لضمان ودائعكم البنكية

Pour la garantie de vos dépôts bancaires

ANNUAL REPORT

2018

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CHAIRMAN'S MESSAGE

On behalf of the members of the Board of Directors, I have the great pleasure to present the annual report of the Moroccan Deposit Insurance Company (*Société Marocaine de Gestion des Fonds de Garantie des Dépôts Bancaires, SGFG*) for the 2018 financial year.

This report reflects not only SGFG's achievements over the past year, but also the Board of Directors' aspirations to put our deposit insurance system on a solid footing.

Four years ago, Bank Al-Maghrib and the banking industry set up the SGFG to manage the deposit insurance funds in accordance with the provisions of the Banking Law. Today, it must be recognized that the SGFG is an integral part of the domestic financial landscape and an important pillar of our financial safety net. It is thus called upon to play a key role in ensuring the protection of depositors and contributing to the maintenance of financial stability.

2018 was a year in which the SGFG consolidated the achievements of its first strategic plan and was marked by some noteworthy events.

Thus, and in order to keep our deposit insurance system in line with international standards, we assessed our deposit insurance system against the sixteen core principles for effective deposit insurance systems laid down by IADI (International Association of Deposit Insurers) and the Basel Committee. The results of this first assessment enabled us to identify several areas of compliance of our system with these principles, but above all to inquire about areas for improvement that should enable the SGFG to continue to move towards international best practices, particularly at the legal and regulatory level.

We also continued to optimize the management of the assets of the Collective Deposit Insurance Fund (FCGD) by outsourcing the management of part of these assets. We have also developed an accounting framework that is adapted to the specific features of the deposit insurance funds managed by the SGFG and submitted it to the National Accounting Council for adoption. Similarly, we have deployed an internal control system in line with best practices and undertaken work to cover the deposits of newly accredited participative banks.

Internationally, the SGFG continues to be involved as a member in the events organized by IADI. It also contributed to the work on the preparation of the draft core principles for effective Islamic deposit insurance systems in partnership with the Islamic Financial Services Board (IFSB).

We have also initiated the preparation of our second strategic plan for the 2019-2021 period. Our ambition is to "Be a leading deposit insurer that is trusted by depositors". This new vision will guide our future work and projects to help us address both internal and external challenges. Our efforts over the next three years should focus on building the capabilities necessary to compensate depositors, maintaining sound governance practices, developing our expertise in deposit insurance, strengthening our relationships with stakeholders and deploying our communication strategy.

Aware that we, as deposit insurers, must ensure that depositors have prompt access to their assets in the event of a bank failure, this year we launched a study to assess the feasibility and prerequisites necessary to establish an ecosystem for the compensation of depositors. This will require the initiation of two major projects. The first concerns banking institutions, which are expected to produce a database to identify their customers and all their deposits. The second concerns the implementation of a process for the compensation of depositors by the SGFG and is based on an IT solution connected and interfaced with the member institutions, as well as a set of ancillary services necessary for the proper functioning of this process.

The success of this new project should enable the SGFG to fulfil its mission of compensating depositors and we must all strive to make it a success.

Abdellatif JOUAHRI
Chairman of the Board

DIRECTOR GENERAL'S MESSAGE

In 2018, the Moroccan Deposit Insurance Company (Société Marocaine de Gestion des Fonds de Garantie des Dépôts Bancaires, SGFG) continued its efforts to strengthen its operational capacity, which began in April 2015, in order to carry out the missions assigned to it under Law No. 103-12 on credit institutions and similar bodies and its implementing texts.

During the year, we undertook the first steps towards the establishment of an ecosystem for depositor compensation in light of international best practices. As such, we continue to develop our internal systems, policies and processes that will allow us to be more effective in fulfilling our mandate as a manager of the deposit insurance funds and as a deposit insurer.

2018 was also marked by the entry into force of the provisions of our specifications, drawn up by Bank Al-Maghrib pursuant to Article 132 of the aforementioned law. A preliminary self-assessment of our operational framework in relation to these requirements led us to conclude that it largely meets the organizational and operational requirements.

Throughout 2018, the SGFG also undertook to prepare its new strategic plan for the 2019-2021 period, focusing in particular on topics related to depositor compensation, sound governance practices and both internal and external communication.

Internationally, over the past year, the SGFG has intensified its relations with its foreign counterparts by hosting foreign delegations and signing cooperation agreements with a view to share mutual experiences in the field of deposit insurance.

In conclusion, I would like to thank the members of the Board of Directors for their invaluable support in helping the SGFG to achieve its objectives under the best possible conditions, as well as the entire staff for their enthusiasm and dedication in the performance of their tasks.

Lhassane BENHALIMA
Director General of the SGFG

MEMBERS OF THE BOARD OF DIRECTORS

In application of article 135 of law no. 103-12 on credit institutions and similar bodies, the SGFG Board of Directors is composed of the following members:

Chairman

- **Mr. Abdellatif JOUAHRI,** Wali of Bank Al-Maghrib

Members representing the banking sector

- **Mr. Othman BENJELLOUN,** CEO of BMCE Bank of Africa
- **Mr. Mohamed EL KETTANI,** CEO of Attijariwafa Bank
- **Mr. Mohamed BENCHAABOUN,** CEO of Banque Centrale Populaire

Independent members

- **Mr. Mohamed EL HAJJOUJI,** Financial expert
- **Mr. Moulay Driss IDRISSI BICHR,** Legal expert

The independent members of the Board of Directors are appointed *intuitu personae* for a renewable 3-year term on the basis of a set of criteria which focus on professionalism, integrity and skills.

The members that represent the banking sector are designated by the Professional Association of Moroccan Banks (GPBM). The latter do not deliberate on issues pertaining to the resolution of difficulties of member credit institutions.

Box no. 1: Work of the Board of Directors in 2018

In the framework of its mission, the Board of Directors is informed of the SGFG's activities on a regular basis, as well as achievements when it comes to the financial management of FCGD assets.

At its 6th meeting held on 27 March 2018, the Board of Directors examined the following items:

- The management reports of the FCGD and the SGFG;
- The SGFG and FCGD annual accounts for the 2017 financial year;
- The SGFG's 2018 budget and action plan;
- The draft resolutions to be presented to the General Meeting.

Three committees assist the Board of Directors in its mission:

- Audit and Risk Committee;
- Investment Committee;
- Intervention and Resolution Committee.

PART I:
INTERNATIONAL ENVIRONMENT

PART I : INTERNATIONAL ENVIRONMENT

After having reached 3.8% in 2017, world growth decelerated to 3.6% in 2018, as a result of a slowdown from 2.4% to 2.2% in developed countries with the notable exception of the United States, where the economy was operating at full capacity, and from 4.8% to 4.5% in emerging and developing economies.

Table no. 1: Economic growth worldwide (%)

	2014	2015	2016	2017	2018
Worldwide	**3.6**	**3..4**	**3.4**	**3.8**	**3.6**
Advanced Economies	**2.1**	**2.3**	**1.7**	**2.4**	**2.2**
United States	2.5	2.9	1.6	2.2	2.9
Euro Zone	1.4	2.1	2.0	2.4	1.8
Germany	2.2	1.5	2.2	2.5	1.5
France	1.0	1.1	1.2	2.2	1.5
Italy	0.1	0.9	1.1	1.6	0.9
Spain	1.4	3.6	3.2	3.0	2.5
United Kingdom	2.9	2.3	1.8	1.8	1.4
Japan	0.4	1.2	0.6	1.9	0.8
Emerging and developing economies	**4.7**	**4.3**	**4.6**	**4.8**	**4.5**
Emerging and developing countries in Asia	**6.8**	**6.8**	**6.7**	**6.6**	**6.4**
China	7.3	6.9	6.7	6.8	6.6
India	7.4	8.0	8.2	7.2	7.1
Latin America and the Caribbean	**1.3**	**0.3**	**-0.6**	**1.2**	**1.0**
Brazil	0.5	-3.5	-3.3	1.1	1.1
Mexico	2.8	3.3	2.9	2.1	2.0
Commonwealth of Independent States	**1.0**	**-1.9**	**0.8**	**2.4**	**2.8**
Russia	0.7	-2.5	0.3	1.6	2.3
Emerging and developing countries in Europe	**3.9**	**4.8**	**3.3**	**6.0**	**3.6**
Turkey	5.2	6.1	3.2	7.4	2.6
Sub-Saharan Africa	**5.1**	**3.2**	**1.4**	**2.9**	**3.0**
South Africa	1.8	1.2	0.4	1.4	0.8
Middle East and North Africa	**2.7**	**2.4**	**5.3**	**1.8**	**1.4**

Source: IMF and Bank Al Maghrib

At the level of the main advanced countries, the United States stood out as an exception, with growth rising sharply from 2.2% to 2.9%, supported by the expansionary fiscal stance that supported domestic demand, in a context of a normalization of monetary policy and a trade dispute with China.

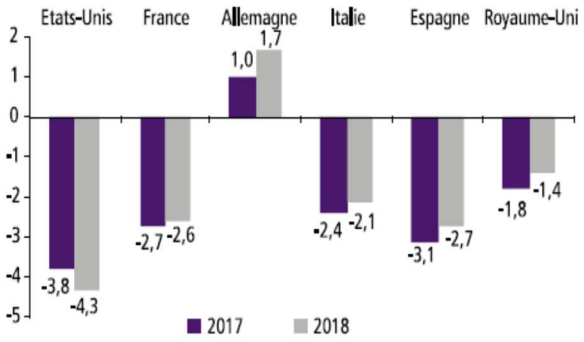
In contrast, growth in the Euro Zone declined from 2.4% to 1.8%, in an environment characterized by uncertainty over the terms of Brexit and political tensions affecting some countries in the Euro zone.

Hence, in Germany, GDP growth was limited to 1.5% instead of 2.5% a year earlier, impacted by the weakening of foreign demand, private consumption and industrial production, particularly automotive, following the introduction of new emission standards.

Similarly, growth in France slowed from 2.2% to 1.5%, reflecting a slowdown in consumption and investment in an environment marked by a major social movement in the last quarter of the year. It also fell from 1.6% to 0.9% in Italy, which was hit by political tensions and budgetary difficulties, and from 3% to 2.5% in Spain, mainly due to the decline in the pace of external demand.

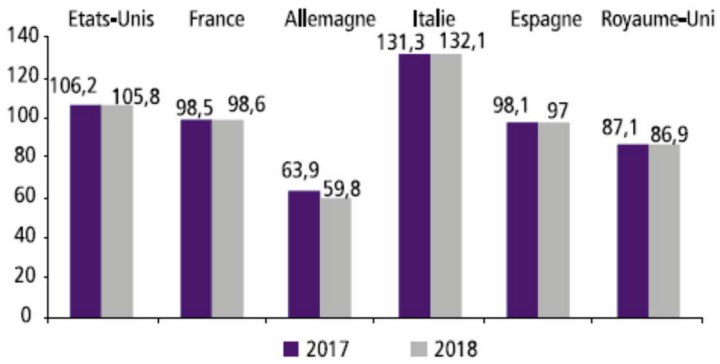
In the United Kingdom, despite the steady performance of public consumption, the lack of visibility on the outcome of Brexit negotiations weighed on investment and household consumption, reducing growth from 1.8% to 1.4%. In Japan, GDP grew by only 0.8% after 1.9%, impacted by adverse weather conditions and natural disasters.

Graph no. 1: Changes in the fiscal balance (% of GDP)



Source: IMF and Bank Al-Maghrib

Graph no. 2: Changes in public debt (% of GDP)



Source: IMF and Bank Al-Maghrib

In the main emerging countries, the Chinese economy continued to slow down, with growth falling from 6.8% to 6.6%, the lowest rate since 1991. This deceleration was recorded in a climate of trade tensions with the United States and would probably have been greater in the absence of the fiscal stimulus measures put in place by the authorities.

It is reportedly linked to efforts to curb the debt burden of state-owned enterprises and reduce parallel banking activities. In India, despite less favorable financing conditions, the business cycle remained high at 7.1%, after 7.2% in 2017, supported by the recovery in investment and consumption.

In Brazil, growth stagnated at 1.1%, impacted by production disruptions due to strikes in the transport sector. On the other hand, the Russian economy picked up from 1.6% to 2.3%, benefiting from the rise in oil prices and the spinoffs from the organization of the World Cup.

In addition, in sub-Saharan Africa, a relative consolidation of growth at 3% after 2.9% was observed, driven by higher commodity prices and structural reforms in some countries. In its main economies, GDP grew by 1.9%, compared to 0.8% in Nigeria, reflecting stable oil production conditions and a recovery in the non-oil sectors. Despite the solid performance of its manufacturing industry, growth in South Africa decelerated sharply from 1.4% to 0.8%, underpinned by the underperformance of the mining and agricultural sectors.

Table no. 2: Current account balance worldwide (% of GDP)

	2014	2015	2016	2017	2018
Advanced economies	**0.5**	**0.6**	**0.7**	**0.9**	**0.7**
United States	-2.1	-2.2	-2.3	-2.3	-2.3
Euro zone	2.5	2.9	3.2	3.2	3.0
Germany	7.5	8.9	8.5	8.0	7.4
France	-1.0	-0.4	-0.8	-0.6	-0.7
Italy	1.9	1.5	2.5	2.8	2.6
Spain	1.1	1.2	2.3	1.8	0.8
United Kingdom	-4.9	-4.9	-5.2	-3.3	-3.9
Japan	0.8	3.1	4.0	4.0	3.5
Emerging and developing economies	**0.6**	**-0.2**	**-0.3**	**0.0**	**-0.1**
Emerging and developing countries in Asia	**1.5**	**2.0**	**1.4**	**0.9**	**-0.1**
China	2.2	2.7	1.8	1.4	0.4
India	-1.3	-1.0	-0.6	-1.8	-2.5
Latin America and the Caribbean	**-3.1**	**-3.2**	**-1.9**	**-1.4**	**-1.9**
Brazil	-4.1	-3.0	-1.3	-0.4	-0.8
Mexico	-1.9	-2.6	-2.3	-1.7	-1.8
Commonwealth of Independent States	**2.1**	**2.8**	**0.0**	**1.0**	**5.0**
Russia	2.8	5.0	1.9	2.1	7.0
Emerging and developing countries in Europe	**-2.9**	**-2.0**	**-1.8**	**-2.5**	**-2.2**
Turkey	-4.7	-3.7	-3.8	-5.6	-3.6
Sub-Saharan Africa	**-3.6**	**-5.9**	**-3.7**	**-2.1**	**-2.6**
South Africa	-5.1	-4.6	-2.8	-2.4	-3.4
Middle East and North Africa	**6.0**	**-4.3**	**-4.2**	**-0.3**	**3.1**

Source: IMF and Bank Al Maghrib

In the Middle East and North Africa (MENA) region, growth decelerated further from 1.8% to 1.4%, mainly due to a 3.9% contraction in GDP in Iran, after a 3.7% increase, as a result of the embargo imposed by the United States.

In other oil-exporting countries, it improved from -0.7% to 2.2% in Saudi Arabia, from 1.6% to 2.2% in Qatar and from 1.4% to 2.1% in Algeria. In importing countries, the pace of economic activity accelerated from 4.2% to 5.3% in Egypt and from 2% to 2.5% in Tunisia, while in Jordan it remained almost stable at 2%.

PART II :
DOMESTIC ENVIRONMENT

PART II : DOMESTIC ENVIRONMENT

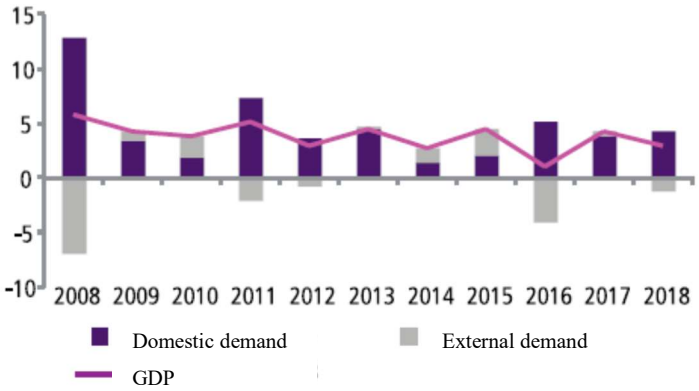
1. Macroeconomic environment

At the domestic level, economic growth stood at 3% in 2018 compared to 4.2% a year earlier.

Benefiting from favorable weather conditions for the second consecutive year, agricultural value added increased by 4% after 15.2%. For their part, the non-agricultural sectors continued the slow recovery that began in 2016, recording a 2.6% increase instead of 2.9%. The pace of economic activity improved, particularly in the processing industries and the "Power and Water" branch remained high, despite its slowing down in the "Hospitality and Restaurants" branch, while in the "Construction and Public Works" branch, it came out almost nil.

On the demand side, the deceleration in growth is attributable to the contribution of net exports, which became negative again, by 1.3 percentage points, while the contribution of its domestic component fell from 3.9 percentage points to 4.3 percentage points.

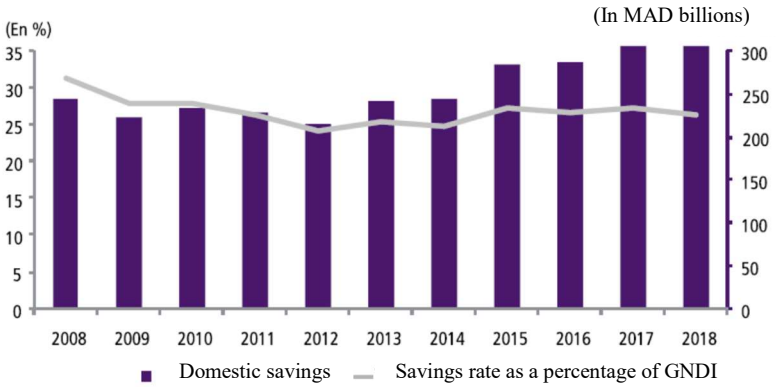
Graph no. 3: Contribution of demand components to growth (in % points)



Source: HCP and Bank Al Maghrib

At current prices, GDP amounted to MAD 1,106.8 billion, up 4.1%. Taking into account current transfers and property income outflows, gross national disposable income stood at MAD 1,157.7 billion, or MAD 32,870 per capita, compared with MAD 32,342 one year earlier.

Graph no. 4: Domestic savings



Source:HCP and Bank Al Maghrib

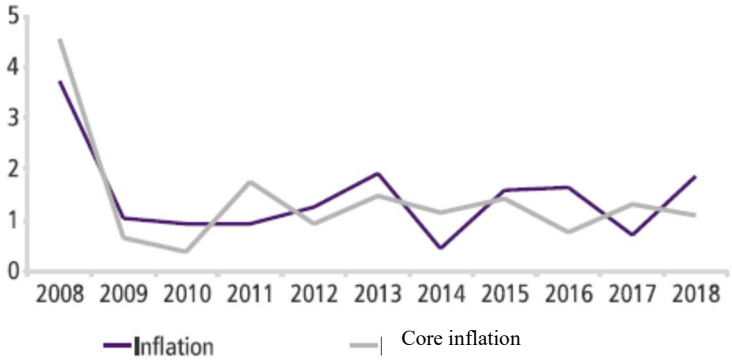
Table no. 3: Added value expressed in the prices of the previous year (variation in %)

	2015	2016	2017	2018
Primary sector	**11.5**	**-12.5**	**13.1**	**2.7**
Agriculture, forestry and ancillary services	11.9	-13.7	15.2	4.0
Fisheries	7.3	1.1	-8.3	-11.0
Secondary sector	**1.8**	**0.6**	**3.6**	**3.0**
Extraction industry	-2.1	0.1	17.1	4.7
Processing industry	2.3	0.1	2.5	3.5
Power and water	6.2	2.5	3.3	5.3
Construction and public works	0.7	1.6	1.8	0.1
Tertiary sector	**1.7**	**2.9**	**2.7**	**2.7**
Trade	0.5	5.3	3.2	2.3
Hospitality and restaurants	-1.3	3.6	11.5	6.0
Transport	3.2	1.4	3.7	3.7
Posts and Telecommunications	2.8	6.9	0.8	2.8
Financial activities and insurance	2.6	0.2	3.5	1.6
Real estate, rental and business activities	4.2	4.4	3.6	4.8
General public administration and social security	0.5	1.6	2.4	2.5
Education, health and social services	0.1	1.4	-0.9	-0.3
Other non-financial services	3.4	3.0	1.0	1.6
Non-agricultural added value	**1.8**	**2.1**	**2.9**	**2.6**
Total added value	**3.0**	**0.1**	**4.4**	**2.8**
Taxes on income net of subsidies	**18.1**	**8.8**	**3.1**	**4.6**
GDP	**4.5**	**1.1**	**4.2**	**3.0**

Source: HCP and Bank Al Maghrib.

Graph no. 5: Change in inflation (in %)

Under these circumstances, inflation increased significantly in 2018. It accelerated to 1.9% after 0.7% in 2017 and averaged 1.5% between 2008 and 2016. This trend is mainly due to the 2.6% increase in food prices which are volatile versus a 3.1% decline a year earlier.



Source: HCP and Bank Al Maghrib

It is also driven, but to a lesser extent, by the 2.8% increase in regulated tariffs compared to 0.8% following the increases in the Domestic Consumption Tax on brown tobacco and stamp duties. Prices of petrol, oil and lubricants rose by 5.2% after 8.8%, mainly reflecting the continuation of the upward trend in international prices that began in early 2016.

Core inflation fell from 1.3% to 1.1%, reflecting the deceleration in some food products, particularly oils.

In terms of public finances, the budgetary consolidation process slowed down somewhat in 2018, with the deficit widening from 3.5% to 3.7% of GDP, well above the Budget Law's 3% target.

On the revenue side, this overrun reflects a significant decrease in donations from the Gulf Cooperation Council (GCC), which were limited to 2.8 billion dirhams instead of the 7 billion provided for in the Budget Law and 9.5 billion received a year earlier. On the other hand, tax revenues improved by 4.2%, including increases for VAT and income tax compared to a decline for corporate income tax.

On the expenditure side, 109% of investment was executed compared to the budget, but this is the first time since 2013 that it has declined year-on-year. Similarly, the compensation charge reached 129% of the forecast amount due to a significant increase in international prices for energy products.

Under these conditions, the Treasury's debt ratio increased by 0.2 percent of GDP to 65.3%, with an increase in its domestic component to 51.9% of GDP and a decline in its external component to 13.4% of GDP.

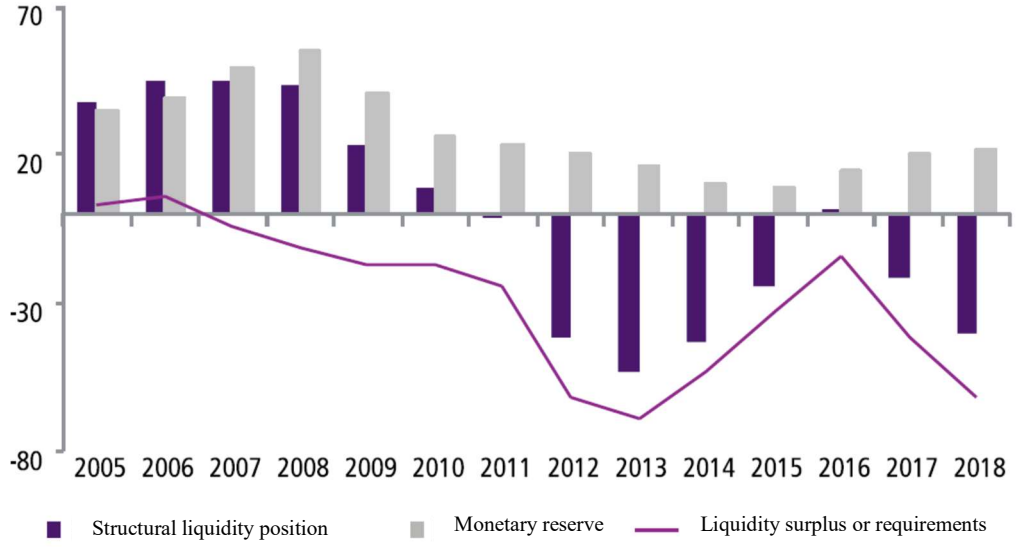
Table no. 4: Key indicators of public finance (% of GDP unless otherwise specified)

	2015	2016	2017	2018
Ordinary revenue	**23.6**	**23.7**	**24.0**	**23.5**
Tax revenue	20.7	20.9	21.2	21.2
GCC grants	0.4	0.7	0.9	0.3
Total expenditure	**28.5**	**28.5**	**28.0**	**27.5**
Ordinary expenditure	**22.6**	**22.3**	**21.7**	**21.6**
Payroll	10.4	10.3	9.9	9.6
Compensation	1.4	1.4	1.4	1.6
Investment	**5.9**	**6.3**	**6.3**	**5.9**
Budgetary balance	**-4.2**	**-4.5**	**-3.5**	**-3.7**
Direct public debt	**63.7**	**64.9**	**65.1**	**65.3**
Overall public debt	**79.9**	**81.6**	**82.0**	**81.4**

Source: Bank Al-Maghrib, Ministry of Economy and Finance and HCP

During 2018, Bank Al-Maghrib maintained its accommodative monetary policy stance. Taking into account its medium-term forecasts, which include moderate inflation and continued improvement in non-agricultural activities, Bank Al-Maghrib Board decided, at its four meetings during the year, that the level of 2.25% of the prime rate was adequate and kept it unchanged.

Graph no. 6: Structural liquidity position and monetary reserve amount (in MAD billions)

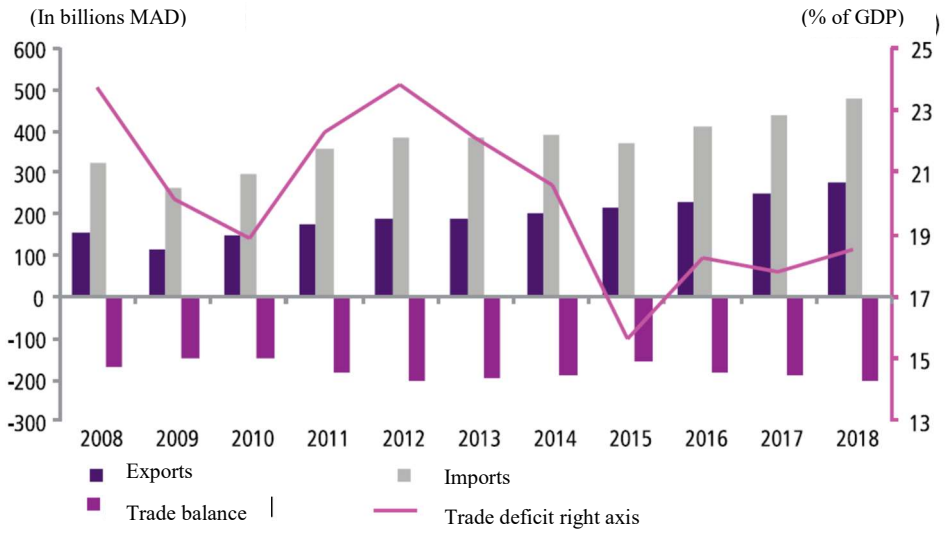


Source: Bank Al-Maghrib

In 2018, and despite the continued strong performance of exports of goods, the trade deficit increased to 18.6% of GDP, reflecting an increase in imports, mainly of energy products and purchases of capital goods, which was greater than that of exports.

On the other hand, after significant increases in 2017, travel revenues slowed sharply and transfers from MREs fell. Taking into account all these developments and a contraction in GCC countries' grants, the current account deficit widened significantly from 3.4% to 5.5% of GDP.

Graph no. 7: Balance of trade

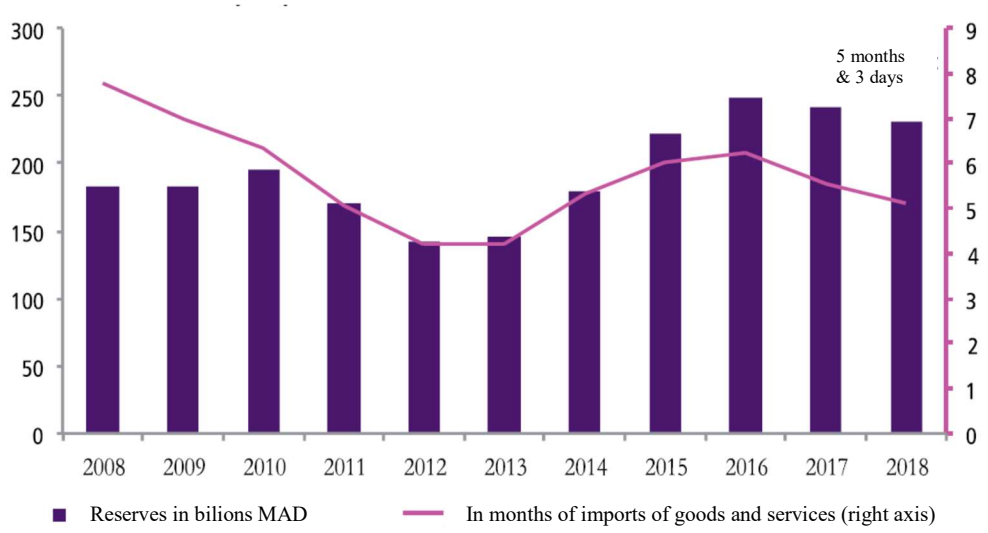


Source: Bank Al-Maghrib and Foreign Exchange Office

Driven by a major sale in the insurance sector, foreign direct investment (FDI) income reached MAD 47.4 billion, or 4.3% of GDP, compared with 3.8% on average over the last five years. At the same time, after an exceptional level of MAD 9.9 billion in 2017, residents' investments abroad fell to MAD 6.3 billion. Net inflows of loans fell sharply to MAD 3.2 billion, mainly reflecting a decline in Treasury drawdowns.

Under these conditions, Bank Al-Maghrib's net international reserves (NIR) declined by 4.3% to MAD 230.7 billion, the equivalent of 5 months and 3 days of imports of goods and services.

Graph no. 8: Net international reserves



Source: Bank Al-Maghrib and Foreign Exchange Office

Table no. 5: Key sections of the balance of payments (as a % of GDP, unless otherwise specified)

	2015	2016	2017	2018
Current account	**-2.1**	**-4.1**	**-3.4**	**-5.5**
Trade deficit	15.6	18.3	17.8	18.6
Travel revenues (variation in %)	-1.4	5.0	12.3	1.3
MRE revenues (variation in %)	4.8	4.0	5.3	-1.5
Grants	0.5	1.0	1.1	0.4
Financial account (net flow)	**1.5**	**3.5**	**2.7**	**4.3**
FDI revenues	4.0	3.5	3.2	4.3
Foreign investments by residents	0.6	0.6	0.9	0.6
Loans	1.5	1.7	2.1	0.3
Commercial credit	1.0	2.0	1.7	0.8
NRI in months of imports	**6.0**	**6.3**	**5.6**	**5.1**

Source: Bank Al-Maghrib, Ministry of Economy and Finance (DTFE) and HCP

2. Developments in the banking sector

a. Overview of the Moroccan banking sector

In 2018, the number of credit institutions and similar bodies remained at 86. The Moroccan banking sector currently includes 19 conventional banks and 5 participative banks, 28 financing companies, 6 offshore banks, 13 microcredit associations, 13 payment institutions, the *Caisse de Dépôt et de Gestion* and the *Caisse Centrale de Garantie*.

Table no.6: Change in the number of credit institutions and similar bodies

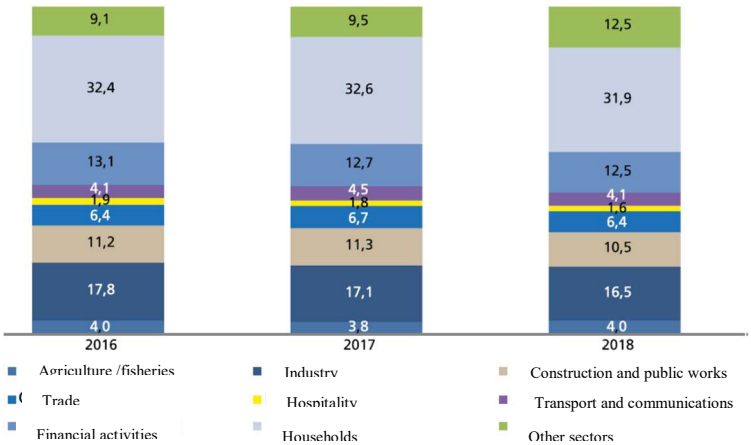
	2015	2016	2017	2018
Banks	19	19	24	24
Including participative banks	0	0	5	5
Financing companies	34	33	32	28
Offshore banks	6	6	6	6
Microcredit Associations	13	13	13	13
Payment institutions	10	10	9	13
Other institutions	2	2	2	2
Total	84	83	86	86

Source: Bank Al Maghrib

At the end of 2018, the total balance sheet of the banking sector amounted to MAD 1,341 billion, up 5.5%, after 6% in 2017. As a percentage of GDP, it stood at 122%, 2 percentage points higher than last year.
Credit activity remained sluggish, particularly for non-financial companies with a limited increase of 0.7%, after a 2.6% increase in 2017 and a 3.4% increase in 2016. This deceleration is in line with an economic situation marked by a slow recovery in non-agricultural growth, longer payment terms and a slowdown in the real estate sector. However, loans to households increased by 4.1%, after 4% a year earlier, reaching nearly MAD 284 billion.

Graph no. 9: Sectoral breakdown of credit per disbursement granted by banks (in %)

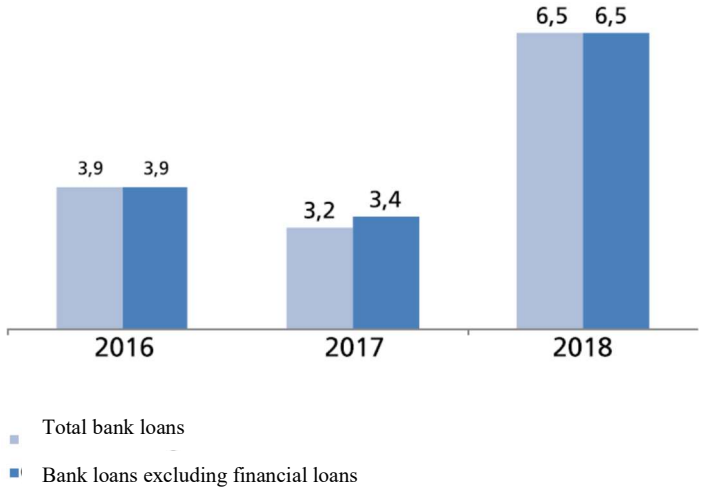
The sectoral breakdown of credit shows that loans to the primary sector represented 4% of total credit after dropping to 3.8% a year earlier. The share of loans granted to the industrial sector in total credit fell by 0.6 points to 16.5%.



Source: Bank Al Maghrib

In terms of loans granted to the construction and public works sector and the transport and communication sector, their percentages fell by 7.07% and 8.88% respectively.

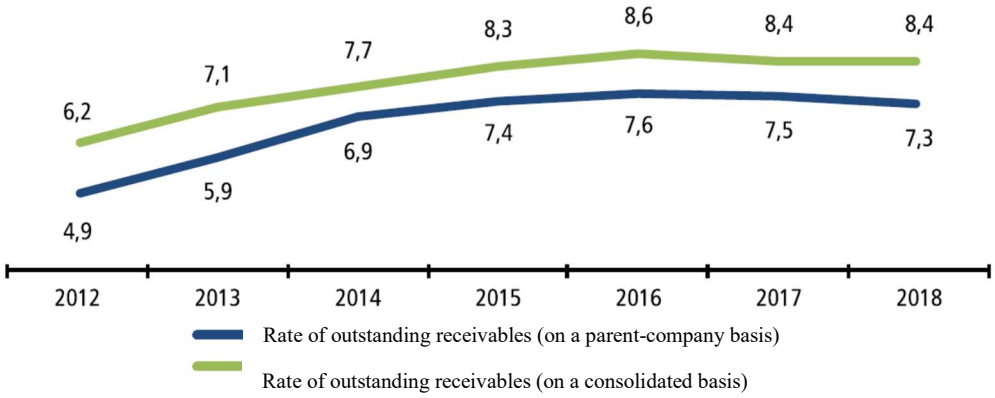
Graph no. 10: Change in loans granted by banks (in %)



Source: Bank Al Maghrib

The volume of outstanding receivables on a parent-company basis amounted to MAD 65.3 billion. After a period of sustained growth, averaging 16% between 2010 and 2014, the volume of outstanding receivables slowed to 6% on average over the period 2015 and 2017 and 3.7% in 2018. As a result, the loss ratio fell to 7.3% at the end of 2018. On a consolidated basis, this rate stood at 8.4% at the end of 2018, virtually unchanged compared to the end of 2017.

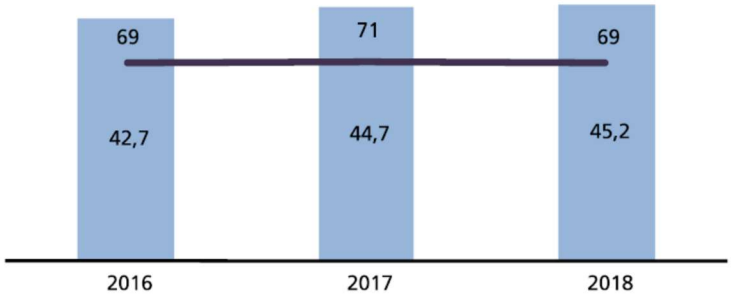
Graph no. 11: Change in the rate of outstanding receivables (in%)



Source: Bank Al Maghrib

Graph no. 12: Coverage rate for outstanding receivables on a parent-company basis

Provisions for outstanding receivables increased by 1.1%, resulting in a 69% provisioning rate at the end of 2018, compared to 71% a year earlier. This rate is 74% for the impaired loans category, 54% for non-performing loans and 18% for pre-doubtful loans.



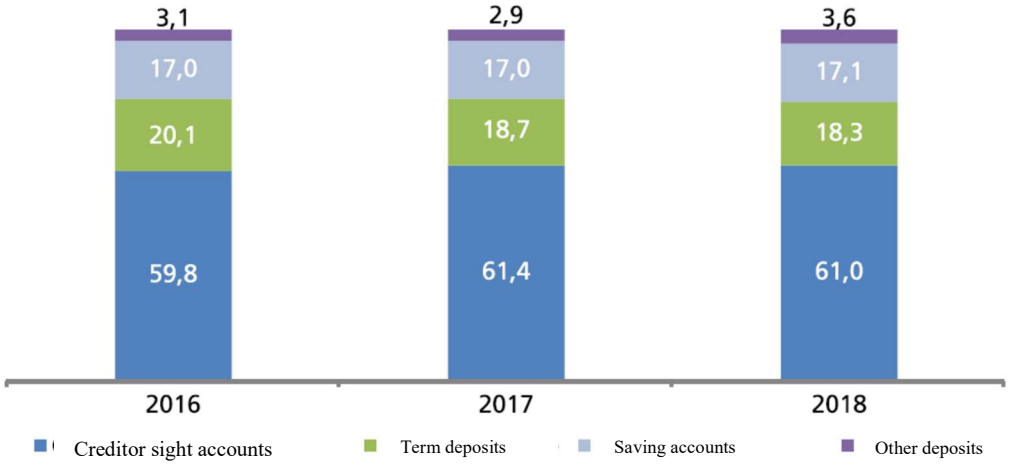
Source: Bank Al Maghrib

In 2018, deposits collected from customers amounted to MAD 928 billion, up 2.9% from 5.5% a year earlier. This deceleration reflects a decline in the deposits of Moroccans residing abroad and a slowdown in the deposits of individual residents, the latter having turned to alternative investments in the form of bancassurance and securities products in particular.

MAD-denominated deposits, which represent 98% of total deposits, increased by 3.3% compared to 5.2% in 2017. Those in foreign currencies fell by 10.7%, after a 20% increase last year.

By category, demand deposits increased by 2.4%, reaching MAD 566.3 billion. Deposits in the form of savings accounts increased by 3.5%, standing at 158.8 billion. Term deposits, with an outstanding amount of nearly 170 billion, posted a 0.9% increase, mainly driven by public and private sector deposits, after a 2.2% decline a year earlier. Personal term deposits, on the other hand, continued to decline.

Graph No. 13: Change in the share of the various categories of deposits with banks (in %)



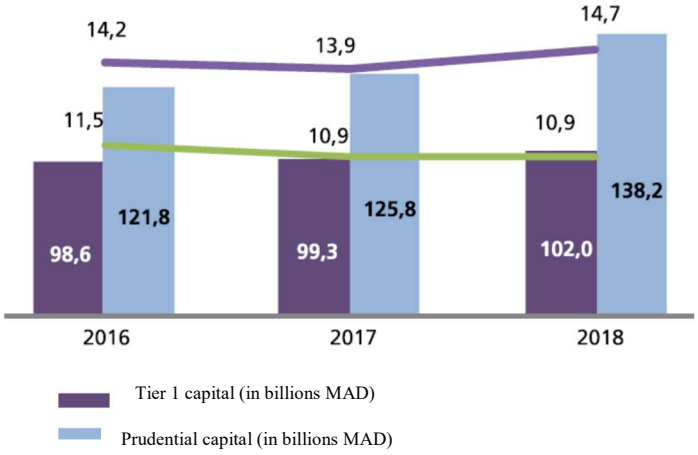
Source: Bank Al Maghrib

Net income from banks amounted to MAD 11.1 billion, up 2.9%, following an increase of 17.6% in 2017. Return on assets (ROA) and return on equity (ROE) remained stable at 0.9% and 9.5% respectively.

At the end of 2018, banks' prudential capital amounted to nearly MAD 138 billion, up nearly MAD 12 billion compared to December 2017. They are composed of MAD 102 billion of Tier 1 capital, of which nearly 98% is core capital, and MAD 36 billion of Tier 2 capital.

The average solvency ratio increased to 14.7% compared to a regulatory minimum of 12%. The Tier 1 capital ratio stood at 10.9%, with a regulatory minimum of 9%. The average Core Tier 1 capital ratio stood at 10.7%, with a regulatory minimum of 8%.

Graph n. 14: Changes in banks' capital and solvency ratios (on a parent-company basis)



Source: Bank Al Maghrib

Table no. 7: Key indicators of financial strength – parent-company basis

	2016	2017	2018
Capital adequacy			
Solvency ratio	14.2	13.8	14.7
Core capital/Total weighted risks	11.5	10.6	10.7
Non-performing loans net of provisions (as a share of capital)	17.3	15.8	16.5
Asset quality			
Rate of non-performing loans (Non-performing loans/ Total loans)	7.6	7.5	7.3
Sectoral breakdown of loans			
Loans to the primary sector	5.7	5.6	5.9
Loans to the construction and public works sector	11.2	11.3	10.5
Loans to the processing industry	16.2	15.3	14.6
Loans to the public administration and local authorities sector	4.7	4.9	8.4
Loans to the trade sector	6.4	6.7	6.4
Loans to the tourism sector	1.9	1.8	1.6

	2016	2017	2018
Households	32.4	32.6	31.9
Loans to other sectors	21.5	21.8	20.7
Income and profitability			
Average return on assets (ROA)	0.8	0.9	0.9
Average return on equity (ROE)	8.6	9.5	9.5
Interest margin/net banking income (NBI)	68.6	70.1	71.2
General operating expenses/NBI	49.3	50.6	50.7
Liquidity			
Liquid assets /total assets	14.5	13.7	12.1
Liquid assets /short-term liabilities	18.6	17.3	15
Net open currency positions/capital	4.1	7.0	6.9

Source: Bank Al Maghrib

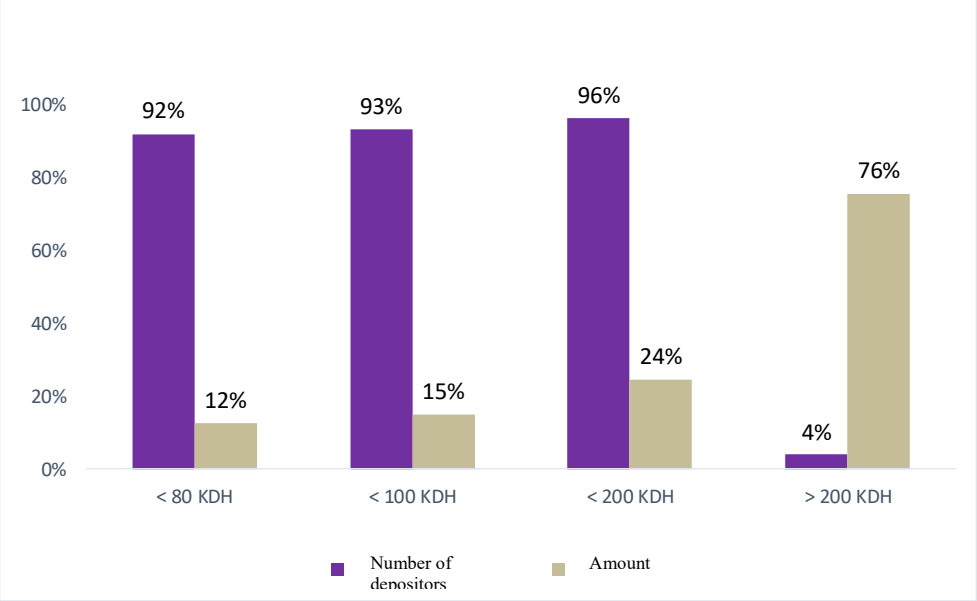
b. Breakdown of bank deposits

Available bank data as at year-end 2018 shows that outstanding deposits eligible for FCGD coverage amounted to MAD 846.5 billion, down 1.3% compared to the end of 2017.

The average amount of these deposits amounted to MAD 45,000 and the amount was of MAD 36,000 for natural persons and MAD 153,800 for legal persons.

As for the breakdown of eligible deposits by number and size bracket, there is a high level of concentration, reflecting a prevalence of small-scale depositors in the bank deposit structure, which is the same in emerging and developed countries.

Graph no. 15: Breakdown of eligible deposits by bracket



Source: Bank Al Maghrib

Depositors whose assets do not exceed MAD 80,000 represent almost 92% of the total number of depositors and account for 12% of the total eligible deposits. As for depositors whose assets do not exceed MAD 100,000, they represent 93% of the total number of depositors and account for nearly 15% of the total eligible deposits. Depositors whose assets exceed MAD 200,000 represent, for their part, nearly 4% of the total number of depositors and account for 76% of the total eligible deposits.

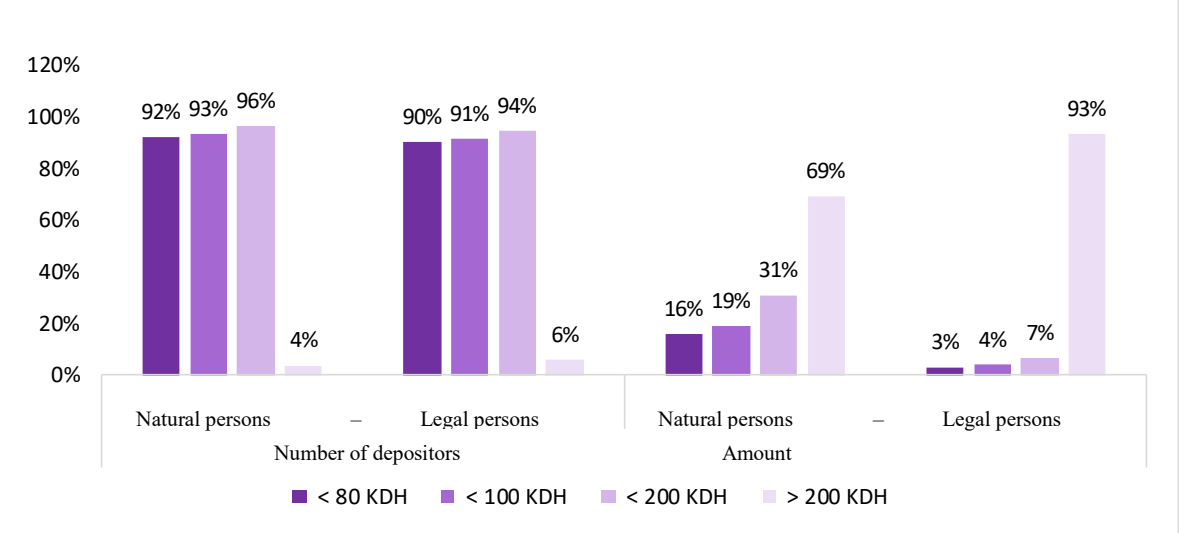
Table no. 8: Breakdown of eligible deposits by bracket in 2018

Amounts bracket in MAD	Number of depositors (natural and legal persons)		Amount of deposits (natural and legal persons)	
	Total	Share	Total	Share
Total of accounts whose amount does not exceed MAD 80,000	17 271 633	91.82%	105 269 012 016	12.44%
Total of accounts whose amount does not exceed MAD 100,000	17 504 133	93.06%	126 097 913 188	14.90%
Total of accounts whose amount does not exceed MAD 200,000	18 080 721	96.13%	207 203 282 702	24.48%
Total of accounts whose amount exceeds MAD 200,000	728 703	3.87%	639 251 680 383	75.52%

Source: Bank Al Maghrib

The breakdown of deposit brackets for eligible natural persons indicates that almost all depositors hold less than MAD 200,000 and represent 31% of the total amount of deposits. The remaining deposits represent 69% of the total volume and are held by 4% of the depositors. This concentration is even more striking among legal persons. Deposits under MAD 200,000 represent 7% of deposits and are held by 94% of depositors. The remaining deposits represent 93% of the total volume and are held by 6% of the depositors.

Graph no. 16: Breakdown of deposits by bracket and depositor



Source: Bank Al Maghrib

PART III:
LATEST INTERNATIONAL DEVELOPMENTS IN DEPOSIT INSURANCE AND BANK RESOLUTION

PART III: LATEST INTERNATIONAL DEVELOPMENTS IN DEPOSIT INSURANCE AND BANK RESOLUTION

1. IADI[1] publications

In 2018, IADI published two reference documents, the first on international approaches and best practices for determining the optimal target size for Deposit Insurance Funds and the second on the *Shariah* governance of Islamic deposit insurance schemes.

As for the setting of the optimal target size for Deposit Insurance Funds, the document first lists the main factors to be taken into consideration when defining the optimal target size. These 6 factors cover the following areas:

i. **The structure and characteristics of the financial system**. This concerns in particular, the number of financial institutions that are members of the deposit insurance scheme, their financial and prudential position, the level of concentration in the financial system, the exposure risk incurred by the Deposit Insurance Fund and the history of losses incurred, the probability of default, cross-border links and the type of deposits and eligible depositors.

ii. **The applicable legal framework in the country**. This concerns in particular the legal framework governing the deposit insurance scheme and bank resolution, irrespective of the common law framework. Similarly, this factor takes into account the judicial system in the country as well as the laws governing financial transactions.

iii. **Prudential regulation as well as the supervisory framework and the resolution scheme**. These include the early identification of difficulties of member financial institutions and corrective measures, approaches to bank resolution, the prerogatives of the deposit insurance scheme in early intervention and the handling of bank failures.

iv. **Macroeconomic conditions**. These are in particular, conditions that could have a direct or indirect impact on the stability of the financial system in general as well as the likely default rates of member banks of the deposit insurance scheme.

v. **Availability and access to emergency funding sources**. These are the external sources of funding made available to the deposit insurance scheme to quickly cover its needs for compensation of depositors. These sources include the financing lines made available to the deposit insurance scheme by the government.

[1] IADI is an association that was created on 6 May 2002 and is domiciled at the Bank for International Settlements (BIS) in Basel, Switzerland. Its work covers in particular areas related to the deposit insurance scheme.

vi. **The accounting framework and the financial reporting system**. These are essentially the applicable accounting standards as well as the rules for risk identification and the audit and internal control system.

The document went on to list the three main methods used to determine the optimal target size. These are:

a. The discretionary method or the quantitative approach.
b. The statistical method for estimating the distribution of losses.
c. The mixed method combining the two previous methods based on expert opinion.

he details of each method are presented in Box no. 2.

Box no. 2: A brief overview of the three methods outlined by IADI

Discretionary method or quantitative approach

The discretionary method or quantitative approach is based on expert judgment and opinion. Under this method, a deposit insurer defines a target size that is sufficient to cover its potential exposure to the covered deposits of all small and some medium-sized banks. Similarly, this method reflects the opinions of the experts by referring to international best practices and the specific situation of the deposit insurer. Historical data on bank failures and associated losses may or may not be included in the analysis, which serves as the basis for this discretionary method.

As highlighted in the IADI 2011 document on assessing the adequacy of the Deposit Insurance Fund, the Target Reserve Ratio (TRR) approach is central to the discretionary method in order to determine the target size of the fund. Indeed, the TRR is a ratio between the Deposit Insurance Fund and total deposits and the safety margin of the Deposit Insurance Fund is based on experts' opinions. However, the TRR estimates the soundness of a Deposit Insurance Fund without taking into account the level of financial resources potentially to be mobilized by the deposit insurer, which corresponds to the coverage limit. When the coverage limit is higher where there are adverse market conditions, the Deposit Insurance Fund must have a greater safety margin to cover losses in excess of the fund's resources.

Statistical method for estimating the distribution of losses

The statistical method generally involves estimating the loss distribution of the deposit insurer and can be used to determine the appropriate level of the deposit insurer's financial resources. The 2011 IADI document on the assessment of the adequacy of the Deposit Insurance Fund based on risk analysis mentioned different approaches and models that could be used to determine the adequacy of the Deposit Insurance Fund. The assessment of the adequacy of the deposit insurance fund is based on a risk analysis using statistical methodologies, as opposed to the discretionary method, which relies on expert judgment and/or incorporates the history of bank failures.

Box no. 2: Brief overview of the three methods outlined by IADI (continued)

The value-at-risk (VaR) method estimates the covered losses of the deposit insurer and requires that the deposit insurance fund be sufficient to cover expected losses and unexpected losses. Unexpected losses are estimated using the statistical simulation method or "Monte Carlo simulations". The expected loss analysis consists of estimating the covered deposits of member banks, based on the exposure at default (EAD), which is an exogenous factor known in advance, the probability of default (PD) of member banks, the proportion of non-recoverable losses on liquidated bank assets and the loss given default (LGD), which is defined as the ratio between losses in the event of default and the default exposure.

The probabilities of default of member banks can be calculated using three methods:
1) The credit rating method by which the probabilities of default are estimated on the basis of the credit ratings of member banks developed internally, either by the deposit insurer or by rating agencies such as Standard & Poor's, Moody's, and Fitch.
2) Econometric models where probabilities of default are estimated using models such as logit, probit, ordered probit and duration models.
3) Market analysis using available information from financial markets.

These models must be constantly subject to testing to ensure the comparability of the results of the probability of default estimation.

Mixed method combining both methods:
This mixed method uses the statistical method associated with the discretionary approach which is based on historical experience or expert opinion.

Finally, the aforementioned document presents the tools for estimating the maximum period of time to reach the target size, taking into account, of course, all the financing available both in normal times and in a crisis situation.

The second document, which addresses Shariah governance within Islamic deposit insurance schemes, defined it as the "structures and processes put in place by an organization to ensure compliance with Shariah principles. These structures and processes complement the governance framework within this organization".

This document emphasizes the importance of the Shariah component for Islamic Deposit Insurance Funds and lists the areas requiring Shariah compliance. These areas include the collection of contributions on the basis of Islamic deposits and the investment of these contributions. This document emphasizes the need to ensure separate management of the Insurance Funds, in the event of the coexistence of conventional and Islamic Funds, by allocating to these Insurance Funds only their own expenses and charges. In the event of the bankruptcy of an Islamic bank, the resources of the Islamic Deposit Insurance Fund should be used only for the purpose of repaying the depositors of that bank and, where applicable, the holders of investment deposits.

In the event of insufficient financial resources for the Islamic Deposit Insurance Fund, additional financing should comply with Shariah principles and be based on Shariah compliant instruments. In the event of a bank resolution, resolution tools such as Bridge Bank must take into account the characteristics of the distressed Islamic bank and its business model. The document recommends the periodic conduct of a Sharia audit of transactions carried out on behalf of the Islamic Deposit Insurance Fund.

2. Publications of the Financial Stability Board

During 2018, the Financial Stability Board (FSB) published several final and consultative documents on various topics, including those relating to bank resolution. In this respect, two final documents were published respectively focusing on the elements of a financing strategy for the implementation of a resolution plan and the principles relating to the execution of bail-in.

The document on the elements of a financing strategy for the implementation of a resolution plan provides guidance for the development of a financing plan based on the guiding principles, issued by the FSB in 2016, on the interim financing required to ensure the orderly resolution of a systemically important international bank, and on the current standards of supervision and resolution relating to liquidity risk management and resolution plans.

As such, this document has identified a set of fundamental elements for the financing strategy that cover the following components:

- The capacity of the relevant systemically important international bank to facilitate supervision, to comply with reporting and to estimate the financing needs required by the resolution and execution of the financing strategy;
- The development of a resolution financing plan by the authorities (home and host countries);
- The use of the assets of the international bank involved as well as private sources of financing;
- Temporary access to public sector financing and to the ordinary funds of the central banks concerned;
- Information sharing and coordination between authorities (home and host countries).

With regard to the second document on the principles for the execution of the bail-in[2], the FSB considered it to be a fundamental part of the resolution strategies of systemically important international banks.

For the FSB, the bail-in makes it possible to implement a creditor-financed recapitalization in the form of an ordered resolution in order to minimize the impact of the resolution on financial stability and to ensure the continuity of essential activities and at the same time to avoid exposing taxpayers to losses that could be generated by the liquidation.

[2] This is a recapitalization mechanism for a distressed bank that consists, subject to certain conditions, in converting its debt instruments into common shares

Thus, this document proposes a set of principles to help authorities implement resolution strategies for systemically important international banks. These principles cover:

- Information on instruments and debts falling within the scope of the bail-in;
- Evaluations to support the implementation of the bail-in;
- Processes to suspend or cancel the list of eligible securities, to inform creditors thereof and to deliver new marketable securities or certificates after the resolution;
- Securities law and securities exchange requirements during the bail-in;
- The processes for transferring governance and control rights and the appointment of a new Board of Directors of the bank currently being resolved;
- Communication with markets and creditors.

3. Publications of the Basel Committee

In March 2018, the Basel Committee published a paper on early intervention frameworks by supervisory authorities. The purpose of this report is to define the corrective measures to be implemented by these authorities in order to minimize the impact of an insolvent bank on the deposit insurance system. The paper also stresses the need for a coordination and cooperation framework for all stakeholders, including the deposit insurance system.

Box no. 3: Early warning system developed by the US Federal Deposit Insurance Corporation (FDIC)

The FDIC has developed a statistical rating model, called SCOR, based on the CAMELS approach (capital adequacy, quality of assets, quality of management, earnings, liquidity, and sensitivity to market risks) that it uses every quarter based on bank reporting data and based on the ordered logit model of CAMELS ratings.

As such, the model compares the data from the previous year's reporting with the current rating obtained from the on-site inspections.

This comparison makes it possible to assign coefficients to the results obtained, which are then used in conjunction with current bank reporting data to estimate future ratings.

PART IV:
SGFG'S ACTIVITIES IN 2018

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1. About the SGFG

The Société Marocaine de Gestion des Fonds de Garantie des Dépôts Bancaires (SGFG), a public limited company with a share capital of MAD 1 million, was created in May 2015 by Bank Al-Maghrib and the banking profession, pursuant to the provisions of Chapter 3 of Title IV of Law No. 103-12 on credit institutions and similar bodies. Its share capital is held equally by Bank Al-Maghrib and the 16 credit institutions currently participating in the deposit insurance scheme.

The missions and activities of the SGFG are governed by the provisions of the aforementioned Law No 103-12 and the implementing texts adopted for its application, as well as by those of Law No 17-95 on public limited companies, as amended and supplemented. They are also based on the core principles of effective insurance systems, laid down in June 2009 and revised in 2014 by the Basel Committee and IADI.

The main mission of the SGFG is to manage the deposit insurance funds of conventional and participative banks and to contribute to the recovery of distressed member credit institutions. Pursuant to the provisions of the aforementioned Law No 103-12, the SGFG may also be appointed by the Wali of Bank Al-Maghrib as provisional administrator of a distressed member credit institution.

In accordance with Law No. 103-12 on credit institutions and similar bodies, the SGFG's activities are governed by specifications drawn up by Bank Al-Maghrib, which define in particular:

- The obligations related to its operation;
- The terms and conditions of its contribution to the recovery of distressed credit institutions;
- The ethical rules to be followed by its Board of Directors and staff;
- The modalities of information exchange between it and Bank Al-Maghrib.

At the operational level, the SGFG is working to ensure the:

- Management of the FCGD;
- Monitoring of the collection of annual fees from member institutions;
- Establishment of an appropriate mechanism for compensating depositors in the event of the unavailability of their eligible funds and assets[3];
- Conditions for resorting to any bond issue in the event of insufficient available resources;

[3] Up to a maximum amount per depositor, set by Bank Al-Maghrib. This amount currently stands at MAD 80,000.00.

- conditions for granting repayable assistance to a credit institution or participative bank in difficulty, on a preventive and exceptional basis;
- conditions relating to the acquisition of a stake in the share capital of a credit institution or a participative bank in difficulty;
- conditions relating to the acquisition of a stake in the capital of entities resulting from the application of the provisions of paragraphs 2, 3 and 4 of Article 115 of the Banking Law;
- intervention, as provisional administrator of a credit institution;
- provision to the public of the necessary information relating to the performance of its mission.

2. SGFG's governance bodies and organizational structure

a. Board of Directors[4]

The Board of Directors is the decision-making and supervisory body for the SGFG's operations. It meets at least twice a year and as often as necessary and is convened by its Chairman.

The Board of Directors is vested with the necessary authorities to carry out the SGFG's legal and regulatory responsibilities. In this respect, it approves in particular decisions relating to:

- the SGFG's strategy,
- its annual budget,
- the investment policy of the resources of both Funds,
- Its internal procedures,
- the appointment of SGFG's statutory auditor,
- the external communication strategy,
- the ethical rules applicable to SGFG staff,
- policies for cooperation and information exchange with foreign associations or bodies responsible for carrying out a mission similar to the SGFG.

b. Internal committees

SGFG's Board of Directors has set up three internal committees to assist it in carrying out its mission. These are the Audit and Risks Committee, the Investment Committee and the Intervention and Resolution Committee.

The mission of the **Audit and Risks Committee** is to examine:

- The accounts and summary statements before they are submitted to the Board of Directors,
- The selection process for the external auditor of the insurance funds and the company's statutory auditor,
- Issues relating to the internal control and risk management systems.

The Committee is chaired by the Director General of Bank Al-Maghrib and is composed of two independent directors and the Director General of the SGFG. It meets twice a year.

[4] See page 6 for the composition of the Board of Directors.

The Investment Committee's mission is to implement the policy guidelines defined by the Board of Directors in terms of investment policy, prevention and control of financial risks.

It is also responsible for monitoring the implementation and adaptation of the strategic allocation of assets and ensuring that the investment policy is properly applied. It reports to the Board of Directors on the decisions taken, results and performance achieved in the management of the resources of the Insurance Funds.

The Investment Committee is chaired by an independent director and includes the Director General of the SGFG. It meets 4 times a year.

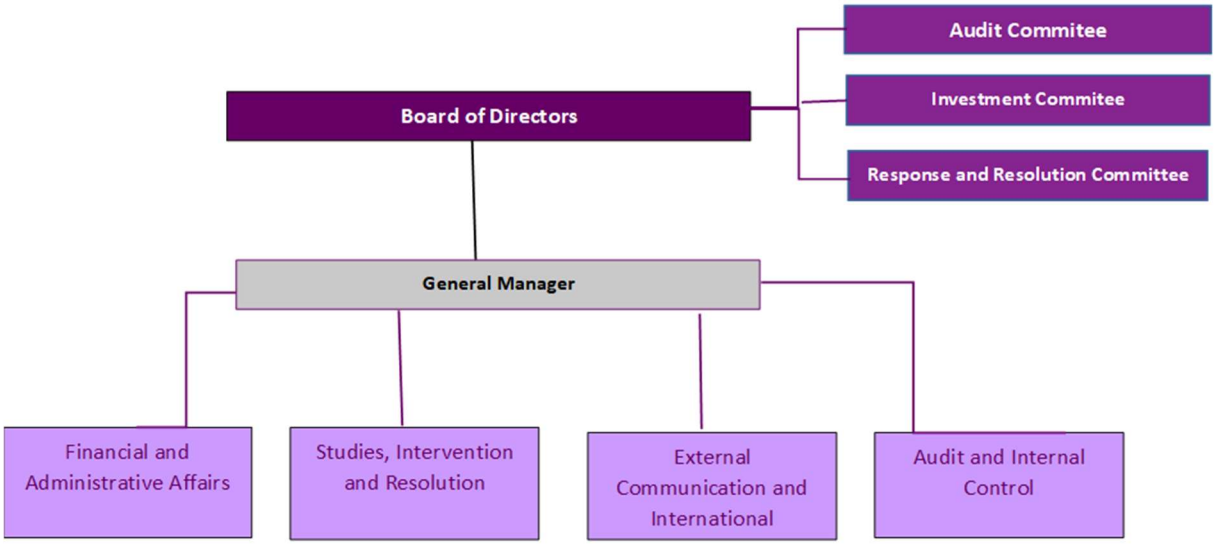
The Intervention and Resolution Committee is responsible for examining all matters falling within the company's scope of responsibility and relating to the resolution of the difficulties of member credit institutions, in particular those relating to:

1. the terms and conditions for granting repayable assistance to a member credit institution;
2. the terms and conditions for acquiring stakes in the share capital of a member credit institution or in the capital of entities resulting from the application of the provisions of paragraphs 2, 3 and 4 of Article 115 of Law No. 103-12 on credit institutions and similar bodies;
3. the process for compensating depositors of a member credit institution.

The Intervention and Resolution Committee is chaired by the Director General of Bank Al-Maghrib and is composed of two independent directors, the Director General of the SGFG and the Head of the Banking Supervision Department at Bank Al-Maghrib. It meets once a year and whenever necessary.

c. Organizational Structure

SGFG's organizational structure is centered on its main business lines, enabling it to carry out its missions in the best possible conditions.



SGFG's organization is divided into four entities responsible for:

i) financial and administrative affairs,
ii) studies, intervention and resolution,
iii) external communication and international cooperation,
iv) audit and internal control.

The responsibilities of the entity in charge of financial and administrative affairs include the following main tasks:

- ensuring that all work related to the financial management of the SGFG and the two Deposit Insurance Funds is carried out;
- applying the accounting principles and procedures in force;
- ensuring the preparation of financial statements and related reports;
- ensuring coordination between the company's administrative, accounting and budgetary activities.

The entity in charge of studies, intervention and resolution has the following missions:

- ensure the analysis of data for the assessment of banking risks;
- prepare the company's intervention plans in consultation with the relevant departments of Bank Al-Maghrib;
- contribute to the development of regulatory texts.

As for the entity in charge of external communication and international cooperation, it has the following responsibilities:

- participate in the promotion of the company's internal and external communication efforts;
- prepare and organize public awareness-raising initiatives on the merits and limitations of the bank deposit insurance system;
- monitor cooperation agreements with partners.

The entity in charge of audit and internal control has the following tasks:

- ensure the implementation of the internal control plan;
- develop procedures and ensure their application in accordance with current standards;
- ensure the effectiveness of internal control and ensure that reporting is regularly sent to SGFG's senior management;
- identify internal control weaknesses and ensure that they are addressed and monitored;
- define and implement internal audit plans;
- supervise and coordinate the company's internal audit activities;
- ensure the implementation of the recommendations made during audit missions and following the risk assessment;
- prepare the internal audit reports for the attention of senior management and the Audit and Risks Committee;
- follow the recommendations of the Audit and Risks Committee to ensure the soundness of the internal control system within the company.

3. Main highlights

January 2018	-	Holding of the 5th meeting of the Audit and Risks Committee.
	-	Participation in the work of the conference on banking resolution organized by IADI in Basel, Switzerland.
March 2018	-	Holding of the 8th meeting of the Investment Committee.
	-	Holding of the 6th meeting of the Audit and Risks Committee.
	-	Holding of the 6th meeting of the Board of Directors.
	-	Launch of the call for tenders for the outsourcing of the management of part of FCGD's assets.
	-	Participation in a training seminar organized by the Federal Deposit Insurance Corporation (FDIC) for IADI members in Washington, USA.
April 2018	-	A meeting was held in Paris with Moroccan banks with a presence in France to discuss the implementation of the Single Customer View (SCV) for the purpose of compensating depositors.
May 2018	-	Holding of the 9th meeting of the Investment Committee.
June 2018	-	Holding of the Ordinary General Meeting of the SGFG.
	-	Signing by the Wali of Bank Al-Maghrib of the SGFG's specifications.
July 2018	-	Adoption by the Credit Institutions Committee of circular No. 6/W/2018 relating to the conditions for paying contributions to the FCGD.
	-	Adoption by the Credit Institutions Committee of circular No. 7/W/2018 relating to the conditions for the management of the FCGD's resources by the SGFG and its interventions.
	-	Participation in a study visit of the German Deposit Insurance Scheme (EIS) in Cologne.
August 2018	-	Participation in a study visit to Malaysia's deposit insurance scheme.

October 2018	-	Holding of the 10th meeting of the Investment Committee.
	-	Participation of the SGFG in the work of IADI' s Annual Conference and General Meetings in Basel, Switzerland.
	-	Re-election of the SGFG as Vice-President of the MENA Regional Committee, which is affiliated with IADI.
	-	Election of SGFG as a member of the Working Group set up jointly by IADI and IFSB to develop the core principles for deposit insurance schemes for participative banks.
	-	Participation in the work of the 9th meeting of the MENA and Africa Regional Committee.
	-	Holding of the 7th meeting of the Audit and Risks Committee.
	-	Launch of the call for tenders for a feasibility study on the depositor compensation ecosystem.
November 2018	-	Selection of an external firm to assist the SGFG in carrying out a feasibility study on the implementation of a depositor compensation ecosystem.
December 2018	-	Start of workshops with the selected firm on the compensation ecosystem.

4. Update on the achievements of the 2018 action plan

Established by Banking Law No. 103-12 of December 2014, with a view to contributing to the protection of depositors, the SGFG's effective implementation was reflected, at the end of its first three-year plan, in the operationalization of its work and the strengthening of its human resources. 2018 was a year of transition and operational consolidation, characterized by the continuation of the structural projects initiated during the 2015-2017 period and the launch of new decisive projects in line with its missions.

The project to insource the accounting work that was previously outsourced to an external firm was continued. Thus, after the year-end accounting treatments were carried out in "Parallel Run" concurrently with the service provider in 2017, 2018 was the first year in which the company's accounting was fully and independently taken over by the company itself.

Following the recommendations of the Board of Directors, the draft accounting framework for the Deposit Insurance Fund has been finalized. In this context, the SGFG was assisted by an external service provider who prepared a draft of the said chart of accounts submitted for approval to the *Conseil National de la Comptabilité* (National Accounting Council - CNC).

In 2018, Bank Al-Maghrib's mandate was managed in accordance with the guidelines of the Investment Committee. Indeed, all assets were in the investment universe, all limits/restrictions were observed and management was in line with liquidity and security objectives. With regard to the outsourced management program, a call for tenders open to all asset management companies was launched on 8 March 2018. At the end of the selection process, which was characterized by its independence and transparency, two candidates were selected.

In 2018, the SGFG continued to work towards the establishment of an internal control system that transposes international best practices. It has adopted procedure manuals covering the 9 mapped processes divided into business, support and management components. 2018 was also marked by the completion of process and risk mapping. In this context, the overall assessment of the internal control system provided reasonable assurance as to the effectiveness of the processes and procedures put in place by the SGFG to achieve the stated objectives of these activities.

SGFG also continued coordination with Bank Al-Maghrib to finalize (1) the specifications defining the obligations and operating rules of the company, the terms and conditions of its contribution to the recovery of the difficulties of credit institutions as well as the terms and conditions for exchanging information with it and (2) the circulars relating to the payment of contributions by member institutions, the terms and conditions for managing the fund's assets and its interventions.

SGFG has also launched a feasibility study for the implementation of a compensation ecosystem with the support of a firm selected following a call for tenders.

5. Completed work

a. Development of the new 2019-2021 Strategic Plan

At the end of the SGFG's first strategic plan for the 2015-2017 period, a review was carried out and revealed significant progress in all strategic areas. Indeed, the SGFG has acquired the necessary resources for its operation, to be able to assume its responsibilities in the best conditions of efficiency and to comply with the best international practices in this field. At the end of this strategic plan, the SGFG began work at the beginning of 2018 to define its new strategic plan for the 2019-2021 period by adopting a participatory approach, involving all the company's employees, which took place in several stages represented below.

SGFG plans to consolidate its achievements and aims to "Be a leading deposit insurer that is trusted by depositors". This new vision, the result of a reflection by all the SGFG employees, will guide its projects and actions to help it meet its future challenges, both internal and external. Over the next three years, the SGFG will be relying on three main strategic directions to achieve and implement this vision.

The first direction, "Use the required capabilities to compensate depositors in a timely manner in accordance with best practices and work towards the FCGD interventions that are consistent with international standards", covers all the components of an ecosystem that must be built by the SGFG in order to carry out its deposit insurance mission in a timely manner.

The second direction, "Maintain good governance practices, develop expertise in deposit insurance and strengthen relationships with stakeholders", concerns the governance arrangements, analytical capabilities and partnerships that must be developed by the SGFG to carry out its mission effectively and efficiently and adapt to changes that may impact its environment.

The third direction, "Roll out a communication strategy that covers the internal and external arenas", refers to the various measures that must be taken to build the SGFG's image and communicate effectively both internally and externally.

b. Bank Al-Maghrib definition of the SGFG's specifications

In the course of 2018, Bank Al-Maghrib defined SGFG's specifications in accordance with the provisions of article 132 of law no. 103-12 relating to credit institutions and similar bodies. These specifications include a set of provisions, the majority of which were implemented by the SGFG.

The new provisions of these specifications relate in particular to the operational procedures for compensating depositors and the exchange of information and data between Bank Al-Maghrib and the SGFG.

SGFG's first self-assessment exercise in relation to the provisions of the said specifications was carried out internally in order to assess the level of compliance of the SGFG's practices in this area and to establish an action plan to ensure full compliance with all the requirements of the aforementioned specifications.

c. Internal control system

In 2018, the SGFG continued the work of deploying its internal control system, which transposes internationally recognized reference frameworks. To this end, work was carried out to map the SGFG's various work processes and identified 9 processes covering operational, support and management activities.

The activities related to the identified processes were used to set up a risk management system that combines a top-down approach with a bottom-up approach in order to cover cross-functional activities, the comprehensiveness of functions, processes and risk types. These reviews have enabled the mapping of more than 20 major risks grouped into 3 families, namely strategic, financial and operational risks. These risks have been rated taking into account their probability of occurrence as well as their impacts in the event that they materialize. These ratings have been classified into matrices to provide a visual representation of the gross and net risks affecting the activities of the SGFG and the FCGD.

SGFG also carried out internal audit activities in 2018. Thus, an annual audit plan has been defined by the SGFG and approved by its Audit and Risks Committee. The missions carried out covered the accounting processes of the SGFG and the FCGD in order to ensure that these processes were controlled after they were insourced at the SGFG level.

An overall assessment of the internal control system was also carried out, and it was concluded that it provides reasonable assurance as to the effectiveness of the processes and procedures put in place to achieve the objectives set for the SGFG's activities.

d. Information systems compliance and security

With regard to compliance with Law no. 09-08 on the protection of personal data, a project has been initiated in three phases which, in accordance with the requirements of the aforementioned law, define personal data, their processing and their level of protection. The procedure for notifying processing has been completed with the *Commission nationale de contrôle de la protection des données personnelles* (National Commission for the Control of Personal Data Protection - CNDP), the company has received a favorable decision on all its processing operations in relation to personal data. In order to ensure the continued compliance with this law over the long term, the company has set up a cross-functional organizational system to monitor all aspects of personal data protection.

2018 was also marked by the implementation of an organizational and operational framework to comply with the National Directive on Information Systems Security (DNSSI).

e. Self-assessment exercise in relation to IADI's core principles

At the request of its Board of Directors, the SGFG carried out a preliminary self-assessment exercise of the deposit insurance system in relation to the 16 core principles for effective deposit insurance systems, set out in 2009 by IADI and the Basel Committee and reviewed in 2014 to take into account the lessons learnt from the international financial crisis.

This first exercise made it possible to determine the compliance of the deposit insurance system with these principles, as well as to identify gaps, particularly those of a legal and regulatory nature.

Box No. 4: Self-assessment exercise in relation to the core principles for effective deposit insurance systems

In 2018, the SGFG conducted a self-assessment exercise of the deposit insurance system in relation to the core principles for effective deposit insurance systems, first published in 2009 by IADI and the Basel Committee and revised in 2014.

The new set of principles, which provides a more solid and rigorous basis to the previous version, addresses issues of resolution, and defines increasingly demanding principles of action to take into account the lessons learnt from the international financial crisis. In particular, it includes a 7-day repayment target, rules on financing and management, governance and the elimination of conflicts of interest.

These principles, totaling 16, are minimum standards for countries considering setting up a deposit insurance system or for those wishing to reform their current systems. Each core principle has a set of essential criteria that make its ultimate goal explicit.

These principles are also aimed at helping countries to have deposit insurance schemes that meet the highest standards. These principles are currently used by the IMF and the World Bank in the framework of FSAP missions.

The self-assessment carried out by SGFG was based on the methodology developed by IADI, which allows each country to position itself in terms of the degree of compliance with these principles, on a 5-grade scale rating system:

- Compliant,
- Relatively compliant,
- Relatively non-compliant,
- Non-compliant,
- Not applicable.

Box No. 4: Self-assessment exercise in relation to the core principles for effective deposit insurance systems (continued)

The approach adopted by the SGFG consisted, for each core principle, in assessing the essential criteria associated with it to ultimately support whether or not it was complied with.

In the light of this self-assessment exercise, our deposit insurance system is overall in line with IADI principles.

However, the non-compliance issues identified relate directly to the legal and regulatory framework, which should eventually be reviewed.

f. FCGD accounting framework and insourcing of accounting activities

A draft accounting plan for FCGD was prepared with the support of an external service provider. This project was submitted for approval to the SGFG's Audit and Risk Committee before submission to the *Conseil National de la Comptabilité* (National Accounting Council - CNC) for approval. This draft was reviewed by the Standing Committee of the CNC at its 76th meeting, which set up a working group to review and finalize this chart of accounts.

At the same time, the issue of the FCGD's taxation was discussed with the DGI, which was made aware of the FCGD's objectives, the content of its draft chart of accounts and its tax impacts. In addition, a tax-deductible regulated provision for intervention risk was introduced in Bank Al-Maghrib's circular on the management of the FCGD's resources.

With regard to accounting, the accounting work that was carried out by an external firm in previous years was fully performed by the SGFG in 2018. As of 2019, in addition to accounting according to CGNC standards, the SGFG should also be responsible for keeping the accounts of the FCGD according to the new chart of accounts.

6. Work of the internal committees

a. Investment Committee

Over the course of 2018, the Investment Committee held four meetings, in which Bank Al-Maghrib's departments reviewed the investment activities of the FCGD's assets and monitored the performance and risks of this activity. The investment committee also steered the call for tenders to select two asset management companies to set up two bond mutual funds. This important event for the financial center aroused strong interest from the market due to its scale.

b. Audit and risks committee

The Audit and Risks Committee met twice in 2018 to review the financial statements of the SGFG and the FCGD and the related pre-opinion of the Statutory Auditor, as well as the progress of the project to set up the internal control system. The Committee also assessed the mapping of risks affecting the activities of the SGFG and the FCGD.
In addition, the Committee organized a workshop that was dedicated to the review of the draft chart of accounts of the FCGD.

7. International Cooperation and Technical Assistance

a. Principles for participative deposit insurance systems

In 2018, the SGFG had a significant presence on the international arena. As such, and with the support of IADI, the SGFG, in collaboration with the deposit insurance institutions of Jordan, Malaysia and Indonesia, actively contributed to the creation of a joint working group with IFSB members to establish the fundamental principles for effective participative deposit insurance systems.

The work in which the SGFG participated in the course of 2018 led to the proposal of a first version of these principles to the Shariah Committee of the Islamic Development Bank. Similarly, the SGFG took part in the work of the IADI Technical Assistance Committee and attended its last meeting held in Basel on the margins of the IADI General Meeting and its annual conference in October. This Technical Assistance Committee approved the choice of Morocco to host the second workshop on technical assistance, following the success of the first edition held in Casablanca in March 2017.

Furthermore, the SGFG was unanimously re-elected as Vice-President of the MENA Regional Committee. For the next two years, the chairmanship of this Committee will be held by the Palestine Deposit Insurance Institution.

b. Proceedings of the IADI Annual General Meeting and Annual Conference

In October 2018, the SGFG, as a fully-fledged member, took part in the various proceedings organized on the occasion of the 17th meeting of the IADI Annual General Meeting and Annual Conference in Basel, Switzerland, in collaboration with the Bank for International Settlements. The SGFG took part in the meetings of the IADI-related commissions and working groups, as well as the activities of the MENA Committee and the Africa Committee.

c. Study Visits

In order to learn about international best practices in depositor compensation, and in addition to the benchmarking studies carried out, the SGFG managers carried out two study visits to Germany and Malaysia. These meetings provided a better understanding of the functioning of the depositor compensation system in these countries and the approaches they have put in place to adapt to their legal and regulatory environment, as well as the relationships they have established with banks in the marketplace.

PART V: FINANCIAL STATEMENTS AND PERFORMANCE OF THE SGFG AND THE FCGD

PART V: FINANCIAL STATEMENTS AND PERFORMANCE OF THE SGFG AND THE FCGD

1. 2018 Financial Statements of the FCGD

FONDS COLLECTIF DE GARANTIE DES DEPOTS

INDEPENDENT AUDITOR'S REPORT FOR THE YEAR ENDING DECEMBER 31, 2018

Deloitte

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To the shareholders of the **Société Marocaine de Gestion des Fonds de Garantie des Dépôts Bancaires (SGFG)**
162, Boulevard d'Anfa, 7th floor – Casablanca

GENERAL REPORT OF THE INDEPENDENT AUDITORS
FINANCIAL YEAR FROM JANUARY 1 TO DECEMBER 31, 2018

We have audited the enclosed financial statements of the **Fonds Collectif de Garantie des Dépots**, comprising the balance sheet, the income statement, the management discussion and analysis, the cash flow statement and supplemental information for the year ending on December 31, 2018. These financial statements show an amount of equity capital and quasi equity of KMAD 24,130,362, including a net profit of KMAD 314,585.

Responsibility of Management

Management is responsible for the preparation and fair presentation of these financial statements, in accordance with the accounting standards accepted in Morocco. This responsibility includes the design, implementation and follow-up of internal controls relevant to the preparation and presentation of financial statements that are free from material misstatement, as well as making reasonable accounting estimates given the circumstances.

Responsibility of the Auditor

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

An audit involves performing procedures with a view to obtain audit evidence about the amounts and information provided in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatement of the financial statements. In making these risk assessments, the auditor considers the internal controls in force within the entity relating to the preparation and presentation of the financial statements in order to define the audit procedures that are appropriate in the circumstances, and not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes an assessment of the appropriateness of the accounting methods used and the reasonable nature of accounting estimates made by Management, as well as an assessment of the overall presentation of the financial statements.

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

Opinion on the financial statements

In our opinion, the financial statements mentioned in the first paragraph above give, in all material respects, a true and fair view of the assets and financial position of the **Fonds Collectif de Garantie des Dépots** as at December 31, 2018, and of the performance of its operations for the year then ended, in accordance with the accounting standards accepted in Morocco.

Without calling into question the opinion expressed above, we hereby inform you that the principles set out in Note III. 1 of Statement A1 of the supplemental information have been applied with regard to the recognition and presentation of contributions from credit institutions.

Casablanca, May 7, 2019

The Independent Auditor

Deloitte Audit

Fawzi BRITEL
Partner

BALANCE SHEET OF THE FCGD: ASSETS

Year ending 31/12/2018

	ASSETS	2018	2017
	NIL VALUE ASSETS (a)	0,00	0,00
	Preliminary expenses		
	Deferred charges		
	Bond redemption premiums		
F	INTANGIBLE ASSETS (b)		
I	Assets in research and development		
X	Patents, trademarks, rights and similar rights		
E	Goodwill		
D	Other intangible assets		
	TANGIBLE ASSETS (c)	0,00	0,00
	Land		
A	Buildings		
S	Property, plant and equipment		
S	Transport equipment		
E	Office equipment, furniture and fittings		
T	Other tangible assets		
S	Tangible assets in progress		
	FINANCIAL ASSETS (d)	19 824 062 093,75	20 240 697 759,61
	Long-term loans		
	Other financial receivables	1 988 461 571,32	1 804 138 719,78
	Equity securities		
	Other long-term securities	17 835 600 522,43	18 436 559 039,83
	TRANSLATION ADJUSTMENT - ASSETS (e)		
	Decrease of long-term receivables		
	Increase of financing debt		
	TOTAL I (a+b+c+d+e)	19 824 062 093,75	20 240 697 759,61
	INVENTORY (f)	0,00	0,00
	Goods		
	Consumable materials and supplies		
C	Goods-in-process		
U	Intermediate products and residual products		
R	Finished products		
R	CURRENT ASSETS RECEIVABLES (g)	439 997 880,10	433 582 093,45
E	Advances and down payments to suppliers		
N	Accounts receivable		
T	Personnel		
	Government	0,00	11 062 447,33
A	Shareholder loan account		
S	Other receivables		
S	Accruals and deferrals	439 997 880,10	422 519 646,12
E	SECURITIES AND INVESTMENT SECURITIES (h)	3 876 612 241,59	1 545 027 476,26
T	TRANSLATION ADJUSTMENT - ASSETS (i) (current items)		
S	TOTAL II (f+g+h+i)	4 316 610 121,69	1 978 609 569,71
C	CASH - ASSETS	372 921,97	958 127,66
A	Checks and bills awaiting collection		
S	Bank deposits, cash and post office deposit accounts	372 921,97	958 127,66
H	Cash, imprest accounts and letters of credit		
	TOTAL III	372 921,97	958 127,66
	TOTAL GENERAL I+II+III	24 141 045 137,41	22 220 265 456,98

BALANCE SHEET OF THE FCGD : LIABILITIES

Year ending 31/12/2018

	LIABILITIES	2018	2017
	EQUITY CAPITAL (a)		
	Social capital or personal assets (1)		
	Less: Shareholders, subscribed, uncalled capital including payment		
P	Issue, merger and transfer premiums		
E	Revaluation reserve		
R	Legal reserve		
M	Other reserves	4 474 892 683,52	4 117 762 614,66
A	Retained earnings (2)		
N	Net income pending allocation (2)		
E	Net income for the financial year (2)	314 584 595,80	357 130 068,86
N	TOTAL EQUITY CAPITAL (a)	4 789 477 279,32	4 474 892 683,52
T	QUASI EQUITY (b)	0,00	0,00
	Investment grants		
F	Regulated provisions		
I	Contributions from credit institutions	19 340 885 129,58	17 731 310 402,68
N	FINANCING DEBTS (c)	19 340 885 129,58	17 731 310 402,68
A	Bond issues		
N	Other financing debts		
C	PROVISIONS FOR LIABILITIES AND CHARGES (d)	0,00	0,00
I	Provisions for liabilities		
N	Provisions for charges		
G	TRANSLATION ADJUSTMENT - LIABILITIES (e)	0,00	0,00
	Increase of long-term receivables		
	Decrease of financing debt		
	TOTAL I (a+b+c+d+e)	24 130 362 408,90	22 206 203 086,20
C	DEBT OF CURRENT LIABILITIES (f)	10 682 728,51	14 062 370,78
U	Accounts payable and related accounts	3 697 537,00	6 128 628,73
R	Advances and prepayments		
R	Personnel		
E	Social organizations		
N	Government	6 985 191,51	7 933 742,05
T	Shareholder loan account		
	Other creditors		
L	Accruals and deferred income		
I	OTHER PROVISIONS FOR LIABILITIES AND CHARGES (g)		
A	TRANSLATION ADJUSTMENT - LIABILITIES (h) (current items)		
B	TOTAL II (f+g+h)	10 682 728,51	14 062 370,78
C	CASH - LIABILITIES	0,00	0,00
A	Discount loans		
S	Cash loans		
H	Banks (credit balances)		
	TOTAL III	0,00	0,00
	TOTAL I+II+III	24 141 045 137,41	22 220 265 456,98

(1) Personal assets with a negative balance

(2) Profit (+). Loss (-)

2. 2018 financial statements of the SGFG

SOCIETE MAROCAINE DE GESTION DES FONDS DE GARANTIE DES DEPOTS BANCAIRES SA

INDEPENDENT AUDITOR'S REPORT FOR THE YEAR ENDING DECEMBER 31, 2018

Deloitte

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To the shareholders of the **Société Marocaine de Gestion des Fonds de Garantie des Dépôts Bancaires (SGFG)**
162, Boulevard d'Anfa, 7th floor – Casablanca

GENERAL REPORT OF THE INDEPENDENT AUDITORS
FINANCIAL YEAR FROM JANUARY 1 TO DECEMBER 31, 2018

In accordance with the mission entrusted to us by your General Meeting, we have audited the enclosed financial statements of the **Société Marocaine de Gestion des Fonds de Garantie des Dépôts Bancaires S.A.**, comprising the balance sheet, the income statement, the management discussion and analysis, the cash flow statement and supplemental information for the year ending on December 31, 2018. These financial statements show an amount of equity capital and quasi equity of KMAD 3 515, including a net profit of KMAD 1,062.

Responsibility of Management

Management is responsible for the preparation and fair presentation of these financial statements, in accordance with the accounting standards accepted in Morocco. This responsibility includes the design, implementation and follow-up of internal controls relevant to the preparation and presentation of financial statements that are free from material misstatement, as well as making reasonable accounting estimates given the circumstances.

Responsibility of the Auditor

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

An audit involves performing procedures with a view to obtain audit evidence about the amounts and information provided in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatement of the financial statements. In making these risk assessments, the auditor considers the internal controls in force within the entity relating to the preparation and presentation of the financial statements in order to define the audit procedures that are appropriate in the circumstances, and not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes an assessment of the appropriateness of the accounting methods used and the reasonable nature of accounting estimates made by Management, as well as an assessment of the overall presentation of the financial statements.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion on the financial statements

In our opinion, the financial statements mentioned in the first paragraph above give, in all material respects, a true and fair view of the assets and financial position of the **Société Marocaine de Gestion des Fonds de Garantie des Dépôts Bancaires S.A.** as at December 31, 2018, and of the performance of its operations for the year then ended, in accordance with the accounting standards accepted in Morocco.

Specific verifications and information

We have also carried out the specific verifications required by law and we have ensured in particular that the information provided in the Board of Directors' management report to shareholders is consistent with the Company's financial statements.

Casablanca, May 7, 2019

The Independent Auditor

Deloitte Audit

Fawzi BRITEL
Partner

a. Balance sheet

As at December 31, 2018, the balance sheet total remained stable overall compared to the previous year, at MAD 5,330,058 versus MAD 5,371,601. Most of this change is attributable to the Cash - Assets item.

BALANCE SHEET	Amounts (in thousands of dirhams) 2018	2017
Total Assets	**5 330**	**5 371**
Tangible assets	**778**	**944**
Furniture, equipment and leasehold improvements	615	750
Transport equipment	133	190
Technical plant, machinery and equipment	3	4
Other tangible assets	27	0
Intangible assets	**368**	**281**
Other intangible assets	368	281
Financial assets	**315**	**315**
Other financial receivables	315	315
Current assets receivables	**1 766**	**3 780**
Prepaid expenses	413	-
Accounts receivable	1 146	3 466
Personnel	130	144
Government	16	149
Prepayments and deferred charges	61	21
Cash – Assets	**2 102**	**51**
Bank	2 100	42
Cash	2	9

Total Liabilities	5 330	5 371
Equity Capital	**3 358**	**2 453**
Share capital	1 000	1 000
Retained earnings	1 380	571
Legal reserve	73	30
Net income	905	852
Current liabilities debts	**1 972**	**2 918**
Accounts payable and related accounts	416	884
Personnel	297	633
Social organizations	636	287
Government	528	1 114
Accrued charges and deferred income	95	-

1.1.1 Assets

Items recognized in the accounts are measured using the historical cost method. Depreciation of fixed assets is calculated on a straight-line basis over their estimated useful life.

On a gross basis, fixed assets increased significantly to MAD 2.06 million, mainly due to the increase in tangible fixed assets following the roll-out of the company's activities.

1.1.2 Tangible assets

Tangible assets are recognized at acquisition cost, less depreciation. They have increased significantly due to the combined effect of the acquisition of IT and office equipment.

1.1.3 Intangible assets

Intangible assets mainly relate to the acquisition of licenses for the information system. The amortization period for this asset is 5 years.

1.1.4 Current assets receivables

Trade receivables are considered as company assets and are recognized using the amortized cost method. A provision for impairment may also be recorded if there is objective evidence of impairment or of the company's inability to recover all amounts due under the initially expected conditions.

This item, which exclusively includes the SGFG's receivables from the FCGD and advances to suppliers and personnel, amounted to MAD 1.77 million compared with MAD 3.78 million at the end of December 2017.

1.1.5 Cash- assets

In accordance with the historical cost principle, cash and bank balances on the balance sheet are stated at their nominal amount and are subject to negligible risk of changes in value.

1.2 Liabilities

Liabilities amounted to MAD 5.33 million, comprising shareholders' equity (MAD 3.36 million) and current liabilities (MAD 1.97 million).

1.2.1 Equity capital

Under the provisions of the General Code of Accounting Standards (CGNC), equity capital consists of the company's capital, additional contributions such as premiums (issue, merger, etc.), revaluation surplus, if any, reserves and retained earnings, as well as unrestricted net income including net income for the year.

The SGFG's equity capital consists of the share capital of MAD 1 million which was fully subscribed in 2015, the legal reserve of KMAD 73, the retained earnings of KMAD 1,380 and the net income for the year of KMAD 905. The amount of corporate income tax payable is KMAD 451, calculated on the basis of a rate of 31%.

1.2.2 Current liabilities debts

In accordance with the CGNC, current liabilities debts include liabilities that are not related to operating transactions if these debts are presumed to be due for payment in more than twelve months at the time they are incurred. The latter remain irreversibly recorded in their entry account until they are completely extinguished unless an event or assessment affects the conditions of their initial entry.

The SGFG's current liabilities consist of:

1. Debts amounting to KMAD 416 to suppliers and related accounts. These are invoices that were not received by the company and that are relating to the remuneration of intermediaries and sundry fees;
2. Amounts totaling KMAD 636 due by the SGFG to social security organizations;
3. Debts recorded at the level of the Government item for MAD 528 million.

b. Income and expense account

Turnover at year-end 2018 amounted to MAD 13,955,675.61 versus MAD 12,539,213 at year-end 2017. Income consists mainly of commissions received for services rendered by the company to the FCGD.

INCOME AND EXPENSE ACCOUNT	Amounts (in thousands of dirhams) 2018	2017
Total Income	**13 972**	**12 634**
Operating income	**13 956**	**12 539**
Financial income	**-**	**-**
Non-current income	**16**	**95**
Total expenses	**12 616**	**11 398**
Operating expenses	**12 588**	**11 396**
Purchases of materials and supplies used	410	551
Other external charges	2 270	3 194
Taxes and duties	99	36
Personnel charges	9 369	7 242
Other operating expenses	140	140
Operating allowances	300	233
Financial expenses	**-**	**-**
Non-current charges	**28**	**2**
Pre-tax income	**1 355**	**1 235**
Income tax	**451**	**383**
Net income	**904**	**852**

Operating expenses amounted to KMAD 12,588. The main causes of this increase are:

- The increase in expenses in line with the full-scale deployment of personnel.
- The constitution of a depreciation allowance relating to fixed assets (computer equipment and furniture).

All these changes resulted in a 6% increase in net income to MAD 904,556.26 at the end of the year. It is proposed that this income be allocated as follows:

- To the legal reserve (5% of the year's profit) MAD 45,227.81
- To retained earnings MAD 859,328.45

RESOLUTIONS OF THE COMBINED GENERAL MEETING

FIRST RESOLUTION
Approval of the company financial statements for the 2018 financial year

The Combined General Meeting of Shareholders, deliberating under the quorum and majority conditions required for ordinary meetings and having taken note of:

- the management report presented by the Board of Directors;
- the special report presented by the Statutory Auditor;
- the general report of the Statutory Auditor on the performance of their mission.

Approves the company financial statements for the year ended December 31, 2018, which show a net profit of MAD 904,556.26 and gives discharge to the Board of Directors for its management of the Company's business during the said year.

The Combined General Meeting grants discharge to Deloitte Audit in respect of its mandate as Statutory Auditor for the year ended 31 December 2018.

SECOND RESOLUTION
Allocation of the profit

The Combined General Meeting of shareholders, acting with the quorum and majority requirements for ordinary general meetings, approves the proposals of the Board of Directors related to the allocation of the net income of MAD 904,556.26 for the year ending December 31, 2018 as follows:

- To the legal reserve (5% of the year's profit) MAD 45,227.81
- To retained earnings MAD 859,328.45

THIRD RESOLUTION
Approval of the conventions specified in article 56 of the Law on limited companies

FOURTH RESOLUTION
Renewal of the mandate of the statutory auditor

The Combined General Meeting, having noted the expiry of the mandate of Deloitte Audit, statutory auditor, decided to renew its mandate for a period of three (3) financial years, i.e. until the end of the General Meeting called to approve the accounts for the financial year ending 31 December 2021.

ON AN EXTRAORDINARY BASIS

FIFTH RESOLUTION
Share capital increase reserved for participative banks

The Combined General Meeting authorizes an increase in the Company's share capital, reserved for participative banks **Al Akhdar Bank, Bank Assafa, Bank Al Yousr, BTI Bank, Umnia Bank**, for an amount of MAD 987,218.85 by issuing 2,940 new shares with a nominal value of MAD 100 each.

The maximum amount of the overall contribution corresponding to the maximum nominal value of the capital increase, or MAD 293,737.11, and to the maximum overall issue premium, or MAD 693,218.85.

The new shares will be subscribed and fully paid up in cash.

The 2,940 new shares will carry dividend rights from the date of final completion of the reserved capital increase and will be assimilated to the existing shares and will therefore be subject to all the provisions of the Articles of Association and the decisions of the General Meetings.

Consequently, the new shares will give entitlement to any profit distributions or reserve allocations that may be decided by the Company as from the date of final completion of the reserved capital increase, it being specified for all purposes that the new shares to be created by the Company as part of the reserved capital increase will not give entitlement to any profit distributions or premium reserves or share capital reduction allocations, of any kind whatsoever, paid before the date of completion of the said share capital increase.

SIXTH RESOLUTION
Cancellation of shareholders' rights issue in favor of participative banks

The Combined General Meeting decided to cancel this right, in favor of participative banks Al Akhdar Bank, Bank Assafa, Bank Al Yousr, Bank Al Yousr, BTI Bank, Umnia Bank, and consequently to reserve the subscription of the new shares to be issued under this capital increase for the said participative banks.

SEVENTH RESOLUTION
Authority for the capital increase

The Combined General Meeting delegates the broadest authorities to the Board of Directors for the purpose of:

- deciding on the reserved capital increase within the limit of the authorized amount;
- setting the final characteristics and terms and conditions for completing the reserved capital increase, amending the Articles of Association accordingly to reflect the new amount of capital, recognizing the subscription, payment and final completion of the reserved capital increase and taking all decisions necessary for the final completion of the said transaction;

- and, generally, taking all necessary measures and carrying out all formalities necessary for the final completion of the aforementioned capital increase.

EIGHTH RESOLUTION
Authority to carry out formalities

The Combined General Meeting, acting under the quorum and majority conditions required for ordinary meetings, grants full authority to the bearer of a copy or extract of the minutes of this Meeting to carry out the formalities provided for by law.

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ABBREVIATIONS AND ACRONYMS

BAM	Bank Al-Maghrib
WB	World Bank
BD	Board of Directors
ARC	Audit and Risk Committee
CGNC	General Code of Accounting Standards
IC	Investment Committee
IRC	Intervention and Resolution Committee
CNC	National Accounting Council
FSB	Financial Stability Board
CPs	Core principles for effective deposit insurance systems
FCGD	Collective Deposit Insurance Fund
FDIC	Federal Deposit Insurance Corporation
FGDBP	Deposit insurance fund of participative banks
IMF	International Monetary Fund
FSAP	Financial Sector Assessment Program
GPBM	Professional Association of Moroccan Banks
HCP	High Commission for Planning
IADI	International Association of Deposit Insurers
FDI	Foreign Direct Investment
IFSB	Islamic Financial Services Board
MENA	Middle East and North Africa
GDP	Gross Domestic Product
GNDI	Gross National Disposable Income
LC	Limited Company
SGFG	The Moroccan Deposit Insurance Company