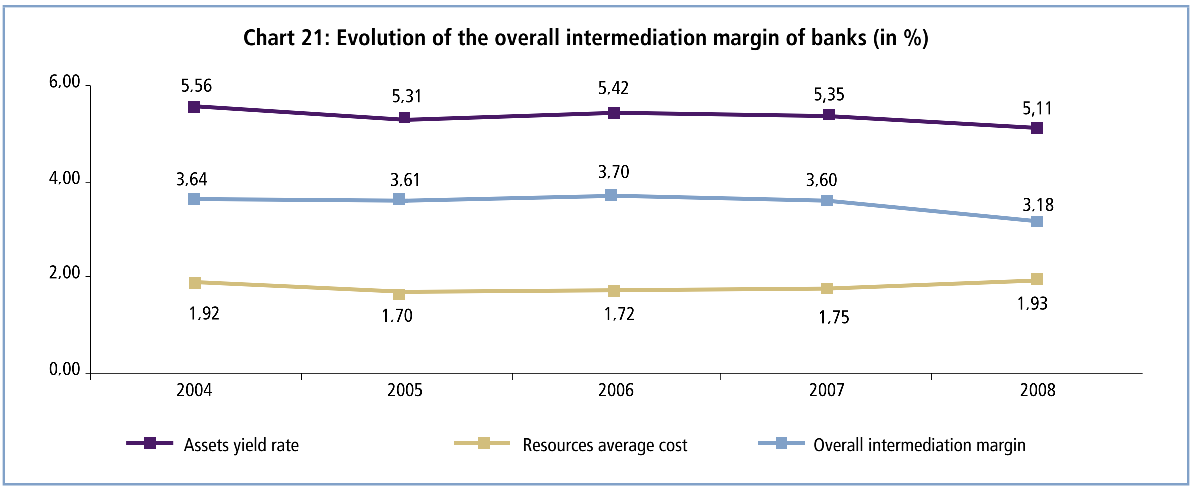
All in all, the net banking income settled at DH 8.6 billion, falling by 4% compared to 2007. Consequently, return on assets (ROA) stood at 1.20% against 1.48% and return on equity (ROE) fell from 20.62% to 16.69%.

Corrected by the effect of the exceptional gains reported by some banks in 2007, the banks' accumulated net profit increased by 10.5%.

2.4 - The overall intermediation margin continued its downtrend

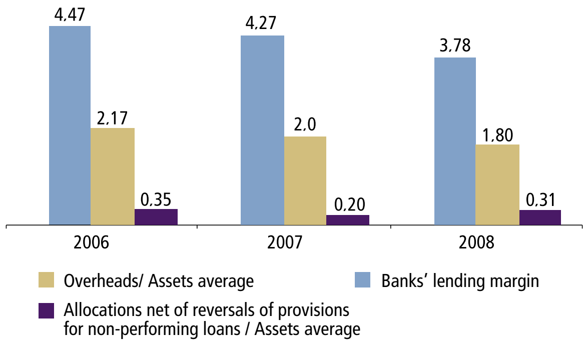
The overall intermediation margin, which is the difference between the assets average yield and the resources' average cost decreased by 42 basis points to 3.18% under the joint effect of the 24-basis points fall in activities' yield to 5.11% and the 18-basis points rise in resources' average cost to 1.93%.

Loans on customers generated a yield rate of 5.85%, up by 3-basis point, while the average deposits' cost increased by 11 basis points to 1.52%.



The banks' lending margin, which corresponds to the ratio of the NBI to the assets average, fell by 0.49 point to 3.78%. This margin was absorbed by overheads up to 1.8% against 2% and by credit risk cost up to 0.31% against 0.20% in 2007.

Chart 22: Evolution of NBI, overheads and allocations net of reversals of provisions for non-performing loans, compared to assets' average (in %)



III. FINANCE COMPANIES ACTIVITIES AND RESULTS

During 2008, Finance companies' activities continued their dynamic trend owing to a steady demand for loans, itself boosted by the positive national economic environment.

1 - FINANCE COMPANIES ACTIVITIES CONTINUED THEIR GROWTH AT A STEADY PACE

1.1 - Finance Companies' assets grew along the same lines as banks' activity

Reporting an overall amount of DH 74.3 billion at the end of 2008, the finance companies' activities have increased their volume by 17% against 25% the previous year. These companies have registered a gross loan outstanding amount of DH 72.7 billion, representing a 17% growth after 18.7% in 2007. Non-performing loans' outstanding amount represented 9.1% of overall loans, down by 1.1 point. These loans were covered by provisions up to 84%.

Consumer loan companies' activities, boosted by the households' demand, kept a steady pace, yet falling compared to the previous year. These companies have reported a total-assets of DH 38 billion, up by 13.7% against 25.7%.

Evolution of consumer loan companies'assets: **(in million dirhams)**

Assets [1]	2006	2007	2008	2008/2007 variation in %
Due from credit institutions and similar bodies	526	1 214	868	-28.5
Due from Customers	24 672	29 868	34 698	16.2
Including lease with a purchase option	6 148	8 474	7 072	-16.5
Securities portfolio	2	333	483	45.0
Fixed assets	585	601	630	4.8
Other assets	835	1 457	1 371	-5.9
Total	**26 620**	**33 473**	**38 050**	**13.7**

Standing at DH 38.4 billion, the gross outstanding amount of credits distributed by these companies was up by 14.8% against 17.9% in 2007. This slowdown is due to the slower pace of leases with purchase option, as a result of the new tax provisions introduced by the 2008 Finance Act. After a 37.8% increase in 2007, the outstanding amount of this segment fell by 16.4% to settle at DH 7 billion.

According to the data of the Finance Companies Professional Association, non-assigned loans, representing 60% of consumer loans, have increased by 14% to DH 22 billion. They are mainly made of personal loans. The outstanding amount of assigned loans, 90% of which are loans for vehicle purchases and 10% are used for household equipments, has increased by 24% to DH 13.7 billion.

1 Assets net of depreciations and provisions

The non-performing loans outstanding amount stood at DH 4.5 billion, or 11.8% of the total amount of loans compared to 12.6% the year before. These claims' rate of coverage by provisions reached 84%.

Leasing companies registered a volume of activity of DH 32 billion, up by 21% against 24.8% the year before.

Evolution of leasing companies' assets (in million dirhams)

Assets [1]	2006	2007	2008	2008/2007 variation in %
Leased fixed assets	20 691	25 158	30 300	20.4
Other due from customers	74	70	74	5.7
Securities portfolio	35	31	32	3.2
Other assets	427	1 238	1 618	30.7
Total	**21 227**	**26 497**	**32 024**	**20.9**

With a share of 74%, equipment leasing operations increased by 19% to reach DH 22 billion.

As for real estate leasing, it went up by 25.2% to attain 8 billion, as a result of office buildings growth.

Chart 23: Evolution of leasing companies equipment and property leasing (in million dirhams)

Non-performing loans of leasing companies amounted to DH 1.8 billion, representing a loan share of 5.6% against 6.4% one year earlier. These loans were provisioned up to 82%.

1.2 - Banks funding constitutes the main resource for finance companies

Banks' funding, representing 71% of finance companies' resources remained the sector's main source of financing, while the share of issued debt instruments continued its downward trend, and settled at 5%.

1 Assets net of depreciations and provisions

Evolution of consumer loan companies' liabilities

(in million dirhams)

Liabilities	2006	2007	2008	Variation 2008/2007 (in%)
Due to institutions and similar bodies	15 969	21 740	26 096	20.0
Due to Customers	473	541	467	-13.7
Debts securities issued	3 405	2 558	2 318	-9.4
Equity Capital	2 861	3 290	3 995	21.4
Other liabilities	3 219	4 611	4 326	-6.2
Net income	693	733	848	15.7
Total	**26 620**	**33 473**	**38 050**	**13.7**

More than two thirds of consumer loan companies resources are made of banks funding. The latter's outstanding amount increased by 20% to DH 26 billion. The outstanding amount of issued debt instruments, representing 6% of resources, decreased by 9.4% to DH 2.3 billion.

Equity capital, excluding the year's income, increased by 21.4% to DH 4 billion, representing a share of 10.5% of total-assets.

Evolution of Leasing companies' liabilities

(in million dirhams)

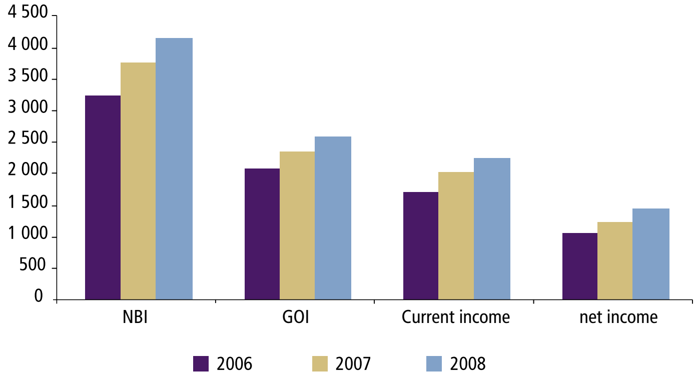
Liabilities	2006	2007	2008	Variation 2008/2007 (in%)
Due to institutions and similar bodies	15 444	20 753	25 987	25.2
Due to Customers	552	205	750	265.9
Debts securities issued	2 278	1 660	1 460	-12.0
Equity Capital	1 214	1 387	1 630	17.5
Other liabilities	1 451	2 104	1 780	-15.4
Net income	288	388	417	7.5
Total	**21 227**	**26 497**	**32 024**	**20.9**

Representing almost 81% of resources, leasing companies' banking debts have increased by 25.2% to DH 26 billion. On the contrary, debt securities issued, with an outstanding amount of 1.5 billion, decreased by 12%.

Equity capital, excluding the year's income, increased by 17.5% to DH 1.6 billion, representing a share of 5% of total-assets, the same level of the earlier year.

2 - FINANCE COMPANIES INTERMEDIATE BALANCES IMPROVED IN VARIOUS WAYS

Chart 24: Evolution of finance companies' intermediate balances (in million dirhams)



Despite the slowdown of the NBI, finance companies have realized, by the end of 2008, an overall net profit of DH 1.5 billion, representing an increase of 18% against 15.2% the previous year.

Standing at DH 4.1 billion, the NBI increased by 10% against 16%. Overall operating expenses amounted to DH 1.7 billion, representing a 11% increase and an average operating coefficient of 40%, similar to the previous year.

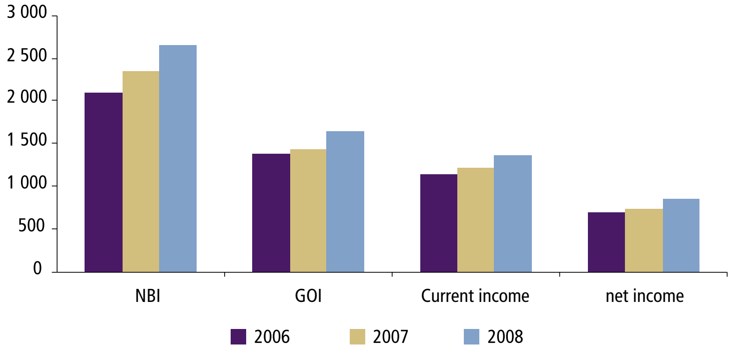
The gross operating income, up by 9.7%, reached DH 2.6 billion. It was absorbed by allocations net of reversals of provisions up to 13% against 14% in 2007.

Considered separately, allocations net of reversals of provisions for non-performing loans increased by 50% to DH 318 million, against a 38% decrease a year earlier.

Finance companies' return on assets reached 2%, the same level as that of 2007.As for the return on equity, it decreased by 1.3 point to 22.4%.

Finance companies aggregate result evolved in a heterogeneous way, whether it is a consumer loan company or a leasing company.

Chart 25: Evolution of consumer loan companies' intermediate balances (in million dirhams)



Consumer loan companies have reported a NBI of DH 2.6 billion, up by 13% against 11.4%. This growth is attributable to the joint increase of interest margins and margins on commissions, despite the net decrease of leases with purchase option.

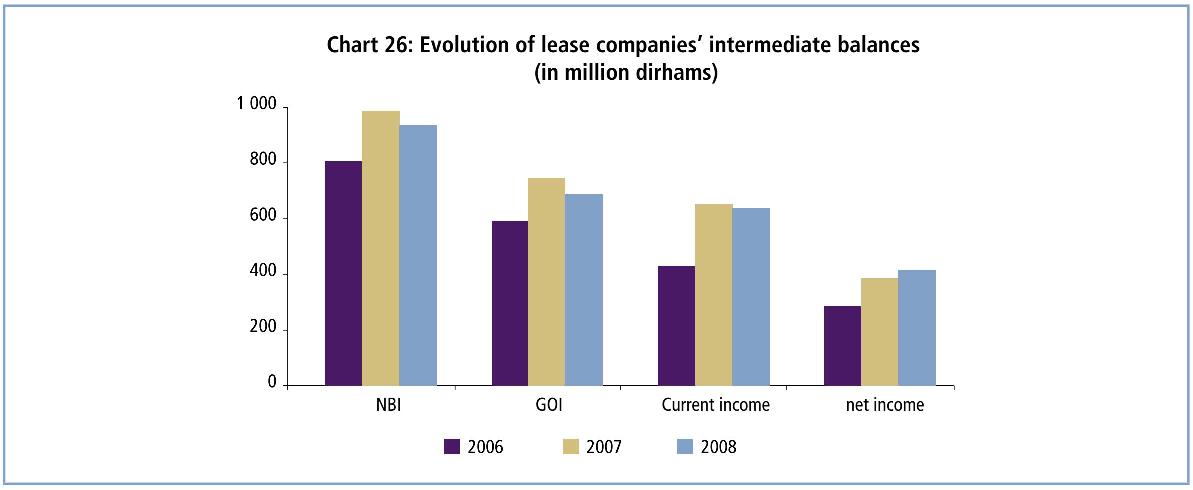
Despite the increasing competition that the sector is witnessing, interest margins attained DH 1.8 billion, up by 14%, following the joint increase of interests received by 17% and interests paid by 23%. Margins on commissions increased by 77% to DH 221 million, representing a share of 8% of the NBI.

The income of lease operations with purchase option decreased by 9% to DH 521 million, following an increase of 14% during the previous year, in connection with the drop of these operations' outstanding amount.

Overall operating expenses attained DH 1.1 billion, up by 11.4% against 16.6% a year earlier, representing an average operating coefficient of 41.3%. Consequently, the gross operating income increased by 14.6%, compared to 4.8% in 2007.

Following a drop by 4% in 2007, allocations net of reversals of provisions increased by 32% to DH 287 million, representing about 18% of the gross operating income. Taken separately, allocations net of reversals of provisions for non-performing loans increased by 72% to DH 263 million, after a 36% decrease.

The net income stood at DH 848 million, representing an increase by 15.7% against 5.8%. This generated a return on assets (ROA) of 2.2%, without any variation compared to the previous year and a return on equity (ROE) of 21.4% against 23.3%.



Despite an increase in their activities, **lease-companies** have reported a NBI of DH 938 million, down by 4.7%. This growth is attributable to the joint increase by 23% of interests served, in connection with refinancing costs and the decrease in interest received by 8.5% due to a strong competition. However, lease companies operations' income increased by 9.5% instead of 19%, attaining DH 2 billion.

Overall operating expenses attained DH 250 million, up by 7.4% against 8.1% a year earlier, representing an average operating coefficient of 27%, up by 3 points compared to 2007.

The gross operating income decreased by 7.7% to DH 688 million and allocations net of reversals of provisions have totalized DH 49 million compared to DH 92 million, absorbing 7.2% of Gross Operating Income against 12.3% the previous year. Taken separately, allocations net of reversals of provisions for non-performing loans increased by 33% to DH 61 million, against a 56% decrease in 2007.

The net income of lease companies stood at DH 417 million, representing an increase by 7.5% against 34.7%. This generated a return on assets of 1.3%, against 1.5% in 2007 and a return on equity of 25.6% against 28% in 2007.

IV. OFFSHORE BANKS' ACTIVITY AND RESULTS

The total assets of offshore banks were up by about 60% to DH 21 billion, or nearly 3% of banks' total balance sheet.

BOX 6: The legal framework governing offshore banks

Offshore banks are governed by law no 58-90 related to offshore financial centers.

Pursuant to this law, are considered as offshore banks any legal entity having its headquarters on an offshore financial center and which regularly and mainly exercises banking operations in convertible currency, with nonresidents. Their activity was extended to certain operations with residents authorized by exchange regulations.

Offshore banks authorized by decision of the minister of Finance, issued following the opinion of Bank Al-Maghrib, benefit from preferential fiscal and customs regimes.

Since 2006, these banks are subject to Bank Al-Maghrib's control, pursuant to the banking law.

The structure of offshore banks' assets was marked in 2008 by a decrease in due from customers, which reached 48% against 56% of the total amount one year earlier. Their outstanding amount yet reached DH 10 billion, which corresponds to a growth rate of 35%.

Due from credit institutions and similar bodies have more than doubled to attain DH 8 billion and their share went up by 9 points to 38%. The outstanding amount of offshore banks' non-performing loans attained nearly DH 28 million that is 0.28% of total loans. Securities transactions increased by 46% to DH 2.8 billion, nearing 13% of total assets, without any significant variation compared to 2007.

With a 91% share of total resources, the amount of debts due to banks increased by 63% to over DH 19 billion, against a 12% increase in 2007. Deposits collected with customers amounting to DH 1.4 billion have reported a 21% increase and their share in total resources stood at around 7%, against 8.5% in 2007.

Financing commitments given amounted to DH 21 million, showing an increase of 16% compared to the previous year. On the other hand, financing commitments received reached DH 1.6 billion against DH 85 million a year earlier. As for surety bonds received, they reached DH 7.5 billion, showing a 51% increase compared to the previous year.

Offshore accumulated net income reached DH 105 million, up by 2.3% compared to 2007.

V. MICROCREDIT ASSOCIATIONS' ACTIVITY AND RESULTS

The growth pace of microcredit activities has slowed down during 2008, breaking with the exceptional growth registered during the last years. This evolution has been accompanied by an upsurge in non-performing loans and outstanding payments.

Representing 80% of total assets, outstanding loans to customers has shown a limited increase by 3% to DH 5.7 billion, against a 125% increase and 58% respectively in 2006 and 2007. This slowdown is mainly due to the increase of the risk portfolio which incited associations to reduce their activities.

In fact, reported non-performing loans have shown a 131% increase to attain DH 300 million. Their share in total loans moved from 2.4% up to 5.3%, and they were covered by provisions at a rate of 68%.

This slump may be mainly explained by the weaknesses at the level of supervision and information systems, the high level of cross lending and the variations in the structure of associations' portfolios.

The volume of solidarity loans decreased in favor of individual loans. The latter's share attained 40% against 21% two years ago. Similarly, housing loans, a recently authorized activity, attained 14% of the global portfolio.

Despite the fall in the number of active customers by 11% to nearly 1,250,000 beneficiaries, the average outstanding loan per customer went up from DH 2,400 to 5,000 between 2006 and 2008. At the same time, women represented 54% of the customers instead of 60% during the same period.

Along with the slowdown of the sector, debts with financial institutions, that is 75% of the global resources, grew hardly by 7% to DH 5 billion, against 71% in 2007. By financing 82% of this indebtedness, local banks continue to be the main funding source of micro-credit associations.

With an improvement of 12% thanks to the issuance of subordinated loans by two associations, equity capital has attained DH 1.4 billion, representing 20% of total resources.

The net income of the sector has dropped by 91% to DH 25 million, as two associations have registered an accumulated deficit of DH 113 million.

VI. BANKS' ACTIVITY AND RESULTS ON A CONSOLIDATED BASIS

As of January 1st, 2008, credit institutions are required to use International Accounting Standards (IAS/IFRS) in the elaboration of their consolidated accounts. The application of these standards has impacted the structure of banks' balance sheets and the evolution of the main items of assets and liabilities.

In 2008, eight banking groups, representing 90% of total assets of the banking system, published their consolidated financial statements in line with the IFRS.

Box 7: Main impacts of the transition to IFRS' standards

The main variations resulting from the IFRS' standards for banks relate to the assessment of certain assets at fair value, to the depreciation methods of loans and to the broadening of the consolidation scope.

Therefore, banks' balance sheets saw their structure modified and their totals markedly increased. The share of held-to-maturity investments decreased in favor of financial instruments at fair value through loss and profit. However, loans to customers, evaluated at a depreciated cost, according to the effective rate method, continue to dominate assets.

Equity did not know any significant variation since the positive and negative impacts of adjustments made were generally neutralized.

Fair value: it represents the amount against which assets can be exchanged, or extinguishing liabilities, between parties well informed, consenting and acting within normal competition conditions.

Depreciated cost: the depreciated cost of financial assets or liabilities is the amount according to which financial assets or liabilities are evaluated during their initial recognition. This calculation is done after deduction of the principal, increased or diminished of the cumulated depreciation, calculated through effective interest rate method, of any difference between this initial amount and the amount at maturity, and diminished of any cutback for depreciation or loss.

Scope of consolidation: It represents the consolidation by credit institutions of all branches, companies that are managed as a joint venture as well as ad hoc entities, regardless of their legal entity or the country where they exercise their activities.

An ad hoc entity is an entity set up to fulfill a limited and clearly defined objective: for instance: a lease, research and development activities, or securitization of financial assets.

A branch is included in the scope of consolidation even if its activities are different from those of the other entities of the group.

Methods of depreciation: a financial asset is depreciated when and only when there exists an objective index of depreciation due to one or several events that took place after the initial recognition of the asset, which precludes depreciation of financial assets during their initial recognition.

Regarding loans and claims, evaluated at depreciated cost, a double test of depreciation is carried out:

The individual test (For identified assets: The loss amount to be noted in the result of the financial year corresponds to the difference between the outstanding amount recorded in the accountancy and the treasury flows updated at the effective rate, calculated at the initial recognition);

The collective test (The other assets which are not depreciated at the individual test are classified by homogeneous portfolios on the basis of the risk features of similar loans, and the difference between the originally updated flows and the flows updated and recorded in the result).

1 - THE EVOLUTION OF ACTIVITIES ON A CONSOLIDATED BASIS REMAINED STEADY

The review of the consolidated balance sheets of eight banking groups, until the end of December 2008, has shown that total assets grew by 22.3% to DH 799 billion, mainly in connection with the dynamic drive of retail activity, the introduction of new subsidiaries and the evolution of certain banks' activities at the international level.

Chart 27: Structure of banks' assets – consolidated basis

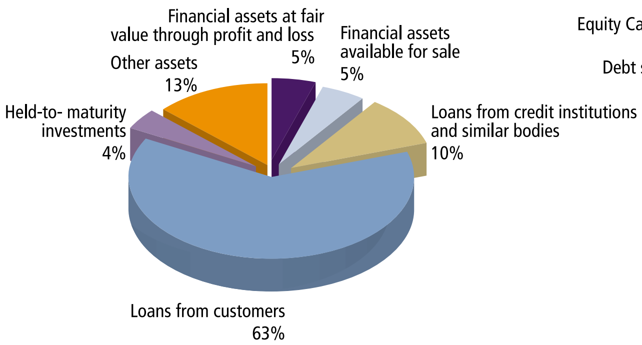
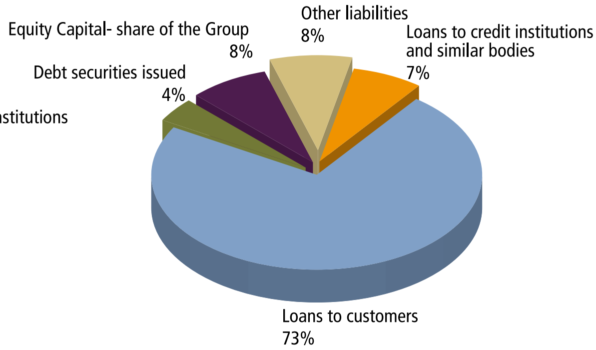


Chart 28: Structure of banks' liabilities – consolidated basis



1.1 - Financial Assets at fair value through profit and loss represented a limited share in total assets

Evolution of Banks Assets on a consolidated basis **(in million dirhams)**

Assets	2007	2008	Variation (in%)
Financial assets at fair value through profit and loss	28 326	39 197	38.4
Financial assets available for sale	47 257	43 000	-9.0
Loans from credit institutions and similar bodies	71 492	81 760	14.4
Loans from customers	380 759	498 245	30.9
Held-to- maturity investments	31 430	31 996	1.8
Other assets	94 216	104 736	11.2
Total assets	**653 480**	**798 934**	**22.3**

Financial Assets at fair value through profit and loss: they include financial instruments held for the purpose of transactions, including derivatives other than those of coverage, or financial instruments evaluated, on option, at fair value through profit or loss. These assets are evaluated at fair value and variations are registered among results. This item includes mainly treasury bills and UCITS securities. It totalized an amount of DH 39 billion, with a growth rate of 38.4%, in connection with the purchases related to this category made by some banks and the extension of the consolidated scope.

Available-for-Sale Financial Assets: Are those that do not fall under the category of loans and other debts, held-for-maturity investments or assets at fair value through profit or loss. They consist of non-consolidated shareholdings, other fixed securities and financial assets that do no belong to the other categories. They are valued at fair during their initial recognition. Their subsequent assessment is effectuated at fair value and variations in value are counted as capital until their derecognizing where they are reported in the results. These assets have decreased by 9% to DH 43 billion, due mainly to the fall in stock exchange prices.

Loans and debts from credit institutions and similar bodies: They include all the loans and claims held, as banking operations, subordinated loans, and claims issuing from finance-lease operations carried out with credit institutions and similar bodies. The amount of these loans has reached DH 81.8 billion, up by 14.4%.

Loans and debts from customers: they cover all loans and debts on economic agents other than credit institutions. They also cover subordinated debts, debts related to factoring operations and lease-financing. Are also considered under this category debts related to reinsurance transactions and advances served to subscribers. These loans net of provisions, calculated at the depreciated cost by using the effective interest rate method, have amounted to DH 498.3 billion, representing an increase of 31%. This evolution can be explained by the introduction of new subsidiaries not included in the 2007 consolidated scope and the steady growth of credit activities.

Loans to customers' depreciations, determined according to the IFRS standards by way of the collective and individual depreciation tests, have increased by 4%, reaching DH 23 billion. This evolution is due to the joint effect of depreciations observed at some subsidiaries and the striking-off of debts.

Held-to-maturity Investments: correspond to financial assets with a certain maturity, which credit institutions have the intention and the financial capacity to hold to their maturity. They are evaluated at the depreciated cost by using the effective interest method. They amounted to DH 32 billion, up by 2%.

1.2 - The contribution of subsidiaries strengthened banks resources

Evolution on Banks' Resources on a consolidated basis **(in million dirhams)**

Liabilities	2007	2008	Variation (in %)
Financial liabilities at fair value through profit and loss	2 559	2 936	14.7
Loans to credit institutions and similar bodies	37 777	58 007	53.5
Loans to customers	492 237	577 810	17.4
Debt securities issued	18 804	33 642	78.9
Insurance Contracts and Technical provisions	11 967	13 960	16.7
Equity Capital- share of the group	54 144	61 442	13.5
Including net income	8 912	9 499	6.6
Other liabilities	35 992	51 137	42.1
Total liabilities	**653 480**	**798 934**	**22.3**

Loans to credit institutions and similar bodies: They represent all loans to credit institutions excluding those with the central bank, the public treasury and the postal checks, as well as the subordinated loans carried forward to the item "other liabilities". These loans have increased by 53.5% to DH 58 billion.

Loans to customers: represent all loans to economic agents other than credit institutions and similar bodies, as well as cash vouchers and securities given in pension. Are also considered debts those generated by reinsurance transactions and loans to subscribers, mainly those related to insurance policies on investment contracts. Subordinated loans and loans in the form of debt securities are excluded from this item. Loans to customers have amounted to DH 577.8 billion, up by 17.4%. This evolution illustrates the important contribution of certain subsidiaries abroad.

Insurance Contracts' Technical provisions: they correspond to the amount of the insurance companies' commitments within the consolidated scope. They have amounted to DH 14 billion, up by 16.7%.

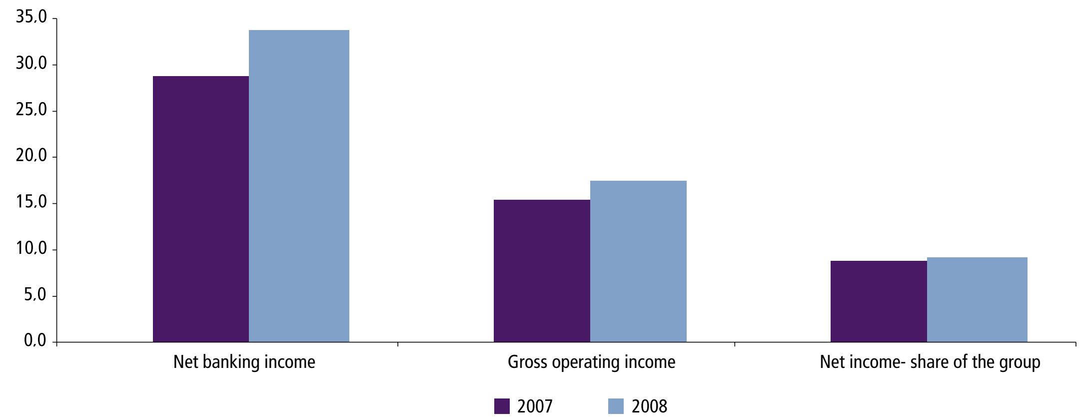
Equity Capital- share of the Group: include capital and connected reserves, minus own shares, unrealized or carried forward profits or losses and income of the fiscal year. They represent mainly the value of shares, corporate shares and other securities making the share capital, the amounts they include or those assimilated to them.

Equity Capital- share of the Group increased by 13.5% to DH 61.4 billion, in connection with the growth of capital and linked reserves by 14.2%, of consolidated reserves by 24% and the net income by 6.6%.

2 - PROFITABILITY INDICATORS ESTABLISHED ON A CONSOLIDATED BASIS WERE HEALTHY

Consolidated accounts' statements of the eight banking groups, for the period until the end of December 2008, have shown that profitability reported a better trend than the one established on a sub-consolidated basis. This evolution is mainly due the growth of NBI and the control of risk costs.

Chart 29: Evolution of the NBI, the GOI, and the net income, established by banks on a consolidated basis



Net Banking Income: With DH 34 billion, the NBI has increased by 17%, three times up compared to that generated on a sub-consolidated basis. This increase reflects the significant contribution of banking activities at the international level and of non-banking subsidiaries' activities.

The margin interest illustrates the gains – in the form of interests- of capital loans and debts, including products and expenses with a determined interest feature, in line with IAS standards 18 and 39. This margin increased by 20% to DH 26 billion, representing 76% of the NBI.

The margin on commissions is the earnings from commissions for services made by the institution and commissions remunerating recourse to third parties' services, excluding those bearing an interest characteristic such as commissions on opening loan files, syndication commissions, and certain commissions on commitments. This margin, representing 16% of the NBI, has reported a 19.4% increase up to DH 5.4 billion.

Market operations' income is defined as the amount of net profits or losses on financial instruments at fair value earnings according to results and financial instruments available for sale. It is made of dividends and other earnings from these instruments, the variations in fair value of financial assets and liabilities per result, as well as per gain or loss on financial instruments, namely long-term investments that are integrated in the NBI. This income has represented an 8% share of the NBI, down by 4.5% to DH 2.8 billion, due mainly to the decrease of the stock market prices.

Overall operating expenses (including allocations to depreciation and amortization of tangible assets): they have reached DH 16.4 billion, up by 20%. They have reported an operating coefficient of 48%, increasing by 1.3 point compared to the previous year. Consequently, the gross operating income has increased by 14% to DH 17.7 billion.

Risk cost: includes allocations and reversals for depreciation of held-to-maturity investments, assets available for sale, loans and debts, provisions for commitments by signature, losses on bad debts, recoveries on loans, and downgrading reported during loans restructuring. This cost has amounted to DH 717 million, down by 17%, representing 4% of the gross operating income against 5.5% in 2007.

Net Result – share of the Group has reached DH 9.5 billion, up by 6.6%, representing a return on assets of 1.2% and a return on equity of 15.5%.

PART 3

Evolution of banking risks

EVOLUTION OF BANKING RISKS

While exercising their activities, credit institutions have to cope with several risks against which they have to set up appropriate management processes and policies in order to mitigate the losses. During the last years, the banking system has substantially stepped forward in terms of risk management and control as illustrated by the financial soundness indicators. This variation has been favored by the prudential mechanism put in place, particularly Basel II and the proactive monitoring mechanism based on SANEC.

In this framework, credit risk and interest rate risk constitute the main risks linked to banking activities, requiring specific analysis and follow up.

The developments hereunder deal with the household banking loans and with interest rate risk. During recent years, Bank Al-Maghrib has strengthened its monitoring system related to these risks by providing mainly quantitative and qualitative data collection mechanisms and elaborating specific reports.

BOX no 8: Surveys conducted by Bank Al-Maghrib to ensure credit risks follow-up

1 - Survey on real estate loans:

In order to monitor the evolutions of risks connected to financing the real estate sector, Bank Al-Maghrib conducted in 2008 its fourth yearly survey to gather more detailed information on indicators and risks inherent to the real estate loans sector. The survey covered nine banks representing a market share of 95%.

2 - Survey on consumer loans:

Facing the developments in consumer loans and in the framework of monitoring household indebtedness, Bank Al-Maghrib conducted its fourth annual survey with consumer loan companies to gather information on this category of loans as well as on the profiles of the beneficiaries. The 2008 survey covered 14 institutions, totaling 88% of the market shares and a total number of files amounting to 1,194,991.

3 - Survey on the conditions for granting loans:

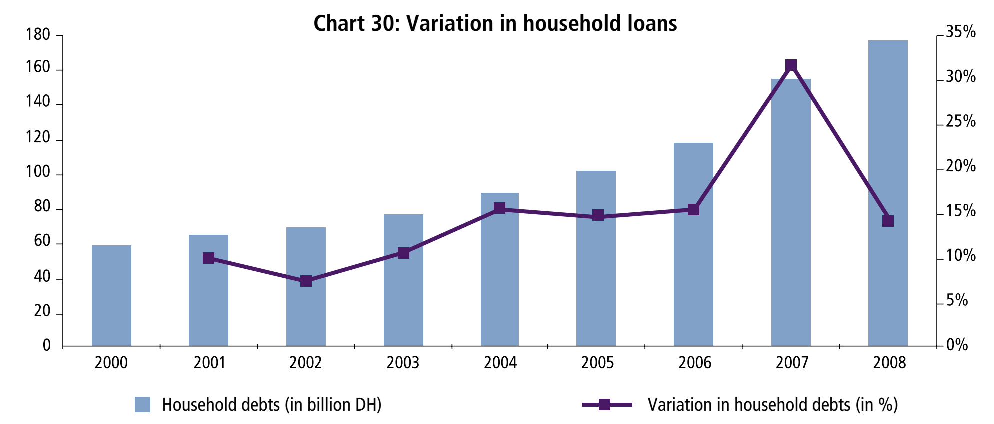
To better monitor the financing conditions of businesses and households, Bank Al-Maghrib conducted a survey with nine banks representing a market share of 90%. This contributed to the completion of the quantitative data on credit through qualitative information concerning the factors taken into consideration by banks when taking decisions relative to the granting of loans or other factors affecting credit demand. The survey also aims at shedding the light on the process of transmission of monetary policy effects.

I. CREDIT RISK

Credit risk is tackled in this chapter through the analysis of households' indebtedness in its two components: real estate loans and consumer loans on the one hand, and the trend of non-performing loans, on the other.

1 - EVOLUTION OF HOUSEHOLDS INDEBTEDNESS

Amounting to DH 176 billion, households banking loans have increased by 15%, nearly 50% of the rate reported a year earlier. They represented 33% of the total outstanding amount of real estate loans, against 35% the previous year.



The share of banking loans to households in the Gross national disposable income grew by one point to 24%, which is inferior to levels reported in countries like France (71%), Germany (90%) and the USA (140%), but exceeding that of some of the region's countries such as Tunisia (21%)[1].

Household indebtedness is composed, up to 56%, by housing loans and, up to 39%, by consumer loans.

1.1 - Trend in housing loans

The real-estate sector has known during the recent years a strong expansion, confirming its position as one of the main drivers of the Moroccan economic growth.

Despite being strongly involved in the international economic and financial crisis, the real-estate sector has continued, during 2008, to show dynamic growth, driven by the public authorities' will to reduce the housing deficit and a diversified offer of financial products, as well as by a strong competition between banks.

1.1.1 - Steady growth of Housing loans, yet slower compared to 2007

The continuous growth of households' demand favored the dynamism of the real estate sector financing.

1 2007 figures

However, the analysis of the outcome of survey no 1 in box 8, showing the continued tendency observed in the last years, illustrates inflections in 2008 that would continue through 2009.

According to the accounting statements transmitted by banks, the outstanding amount of real estate loans (housing loans and real-estate promotion loans) has attained DH 153 billion, up by 27.5%, against 46% at the end of 2007. Its share in the overall outstanding amount of sound loans stands at 31%, the same as in 2007.

The housing loans' outstanding amount, with a 64% share in real estate loans, has increased by 15% to DH 98 billion. It represented 14% of the GDP, without any variation compared to 2007. This rate is inferior to the one reported in the South European countries of the Mediterranean, such as Spain (62%), France (35%) and Italy (20%)[1].

With an outstanding of DH 16 billion, housing loans guaranteed by the State[2] represented 16% of the total amount.

Standing at DH 32 billion, housing loans growth remained steady during 2008 at 15%, in total break with the exceptional increase rate reported during the last two years. Nearly 15% of this production is constituted by state-guaranteed loans.

In connection with the real estate assets price increase, the loans' average amount has again increased to DH 357,000, instead of DH 287,000 the previous year. This increase concerned state-guaranteed loans of which the average amount has moved up from DH 162,000 to 175,000, as well as private loans of which the average amount has increased from DH 95,000 to DH 436,000.

In parallel, the number of housing loans beneficiaries stood at 91 000, which represents a decrease of 7% against an increase of 8% a year earlier. This decrease has concerned both private and state guaranteed loans. This development shows the lack of an appropriate offer to the potential solvent demand profile.

These trends have been confirmed by the outcome of survey no 3 in box 8. Households' tendency to wait for an eventual decrease in real estate assets price was one of the main factors which led to this development.

Analysis of housing loans per region has shown a concentration in Casablanca and Rabat, representing 57% of total loans, yet down by 7 points compared to 2007.

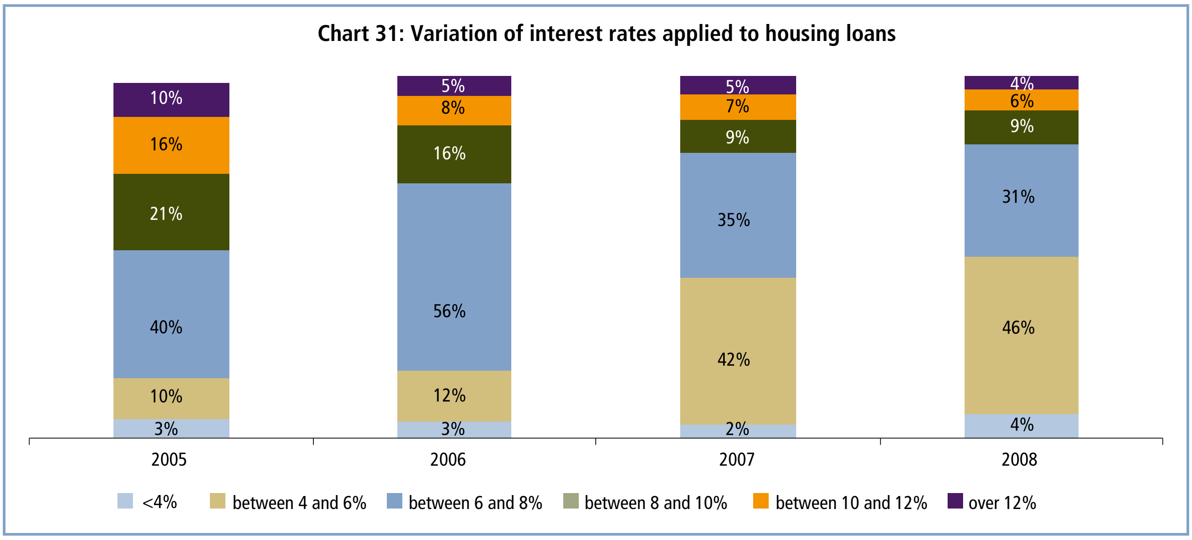
1.1.2 - Housing loans continued to benefit from the continued easing of lending conditions

The conditions of granting housing loans continued to evolve favorably for customers. However, banks required more important personal capital contributions.

All in all, interest rates continued their fall during 2008. Indeed, 50% of loans were granted at rates inferior to 6%, against 44% in 2007 and 15% in 2006.

1 Figure set at the end of 2007

2 State-guaranted loans represent loans receiving guarantee funds (FOGARIM, FOGALOGE, FOGALEF/ Guarantee fund for irregular and low incomes, Guarantee fund for housing loans to civil servants) and low cost housing.

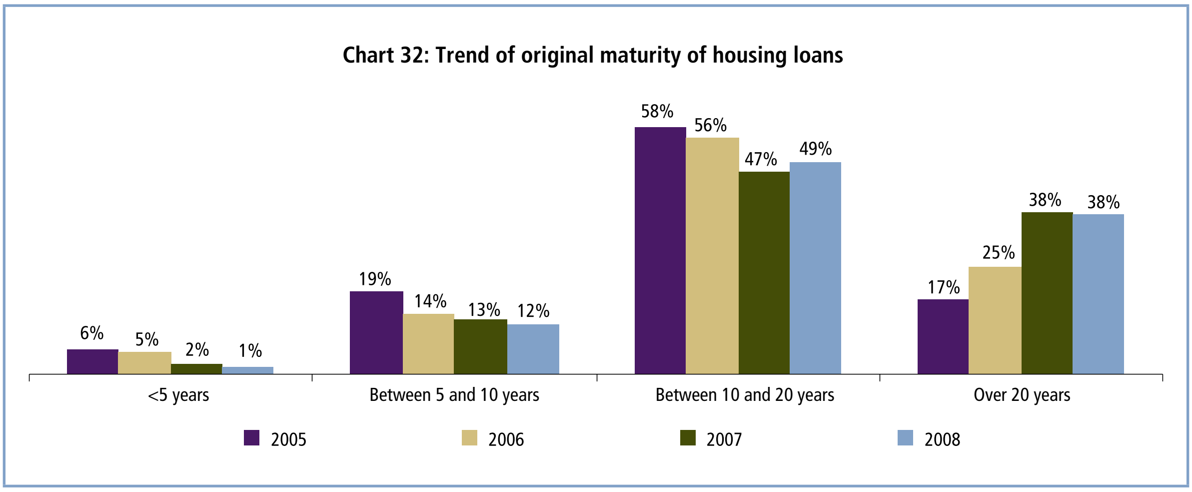


The share of loans granted at a rate higher than 8% stood at 19% against 21% in 2007.

In terms of production, the average interest rate applied to housing loans decreased, during 2008, by 12 basis points to 5.23%, despite the light rise noted during the 3rd quarter of 2008.

Variable rate loans granted in 2008 dropped in favor of fixed rate loans. Their share accounted for 33%, against 51% in 2007. Consequently, it dropped by 13 points to 36%, in terms of outstanding. This is particularly due to the banks' policies as regards asset-liability management and the prudence of customers anticipating a trend variation.

The share of housing loans of which the initial duration lies between 10 and 20 years increased by 2 points to reach 49%. The share of loans with a term higher than 30 years remains unimportant.



The average original maturity of housing loans remains stable at 17.7 years.

According to six banks (71% of the market share), housing loans' share, subject to a personal capital contribution inferior to 10%, decreased from 33% to 21% in 2008, thus reflecting a trend reversal in the last two years.

1.1.3 - The risk cost relating to housing loans remained stable

The outstanding amount of non-performing loans related to housing loans maintained the same level as the previous year. Its share in total housing loans stood at 5% at the end of 2008. The coverage rate of these loans by provisions amounted to 32%, down by 3 points. The constituted provisions take into account the value of the mortgages held by the banks.

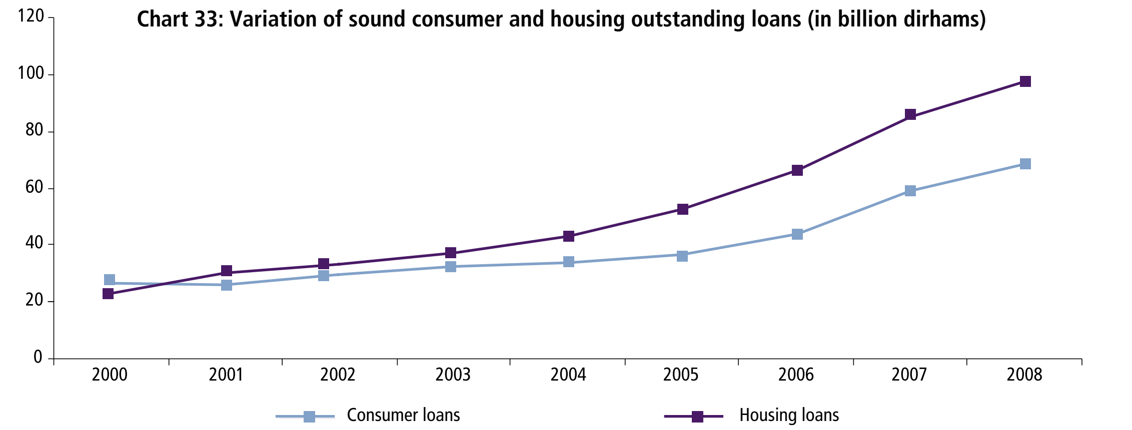
1.2 - Trend in consumer loans

Consumer loans, a fundamental pillar in developing household consumption, have known during the last years, a substantial expansion and still constitute the second component of the households banking debt.

1.2.1 - Consumer loans increased at a faster pace compared to housing loans

Consumer loans continued their growth in 2008. Housing loans would be one of the factors at the origin of this expansion.

Chart 33: Variation of sound consumer and housing outstanding loans (in billion dirhams)



Consumer outstanding loans distributed by credit institutions grew by 16% to DH 69 billion[1], against 30% a year earlier, representing 13% of the total loans granted to customers. In connection with the aggregate "Household consumption", this outstanding amount accounted for 17%, against 16% in 2007.

The penetration rate, corresponding to the ratio between the number of loans files and that of households, stood at 21%, which is a lower rate compared to France (34%).

The average consumer loan outstanding per inhabitant increased to DH 2,208 (198 euros), against DH 1,954 (175 euros) one year earlier. This is a lower level compared to some European countries such as Poland (620), Hungary (472) and Lithuania (308)[2].

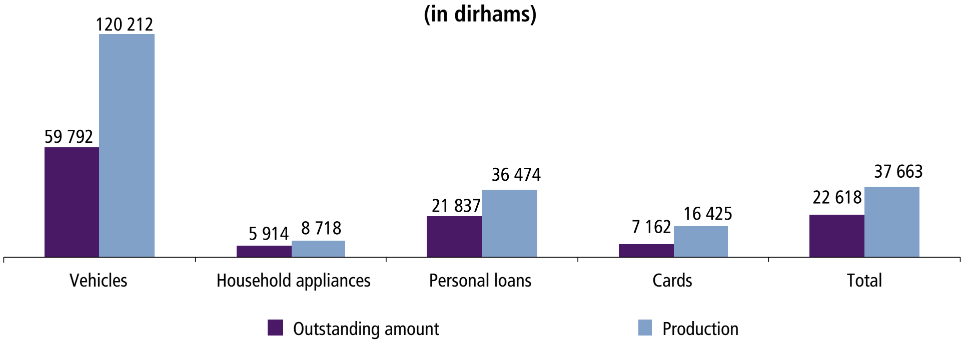
1 Including overdrafts on granted individuals

2 2007 figures

1.2.2 - The profile of consumer loan beneficiaries did not witness any significant variation.

In spite of the growing banks' competition, the companies specializing in consumer loans continue to hold nearly the three fifths of total consumer loans.

Chart 34: Average amount of loans files distributed by type (in dirhams)



According to the findings of survey no °2 in box no 8, consumer loans' companies have distributed, during 2008, nearly 19 billion in new loans, that is 4 billion more than 2007 and 7 billion more than 2006. This leads to an average outstanding amount of 22.6 thousand dirhams, by loan file, against 24 thousand in the previous year.

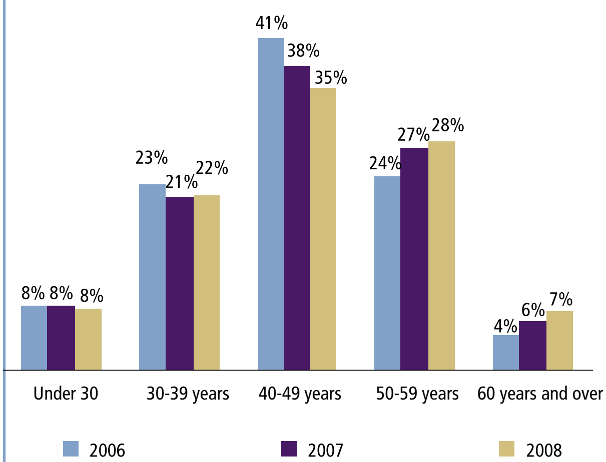
In order to meet the increasing needs of customers, consumer loan companies continued to offer various credit formulas. However, individual loans still constitute the mostly used formula.

The survey's data help grasp the customers' profile according to several criteria: age, income, the socio-professional category and the place of residence.

The penetration rate of consumer loans, corresponding to the ratio between the number of loans' files and the population sample, dropped by 3 points to 35% for people in the 40 to 49 age bracket , in favor particularly of people aged over 50 years. The latter's rate reached 35%, against 33% in 2007.

Contrary to some countries where young peoples' indebtedness is increasingly important, the penetration rate of consumer loans in Morocco among people under 30 years stood around 8%. This low level seems to indicate that Moroccans generally use banking loans only once they have a household and a regular income available.

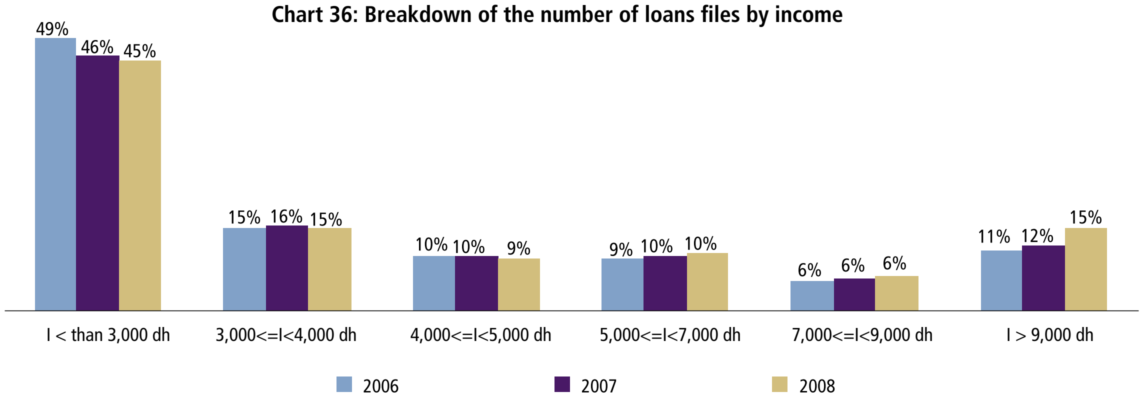
Chart 35: Breakdown of the number of loan files distributed by age



Similarly to the breakdown of the loans files number per age, the breakdown of loans outstanding amount according to the same criterion revealed a concentration among people aged between 40 and 49 years, representing a 34% rate.

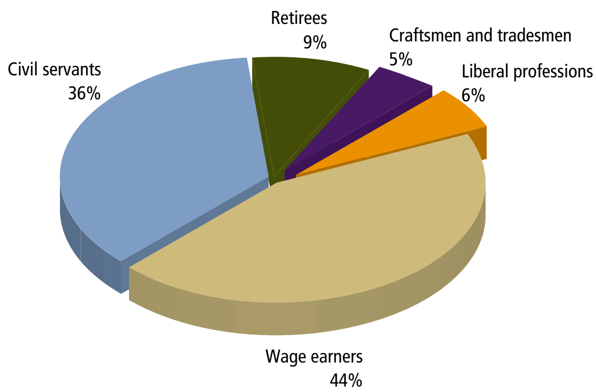
Chart 36, hereunder, shows that 60% of loans went to people whose income is lower than DH 4,000, against 62% in 2007. The share of people with an income higher than DH 9,000 has increased by 3 points to 15%.

Chart 36: Breakdown of the number of loans files by income



By breaking down loans' outstanding amount according to the income, it shows that people whose income is lower than DH 4,000 concentrated nearly 44% of the loans, down by 4 points compared to 2007, whereas people earning more than DH 9,000 saw their share growing to 30%, against 26%.

Chart 37: Breakdown of the number of loans files by socio-professional category



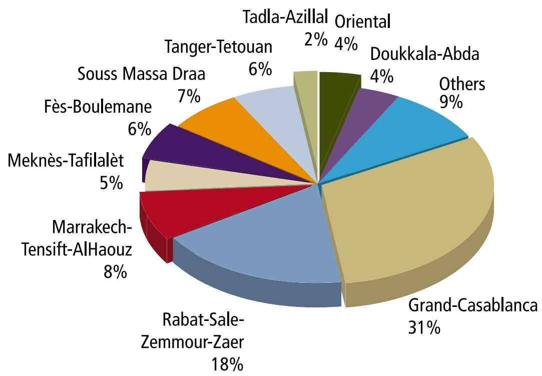
The breakdown of the number of loans files based on the socio-professional category shows that the share granted to civil servants, who constitute a relatively protected segment, continues its downward trend, moving down from 52% in 2004 to 36% in 2008.

In parallel, the share of wage earners increased, over the same period, by 3 points to 44%, without any variation compared to 2007. The share of craftsmen and tradesmen, on the other hand, rose by 2 points to 5%, while retirees saw their share increase by 7 points, compared to 2004, to reach 9%, and by 3 points from one year to the other.

These tendencies reflect the policy adopted by consumer loans companies to attract new segments. However, some surveys conducted about the first months of 2009 showed that these companies hardened their conditions for granting loans to wage earners, who are working in sectors that are most vulnerable to the international economic crisis.

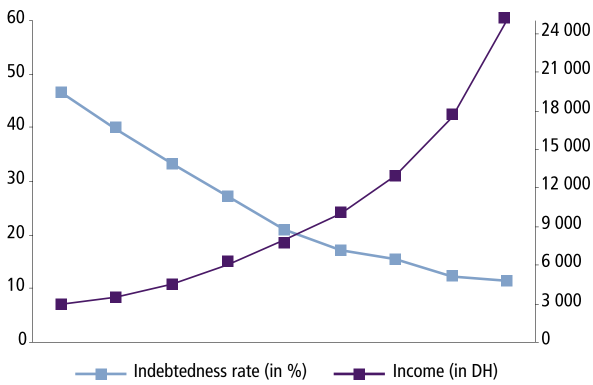
Chart 38 opposite shows that, as is the case for housing loans, the regions of Casablanca and Rabat continue to concentrate most consumer loans, namely 49%, up by 3 points from one year to the other.

Chart 38: Breakdown of the number of loans' files by region



The indebtedness rate, corresponding to the ratio between loans contracted by a customer and the latter's income declared to the lending institution, is inversely proportional to income. The indebtedness rate stood, on average, at 47%, up by 2 points compared to 2007 and 12 points compared to 2004 for customers whose income is less than DH 3,000 and only 11% for categories whose income exceeds DH 20,000.

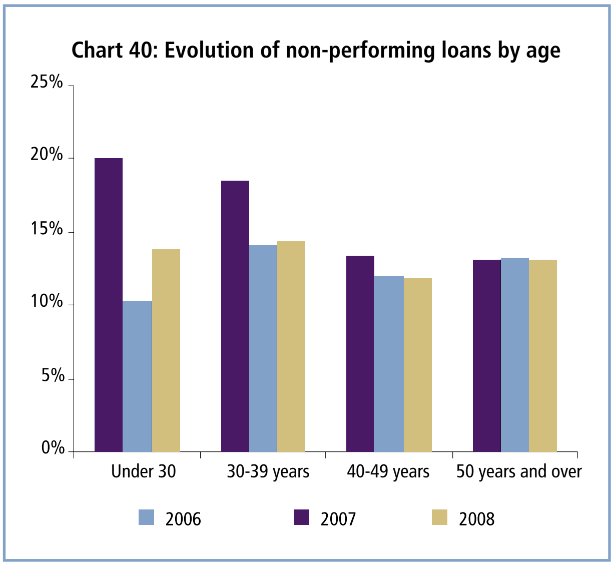
Chart 39: Indebtedness rate and income

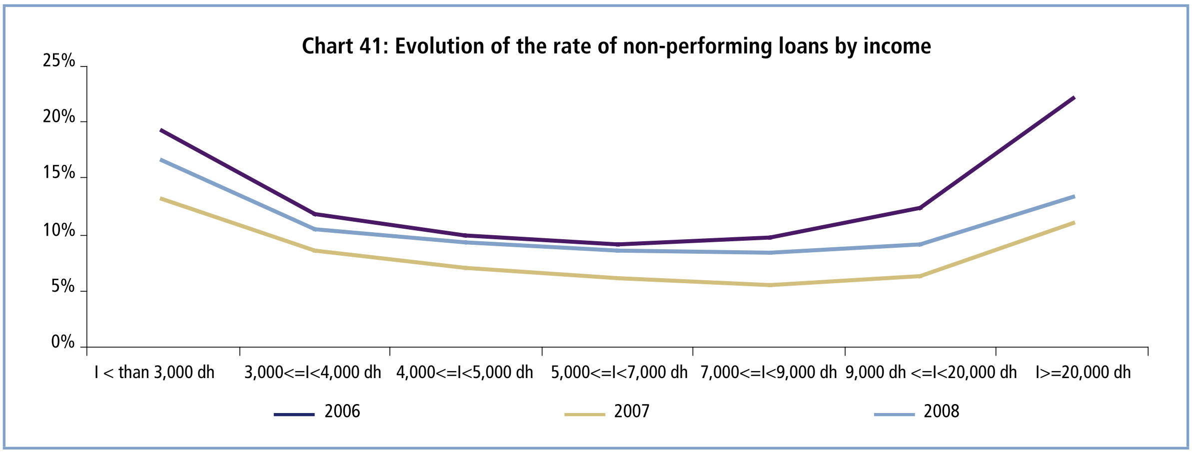


1.2.3 - The rate of non-performing loans remained generally steady

The rate of non-performing loans reported by the sector of consumer loan companies stood at 11.8%. The findings of the aforementioned survey no 2 helped understand the profile of customers holding non-performing loans per age, income and socio-professional category. As it is the case for the previous surveys, this one has indicated that extreme income brackets hold the highest rate of non-performing loans.

The rate of non-performing loans stood at the same level as the previous year for all ages, except from people under the age of 30, who saw their rate rising by 4 points to 14%.





The rate of non-performing loans has particularly increased for incomes inferior to DH 3,000, from 13% to 17% and for those higher than DH 20,000, from 11% to 13%.

The breakdown of non-performing loans per socio-professional category indicates that the rate has dropped for civil servants from 7% to 6%, whereas it has increased for wage earners and craftsmen to 16% and 15%, against 12% the previous year.

2 - EVOLUTION OF CREDIT INSTITUTIONS' NON-PERFORMING LOANS

2.1 - Non-performing loans' outstanding amount continues its downward trend

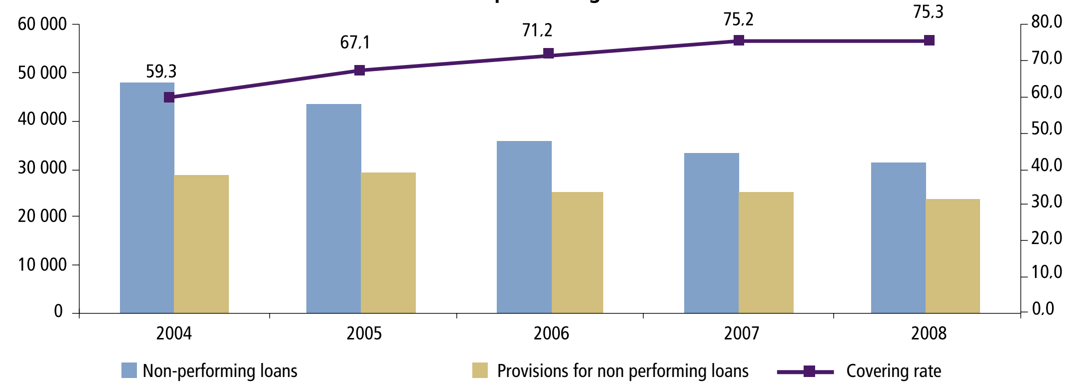
A review of the trend in non-performing loans may be conducted from different perspectives. They are compared to the overall outstanding loans, to the amount of provisions and to book capitals, and their concentration is analyzed according to their size.

The following developments are established based on the conclusions of the credit institutions' accounting positions, and fine-tuned on the basis of their annual statements on non-performing loans exceeding DH 500,000 each.

The outstanding amount of credit institutions' non-performing loans (banks and finance companies) continued its downward trend, started 4 years ago, in connection with the ongoing accounts stabilization, the important debt collection operations, the credit stock renewal and a better risk control. This amount witnessed an inflection of 4.7% to DH 37.8 billion, accounting for 6.4% of total outstanding credit, against 8.2% a year earlier. These loans were covered by provisions up to 77%, as in 2007.

For banks, the volume of non-performing loans stood at DH 31 billion, down by 6.4% compared to 2007 and 35% since 2004. These loans' covering rate by provisions amounted to 75.3%.

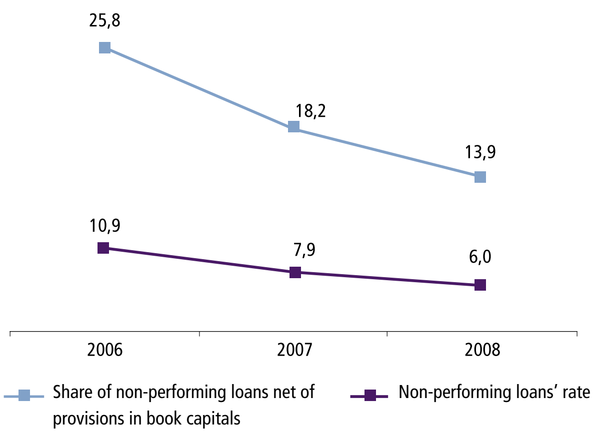
Chart 42: Evolution of banks' non-performing loans, provisions and covering rates
Non-performing loans



As shown by chart 43, the rate of non-performing loans decreased by 7.9% to 6%. Except for public-owned banks, this rate stood at 4.3%.

Calculated in relation to the book capitals, non-performing loans net of provisions represent 13.9% against 18.2% in 2007.

Chart 43: Non-performing loans' rate and share of non-performing loans net of provisions in book capitals (in %)



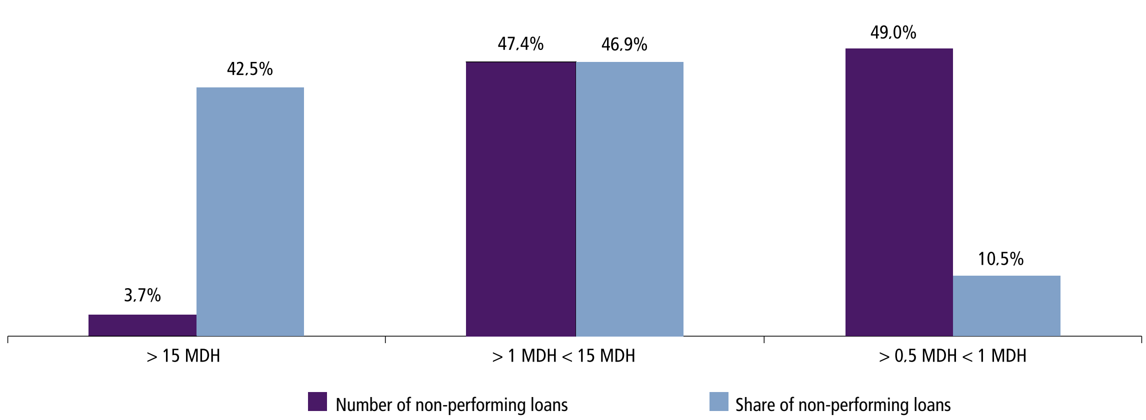
2.2 - The concentration of banks' non-performing loans in the various segments remained rather stable

The analysis of banks' annual statements related to non-performing loans, of a value above DH 500,000 each, determines the concentration degree of the said loans and the profiles of the beneficiaries.

At the end of 2008, they represented 67.4% of the overall outstanding amount of banks' non-performing loans, compared to 70% in 2007. The number of debtors dropped by 902 and stood at around 6,500. The average outstanding amount, per borrower, amounted to DH 3.2 million, nearly the same level as in the previous year.

Analysis of the concentration level of non-performing loans, as shown by chart 44 hereafter, is carried out on the basis of the segmentation stipulated in the provisions concerning Basel II implementation in Morocco.

Chart 44: Breakdown of banks' non-performing loans by their size



Therefore, customers whose per unit indebtedness exceeds DH 15 million, and whose total number has reached 238, i.e. 3.7% of all debtors against 257 in 2007, totaled an amount of DH 8.9 billion. This amount which represents 42.5% of the total of non-performing loans examined, against 40.6%, was covered by provisions up to 6.6 billion, representing a ratio of 74%.

Customers whose per unit indebtedness was between 1 and 15 million dirhams totaled 3,080 or 47.4% of all debtors against 3,427 in 2007. The total amount of their debt stood at DH 9.9 billion, down by 1.2 billion. This amount, representing 46.9% of the total non-performing loans examined, against 48.2% in 2007, was covered by provisions up to DH 7.3 billion, representing a coverage rate of 74.6%.

Debtors whose per unit indebtedness ranges between 0.5 and DH 1 million totaled 3,181, or 49% of all debtors compared to 3,717 in 2007. Their debts amounted to 2.2 DH billion, or 10.5% of the total number of non-performing loans, against 11.12% in 2007. They were covered by provisions up to DH 1.4 billion, representing a coverage rate of 64.3%.

Considering all non-performing loans, through completing those in the aforesaid brackets (0.5 to 1 million dirhams, 1 to 15 million dirhams and above 15 million dirhams) by loans lower than 0.5 million dirhams, the breakdown by bracket of amount shall be as follows:

- Non-performing loans whose per unit amount exceeds DH 15 million represented 28.7%, compared to 28.3% in 2007,
- Those whose unit amount ranges between 1 and 15 million dirhams totaled 31.6%, against 33.6%,
- Those whose unit amount is under 1 million dirhams represented 39.7%, against 38.1%.

II. INTEREST RATE RISK

The interest rate risk corresponds to the exposure of the financial banks to unfavorable movements in interest rates. Indeed, due to their financial intermediation activities, these institutions finance long-term lending with deposits or other forms of often short-term resources, which exposes them structurally to interest rate risk.

Interest rate risk affects the profit and loss account through the margin of interest. Besides, the current value of assets, liabilities and off-balance sheet operations, as well as capital, by way of consequence, is altered. This modification is due to the impact of interest rate trends on the value of future cash flows from these different elements. A badly controlled excessive exposure to interest rate risk or a defective management of the latter can pose a significant threat to the financial balance of banking institutions.

Accordingly, an effective risk management process that maintains interest rate risk within prudent levels is essential to the ensure banks' soundness.

Box 9: Sources of Interest Rate Risk

The four sources of interest rate risk to which banking institutions are usually exposed are the repricing risk, the yield curve risk, the basis risk and risk related to optionality.

1 - Repricing risk: it arises from timing differences in the maturity (for fixed rates) and repricing (for floating rates) of an institution's assets, liabilities and off-balance-sheet positions. Such repricing mismatches can expose an institution's income and underlying economic value to unanticipated fluctuations, as interest rates vary. For instance, an institution, which financed a long-term fixed rate loan with a short-term deposit, could face a decline in both the future income on this position and its underlying value if interest rates increase.

2 - Yield curve risk: Repricing mismatches can also expose a bank to variations in the slope and shape of the yield curve. Yield curve risk arises when unanticipated shifts of the yield curve have adverse effects on a bank's income or underlying economic value.

3 - Basis risk: it arises from imperfect correlation in the adjustment of the rates earned and paid on different instruments with otherwise similar repricing characteristics.

4 - Optionality or risk linked to embedded options: This includes, amongst others, the various types of bonds with termination clauses for the benefit of the debtor or the creditor, the loans which give borrowers the right to prepay balances, and various types of non-maturity deposit instruments which give depositors the right to withdraw funds at any time, often without any penalties.

1 - REGULATORY FRAMEWORK

Taking into account the diversity of the interest rate risk, prudential bodies did not define a quantitative regulation to limit the exposure related thereto. In fact, the latter depends on the financial structure and the strategy of each institution and its underlying measurement assumptions, the nature of the rate risk incurred and the underlying measurement schemes (runoff assumptions, embedded options).

Accordingly, the first and best protection against difficulties linked to interest rate risk is the quality and the soundness of internal management and supervision tools. In the framework of Pillar 2, the Basel Committee underlined the importance of this risk and enacted a set of recommendations for a healthy management thereof.

The main components of the regulatory framework governing interest rate risk in Morocco are the following:

- Bank Al-Maghrib circular related to internal control, enacted in 2002 and updated in 2007, calling on banks to set up an appropriate interest rate risk management mechanism;
- The directive on interest rate overall risk management system, published in 2007 within the framework of the implementation of pillar 2 of Basel II, which set new requirements;
- Circular letter no 01/DSB enacted in December 2008, and which defines the rules of a standardized reporting transmission by banks on their exposure to interest rate risk.

Pursuant to these texts, banking institutions are required to set up sound interest- risk management practices requiring at least the implementation of the following fundamental principles in the management of loans, debts and off-balance sheet instruments:

- An appropriate monitoring by the administration and management bodies;
- Appropriate interest rate-risk management policies and procedures;
- Interest rate risk monitoring and measurement systems;
- An appropriate system of internal control.

2 - INTEREST RATE RISK-MANAGEMENT MECHANISM

Considering the evolution of the rates conditions on the market and the structural variations observed in their balance sheets, banks have set, in 2008, the reinforcement of asset-liability management among their priority projects.

Efforts were made in 2008 in terms of formalizing an interest rate risk management strategy. The latter needs, however, to be generalized for better risk governance.

Exposure was framed by internal limits reflecting the level of risk deemed to be acceptable by the institution. Its management was further integrated in the management of commercial production. In the future, institutions should consider the impacts as regards pricing in connection mainly with credit risk management.

Box 10: Interest rate risk-measurement

The method of rate gaps is one of the most used methods in rate risk measurement.

To apply this method, banks determine gaps by breaking down the outstanding amounts and assets and liabilities interest flows according to their term and rates.

For items for which a schedule of due dates and/or rate cannot be clearly defined, mainly on demand deposits, deposit accounts, and equity, banks use statistics methods called runoff assumption or convention, to determine the probability related to the holding of these elements. These concepts reflect the forecasts carried out by institutions according to their strategies, but also pursuant to the variations expected in the economic environment, or the assumed behavior of customers. All those are specific to each institution.

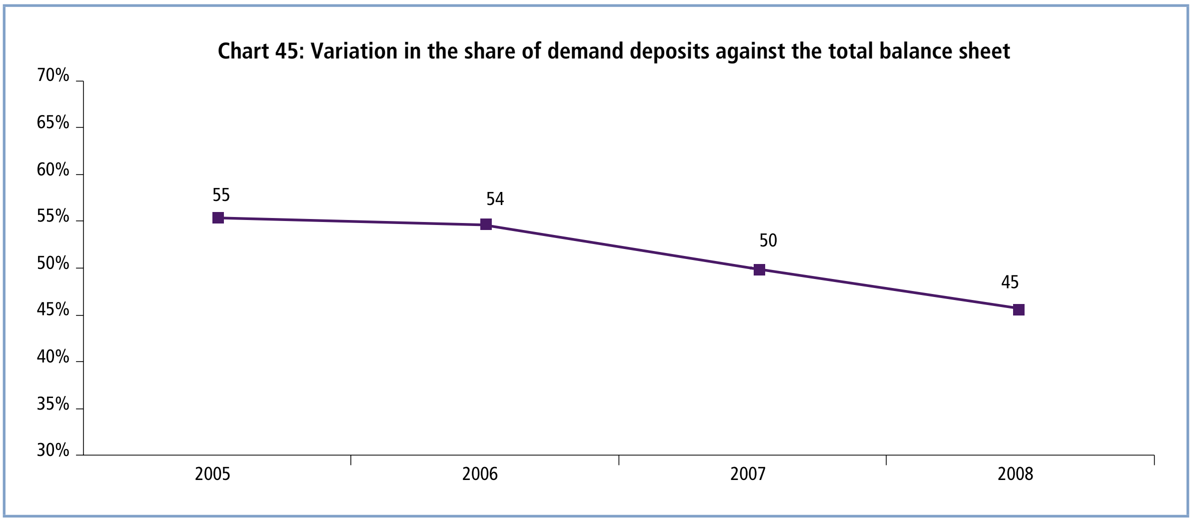
After this breakdown, banks carry out sensitivity tests by simulating the impact of a rate shock movement.

To evaluate the rate risk, most banks have adopted the method based on the gaps between assets and liabilities according to their maturity profile. They also reshaped their runoff assumptions after certain institutions have conducted statistical analyses for modeling the trend of their activities and resources without clear due date. However, these assumptions remain perfectible due to their variation, the limited scope of the used data statements, the additional statistical works at the basis of the models calibration, and the absence of back testing that would allow monitoring the findings.

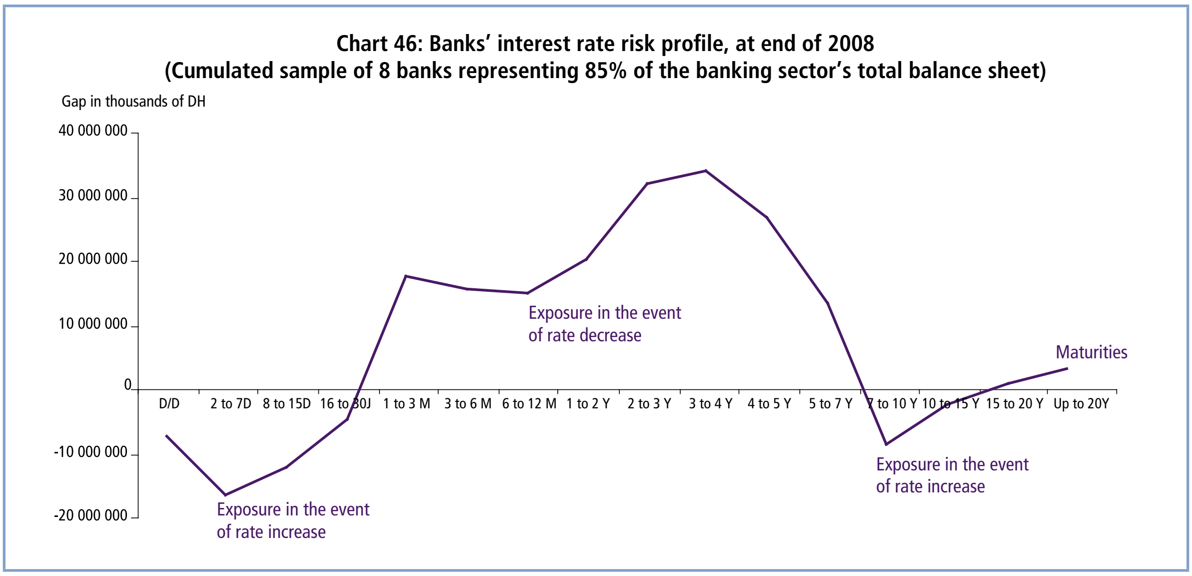
The launched improvement works often require bigger projects on the information systems and the implementation of asset-liability management (ALM) tools in order to limit manual risk treatment.

3 - BANKS' INTEREST RATE PROFILE

The structure of balance sheets shows the predominance of non interest-bearing demand deposits. However, in recent years, the latter have observed a downward trend, in favor of a marked recourse to market instruments such as deposit certificates and bonded debts, as well as refinancing with the central bank.



The banking sector exposure to interest rate risk, at the end of 2008, measured by the method of gaps between assets and liabilities, at a statistical mode, i.e. without considering new credits, is different from one temporal horizon to another.



On the very short term (less than one month), banks' balance sheet is exposed to losses in case of rate increase. This sensitivity mainly reflects the risk linked to the revision of rates related to banks' very short-term resources.

On the opposite, banks run the risk, on the short term (between 1 and 12 months), of probable losses in case of rate decrease, due to the downward revision of floating-rate loans such as housing loans.

On the mid-term (between 1 and 7 years), banks' balance sheets are also exposed to losses in case of rate decrease. This would adversely impact the expected earnings from the renewal of fixed-rate loans' outstanding amount.

On a longer run, the profile varies and strongly reflects the hypotheses retained for the runoff of sight deposits.

However, the overall profile of the sector covers various situations that differ from one bank to another.

4 - IMPACT OF THE INTEREST RATE RISK

The Soundness of banks facing exceptional shocks in terms of rate can be measured through shock simulation operations or stress tests.

These stress tests are conducted on the basis of a standard reporting system and consist of quantifying the impact of a +/-200 basis points variation in interest rates on banks' net income at 12 months and the economic value of banks' balance sheets.

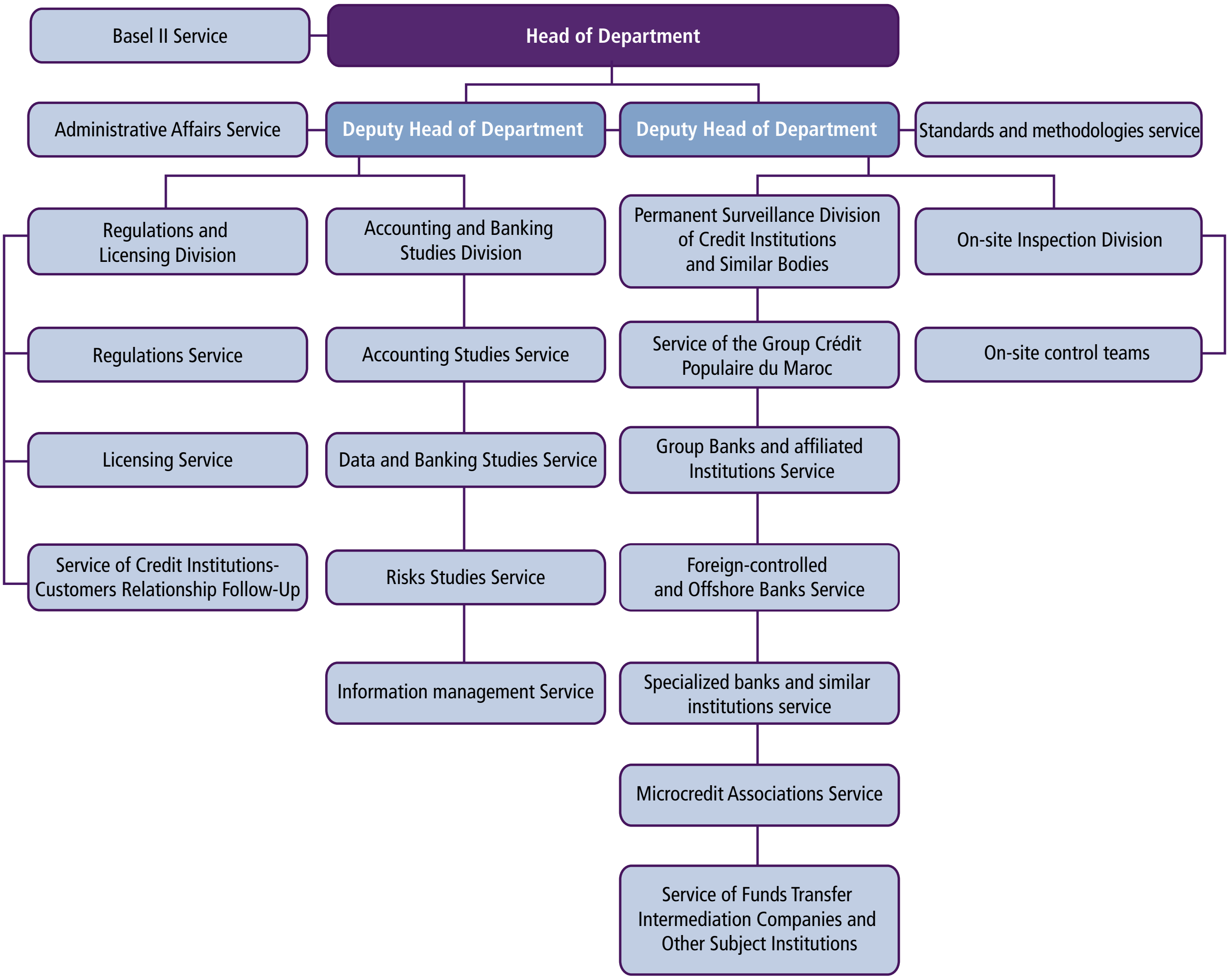
The findings of these stress tests show that banks run, in the event of a +/-200 basis points variation in interest rates, losses depending on the importance of gaps between 0.1% et 5.3% of the NBI. On the long run, they run the risk of undergoing losses which vary according to institutions and of which the level will remain under the equity maximum limit of 20% provided for by the Basel Committee.

APPENDICES

بنك المغرب

Appendix 1

Organizational chart of the Banking Supervision Department



Appendix 2

List of credit institutions

Banks

Name	Head office address
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 CASABLANCA	Espace porte d'Anfa, 2,Angle Bd d'Anfa et Avenue Moulay Rachid - Casablanca
BANQUE POPULAIRE D'EL JADIDA-SAFI	Boulevard Jamia Al Arabia - El Jadida
BANQUE POPULAIRE DE FES-TAZA	Angle Rue Allal loudyi et Rue Abdelali Benchekroun - Fès
BANQUE POPULAIRE DE LAAYOUNE	9, Boulevard Mohamed V - Laâyoune
BANQUE POPULAIRE DE MARRAKECH - BENI MELLAL	Avenue Abdelkrim Khattabi - Marrakech
BANQUE POPULAIRE DE MEKNES	4, Rue d'Alexandrie - Meknès
BANQUE POPULAIRE DE NADOR-Al HOCEIMA	113, Boulevard Al Massira - Nador
BANQUE POPULAIRE D'OUJDA	Boulevard Derfoufi - Oujda
BANQUE POPULAIRE DE RABAT	3, Avenue de Tripoli -Rabat
BANQUE POPULAIRE DE TANGER-TETOUAN	76, Avenue Mohamed V - Tanger
CDG CAPITAL	Place Moulay El Hassan - Immeuble Mamounia - Rabat
CREDIT AGRICOLE DU MAROC	2, Avenue d'Alger - Rabat
CASABLANCA FINANCE MARKETS	5-7, Rue Ibnou Toufail -Casablanca
CITIBANK MAGHREB	Lotissement attaoufik - Imm. I - Ensemble immobilier Zenith Millinium -Sidi Maärouf - 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»	1, Rue Oued Baht Agdal - Rabat
MEDIAFINANCE	3, Rue Bab Mansour - Espace Porte d'Anfa - Casablanca
SOCIETE GENERALE MAROCAINE DE BANQUES «S.G.M.B»	55, Boulevard Abdelmoumen - Casablanca
UNION MAROCAINE DE BANQUES «U.M.B»	36, Rue Tahar Sebti - Casablanca
BANCOSABADELL	Twin center, Tour ouest, 12ème étage angle Bds Zerktouni et Al Massira - 20100 - Casablanca
LA CAIXA	219, Bd Zerktouni, 3 Planta (angle Roudani) 20100 Casablanca

Consumer loan companies

Name	Head office address
ASSALAF CHAABI	3, Rue d'Avignon - Casablanca
BMCI CREDIT CONSO	30, Av. des FAR - Casablanca
CETELEM MAROC	30, Avenue des Forces Armées Royales
DAR SALAF S.A	207, Boulevard Zerktouni - Casablanca
DIAC SALAF	32, Boulevard de la Résistance - Casablanca
OMNIUM FINANCIER POUR L'ACHAT A CREDIT «FINACRED»	18, Rue de Rocroy, Belvédère- Casablanca
RCI FINANCE MAROC S.A	Place Bandoeng BP 13700- Casablanca
SALAFIN	Zenith Millenium, Immeuble 8, Sidi Maarouf-Casablanca
SALAF AL MOUSTAKBAL S.A.	20, Boulevard de La Mecque - Laâyoune
SOCIETE AFRICAINE LOUIFAK POUR L'ACHAT ET LE FINANCEMENT A CREDIT «SALAF»	12, Rue Abou Al Hassan Al Achaari -Casablanca
SOCIETE DE CREDIT A LA CONSOMMATION «TASLIF»	29, Boulevard Moulay youssef - Casablanca
SOCIETE DE FINANCEMENT D'ACHATS A CREDIT «SOFAC-CREDIT»	161, Avenue Hassan II - Casablanca
SOCIETE DE FINANCEMENT NOUVEAU A CREDIT «FNAC»	Sahat Rabia Al Adaouia, Résidence Kays Agdal - Rabat
EQDOM	127, Angle Bd Zerktouni et rue Ibnou Bouraîd - 20100 Casablanca
SOCIETE NORDAFRICAINE DE CREDIT «SONAC»	29, Boulevard Mohamed V - Fès
SOCIETE POUR LE DEVELOPPEMENT DES ACHATS A CREDIT «ACRED»	79, Avenue Moulay Hassan 1er - Casablanca
SOCIETE REGIONALE DE CREDIT A LA CONSOMMATION «SOREC-CREDIT»	256, Bd Zerktouni - Casablanca
SOCIETE SAFA DE FINANCEMENT ET DE CREDIT «SAFACRED»	1, Place Bandoeng - Casablanca
SOGEFINANCEMENT	127, Boulevard Zerktouni - Casablanca
WAFASALAF	Angle rue Jenner et Boulevard Abdelmoumen-Casablanca

Real estate loan companies

Name	Head office address
ATTIJARI IMMOBILIER	2, Boulevard Moulay Youssef - Casablanca
WAFA IMMOBILIER	140, Boulevard Zerktouni - Casablanca

Factoring companies

Name	Head office address
ATTIJARI FACTORING	2, Boulevard Moulay Youssef - Casablanca
MAROC FACTORING	243, Boulevard Mohamed V - Casablanca

Leasing companies

Name	Head office address
CHAABI LEASING	3, Rue d' Avignon - Casablanca
BMCI- LEASING	Angle Rue Normandie et Rue Ibnou Fariss - Casablanca
COMPAGNIE MAROCAINE DE LOCATION D' EQUIPEMENTS «MAROC- LEASING»	Résidence El Manar, Boulevard Abdelmoumen-Casablanca
CREDIT DU MAROC LEASING «CDML»	201, Bd Zerktouni – Casablanca
SOCIETE GENERALE DE LEASING DU MAROC «SOGELEASE MAROC»	55, Boulevard Abdelmoumen - Casablanca
SOCIETE MAGHREBINE DE CREDIT -BAIL (LEASING) «MAGHREBAIL»	45, Boulevard Moulay Youssef - Casablanca
WAFABAIL	1, Avenue Hassan II - Casablanca

Surety companies

Name	Head office address
CAISSE MAROCAINE DES MARCHES «CMM»	12, Place des Alaouites - Rabat
DAR AD-DAMANE	288, Boulevard Zerktouni - Casablanca

Payment systems management companies

Name	Head office address
CENTRE MONETIQUE INTERBANCAIRE	Espace porte d'Anfa, 8, Angle Bd d'Anfa et Avenue Moulay Rachid - 20050 Casablanca
INTERBANK	26, Rue du Mausolée - Casablanca
WAFA CASH	15, Rue Driss Lahrizi - Casablanca

Other companies

Name	Head office address
JAIDA	Place Moulay Hassan, Imm. Dalil - Rabat

Appendix 3

List of offshore banks

Name	Head office address
ATTIJARI INTERNATIONAL BANK BANQUE OFFSHORE	58, Boulevard pasteur, Tanger
BANQUE INTERNATIONALE DE TANGER -BANQUE OFFSHORE	Angle Avenue Mohamed V et Rue Moussa Bnou Noussair, Tanger
BMCI -BANQUE OFFSHORE- GROUPE BNP	Boulevard Youssef Ben Tachfine et Angle Boulevard Madrid, Tanger
SOCIETE GENERALE TANGER OFFSHORE (SG.TANGER OFFSHORE)	58, Avenue Mohamed V, Tanger
BMCE BANK - BANQUE OFFSHORE	Zone Franche, Port de Tanger, BP 513, Tanger
CHAABI INTERNATIONAL BANK OFFSHORE (CIB BANQUE OFFSHORE)	Rue Cellini, Sidi Boukhari - Tanger

Appendix 4

List of microcredit associations

Association AL Amana pour la Promotion des Microentreprises (AL AMANA)
Association Al Karama pour le Micro-Crédit (AL KARAMA)
Association Ismailia pour le Micro-Crédit (AIMC)
Association Marocaine de Solidarité Sans Frontière (AMSSF)
Association Marocaine Oued Serou pour le Micro-Crédit (AMOS)
Association Tétouanaise des Initiatives Sociaux- Professionnelles (ATIL)
Fondation Banque Populaire pour le Micro-Crédit (FBPMC)
Fondation « ARDI »
Fondation micro crédits du Nord
Fondation pour le Développement Local et le Partenariat (FONDEP)
Fondation Zakoura pour le Micro-Crédit
TAWADA
Institution Marocaine d'Appui à la Micro-Entreprise (INMAA)

Appendix 5Ω

List of funds transfer companies

Name	Head office address
WAFA CASH	15, Rue Driss Lahrizi - Casablanca
EUROSOL	Avenue Hassan II - Résidence Ahssan Dar Immeuble B, n° 3 et 4 - Rabat
TENOR DISTRIB	22, Bd Moulay Youssef- Casablanca
DAMANE CASH	212, Avenue Mohamed V - Résidence Elite, 2ème étage Bureau 211 - Guéliz - Marrakech
QUICK MONEY	16/18 Lotissement Aattaoufik Espace Jet, Business Class - Sidi Maarouf - Casablanca
CASH ONE	345, Avenue 10 Mars – Mabrouka - Casablanca
MEA FINANCES SERVICES	Résidence Hadi n°27, Rue Salim Cherkaoui 6ème étage Casablanca

Appendix 6

Banks' aggregate balance sheet[1] at December 31, 2008

(In thousand dirhams)

Assets	31/12/07	31/12/08
Cash, Central banks, Public Treasury, Postal accounts service	**62 199 556**	**61 795 903**
Due from credit institutions and similar bodies	**93 766 297**	**99 515 821**
. Demand	28 866 955	22 462 088
. Time	64 899 342	77 053 733
Due from customers	**359 133 761**	**446 538 883**
. Overdraft facilities and consumer loans	153 760 755	179 529 377
. Equipment loans	84 390 159	100 692 671
. Real estate loans	105 321 796	143 563 976
. Other loans	15 661 051	22 752 859
Factoring loans	**1 115 616**	**1 741 653**
Trading and marketable securities	**58 986 328**	**74 610 192**
. Treasury bills and the like	35 343 466	40 167 582
. Other debt securities	7 684 142	8 868 379
. Title deeds	15 958 720	25 574 231
Other assets	**9 552 204**	**11 952 394**
Investment securities	**45 149 836**	**35 127 516**
. Treasury bills and the like	40 519 683	32 285 613
. Other debt securities	4 630 153	2 841 903
Equity securities and the like	**12 167 686**	**15 389 628**
Subordinated loans	**420 115**	**1 154 062**
Fixed assets for leasing and rental	**245 008**	**333 702**
Intangible fixed assets	**2 589 560**	**2 879 300**
Tangible fixed assets	**11 272 576**	**12 052 512**
Total Assets	**656 598 543**	**763 091 566**

1 Company-based balance sheet, with headings net of depreciations and provisions

(In thousand dirhams)

Liabilities	31/12/2008	31/12/08
Central Banks, Public Treasury, Postal accounts service	**754**	**107**
Due to credit institutions and the like	**43 361 828**	**56 915 490**
. Demand	11 151 512	9 502 639
. Time	32 210 316	47 412 851
Customers' deposits	**516 404 925**	**572 682 913**
. Creditor demand deposits	299 565 250	312 857 016
. Savings accounts	59 203 979	65 507 714
. Time deposits	141 987 597	176 746 834
. Other creditor accounts	15 648 099	17 571 349
Debt securities issued	**18 035 228**	**32 013 793**
. Negotiable debt securities	12 599 750	27 556 351
. Bond loans	2 483 713	1 657 855
. Other debt securities issued	2 951 765	2 799 587
Other liabilities	**14 617 153**	**19 866 228**
Provisions for risks and expenditure	**3 056 638**	**3 041 622**
Statutory provisions	**1 320 536**	**738 402**
Subsidies, allocated public funds and special guarantee funds	**2 133 137**	**2 293 145**
Subordinated debts	**4 841 666**	**13 194 197**
Reevaluation gaps	**361 788**	**361 788**
Reserves and premiums related to capital	**30 067 674**	**36 672 904**
Capital	**16 120 810**	**17 076 754**
Shareholders. Uncalled Capital (-)	**-350 000**	**0**
Retained earnings (+/-)	**-2 362 608**	**-373 342**
Net income before appropriation	**0**	**0**
Net income for the year	**8 989 014**	**8 607 565**
Total liabilities	**656 598 543**	**763 091 566**

(In thousand dirhams)

Off-balance sheet	31/12/07	31/12/08
COMMITMENTS GIVEN	**127 794 022**	**158 779 699**
Financing commitments to credit institutions and the like	1 285 519	3 071 523
Financing commitments to customers	56 459 887	71 321 302
Surety bonds to credit institutions and the like	22 234 720	25 724 532
Surety bonds to customers	46 751 190	58 397 049
Repurchase agreements		
Other securities deliverable	1 062 706	265 293
COMMITMENTS RECEIVABLE	**50 984 950**	**60 543 832**
Financing commitments received from credit institutions and the like	3 630 807	5 122 223
Surety bonds received from credit institutions and the like	45 549 346	52 803 132
Surety bonds received from the State and sundry guarantee institutions	1 483 626	2 375 620
Repurchase agreements		
Other securities receivable	321 171	242 857

Appendix 7

Banks' aggregate management balance statement[1]
from January 1 to December 31, 2008

(in thousand dirhams)

	31/12/07	31/12/08
+ Interests and related income	28 970 466	33 594 967
- Interests and related expenses	9 664 570	12 269 133
INTEREST MARGIN	**19 305 896**	**21 325 834**
+ Gains on fixed asset leasing and rentals	28 842	97 808
- Expenses on fixed asset leasing and rentals	13 987	78 929
Income from leasing and rental transactions	**14 855**	**18 879**
+ Commissions received	3 657 102	3 843 780
- Commissions given	200 841	232 153
Margin on commissions	**3 456 261**	**3 611 627**
± Gains on marketable securities transactions	0	598 685
± Gains on investment securities transactions	1 655 487	375 693
± Gains from foreign exchange transactions	1 158 425	1 315 867
± Gains on derivatives transactions	8 970	75 084
Income from market operations	**2 822 882**	**2 365 329**
+ Miscellaneous other banking incomes	1 432 576	1 192 504
- Miscellaneous other banking expenses	1 011 115	1 306 419
NET BANKING INCOME	**26 021 355**	**27 207 754**
± Income from financial fixed asset transactions	1 697 724	200 510
+ Other non-banking operating income	305 519	491 183
- Other non-banking operating expenses	226 187	247 203
- Total operating expenses	12 136 795	13 031 086
GROSS OPERATING INCOME	**15 661 616**	**14 621 158**
± Expenses net of reversals of provisions for non-performing loans and commitments by signature	-1 192 031	-2 318 979
± Other expenses net of reversals of provisions	-1 475 089	337 510
INCOME BEFORE EXTRAORDIARY ITEMS	**12 994 496**	**12 639 689**
EXTRAORDINARY INCOME	**-329 277**	**-58 731**
- Income tax	3 676 206	3 973 393
NET INCOME FOR THE YEAR	**8 989 013**	**8 607 565**

1 On a corporate basis

Appendix 8

Aggregate balance sheet of consumer loan companies at December 31, 2008

(in thousand dirhams)

Assets	31/12/07	31/12/08
Cash, Central banks, Public Treasury, postal accounts service	**107 098**	**89 080**
Due from credit institutions and similar bodies	**1 213 645**	**867 969**
. Demand	433 862	738 358
. Time	779 783	129 611
Customers' loans	**21 394 202**	**27 580 422**
. Overdraft facilities and consumer loans	20 658 055	26 108 092
. Equipment loans	173 918	266 046
. Real estate loans	43 975	36 474
. Other loans	518 254	1 169 810
Factoring loans		**45 992**
Trading and marketable securities	**155 017**	**293 881**
. Treasury bills and the like	1 167	1 030
. Other debt securities	152 000	291 000
. Title deeds	1 850	1 851
Other assets	**1 350 355**	**1 282 382**
Investment securities	**26**	**26**
. Treasury bills and the like		
. Other debt securities	26	26
Equity securities and the like	**178 256**	**188 986**
Subordinated loans		
Fixed assets for leasing and rental	**8 474 167**	**7 071 911**
Intangible fixed assets	**297 648**	**319 833**
Tangible fixed assets	**302 607**	**309 598**
Total Assets	**33 473 021**	**38 050 080**

(in thousand dirhams)

Liabilities	31/12/07	31/12/08
Central Banks, Public Treasury, Postal accounts service		
Due to credit institutions and similar bodies	**21 740 005**	**26 095 643**
. Demand	1 759 794	2 194 670
. Time	19 980 211	23 900 973
Customers' deposits	**541 450**	**467 099**
. Creditor demand deposits		
. Savings accounts		
. Time deposits		
. Other creditor accounts	541 450	467 099
Debt securities issued	**2 558 328**	**2 318 288**
. Negotiable debt securities	2 495 412	2 261 518
. Bond loans	62 916	56 770
. Other debt securities issued		
Other liabilities	**4 186 853**	**3 795 625**
Provisions for risks and expenditure	**132 292**	**156 776**
Statutory provisions	**91 898**	**73 134**
Subsidies, allocated public funds and special guarantee funds		
Subordinated debts	**200 061**	**300 082**
Reevaluation gaps		
Reserves and premiums related to capital	**1 603 268**	**1 991 050**
Capital	**1 487 548**	**1 751 764**
Shareholders. Uncalled Capital (-)		
Retained earnings (+/-)	**198 528**	**252 177**
Net income before appropriation (+/-)		
Net income for the year (+/-)	**732 790**	**848 442**
Total liabilities	**33 473 021**	**38 050 080**

Appendix 9

Aggregate management balance statement of consumer loan companies from January 1 to December 31, 2008

(in thousand dirhams)

	31/12/07	31/12/08
+ Interests and related income	2 504 711	2 935 005
- Interests and related expenses	890 007	1 094 730
INTEREST MARGIN	**1 614 704**	**1 840 275**
+ Gains on fixed asset leasing and rentals	3 381 153	4 057 679
- Expenses on fixed asset leasing and rentals	2 807 531	3 536 190
Income from leasing and rental transactions	**573 622**	**521 489**
+ Commissions received	147 220	243 510
- Commissions given	22 614	22 565
Margin on commissions	**124 606**	**220 945**
± Gains on marketable securities transactions	846	4 502
± Gains on investment securities transactions	3 702	59
± Gains from foreign exchange transactions	-137	-147
± Gains on derivatives transactions		
Income from market operations	**4 411**	**4 414**
+ Miscellaneous other banking income	26 567	63 445
- Miscellaneous other banking expenses	6 423	8 275
NET BANKING INCOME	**2 337 487**	**2 642 293**
± Income from financial fixed asset transactions	14 095	-2
+ Other non-banking operating income	61 232	88 706
- Other non-banking operating expenses	2 983	1 194
- Total operating expenses	978 890	1 090 256
GROSS OPERATING INCOME	**1 430 941**	**1 639 547**
± Expenses net of reversal of provisions for non-performing loans and commitments by signature	-152 899	-263 044
± Other expenses net of reversals of provisions	-64 515	-23 561
INCOME BEFORE EXTRAORDINARY ITEMS	**1 213 527**	**1 352 942**
EXTRAORDINARY INCOME	**-9 560**	**5 029**
- Income tax	471 177	509 531
NET INCOME FOR THE YEAR	**732 790**	**848 440**

Appendix 10

Leasing companies' aggregate balance sheet at December 31, 2008

(in thousand dirhams)

Assets	31/12/07	31/12/08
Cash, Central banks, Public Treasury, postal accounts service	**120**	**2 356**
Due from credit institutions and similar bodies	**142 224**	**268 965**
. Demand	96 576	230 924
. Time	45 648	38 041
Customer loans	**70 264**	**73 541**
. Overdraft facilities and consumer loans	14 462	12 178
. Equipment loans		
. Real estate loans	39 265	36 685
. Other loans	16 537	24 678
Factoring loans		
Trading and marketable securities	**257**	**501**
. Treasury bills and the like		
. Other debt securities	257	501
. Title deeds		
Other assets	**1 024 652**	**1 279 968**
Investment securities	**27**	**27**
. Treasury bills and the like	27	27
. Other debt securities		
Equity securities and the like	**31 058**	**30 933**
Subordinated loans		
Fixed assets for leasing and rental	**25 158 098**	**30 300 066**
Intangible fixed assets	**46 934**	**45 982**
Tangible fixed assets	**23 194**	**21 993**
Total Assets	**26 496 828**	**32 024 332**

(in thousand dirhams)

Liabilities	31/12/07	31/12/08
Cash, Central banks, Public Treasury, postal accounts service		
Due from credit institutions and similar bodies	**20 753 258**	**25 987 252**
. Demand	1 007 062	1 909 252
. Time	19 746 196	24 078 000
Customers' deposits	**205 089**	**750 440**
. Creditor demand deposits		
. Savings accounts		
. Time deposits	34 375	601 149
. Other creditor accounts	170 714	149 291
Debt securities issued	**1 660 357**	**1 460 188**
. Negotiable debt securities	1 195 847	1 399 823
. Bond loans	120 675	60 365
. Other debt securities issued	343 835	
Other liabilities	**1 859 102**	**1 571 942**
Provisions for risks and expenditure	**134 342**	**138 005**
Statutory provisions	**57 605**	**15 605**
Subsidies, allocated public funds and special guarantee funds		
Subordinated debts	**52 858**	**54 139**
Reevaluation gaps		
Reserves and premiums related to capital	**546 672**	**668 133**
Capital	**742 027**	**742 027**
Shareholders. Uncalled Capital (-)	**-17 435**	
Retained earnings (+/-)	**115 375**	**219 539**
Net income before appropriation (+/-)		
Net income for the year (+/-)	**387 578**	**417 062**
Total liabilities	**26 496 828**	**32 024 332**

Appendix 11

Leasing companies aggregate management balances statement from January 1 to December 31, 2008

(in thousand dirhams)

	31/12/07	31/12/08
+ Interests and related income	14 299	13 081
- Interests and related expenses	906 075	1 115 981
INTEREST MARGIN	**-891 776**	**-1 102 900**
+ Gains on fixed asset leasing and rentals	9 217 361	10 677 797
- Expenses on fixed asset leasing and rentals	7 342 942	8 626 651
Income from leasing and rental transactions	**1 874 419**	**2 051 146**
+ Commissions received	2 504	3 056
- Commissions paid	5 717	12 186
Margin on commissions	**-3 213**	**-9 130**
± Gains on marketable securities transactions		
± Gains on investment securities transactions		23
± Gains from foreign exchange transactions	-2	1
± Gains on derivatives transactions		
Income from market operations	**-2**	**24**
+ Miscellaneous other banking income	5 888	484
- Miscellaneous other banking expenses	842	1 414
NET BANKING INCOME	**984 474**	**938 210**
± Income from financial fixed asset transactions	**-3 480**	
+ Other non-banking operating income	**10 347**	**13 774**
- Other non-banking operating expenses	**12 927**	**13 995**
- Total operating expenses	**232 337**	**249 629**
GROSS OPERATING INCOME	**746 077**	**688 360**
± Allocations net of reversal of provisions for non-performing loans and commitments by signature	-45 563	-61 145
± Other allocations net of reversals of provisions	-46 545	11 737
INCOME BEFORE EXTRAORDINARY ITEMS	**653 969**	**638 952**
EXTRAORDINARY INCOME	**-1 652**	**10 182**
- Income tax	264 739	232 072
NET INCOME FOR THE YEAR	**387 578**	**417 062**

Appendix 12

Balance sheet of the Deposit Insurance Fund
End of December 2008

Assets	AMOUNTS IN DH	Liabilities	AMOUNTS IN DH
INVESTMENT SECURITIES	5 376 310 097,26	CONTRIBUTIONS OF CREDIT INSTITUTIONS	6 188 220 498,26
MARKETABLE SECURITIES GUARANTEED BY THE STATE	103 900 000,00	RESERVES	1 014 252 088,08
SECURITIES RECEIVED THROUGH REPOS	1 746 675 789,57	PROFIT	200 501 283,33
CURRENT ACCOUNT WITH BANK AL-MAGHRIB	4 022 558,48	EQUALIZATION ACCOUNTS «Liabilities»	10 999 949,29
INSTALLMENTS ON INCOME TAX	574 982,58		
STATE SURPLUS INCOME TAX	5 711 986,39		
RECOVERABLE VAT	88 387,50		
VAT CREDIT STATEMENT	743 157,52		
EQUALIZATION ACCOUNTS "ASSETS"	175 946 859,66		
TOTAL ASSETS	**7 413 973 818,96**	**TOTAL LIABILITIES**	**7 413 973 818,96**

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