

FONDS D'EQUIPEMENT COMMUNAL

PROSPECTUS SUMMURAY

ISSUANCE OF ORDINARY BONDS

Total amount of the issuance : Between MAD 700 000 000 and MAD 1 000 000 000

	Tranche A Non-Listed	Tranche B Non-Listed	Tranche C Non-Listed
Maximum amount	Between MAD 700 000 000 and MAD 1 000 000 000	Between MAD 700 000 000 and MAD 1 000 000 000	Between MAD 700 000 000 and MAD 1 000 000 000
Maximum number	Between 7 000 and 10 000 bonds	Between 7 000 and 10 000 bonds	Between 7 000 and 10 000 bonds
Nominal Value	MAD 100 000	MAD 100 000	MAD 100 000
Nominal interest rate (incl. the spread)	<u>Reviewable on a 5 year basis</u> Between 4,03% and 4,23% (corresponding rate for the first five years)	<u>Fixed</u> Between 4,60% et 4,80%	<u>Reviewable on an annual basis</u> Between 3,23% and 3,43% (corresponding rate for the first year)
Risk premium	Between 80 and 100 bps	Between 90 and 110 pbs	Between 60 and 80 pbs
Maturity	15 years	15 years	10 years
Tradability of the securities	Over-the-counter	Over-the-counter	Over-the-counter
Repayment method	Linear annual depreciation of the principal	Linear annual depreciation of the principal	<i>In fine</i>
Allocation method	Dutch auction		

SUBSCRIPTION PERIOD: FROM THE 3rd TO THE 7th OF JULY 2015 INCLUDED

This issuance is reserved for qualified investors under Moroccan Law as listed in the prospectus

Financial advisors



CFG Finance



الشركة العامة
SOCIÉTÉ GÉNÉRALE

Agent in charge of centralization



CFG Group

Agents in charge of the placement



CFG Group



الشركة العامة
SOCIÉTÉ GÉNÉRALE

APPROVAL OF THE CDVM (The Moroccan Financial Authority)

In accordance with the CDVM circular, delivered in application of Section 14 of the Dahir n° 1-93-212 of September 21st 1993, relating to the CDVM and to the information required from legal entities issuing securities to the public, as amended and extended, the original copy of the present prospectus has been approved by the CDVM on the 24 June 2015 under reference n° VI/EM/015/2015.

WARNING

The Moroccan Financial Authority « CDVM » approved on the 24 june 2015 a prospectus related to the issue of ordinary bonds by the Fonds d'Equipement Communcal (FEC) for an amount between seven hundred million dirhams (MAD 700 000 000) and one billion dirhams (MAD 1 000 000 000).

The prospectus approved by the CDVM is available at any time at the head office of the FEC and of its financial advisors. It is also available within a maximum of 48 hours at the entities collecting the orders.

The prospectus is publicly available on the CDVM website at www.cdvm.gov.ma.

PART I. PRESENTATION OF THE OPERATION

I. OBJECTIVES OF THE OPERATION

The positive evolution of the credit activity of the FEC during the last years has logically been accompanied by an increase in both disbursement and financing needs, which required an increasing mobilization of resources. This increase should pursue over the coming years considering the development projects launched by the territorial agencies on a national scale.

In this context, the FEC's recourse to the bond market aims mainly at:

- financing its activity;
- diversifying the long-term funding sources and continuing the optimization of cost financing;
- consolidating the FEC's image against the main partners and strengthening its position as a regular issuer of bonds on the market.

II. CHARACTERISTICS OF THE OPERATION

Characteristics of the securities of Tranche A (Reviewable rate bonds every 5 years with a maturity of 15 years non-listed on the Casablanca stock-exchange)

Nature of securities	Non-listed bonds entirely dematerialized by subscription with the Central Depository (MAROCLEAR) and entered into account at the authorized affiliates.
Legal form	Bearer bonds.
Tranche amount	Between MAD 700 000 000 and MAD 1 000 000 000
Maximum number of securities to be issued	Between 7 000 and 10 000 bonds
Nominal value per unit	MAD 100 000
Subscription price	Par value : 100% of the nominal value.
Maturity	15 years
Subscription period	From the 3 rd to the 7 th of July 2015 included
Vesting date	13 July 2015
Maturity date	13 July 2025
Allocation method	Dutch auction
Nominal interest rate	Rate reviewable every 5 years For the first 5 years period, the nominal interest rate is determined based on the sovereign rate of the equivalent maturity (15 years annually amortized, reviewable every 5 years), taken from the secondary curve of the Treasury Bills of 26 May 2015, increased by a risk premium ranging between 80 and 100 basis points, i.e a rate between 4,03% and 4,23%. For the next two five-year periods, the nominal interest rate will be determined by reference to the sovereign rate of the equivalent maturity (15 years annually amortized, reviewable every 5 years), taken from the secondary curve Treasury Bills 5 working days before the date of coupon's payment, increased by a risk premium ranging between 80 and 100 basis points.
Risk premium	Between 80 and 100 basis points.
Interest rate fixing date	The interest rate shall be reviewed every five years and will apply at the anniversary date of the 5th and the 10th coupon. The new rate will be communicated in a legal ad newspaper by the centralizing agent at the latest five working days before the anniversary date of the 5th and the 10th coupons. The reviewed rate will be determined based on the sovereign rate of the equivalent maturity, taken from the secondary curve of the Treasury Bills increased with the selected risk premium.
Interests calculation	Interests shall be calculated using the following formula: [Outstanding principal x nominal rate]

Coupon payment	The coupons will be paid annually at each anniversary date of the vesting date date, i.e the 13 july of each year or on the first following working day in case that day is a non-working day. No deferral of the interests shall be possible in this operation.
Negotiability of the securities	Over-the-counter The securities shall be freely negotiated without any restriction by the issuance conditions.
Principal repayment	The principal repayment of the loan's tranche A, purpose of this prospectus, will occur annually and linearly at each anniversary date of the issuance vesting date or the first working day following that date if it is a non-working day.
Anticipated repayment	The FEC may not proceed with the anticipated repayment of bonds, purpose of this issuance. However, the FEC keeps the right to proceed, with the Bank Al-Maghrib prior consent, to bonds buy-back on the secondary market, provided the legal and regulatory provisions don't oppose to it, as these buy-backs are without consequence to a subscriber willing to keep his securities until normal expiry date and without effect on the normal amortization schedule. The bonds bought-back shall thus only be canceled upon consent of Bank Al-Maghrib.
Assimilation clause	The bonds issued by the FEC cannot be assimilated to any anterior securities issuance. In case the FEC subsequently issues new bonds with completely similar rights to tranche A bonds, it will be authorized, without requesting the consent of the holders of former bonds, to proceed to the assimilation of the whole securities successively issued, thus unifying the operations of their financial service and their negotiation.
Loan ranking	The bonds issued by the FEC and their interests constitute direct, general, unconditional and unsubordinated obligations of the issuer, ranking equally amongst themselves and the other present or future unsecured debts of the issuer.
Guarantee	The bonds issued by the FEC are not subject to any guarantee.
Rating	The bonds issued by the FEC have not been rated.
Applicable Law	Moroccan Law
Competent jurisdiction	Commercial Court of Rabat
Bondholders representation	Before the General Assembly of Bondholders, the Board Director of the FEC, by virtue of the powers granted to him by the Management Board, held on 29 October 2010, appointed Mister Mohamed HDID as a temporary proxy in accordance with the legal provisions on the subject. This decision will be effective at the opening of the subscription period and will expire at the appointment of the permanent authorized representatives by the General Assembly of Bondholders. The temporary proxy is committed to call the General Assembly of Bondholders in order to appoint the permanent authorized representative 30 days before the first scheduled amortization at the latest. Being specified that the appointed authorized representative will be the same person for tranches A, B and C of the loan, these being grouped in a single amount.

Characteristics of the securities of Tranche B (Fixed-rate bonds with a maturity of 15 years non-listed on the Casablanca stock-exchange)

Nature of securities	Non-listed bonds on the Casablanca Stock Exchange entirely dematerialized by subscription with the Central Depository (MAROCLEAR) and registered into account at the authorized affiliates.
Legal form	Bearer bonds.
Tranche amount	Between MAD 700 000 000 and MAD 1 000 000 000
Maximum number of securities to be issued	Between 7 000 and 10 000 bonds
Nominal value per unit	MAD 100 000
Subscription Price	Par value : 100% of the nominal value.
Maturity	15 years
Subscription period	From the 3 rd to the 7 th of July 2015 included
Vesting date	13 July 2015
Maturity date	13 July 2030
Allocation method	Dutch auction
Nominal interest rate	Fixed rate (determined at subscription end and communicated by the centralizing agent) The nominal interest rate is determined based on the sovereign rate of the equivalent maturity (15 years annually amortized, fixed), taken from the secondary curve of the Treasury Bills of 26 May 2015, increased with a risk premium ranging between 90 and 110 basis points, i.e. a rate between 4,60% and 4,80%.
Risk premium	Between 90 and 110 basis points.
Interests calculation	Interests shall be calculated using the following formula: [Outstanding principal x nominal rate]
Coupon payment	The coupons will be paid annually at each anniversary date of the vesting date, i.e. the 13 July of each year or the next working day if that day is a non-working day. No deferral of the interests shall be possible in this operation.
Negotiability of the securities	Over the counter. The securities shall be freely negotiated without any restriction by the issuance conditions.
Principal repayment	The principal repayment of the loan's tranche B, purpose of this prospectus will occur annually and linearly at each anniversary date of the issuance vesting date or the first working day following that date if it is a non-working day.
Anticipated repayment	The FEC may not proceed with the anticipated repayment of bonds, purpose of this issuance. However, the FEC keeps the right to proceed, with the Bank Al-Maghrib prior consent, to bonds buy-back on the secondary market, provided the legal and regulatory provisions don't oppose to it, as these buy-backs are without consequence to a subscriber willing to keep his securities until normal expiry date and without effect on the normal amortization schedule. The bonds bought-back shall thus only be canceled upon consent of Bank Al-Maghrib.
Assimilation clause	The bonds issued by the FEC cannot be assimilated to any anterior securities issuance. In case the FEC subsequently issues new bonds with completely similar rights to tranche B bonds, it will be authorized, without requesting the consent of the holders of former bonds, to proceed to the assimilation of the whole securities successively issued, thus unifying the operations of their financial service and their negotiation.
Loan ranking	The bonds issued by the FEC and their interests constitute direct, general, unconditional and unsubordinated obligations of the issuer, ranking equally

	amongst themselves and the other present or future unsecured debts of the issuer.
Guarantee	The bonds issued by the FEC are not subject to any guarantee.
Rating	The bonds issued by the FEC have not been rated.
Applicable Law	Moroccan Law
Competent jurisdiction	Commercial Court of Rabat
Bondholders representation	Before the General Assembly of Bondholders, the Board Director of the FEC, by virtue of the powers granted to him by the Management Board, held on 29 October 2010, appointed Mister Mohamed HDID as a temporary proxy in accordance with the legal provisions on the subject. This decision will be effective at the opening of the subscription period and will expire at the appointment of the permanent authorized representatives by the General Assembly of Bondholders. The temporary proxy is committed to call the General Assembly of Bondholders in order to appoint the permanent authorized representative 30 days before the first scheduled amortization at the latest. Being specified that the appointed authorized representative will be the same person for tranches A, B and C of the loan, these being grouped in a single amount.

Characteristics of the securities of Tranche C (annually reviewable-rate bonds with a maturity of 10 years non-listed at the Casablanca stock-exchange)

Nature of securities	Non-listed bonds on the Casablanca Stock Exchange entirely dematerialized by subscription with the Central Depository (MAROCLEAR) and registered into account at the authorized affiliates.
Legal form	Bearer bonds.
Tranche amount	Between MAD 700 000 000 and MAD 1 000 000 000.
Maximum number of securities to be issued	Between 7 000 and 10 000 bonds
Nominal value per unit	MAD 100 000.
Maturity	10 years.
Subscription price	Par value : 100% of the nominal value.
Subscription period	From the 3 rd to the 7 th of July 2015 included
Vesting date	13 July 2015
Maturity date	13 July 2025
Allocation method	Dutch auction
Nominal interest rate	Annually reviewable rate For the first year, the nominal interest rate is determined based on the sovereign rate of the equivalent maturity (52 weeks), taken from the secondary curve of the Treasury Bills of 26 May 2015, increased with a risk premium ranging between 60 and 80 basis points, i.e. a rate between 3,23% and 3,43%. For the following years, the nominal interest rate will be determined by reference to the sovereign rate of the equivalent maturity (52 weeks), taken from the secondary curve Treasuries Bills 5 days before the date of the coupon's payment, increased by a risk premium ranging between 60 and 80 basis points. In the event where the reference rate is not observed directly on the curve of the reference rate of the secondary market, rate determination shall be realized through linear interpolation using the two points flanking the full maturity 52 weeks (monetary base). The formula used for the calculation is as follows: $((\text{Actuarial rate} + 1)^{(k/\text{exact number of days}^*)} - 1) \times 360/k$, where k is the maturity of the actuarial rate immediately superior to 52 weeks

*Exact number of days: 365 or 366.

Risk premium	Between 60 and 80 basis points.
Interest rate fixing date	The interest rate will be reviewed annually at the anniversary date. The new rate will be communicated in a legal ad newspaper by the centralizing agent at the latest five working days prior to the anniversary date.
Interests calculation	Interests shall be calculated on monetary basis, i.e : [nominal amount x nominal rate x (Exact number of days /360)]
Coupon payment	The coupons will be paid annually at each anniversary date of the vesting date, i.e the 13 july of each year or the next working day if that day is not a working day. No deferral of the interests shall be possible in this operation.
Negotiability of the securities	Over the counter. The securities shall be freely negotiated without any restriction by the issuance conditions.
Principal repayment	The tranche C of the bonds loan, purpose of this prospectus, will be repaid in fine. In case of merger, a spin-off or a partial transfer of assets from the FEC occurring during the loan period and resulting in the universal transfer of assets to a separate legal entity, the rights and obligations on the bonds will be automatically transferred to the substitute legal entity under the rights and obligations of the FEC.
Anticipated repayment	The FEC may not proceed with the anticipated repayment of bonds, purpose of this issuance. However, the FEC keeps the right to proceed, with the Bank Al-Maghrib prior consent, to bonds buy-back on the secondary market, provided the legal and regulatory provisions don't oppose to it, as these buy-backs are without consequence to a subscriber willing to keep his securities until normal expiry date and without effect on the normal amortization schedule. The bonds bought-back shall thus only be canceled upon consent of Bank Al-Maghrib.
Assimilation clause	The bonds issued by the FEC cannot be assimilated to any anterior securities issuance. In case the FEC subsequently issues new bonds with completely similar rights to tranche C bonds, it will be authorized, without requesting the consent of the holders of former bonds, to proceed to the assimilation of the whole securities successively issued, thus unifying the operations of their financial service and their negotiation.
Loan ranking	The bonds issued by the FEC and their interests constitute direct, general, unconditional and unsubordinated obligations of the issuer, ranking equally amongst themselves and the other present or future unsecured debts of the issuer.
Guarantee	The bonds issued by the FEC are not subject to any guarantee.
Rating	The bonds issued by the FEC have not been rated.
Applicable Law	Moroccan Law
Competent jurisdiction	Commercial Court of Rabat
Bondholders representation	Before the General Assembly of Bondholders, the Board Director of the FEC, by virtue of the powers granted to him by the Management Board, held on 29 October 2010, appointed Mister Mohamed HDID as a temporary proxy in accordance with the legal provisions on the subject. This decision will be effective at the opening of the subscription period and will expire at the appointment of the permanent authorized representatives by the General Assembly of Bondholders. The temporary proxy is committed to call the General Assembly of Bondholders in order to appoint the permanent authorized representative 30 days before the first coupon payment at the latest. Being specified that the appointed authorized representative will be the same person for tranches A, B and C of the loan, these being grouped in a single

amount.

III. TIMETABLE FOR THE OPERATION

N°	Steps	At the latest
1	Obtaining the CDVM approval	24 june 2015
2	Publication of an extract of the prospectus in a legal gazette	26 june 2015
3	Opening of the subscription period	3 july 2015
4	Closing of the subscription period	7 july 2015
5	Centralization of the subscription orders by the Centralizing Establishment	7 july 2015
6	Payment / Delivery	13 july 2015
7	Publication of the operation results by the issuer in a legal gazette	15 july 2015

IV. INVESTMENT SYNDICATE AND FINANCIAL AGENTS

Type of financial agents	Name	Address
Financial Advisors	Société Générale Maroc CFG Finance	55 Boulevard Abdelmounen– Casablanca 5-7Rue IbnouToufail - Casablanca
Agent in charge of the centralization	CFG Group	5-7 Rue IbnouToufail - Casablanca
Agents in charge of the placement	Société Générale Maroc CFG Group	55 Boulevard Abdelmounen– Casablanca 5-7Rue IbnouToufail - Casablanca
Domiciliary establishment ensuring the financial service of the issuer	BMCI	26, Place des Nations Unies - 20 100 – Casablanca

PART II. PRESENTATION OF THE FEC

I. GENERAL INFORMATION

Corporate name	Fonds d'Equipelement Communal (FEC)
Head office	Espace Oudayas. Angle avenue Annakhil et avenue Ben Barka, B.P. 2175 Hay Riad, Rabat
Telephone	05.37.56.60.90 to 93
Fax	05.37.56.90.94
Website	www.fec.ma
E-mail	fec@fec.ma
Creation date	13 june 1959
Legal form	Public facility governed by : - Law n°31-90, promulgated by Dahir n° 1-92-5 of 05 safar, 1413 (05 august 1992) carrying the reorganizing the Fonds d'Equipelement Communal; - Law n°11-96, promulgated by Dahir n°1-96-100 of 16 rabii I 1417 (02 august 1996), completing the law n°31-90 and which confers to the FEC the status of a bank; - Law n°34-03 on credit institutions and assimilated bodies, promulgated by Dahir n°1-05-178 of 15 moharrem 1427 (14 february 2006). - Law n°103-12 relative to credit institutions and assimilated bodies, modifying law n°34-03; - The decree n°2-90-351 of 19 Joumada II, 1413 (December 14th, 1992) adopted for the application of law n°31-90 carrying the reorganization of the Fonds d'Equipelement Communal.
Financial year	From 1 st of January to 31 st of December
Social purpose	Funding the investments of single and grouped local authorities and local public institutions
Share Capital on the eve of the operation	MAD 1,000,000,000
Allocation of Capital	Capital owned 100% by the State
Competent Courts	Rabat Courts
Consultation place of legal documents	The legal documents can be consulted at the head office of the FEC
legal texts applicable to the society	Due to its activity, the FEC is governed by Dahir n°1-05-178 of February 14th, 2006 carrying promulgation of the law n°34-03 relative to credit institutions and assimilated bodies. Making public offering, the FEC is submitted to the legal and statutory requirements relative to financial markets: - Dahir carrying law n°1-93-211 of September 21st, 1993 concerning the Casablanca stock exchange modified and completed by the laws 34-96, 29-00, 52-01,45-06 and 43-09; - General regulation of the stock exchange approved by the order of Minister of Economy and Finances n°1268-08 of July 7th, 2008 modified and completed by the order of Minister of Economy and Finances n° 30-14 of January 06th, 2014; - Dahir carrying law n°1-93-212 of September 21st, 1993 concerning the Moroccan Financial Authority (CDVM) and the information required from the moral persons making public offering such as modified and completed by the laws n°23-01, 36-05 and 44-06; - Dahir n°1-96-246 of January 9th, 1997 carrying promulgation of the law n°35-96 relative to the creation of a central depository and to the institution of a general regime for the inscription in account of certain values, modified and completed by the law n°43-02; - General regulation of the central Depository approved by the order

	of Minister of Economy and Finances n°932-98 of April 16th, 1998 and amended by the order of Minister of Economy, Finances, Privatization and Tourism n°1961-01 of October 30th, 2001 and by the order n°77-05 of March 17th, 2005; • General regulation of the CDVM such as approved by the order of Minister of Economy and Finances n°822 / 08 of April 14th, 2008; • Dahir n°1-04-21 of April 21st, 2004 carrying promulgation of the law n°26-03 relative to public offers on the Moroccan stock market such as modified and completed by the law n°46-06; • Bank Al Maghrib's circular n° 2/G/96 of January 30th, 1996 relative to certificates of deposit and its modification; • The circular of the CDVM that come into effect the 1st of october , 2014 ; • Dahir 1-95-03 of January 26th, 1995 carrying promulgation of the law n°35-94 relative to certain Negotiable debt securities.
Tax system	The Fonds d'Equipelement Communal, like the other banking institutions, is subject to Corporate Income Tax at a rate of 37% and to the VAT applicable to banking operations at a rate of 10%.

Source : FEC

II. ACTIVITY

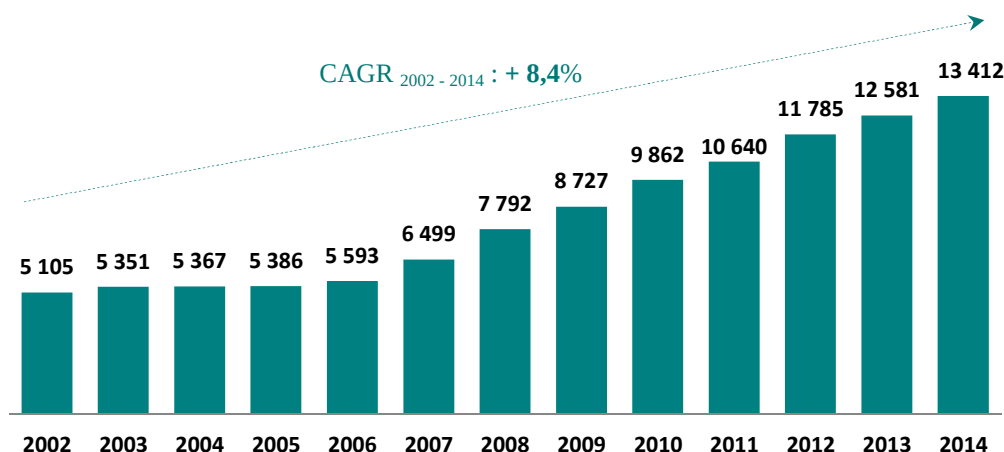
II.1. PRESENTATION OF THE FEC

With an experience of half a century in the financing of the local public sector, the FEC has developed an expertise and capitalized on know-how, which consolidate its role as a technical and financial partner for the Local Authorities and the holders of local investment projects.

As a bank, the FEC's seeks to control risks and to look for a level of profitability that makes the activity sustainable and more secure. As an institution with a mission of collective utility, the FEC is engaged in strengthening the local expertise and in promoting the investments which bring development. These two missions together confer to the FEC the strength of its positioning as a bank dedicated to the financing of the local public sector.

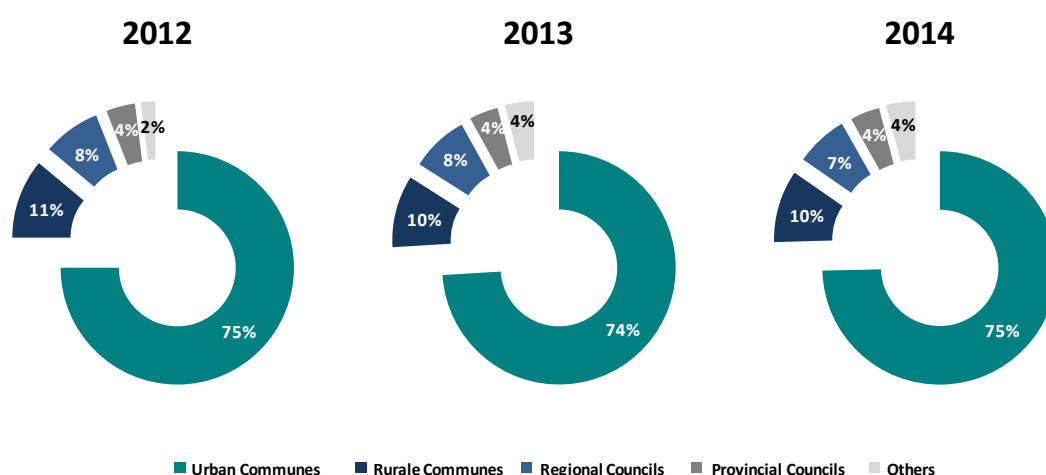
The Bank offers to its customers products and services adapted to their needs and focuses on assisting them technically for building up and deploying their equipment projects. The FEC accompanies thus its customers in expressing their investment choices and offers them the possibility to realize high value-add projects. These projects aim at improving the Citizen's quality of life and cover areas such as urban upgrade, urban mobility, connectivity of rural areas, development of areas with an economic activity, development of sports and leisure facilities, rural electrification, sanitation and access to safe drinking water, public lighting, establishment of green areas, cleanliness and environmental protection, improvement of touristic facilities, upgrade of schools, cultural and artistic animation, development of commercial infrastructures, integration of information technologies and promotion of clean technologies.

II.2. EVOLUTION OF THE GROSS OUTSTANDING¹



Source : FEC

II.3. EVOLUTION OF THE GROSS OUTSTANDING T BY TYPE OF BORROWER



Source : FEC

II.4. PRESENTATION OF THE LOAN RECOVERY PROCEDURES

In accordance with the provisions of Article 41 of the Law n° 45-08 relative to the organization of Local Communities funding and their entities, the annuities of locals authorities loans constitute a compulsory expenditure which they have to register automatically in their budgets

The Local community watches the follow-up and the repayment of the loans' annuities in order to avoid any delay in payment which could engender late-payment interest. After approval of the budget, the collector proceeds, without preliminary mandatement and at the latest in the maturity date, to the payment of the annuity or the due annuities.

¹The gross outstanding is the due capital (disbursed amount minus capital amortization)

Concerning the delays in payment representing a specific character, dialogues take place with the concerned Local communities and the Supervisory ministry, where necessary, to find practical and long-lasting solutions to settle the situation, in particular through operations of rescheduling.

These rules enable the FEC to reach a loan recovery rate of 99.43% at the end of the fiscal year 2014, thus confirming the quality of its loans portfolio.

The following board presents the evolution of the recovery rate between 2012 et 2014:

Fiscal Years	Recovery rate (MEN ² excluded) (Recovered amount/to-be-recovered amount)
2012	99.05%
2013	98.78%
2014	99.43%

Source : FEC

III. INFORMATION ON THE FEC'S CAPITAL

On the eve of the operation, the social capital of the FEC is entirely state-owned and is amounted to MAD 1 000 000 000 dirhams.

² Ministère de l'Education Nationale (Ministry of Education)

IV. ADMINISTRATION ORGANS

On the eve of the Operation, the Board of directors is constituted as follows :

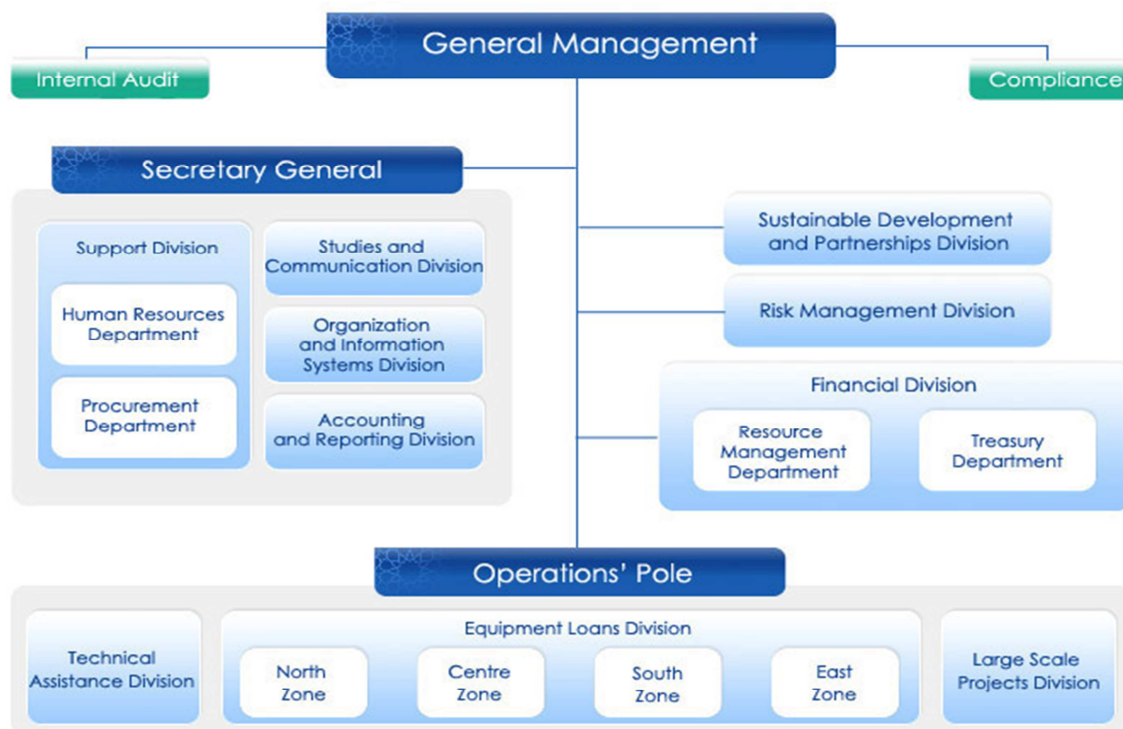
President	
The Minister of Interior	
Members of the Board of Directors representing the Administration	Members of the Board of Directors representing the local representatives
2 representatives of the Ministry of Interior	Mr Rachid TALBI ALAMI President of the Regional Council of Tangier-Tetouan
2 representatives of the Ministry of Economy and Finances	Mrs Jamila AFIF President of the Prefecture Council of Marrakech
1 representative of the Ministry of Health	Mr Fathallah OUALALOU President of the Communal Council of Rabat
1 representative of the Ministry of Equipment and Transport	Mr Brahim LAKHLIGUI President of the Communal Council of Lagouira
1 representative of the Ministry of Energy, Mines, Water and the Environment	Mr Mohammed BENCHAIIB President of the Communal Council of Berrechid
General Manager of the Caisse de Dépôt et de Gestion	Mr Bensallam AGOUMI President of the Communal Council of Bni Hadifa
	To be appointed
	To be appointed

Source : FEC

V. LEGAL ORGANISATIONAL CHART OF THE FEC

On the eve of the Operation, the organizational chart of the FEC is as follows:

Organization chart of the Fonds d'Equipelement Communal



Source : FEC

PART III. FINANCIAL DATA OF THE FEC

I. PRESENTATION OF THE INCOME STATEMENT

The income statement of the Fonds d'Equipement Communal (FEC) is as follows for the period 2012 – 2014 :

Million MAD	2012	2013	2014	Var. 13/12	Var. H1 14/13
Banking operating income	778	821	874	5.6%	6.4%
Interest and similar income from transactions with credit institutions	7	6	5	-18.3%	-19.2%
Interest and similar income from transactions with customers	770	815	868	5.8%	6.6%
Interest and similar income from debt securities	-	-	-	N/A	N/A
Income from property titles	-	-	-	N/A	N/A
Income from capital goods leasing and renting	-	-	-	N/A	N/A
Commissions on service delivery	-	-	-	N/A	N/A
Other banking products	-	-	-	N/A	N/A
Banking operating expenses	433	484	513	12.0%	5.9%
Interest and similar expenses on transactions with credit institutions	182	192	210	5.7%	9.5%
Interest and similar expenses on transactions with customers	-	-	-	N/A	N/A
Interest and similar expenses on debt issued	250	292	302	16.5%	3.6%
Charges on assets leased and rented	-	-	-	N/A	N/A
Other bank expenses	0	0	0	-10.0%	-11.4%
Net banking income	345	337	361	-2.4%	7.1%
Non-banking revenue	0	0	1	-80.9%	1372.9%
Nonbank operating expenses	0	0	0	20.2%	-12.3%
General operating expenses	54	54	54	-0.9%	1.3%
Personnel costs	38	39	41	3.3%	4.3%
Taxes and levies	1	1	1	-4.5%	1.2%
External expenses	8	7	7	-14.2%	0.0%
Other general operating expenses	1	1	2	7.1%	7.3%
Allocation to depreciations and provisions of assets	6	6	4	-11.2%	-19.7%
Allocations to provisions and unrecoverable debt write-offs	17	3	2	-80.4%	-29.2%
Appropriations to provisions on debts and pending commitments by signature	8	3	2	-59.0%	-29.2%
Losses on unrecoverable debts	-	-	-	N/A	N/A
Other provisions	9	-	-	-100.0%	N/A
Reversals of provisions and recoveries on written off loans	10	9	12	-9.1%	44.3%
Reversals of provisions on debts and pending commitments by signature	9	9	12	-6.0%	44.3%
Recoveries on written off loans	-	-	-	N/A	N/A
Other reversals	0	-	-	-100.0%	N/A
Operating result	284	288	317	1.6%	10.0%
Non-current income	0	0	0	-83.5%	-55.1%
Non-recurring expenses	5	4	4	-20.4%	10.1%
Pre-tax income	279	285	313	1.8%	10.0%
Taxes on income	109	107	118	-1.3%	10.0%
Net income	171	177	195	3.8%	10.0%

Source : FEC

II. BALANCE SHEET

The FEC's balance sheet is as follows for the last three exercises (2012, 2013 and 2014) :

Million MAD	2012	2013	2014	Var. 13/12	Var. 13
Assets	12,557	13,411	14,296	6.8%	6.6%
Cash, central banks, public treasury, postal checks service	54	134	160	>100.0%	19.5%
Claims on credit and assimilated institutions	38	3	4	-92.0%	18.6%
Advances to customers	12,364	13,179	14,011	6.6%	6.3%
Receivables acquired through factoring	-	-	-	N/A	N/A
Trading and investment securities	-	-	-	N/A	N/A
Other assets	34	33	62	-3.9%	87.3%
Investment securities	-	-	-	N/A	N/A
Equity securities and similar assets	0	0	0	0.0%	N/A
Subordinated debts	-	-	-	N/A	N/A
Fixed assets given in leasing and renting	-	-	-	N/A	N/A
Intangible assets	3	2	1	-33.6%	-30.9%
Tangible assets	64	60	59	-5.8%	-2.0%
Liabilities	12,557	13,411	14,296	6.8%	6.6%
Central banks, public treasury, postal checks service	-	-	-	N/A	N/A
Amounts owed to credit and related institutions	4,044	3,523	4,412	-12.9%	25.2%
Customer deposits	-	-	-	N/A	N/A
Issued debt securities	5,864	7,182	7,179	22.5%	0.0%
Other liabilities	36	33	72	-7.6%	118.1%
Provisions for liabilities and charges	9	9	9	0.0%	-3.7%
Regulated provisions	-	-	-	N/A	N/A
Subsidies, allocated public funds and special guarantee funds	-	-	-	N/A	N/A
Subordinated debt	-	-	-	N/A	N/A
Revaluation surplus	-	-	-	N/A	N/A
Reserves and additional paid-in capital	2,079	2,132	2,074	2.5%	-2.7%
Capital	355	355	355	0.0%	0.0%
Shareholders, unpaid capital (-)	-	-	-	N/A	N/A
Retained earnings (+/-)	-	-	-	N/A	N/A
Net income pending allocation (+/-)	-	-	-	N/A	N/A
Net income for the fiscal year (+/-)	171	177	195	3.8%	10.3%

Source : FEC

PART IV. RISK FACTORS

The risks associated to the FEC's activity are as follows:

Credit risk: risk that counterparty is unable to fulfill its contractual obligations.

Liquidity risk: refers to the risk that the FEC cannot meet the demand for cash or fund its obligations as they come due. The liquidity demands may occur at a debt maturation and following a credit agreement.

Interest rate risk: The interest rate risk corresponds to the possible effects of interest rates fluctuations on the FEC's margins, its income and its economical value.

Operational risks: loss risks resulting from deficiencies or failures due to procedures, to the human resources, to the internal systems or to external events.

Risk of non-compliance: corresponds to the risk of non-conformity to laws, regulations and to applicable regulatory guidelines.

Foreign exchange risk: due to exchange rate fluctuations.

I. CRÉDIT RISK

The FEC is exposed to credit risk because of its lending activity.

General loans policy

The FEC requests from its customers an auto-financing effort of at least 20% of the investment cost, except for exceptions justified and approved by the Credit Committee.

The rates applied are either fixed rates or reviewable rates without any distinction between the borrowers' categories.

The repayment of the loans (granted by the FEC) occurs through fixed annual installments, including principal and interests.

Decision-making

The Risk Management is responsible for approving the project to be financed and appreciates the risk level associated with the granting of a new credit as well as the capacity of the client to successfully carry out his project.

The Credit Committee decides whether or not the loan should be granted. The loan is approved by a joint decision signed by the Ministry of Interior and the Ministry of economy and Finance.

Credit risk management process

Upon reception of a project financing request and depending on its size, the Large Scale Projects Division or the Equipment Credits Division, both reporting to the Operations Department, proceed to the project evaluation and to the analysis of the customer's financial profile.

The evaluation of the to-be-financed project is based on a deep knowledge of the customer, on the nature of the investment, on the financial arrangement set-up.

The financial situation analysis of the customer is based on the budget data of the approved administrative accounts from the last three years and the respective approved budgets as well as the data of the draft budget of the current year.

As a first step, a retrospective analysis is made in order to establish evolution trends of the main budget lines of the local community.

In the second phase, a prospective analysis will be carried out on the basis of the observed trends in order to measure, over time, the evolution of the borrowing capacity of the local community.

The calculation of the borrowing capacity incorporates the following principles:

- the repayment capacity of the local community depends on its savings level;
- the maximum savings convertible in annuity shall not exceed 80% of the gross savings;
- the maximum debt ratio shall not be higher than 40%.

Prior to any loan approval, the Risk Management Division will appreciate the risk level incurred by the new loan granting based on:

- the analysis of the customer's information: general and legal data, financial and technical data;
- the analysis of the retrospective and prospective financial situation of the customer, to establish his intrinsic financial quality and to appreciate various debt, solvency ratios as well as the self-financing capacity;
- the appreciation of the customer's quality on the basis of the repayments history of the already granted loans and the situation of his arrears with the FEC;
- the appreciation of the project evaluation on the basis of technical ratios commonly accepted for every type of project;
- the decision to require guarantees for the to-be-granted loan and the proposition of measures to set up for risk correction. These guarantees can be in particular in the form of direct guarantee from the associated local authority in the case of financing direct self-governed structure and promissory notes in the cases of consortial financing.

The General Conditions to grant loans

As other debts of local authorities, annuities of the FEC's loans are accompanied by the legal obligation of registration in their budgets.

Loans contracts by FEC stipulate:

- the borrower's commitment to communicate to the FEC, over the lifetime of the loan, the budgets and administrative statements from their approval;
- a suspensory condition of disbursements in case of a deterioration of the financial situation of the borrower;
- a suspensory condition of disbursements in case of payments delayed by more than 30 days;
- a suspensory condition of any new commitment in case of default by over 90 days;

Solvency profile

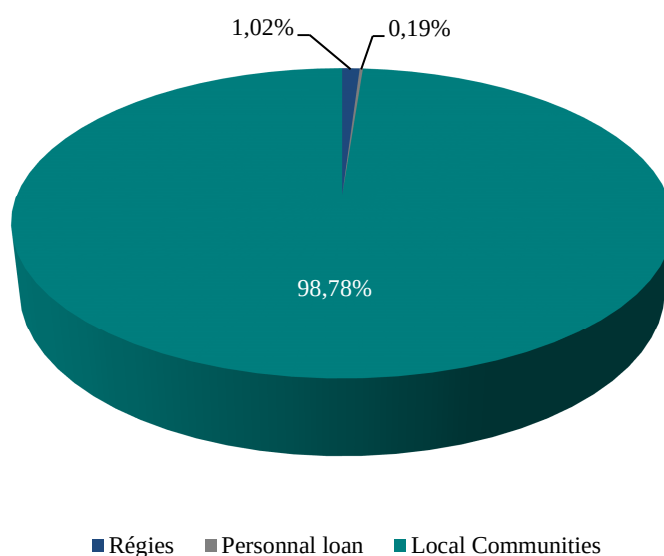
The calculation of the solvency ratio was marked by the passage of the FEC to the Basel III standards since the order of December, 2012. Indeed, as of 31 December 2012, this ratio is calculated in accordance with the provisions of circular n° 26/G/2006 of Bank Al Maghrib. It equals the ratio between the prudential capital and the weighted assets in terms of credit and operational risks.

As of december 31th 2014, the net weighted risks borne by the FEC amount to M.MAD 4,037 and are composed of 84% of credit risk and 16% of operational risk.

In accordance to the new prudential requirements, brought into force in january 2014 (circular 14/G/2013), the solvency ratio stands at 65.14%³, while the Tier One ratio is displayed at 64.93%, thereby reflecting the good solvency level of the Institution.

Analysis of the credit portfolio

Amounts due from customers composed of 98.78% of commitment to local Communities amounted to a total of M.MAD 14,024 as of 31 December 2014:



Source : FEC

The funding commitments given by the FEC to customers amount, as of 31 December 2014, to M.MAD 4,259 and concern:

- conventional loans;
- "MEN" loans granted for the upgrade of school facilities in the frame of a partnership convention signed by the Ministry of Interior, the Ministry of Economy and Finance, the Ministry of National Education and the FEC;
- The loans granted to autonomous boards ("régies") in the frame of banking consortiums.

The analysis of the off-balance sheet liabilities, as of 31 December 2014, reveals that 76,7% of the global volume correspond to recent loans granted less than 3 years ago.

Provisions, provisioning policy and credit risk covering

The Accounting & Reporting Division handles the process of classification and provisioning of the outstanding receivables.

A weighting rate of 20% is applied to the local communities' borrowings.

³This ratio includes the constitution of a pillow of stockholders' equity said "pillow of preservation" composed of basic stockholders' equity equivalent to 2,5 % of the weighted risks after application of the deductions and the prudential reprocessings (Articles 5 of the circular 14/G/2013 of BAM).

The classification and provisioning policy is compliant with the provisions of the circular n°19/G/2002 of Bank Al Maghrib.

Coefficient of Risk Division

The FEC shall continuously ensure the ratio between the total risk exposure of one customer and his equity never exceeds 20%.

In the context of funding requests, the operating entities as well as the Risk Management Division and the Accounting & Reporting Division shall ensure compliance with the coefficient of risk division.

The coefficient of risk division stands, per the terms of the new circular n°08/G/2002 of Bank Al Maghrib (applicable since 2013), at 17.48% as of the end of December 2014, thereby standing below the regulatory threshold set by BAM.

In application of the directive n° 2/G/2010 of Bank Al Maghrib pertaining to stress testing and with the aim of reinforcing the credit risk measurement and appreciation tools, stress tests have been carried out in order to evaluate the risk aversion level of FEC.

The minimal stress tests, within the meaning of the directive, including some potential changes in the FEC's portfolio composition, demonstrate the resilience capacity of FEC to the credit risk. The FEC shows for all the scenarios a solvency ratio that is higher to the regulatory threshold and a ratio of outstanding receivables below the 1%.

I. ASSET/ LIABILITY MANAGEMENT

Asset/Liability managers

The Financial Division is responsible for the Asset/Liability management.

The Risks Committee is responsible for the validation of the Asset/Liability management policy. Through its gatherings, it has the opportunity to review the institution's rate and liquidity profile, to analyze the evolution of the liquidity ratio and to present the balance sheet structure.

Asset/Liability Management

The FEC works with a financing management application "Gestion Financière - ALM", which integrates with its information system and enables it to better apprehend the management of the financial risks inherent to its activities, e.g. the liquidity and interest rate risks.

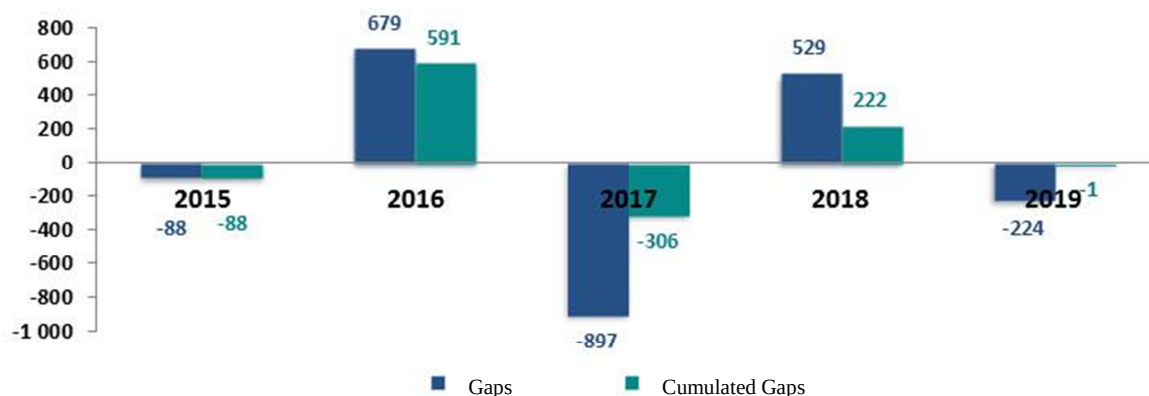
A report shall be produced every six months and is to be submitted to the The Head office and to the Risks Committee.

II.1. LIQUIDITY RISK

The liquidity risk management is based on the determination of the short-, mid- and long-term static and dynamic provisional gaps and on the analysis of the balance sheet structure. This approach allows for a global view on the Institution's liquidity profile.

Exposition as of 31 December 2014

Annual static liquidity gaps as of December 2014 (in M.MAD)



Source : FEC

Liquidity static annual gaps shows that the coverings of loans allow to cover the repayments of the debt with the exception of the exercices 2017 and 2019 which close with a negative static gaps respectively about 900 M.DH and 230 M.DH and which result mainly from the arrival to maturity of certain lines of certificates of deposit.

Liquidity Ratio

The liquidity ratio stood at 113.86% as of 31 December 2014.

II.2. RATE RISK

The rate risk monitoring is based on:

- calculation of the rate gaps and analysis of the balance sheet structure by rate type, which allows to measure and to anticipate the rate risk exposure by mismatching assets and liabilities based on the maturity bands.
- calculation of the durations of the loans and borrowings portfolio.

Exposition as of 31 December 2014

The rate gaps per rate type and residual maturity are determined, as of 31 December 2014, as follows:

■ fixed rate

Residual maturity	M<1 Year	1<= M<2 Y	2<= M<3 Y	3<= M<5 Y	5<= M<10 Y	M>=10 Y
Gaps	-518	-111	-638	-395	-600	-507

Source : FEC

The noticed negative gaps result from the funding of a part of variable interest rate assets by fixed rate liabilities. Indeed, for the funding of its activity, the FEC turns towards a

diversification of its funding sources in terms of interest rate nature and depending on financial market liquidity and opportunities.

▪ Variable rate

Residual maturity	M<1 Year	1<= M<2 Y	2<= M<3 Y	3<= M<5 Y	5<= M<10 Y	M>=10 Y
Gaps	-129	248	-409	-646	3 951	1 966

Source : FEC

In the long term, The interest rate gaps are positive, with a favorable exposure to the risk of rising interest rate due to the implementation of long-term resources in phase with the maturity of the loans granted by the FEC. Besides that, the negative rate gaps on the bands of maturity lower than a year as well as on both bands of medium-term maturities [2-3 years] and [3-5 years], result from the arrival to maturity of the short-term certificates of deposit concluded on 2014, as well as those mobilized between 2010 and 2012 with a maturity of 7 years.

The stress tests/reports relating to the rate risk impact on the portfolio and on the economical value of the FEC are carried out quarterly and sent over to Bank Al Maghrib as per the reporting regulations.

As of end of December 2014, the stress tests results reveal that a choc of 200 bases points of the rates yielded a GNP win of 19.36% on a 12 months horizon and a decrease in the economic value by 8.67% in terms of equity.

Impact	Rate Evolution:
	Variation of 200 base points
GNP	19,36%
Economic value in % compared to Equity	-8,67%

Source : FEC

II. OPERATIONNEL RISKS

Organization and Governance

During the last years and in accordance with Bank Al-Maghrib's provisions and the principles of good governance, the FEC has implemented an evolutive internal control system enabling it to:

- guarantee the reliability and integrity of the financial and accounting information published;
- to make sure that the operations are led in accordance with the applicable laws and regulations and following the guidelines and management rules as defined by the Management and Administration Bodies, respectively;
- to prevent and control the risks associated with its activity through well-defined and regularly monitored procedures.

The General Management oversees the operational risks management system and guarantees the follow-up of the actions taken to reinforce it.

The Risks Committee is responsible for the validation of the operational risks management policy, the business continuity and crisis management strategy.

General Framework

The FEC has undertaken several steps to reinforce its internal control system and to build the necessary foundations for a robust and sustainable operational risk management system, integrating the best practices and in compliance with the regulatory requirements:

Signature delegation mechanism

The FEC has implemented a sophisticated signature delegation system, based on a precise definition of powers and a clear delineation of responsibilities. This mechanism conforms to the following principles:

- the dual-signature rule is mandatory for all operations that affect the FEC's accounts or any other element of its assets;
- the separation of the initiation and the execution on the one hand, and the control on the other;
- substitutions are systematically foreseen in case of absence or unavailability of a person, in order to avoid any deadlock.

General procedure manual

The FEC has developed a general procedure manual that covers all functional processes from the Piloting, Business and Support divisions based on the general cartography of the processes and procedures.

Furthermore, the integration of the modeling tool 'MEGA PROCESS' has allowed for a unique repository of the procedures, structured and accessible to all collaborators of FEC through an internal website. This repository is regularly maintained.

Accounting organizational and procedure manual

The FEC has an accounting organizational and procedure manual allowing it to ensure that:

- all operations realized by the FEC are accurately converted into accounting statements;
- all statements are compliant with the Accounting Plan of the Credit Institutions and with the applicable regulations;
- all financial and accounting information internally and externally published are reliable, complete and understandable for the users.

Financial communication manual

The FEC adopted a financial communication manual in accordance with the circular 40/G/2007 of 2 august 2007 by Bank Al Maghrib, pertaining to the internal Control of the credit institutions.

Internal control manual

In the context of the improvement of its internal control system, the FEC completed in 2012, with the collaboration of experts, the update of its internal control manual, and this, in conformity to the applicable regulations and to the best practices.

The newer version of this manual (MCI) gives the FEC an additional tool to enable it to ensure the compliance and the proper application of the implemented procedures and completes the internal control system in terms of check points formalization.

Business Continuity Plan

The FEC adopted a Business Continuity Plan in accordance to the directive of Bank Al Maghrib n°47/G/2007. The implementation of the BCP concerned in particular the implementation of :

- Information System Continuity Plans;
- Logistic Continuity Systems;
- Human Resources Continuity Systems;
- Operations Continuity Systems.

In order to ensure the implemented operational systems are maintained, a maintenance and development plan for the FEC's BCP was adopted and the related defined action plans.

Operational risk management

The FEC adopted a cartography of operational risks that was rebuilt in 2010 in conformity with Basel II standard and whose update occurs annually. This cartography covers the processes around credit, support and information technology systems and allows to target the processes that require a particular or reinforced monitoring.

The system of operational risk management implemented at the FEC, within the Basel II reform and in application of the Directive n°29/G/2007 by Bank Al Maghrib, allows for the identification, the evaluation of the operational risks as well as the follow up of the action plans defined for the major identified risks. This system was completed in 2011 by a knowledge base of incidents that gives an objective view on the risks exposure and allows for a reevaluation of these risks based on the results of the operational incidents collected.

The system's full automation is made possible thanks to an application that allows:

- the identification, the evaluation and the monitoring of the operational risks through the risks cartography;
- the conciliation of the risks cartography with the general procedures manual;
- the follow-up of the action plans defined for the major identified risks;
- the collection of incidents related to operational risks.

Organization

On the organizational side, the piloting of the operational risk management system is handled by the Risks Management. This department uses correspondents for operational risks 'CRO' provided by the Business and Support lines.

These CROs communicate on all operational incidents, analyze the knowledge base of these incidents and implement action plans to cover major risks exposure.

Therefore, a procedure for the operational incidents collection and communication as well as a ticketing system for the notification of the occurrence of an operational incident were set up and made available to the CROs, allowing them to efficiently perform the tasks of collecting and communicating on these incidents.

The operational risks governance is handled by the Risks Committee.

Operational risk covering

In accordance with the regulatory provisions relating to the minimal equity requirements, the FEC proceeds, since December 2011, to the coverage of operational risks.

The requirement of equity for the operational risks covering is calculated based on the « Basic Indicator approach », that equals 15% of the average net banking income, calculated on the 3 last years.

III. NON-COMPLIANCE RISKS

In accordance with the circular n°40/G/2007 relative to the internal control of credit institutions, which was repealed and replaced by the Circular N 4/W/2014, and in application of the directive n°49/G/2007 of Bank Al Maghrib relative to the "compliance" function, the FEC adopted a compliance policy and charter as well as a cartography of non-compliance risks.

IV. FOREIGN EXCHANGE RISK

The foreign exchange risk inherent to most external loans by the FEC is guaranteed by the State (Ministry of Economy and Finances/Treasury and External Finances Department) against payment, in the context of a specific system to each line of credit.

WARNING

The above mentioned information constitutes only a part of the prospectus approved by the Moroccan Financial Authority (CDVM) under reference n° VI/EM/015/2015, on the 24 june 2015.

The CDVM recommends reading the full prospectus that is available to the public in French version.