بنك المغرب

BANK AL-MAGHRIB

ANNUAL REPORT

ON THE CONTROL, ACTIVITIES, AND RESULTS OF CREDIT INSTITUTIONS

2007

CONTENTS

A word from the Governor

The year 2007 was marked by the combination of several favorable factors leading to the consolidation of the banking system; at least three of them are worth mentioning. Firstly, the sector's fundamental indicators registered considerable improvement in an economic situation showing relatively strong activity. Secondly, the rehabilitation process of public banks was finally completed, these institutions being henceforth subjected to all monetary and prudential rules, on the same level as private sector banks. Finally, the regulatory framework has been entirely brought in line with international standards, mainly with the entry into force of the Basel II provisions and the adoption of the International Financial Reporting Standards (IFRS).

The concluding statement of the Moroccan financial sector's assessment mission conducted in November 2007 by a joint International Monetary Fund and World Bank team confirmed the soundness of the banking sector, considered as profitable and as having an appropriate capitalization with respect to the risks incurred, in addition to resilience to potential shocks.

The sector performances during the financial year under review are a continuation of those registered over the past few years. The net aggregate income of all credit institutions, calculated on an equity basis, grew by 32.7%, reaching a total of 10 billion dirhams. This result is confirmed by the consolidated data of the main banking groups that reported a net income of 8 billion dirhams, up by nearly 20%, thereby reflecting the contribution of subsidiaries dedicated to specialized financing and insurance.

The profitability of credit institutions was boosted by good control of credit risks, with provisions accounting for 10% of the gross operating income against 14% in 2006. Profitability was also stimulated by the improvement in the operating ratio which, despite the higher rise in committed costs than the previous year, declined by 1.6 point to 45.5%.

These developments occurred in a context marked by the vigor of credit institution activity, the joint balance sheets of which represented nearly 117% of the gross domestic product (GDP) against 102% in 2006.

The microcredit sector also has shown a remarkable development with regard to both the number of beneficiaries and to the volume of loans, which outstanding amount was multiplied by 3 in a span of 2 years, settling at 5.5 billion dirhams.

All of these developments, by encouraging a wider access to banking and financial services, constitute decisive factor in economic growth and social well-being. It is therefore of prime importance that this dynamic in credit activity continue on sound bases with effective control over risk factors.

In this context, the central bank continued its efforts geared to strengthening its proactive monitoring of banking risks. The pace of on-site inspections of the relevant institutions, including microcredit associations subject to Bank Al-Maghrib control since 2006, was thus improved with inspections focusing more greatly on the main areas of risk. These verifications primarily dealt with real-estate risk management and off-balance sheet operations. On the other hand, relationships have been established with banks' audit committees in order to evaluate aspects such as strategy, governance, capital adequacy, and risk management systems.

In addition, Bank Al-Maghrib updated its surveys on the conditions for granting loans, in particular the survey regarding the development of household indebtedness, whose results are given in this report. They mainly show that the growth in loans, driven by rising demand, benefited clients across the board, and that banking institutions continued their policy of easing credit conditions amidst an environment of fierce competition. Overall, household indebtedness remains under control, its share being of no more than 23% of the gross national disposable income.

Nevertheless, diligence remains necessary given the acceleration in the growth pace of bank loans, especially for certain market segments. Also, and upon the initiative of Bank Al-Maghrib, the banking community adopted two ethical codes: the first relates to the financing of real estate assets and the second to the financing of financial assets. The adoption of these codes aims at reinforcing ethical practices in order to ensure sound and appropriate financing of assets and to rule out any overbid in both these areas.

Along the same lines and so as to foster the pooling and globalization of financial information on the banking counterparts, Bank Al-Maghrib delegated the management of its credit registry to a private operator with a view to setting up a credit bureau, whose entry into force is expected in the course of the year 2009.

The strengthening of credit institutions' financial foundations through the consolidation of their equity capital is intended to help them better manage internal and external growth operations currently in a phase of acceleration. To this end, Bank Al-Maghrib decided to raise the minimum solvency ratio to 10% starting the end of December 2008 and targets an objective of 12%, in accordance with the provisions of the 2nd pillar of Basel II. This pillar, dealing with prudential monitoring, will henceforth constitute the favored channel for a structured dialogue between the Central Bank and banking institutions on the quality of the internal assessment of capital adequacy with their risk profile.

It is therefore crucial that banks proceed on exerting efforts to strengthen their risk management capacity while striving to apply the advanced standards of Basel II and ensure appropriate financial communication, in line with the requirements of the 3rd pillar of this system, and in connection with IFRS standards.

As for finance companies, they should improve their credit risk evaluation mechanisms through the generalization of rating systems and transparency practices in their relations with customers.

Microcredit associations must work towards upgrading their internal control mechanisms and information systems, with a view to ensuring better control of credit and operational risks.

All these elements are essential for preserving the soundness of the banking system now called upon to operate in a context which is increasingly integrated in the international economy. In this regard, the system's development outlook brings out two major challenges to take up over the forthcoming years. Firstly, the deepening of the domestic market so as to better meet the economy's needs, given the very real potentialities existing in the banking sector. The second challenge concerns strengthening of the latter's position on the regional scene in a context marked by mounting competition.

Consolidation of the achievements accomplished by the banking system remains an essential condition for accompanying the development of the national economy and its integration in the international environment.

Highlights of 2007

January 22: Signing of a cooperation agreement between Bank Al-Maghrib and the Central Bank of Mauritania.

March 13: Signing of two agreements with the Office Marocain de la Propriété Industrielle et Commerciale-OMPIC (Moroccan Industrial and Commercial Property Office) enabling Bank Al-Maghrib access to databases relative to corporate financial information.

March 14: 2nd meeting of the Credit Institutions Committee, in the framework of the banking law of February 2006.

March 19: 4th meeting of Francophone Banking Supervisors Group in Yaoundé, Cameroon.

April 24: Half-yearly meeting between Bank Al-Maghrib and the Board of the Groupement Professionel des Banques du Maroc –GPBM (Moroccan Bankers' Association).

May 3: Enactment of law N° 43-05 relating to the fight against money laundering.

May 10: Approval, by the National Accounting Council, of the credit institutions Chart of Accounts revised in conformity with the international accounting standards.

June 26/27: Convening in Turkey of the interregional conference on the deposit insurance system, with the participation of Bank Al-Maghrib.

July 19: Meeting of the Commission for the Coordination of the Financial Sector's Supervisory Bodies.

July 23: 3rd meeting of the Credit Institutions Committee in the framework of the banking law of February 2006.

July 25: 2nd meeting of the National Credit and Savings Council in the framework of the banking law of February 2006.

September 13: Publication of Bank Al-Maghrib's recommendation on the products called IJARA, MOUCHARAKA and MOURABAHA.

October 31: Launch by Bank Al-Maghrib of the awareness campaign on the fight against money laundering, in partnership with the Ministry of Economy and Finance and the Ministry of Justice.

November 5/6: Sixth meeting of the Middle East and North Africa Financial Action Task Force (MENA FATF) in Damascus, with the participation of Bank Al-Maghrib.

November 28: Signing by the Central Bank of Tunisia and Bank Al-Maghrib of the agreement relative to banking control cooperation.

December 17 : Half-yearly meeting between Bank Al-Maghrib and the GPBM Board.

Key figures of the banking system

1 - Structure of the banking system

- Number of credit institutions and similar bodies: 76

- Banks: 16
- Finance companies: 37
- Offshore banks: 6
- Microcredit associations: 14
- Other institutions: 3

- Network:

- In Morocco: 4 474 branches, including 1 726 for Barid Al-Maghrib (Moroccan post office), i.e. 6 700 inhabitants per branch.

- Abroad: 10 subsidiaries, 13 agencies and branches and 70 representative offices.

- Automated teller machines: 3 123.

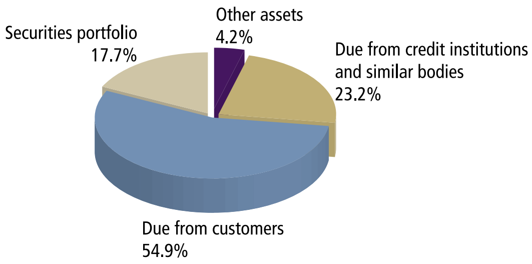
- Staff of credit institutions and similar bodies: 35 000 including 27 435 for banks

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

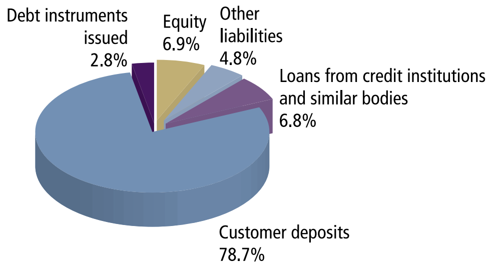
(in billions of dirhams)

	2005	2006	2007
Balance sheet total	461	540	657
Cash loans (net of provisions)	250	304	402
Customer deposits	373	437	516
Equity capital (excluding financial year profits)	36	40	46
Net banking income	20,2	22,2	26
Gross operating income	10,8	11,8	15,7
Net income	2,13	6,7	9,0
Average yield of assets	5,31%	5,42%	5,35%
Average cost of liabilities	1,70%	1,72%	1,75%
Average operating ratio	50,0%	48,0%	46,5%
Return on assets (ROA)	0,5%	1,3%	1,5%
Return on equity (ROE)	6,0%	17,4%	20,6%
NPL rate	15,7%	10,9%	7,9%
Private banks' NPL rate	9,6%	7,4%	5,3%
NPL coverage ratio	67,1%	71,2%	75,2%
Private banks' NPL coverage ratio	74,0%	77,7%	84,5%

Structure of banks' assets



Structure of banks' liabilities

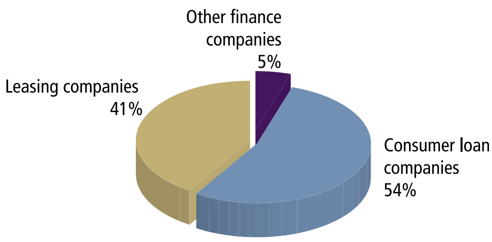


3 - Indicators of finance companies' activity and profitability

(in billions of dirhams)

	2005	2006	2007
Balance sheet total	42,3	50,1	62,7
Net banking income	2,6	3,1	3,5
Gross operating income	1,7	2	2,4
Net income	0,74	1	1,2
Return on assets (ROA)	1,7%	2,0%	2,0%
Return on equity (ROE)	17,1%	22,7%	23,7%

Share of each category of finance companies in the total assets



4 - Indicators of microcredit associations' activity and profitability

(in billions of dirhams)

	2005	2006	2007
Balance sheet total	1,7	3,9	6
Loans outstanding amount	1,6	3,5	5,5
NPL rate	1,0%	1,0%	2,4%
Net income	0,12	0,19	0,3

PART 1

Legal and regulatory environment and banking supervision activities

I - Legal and regulatory environment

The year 2007 was characterized by the publication of several application acts of the law No. 34-03 regarding credit institutions and similar bodies, hereinafter referred to as the "banking law". It also saw the entry into force of the New Capital Accord (Basel II) and the transposition of the international accounting standards (IAS/IFRS), to be applied in 2008.

The legal and regulatory framework governing the activities of the other compartments of the financial sector was also strengthened.

A - Completion of the institutional framework

The operating modalities of advisory and/or coordination bodies stipulated by the banking law of February 2006, as well as the list of the members of those for which the composition was not specified by the law, were set by decrees.

1 - National Council of Credit and Savings (NCCS)

The NCCS, which replaces the National Council of Money and Savings (NCMS), saw its prerogatives revised to exclude any issues dealing with monetary policy which, according to law No. 76-03 relative to the Statutes of Bank Al-Maghrib, are henceforth in the exclusive jurisdiction of the Central Bank.

The purpose of the NCCS is to debate issues regarding the development of savings and the evolution of credit institutions' activity. Its vocation is not to give opinions but, rather, to submit to the Government all proposals relative to areas that fall within its competence.

Its composition was modified by decree No.2-06-224 of 17 Jumada II 1428 (July 3rd, 2007).

Accordingly, 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 bodies, professional chambers and associations as well as individuals appointed by the Prime Minister for their expertise in economic and financial matters. The NCCS is obliged to hold at least an annual meeting.

2 - Credit Institutions Committee (CIC)

The Credit Institutions Committee, a consultative body governed by the provisions of articles 19 and 20 of the banking law, gives its opinion to the Governor of Bank Al-Maghrib on all issues, of general or individual interest, dealing with the activity of credit institutions.

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 GPBM and two representatives of the Professional Association of Finance Companies. Whereas 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 the Ministry of Finance.

The issues on which the opinion of the CIC must be required encompass both the regulatory and the accounting aspects. They also concern other aspects relative to the detailed rules on the application of the banking law regarding, in particular, the management and financing of the Fonds Collectif de Garantie des Dépôts (Deposit Insurance Fund), the cooperation agreements between Bank Al-Maghrib and its foreign counterparts, and the measures taken by the Minister of Finance for the collection of public funds.

The Committee is also empowered to conduct all studies relating to its field of competence, especially to 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.

According to the provisions of decree No.2-06-223 of 17 Jumada II 1428 (July 3, 2007), the CIC meets upon the initiative of its President at least once every semester and whenever necessary. In the case its opinion is sought on a general issue, it may hold meetings upon the request of at least three of its members.

3 - Commission for the Coordination of the Financial Sector's Supervisory Bodies

The Commission for the Coordination of the Financial Sector's Supervisory Bodies, created by virtue of article 81 of the banking law, constitutes a framework within which the supervision member bodies can coordinate their actions in the terms of control and exchange experiences and information about the relevant institutions.

In application of the provisions of decree No.2-06-225 of 17 Jumada II 1428 (July 3, 2007), the Commission is chaired by the Governor of Bank Al-Maghrib and includes the representatives of the Central Bank, of the Transferable Securities Ethics Board and of the Insurance and Social Security Directorate attached to the Ministry of Finance. This commission convenes at least once every six months and whenever necessary, upon the initiative of its President or upon the request of one of its members.

B - Prudential system applicable to entities newly subjected to the banking law

The banking law extended the control by Bank Al-Maghrib to new bodies engaging in banking activities. The specific conditions for the application of this control to these bodies were defined by orders of the Minister of Finance.

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

Created in the form of a pubic institution, the CDG is in charge, by virtue of its founding laws, of the management of the deposits of some institutional entities (National Social Security Fund, National Savings Fund) and officers of the court (secretaries-registrars, notaries, etc). In addition, it ensures the administrative and financial management of the Caisse Nationale de Retraites et d'Assurances- CNRA (National Pension and Insurance Fund) and, through it, of the Régime Collectif d'Allocation de Retraites- RCAR (Collective Scheme for Retirement Allowances).

The CDG controls, in particular, several banking and financial institutions as well as real estate companies.

The modalities for the application of Bank Al-Maghrib's control to the CDG were specified by Order of the Minister of Finance and Privatization No.29-07 of January 5th, 2007.

In application of the provisions of this Order, the CDG is required to observe, on an individual and consolidated basis, the applicable rules in terms of solvency and risk concentration. It also has to put in place a system of internal control matching its activities and making it possible to identify, measure and monitor all the risks it may face.

The aforesaid order also stipulates that this institution must keep its accounts in compliance with the provisions of credit institutions' Chart of Accounts and to appoint, under the conditions established by Bank Al-Maghrib, two statutory auditors to conduct the task assigned thereto by the banking law.

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

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

The Caisse Centrale de Garantie is a public institution in charge of guaranteeing the reimbursement of loans contracted in Morocco or abroad by public or private entities to finance transactions contributing to the economic and social development of the country, and managing, on behalf of the State and other bodies, all guarantee funds, and all similar operations.

Pursuant to the provisions of the Order of the Minister of Finance and Privatization No.30-07 of January 5, 2007, the Central Guarantee Fund is required to permanently adhere to the rules on the division of risks and solvency, and to have an internal control system adapted to its activities, making it possible to identify and monitor all the risks it may face.

Moreover, Central Guarantee Fund is required to keep its accounts in compliance with the provisions of credit institutions' Chart of Accounts and to appoint, under the conditions imposed by Bank Al-Maghrib, a statutory auditor who will perform the mission conferred thereupon by the banking law.

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

3 - Offshore banks

The conditions for access and exercise of offshore banking activities are governed by law No.58-90 relative to offshore financial centers. The specific modalities for the application on these banks of some provisions of the banking law are established by Order of the Minister of Finance and Privatization No.33-07 of January 5, 2007.

Pursuant to the provisions of this Order, offshore banks are required to observe the rules relating to solvency, division of risks and liquidity, 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 to appoint a statutory auditor under the rules established by Bank Al-Maghrib.

Control of offshore banks is accomplished through the examination of reportings which they address, on a regular basis, to Bank Al-Maghrib as well as through on-site inspection missions.

4 - Microcredit associations

Governed by law No.18-97 relating to microcredit, microcredit associations are subject to the control of Bank Al-Maghrib in the conditions established by Order of the Minister of Finance and Privatization No. 31-07 of January 5, 2007, which requires them to submit to the Central Bank, under the conditions the latter stipulates, all documents and information necessary for conducting its mission.

The purpose of microcredit associations is to grant loans to economically vulnerable persons within a limit of 50 000 dirhams per beneficiary. However, they are not authorized to receive deposits from the public. The provisions relating to the maximum conventional interest rates are not applicable to these associations.

Microcredit associations must appoint a statutory auditor under the conditions set 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.

5 - Financial services of Barid Al-Maghrib

The financial services of Barid Al-Maghrib include the National Savings Fund, postal checks office and postal money order service. Being internal services of this institution, they are not considered to be a corporate person.

The Order of the Minister of Finance and Privatization No.28-07 of January 5, 2007 requires Barid Al-Maghrib to provide these services with an internal control system adapted to their activities enabling them to identify, measure, and monitor all the risks they may face in compliance with the provisions enacted for this purpose by Bank Al-Maghrib.

The same Order also lays down the conditions in which 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 the common interest services.

Furthermore, Barid Al-Maghrib is required to see to the respect by its financial services of the provisions relative to the customers' 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 savings fund or by the postal checks services that specifies in particular the conditions of accounts' opening and closing.

6 - Cash transfer intermediation companies

The exercise of the activity of cash transfer intermediation, pursuant to the provisions of article 15 of the banking law, is reserved to persons duly authorized for this purpose by Bank Al-Maghrib under the terms and conditions stipulated in article 27.

The Order of the Minister of Finance and Privatization No.1510-07 of 10 Rajab 1428 (July 26, 2007), relating to the specific conditions of application to cash transfer intermediaries of certain provisions of the banking law, stipulates that persons wishing to practise this activity must be set up in the form of a limited company. They must also have an internal information and control system that is adapted to such activity.

Cash transfer intermediaries 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.

These companies must have in their balance sheet, and in compliance with Bank Al-Maghrib circular relative to the minimum capital of cash transfer intermediaries No.37/G/2007 of July 9, 2007, a fully paid up capital the amount of which must be equal to at least 3 000 000 dirhams.

The conditions for the exercise of this activity are specified in Bank Al-Maghrib Circular No.5/DSB/2007 of September 18, 2007 relative to the conditions for operating as intermediary in the field of cash transfers.

Pursuant to this Circular, the authorized companies may mandate other persons to exercise cash transfer activities, provided that they see to the respect, by the mandated agents, of the regulations in force. In no case may the agents mandate other persons for the exercise of this activity.

Cash transfer transactions, in principle, can occur only between private individuals, and their amount must be no more than 80 000 dirhams per operation and per beneficiary. However, the aforesaid Circular stipulates that such transactions can also be carried out by legal entities to the benefit of natural persons, provided that they remain exceptional and be duly justified by documents.

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.

C - Regulatory measures applicable to credit institutions

1 - Prudential system

The prudential system has undergone a complete overhaul with a view to harmonizing it with the new provisions of the banking law and aligning with international standards. It was particularly reinforced by the publication of several laws pertaining to the implementation of the three Pillars of the New Capital Accord (Basel II).

1.1 - Minimum capital rule

In application of the provisions of circular No.20/G/2006 of November 30, 2006, relative to the minimum capital of credit institutions, the latter are required to have in their balance sheet a fully paid up capital or a fully paid allowance the amount of which must be equal to at least:

- 200 million dirhams for banks receiving funds from the public;
- 100 million dirhams for banks not receiving funds from the public;
- 50 million dirhams for finance companies authorized to carry out real estate loan operations or leasing operations and credit transactions other than those listed hereafter;
- 40 million dirhams for companies authorized to carry out surety operations other than mutual surety;
- 30 million dirhams for companies authorized to carry out factoring transactions;
- 20 million dirhams for companies authorized to carry out consumer loan operations;

- 10 million dirhams for companies authorized to carry out operations related to the provision and management of all means of payment;
- 1 million dirhams for companies authorized to carry out mutual surety operations.

1.2 - Solvency rules

1.2.1 - Prudential equity

The Circular No.24/G/2006 of December 4, 2006 relating to credit institutions' capital sets the method for determining, on an individual and consolidated basis, the capital to be withheld for calculation of prudential ratios. These provisions are applicable to institutions subjected to Basel II as well as to those still subjected to Basel I. Both the definition of capital components and the manner they are taken into account are in conformity with the provisions stipulated by the Basel Committee.

Control of this rule is conducted via half-year reports that the institutions are required to submit to Bank Al-Maghrib.

1.2.2 - Minimum solvency ratio

The methods of coverage, by equity, of credit and market risks incurred by institutions still subjected to Basel I are specified in Circular No.25/G/2006 of December 4, 2006 relative to the minimum solvency ratio.

The methods of market risk calculation, incorporated in risk calculation by this Circular, comply with the provisions of the amendment published in 1996 by the Basel Committee and updated in 2005.

1.2.3 - Capital requirements for credit, market and operational risks

Circular No.26/G/2006 relative to capital requirements for credit, market and operational risks transposes the standards of the New Capital Accord (Basel II). It defines the calculation methods of the weighted assets for each of these three risk categories and the capital requirements necessary to cover these risks.

Verification of adherence to the minimum solvency ratio is accomplished on the basis of the reports that the institutions are required to submit to Bank Al-Maghrib, on a 6-month basis.

At the end of December 2007, banks' average solvency ratio, calculated according to Basel I rules, amounted to 12%. For banks applying Basel II, it stood on average at 10.6%.

1.3 - Risk division rule

The method of application of the rule on risk division is spelled out in the Bank Al-Maghrib Circular No.3/G/2001 of 01/15/2001, according to which an institution cannot hold on a single beneficiary, be it an individual customer or a group of customers constituting an interest group, debts above 20% of their capital.

Credit institutions submit to Bank Al-Maghrib quarterly reports on their large risks, understood as debts and securities held on the same counterpart and whose amount is above 5% of the prudential capital. The global amount of large risks at the end of December 2007 amounted to nearly 4 times the banking system's capital.

In August, Bank Al-Maghrib published an Instruction relative to the management of the risk concentration which constitutes a reference for sound practices that will permit credit institutions to identify the potential sources of such risks and measure, manage, and control such risk.

The fundamental principles on which this Instruction focuses are the following:

- Proper monitoring by the administrative and management departments and by operational entities;
- Development of appropriate management policies and procedures;
- Establishment of risk measurement and monitoring systems;
- Effective control of risk and its mitigation;
- Establishment of an appropriate internal control system.

For a better control of the country risk, a draft circular is in the process of being completed in coordination with the banking industry.

1.4 - Liquidity rule

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 and during the subsequent periods.

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%.

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 checks.

The average liquidity coefficient of banks calculated according to these new provisions is estimated at 125% at the end of 2007.

For the implementation of the second Pillar of Basel II, a directive related to the liquidity risk management system, issued by Bank Al-Maghrib in April 2007, completed the Circular by laying down qualitative provisions. According to this directive, credit institutions are required to establish policies and procedures designed to control liquidity risk and contain it within acceptable limits. They must also use systems that allow to permanently measure net liquidity requirements and assess the level of exposure to this risk while providing efficient monitoring of the liquidity situation.

1.5 - Equity participation rules

The conditions governing equity participation taken by credit institutions in businesses already existing or in the process of creation are laid down in Circular No.29/G/2006 of December 5, 2006. The objective targeted by the institution of this rule is to eliminate the taking of excessive risks in commercial or industrial businesses that could menace the viability of credit institutions.

Without prejudice to the rules applicable with regard to division of risks, equity participation acquired shall in no instance exceed one of the limits listed hereafter, either on an individual or on a consolidated basis:

- 60% of the credit institution’s capital, regarding the total amount of equity securities portfolio;
- 15% of the credit institution’s capital, for each equity participation;
- and 30% of the registered capital or voting rights of the issuing company for each equity participation.

Excluded from these limits are equity participations in financial institutions and, under certain conditions, in holdings with the aim of taking equity participation or managing a securities portfolio. Also excluded from these limits 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, provided the holding of securities does not exceed a timeframe of four years.

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

1.6 - Governance and internal control system

The Circular related to the internal control of credit institutions, issued in 2001, has been modified for greater convergence with the applicable standards stipulated by the Basel Committee, in particular those emanating from the New Capital Accord (Basel II) and the 25 basic principles for effective banking control as modified.

The main changes made to the former framework are listed hereafter:

- **Improvement in credit institutions’ governance by strengthening, in particular, the role of the audit committee and the internal audit committee in the supervision of the internal control system**

The powers and duties of the audit committee have been better defined and its sphere of intervention expanded to new competencies, including in particular approval of the audit charter, evaluation of the internal audit program, definition of the minimum risk areas to be covered in this framework and the assessment of the internal audit quality and the adequacy of the human and material resources assigned to this function.

The internal audit function has also seen improvements that mainly provide for its direct connection to the management body. Besides, the development of an internal audit charter is made obligatory and the terms of reference of the internal audit function were better defined and expanded to new fields in connection with the implementation of Basel II.

In addition, and as part of the implementation of the Pillar 2 of this Accord, a directive relating to the governance of credit institutions has been published by Bank Al-Maghrib as a guide to sound practices.

By virtue of this text, management of relations between the relevant economic actors in the credit institution must be ensured in total transparency and adherence to the applicable legal and regulatory provisions. Credit institutions are required to implement appropriate policies and set up adequate controls to prevent potential conflicts of interest and, failing that, to manage them in compliance with the rights and obligations wich fall on the relevant parties.

• **Integration of new systems for management and control of risks linked to non-compliance, outsourced activities and new products**

- The compliance function has been instituted by the new circular on internal control. Its scope of competence covers follow-up of risks linked to reputation, financial loss or sanctions resulting from the non-observance of the legal or regulatory provisions, of the standards and practices in force, or of the codes of conduct.

  To ensure efficient implementation of these provisions, Bank Al-Maghrib, through the directive of August 31, 2007, has fixed minimum rules to be observed by credit institutions in this area.

- The methods for outsourcing particular banking activities were described. Hence Credit institutions are hence required to obtain approval by Bank Al-Maghrib prior to the outsourcing of activities falling within the accreditation scope or of services having a significant effect on risk control. The outsourcing of activities by credit institutions must be done in adherence to the conditions stipulated in the circular on internal control, in particular the establishment of 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.

- 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..

• **Setting of mechanisms for the assessment of internal capital adequacy called ICAAP (Internal Capital Adequacy Assessment Process)**

Credit institutions are required to establish strategies defining their internal capital objective, and to set up appropriate mechanisms in order to evaluate the equity level and to permanently maintain it in line with their risk profile.

A directive published by Bank Al-Maghrib describes the principal aspects necessary for the establishment of an internal capital adequacy assessment process. The provisions of this directive constitute the guidelines for the development of distinctive approaches and methodologies.

The establishment of an internal capital adequacy process requires explicit definition of the institution's strategy regarding risks. This strategy should be based, on the one hand, on a global effective policy of risk management which would allow ensuring, permanently and into the distant future, the adequacy of the institution's capital with the realization of its strategic objectives as well as the incurred and potential risks and, on the other hand, on transparent and consensual working environment for the ICAAP implementation.

• Strengthening the mechanisms of operational risks and interest rate risks management

The circular relating to internal control, resumes the definition of operational risks as spelled out by the New Capital Accord and insists on the need to establish operational risks measurement, control and monitoring mechanisms, and to prepare a business continuity plan to ensure a sustained functioning of the activities, and to limit the losses in the event of trouble due to major occurrences in connection with operational risks. It also provides for the appointment of a business continuity plan manager in charge of the implementation of the measures concerned thereby.

In this respect, and in the framework of the implementation of the second pillar of Basel II, Bank Al-Maghrib published two directives concerning both these aspects drawing its inspiration from the Basel Committee recommendations in this respect.

The directive relating to the management of operational risks reproduces all the principles governing the operational risks management and monitoring mechanism. It emphasizes the need for credit institutions to perfectly understand these risks and to draw up a precise cartography, while including in the internal control system specific measures with the aim of periodically overseeing efficiency in the operational risk management system.

With regard to interest rate risks, the circular on internal control distinguishes interest rate risk in the bank portfolio from the interest rate global risk, both of which should be subject to adequate tools for the measurement, control and monitoring in order to cover the principal sources of risks in and off the balance sheet.

The principles required for the establishment of an appropriate system for the management of interest rate global risks are stipulated in a directive issued by Bank Al-Maghrib. Pursuant to this directive, credit institutions are required to set up clearly defined 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.

On the other hand, and within the framework of the implementation of the second pillar of Basel II, Bank Al-Maghrib published a directive relating to the mechanism of derivatives risk management.

This directive aims at defining the fundamental elements and basic principles of a sound management of risks linked to the use of derivatives by banks acting as "intermediaries" or "end users".

The management, assessment and control of the risks in connection with the use of derivatives must fall under the direct responsibility of the risk management unit, which must be sufficiently independent from the operational entities in charge of taking positions on the said derivatives. At regular intervals, it should transmit risk measures to the management and administrative bodies, so as to enable them to assess the banks' risk profile.

Pursuant to this directive, the bank should count on clear-cut policies and procedures, wich are compatible with the type and complexity of its operations on derivative products.

Finally, in the framework of implementation of the third pillar of Basel II, Bank Al-Maghrib published a directive on financial transparency.

This directive aims at instituting a financial communication system to promote market discipline by requiring credit institutions to broadcast financial information about their capital and the risks they incur in the exercise of their activities.

Its purpose is to provide credit institutions with a financial communication mechanism and provide shareholders, investors and financial analysts with coherent guidelines for more in-depth comparative analyses on a homogenous basis.

In this framework, credit institutions are required to publish, on an individual and consolidated basis, minimum items of information, both qualitative and quantitative, relating to the following aspects:

- the field of application of the regulatory system regarding the minimum solvency ratio adopted
- the composition and adequacy of capital as well as the system used to assess this adequacy
- the system set up to identify, measure, manage, and control the different risks and the level of exposure thereof.

1.7 - Diligence system devolving on credit institutions

The circular relative to the due diligence devolving on credit institutions, dated August 2, 2007, while resuming the main lines of circular No. 36, dated December 30, 2003, on the same subject, introduced new provisions 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.

The newly introduced provisions concern:

- Foreign banking correspondents: before entertaining relationships with foreign banks, Moroccan credit institutions must make sure the said institutions are subject to regulations at least similar to those currently in force in Morocco, and that their diligence system is controlled by the competent supervisory authority.
- Strengthened due diligence: particular supervision must be applied to the accounts and the transactions of customers showing a particularly high risk profile as understood by the aforesaid law No. 43-05. In addition, the accounts and transactions of foreigners exercising or having exercised high-ranking public functions must be subject to a special control.
- Origin of funds: in compliance with the law relating to anti-money laundering, credit institutions, must, upon opening a new account, enquire about the origin of the clients' funds and the type of business relationship.
- Development of a typology of suspicious operations: credit institutions must devise a typology for the transactions declared to the financial information processing unit, as well as for those involving a degree of complexity and which do not appear to have any economic justification or apparent legal purpose. The said typology shall be sent to Bank Al-Maghrib which can distribute to credit institutions and other bodies under its control, all enlightening cases in order to help them protect themselves against such operations.
- The creation of a structure in charge of the follow-up of a diligence system set up: the said structure must particularly remain in touch with the financial information processing unit and continually keep the management of the institution informed on all customers with a high-risk profile.
- Insertion of a chapter on the diligence system in the compliance function report: the credit institutions are to include in the report on compliance function activities, which they have to submit to Bank Al-Maghrib, a chapter describing the diligence systems and control activities carried out for this purpose.

1.8 - Terms and conditions relative to the opening, by credit institutions with headquarters overseas, of bureaus of information, liaison or representation in Morocco

In conformity with the provisions of the Bank Al-Maghrib circular dated August 2, 2007, credit institutions with headquarters overseas, and seeking to open in Morocco, information, liaison or representation bureaus are required to request an authorization from the Governor of Bank Al-Maghrib.

To prevent them from engaging in banking activities, the circular stipulates that their activities must strictly apply to:

- The exchange of economic and financial information and gathering of sectoral data that could be of concern to the credit institution.
- Liaisons targeting the development of relations with economic operators and the promotion of exchange with the country of the credit institution.
- Representation consisting in participating in events of interest to the credit institution.

These offices are required to submit to Bank Al-Maghrib an annual report presenting a summary of the activities undertaken during the past financial year along with a balance sheet of the credit institutions they represent as well as the annual reports for the same financial year.

2 - Accounting system

In 2007, the accounting reference applicable to credit institutions was aligned with international standards by integrating the IFRS after consultation of the Credit Institution Committee and the National Accounting Council.

The principal amendments made to the credit institutions' Chart of Accounts concerned the rules of consolidation and devising of consolidated financial statements as well as the accounting and assessment methods used for individual accounts to ensure their compliance with best practices and the IFRS.

2.1 - Remodelling of the consolidation rules and presentation of the consolidated financial statements

Henceforth, the consolidation scope includes all ad hoc entities, with only very few exceptions. Integration of the relevant entities is accomplished on the basis of the global or proportional methods and concerns all enterprises controlled exclusively or jointly regardless of the type of their activity. Control shall be understood as the ability to manage the financial and operational policies of an entity, irrespective of the capital held.

In the absence of a standard format pertaining to the development of consolidated financial statements, as required by IFRS, model statements have been prepared taking inspiration from the current Moroccan practice and the European experience.

These statements, called "consolidated financial statements" are used instead of the "consolidated summary financial statements". They include new headings for the balance sheet and the profit and loss statement to cover certain activities (insurance, investment property, etc.) as well as the impact of the new assessment methods (fair value financial assets, per income, underlying or deferred capital gains or losses included in the equity, etc.).

A large amount of relevant and significant qualitative and quantitative information must henceforth be published under each heading of the financial statements, such as the risks in connection with financial instruments, the insurance risk, the social commitments, and payroll benefits, in addition to information on the connected parties and on the capital.

2.2 - Transition to IFRS of certain accounting and assessment methods relative to items of individual financial statements

New provisions are scheduled regarding individual financial statements for classification and assessment of securities, to better control the transfer between portfolios and allow credit institutions to use the transaction securities' portfolio.

The operations concerned by these amendments are operations on securities, securitization and leasing operations. Securitization operations are extended to all categories of debts and are subject to new accounting rules. Also, technical modifications have been introduced in the accounting process concerning leasing operations.

3 - Provisions relating to approval of credit institutions directors

Within the framework of its continuous monitoring of credit institutions management quality, the Central Bank ensures, in compliance with the provisions of article 65 of the banking law, that the people in charge of credit institutions management have, all the requisite qualifications from a professional, ethical and moral standpoint.

The detailed rules on the application of these requirements are laid down by circular No. 27/G/2006 dated December 5, 2006, establishing the rules according to which credit institutions must submit to Bank Al-Maghrib any change affecting the constitution of their administrative, executive or management units.

For this purpose, and in addition to the curriculum vitae of the managers and the statement on honor certifying their adherence to the provisions of article 31 of the banking law concerning the prohibited actions, credit institutions submit to Bank Al-Maghrib a questionnaire duly-completed by the persons selected to occupy positions in their administrative, management, or executive units.

4 - Provisions relating to statutory auditors

By way of application of the provisions of the banking law, credit institutions must appoint two statutory auditors upon approval by Bank Al-Maghrib, with the aim of controlling accounts in compliance with the provisions of title VI of law No. 17-95 relating to business corporations, controlling adherence to the accounting and prudential provisions as well as those relating to the internal control system, and checking the veracity of the information addressed to the public and their conformity with the accounts.

However, finance companies wich balance sheet total is less than one billion five hundred million dirhams are required to appoint only one statutory auditor.

Circular No.21/G/2006 dated November 30, 2006, establishing the methods of approval of statutory auditors, specifies the conditions and procedures according to which credit institutions must obtain approval from Bank Al-Maghrib, prior to the appointment of these auditors.

The statutory auditors must fulfill all the conditions of independence and competence required by the circular. Their appointment by an institution for which they have ensured two successive mandates may only take place after a period of three years.

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.

The statutory auditors shall draw up reports on the work performed according to the relevant terms of reference established by Circular No.4 dated June 28, 2007.

5 - Provisions relating to financial companies

As stipulated in article 14 of the banking law, a financial company is any firm whose main activity in Morocco is to take and manage financial holdings, and which, either directly or through companies of the same type, controls several institutions carrying out financial transactions among which at least one operates as a credit institution.

Circular No.30/G/2006 dated December 5, 2006 establishes the detailed rules of application of these provisions, in particular those relating to accounting and prudential aspects. Thus, financial companies are required to permanently adhere, on a consolidated and/or sub-consolidated basis, following the procedures set by Bank Al-Maghrib, to the rules of risk division and solvency and to have an internal control system adapted to their activities and which would allow them to identify, evaluate and, monitor all risks incurred.

They are required to appoint, after approval by Bank Al-Maghrib, a statutory auditor to perform the mission conferred to him by the banking law.

Bank Al-Maghrib has rights to on-site and off-site inspection of financial companies. The latter are required to transmit all the information required for this purpose. They must also publish their consolidated and/or sub-consolidated financial statements in compliance with the provisions applicable to credit institutions.

6 - Alternative financing methods

In September 2007, Bank Al-Maghrib published a recommendation in which it defined the framework governing the offers by credit institutions, of the Ijara, Mourabaha and Moucharaka products.

The introduction of these products in Morocco falls within the framework of development and bancarization efforts via diversifying the offers of financial products adapted to the needs of the population.

According to the terms of this recommendation, Ijara shall refer to any contract by virtue of which a credit institution puts at the disposal of a customer, for rent, a specific identified movable or immovable property. This transaction may consist in a simple tenancy or involve a firm underwriting of the tenant to buy the rented property at the end of a period agreed upon in advance.

Moucharaka shall refer to any contract by virtue of which a credit institution acquires part of the capital of a company, either existing or under creation, for the purpose of making profit. Both parties shall bear the losses based on their respective parts and share the profits on the basis of a predetermined pro rata.

Mourabaha shall refer to any contract by virtue of which a credit institution purchases, at the request of a customer, a movable or immovable property, in order to resell it to him at the purchase price plus a predetermined commission. The settlement by the customer shall be made in one or several installments.

D - Evolution of the legal and regulatory framework of the other financial sector compartments

1 - Capital Market

The principal readjustments concerned the classification of UCITS (Undertakings for Collective Investment in Transferable Securities) and the make-up of their assets.

- The order issued by the Minister of Finance and Privatization under No.1670-07 on August 24, 2007 relating to the classification of UCITS, and abrogating order No.2062-04 dated December 6, 2004, on the same subject, introduces a new category of UCITS, namely contractual UCITS, and redefines bond, monetary and diversified UCITS.

Contractual UCITS are those whose commitment by the institution in charge of management of the mutual investment funds or by the open-ended investment fund, contractually concern a concrete result expressed in terms of performance and/or guarantee in the amount invested by the subscriber. As a counterpart to this guarantee, the mutual investment fund or the open-ended investment fund can require from the subscriber to provide commitments regarding the amount invested and/or the duration of holding the UCITS securities by the latter.

Concerning bond UCITS, they must be permanently invested in debt securities by at least 90% of their assets, exclusive of securities, in debts representing repurchase agreements they perform as assignees, and liquidities.

This order defines monetary UCITS as those whose total assets, excluding monetary UCITS, representing the repurchase agreements they perform as assignees, and liquidities, is permanently invested in debt instruments.

- The order of the Minister of Finance and Privatization No.1669-07 dated August 24, 2007, amending order No.2900-94 of October 24, 1994 establishing the ceiling for cash loans which may be made by a UCITS, stipulates that when the UCITS carries out repurchase agreements, as assignee; the total amount of the outstanding debts, representative of these operations, and of the cash loans, must not exceed the limit of 10% of its assets' value.

- The order of the Minister of Finance and Privatization No.1671-07 dated August 24, 2007, amending decree No.2890-94 dated October 24, 1994 concerning the rules of composition of the UCITS assets as amended, stipulates that a UCITS can also hold in assets the amount of debts representing the repurchase agreements it carries out as an assignee. These debts can represent no more than 100% of the assets. Exposure of the UCITS to counterparty risks for the same contracting party resulting from the aforesaid repurchase agreements is limited to 20% of its assets.

2 - Microfinancing

Law No. 04-07 enacted by Dahir No. 1-07-166 dated November 30, 2007, completing law No. 18-97 relating to microcredit, broadens the field of intervention of microcredit associations to financing subscriptions of their customers to insurance policies with insurance and reinsurance companies.

In addition, upon authorization of the Minister of Finance and after notification from the Microcredit Consultative Council, microcredit associations can proceed to operations other than the granting of microcredits and the consultancy, training and technical assistance activities.

II - Banking supervision organization and activities

The year 2007 constitutes a significant step in the evolution of banking supervision in Morocco and its alignment with international standards, considering the operations accomplished therein.

It is characterized by the launching of a new triennial strategic plan 2007-2009 by Bank Al-Maghrib which has assigned, to banking supervision, new priorities in connection with financial stability.

The new strategic plan, among other priorities, includes the definition of a strategy for the integrated development of the national financial system over the forthcoming years. The major orientations of this vision were decided at the end of the 1st quarter of 2008 in consultation with the banking community and with the assistance of an international consultancy bureau.

Furthermore, an assessment mission of the Moroccan financial sector was carried out in November 2007 by a joint team of the International Monetary Fund (IMF) and the World Bank. A major portion of this mission was devoted to banking supervision.

The year 2007 also saw the completion of several large-size projects. Among these projects are the works of overhaul of the regulatory framework to ensure its compliance with the new provisions of the banking law and the international standards. The prudential system was also strengthened by the publication of texts relating to the implementation of pillars 2 and 3 of Basel II and the transposition of the international accounting standards (IAS/IFRS).

On the other hand, banking supervision allowed for a better strengthening of the conformity of its internal processes in the framework of a quality management project initiated by the Central Bank.

A - Strengthening of the banking supervision environment - a factor of consolidation for financial stability

Beside the consolidation of the achievements of the first strategic plan of 2004-2006 to upgrade the Bank's method of governance and internal control system to the best standards, the second triennial strategic plan of Bank Al-Maghrib places among the priorities relating to banking supervision:

- Setting up appropriate tools for the assessment of weak points in the financial system.
- A commitment to reflection for improving the management procedures of the Deposit Insurance Fund.
- Preparing a report on financial stability to account for the efforts undertaken by the supervisory bodies of the financial sector in this field and open debates on the ways and means to preserve the stability of the national financial system.

In this context, the banking supervision department adopted a tool that serves to perform stress tests to assess the resistance of the banking sector to different exceptional although feasible shocks related to credit, market and liquidity risks. The assessments are made risk by risk and on a combined basis.

B - Banking supervision is compliant with international standards

1. A favorable assessment of banking supervision by the "FSAP" mission of the World Bank and the International Monetary Fund

In November 2007, a joint mission of the World Bank and the International Monetary Fund carried out an assessment of the Moroccan financial system. The endeavors of this mission particularly concerned an assessment of the banking system's stability and its resistance to the different shocks, as well as an assessment of the degree of its compliance with the fundamental principles of the Basel Committee, as revised in 2006, for an effective banking control. An update was also given on this occasion about the progress achieved in the implementation of the recommendations of the 2002 mission.

The conclusions of the preliminary report are by large positive both concerning the evolution of the Moroccan economy and the soundness and stability of the banking and financial system.

In particular, the banking sector is considered as globally sound, profitable and adequately-capitalized with regard to the risks incurred. This soundness is consolidated by the completion of the public banks restructuring process and the improvement of the quality of banks' assets, mainly further to the continued decline of non-performing loans over the past few years.

Indicators of the Moroccan banking system's financial soundness are deemed to be globally comparable to those of the emerging countries of Europe and can be positively compared to those of the other countries of the region. This soundness is confirmed by the results of the stress tests which show that, overall, the banking sector seems able to maintain adequate levels of capital, even in the case of shocks. Some weak points were, however, pointed out and are attributable to the concentration of the credit risk, to the interest rate risk and to liquidities tightening in some institutions.

With regard to banking supervision, the conclusions of the report underline its compliance with most of the Basel principles. The control techniques and tools are considered appropriate and meet the requirements of proactive control. Extension of supervision to new institutions is deemed timely and constitutes a decisive step towards transparency and application of market rules.

2. The Support System for Credit Institutions Rating (SSCIR), an essential tool of risk-based supervision

The SSCIR is based on the review of the prudential and financial statements periodically submitted by the concerned institutions. It enables formalizing and combining control and analysis activities, optimizing their intensity according to the risk profile of each institution, planning the monitoring actions according to priority and, if necessary, triggering the preventive or corrective supervisory actions as soon as the grade reaches a given threshold.

The system, which was instituted in 2006, has allowed increasing the synergies between on-site and off-site inspection operations and ensuring a better orientation of these operations towards areas of vulnerability.

3. Modernization of the supervision tools continued

In 2007, the information system of the Banking Supervision Department (BSD) was improved with a new system called "Credit Risk Analysis Support System", which is currently being deployed. This new tool is intended to facilitate monitoring of the risks incurred by large debtors and follow-up of the trend of non-performing loans in the banking system.

The BSD also launched works for the setting up of a support system for credit institutions data analysis, scheduled to be operational in 2008. The system will allow the Department to carry out a multidimensional study and a customized processing of the quantitative information received.

Reflection was also initiated on setting up a harmonized framework, adopted at the international level, for the transmission of the prudential and accounting reporting. Such reporting, called Common Reporting (COREP) for prudential data and Financial Reporting (FINREP) for accounting data, respectively based on Basel standards and international accounting standards IAS/IFRS, is based on eXtensible Business Reporting Language (XBRL) technology, and aims at providing an automatic link between accounting information and risk management ones for a better data control.

4. Adequacy of human resources: a permanent priority to banking supervision

The staff assigned to the Banking Supervision Department, amounting to a total of 86 employees, is composed of a high rate of supervisory staff (65%) and is essentially made up of financial analysts, auditors, and legal experts with significant experience in their respective fields. In the framework of the recruitment program set up by the Bank, this staff has been reinforced in order to meet the needs arising from the extension of attributions that have recently been fixed by the new banking law and the actions laid down in the strategic plan 2007-2009.

Training of human resources continues to be a priority. For this purpose, a triennial program has been developed in advance to meet current and future needs with regard to the changes that are taking place in the field of regulations and of supervision techniques in connection with the growing complexity of banking activities and the emergence of new risks.

The training system includes internal seminars regularly conducted by national and international experts and seminars abroad with partners from other countries and with international institutions.

5. Establishment of a quality management system to better satisfy the needs of the Bank's partners

In 2006, Bank Al-Maghrib launched a global project for the creation of a Quality Management System (QMS) according to ISO 9001 norm with the aim of certifying all its activity processes, by the end of 2008. The QMS is based on an organization and management model emphasizing, in particular, the continuous improvement of the process and listening to external partners of the Bank to better satisfy their needs.

The approach adopted was divided into two phases. The diagnosis phase during which the Bank's processes cartography was defined and their performance assessed. The deployment phase concerns carrying out the measures adopted, following-up their realization, and implementing the continuous improvement system.

The quality management system covered the seven macro activities identified by the "Banking and Market Supervision" process, namely: defining and following-up regulations, ensuring permanent supervision and on-site inspection, managing the Deposit Insurance Fund, processing the requests of third parties, managing the approvals and authorizations, overseeing the transversal risks and handling banking crises, and managing relations with professional associations.

6. Steering activity through a standardized system of monthly management charts

Bank Al-Maghrib has set up a standardized system of management charts to ensure the follow-up of its activities. These charts are divided and deployed by department, division, and service.

The management charts, issued on a monthly basis and showing the level of achievement of the activity objectives assigned to each entity, are examined during monthly information meetings, and allow an optimization of activities steering by the head of each Department as well as by the Bank's Government.

The management charts prepared by the various BSD divisions make it possible to carry out a monthly assessment of the evolution of their respective tasks, and to examine the reasons of any possible delay with respect to the schedule. The principal indicators used in the framework of these management charts concern the state of progress of the banks' rating and the on-site inspection missions. They also report on the evolution of issues in process for licensing, approval or authorization and of the draft regulatory or accounting laws. The charts also provide information on the level of progress of major projects such as the transposition of Basel II standards.

C - Banking supervision activities

1. Off-site inspection

Off-site inspection of credit institutions and similar bodies oversees the quality of the financial situation of these institutions, ensures their conformity to the legal and regulatory provisions and rates them on the basis of the Support System for Credit Institutions Rating.

In 2007, banks were rated on the basis of the procedures of the Support System for Credit Institutions Rating. By positioning institutions on the rating scale, it was possible to calculate the intensity of banking monitoring according to the risk level of each one. In this framework, and in compliance with the procedures stipulated by the guide for processing difficulties of credit institutions, corrective actions were taken with regard to institutions, whose rating was below a certain threshold.

For 2007, scheduling of on-site inspection missions was completed, taking account of the ratings carried out in conformity with the order of December 2006, and updated in late June 2007. The analyses developed by analysts in the framework of the rating process also allowed directing on-site inspections to areas of vulnerability, thus making it easier to set the groundwork for verification, to determine the missions' deadlines, and to adapt the inspection teams.

The analyses made in conjunction with the rating of the concerned institutions were completed with the information gathered during interviews with their representatives in the framework of meetings organized at different levels, with a view to monitoring the status of their financial and prudential situation. The frequency of these meetings depends on the risk profile of the institutions.

Hence, meetings were organized, all along 2007, particularly with risk managers, compliance officers, operational entities, internal audit, and the statutory auditors of several institutions. For the first time, this process was strengthened by meetings held with the audit committees of certain banks to examine issues mainly concerning strategy, governance and risk management systems, as well as asset quality.

All these exchanges prove to be crucial in the implementation of Basel 2, particularly Pillar 2. Indeed, the purpose of this pillar is to encourage institutions to improve their risk management procedures and to optimize allocation of capital according to these risks, while strengthening the inspection by the banking supervisor. In this way, the institutions should be in a position to show to the supervisory authority that the risk management procedures adopted correspond in their formalization and degree of sophistication, to their risk profile and activity development plan. Otherwise, they are bound to adhere to the most stringent prudential rules, particularly in the form of additional capital requirements.

In this respect, a monitoring and risk assessment process formalized by the supervisor and based on high-performance tools and methods of control and assessment, as well as on a permanent dialogue with the institutions, becomes of prime importance.

Given the surge in certain banks' expansion abroad, follow-up of the activities of overseas subsidiaries has been given particular attention mainly via examination of statutory auditors’ reports of the said subsidiaries and inspection reports of the parent companies. Additional information have been obtained from the control reports drawn by the supervisory authorities of the host country and from contacts with some of these authorities.

2. On-site inspection

As pointed out above, the implementation of Support System for Credit Institutions Rating contributed to improving the effectiveness of on-site inspections by facilitating identification of vulnerability areas of credit institutions. The controls being henceforth focused on risk factors considered being the most important or in the process of becoming so, such as the credit concentration risk, the liquidity risk, or the interest rate risk and off-balance sheet operations.

During 2007, 13 inspection missions were carried out as follows:

- Five general missions in the banks, covering the assessment of the internal control system, the quality of assets, risks management and the examination of the accounting and information system.
- Six due-diligence controls in finance companies including four consumer credit institutions, one factoring company and one payment-means management company.
- Two inspection operations of microcredit associations, thereby bringing the number of inspected associations to four since these entities were subjected to the control of Bank Al-Maghrib in 2006.

At the same time, the BSD conducted two topical surveys. The first one concerned four banks and pertained to the control of adherence to the provisions of the Bank Al-Maghrib directive relating to minimum information elements required by banks to prepare customers credit files.

The second survey concerned six banks and pertained to the assessment of risks related to real estate loans and loans for acquisition of financial assets as well as to the procedures set up by these institutions to ensure these risks measurement and control.

3. Main recommendations

In 2007, the supervision processes, combining on-site and off-site inspections, made it possible to evaluate the efforts made by these institutions to ensure their compliance with the new regulatory provisions.

In particular, several banks have gone through the first phase of the Basel II project concerning the implementation of the standard approaches. They were hence called upon to restructure their information systems and to achieve progress regarding accounts consolidation, risks exposure measures, customer segmentation, and also regarding works to promote coherence of accounting information systems with risk management ones. At the same time, banks continued to work on other large projects, in particular operational risks management, assets and liabilities management, business continuity plan, and the development of a credit risk internal rating system in the framework of Basel II.

In parallel, the verifications conducted enabled the identification of several improvement areas. A series of recommendations were hence formulated with regard to banks with a view to continuing the endeavors designed to enhance governance and adapt the risks management systems.

In this regard, Bank Al-Maghrib has called the banks to strengthen their management systems regarding real estate risks and risks in connection with loans for the acquisition of financial assets. To achieve that, the banking profession, upon the initiative of Bank Al-Maghrib, has adopted two codes of ethics for financing real estate and financial assets, with the aim of sustain ethical practice in both spheres, so as to guarantee a sound and appropriate financing of the said assets and prevent any outbid in this area.

Bank Al-Maghrib also asked some institutions to pay particular attention to the securization of market activities and to the quality of asset and liability management system.

Similarly, banks were encouraged, on one hand, to persevere in strengthening their internal control systems, particularly by providing it with appropriate resources and applying them to all their activities, and on the other hand, to complete the projects of customer databases clean-up.

At the prudential level, Bank Al-Maghrib decided to raise the minimum level of the solvency ratio to 10% starting from the end of December 2008 with a target of 12%, in line with the provisions of the second Pillar of Basel II. Several banks have set up measures in this regard by issuing subordinated debts and ensuring reserves of a high quota of the profits realized in 2007.

Furthermore, Bank Al-Maghrib has called certain institutions to adopt qualitative and quantitative measures in order to improve their liquidity risk management system. In this context, several banks have established programs for issuing deposit and subordinated debt certificates and set up confirmed credit lines.

As for finance companies, they were called upon to consolidate actions in order to improve their credit risk assessment system by way of extending the scoring systems to different levels.

The recommendations addressing microcredit associations have particularly concerned strengthening both governance and internal control systems, as well as upgrading information systems.

One credit institution received a warning and was compelled to adjust its financial situation.

4. Works of the Credit Institutions Committee

In 2007, the Credit Institutions Committee issued a favorable opinion regarding several licensing and prior authorization applications.

Hence, a new consumer loan company, a subsidiary of a foreign banking group, was authorized to operate. In addition, two companies were subject to a change in control for a public operator and private Moroccan group, respectively.

Banks' start-up abroad was strengthened by the advent of a new banking subsidiary in the United Kingdom and the opening of several representative offices.

Intermediation companies specialized in funds transfers saw the granting of the first licenses to two companies.

In addition, the committee issued a favorable opinion concerning:

- The proposals for the adjustment of the credit institutions’ Chart of accounts and ensuring its compliance with the international standards (IAS/IFRS);
- The Circulars of Bank Al-Maghrib concerning i) internal control, ii) due diligence by credit institutions, iii) representation bureaus opened in Morocco by foreign credit institutions, iv) information that credit institutions and similar bodies must submit to Bank Al-Maghrib for proper functioning of the public credit registry and v) the terms and conditions for access to information held by the public credit registry.
- The directives for the application of the provisions of the second pillar of Basel II concerning:
  - Operational risks management system
  - Interest rate global risk management system
  - Liquidity risk management system
  - Derivatives risk management system
  - Credit concentration risk management system
  - Governance inside credit institutions
  - Setting up of the compliance function in credit institutions,
  - Process of evaluation of internal capital adequacy
  - Credit institutions' business continuity plan
- The directive relative to the publication by the credit institutions of financial information concerning regulatory capital and risks for the implementation of the provisions of the third pillar of Basel II.
- Recommendation relating to alternative methods of financing.

5. Proceedings of the Commission for the Coordination of the Financial Sector's Supervisory Bodies

The commission for the coordination of the financial sector's supervisory bodies adopted an internal regulation governing the methods of its operation and relations among its members. It held two meetings in 2007. The major issues it examined concerned the preparation of the IMF/World Bank mission for the assessment of the Moroccan financial sector, bank insurance, anti-money laundering, the draft law relating to the future market, and the financing of real estate and financial assets.

The Commission members also exchanged information on the exercise of their respective missions, as well as the results of the inspections they carried out.

6. International Cooperation

By way of application of the provisions of article 82 of the banking law, the Central Bank is authorized to sign cooperation agreements with foreign banking supervision authorities in order to exchange information and to carry out on-site inspection missions of subsidiaries and agencies of credit institutions subject to their respective inspections, and operating in the territory of each one of these parties.

In this framework, Bank Al-Maghrib and the Central Bank of Tunisia signed, on November 28, 2007, a cooperation agreement on banking control. More agreements are currently under discussion with other supervisory authorities.

7. The year 2007 was marked by the entry into force of Basel II

The new provisions of Basel II entered into force in Morocco in June 2007. Throughout the first six months, the Central Bank concentrated on the follow-up of the last arrangements made by banks in view of migration to the new system, as well as on the assessment of their compliance with the regulatory requirements.

New reporting models were developed to enable banks to declare their risks, with regard to Pillar 1, on the basis of new standards. Several exchanges and meetings took place with banks concerning their first reporting operations, for stabilization of the data provided.

Regarding Pillars 2 and 3, the Central Bank worked together with the banking profession to draw directives prior to their publication, which took place in the 3rd quarter of 2007.

With a view to transposing the advanced approaches of Basel II, the Central Bank began working on the identification and planning of priority projects. At the same time, meetings were held with banks devising to adopt the advanced approaches for the follow-up of projects geared to institute internal rating systems in compliance with Basel II.

Bank Al-Maghrib examined the implications of the IFRS standards, particularly resulting from the fair assessment, on the consolidated equity. The aim behind the works performed was to identify the impact of the standards that have to be neutralized to determine the prudential equity.

8. Works conducted for the transposition of international accounting standards

In the framework of cooperation with banks, workshops were organized with the representatives of the banking profession to examine the new provisions transposing IAS/IFRS standards prior to their submission to the National Accounting Council for approval.

The recommendations given by Bank Al-Maghrib, in particular those regarding publication of information to be provided during the transition period, were also examined with banks and their statutory auditors.

A second impact study was conducted among the principal banks of the region, on the basis of accounts consolidated on December 31, 2006, with a view to simulating the opening balance sheet according to IFRS standards that banks are required to produce in compliance with the IFRS 1 standard, enabling banks to prepare their transition to the new standards on January 1, 2008 and assessing their level of preparation in this regard.

The results of this study showed a globally low effect (- 0.4%) on consolidated capital, except for minority holdings, identical to the result of the first impact study (- 0.3%). However, and provided there is stabilization of a few options in certain banks, the said impact is of - 1.4% taking into account consolidated capital, including minority holdings.

Per balance sheet heading, the impacts differ, in terms of extent, from one bank to the other. The negative effects induced by the depreciation of debts and liabilities to the staff are neutralized by the reverse effect caused by the fair valuation of the securities portfolio, modification of the consolidation scope, depreciation and provisions.

Moreover, works for the update of the BSD information system were started for inclusion of the new IFRS reporting system.

9 - Financial situation of the Fonds Collectif de Garantie des Dépôts (Deposit Insurance Fund)

Instituted in 1996, the principal purpose of the Deposit Insurance Fund is to indemnify depositors in the event of unavailability of their funds as a result of difficulties faced by member institutions.

The fund's financing is ensured by annual contributions of banks in proportion to the deposits collected. Hence, the amount of the contributions, for fiscal year 2007, rose by 20.4% to reach 937.9 million dirhams, in connection with the increase in the volume of deposits. The total amount of investments income stood at 252.8 million dirhams. Therefore, the global resources of the fund grew by 15.5%, from one year to the next, to 6.3 billion dirhams.

The Deposit Insurance Fund has reported, for the fiscal year 2007, a net income of 151.8 million dirhams.

10. Processing of customers' claims

At the end of December 2007, the claims and requests for information processed by the Banking Supervision Department (BSD) rose by about 9%, as they reached 250 claims against 234 in 2006

The claims lodged were especially in connection with the opening and the operation of accounts, the means of payment and banks' conditions.

The interventions of the Banking Supervision Department allowed solving 65% of the claims to the benefit of the customer against 54% one year previously.

The Banking Supervision Department also processed 76 requests originating from judicial authorities relating particularly to the right of communication and calls for assistance with regard to the freezing of assets belonging to individuals who are subject to criminal judicial proceedings.

PART 2

The Banking System: structure, activity, and income

I - Structure of the banking system

The banking sector's restructuring process, carried out over the past few years, has led to changes in the shareholding structure, a relatively high concentration which, however, remains comparable to the level registered in countries of similar standing, as well as to the emergence of a solid and successful range of commercial banks with a regional leadership potential. The drop in the number of credit institutions resulted either from takeovers of banks in difficulty by other banks or from decisions taken as part of a market shares' rationalization or consolidation process.

1 - Two new credit institutions and similar bodies in 2007

At the end of 2007, Bank Al-Maghrib's control covered 76 institutions, including 16 banks, 37 finance companies, 6 offshore banks, 14 microcredit associations, 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

	2003	2004	2005	2006	2007
Banks	**18**	**17**	**16**	**16**	**16**
Including:					
Foreign-owned banks	5	5	5	5	5
Public-owned banks	6	6	5	5	5
Finance companies	**44**	**40**	**36**	**36**	**37**
Consumer loan companies	24	22	19	19	20
Leasing companies	9	8	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	4	3
Warrantage companies	1	-	-	-	-
Other companies	-	-	-	-	1
Total number of credit institutions	62	57	52	52	53
Offshore banks	6	6	6	6	6
Microcredit associations	11	12	12	13	14
Other institutions	3	3	3	3	3
Total	**82**	**78**	**73**	**74**	**76**

The finance companies' sector includes 37 institutions, following the withdrawal of license from one payment-means management company and the licensing of two others; one specialized in consumer loans and the other in financing microcredit associations.

The number of microcredit associations grew from 13 to 14 units, including two that were not yet operational at the end of 2007.

2 - Opening-up of public banks' capital continues

Overall, the State's share in the banking sector has decreased over the past few years, further to the transfer of part of its holdings in public banks. This trend is expected to continue over the forthcoming years, given the amendment of the laws regulating Crédit Populaire du Maroc and Crédit Agricole du Maroc to allow further opening up of their capital to private investors. At the end of 2007, the State was a majority shareholder in 5 banks and 4 finance companies.

At the same time, foreign shareholding consolidated with new equity participations in banks and the acquisition or set-up of finance companies. At the end of 2007, foreign interests were controlling 5 banks and 8 finance companies and holding significant shares in 4 banks and 3 finance companies.

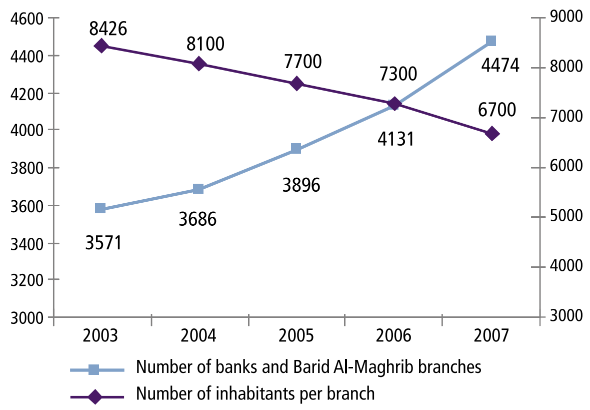
At the end of 2007, 14 credit institutions, including 6 banks, were listed on the stock market, altogether representing more than 27% of market capitalization.

3 - Bancarization indicators improved markedly

Bancarization indicators improved significantly in 2007, thanks to the strengthening of bank's offers and a more sustained demand.

As at December 31, 2007, banks totaled 2 748 branches. They opened 301 units against 224 a year earlier and an average of 105 branches between 2002-2005. This expansion reflects the continuing policy of retail banking development.

Chart 1: Evolution of banks establishment



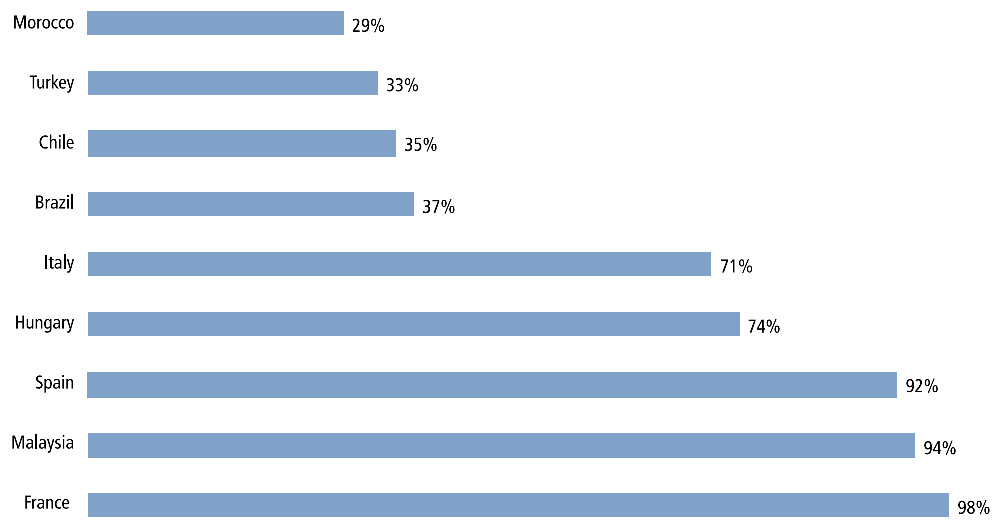
In the offshore zone, banks had, as in 2006, 5 subsidiaries and one branch office.

Bank density, measured by the ratio of the population aged above 15 years to the number of bank branches, was one branch per 8 000 inhabitants against 9 000 one year earlier. Calculated on the basis of the overall population, this density came to one branch per 10 900 inhabitants compared to 12 300 and reached 6 700 inhabitants against 7 300 taking account of Barid Al-Maghrib which all by itself totaled 1 726 branches.

Bancarization can also be measured using two other approaches: the ratio of bank accounts to total population and the ratio of residents' bank accounts to the population aged 15 and above.

According to the first indicator, bancarization rate came to 27% (against 25% at end-2006) and nearly 40% taking account of the number of Barid Al-Maghrib passbook accounts. The second indicator shows a bancarization rate of 31%, against 29% in 2006, a rate comparable to that reported by countries of similar standing, but still lower than that of developed countries as shown by Chart 2 presenting data for 2006.

Chart 2: Ratio of residents' bank accounts to population aged above 15 years in some countries at end-2006

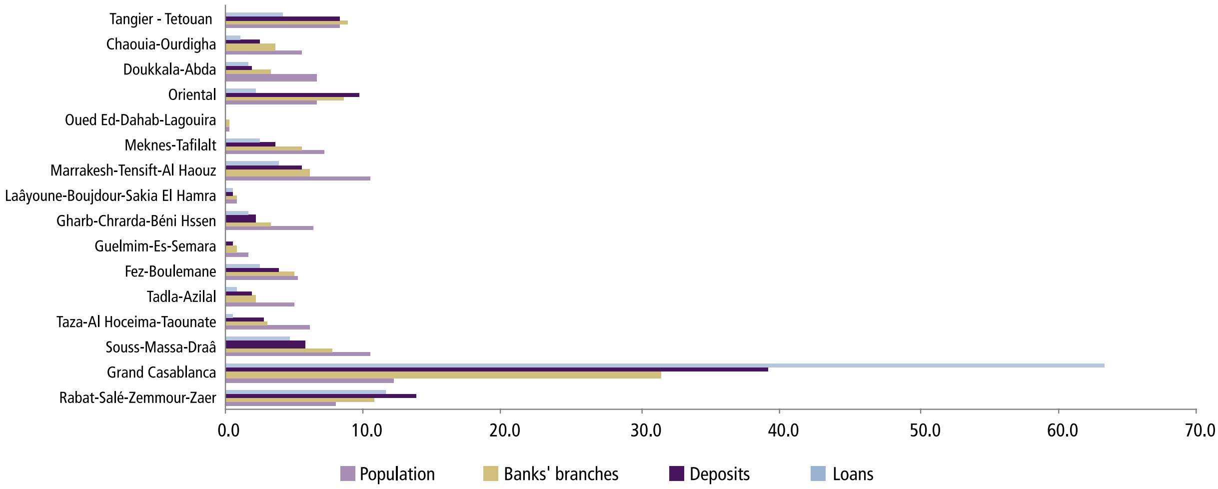


Bancarization level in urban areas is comparable to that of Southern-Europe countries. On the other hand, in rural areas, bank density remains low but is constantly improving, as it increased from 140 000 to 126 000[1] inhabitants per bank branch between 2004 and 2007.

The unequal penetration of banking services is also evident at the level of the Kingdom's different regions, as shown in Chart 3.

1 Excluding Barid Al-Maghrib network

Chart 3: Share of each region in overall population, banks' branches, deposits and bankk's loans (in %)



The Grand Casablanca Region, which represents 12% of the total population, showed the highest density with one branch for nearly every 3 896 inhabitants. It accounted for 63% of loans and 39% of deposits.

The Oriental Region, which represents 6% of the population and where the Moroccan community living abroad is large, comes in the 2nd position with one branch for every 5 544 inhabitants. The deposits collected and the loans distributed in this region totaled 9.5% and 2.2%, respectively.

With 8% of the population, the Region of Rabat-Zemmour-Zaer had one branch for every 5 931 inhabitants. The bank network in this region distributed nearly 12% of loans and collected about 14% of deposits.

The Region of Doukkala-Abda, accounting for nearly 7% of the population, reported the lowest density with one branch for every 11 400 inhabitants. It accounted for nearly 2% of loans and deposits.

Bankcards have seen steady growth over the past few years. Their number rose by 23.6% to 4.4 million, twice the level reported in 2004. In turn, the number of automatic teller machines grew by 362 units to 3 123 machines, with more than a third of this total in Casablanca and Rabat.

Bankcards continue to be used essentially for withdrawal operations the total number of which came to 78.3 million operations, up by 13% compared to 2006. The overall amount of these withdrawals settled at 67.4 billion dirhams, up by 18.9%. The number of payment operations increased by 21.5% to 5.7 million which corresponds to a value of 3.3 billion dirhams, up by 25.9%.

4 - Banks strengthened their presence abroad

Thanks to their positioning in Morocco and the soundness of their fundamentals, some banks continued their expansion abroad, especially in Europe, Maghreb, and in Sub-Saharan Africa. They are striving after a front-rank role in Africa, while accompanying their customers in expanding their activities abroad.

Banks are thus looking for new growth opportunities in a bid to limit the effects of fiercer competition on the home market. This expansion abroad has recently been marked by the acquisition of banks in the relevant countries.

The year 2007 saw the opening of a subsidiary in the United Kingdom and 10 representative offices in Africa, Europe and the Middle East. Altogether, at the end of 2007, banks had 10 subsidiaries, 13 agencies and branches and 70 representative offices. They also had significant holdings in foreign credit institutions.

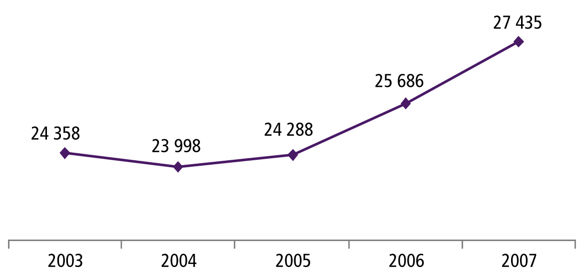
5 - The banking system's staff increased

The staff of credit institutions and similar bodies amounted to nearly 35 000 employees, including 78% for banks.

In parallel with the extension of their network, banks increased their staff by 6.8% to 27 435 employees against 5.7% in 2006. The number of female employees grew by 4.6% on average between 2000 and 2007 and their share in overall banking staff rose from 29% to 36%.

Over the same period, the number of managerial staff grew on average by 2.8% and its share moved from 61% to 68%.

Chart 4: Evolution of Banks' staff



The staff of finance companies, up by 7.4%, reached a total of 2 604 employees, including 65% for consumer loan companies and 14% for leasing companies.

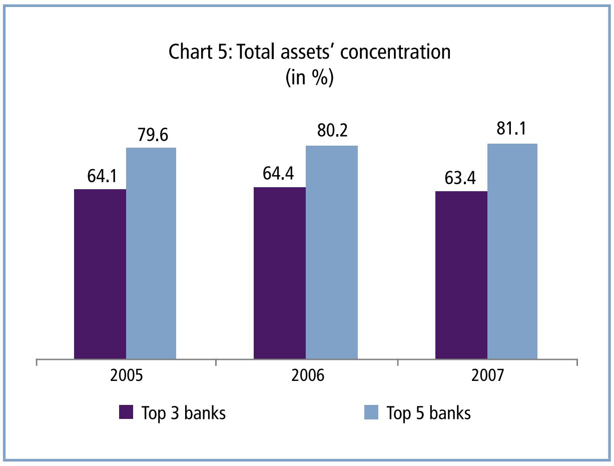
6 - The concentration of lending activity increased

The banking system's concentration can be measured by calculating the proportion of total assets, collected deposits and granted loans. Loan concentration strengthened in 2007 both on a consolidated and on an individual basis, while it remained virtually stable in terms of deposits.

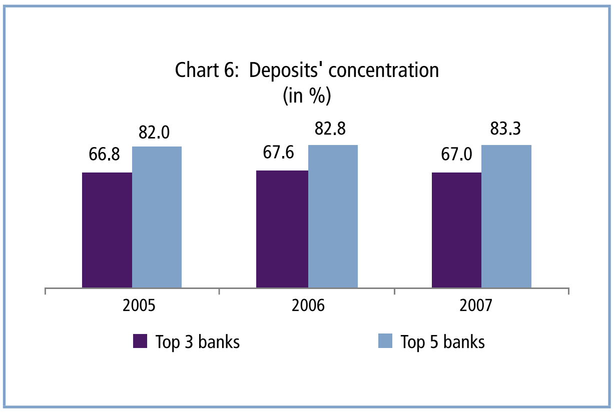
6.1 - Concentration of banks' activity

Like many emerging countries, the Moroccan banking system has a relatively high concentration level. In this context, Bank Al-Maghrib is closely monitoring the restructuring of the banking system to make sure a healthy competition situation is maintained.

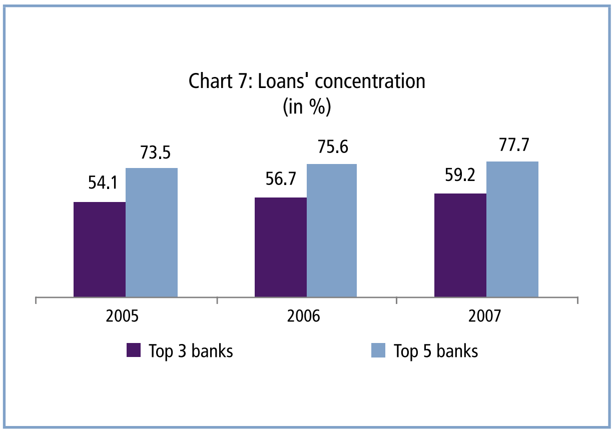
The share of the first three banks in the total assets was of 63.4%, down by one point compared to 2006. For the top five, it reached 81.1%, up by 0.9 point.



Deposits concentration, which is traditionally higher than that of loans and total assets, showed a slight decline of 0.6 point to 67% for the top three banks, and grew by 0.5 point to 83.3% for the leading five banks.

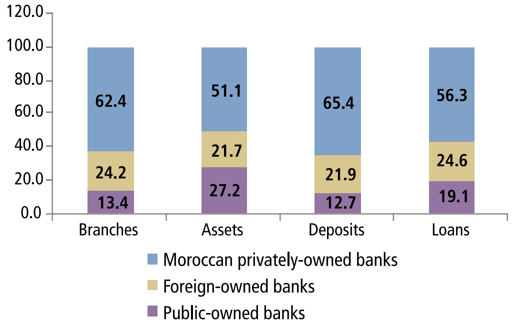


The share of the first three banks in overall loans was 59.2%, up by 2.5 points compared to 2006. In turn, the first five banks reinforced their position by 2.1 points, bringing their share up to 77.7%.



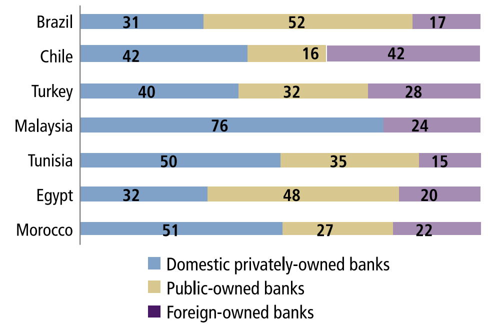
Moroccan privately-owned banks dominate the sector with 62.4% of branches, 51.1% of total assets, 65.4% of deposits and 56.3% of loans. Foreign-controlled banks held 24.2% of the banking network, 21.7% of total assets, 21.9% of deposits and 24.6% of loans distributed. Public-owned banks had 13.4% of branches, 27.2% of the total assets, 12.7% of deposits and 19.1% of loans.

Chart 8: Concentration according to shareholding at end-2007 (in %)



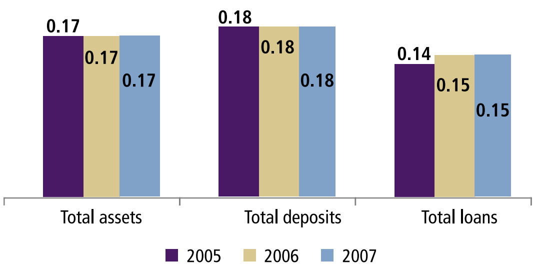
Compared to the banking systems of many emerging countries, and as shown in Chart 9 opposite, the Moroccan banking system is open to foreign shareholding.

Chart 9: Banks' assets in some countries sorted out by shareholding status at end-2006 (In %)



According to the Herfindahl-Hirshman Index[1], loans and total assets' concentration is moderate while deposits' concentration is substantial.

Chart 10: Banks' concentration according to the Herfindahl-Hirshman Index

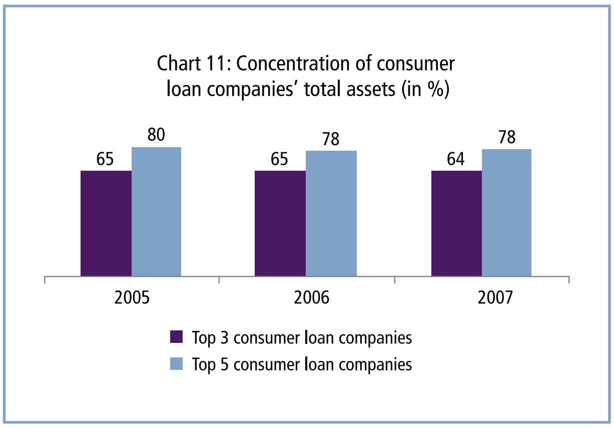


1 The Herfindahl-Hirshman Index is the sum of the square of banks' market shares. It ranges between 0 and 1. The market is considered of low concentration if the value is less than 0.10, moderately concentrated if it is between 0.10 and 0.18 and highly concentrated if it is above 0.18.

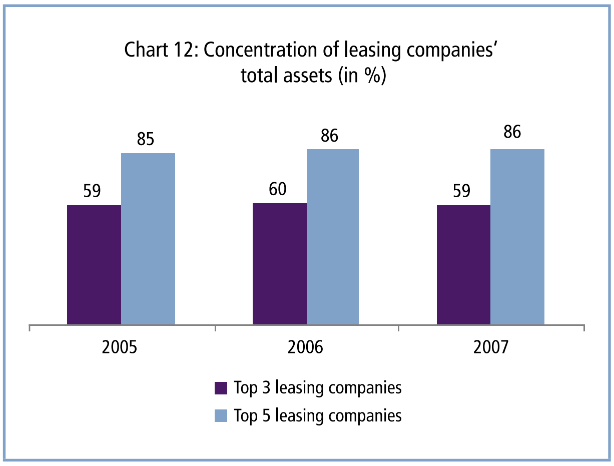
6.2 - Concentration of finance companies' activity

The share of the top three and five consumer loan companies in the sector's total assets came to 64% and 78%, respectively.

The share of consumer loan companies affiliated to financial institutions, 13 altogether, consolidated by 3 points to 96%.



The share of the top three leasing companies in the sector's total assets dropped by one point to 59%, while that of the top five companies remained stable at 86%.



6.3 - Concentration of banking activity on a consolidated basis

The concentration level on a consolidated basis remained close to that recorded on an individual basis. The share of the top three banking groups in the total credit outstanding, as well as that of the top five institutions, increased by 2 points compared to 2006, to 58% and 78%, respectively.

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

	Equipment loan & cash facilities to businesses			Real-estate loans			Consumer loans			Total loans		
	2005	2006	2007	2005	2006	2007	2005	2006	2007	2005	2006	2007
Top 3 banks	57	58	58	65	64	63	62	63	65	53	56	58
Top 5 banks	80	79	79	84	83	83	83	84	85	73	76	78

Sorted out by purpose, credit concentration remained globally stable for real-estate loans, cash facilities and equipment loans for businesses, and strengthened for consumer loans. The top three banking groups represented 58% of cash facilities and equipment loans, 63% of real estate loans and 65% of consumer loans. The share of the top five amounted to 79%, 83% and 85%, respectively.

II - Banks' activity and income

1 - Banks' activity saw strong growth in 2007

In 2007, banking activity experienced significant development, boosted by a promising economic environment.

Banks' activity is studied based on balance sheets presenting their activity in Morocco. Their operations abroad through their branches and agencies represent 0.3% of their total assets.

1.1. The structure of assets was marked by expanding credit and declining liquid assets

At the end of 2007, the volume of bank activity, captured through the balance sheet total, came to 654.7 billion dirhams, marking a rise of 21.6%, compared to 18.1% in the previous year. This evolution is mainly attributable to the fast expanding loans to customers. In these conditions, the ratio of banks' total assets to current GDP came to 106% against 93% one year earlier.

Evolution of banks' assets (activity in Morocco)

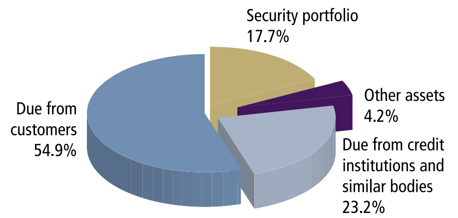
(in millions of dirhams)

Assets[1]	2005	2006	2007	2007/2006 Change in %
Due from credit institutions and similar bodies Claims	97 915	119 248	152 193	27.6
Due from customers	225 215	276 256	359 493	30.1
Security portfolio	108 997	116 495	115 717	-0.7
including Treasury bills	76 851	78 977	75 862	-3.9
Fixed assets	12 599	13 219	14 063	6.4
Other assets	11 031	13 013	13 199	1.4
Total assets	**455 757**	**538 231**	**654 665**	**21.6**

1 Headings net of depreciation and provisions

The structure of banks' assets is still marked by the predominance of due from customers. Their share grew by 3.6 points to 54.9% and that of due from credit institutions and similar bodies was up by one point to 23.2%. On the other hand, security holdings declined by 3.9 points to 17.7% following the drop in the Treasury bills' portfolio.

Chart 13: Structure of banks' assets



1.1.1. Due from credit institutions and similar bodies are dominated by loans to finance companies and deposits with the Central Bank

Due from credit institutions and similar bodies increased by 27.6% to 152.2 billion dirhams from one year to the next, due to the high rise in loans to finance companies and, to a lesser extent, interbank loans.

Dirham-denominated interbank operations grew by 11.7% to 12.8 billion further to the 18.4% rise in financial loans to 6.2 billion and securities received through repurchase agreements which grew from 807 million to 1.6 billion. On the other hand, cash facilities declined by 10.7% to 5 billion.

Currency due from credit institutions and similar bodies reached 34 billion, up by 23%. They represented 22.3% of the overall outstanding amount of due from credit institutions and similar bodies compared to 23.2% the previous year.

To cope particularly with rising demand for consumer loans from households and the financing needs of SMEs, finance companies increased their recourse to banks, largely favoring long-term maturities. These loans' outstanding amount grew by 50% to 42 billion dirhams, including 15.4 billion in the form of cash facilities and 26.6 billion in the form of financial loans.

Banks' deposits with Bank Al-Maghrib basically consist of assets held as reserve requirements. They grew by 26% to 61 billion dirhams, mainly further to the increase of the reserve requirements' overall amount by nearly 5 billion dirhams, particularly in connection with the application of this rule to Crédit Agricole du Maroc and Crédit Immobilier et Hôtelier.

Given the prolonged nature of liquidity crunch that has persisted since early 2007, the Central Bank's Board decided, at its meeting on December 25, 2007, that as of January 1, 2008, the required reserve ratio would be decreased from 16.5% to 15%.

1.1.2. The loan-to-deposit ratio registered a considerable rise

Boosted by the sustained growth dynamics in non-agricultural activities and rising demand, loans expanded at a pace well above that of non-agricultural GDP.

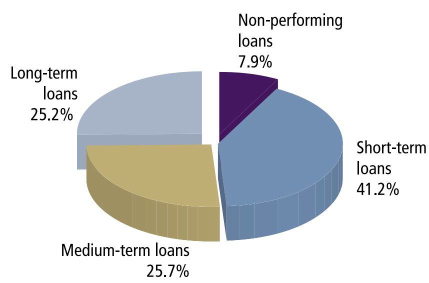
The overall gross outstanding amount of disbursement loans (including loans to finance companies) was up by 29% to 422.6 billion dirhams against 17.7% one year earlier. As a ratio to current GDP, the credit outstanding represented 69% in 2007 compared to 57% one year earlier.

The growth of credit at a pace substantially higher than that of deposits contributed to strengthen the loan-to-deposit ratio[1] which settled at 82%.

The share of short-term loans reached 41.2%, dropping by one point. For long and medium term loans, their share grew by 4 points to 50.9%, in connection with the big rise in real estate and equipment loans.

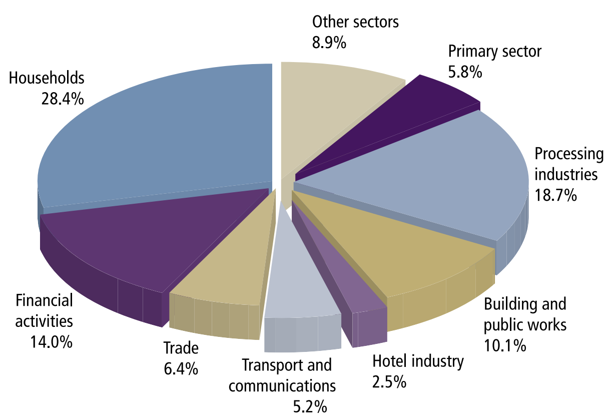
The share of non-performing loans declined by 3 points to 7.9%. Their coverage by provisions improved by 4 points to 75%.

Chart 14: Disbursement loans sorted out by term at end-2007



As indicated in Chart 15 below, the per-sector breakdown of bank loans shows a rather diversified portfolio as in the previous years[2]:

Chart 15: Per-sector breakdown of disbursement loans at end-2007



The outstanding amount of loans to businesses in the processing industries grew by 26.2% to 78.8 billion dirhams, representing a share of 18.7%.

1 Loan-to-deposit ratio is the ratio of outstanding loans granted to customers and finance companies to overall deposits.

2 The 2006 figures have been revised.

At 42.8 billion dirhams, the share of loans to the building and public works sector was up by 2.7 points to 10.1%.

With an outstanding amount of 21.8 billion dirhams, the share of loans to the transport and communications sector reached 5.2%, down by 0.7 point.

The trade sector benefited from loans amounting to 27.2 billion dirhams, corresponding to a share of 6.4%.

Boosted mainly by the thriving activity of finance companies, the outstanding amount of loans to the financial activity grew by 58.5% to 59 billion, representing a share of 14%, up by 2.6 points. Consumer loan companies absorbed nearly 40% of this outstanding amount.

The share of loans to households, boosted by the dynamism of housing and consumer loans, came to 28.4%, with an outstanding amount of 120 billion dirhams, up by 28.1%.

The outstanding amount of loans to the primary sector saw its share drop by 0.8 point to 5.8%, while their amount grew by 12.7%, reaching 24 billion dirhams.

In connection with the development of investment, lending to non-financial private businesses, benefiting from easing interest rates, increased by 26% to 229 billion after a jump of 11% one year earlier.

Altogether, outstanding loans to the private sector increased by 30%, nearing 400 billion dirhams, against 18% in the previous year. As a ratio to current GDP, this outstanding amount represented 65% compared to 54% at the end of 2006.

The public sector[1], with a 5% share, registered outstanding loans of 23 billion dirhams, up by 17.4% (against 15% at end-2006), spread out in an almost equal shares between the general government and public corporations.

1.1.3. Securities portfolio declined

At 116.6 billion dirhams, the gross outstanding amount of securities portfolio saw their share fall from 21.6% to 17.7% from one year to the next. The outstanding amount of Treasury bills, 50% of which are held by just one bank, decreased by 3.9% to 75.9 billion dirhams, bringing their share in bank assets to 11.6% against 14.7% at the end of 2006. This proportion did not exceed 6% excluding the aforesaid bank's portfolio. The fall in Treasury bills' portfolio is explainable both by the transfer transactions carried out by certain banks and by the drop in the Treasury's recourse to bank financing.

Evolution of Securities portfolio

(Gross amounts in millions of dirhams)

	2005	2006	2007	Variation 2007/2006 (in %)
Marketable securities	52 446	63 745	58 392	-8.4
Investment securities	44 191	40 764	45 164	10.8
Equity securities and similar assets	13 511	12 850	13 052	1.6
Total securities portfolio	**110 148**	**117 359**	**116 608**	**-0.6**

The portfolio of securities held for sale, consisting at the rate of 73% of debt securities, of which Treasury bills represent more than 83% and title deeds 27%, fell by 8.4% to 58.4 billion dirhams. Its share in the overall securities portfolio fell to 50%, down by 4 points.

On the opposite, the investment securities' portfolio, 90% of which are Treasury bills, rose from 10.8% to 45.2 billion. The portfolio of equity securities grew by 1.6% to 13 billion dirhams, including 7.7 billion corresponding to holdings in affiliated companies[1].

Provisions for depreciation of securities portfolio were up by 13% to 889 million dirhams, including 805 million which were assigned to coverage of equity securities and similar assets.

1.2 - The overall structure of banks' liabilities remained without significant change

At the end of December 2007, banks' liabilities were composed of customer deposits at the rate of 78.7%, due to credit institutions and similar bodies at 6.8%, debt securities at 2.8%, and equity capital at 6.9%. The structure of these liabilities, while remaining stable overall, was marked by renewed interest in debenture debt.

Evolution of banks' liabilities (activity in Morocco)

(in millions of dirhams)

Rubriques du passif	2005	2006	2007	Variation 2007/2006 (in %)
Due to credit institutions and similar bodies	25 081	30 357	44 245	45.7
Customers' deposits	370 971	436 036	515 171	18.1
Issued debt securities	8 725	11 023	18 035	63.6
Subordinated debts	1080	1594	4 842	203.8
Equity capital	37 720	39 657	45 337	14.3
Net income	2 063	6 623	8 971	35.5
Other liabilities	10 117	12 941	18 064	39.6
Total liabilities	**455 757**	**538 231**	**654 665**	**21.6**

1.2.1 - Due to credit institutions and similar bodies registered a substantial rise

Due to credit institutions and similar bodies amounted to 44.2 billion dirhams, up by 45.7%. Currency debt, representing 26%, declined by 4% to 11.5 billion, while dirham-denominated debt stood at 32.3 billion, with a rise of 73%.

Owing to liquidity squeeze, banks stepped up recourse to the money market and the Central Bank. The outstanding amount of interbank loans was up by 45.6% to 21.7 billion dirhams, including 7.5 billion in the form of cash facilities, 6 billion in the form of financial loans and 8.2 billion in securities given through a repo.

Advances granted to banks by the Central Bank reached 7.3 billion dirhams against 1.2 billion one year earlier.

Loans from credit institutions abroad were down by 14.7% to 7.3 billion dirhams.

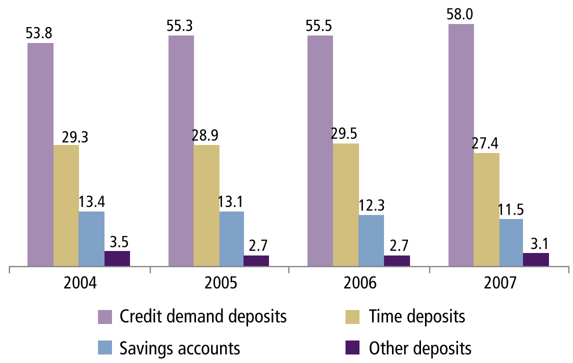
1.2.2 - The share of interest-free deposits strengthened

In order to meet high credit demand, banks reinforced their network to mobilize more deposits. At 515.2 billion dirhams, deposits grew by 18.1%. Out of this total, the share of interest-free deposits rose by 1.2 point to 58.8%.

The ratio of deposits to current GDP thus improved by nearly 8 points to 84%, reflecting the reinforced effort made to collect savings.

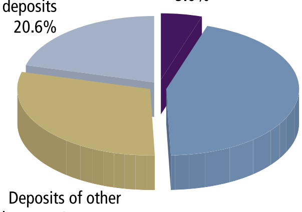
The structure of deposits shows an expansion of demand deposits which increased by 23.6% to 299 billion dirhams, showing the economic agents preference for demand deposits. Up by 9.8% to 141.4 billion dirhams, the share of time deposits fell by 2.1 points to 27.4%. Savings accounts moved up by 10.6% to 59.2 billion dirhams, a pace comparable to the average observed over the past seven years.

Chart 16: Evolution of the different deposits categories' share in the total amount (in %)



The structure of deposits, per economic agent, is still dominated by private individuals' deposits, the share of which, excluding deposits of Moroccan expatriates, stabilized at 44.6%, while the share of the other non-financial agents grew from 27.8% to 29.8%.

Chart 17: Deposits' distribution by economic agent (in %)



Deposits by Moroccan expatriates, up by 9.8%, reached 106 billion dirhams, which corresponds to 21% of overall deposits, down by one point compared to the end of December 2006. They are made up of demand deposits at the rate of 60%, time deposits at 36% and savings accounts at 4%. Their share in private individuals' deposits fell by one point to 32% from one year to the other. Moroccan expatriates' currency and convertible-dirham deposits together represented less than 4%.

With a share of 5% of the overall amount, deposits of financial economic agents grew by 12.2% to 26 billion dirhams, in connection with the growing deposits of UCITS which increased by 11% to 18 billion and insurance companies' deposits which more than doubled, to around 5 billion dirhams.

1.2.3 - Banks increased recourse to long-term liabilities

To improve their liquidity and strengthen their financial base, banks sought to lengthen the duration of their debts by issuing debt securities and subordinated debts. Consequently, the outstanding amount of issued debt securities was up by 63.6% to 18 billion, due to the issue of certificates of deposit which expanded markedly, their outstanding amount having trebled to 12.5 billion dirhams. On the opposite, bond loans registered, for the second year running, a drop of 24% to 2.4 billion dirhams while and the other debt securities fell by 7.7% to 2.9 billion dirhams.

At 4.8 billion dirhams, subordinated debt outstanding increased more than threefold.

1.2.4 - Accounting equity capital keeps progressing, but at a slower pace as compared to the activity

The constitution of reserves helped strengthen banks' equity capital. The latter, excluding the year's income, was up by 14.3% to 45 billion dirhams. Its ratio to total assets reached 6.9%, down by 0.5 point compared to 2006.

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

The off-balance sheet items basically consisted of financing commitments given to or received from credit institutions and customers, mainly in the form of confirmed credit lines and surety bonds given to or received from credit institutions and customers.

The provisions of the New Capital Accord (Basel II) provide a very broad definition of the unused part of the financing commitments given. This affected the registration mode of the said commitments.

In this context, the financing commitments given increased by 75.3% to 56.4 billion, of which nearly 55 billion were in the form of financing commitments for customers.

Surety bonds were up by 22.6% to 67.6 billion, including 45.8 billion in the form of commitments to customers.

Surety bonds received amounted to 45.9 billion, up by 51.2%. They consisted of surety bonds received from credit institutions for the amount of 44.4 billion dirhams. A part of this amount was assigned to coverage of risks exceeding some banks' maximum risk division ratio.

To adhere to the minimum liquidity ratio, some banks resorted to refunding accords. The financing commitments received from credit institutions and similar bodies registered a rise of 113.5% to 3.6 billion dirhams, around one billion of which were received from foreign banks.

Off-balance sheet items also comprise commitments on exchange transactions. Foreign exchange sales and purchases rose more slowly than in the previous year. They increased by 17.8% to 57.8 billion dirhams. Spot transactions came to 15 billion, up by 66% and forward transactions amounted to 43 billion, up by 6.9%, after the 147% rise registered in 2006.

Commitments on derivatives increased threefold from one year to the next, standing at 11 billion dirhams.

2 - Banks' income improved considerably

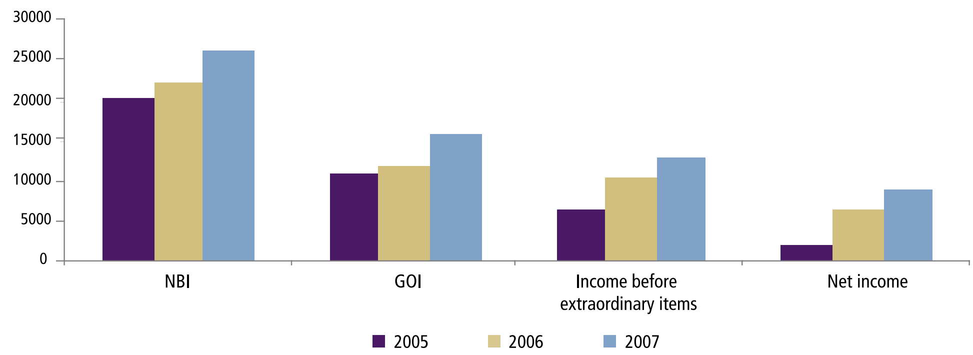
In 2007, steady growth in the net banking income (NBI), along with a drop in the operating ratio and cost of risk, allowed a significant rise in bank profitability.

Box No.1: Definition of the main intermediate balances

- The net banking income is the margin resulting from all banking activities. It is obtained by adding up the interest margin (comprising income from leasing and rental operations), the fee income and the income from market operations and from other banking transactions.
- The gross operating income (GOI) is obtained by adding non-banking revenues to the net banking income after deduction of non-banking charges and general operating expenses (including allowances for depreciation of tangible and intangible fixed assets).
- Income before extraordinary items represents the margin resulting from all ordinary activities taking account of allocations to provisions and losses on bad debts net of reversals of provisions and recoveries on amortized debts.
- Extraordinary income is the margin resulting from non-recurrent income and expenses.
- Net income is the margin resulting from banks' overall income and expenses.

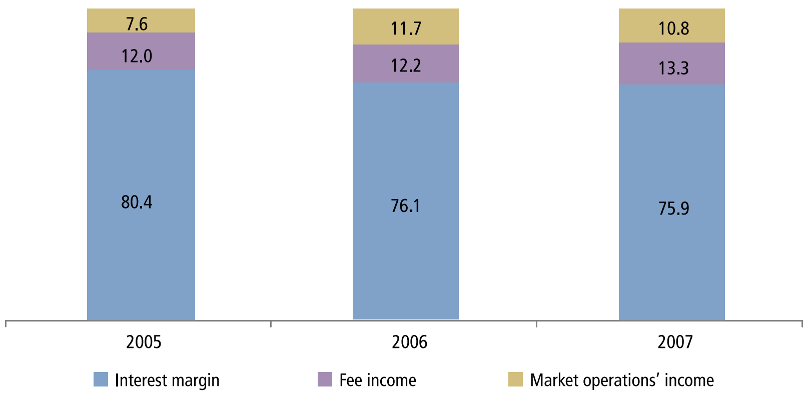
2.1 - Growth in the net banking income reflects strong banking activity

Chart 18: Evolution of banks' intermediate balances
(in millions of dirhams)



In connection with expanding lending activity, the net banking income increased by 17.6% to 26 billion dirhams, a pace clearly above that registered in 2006 (10.5%) under the effect of the growing interest margin, fee income and, to a lower extent, income from market operations.

Chart 19: Evolution of the share of interest margin, fee income and market operations' income in banks' NBI (in %)



Interest margin: Standing at 19.2 billion, the interest margin grew by 15.2%, a rate substantially above that registered in 2006. This rise was boosted mainly by a greater volume of collected interests than those paid. However, the contribution of interest margin to NBI formation remained stable at 76%.

In a context of continued drop in interest rates, which was more than offset by the volume of loans, net interest income from transactions with customers grew by 17.8% to 12.8 billion dirhams. This evolution resulted from the growth in interests received on loans by 19% to 19.6 billion dirhams which more than offset the increase of 21% to 6.8 billion dirhams in interests paid on deposits.

The rise in interests paid on deposits is attributable to the increase in the cost of time deposits by 23 basis points due to competition with the other financial instruments.

Net interest income on transactions with credit institutions, at 2 billion dirhams, registered an increase of 31%, in connection with a rise of 36.7% to 3.3 billion dirhams in interests received, and a surge of 46.8% to 1.3 billion dirhams in interests paid.

Debt instruments generated a net interest income of 5.3 billion, up by 6.5%, a slower pace than that of the previous year (11.8%), mainly in connection with the simultaneous increase in interests paid on securities issued, by 50% to 1.3 billion (13.7% in 2006), and interests received, by 12.9% to 6.5 billion dirhams (12.1% at the end of 2006).

Fee income, whose share in NBI was up by 1.1 point to 13.3%, rose by 28.7% to 3.5 billion dirhams, after the 12.3% hike registered the previous year.

Boosted by increased opening of new accounts and subscriptions to stock market securities, fees for services provided increased by 27% to 3.4 billion dirhams. This rise is due to the growth in fees on payment means by

10% to 948.5 million, fees on account management by 15% to 592 million, fees on securities under management and on deposits by 83% to 236 million dirhams, fees on security trading by 59% to 197 million dirhams and fees on consultancy and assistance by 268% to 164 million dirhams.

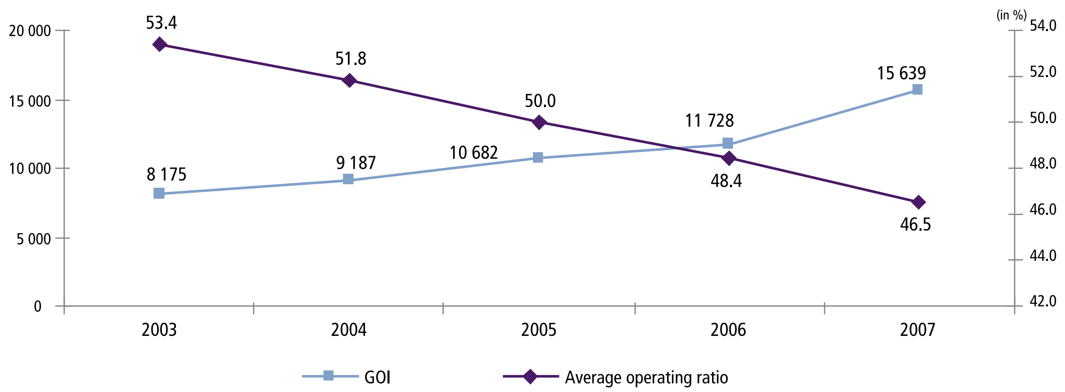
Fees on foreign exchange transactions grew by 61.6% to 271.2 million dirhams, compared to 14.6% the previous year.

Income from market operations, after registering a growth of 70% in 2006, was up by only 8% to 2.8 billion dirhams and its share in NBI fell by 0.9 point to 10.8%. This drop is explainable by growth in income from transactions on securities held for sale which was lower than in the previous year, due mainly to the rise in interest rates on Treasury bills. In 2007, these rates were up by 20 basis points for 52-week bills and 64 basis points for 26-week bills.

2.2 - Banks' gross operating income increased substantially in spite of a higher increase in overheads

Although overheads increased at a pace above that of the previous year, the GOI was up by 33.3% to 15.6 billion dirhams, against 9.8% one year earlier, boosted by growing revenues from transactions on financial assets which increased more than fivefold to 1.6 billion dirhams.

Chart 20: Evolution of GOI and banks' average operating ratio
(in millions of dirhams)



The extension of banks' network, the build-up of their staff and the modernization of information systems are the reasons behind rising general operating expenses. The latter increased by 13% to 12 billion dirhams, against 7% the year before. The rise of overheads at a pace below that of NBI led to an improvement of 1.9 point in the average operating ratio which reached 46.5%.

Payroll expenses, representing more than 52% of general operating costs, grew by 16.5% to 6.3 billion dirhams. External expenses, which represent 33% of the total amount, were up by 11.2% to 4 billion dirhams. Taxes rose by 5.5% to 269 million dirhams.

Depreciation expenses and allocations to provisions for tangible and intangible fixed assets only increased by 2.3% to 1.2 billion dirhams, against 8% one year earlier.

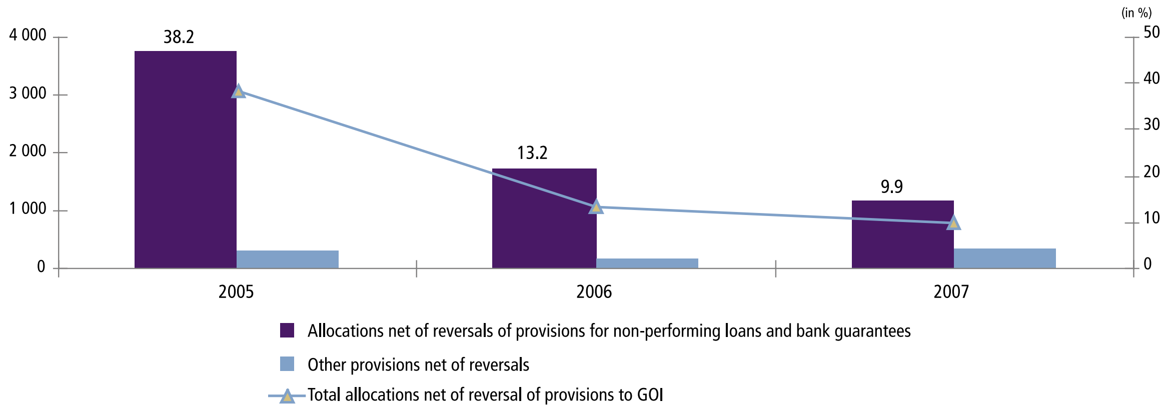
2.3 - Income before extraordinary items and banks' net income substantially increased due to falling cost of risk

Allocations net of reversals of provisions for non-performing loans decreased by 32% to 1.2 billion after a fall of 54% one year earlier. The cost of risk absorbed 9.9% of the GOI against 13.2% the previous year.

Other allocations net of reversals, consisting at 76% of allocation to provisions for investment, rose from 185 million to 1.5 billion dirhams. This growth is due to the new provisions of the 2008 Finance Act stipulating that expenses relating to allocations to provisions for investment shall no longer be deductible.

Thus, the income before extraordinary items reached 13 billion dirhams, up by 27.5%. The extraordinary income, while remaining negative, fell from 438 million to 329 million dirhams.

Chart 21: Evolution of the ratio of cost of risk to banks GOI
(in millions of Dhs)

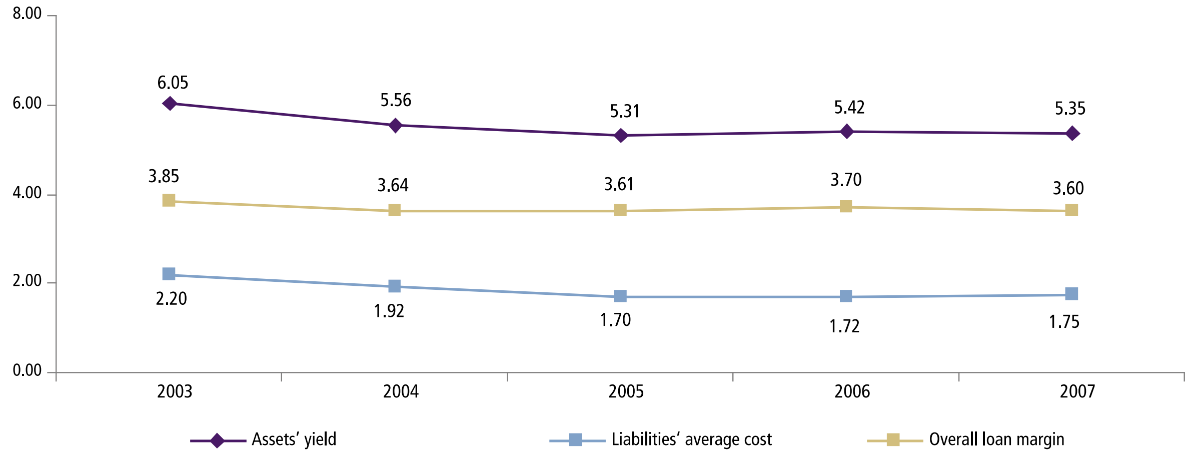


Finally, at 9 billion dirhams, banks' net income increased by 35.5% and helped improve the ROA to 1.48% (1.34% at end-2006) and the ROE to 20.62% (against 17.35%).

2.4 The overall loan margin kept falling

Following on its downtrend, the overall loan margin, which is the difference between the assets' average yield and the liabilities' average cost decreased by 10 basis points to 3.60% under the joint effect of the 7-basis point fall in assets' yield to 5.35% and the 3-basis point rise in liabilities' average cost to 1.75%.

Chart 22: Evolution of banks' overall loan margin (in %)



The return of due from customers was down by 28 basis points to 5.82%, while deposits' average cost stayed at 1.41%. This led to a margin of 4.41% on transactions with customers, down by 28 basis points.

Banks' lending margin, defined as the ratio of NBI to average assets, therefore came to 4.27%, compared to 4.47% one year earlier. It was absorbed at the rate of 1.99% by overheads, against 2.17% the previous year and at the rate of 0.44% by the cost of risk and other allocations to provisions compared to 0.31% at the end of 2006.

III - Finance companies' activity and income

Driven by a positive economic and financial environment, finance companies' activities were well oriented overall in 2007, with a high and steady growth in the financing allocated to some customer segments, in particular SMEs and private individuals.

1 - Finance companies' activity was boosted by steady demand

1.1 - Assets of finance companies grow along the same lines as banks' activity

At the end of 2007, the volume of finance companies activity, calculated on the basis of their total assets, rose by 25% to 62.7 billion dirhams against 18.3% one year earlier. These companies reported a gross credit outstanding of 62 billion dirhams, up by 18.7% after the 15.9% registered the previous year. Outstanding non-performing loans represented 10.2% of this outstanding amount, against 11.9% one year earlier. These claims are covered by provisions at the rate of 86%.

Consumer loan companies registered total assets[1] of 33.5 billion dirhams, up by 25.7% compared to 2006. Gross credit outstanding was up by 17.9% to 33.4 billion dirhams, under the effect of expanding consumer loans and leases with purchase option, the amount of which was up by 37.8% to 8.4 billion dirhams, although at a slower pace than that of the previous year (41.3%). This slowdown may be explained by the new tax provisions introduced by the 2007 Finance Act that raised VAT on leases with purchase option from 10% to 20%.

Evolution of consumer loan companies' assets

(in millions of dirhams)

Assets[1]	2005	2006	2007	Change 2007/2006 (in %)
Due from credit institutions and similar bodies	634	526	1 214	130.8
Due from customers	21 349	24 672	29 868	21.1
including lease with purchase option	4 352	6 148	8 474	37.8
Securities portfolio	62	2	333	16 550.0
Fixed assets	570	585	601	2.7
Other assets	678	835	1 457	74.5
Total amount	**23 293**	**26 620**	**33 473**	**25.7**

Consumer loans continue to be dominated by non-assigned loans which represent 64% of them. The latter are essentially (97%) made up of personal loans, the remainder being revolving loans. With regard to the assigned loans, they are for the most part used for vehicle purchases (87%) and household equipments (13%).

In 2007, consumer loan companies granted nearly 15 billion dirhams of loans, among which 60% in the forms of non-assigned loans, 3 billion more than in 2006.

The non-performing loans of consumer loan companies totaled 4.2 billion dirhams, or 12.6% of the total amount of loans compared to 15.1% the year before. These claims' rate of coverage by provisions reached 88%.

Leasing companies registered a volume of activity of 26.5 billion dirhams, up by 24.8% or the same level as in 2006.

1 Assets net of depreciations and provisions

Evolution of leasing companies' assets

(in millions of dirhams)

Assets[1]	2005	2006	2007	Change 2007/2006 (in %)
Leased fixed assets	16 567	20 691	25 158	21.6
Other due from customers	53	74	70	-5.4
Securities portfolio	35	35	31	-11.4
Other assets	307	427	1 238	189.9
Total amount	**16 962**	**21 227**	**26 497**	**24.8**

Equipment leasing operations, with a share of 75%, increased by 18.3% to 18.4 billion dirhams from one year to the next.

The outstanding amount of property leasing continued on an uptrend, standing at 6.4 billion with an increase of 32.4%.

Chart 23: Evolution of leasing companies' equipment and property leasing (in millions of Dhs)

The non-performing loans of leasing companies amounted to 1.7 billion dirhams, down by 6.7%. As a ratio to loans, these debts represent 6.4% against 7.2% one year earlier. They were provisioned at the rate of 84%.

1.2 - Bank funding, constantly on the rise, is the main source of financing

Bank funding, representing 72% of finance companies' liabilities compared to 64% the previous year, remained the main source of financing in the sector.

Boosted by a positive economic situation marked by falling interest rates, consumer loan companies registered an outstanding amount up by 36% to 21.7 billion dirhams, corresponding to 65% of their liabilities. Along the same lines, at 2.6 billion dirhams, the outstanding amount of issued debt instruments continued its downward trend, representing only 7.6% of liabilities.

1 Assets net of depreciations and provisions

Evolution of consumer loan companies' liabilities

(in millions of dirhams)

Liabilities	2005	2006	2007	Change 2007/2006 (in %)
Due to credit institutions and similar bodies	13 699	15 969	21 740	36.1
Due to customers	397	473	541	14.4
Debt securities issued	3 573	3 405	2 558	-24.9
Equity capital	2 647	2 861	3 290	15.0
Net income	496	693	733	5.8
Other liabilities	2 481	3 219	4 611	43.2
Total	**23 293**	**26 620**	**33 473**	**25.7**

As to accounting equity capital, excluding the fiscal year's income, it was up by 15% to 3.3 billion dirhams, or 9.8% of total assets.

Evolution des ressources des sociétés de crédit-bail

(in millions of dirhams)

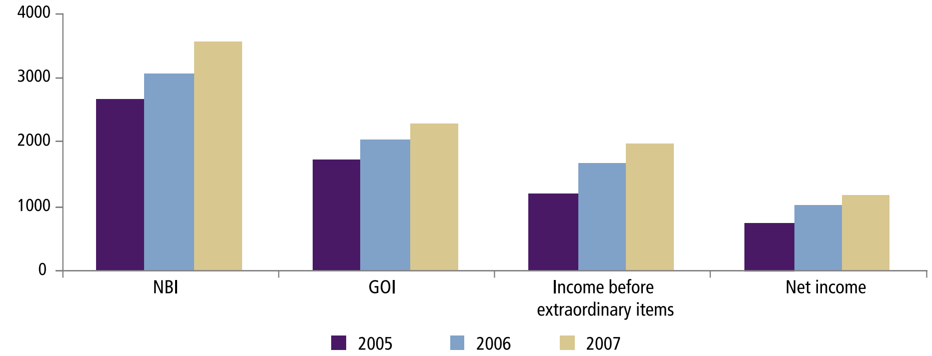
Liabilities	2005	2006	2007	Change 2007/2006 (in %)
Due to credit institutions and similar bodies	11 314	15 444	20 753	34.4
Due to customers	632	552	205	-62.9
Debt securities issued	2 622	2 278	1 660	-27.1
Equity capital	1 103	1 214	1 387	14.3
Net income	217	288	388	34.7
Other liabilities	1 074	1 451	2 104	45.0
Total	16 962	21 227	26 497	24.8

Leasing companies had liabilities consisting at 78% of banks debts. These debts increased by 34.4%, to 20.8 billion dirhams. Issued debt securities, representing 6.3%, fell by 27% to 1.7 billion. Meanwhile, the amount of equity capital, excluding the financial year's income, strengthened by 14.3% to 1.4 billion, representing a share of 5.2% of liabilities.

2 - Finance companies' income improved due to lower cost of risk

In spite of the rise in general operating expenses at a pace above that of the previous year, finance companies reported a rise of 15.2% in the overall net income to one billion dirhams, against 39% one year earlier. This evolution is explainable by the 15.6% surge in net banking income (16% in 2006) to 3.5 billion dirhams and the drop of allocations net of reversals of provisions at 16% (27% in 2006) to 319 million dirhams, absorbing 14% of the GOI compared to 18.7% one year earlier.

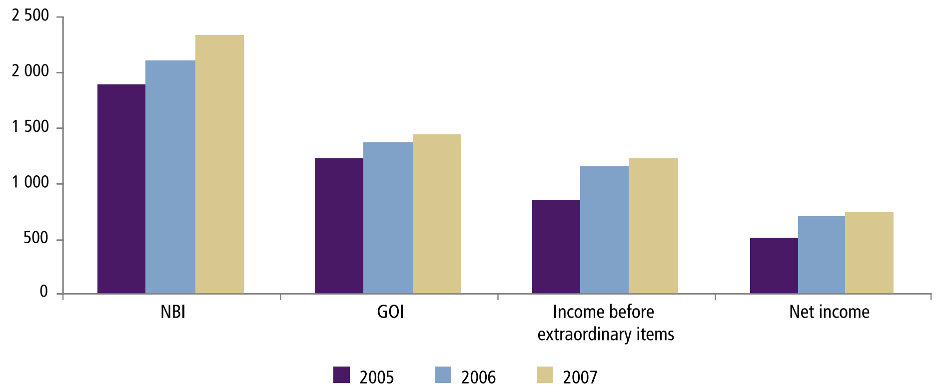
Chart 24: Evolution of finance companies' intermediate balances (in millions of dirhams)



Finance companies' ROE amounted to 23.7% against 22.7% the previous year and their ROA remained at 2%.

Consumer loan companies reported a net banking income of 2.3 billion dirhams, up by 11.4%, a level almost identical to the previous year's, due mainly to the rise in interest rate margin and income from leasing operations.

Chart 25: Evolution of the intermediate balances of consumer loan companies (in millions of dirhams)



The interest margin (including income from leasing operations) rose by 7.8% to 2.2 billion, against 12% in 2006. This slowdown is mainly due to the concomitant hike of 5.3%, to 2.5 billion dirhams, in interests received on loans and of 6.3%, to 865 million dirhams, in interests paid on debts. Considered separately, income from leasing operations, standing at 574 million dirhams, grew by 14.3% compared to 58.4% the previous year.

The fee income increased twofold, reaching 125 million dirhams and its share in NBI reached 5.3% against 3% in 2006.

Gross operating income amounted to 1.4 billion, up by 4.8%, compared to 12.5% in 2006, in connection with the 32% drop in income from non-banking operations. General operating expenses reached 977 million dirhams, growing by 16.6% against 17.1% the previous year. Rising at a pace above that of the NBI, these expenses showed an operating ratio of 42% against 40% the previous year.

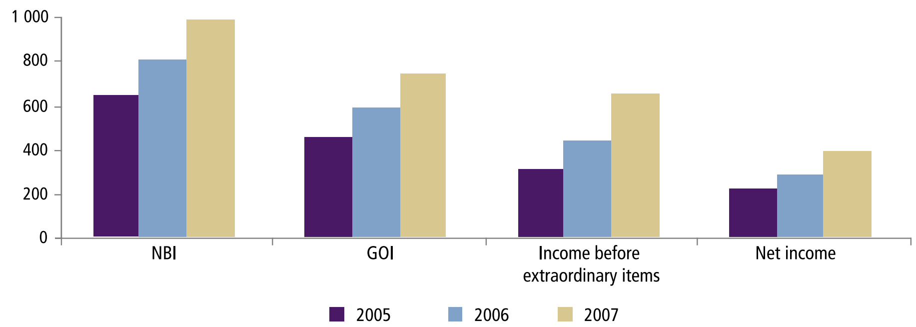
Down by 4%, allocations net of reversals of provisions reached 217 million dirhams and absorbed 15.2% of the GOI against 16.5% the previous year.

The net income of consumer loan companies came to 733 million dirhams, up by 5.8% after the 40% rise reported the previous year, corresponding to a ROE of 23.3% against 24% and a ROA of 2.2% compared to 2.6%.

Leasing companies registered a net banking income of 984.5 million dirhams, up by 22% against 24.5% in 2006, mainly in connection with the improvement of income from leasing operations by 19% to 1.9 billion dirhams.

Their general operating expenses, amounting to 232.3 million dirhams, grew by 8.1% after 7.5% one year before. The operating ratio thus came to 24% (27% in 2006) and the GOI to 746 million dirhams, up by 26% (31% in 2006).

Chart 26: Evolution of leasing companies' intermediate balances
(in millions of dirhams)



Leasing companies saw their allocation net of reversals of provisions decline by 157 million to 92 million dirhams thereby absorbing 12.3% of the GOI against 26.5% the previous year.

The net income reported by these companies amounted to 388 million, a growth of 34.7%. Return on equity improved by 4 points to 28% and ROA stayed at 1.5%.

IV - Offshore banks' activity and income

The total assets of offshore banks were up by 10% to 13.2 billion dirhams compared to 2006, or nearly 2% of banks' balance sheet total.

The structure of offshore banks' assets was marked by the predominance of due from customers with 56% of the total amount against 46% one year earlier. Their outstanding amount reached 7.4 billion dirhams, which corresponds to a growth rate of 36%. Their non-performing loans reached 10.3 million compared to 1.6 million dirhams in 2006, a rate representing 0.14% of due from customers.

Due from credit institutions were down by 21% to 3.7 billion and their share in assets was down from 40% to 29%.

With a share of 89% of liabilities, due to credit institutions rose, from one year to the next, by 12% to 11.7 billion dirhams. Customer deposits, representing only 8%, stayed at one billion dirhams. Equity capital came to 240 million dirhams against 222 million in 2006.

Financing commitments given amounted to 18 million dirhams, showing a drop of 15% while financing commitments received reached 57 million dirhams, having increased by 8%.

Surety bonds given rose by 19% to 2.4 billion dirhams and surety bonds received reached 44% to 4.9 billion dirhams.

V - Microcredit associations' activity and income

Like banks and finance companies, the microcredit sector saw steady growth which gave the low-income population a better access to financial services offered by microcredit associations.

Box No. 2: Regulatory framework of microcredit associations

Law No.18-97 on microcredit, as completed by Law 04-07 promulgated by Dahir No.1-07-166 of 19 Kaada 1428 (November 30, 2007), accredits microcredit associations, apart from granting microcredits to low-income persons, to finance subscriptions by their customers to insurance policies with insurance and reinsurance companies. Moreover, microcredit associations can, subject to an authorization issued by the Minister in charge of Finance, carry out operations other than granting microcredits and ancillary activities.

By virtue of the provisions of the Banking Law No.34-03 promulgated in 2006, microcredit associations are subject to control by Bank Al-Maghrib. For this purpose, according to the Order of the Finance Minister No.31-07 of January 5, 2007, microcredit associations should transmit to Bank Al-Maghrib all documents and information necessary for carrying out its mission. Microcredit associations are also required to appoint a statutory auditor, after approval by Bank Al-Maghrib according to its set methods.

By circular No.07/DSB/2007 of December 28, 2007, Bank Al-Maghrib has set the methods for the elaboration and submission of periodic statements to be sent by microcredit associations. These statements should be drawn up in compliance with the provisions of the microcredit association chart of accounts adopted by Minister of Finance Order No.1672-07 of July 25, 2007.

The volume of microcredit associations' activity, measured by their balance sheet total, grew by nearly 60% to 6 billion dirhams, against 135% the previous year. Four companies hold nearly 95% of the sector's total assets.

Representing nearly 87% of total assets, outstanding loans to customers jumped by 57% to 5.5 billion dirhams. These loans are still dominated by loans to micro entrepreneurs and several joint loans which represent respectively 84% and 73% of them and remain concentrated in urban and peri-urban areas with a share of 59%. The average loans outstanding per customer grew from 2 400 to 4 000 dirhams.

With an annual rise of 116%, social housing and equipment loans represented 14% of the total volume of loans granted by the sector with an outstanding amount of nearly 800 million dirhams, of which approximately 90% were granted by 2 associations.

Non-performing loans reached 134 million dirhams, thus representing 2.4% of total loans against less than 1% in 2006, and were covered by provisions at the rate of 50%.

The liabilities of microcredit associations continue to be dominated by due to financial institutions which rose by 71% to 4.8 billion dirhams. Local banks contributed 85% of the said indebtedness, thereby confirming the trend observed over the past few years.

Up by 35% to more than one billion dirhams, equity capital represented 20% of total liabilities compared to 23% one year earlier. Net income registered by the sector came to 272 million dirhams, up by 50% compared to end-2006.

VI - Banks' activity and income on a consolidated basis

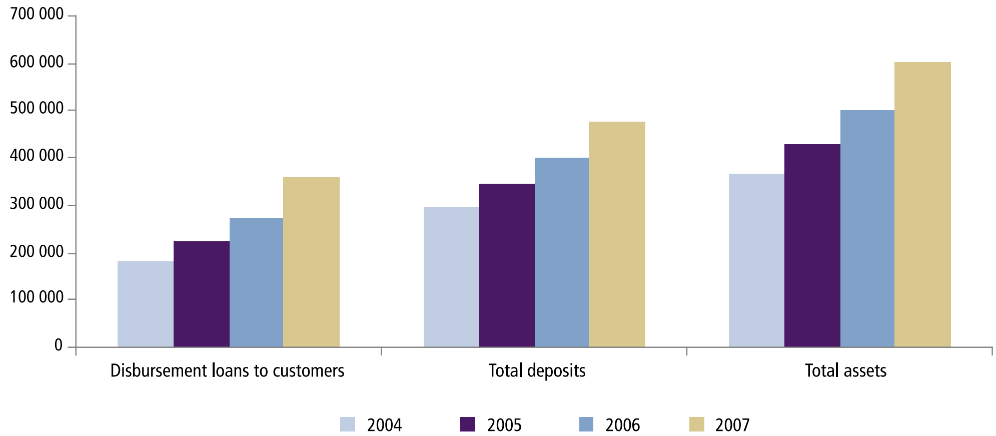
The evolution of consolidated activity is captured through the data in the balance sheets of six banking groups which depict operations carried out by entities within their consolidation scope.

Box No. 3

Any credit institution controlling, either exclusively or jointly, one or more corporate entities or exercising a significant influence over the latter is required to publish consolidated accounts. This consolidation is performed according to the three following methods stipulated by credit institutions' chart of accounts:

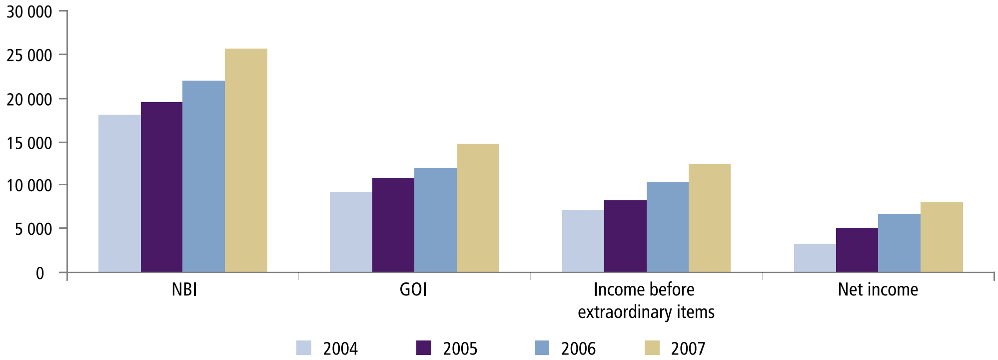
- Full consolidation method in the case of exclusive control.
- Proportionate consolidation method in the event of joint control.
- Equity method in the event of significant influence.

Chart 27: Evolution of total assets, deposits and disbursement loans to customers, on a consolidated basis (in millions of dirhams)



At the end of 2007, the volume of banks' activity on a consolidated basis, boosted by the development of their subsidiaries' activity, was up by 19.7% to 601 billion dirhams compared to 16.7% one year earlier. On the assets' side, the total amount of loans to customer, net of provisions, reached 358 billion, up by 30% against 22% at the end of 2006. On the liabilities' side, customer deposits amounted to 474.6 billion dirhams, up by 18.3% against 16% in 2006.

Chart 28: Evolution of the intermediate balances of 6 banking groups, on a consolidated basis, (in millions of dirhams)



The net banking income as indicated in the consolidated income statements reached 25.7 billion dirhams, up by 17% compared to 12.7% the previous year. This expansion is due to the rise in the interest margin by 14% to 16.8 billion, even though its share dropped by 1.3 point to 72.5%, in the fee income by 20.4% to 4.2 billion and in earnings from market operations by 26.7% to 2.9 billion dirhams.

At 14.7 billion dirhams, the gross operating income grew by 22.8% against 10.9% at the end of 2006 and the net income came to 8 billion dirhams, with a rise of 20%.

PART 3

Trend in banking risks

Trend in banking risks

Credit institutions have to cope with several risks that can be grouped into two main categories:

- Specific risks directly linked to the activity: credit risk, market risk and operational risks governed by Pillar 1 of the Basel II Accord, called "Minimum Capital Requirements".
- Structural or balance sheet risks: in particular global interest rate risk, liquidity risk and concentration risk that are governed by Pillar 2 of the Basel II Accord called "Supervisory Review process".

Box No. 4: Typology of banking risks

1 - Risks related to Pillar 1 of Basel II

- Credit risk: corresponds to the risk that a counterpart would not be in a position to meet its obligations with regard to the institution.
- Payment-delivery risk: this refers to the risk of occurrence, during the time limit for settling a payment-delivery operation, of a failure or difficulty impeding the counterpart of an institution from delivering the financial instruments or funds originally agreed, while the said institution has already met its obligations to the said counterpart.

  This risk covers all operations carried out with or without the use of a payment-delivery system ensuring simultaneous exchange of securities against cash.
- Market risks: encompassing risk of loss due to an unfavorable fluctuation in market prices. These risks cover the risks related to securities in the trading portfolio (foreign exchange risk, interest rate risk, commodities risks, equity risk, etc.) as well as foreign exchange and commodities risks incurred on all items of the balance sheet and off-balance sheet, other than those included in the trading portfolio.
- Operational risks: corresponding to the risk of loss resulting from discrepancies or faults attributable to procedures, staff and internal systems or external events. This definition includes legal risks but excludes strategic and reputational risks. The major sources of operational risks are related to internal and external fraud, inappropriate practices with regard to employment and security at the workplace, inappropriate practices concerning customers, products and commercial activity, damage inflicted on physical property, interruption of activity and breakdown in systems or during the execution of transactions, deliveries and processes.

Box No. 4 (continued):

2 - Risks related to Pillar 2 of Basel II

- Global interest rate risk means the risk of loss or depreciation in the balance sheet and off-balance sheet entries in the event of changes in interest rates.

- Interest rate risk in banking portfolio: this refers to the negative impact that could occur due to an unfavorable fluctuation in interest rates on the institution's financial situation, arising from balance sheet and off-balance sheet operations, excluding those covered by the market risk monitoring system.

- Risk of credit concentration: this 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. The credit concentration risk could stem from individual counterparts, interest groups, counterparts belonging to the same sector of activity or geographical area, and counterparts the financial income of which is dependent on a single activity or commodity.

  This risk includes exposure resulting from the concentration of mitigating techniques for credit risk.

- Liquidity risk: this refers to the risk for the institution of not being able to honor, under normal conditions, it obligations at their due dates.

For a better management of these risks by credit institutions, Bank Al-Maghrib issued in 2007 a series of circulars and directives referred to in chapter 1 related to the legal and regulatory environment. It also strengthened its monitoring system via specific reporting procedures and periodic surveys.

Box No. 5: Surveys performed by Bank Al-Maghrib to ensure follow-up of credit risks

1 - Survey on real estate loans:

Confronted by changes in the real estate sector and in addition to the information received on a monthly basis from the banking sector, an annual survey is conducted with banks to gather more detailed information on indicators and risks inherent to the real estate loans sector.

The 2007 survey was carried out with all banks granting real estate loans.

2 - Survey on consumer loans:

In the framework of monitoring household indebtedness, an annual survey is conducted with consumer loans companies to gather information on this category of loans as well as on the profiles of the beneficiaries.

The 2007 survey covered 14 institutions, totaling 88% of the market share and a total number of files amounting to 1 170 672.

3 - Survey on the conditions for granting loans:

To monitor the developments in the financing conditions of businesses and private individuals, an annual survey is conducted with banks. It makes it possible to complete 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 influencing loan applications as well as to know the expected trends. It also makes it possible to shed light on the process of transmission of monetary policy effects.

The 2007 survey covered 9 banks representing a market share of approximately 90%.

4 - Survey on debtor interest rates:

This survey is carried out on a quarterly basis in order to monitor the situation of applicable debtor interest rates according to type of credit and category of beneficiaries, and whether rates are fixed or variable. It also aims at apprehending the role of credit in the transmission of monetary policy.

The following points deal with credit and interest rates risks. The part on credit risks focuses on household indebtedness with regard to housing and consumer loans, loans to SMEs, and non-performing loans.

I - Credit risk

1 - Situation of real estate loans

Over the past few years, the real estate sector has seen a boom under the joint effect of measures taken by public authorities and a loan policy better tailored to customer needs. In this context, banks have considerably increased their contribution to this sector, and are engaged in a relatively sharp competition to satisfy a growing household demand.

1.1 - Real estate loans saw an exceptional rise driven by household demand

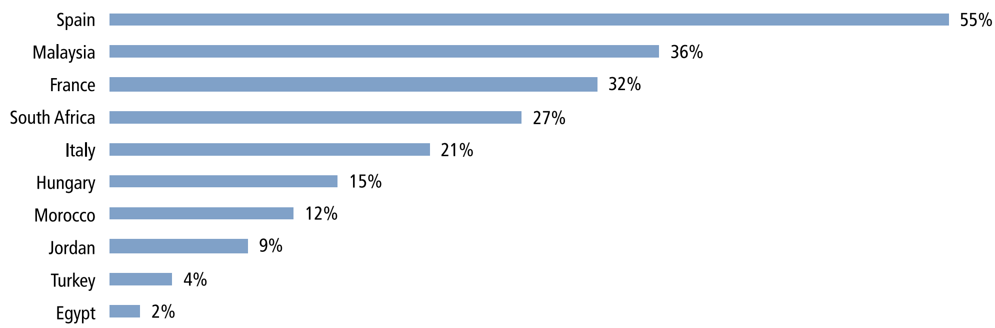
Statistics on the flow of new contracts, like those for outstanding real estate loans, show accelerating growth in this loan category[1]. The conclusions of the survey mentioned in points 1 and 3 of Box 5 show that soaring housing loans are attributable to the growing household demand. This can be explained by the catch up effect as well as by the improved incomes. The evaluations made by banks indicate that this demand trend will continue in 2008.

On the basis of accounting documents submitted by banks, the total outstanding amount of real estate loans grew by 33% (28% at the end of 2006) to 107 billion dirhams, representing 28% of the healthy loans at the end of 2007, compared to 27% one year earlier.

Outstanding loans for real estate development increased by 59% to reach 22 billion dirhams due to loans increasing more than twofold, reaching a total of 11 billion dirhams.

Housing loans, with a share of 79% in the total outstanding amount of real estate loans, grew by 28% at 85 billion dirhams, representing nearly 14% of GDP as against 12% in 2006. Chart 29 hereunder shows that this share, although exceeding that of certain countries having a similar level of development, still remains below that of several developed countries.

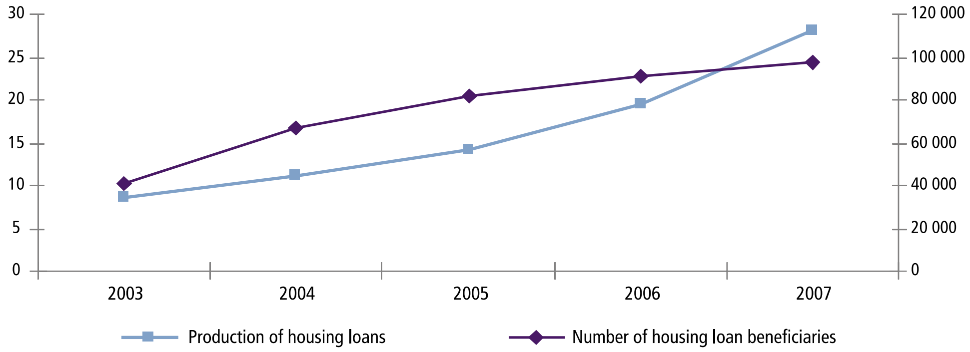
Chart 29: Housing loans compared to GDP at the end of 2006 (in %)



1 Real estate loans cover real estate development loans and housing loans. Real estate development loans correspond to loans granted to real estate developers regardless of their use (loans for land purchase, start-up credit, assistance credit, credit for inventories awaiting sale, etc.). Housing loans are granted to private individuals for building, acquisition or renovation of a dwelling unit.

The share of free housing loans (not guaranteed by the State) dropped by 3 points to 86%, while State guaranteed loans increased by 14%. The guarantees issued to holders of these loans, at the end of December 2007 totaled 13.4 billion dirhams and were distributed as follows: 8.5 billion dirhams in conjunction with FOGALEF[1]; 4.3 billion dirhams for FOGARIM[2], and 6 million dirhams for FOGALOGE[3].

Chart 30: Growth in the number of beneficiaries and housing loan production (in billions of dirhams)



Housing loans grew by 43% at 28 billion dirhams, 17% of which were loans guaranteed by the State. The average amount per loan grew from 216 thousand dirhams to 287 thousand year-on-year, given the rise in prices of real estate assets. However, the amount of the average loan guaranteed by the State moved from 211 thousand to 162 thousand dirhams. This situation reflects the diversification of the portfolio and the targeting of new categories of low-income population. As to free loans, their average amount grew from 300 to 340 thousand dirhams.

In 2007, the number of beneficiaries of housing loans grew by 8%, at 98 thousand customers, compared to 19% a year earlier. This slowdown concerned just one bank. Excluding this institution, the number of beneficiaries grew by 15% against 11% in 2006.

The distribution of housing loans is relatively concentrated in the regions of Casablanca and Rabat which represented nearly 64% of the total amount of outstanding loans, down by 6 points as compared to 2006, however, because of the scarcity of land reserves.

1.2 … and under the effect of the continued easing of lending conditions …

The surveys mentioned in points 1 and 3 of Box 5 show that the criteria for granting housing loans considerably eased in 2007.

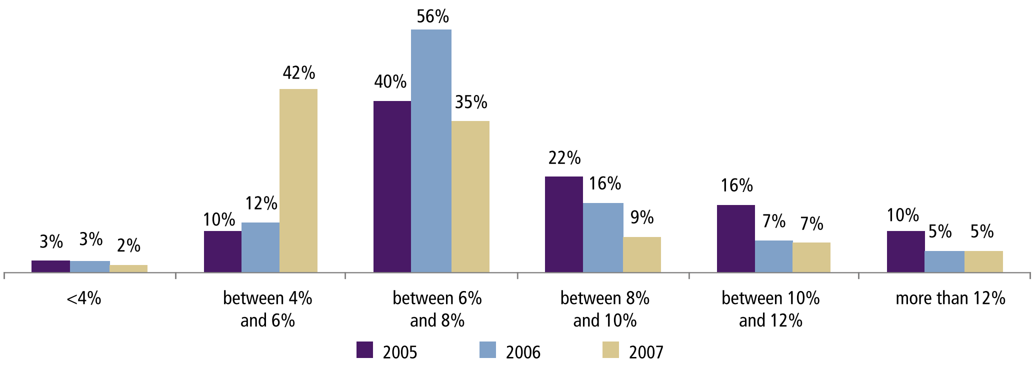
1 Loan guarantee fund for financing home purchases for members of the Mohammed VI Foundation for the promotion of education and training welfare services

2 Guarantee fund for irregular and low incomes

3 Guarantee fund for housing loans to civil servants

Thus, interest rates continued their downward trend. As chart 31 below shows, 44% of the total amount of housing loans were granted at interest rates below 6% against 15% at the end of 2006 and 13% at the end of 2005. The share of loans granted at a rate higher than 8% came to 21% against 28% in 2006 and 48% in 2005.

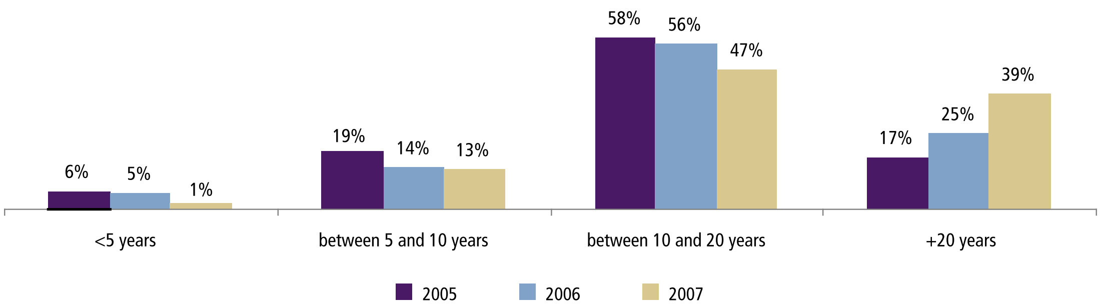
Chart 31: Changes in interest rates applied to housing loans



Similarly, the share of outstanding housing loans at variable rates continued to grow, reaching 49% against 43% a year earlier. Credit growth over the past three years occurred, by more than half, at variable rates.

Compared to other countries, the share of housing loans at variable rate at the end of 2007 was below 30% for France and Germany, 70% for the United Kingdom and Italy and 97% for Spain.

Chart 32: Trend in original maturity of housing loans



On the other hand, banks continued to lengthen the maturity of housing loans. Indeed, the average maturity reached 18 years against 15.8 at the end of 2006 and 14.5 at the end of 2005. However, this maturity remains lower than the one reported in several developed countries. For instance, the average maturity for housing loans in Denmark, the Netherlands, and Germany is almost twice that of Morocco in 2006.

As for the down payment, the survey showed that the share of housing loans entailing a down payment below 10% was of nearly 76%, the same level as in 2006.

1.3 - … while the cost of credit risk remains relatively under control

Real estate non-performing loans have been on a downward trend over the past few years, given especially the revamping of credit inventories, the scope of collection operations facilitated by the appreciation of assets, and better risk management policies.

Thus, non-performing loans related to housing loans registered an average rate of 5%, down by one point compared to 2006.

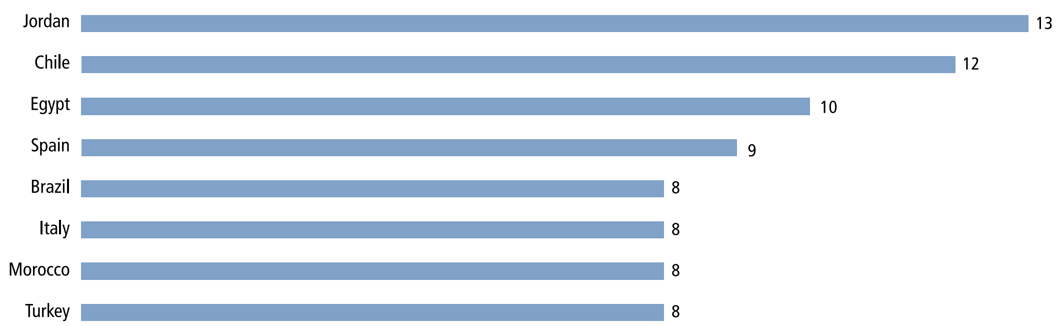
2 - Trend in consumer loans

Over the last few years, consumer loans have represented an increasingly larger share in household indebtedness. The good behavior of household consumption, higher competition between credit institutions, diversification of the range of products and services offered and lower interest rates are all factors that boosted this growth.

2.1 - Consumer loans registered fast growth in correlation with housing loans

On the basis of accounting documents submitted by banks and consumer loan companies, consumer outstanding loans grew by 37% at 59 billion dirhams[1], against 20% one year earlier, representing thus 13% of the total amount of customer loans issued by credit institutions.

Chart 33: Consumer loans in relation to GDP at end-2006 (in %)



In relation with GDP, consumer outstanding loans showed a ratio of 10% compared to 8% in the previous year, a rate similar to the one reported by some countries listed in chart 33 above.

Consumer loans companies held nearly 57% of the outstanding consumer loans, down 7 points, however, compared to 2006, banks having paid particular attention to the development of this activity.

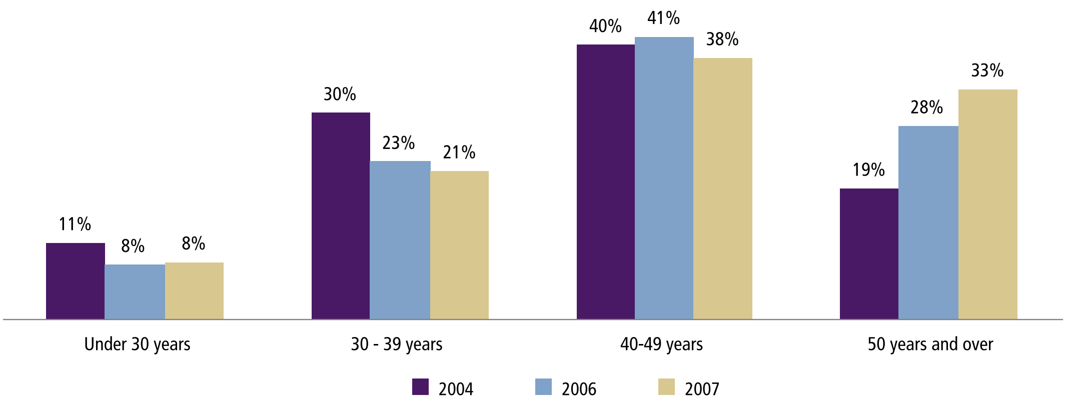
1 Consumer loans encompass personal loans (assigned or not assigned), bank overdrafts, revolving credit and lease with purchase option.

The data in the consumer loans survey mentioned in point 2 of Box 5 aims at identifying the profile of the beneficiaries of this type on the basis of several criteria such as age, income, professional category, and place of residence.

2.2 - Main characteristics in the profile of consumer loan beneficiaries

The institutions covered by the survey totaled outstanding loans worth 28 billion dirhams, representing an average amount level per file of 24 thousand dirhams compared to 19 thousand dirhams the previous year.

Chart 34: Breakdown of the number of consumer loan files by age

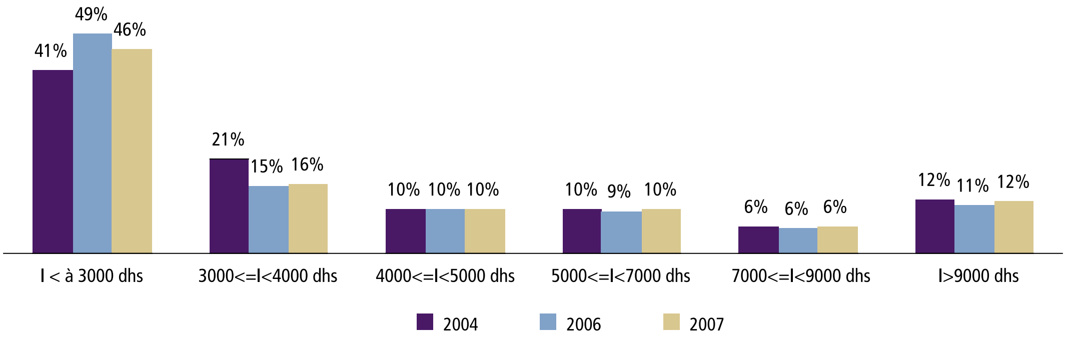


The consumer loans penetration rate, corresponding to the ratio between the number of loan files and the population sample, has changed over the past few years. Even though this rate remained relatively low for individuals under the age of 30, standing at 8%, that for individuals aged 50 years and over increased substantially, reaching 33%. This trend is indicative of the policy followed by the sector for widening its customer base in an increasingly competitive context.

The consumer loans penetration rate reached its maximum level, at 38% for people in the 40 to 49 age bracket, although lower by 3 points compared to 2006.

In terms of outstanding amounts, the breakdown of consumer loans per age bracket generally confirms the spread calculated on the basis of loan files. Indeed, nearly 36% of the outstanding amount is concentrated among individuals in the 40 to 49 age bracket and 33% among persons 50 years of age and over.

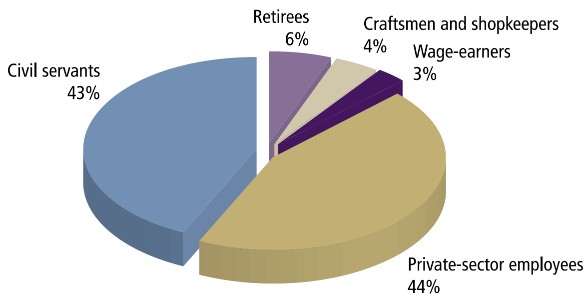
Chart 35: Breakdown of the number of consumer loans files by income (I)



In addition to age, income is an important variable accounting for the recourse to consumer loans. As is shown in Chart 35 above, it is in the under 4 000 dirhams monthly income bracket that recourse to consumer loans is the highest, with 62% of the number of loan files compared to 64% in 2006.

The breakdown of outstanding amounts according to the same criteria shows that people earning less than 4 000 dirhams represent nearly 48% against 53% in 2006 and those with monthly incomes above 9 000 dirhams saw their share increase by 6 points at 26%.

Chart 36: Breakdown of the number of loan files according to professional category at end-2007



It can be inferred from Chart 36 above that private-sector employees and civil servants represented 87% of consumer loans beneficiaries against 4% for craftsmen and shopkeepers and 3% for wage-earners. Retirees accounted for 6%, the same percentage as in 2006.

Chart 37: Breakdown of the number of loan files by geographical location at end-2007

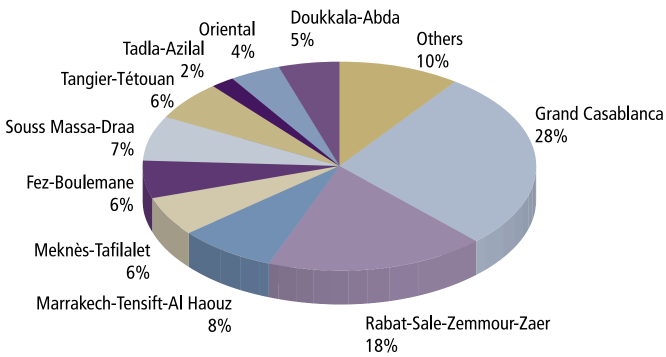
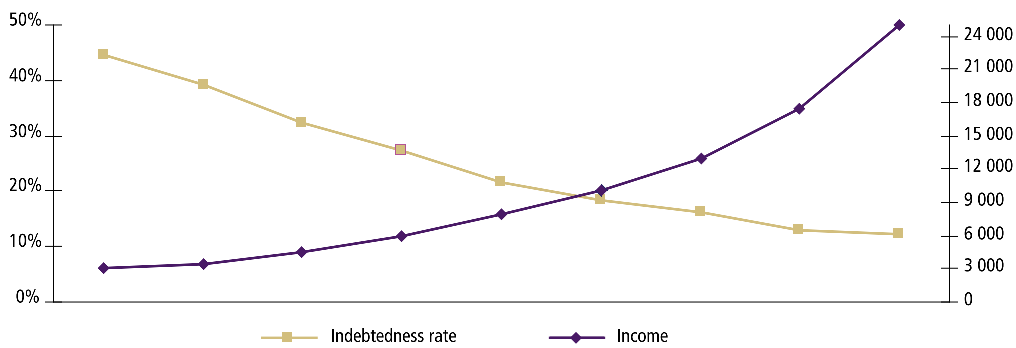


Chart 37 above shows that the residents of the regions of Casablanca and Rabat account for 46% of consumer loans files and nearly 50% of the total outstanding amount of loans.

Chart 38: Indebtedness rate and income at end-2007



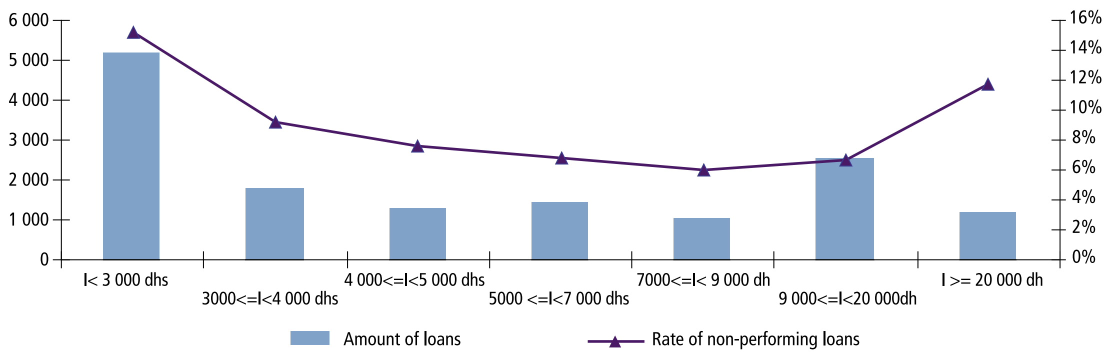
The indebtedness rate, corresponding to the ratio between loans contracted by a customer and the incomes declared to the lending institution, is inversely proportional to income. The indebtedness rate, as is shown by Chart 38 above, stood at 45%, down by 5 points for customers with income of less than 3 000 dirhams and 12% for debtors with income of more than 20 000 dirhams.

2.3 - Cost of risk for consumer loans continues its downward trend

On the basis of consumer loans companies accounting documents as at the end of December 2007, non performing loans dropped by 2.5 points to stand at 12.6% year-on-year. However, the rate differs from one institution to another. Companies with risk measurement and monitoring systems adapted to the processing of a great number of loan files, show rates of non-performing loans below 7%.

The survey mentioned in Point 2 of Box 5 depicts the profile of the beneficiaries of non-performing consumer loans by income and professional category.

Chart 39: Breakdown of loans outstanding and rate of non-performing loans by income at end-2007



As is shown in Chart 39 above, the rate of non-performing loans amounted to 15%, down by three points compared to 2006, for the income bracket under 3 000 dirhams. For individuals with income above 20 000 dirhams, this rate fell by 9 points to 12%.

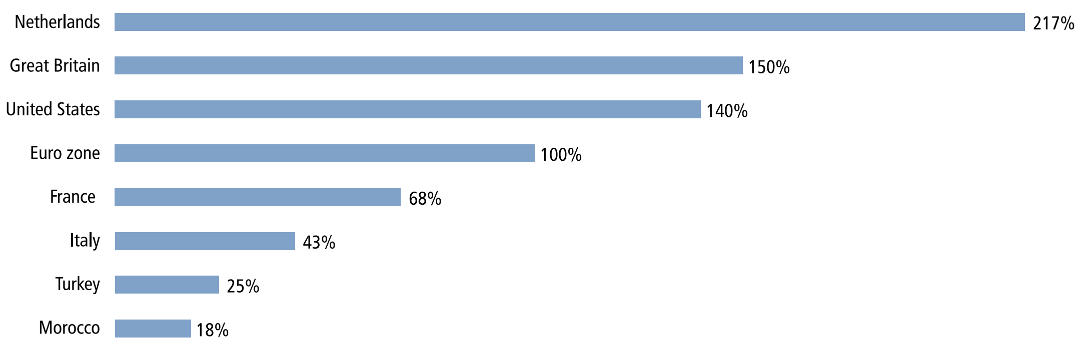
Based on socio-professional category, the rate of non-performing loans fell by 5 points compared to 2006, for private-sector employees and civil servants, standing at 12% and 7% respectively.

3 - Trend in household indebtedness

At the end of 2007, the outstanding loans granted to households were up by more than 32% at 153.5 billion dirhams, representing 35% of the total amount of loans given by credit institutions, against 33% in 2006. Banks contributed by 78% to this outstanding amount, up by 2 points compared to 2006.

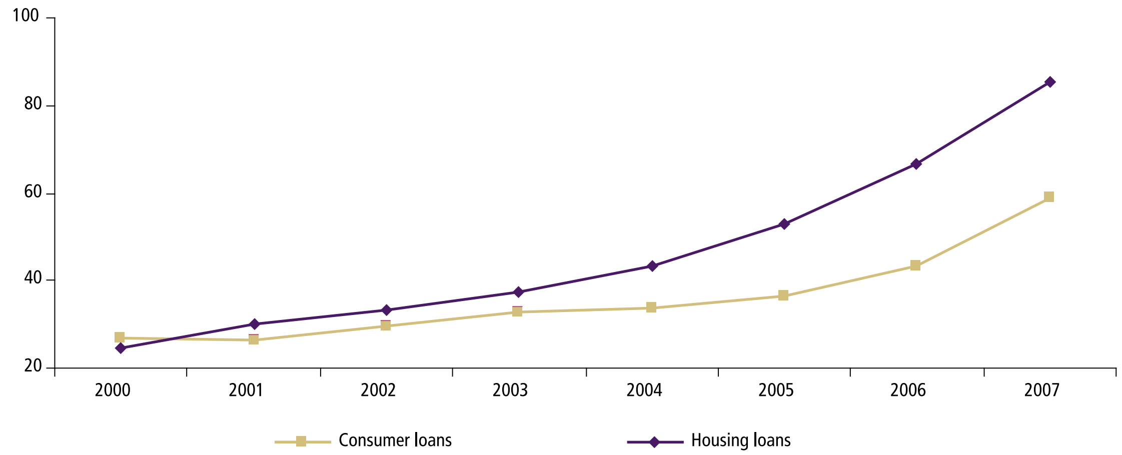
Household indebtedness remains dominated by housing loans whose share stood at 55%, against 57% in 2006. On the other hand, the share of consumer loans reached 38% against 37% during the period under review.

Chart 40: Household debts compared to gross national disposable income at end-2006 (in %)



The share of lending to households in gross national disposable income was up by 5 points at 23% compared to 2006, a level that remains moderate compared to other countries as shown in chart 40 above which displays the figures for 2006.

Chart 41: Evolution of outstanding consumer and housing loans



Analysis of the compared growth of the two components of household indebtedness, consumer loans and housing loans, from 2000 until 2007 gives no evidence to any substitution phenomenon. It shows a correlation between the two loans categories with a more pronounced uptrend for housing loans as of 2005.

4 - Trend in banking financing of small and medium-sized enterprises

SMEs play an important role in national economic development. They represent 95% of the economic fabric, employ more than 50% of private-sector employees, and account for 40% of output, 51% of investments and 31% of exports[1]. This status of SMEs calls for a particular attention to the financing of this category.

As the year 2007 was marked by the entry into force of the new Capital Accord (Basel II), the issue of financing SMEs deserves a closer follow-up to allay any worries that could arise with regard to the impact of this new regulation.

The following description of the new rules as applied in Morocco shows that the said rules are rather favorable to the very small enterprise.

4.1 - Financing of SMEs in the framework of Basel II

In addition to the prudential objectives which represent the basic impetus behind the Basel II Accord, and its implementation while taking account of the characteristics proper to SMEs, bears witness to the importance of integrating this category of enterprises into the financing channels of the economy.

1 Data of SME and SMI Federation

From a prudential standpoint, the Basel reform aims at encouraging institutions to use the most advanced methods of credit risk management while benefiting from lower capital requirements. To this effect, Basel II offers banks the choice of applying two approaches:

- The standardized approach that consists of applying to exposure a weighting according to the intrinsic quality of the counterpart on the basis of a rating issued by an external credit assessment body.
- The internal ratings-based approach which encourages the use of internal ratings models and offers a choice between a simple approach (IRB-Foundation) according to which the bank calculates the default probabilities and the regulator provides other parameters and a more sophisticated approach (IRB – Advanced) where all the parameters are calculated by the bank.

The new rules recognize the particularities of SMEs and suggest a rather stringent segmentation of portfolios by referring to criteria concerning turnover and the authorized credit amounts.

In this framework, and on the basis of statistical studies conducted with banks, Bank Al-Maghrib set the prudential thresholds and criteria according to which the customer portfolios should be divided into "SME", "VSE", and Corporate".

- Any enterprise that corresponds to the following criteria is considered to be a SME:
  - Its turnover, excluding individual tax, or the turnover of the vested interest group to which it belongs is greater than 3 million dirhams and less or equal to 50 million dirhams,
  - Its turnover, excluding individual tax, or that of the vested interest group to which it belongs is less than 3 million dirhams and the overall amount of its individual or the vested interest group debts towards credit institutions is above 1 million dirhams.
- The very small enterprise is defined as any business the pre-tax turnover of which is less or equal to 3 million dirhams, provided that the amount of authorized loans granted thereto does not exceed one million dirhams.
- The "Corporate" enterprise is the one whose turnover exceeds 50 million dirhams.

At a first stage, Moroccan banks apply the standardized approach required by Basel II. In the framework of this approach, the capital requirements related to corporate loans are determined on the basis of the external ratings accorded thereto. If no rating exists, a weighting of 100% is applied. However, loans granted to very small enterprises benefit from a 75% weighting (instead of 100% according to Basel I) due to the known higher diversification in the activity of this category of enterprises.

Implementation of the standardized approach encounters, however, some constraints with regard to the impact of country risk which does not allow enterprises to obtain a better rating than the sovereign as well as the low rating numbers coupled with the absence of local rating agencies.

Consequently, Moroccan banks would find it in their own interest, in a second stage, to apply the internal ratings-based approach. This approach aims at determining the quality of counterparts in the most objective way possible by relying solely on the characteristics that banking institutions can observe. As for the entreprises, they can play an important role through greater transparency regarding their performance, given the quality of financial and qualitative data they provide to their bank. In so doing, they help the bank evaluate their risk profile in a more appropriate way.

In this framework, calculation of capital requirements, as opposed to the standardized approach, is conducted on the basis of risk weights identified according to bank rating systems. These approaches are seemingly more motivating than the standardized approach, to the extent that loans granted to SMEs and VSEs benefit from more favorable weightings and imply for banks capital savings.

To conclude, the Basel II Accord improves the institutional framework in which the relationship between banks and SMEs will evolve, given that it represents the driving force to disseminate the best practices with regard to financial transparency and risk-based costing.

4.2 - Conditions for granting loans to SMEs became more flexible in 2007

The surveys mentioned in points 3 and 4 of Box 5 show that the conditions for corporate financing became more flexible. This flexibility concerned large corporations as well as SMEs and concerned more short-term than medium and long-term loans.

The forecasts regarding economic activity and the specific outlook for businesses, as well as for the sectors in which they operate, constituted the primary factor contributing to the said flexibility of which the drop in the bank margin was the main component.

These surveys also pointed to the fact that the number of companies receiving a first loan in 2007 rose by 20 % compared to 2006, and the outstanding facilities, per unit amount comprised between 1 and 15 million dirhams, stood at around 80 billion dirhams, representing 30% of the total amount of lending allocated to non-financial businesses.

These surveys also show that the lower interest rates over the last few years have been beneficial to SMEs. A drop of 140 basis points was recorded between 2006 and 2007.

5 - Trend in non-performing loans

A review of the trend in non-performing loans is conducted from different perspectives. They are compared to overall outstanding loans, to the amount of provisions and to capital, and analyzed according to their size and by business sector.

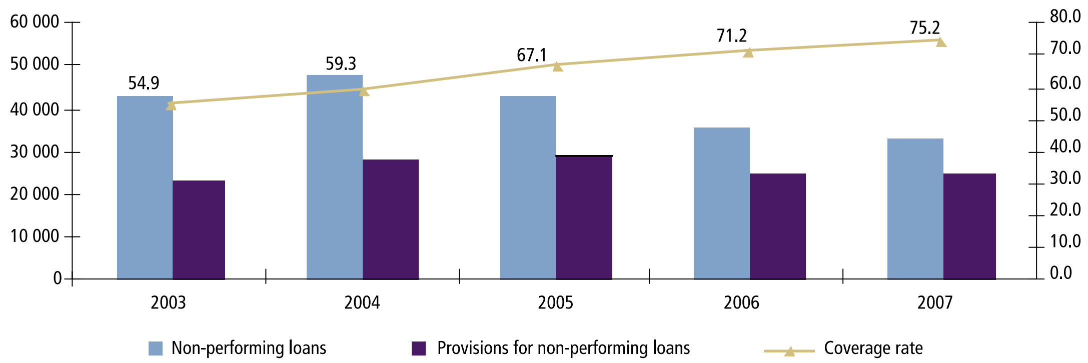
5.1 - Non-performing loans continue their downward trend

On the basis of the accounting documents of credit institutions as at the end of December 2007, the downward trend of non-performing loans which has started in 2005 continued in 2007 alongside the ongoing consolidation of accounts, the importance of collection operations, the revamping of credit inventory and the improved risk control measures.

The total number of non-performing loans of credit institutions dropped by 5% compared to 2006, at 40 billion dirhams, showing a risk rate[1] of 8% against 11% one year earlier. The said loans were covered by provisions up to 77% compared to 74%.

For banks, the size of non-performing loans dropped by 31% since 2004 settling at 33.3 billion dirhams at the end of 2007. The coverage rate of these loans by provisions significantly improved from 59% to 75%.

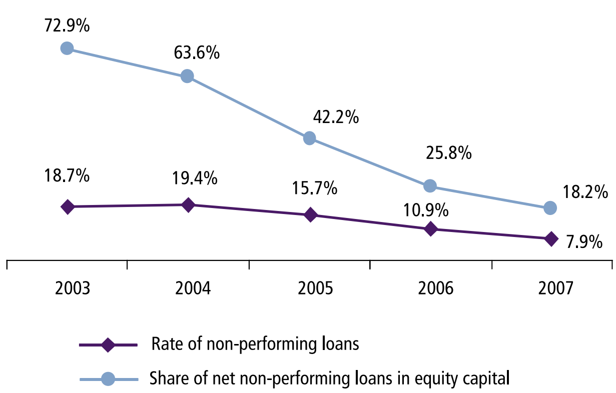
Chart 42: Non-performing loans, provisions and bank coverage rate



As shown in Chart 43 opposite, banks non-performing loans rate fell over the same period from 19.4% to 7.9%.

Compared to capital, non-performing loans net of provisions represented 18.2% against 63.6%.

Chart 43: Rate of non-performing loans and share in banks capital



1 Relation between outstanding non-performing loans and gross outstanding loans

5.2 - The breakdown of bank non-performing loans shows a drop over all segments

The analysis of bank annual statements to the Central Bank related to non-performing loans of a unit value above 500 000 dirhams shows the concentration of the said loans and the profiles of the beneficiaries.

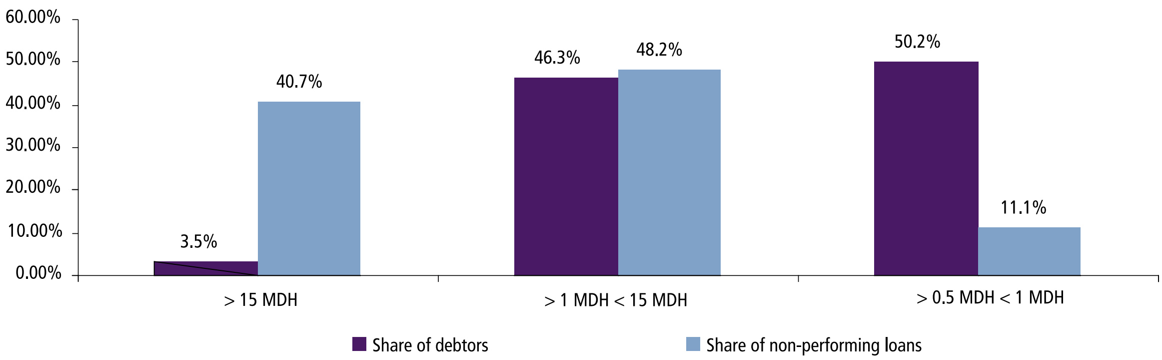
Totaling an outstanding amount of nearly 23 billion dirhams, they represented 70% of the overall outstanding amount of bank non-performing loans compared to 75.8% in 2004. The number of debtors, dropping by 1 448 compared to 2004, stood at 7 401.

The average outstanding debt per borrower amounted to 3.1 million dirhams against 3.7 million in 2004. This trend is attributed to the drop in non-performing loans entailing large amounts.

5.2.1 - Breakdown of non-performing loans by their size

The level of concentration of non-performing loans remained relatively high as is shown by chart 44 hereafter. The segmentation opted for is consistent with that of Basel II.

Chart 44: Distribution of bank non-performing loans according to loans size (December 2007)



Therefore, customers whose per unit indebtedness was greater than 15 million dirhams, at a total number of 257 or 3.47% of all debtors, against 322 in 2004, totaled 9.3 billion dirhams, down by 6.3 billion or 40.2%. This amount which represents 40.7% of the total of non-performing loans examined, against 47.4% in 2004, was covered by provisions up to 7.3 billion, representing a ratio of 78.5% against 53% in 2004.

Customers whose per unit indebtedness was between 1 and 15 million dirhams totaled 3 427, or 46.30% of all debtors against 4 294 in 2004. The total amount of their debt stood at 11.2 billion dirhams, down by 3.2 billion or 22.4%. This amount, representing 48.2% of the total non-performing loans examined, against 43.9% in 2004, was covered by provisions up to 8.4 billion dirhams, representing a coverage rate of 75%, against 68% in 2004.

Debtors whose per unit indebtedness was between 0.5 and 1 million dirhams totaled 3 717, or 50.2% of all debtors compared to 4 233 in 2004. Their debts amounted to 2.6 billion dirhams, or 11.12% of the total number of non-performing loans, against 8.7% in 2004. They were covered by provisions up to 1.8 billion dirhams, representing a coverage rate of 57.1%, as against 68% in 2004.

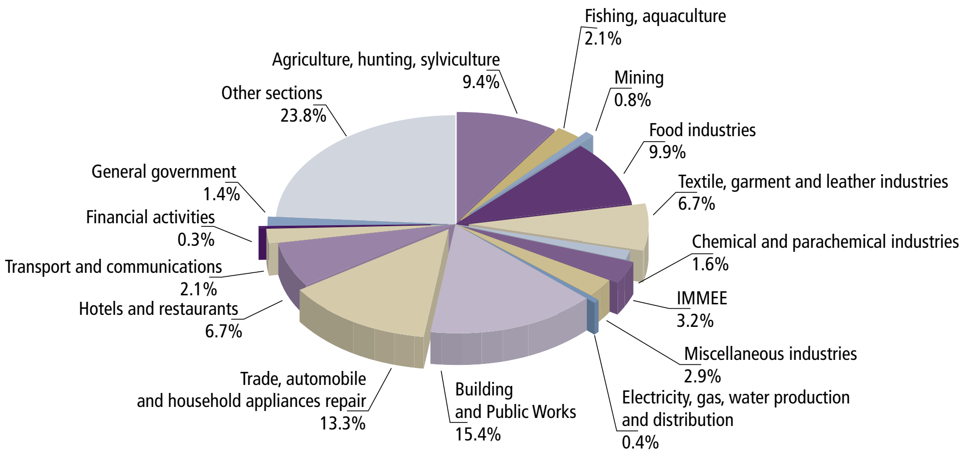
If all non-performing loans are taken into consideration, adding to those in the aforesaid brackets (0.5 to 1 million dirhams, 1 to 15 million dirhams and above 15 million dirhams) loans of less than 0.5 million dirhams, the breakdown by category of amount shall be as follows:

- Non-performing loans whose per unit amount exceeds 15 million dirhams represented 28.3% against 36% in 2004,
- Those whose unit amount ranges between 1 and 15 million dirhams totaled 33.6%, against 30,3% in 2004,
- Those whose unit amount is under 1 million dirhams represented 38.1%, against 33.7% in 2004. They were covered by provisions up to 74%, for an amount of 9.4 billion dirhams.

5.2.2 - Breakdown of banks non-performing loans by business sector

The analysis of sectoral breakdown of non-performing loans shows the predominance of 4 business sectors as depicted in chart 45 below.

Chart 45: Breakdown by business sector of bank non-performing loans whose unit amount exceeds 500 000 Dhs



- The "building and public works" sector, with 15.4%, reported the highest share, almost at the same level as in 2004. However, this share represented only 7.6% if we set aside the data of a bank which still holds old debts and in large amounts. In terms of outstanding amounts, this sector registered a drop of 2.1 billion dirhams compared to 2004.

- The "Trade, automobile and household appliances repair" sector with 13,3% showed a rise of 40 basis points compared to 2004, even though outstanding loans were down by nearly 2 billion dirhams,
- The "Food and tobacco industries" with a share of 9.9%, recorded a rise of 170 basis points compared to 2004. However, its outstanding loans dropped by approximately one billion dirhams.
- The "Agriculture, hunting and sylviculture" sector represented a total of 9.4%, down by 220 basis points compared to 2004, owing to a drop of 1.7 billion dirhams in its outstanding loans.

II - Interest rate risk

1 - Interest rate risk management system

The interest rate risk is basically linked to bank intermediation activities through the transformation of short-term resources into medium and long-term lending. Any unfavorable trend in interest rates can reduce the profitability of a credit institution, or even represent a considerable threat to its capital when the volume exceeds certain limits.

In view of these risks, the Basel Committee issued since 1997 recommendations to encourage the dissemination within the banking community of healthy management practices for this risk.

Publication of the New Accord (Basel II) constituted an occasion for this Committee, in the framework of Pillar 2, to underline the importance of the interest rate risk.

Moroccan banks were required to set up a suitable system for the management of the interest rate risk in 2002 by virtue of the Circular of Bank Al-Maghrib on internal control. The Directive related to the management system of interest rate overall risk, issued in 2007 in the framework of the implementation of the second pillar of Basel II, aims at laying down new requirements in this regard.

Banks are thus required to submit regularly a report to Bank Al-Maghrib on the interest rate risk on the basis of a common impact analysis methodology.

In the extension of its monitoring of the interest rate risk, in 2007 Bank Al-Maghrib examined with the principal banks their risk management systems in place. These banks were required to adopt action plans in order to improve these systems, particularly with regard to procedures, measurement systems and stress tests.

2 - Impact study on interest rate risk

On the basis of a standard reporting system, an impact study was conducted by Bank Al-Maghrib among the principal banks in view of 2007 data, in order to identify their risk profile, measure the exposure level to the said risk, and quantify the impact of a +/-200 basis points change in interest rates on their net banking income at 12 months and their economic value.

The review of the quality of the data and hypotheses adopted by the relevant banks to measure their exposure to interest rate risk, showed the need to improve the statistical and analytical methods regarding the forecast behavior of assets and liabilities without due dates.

The structure of balance sheets shows the predominance of non interest-bearing demand deposits in bank customer liabilities where they represent, on average, 58 %. All banks consider these deposits as being stable. However, assessment of their degree of stability differs from one institution to another, in connection with the underlying flow agreements.

The volatility of deposits represents an essential element in the policy of matching liabilities with assets, adopted by each bank.

Indeed, the higher the stability of deposits is, the more banks are inclined to match them with medium and long-term lending, especially in the form of customer loans. Likewise, transferable security portfolios, in particular Treasury bills portfolio, are adjusted according to the degree of deposit volatility.

On the other hand, the diversification of the sources of funding, by a marked recourse to market instruments such as certificates of deposit and bond loans, seems to be privileged only when the stability degree of deposits is lower.

The method used by banks to measure their exposure is that of the gaps between assets and liabilities which are sensitive to interest rates. Calculation of the gaps is done either at the due date or the date of the interest rates revisions, depending on whether the latter are fixed or variable.

The breakdown of assets and liabilities, as resulting from the hypotheses adopted by banks, shows that the great majority of these banks revise rates on the assets side more often than on the liabilities side.

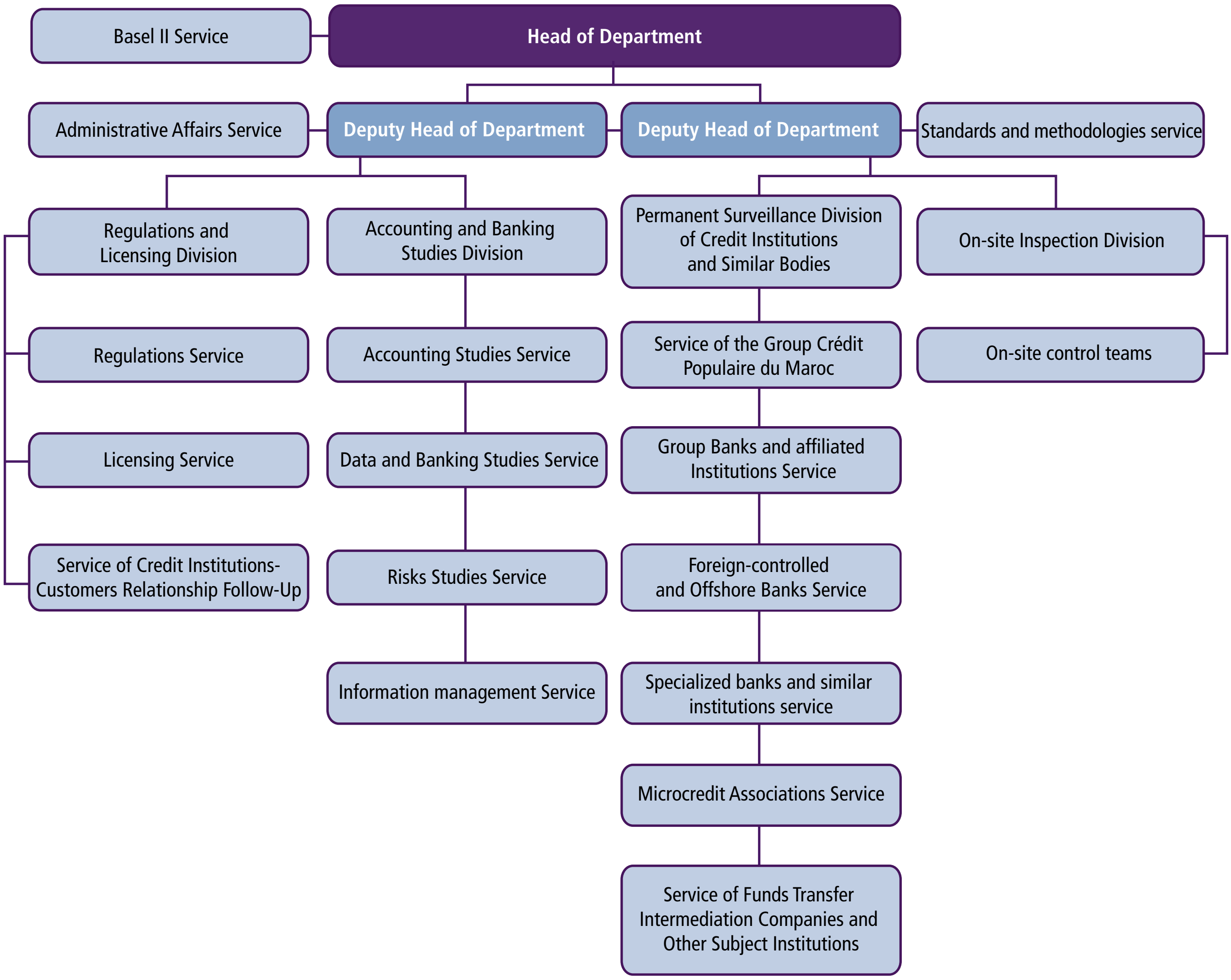
Several factors, that are not necessarily inclusive, can account for this situation, in particular with regard to the relatively high share of variable rate assets in the balance sheet total, the extent of non-interest bearing demand deposits, considered to a great degree as medium and short-term liabilities, as well as to the low level of time deposits.

These banks, having a positive gap between liabilities and assets, run, according to the stress test, in the event of a continued drop in interest rates, the risk of incurring losses the level of which varies depending on the extent of the deadlocks. In the short term, they would represent from 0.29% to 3.3% of NBI and in the longer term from 8% to 17% of capital.

APPENDICES

Appendix 1

Organizational chart of the Banking Supervision Department



Appendix 2

List of licensed credit institutions at end-2007

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

Consumer loans 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 licensed Offshore Banks at end - 2007

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 licensed Microcredit Associations at end-2007

Amap TAMWIL
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 Crédit Agricole pour le Micro-Crédit (FCAMC)
Fondation (ARDI)
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 5

Banks' aggregated balance sheet*
at December 31, 2007

(in thousands of dirhams)

Assets	31/12/06	31/12/07
Cash, Central banks, Public Treasury, postal accounts	**49 847 233**	**62 199 556**
Due from credit institutions and similar bodies	**75 166 246**	**93 766 297**
. Demand	26 577 396	28 866 955
. Time	48 588 850	64 899 342
Due from customers	**275 613 170**	**359 133 761**
. Overdraft facilities and consumer loans	120 530 065	153 760 755
. Equipment loans	65 109 023	84 390 159
. Real estate loans	73 261 775	105 321 796
. Other loans	16 712 307	15 661 051
Factoring loans	**1 469 255**	**1 115 616**
Trading and marketable securities	**64 606 858**	**58 986 328**
. Treasury bills and the like	42 369 577	35 343 466
. Other debt securities	6 436 928	7 684 142
. Title deeds	15 800 353	15 958 720
Other assets	**7 536 918**	**9 552 204**
Investment securities	**40 747 940**	**45 149 836**
. Treasury bills and the like	36 606 917	40 519 683
. Other debt securities	4 141 023	4 630 153
Equity securities and the like	**11 612 405**	**12 167 686**
Subordinated loans	**131 209**	**420 115**
Fixed assets for leasing and rental	**35 567**	**245 008**
Intangible fixed assets	**2 450 938**	**2 589 560**
Tangible fixed assets	**10 848 390**	**11 272 576**
Total Assets	540 066 129	656 598 543

* Company-based Balance sheet with headings net of depreciations and provisions

(in thousands of dirhams)

Liabilities	31/12/06	31/12/07
Central Banks, Public Treasury, Postal accounts	**5 687**	**754**
Due to credit institutions and the like	**30 248 313**	**43 361 828**
. Demand	9 696 062	11 151 512
. Time	20 552 251	32 210 316
Customers' deposits	**437 263 109**	**516 404 925**
. Creditor demand deposits	242 383 458	299 565 250
. Savings accounts	53 569 050	59 203 979
. Time deposits	129 270 608	141 987 597
. Other creditor accounts	12 039 993	15 648 099
Debt securities issued	**11 022 611**	**18 035 228**
. Negotiable debt securities	4 775 301	12 599 750
. Bond loans	3 152 927	2 483 713
. Other debt securities issued	3 094 383	2 951 765
Other liabilities	**10 020 506**	**14 617 154**
Provisions for risks and expenditure	**2 351 692**	**3 056 638**
Statutory provisions	**577 269**	**1 320 536**
Subsidies, allocated public funds and special guarantee funds	**2 108 304**	**2 133 137**
Subordinated debts	**1 594 391**	**4 841 666**
Reevaluation gaps	**361 788**	**361 788**
Reserves and premiums related to capital	**26 621 573**	**30 067 674**
Capital	**15 012 362**	**16 120 810**
Shareholders. Uncalled Capital (-)	**-700 000**	**-350 000**
Retained earnings (+/-)	**-3 124 311**	**-2 362 608**
Net income before appropriation		**0**
Net income for the year	**6 702 835**	**8 989 013**
Total liabilities	**540 066 129**	**656 598 543**

(in thousands of dirhams)

OFF-BALANCE SHEET	31/12/06	31/12/07
COMMITMENTS GIVEN	**89 490 974**	**127 794 022**
Financing commitments to credit institutions and the like	735 204	1 285 519
Financing commitments to customers	31 513 940	56 459 887
Surety bonds to credit institutions and the like	16 050 037	22 234 720
Surety bonds to customers	39 706 318	46 751 190
Repurchase agreements		
Other deliverable securities	1 485 475	1 062 706
ENGAGEMENTS RECUS	**32 090 876**	**50 984 950**
Financing commitments received from credit institutions and the like	1 701 159	3 630 807
Surety bonds received from credit institutions and the like	29 435 185	45 549 346
Surety bonds received from the State and sundry guarantee institutions	954 532	1 483 626
Repurchase agreements		
Other securities receivable		321 171

Appendix 6

Banks' aggregated management balance statement*
from January 1, to December 31, 2007

(in thousands of dirhams)

	31/12/06	31/12/07
+ Interests and related income	24 590 128	28 970 466
- Interests and related expenses	7 631 436	9 664 570
INTEREST MARGIN	**16 958 692**	**19 305 896**
+ Gains on fixed asset leasing and rentals	50 729	28 842
- Expenses on fixed asset leasing and rentals	47 390	13 987
Income from leasing and rental transactions	**3 339**	**14 855**
+ Commissions income	2 843 943	3 657 102
- Commissions expense	146 314	200 841
Margin on commissions	**2 697 629**	**3 456 261**
± Gains on marketable securities transactions	0	0
± Gains on investment securities transactions	1 565 881	1 655 487
± Gains from foreign exchange transactions	1 095 194	1 158 425
± Gains on derivatives transactions	-3 366	8 970
Income from market operations	**2 657 709**	**2 822 882**
+ Miscellaneous other banking income	767 287	1 432 576
- Miscellaneous other banking expenses	861 920	1 011 115
NET BANKING INCOME	**22 222 736**	**26 021 355**
± Income from financial fixed asset transactions	315 848	1 697 724
+ Other non-banking operating income	221 761	305 519
- Other non-banking operating expenses	157 178	226 187
- Total operating expenses	10 790 292	12 136 795
GROSS OPERATING INCOME	11 812 875	15 661 616
± Expenses net of reversals of provisions for non-performing loans and commitments by signature	-1 769 920	-1 192 031
± Other expenses net of reversals of provisions	230 440	-1 475 089
INCOME BEFORE EXTRAORDINARY ITEMS	**10 273 395**	**12 994 496**
EXTRAORDINARY INCOME	**-434 028**	**-329 277**
- Income tax	3 136 532	3 676 206
NET INCOME FOR THE YEAR	**6 702 835**	**8 989 013**

* On a corporate basis

Appendix 7

Aggregated balance sheet of consumer loan companies at December 31, 2007

(in thousands of dirhams)

Assets	31/12/06	31/12/07
Cash, Central banks, Public Treasury, postal accounts	**17 428**	**107 098**
Due from credit institutions and the like	**526 262**	**1 213 645**
. Demand	361 676	433 862
. Time	164 586	779 783
Customers' loans	**18 524 450**	**21 394 203**
. Overdraft facilities and consumer loans	17 819 751	20 658 056
. Equipment loans	80 592	173 918
. Real estate loans	48 978	43 975
. Other loans	575 129	518 254
Factoring loans		
Trading and marketable securities	**1 916**	**155 017**
. Treasury bills and the like	167	1 167
. Other debt securities		152 000
. Title deeds	1 749	1 850
Other assets	**781 033**	**1 350 354**
Investment securities	**26**	**26**
. Treasury bills and the like		
. Other debt securities	26	26
Equity securities and the like	**36 256**	**178 256**
Subordinated loans		
Fixed assets for leasing and rental	**6 147 997**	**8 474 167**
Intangible fixed assets	**292 694**	**297 648**
Tangible fixed assets	**292 303**	**302 607**
Total Assets	**26 620 365**	**33 473 021**

(in thousands of dirhams)

Liabilities	31/12/06	31/12/07
Central Banks, Public Treasury, Postal accounts	**4 715**	
Due to credit institutions and the like	**15 969 069**	**21 740 005**
. Demand	1 940 541	1 759 794
. Time	14 028 528	19 980 211
Customers' deposits	**472 541**	**541 450**
. Creditor demand deposits		
. Savings accounts		
. Time deposits	13	
. Other creditor accounts	472 528	541 450
Debt securities issued	**3 405 390**	**2 558 328**
. Negotiable debt securities	2 985 767	2 495 412
. Bond loans	328 958	62 916
. Other debt securities issued	90 665	
Other liabilities	**2 866 928**	**4 186 853**
Provisions for risks and expenditure	**95 280**	**132 292**
Statutory provisions	**51 818**	**91 898**
Subsidies, allocated public funds and special guarantee funds		
Subordinated debts	**200 061**	**200 061**
Reevaluation gaps		
Reserves and premiums related to capital	**1 396 437**	**1 603 268**
Capital	**1 329 893**	**1 487 548**
Shareholders. Uncalled Capital (-)		
Retained earnings (+/-)	**135 189**	**198 528**
Net income before appropriation		
Net income for the year	**693 044**	**732 790**
Total liabilities	**26 620 365**	**33 473 021**

Appendix 8

Aggregated management balance statement of consumer loan companies from January to December 31, 2007

(in thousands of dirhams)

	31/12/06	31/12/07
+ Interests and related income	2 341 352	2 504 711
- Interests and related expenses	813 619	890 007
INTEREST MARGIN	**1 527 733**	**1 614 704**
+ Gains on fixed asset leasing and rentals	2 362 420	3 381 153
- Expenses on fixed asset leasing and rentals	1 860 594	2 807 531
Income from leasing and rental transactions	**501 826**	**573 622**
+ Commissions income	78 196	147 220
- Commissions expense	17 536	22 614
Margin on commissions	**60 660**	**124 606**
± Gains on marketable securities transactions		846
± Gains on investment securities transactions	618	3 702
± Gains from foreign exchange transactions	-178	-137
± Gains on derivatives transactions		
Income from market operations	**440**	**4 411**
+ Miscellaneous other banking income	14 225	26 567
- Miscellaneous other banking expenses	6 894	6 423
NET BANKING INCOME	**2 097 990**	**2 337 487**
± Income from financial fixed asset transactions	651	14 095
+ Other non-banking operating income	107 817	61 232
- Other non-banking operating expenses	862	2 983
- Total operating expenses	839 756	978 890
GROSS OPERATING INCOME	**1 365 840**	**1 430 941**
± Expenses net of reversal of provisions for non-performing loans and commitments by signature	-237 962	-152 899
± Other expenses net of reversals of provisions	11 796	-64 515
INCOME BEFORE EXTRAORDINARY ITEMS	**1 139 674**	**1 213 527**
EXTRAORDINARY INCOME	**-49 675**	**-9 560**
- Income tax	396 955	471 177
NET INCOME FOR THE YEAR	**693 044**	**732 790**

Appendix 9

Leasing companies' aggregated balance sheet at 31 December 2007

(in thousands of dirhams)

Assets	31/12/06	31/12/07
Cash, Central banks, Public Treasury, postal accounts	**135**	**120**
Due from credit institutions and the like	**91 729**	**142 224**
. Demand	36 570	96 576
. Time	55 159	45 648
Customer loans	**74 412**	**70 264**
. Overdraft facilities and consumer loans	10 158	14 462
. Equipment loans		
. Real estate loans	40 382	39 265
. Other loans	23 872	16 537
Factoring loans		
Trading and marketable securities	**257**	**257**
. Treasury bills and the like		
. Other debt securities	257	257
. Title deeds		
Other assets	**265 549**	**1 024 652**
Investment securities	**27**	**27**
. Treasury bills and the like	27	27
. Other debt securities		
Equity securities and the like	**34 413**	**31 058**
Subordinated loans		
Fixed assets for leasing and rental	**20 690 691**	**25 158 098**
Intangible fixed assets	**45 502**	**46 934**
Tangible fixed assets	**24 328**	**23 194**
Total Assets	**21 227 043**	**26 496 828**

(in thousands of dirhams)

Liabilities	31/12/06	31/12/07
Cash, Central banks, Public Treasury, postal accounts		
Due from credit institutions and the like	**15 444 253**	**20 753 258**
. Demand	1 518 502	1 007 062
. Time	13 925 751	19 746 196
Customers' deposits	**551 917**	**205 089**
. Creditor demand deposits		
. Savings accounts		
. Time deposits	336 565	34 375
. Other creditor accounts	215 352	170 714
Debt securities issued	**2 278 605**	**1 660 357**
. Negotiable debt securities	1 782 625	1 195 847
. Bond loans	180 983	120 675
. Other debt securities issued	314 997	343 835
Other liabilities	**1 270 030**	**1 859 102**
Provisions for risks and expenditure	**98 244**	**134 342**
Statutory provisions	**29 645**	**57 605**
Subsidies, allocated public funds and special guarantee funds		
Subordinated debts	**51 744**	**52 858**
Reevaluation gaps		
Reserves and premiums related to capital	**479 967**	**546 672**
Capital	**716 027**	**742 027**
Shareholders. Uncalled Capital (-)		**-17 435**
Retained earnings (+/-)	**18 373**	**115 375**
Net income before appropriation		
Net income for the year	**288 238**	**387 578**
Total liabilities	**21 227 043**	**26 496 828**

Appendix 10

Leasing companies aggregated management balances statement from January 1 to December 31, 2007

(in thousands of dirhams)

	31/12/06	31/12/07
+ Interests and related income	12 726	14 299
- Interests and related expenses	780 105	906 075
INTEREST MARGIN	**-767 379**	**-891 776**
+ Gains on fixed asset leasing and rentals	7 700 224	9 217 361
- Expenses on fixed asset leasing and rentals	6 125 589	7 342 942
Income from leasing and rental transactions	**1 574 635**	**1 874 419**
+ Commissions income	4 112	2 504
- Commissions expense	3 182	5 717
Margin on commissions	**930**	**-3 213**
± Gains on marketable securities transactions		
± Gains on investment securities transactions		
± Gains from foreign exchange transactions	-18	-2
± Gains on derivatives transactions		
Income from market operations	**-18**	**-2**
+ Miscellaneous other banking income	4 443	5 888
- Miscellaneous other banking expenses	5 989	842
NET BANKING INCOME	**806 622**	**984 474**
± Income from financial fixed asset transactions		-3 480
+ Other non-banking operating income	2 050	10 347
- Other non-banking operating expenses	2 188	12 927
- Total operating expenses	214 939	232 337
GROSS OPERATING INCOME	**591 545**	**746 077**
± Allocations net of reversal of provisions for non-performing loans and commitments by signature	-105 131	-45 563
± Other allocations net of reversals of provisions	-52 505	-46 545
INCOME BEFORE EXTRAORDINARY ITEMS	**433 909**	**653 969**
EXTRAORDINARY INCOME	**5 542**	**-1 652**
- Income tax	151 213	264 739
NET INCOME FOR THE YEAR	**288 238**	**387 578**

Appendix 11

Balance sheet of the Deposit Insurance Fund
End of December 2007

(in dirhams)

Assets	2007	Liabilities	2007
INVESTMENT SECURITIES	4 005 874 025,79	CONTRIBUTIONS OF CREDIT INSTITUTIONS	5 250 292 251,26
13-week Treasury bills			
26-week Treasury bills		RESERVES	862 452 416,50
52-week Treasury bills	98 806 970,89	PROFIT	151 799 671,57
2-year Treasury bills	111 457 905,30	NET INCOME BEFORE APPROPRIATION	
5-year Treasury bills	1 917 498 143,40		
10-year Treasury bills	1 071 530 117,13		
15-year Treasury bills	605 293 825,45		
20-year Treasury bills	201 287 063,62		
MARKETABLE SECURITIES GUARANTEED BY THE STATE	113 890 000,00	EQUALIZATION ACCOUNTS "Liabilities"	124 868,53
5-year CIH bonds		Management costs payable	124 868,53
15-year CIH bonds	113 890 000,00	Taxes and duty payable	
		MAROCLEAR commissions payable	
REIMBURSABLE ADVANCES			
SECURITIES RECEIVED THROUGH REPOS	1 980 136 711,16		
CURRENT ACCOUNT WITH BANK AL-MAGHRIB	9 175 971,95		
DUE FROM CREDIT INSTITUTIONS			
INSTALLMENTS ON INCOME TAX	5 711 987,22		
RECOVERABLE VAT		VAT INVOICED	0,00
VAT CREDIT STATEMENT	483 283,77	VAT Owed	0,00
EQUALIZATION ACCOUNTS "ASSETS"	149 397 227,97		
Interest receivable from investment securities	149 397 227,97		
Interest receivable from reimbursable advances			
TOTAL ASSETS	**6 264 669 207,86**	**TOTAL LIABILITIES**	**6 264 669 207,86**

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