

# FONDS D'EQUIPEMENT COMMUNAL

## PROSPECTUS SUMMURAY

### ISSUANCE OF ORDINARY BONDS

Total amount of the issuance : MAD 1 000 000 000

	Tranche A Non-Listed	Tranche B Non-Listed	Tranche C Non-Listed	Tranche D Non-Listed
<b>Maximum amount</b>	MAD 1 000 000 000	MAD 1 000 000 000	MAD 1 000 000 000	MAD 1 000 000 000
<b>Maximum number</b>	10 000 bonds	10 000 bonds	10 000 bonds	10 000 bonds
<b>Nominal Value</b>	MAD 100 000	MAD 100 000	MAD 100 000	MAD 100 000
<b>Nominal interest rate (incl. the spread)</b>	<u>Reviewable on a 5 year basis</u>	<u>Fixed</u> Between 3.92% and 4.22%	<u>Reviewable on an annual basis</u>	<u>Reviewable on an annual basis</u>
	For the first period Between 3.48% and 3.78%		For the first period Between 2.85% and 3.15%	For the first period Between 3.05% and 3.35%
<b>Risk premium</b>	Between 70 and 100 bps	Between 70 and 100 bps	Between 50 and 80 pbs	Between 70 and 100 bps
<b>Maturity</b>	15 years	15 years	10 years	15 years
<b>Tradability of the securities</b>	Over-the-counter	Over-the-counter	Over-the-counter	Over-the-counter
<b>Repayment method</b>	Linear annual depreciation of the principal	Linear annual depreciation of the principal	<i>In fine</i>	Linear annual depreciation of the principal
<b>Allocation method</b>	<u>Dutch</u> auction			

**SUBSCRIPTION PERIOD: FROM 05 OCTOBER 2016 TILL 07 OCTOBER 2016 INCLUDED**

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

#### Financial advisors



#### Agent in charge of centralization



#### Agents in charge of the placement



#### APPROVAL OF THE AMMC (The Moroccan Capital Market Authority)

In accordance with the AMMC circular, delivered in application of Section 14 of the Dahir n° 1-93-212 of September 21st 1993, as amended and extended, the original copy of the present prospectus has been approved by the AMMC on the 27<sup>th</sup> of September under reference n° VI/EM/024/2016.

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## WARNING

**The Moroccan Capital Market Authority « AMMC » approved on the 27<sup>th</sup> of September a prospectus related to the issue of ordinary bonds by the Fonds d'Equipelement Communal (FEC) for an amount of one billion dirhams (MAD 1 000 000 000).**

**The prospectus approved by the AMMC 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 AMMC website at [www.ammc.ma](http://www.ammc.ma).**

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## **PART I. PRESENTATION OF THE OPERATION**

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## 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, mainly the Regions, 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)

<b>Nature of securities</b>	Non-listed bonds entirely dematerialized by subscription with the Central Depository (MAROCLEAR) and entered into account at the authorized affiliates.
<b>Legal form</b>	Bearer bonds.
<b>Tranche amount</b>	<b>MAD 1 000 000 000</b>
<b>Maximum number of securities to be issued</b>	<b>10 000 bonds</b>
<b>Nominal value per unit</b>	<b>MAD 100000</b>
<b>Subscription price</b>	Par value : 100% of the nominal value.
<b>Maturity</b>	<b>15 years</b>
<b>Subscription period</b>	From 05 October 2016 to 07 October 2016 included
<b>Vesting date</b>	13 October 2016
<b>Maturity date</b>	13 October 2031
<b>Allocation method</b>	Dutch auction
<b>Nominal interest rate</b>	<p><b>Rate reviewable every 5 years</b></p> <p>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 Treasury Bills curve on the 16<sup>th</sup> of September 2016, increased by a risk premium ranging between 70 and 100 basis points, i.e a rate between 3.48% and 3.78%.</p> <p>For the next two five-year periods, the nominal interest rate will be determined by reference to the sovereign rate of the equivalent maturity (for the 1<sup>st</sup> review at the 10 years rate annually amortized, reviewable every 5 years, and for the 2<sup>nd</sup> review at the 5 years rate annually amortized), taken from the Treasury Bills curve, 5 working days before the date of coupon's payment, increased by a risk premium ranging between 70 and 100 basis points.</p>
<b>Risk premium</b>	<b>Between 70 and 100 basis points.</b>
<b>Interest rate fixing date</b>	<p>The interest rate shall be reviewed every five years and will apply at the anniversary date of the 5th and the 10th coupon.</p> <p>The new rate will be communicated 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 Treasury Bills curve increased with the selected risk premium.</p>
<b>Interests calculation</b>	Interests shall be calculated using the following formula: [Outstanding principal x nominal rate]

<b>Coupon payment</b>	<p>The coupons will be paid annually at each anniversary date of the vesting date date, i.e the 13 October of each year or on the first following working day in case that day is a non-working day.</p> <p>No deferral of the interests shall be possible in this operation.</p>
<b>Negotiability of the securities</b>	<p>Over-the-counter The securities shall be freely negotiated without any restriction by the issuance conditions.</p>
<b>Principal repayment</b>	<p>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.</p>
<b>Anticipated repayment</b>	<p>The FEC may not proceed with the anticipated repayment of bonds, purpose of this issuance.</p> <p>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.</p>
<b>Assimilation clause</b>	<p>The bonds issued by the FEC cannot be assimilated to any anterior securities issuance.</p> <p>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.</p>
<b>Loan ranking</b>	<p>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.</p>
<b>Guarantee</b>	<p>The bonds issued by the FEC are not subject to any guarantee.</p>
<b>Rating</b>	<p>The bonds issued by the FEC have not been rated.</p>
<b>Applicable Law</b>	<p>Moroccan Law</p>
<b>Competent jurisdiction</b>	<p>Commercial Court of Rabat</p>
<b>Bondholders representation</b>	<p>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 cabinet Saaidi Hdid as a temporary proxy in accordance with the legal provisions on the subject.</p> <p>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 Board Director of the FEC is committed to make sure that the temporary proxy calls the General Assembly of Bondholders in order to appoint the permanent authorized representative 30 days before the first scheduled amortization at the latest.</p> <p>Being specified that the appointed authorized representative will be the same person for tranches A, B C and D of the loan, these being grouped in a single amount.</p>

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

<b>Nature of securities</b>	Non-listed bonds, entirely dematerialized by subscription with the Central Depository (MAROCLEAR) and registered into account at the authorized affiliates.
<b>Legal form</b>	Bearer bonds.
<b>Tranche amount</b>	<b>MAD 1 000 000 000</b>
<b>Maximum number of securities to be issued</b>	<b>10 000 bonds</b>
<b>Nominal value per unit</b>	<b>MAD 100000</b>
<b>Subscription Price</b>	Par value : 100% of the nominal value.
<b>Maturity</b>	<b>15 years</b>
<b>Subscription period</b>	From 05 October 2016 to 07 October 2016 included
<b>Vesting date</b>	13 October 2016
<b>Maturity date</b>	13 October 2031
<b>Allocation method</b>	Dutch auction
<b>Nominal interest rate</b>	<b>Fixed rate</b> (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 Treasury Bills curve on the 16 <sup>th</sup> of September 2016, increased with a risk premium ranging between 70 and 100 basis points, i.e a rate between 3.92% and 4.22%.
<b>Risk premium</b>	<b>Between 70 and 100 basis points.</b>
<b>Interests calculation</b>	Interests shall be calculated using the following formula: [Outstanding principal x nominal rate]
<b>Coupon payment</b>	The coupons will be paid annually at each anniversary date of the vesting date, i.e the 13 October 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.
<b>Negotiability of the securities</b>	Over the counter. The securities shall be freely negotiated without any restriction by the issuance conditions.
<b>Principal repayment</b>	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.

<b>Anticipated repayment</b>	<p>The FEC may not proceed with the anticipated repayment of bonds, purpose of this issuance.</p> <p>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.</p>
<b>Assimilation clause</b>	<p>The bonds issued by the FEC cannot be assimilated to any anterior securities issuance.</p> <p>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.</p>
<b>Loan ranking</b>	<p>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.</p>
<b>Guarantee</b>	<p>The bonds issued by the FEC are not subject to any guarantee.</p>
<b>Rating</b>	<p>The bonds issued by the FEC have not been rated.</p>
<b>Applicable Law</b>	<p>Moroccan Law</p>
<b>Competent jurisdiction</b>	<p>Commercial Court of Rabat</p>
<b>Bondholders representation</b>	<p>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 cabinet Saaidi Hdid as a temporary proxy in accordance with the legal provisions on the subject.</p> <p>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 Board Director of the FEC is committed to make sure that the temporary proxy calls the General Assembly of Bondholders in order to appoint the permanent authorized representative 30 days before the first scheduled amortization at the latest.</p> <p>Being specified that the appointed authorized representative will be the same person for tranches A, B, C and D of the loan, these being grouped in a single amount.</p>

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

<b>Nature of securities</b>	Non-listed bonds entirely dematerialized by subscription with the Central Depository (MAROCLEAR) and registered into account at the authorized affiliates.
<b>Legalform</b>	Bearer bonds.
<b>Tranche amount</b>	<b>MAD 1 000 000 000.</b>
<b>Maximum number of securities to be issued</b>	<b>10 000 bonds</b>
<b>Nominal value per unit</b>	<b>MAD 100 000.</b>
<b>Maturity</b>	10 years.
<b>Subscription price</b>	Par value: 100% of the nominal value.
<b>Subscription period</b>	From 05 October 2016 to 07 October 2016 included
<b>Vesting date</b>	13 October 2016
<b>Maturity date</b>	13 October 2026
<b>Allocation method</b>	Dutch auction
<b>Nominal interest rate</b>	<p><b>Annually reviewable rate</b></p> <p>For the first year, the nominal interest rate is determined based on the sovereign rate of the equivalent maturity (52 weeks), taken from the Treasury Bills curve on the 16<sup>th</sup> of September 2016, increased with a risk premium ranging between 50 and 80 basis points, i.e a rate between 2.85% and 3.15%.</p> <p>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 Treasury Bills curve, 5 days before the date of the coupon's payment, increased by a risk premium ranging between 50 and 80 basis points.</p> <p>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).</p> <p>This linear interpolation will be done after the conversion of the rate immediately above the 52-weekmaturity (actuarially) equivalent monetary rates. The formula is : <math>((\text{actuarial rate} + 1) ^ (k / \text{exact number of days}^*)) - 1) \times 360/k</math>; where k is the maturity of the actuarial rate immediately above 52 weeks.</p> <p>*Exact number of days : 365 or 366 days.</p>
<b>Risk premium</b>	<b>Between 50 and 80 basis points.</b>
<b>Interest rate fixing date</b>	<p>The interest rate will be reviewed annually at the anniversary date.</p> <p>The new rate will be communicated by the centralizing agent in a journal of legal notifies at the latest five working days prior to the anniversary date.</p>
<b>Interests calculation</b>	Interests shall be calculated on monetary basis, i.e : [nominal amount x nominal rate x (Exact number of days /360) ]

<b>Coupon payment</b>	<p>The coupons will be paid annually at each anniversary date of the vesting date, i.e the 13 October of each year or the next working day if that day is not a working day.</p> <p>No deferral of the interests shall be possible in this operation.</p>
<b>Negotiability of the securities</b>	<p>Over the counter. The securities shall be freely negotiated without any restriction by the issuance conditions.</p>
<b>Principal repayment</b>	<p>The tranche C of the bonds loan, purpose of this prospectus, will be repaid <i>in fine</i>.</p> <p>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.</p>
<b>Anticipated repayment</b>	<p>The FEC may not proceed with the anticipated repayment of bonds, purpose of this issuance.</p> <p>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.</p>
<b>Assimilation clause</b>	<p>The bonds issued by the FEC cannot be assimilated to any anterior securities issuance.</p> <p>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.</p>
<b>Loan ranking</b>	<p>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.</p>
<b>Guarantee</b>	<p>The bonds issued by the FEC are not subject to any guarantee.</p>
<b>Rating</b>	<p>The bonds issued by the FEC have not been rated.</p>
<b>Applicable Law</b>	<p>Moroccan Law</p>
<b>Competent jurisdiction</b>	<p>Commercial Court of Rabat</p>
<b>Bondholders representation</b>	<p>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 cabinet Saaidi Hdid as a temporary proxy in accordance with the legal provisions on the subject.</p> <p>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 Board Director of the FEC is committed to make sure that the temporary proxy calls the General Assembly of Bondholders in order to appoint the permanent authorized representative 30 days before the first scheduled amortization at the latest.</p> <p>Being specified that the appointed authorized representative will be the same person for tranches A, B,C and D of the loan, these being grouped in a single amount.</p>

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

<b>Nature of securities</b>	Non-listed bonds entirely dematerialized by subscription with the Central Depository (MAROCLEAR) and registered into account at the authorized affiliates.
<b>Legal form</b>	Bearer bonds.
<b>Tranche amount</b>	<b>MAD 1 000 000 000.</b>
<b>Maximum number of securities to be issued</b>	<b>10 000 bonds</b>
<b>Nominal value per unit</b>	<b>MAD 100 000.</b>
<b>Maturity</b>	15 years.
<b>Subscription price</b>	Par value: 100% of the nominal value.
<b>Subscription period</b>	From 05 October 2016 to 07 October 2016 included
<b>Vesting date</b>	13 October 2016
<b>Maturity date</b>	13 October 2031
<b>Allocation method</b>	Dutch auction
<b>Nominal interest rate</b>	<p><b>Annually reviewable rate</b></p> <p>For the first year, the nominal interest rate is determined based on the sovereign rate of the equivalent maturity (52 weeks), taken from the Treasury Bills curve on the 16<sup>th</sup> September 2016, increased with a risk premium ranging between 70 and 100 basis points, i.e a rate between 3.05% and 3.35%.</p> <p>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 Treasury Bills curve, 5 days before the date of the coupon's payment, increased by a risk premium ranging between 70 and 100 basis points.</p> <p>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).</p> <p>This linear interpolation will be done after the conversion of the rate immediately above the 52-weekmaturity (actuarially) equivalent monetary rates. The formula is : <math>((\text{actuarial rate} + 1)^{(k / \text{exact number of days}^*)} - 1) \times 360/k</math>; where k is the maturity of the actuarial rate immediately above 52 weeks.</p> <p>*Exact number of days : 365 or 366 days.</p>
<b>Risk premium</b>	<b>Between 70 and 100 basis points.</b>
<b>Interest rate fixing date</b>	<p>The interest rate shall be reviewed every five years and will apply at the anniversary date of the 5th and the 10th coupon.</p> <p>The new rate will be communicated 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 Treasury Bills curve increased with the selected risk premium.</p>
<b>Interests calculation</b>	Interests shall be calculated on monetary basis, i.e : [outstanding amount x nominal rate]

<b>Coupon payment</b>	<p>The coupons will be paid annually at each anniversary date of the vesting date, i.e the 13 October of each year or the next working day if that day is not a working day.</p> <p>No deferral of the interests shall be possible in this operation.</p>
<b>Negotiability of the securities</b>	<p>Over the counter. The securities shall be freely negotiated without any restriction by the issuance conditions.</p>
<b>Principal repayment</b>	<p>The principal repayment of the loan's tranche D, 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.</p>
<b>Anticipated repayment</b>	<p>The FEC may not proceed with the anticipated repayment of bonds, purpose of this issuance.</p> <p>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.</p>
<b>Assimilation clause</b>	<p>The bonds issued by the FEC cannot be assimilated to any anterior securities issuance.</p> <p>In case the FEC subsequently issues new bonds with completely similar rights to tranche D 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.</p>
<b>Loan ranking</b>	<p>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.</p>
<b>Guarantee</b>	<p>The bonds issued by the FEC are not subject to any guarantee.</p>
<b>Rating</b>	<p>The bonds issued by the FEC have not been rated.</p>
<b>Applicable Law</b>	<p>Moroccan Law</p>
<b>Competent jurisdiction</b>	<p>Commercial Court of Rabat</p>
<b>Bondholders representation</b>	<p>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 cabinet Saaidi Hdid as a temporary proxy in accordance with the legal provisions on the subject.</p> <p>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 Board Director of the FEC is committed to make sure that the temporary proxy calls the General Assembly of Bondholders in order to appoint the permanent authorized representative 30 days before the first scheduled amortization at the latest.</p> <p>Being specified that the appointed authorized representative will be the same person for tranches A, B,C and D of the loan, these being grouped in a single amount.</p>

### III. TIMETABLE FOR THE OPERATION

N°	Steps	Date
1	Obtaining the AMMC approval	27 September 2016
2	Publication of an extract of the prospectus in a legal gazette	29 September 2016
3	Opening of the subscription period	05 October 2016
4	Closing of the subscription period	07 October 2016
5	Centralization of the subscription orders by the Centralizing Establishment	07 October 2016
6	Payment / Delivery	13 October 2016
7	Publication of the operation results by the issuer in a legal gazette	17 October 2016

### IV. INVESTMENT SYNDICATE AND FINANCIAL AGENTS

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

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## **PART II.**

## **PRESENTATION OF THE FEC**

## I. GENERAL INFORMATION

<b>Corporate name</b>	Fonds d'Équipement Communal (FEC)
<b>Head office</b>	Espace Oudayas. Angle avenue Annakhil et avenue Ben Barka, B.P. 2175 Hay Riad, Rabat
<b>Telephone</b>	05.37.56.60.90 to 93
<b>Fax</b>	05.37.56.90.94
<b>Website</b>	<a href="http://www.fec.ma">www.fec.ma</a>
<b>E-mail</b>	fec@fec.ma
<b>Creation date</b>	13 june 1959
<b>Financial year</b>	From 1 <sup>st</sup> of January to 31 <sup>st</sup> of December
<b>Social purpose</b>	<p>The Fonds d'Équipement Communal is in charge of contributing to the development of local communities; to this end, it can:</p> <ul style="list-style-type: none"> <li>- grant to local authorities, their associations as well as local public institutions any and all technical or financial assistance, including in the form of loans or advances for financing studies and equipment works;</li> <li>- assist local communities in the identification, evaluation and the monitoring of their projects' implementation;</li> <li>- provide assistance in any form whatsoever to the State or a public body for the study and implementation of all plans and local development programs.</li> </ul> <p>The Fonds d'Équipement Communal can also allocate between all local authorities any amount, the management of which would be entrusted to it to that effect.</p> <p>It can also make any civil or commercial securities or real-estate transactions, related to its purpose, required to enable it to exercise the activities mentioned above.</p> <p>Article 3 bis : To implement the tasks assigned to it, the Fonds d'Équipement Communal is authorized to perform all operations that the banks are entitled to practice under Dahir N° 1-93-147 of 15 Muharram 1414 (6th July, 1993).</p>
<b>Share Capital on the 30<sup>th</sup> June 2016</b>	MAD 1,000,000,000
<b>Allocation of Capital</b>	Capital owned 100% by the State
<b>Competent Courts</b>	Rabat Courts
<b>Consultation place of legal documents</b>	The legal documents can be consulted at the head office of the FEC
<b>legal texts applicable to the society</b>	<p>Public institution governed by :</p> <ul style="list-style-type: none"> <li>▪ Law n°31-90, promulgated by Dahir n° 1-92-5 of 05 safar, 1413 (05 August 1992) carrying the reorganizing the Fonds d'Équipement Communal as amended and completed by ▪ Law n°11-96, promulgated by Dahir n°1-96-100 of 16 rabii I 1417 (02 August 1996) ;</li> <li>▪ Decree of the Minister of Finance, Trade, Industry and Craftsmanship n° 2549-96 of 24 jomada II 1418 (27 October 1997) approving the operations of the Funds as a bank institution ;</li> <li>▪ Law n°103-12 relative to credit institutions and assimilated bodies, promulgated by Dahir n°1-14-193 of 24 December 2014 ;</li> <li>▪ The decree n°2-90-351 of 19 Jomada II, 1413 (December 14<sup>th</sup>, 1992) adopted for the application of law n°31-90 mentioned above;</li> <li>▪ Law n°02-12 relative to the appointment of higher management roles in</li> </ul>

application on of provisions of Articles 49 and 92 of the Constitution, promulgated by Dahir n° 1-12-20 of 27 chaabane 1433 (17 July 2012).

Due to its activity, the FEC is governed by Law n°103-12 relative to credit institutions and assimilated bodies, promulgated by Dahir n°1-14-193 of December 24th, 2014.

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 21<sup>st</sup>, 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 7<sup>th</sup>, 2008 modified and completed by the order of Minister of Economy and Finances n° 30-14 of January 06<sup>th</sup>, 2014;
- Dahir carrying law n°1-93-212 of September 21<sup>st</sup> 1993, completed by the laws n°23-01, 36-05 and 44-06
- General regulation of the central Depository approved by the order of Minister of Economy and Finances n°932-98 of April 16<sup>th</sup>, 1998 and amended by the order of Minister of Economy, Finances, Privatization and Tourism n°1961-01 of October 30<sup>th</sup>, 2001 and by the order n°77-05 of March 17<sup>th</sup>, 2005;
- General regulation of the AMMC such as approved by the order of Minister of Economy and Finances n°822 / 08 of April 14<sup>th</sup>, 2008;
- Bank Al Maghrib's circular n° 2/G/96 of January 30<sup>th</sup>, 1996 relative to certificates of deposit and its modification;
- The circular of the AMMC that come into effect the October 1st , 2014;
- Dahir 1-95-03 of January 26<sup>th</sup>, 1995 carrying promulgation of the law n°35-94 relative to certain Negotiable debt securities as amended and completed by Laws n° 35-96 and 33-06.

#### **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%.

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## 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 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.

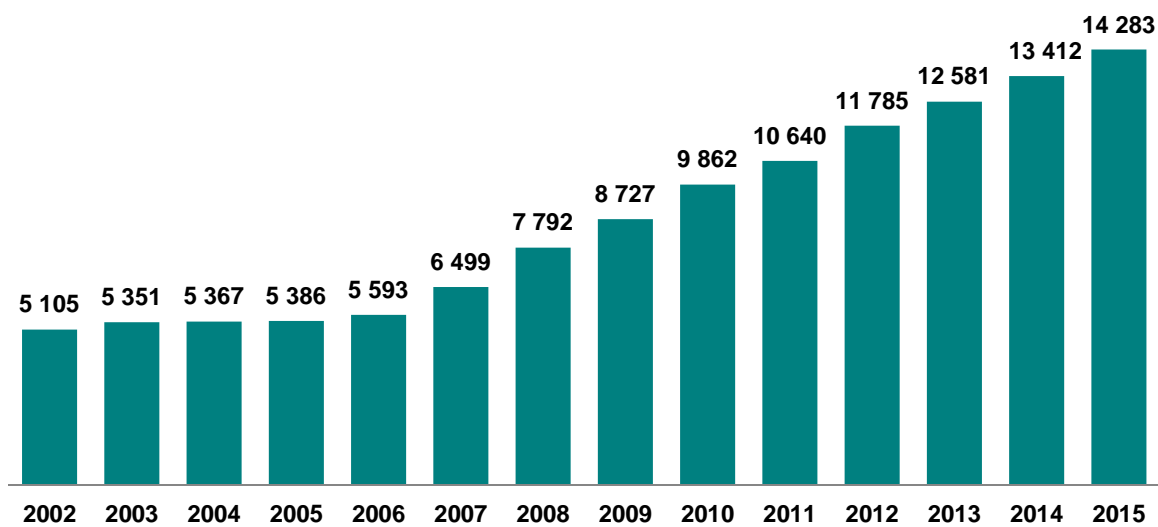
The Bank offers to its customers products and services adapted to their needs and focuses on assisting them technically for building up and deploying their equipment projects. The FEC accompanies thus its customers in expressing their investment choices and offers them the possibility to realize high value-add projects. These projects aim at improving the Citizen's quality of life and cover areas such as urban 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.

## 1. LOAN ACTIVITIES

As part of its activity, the FEC offers:

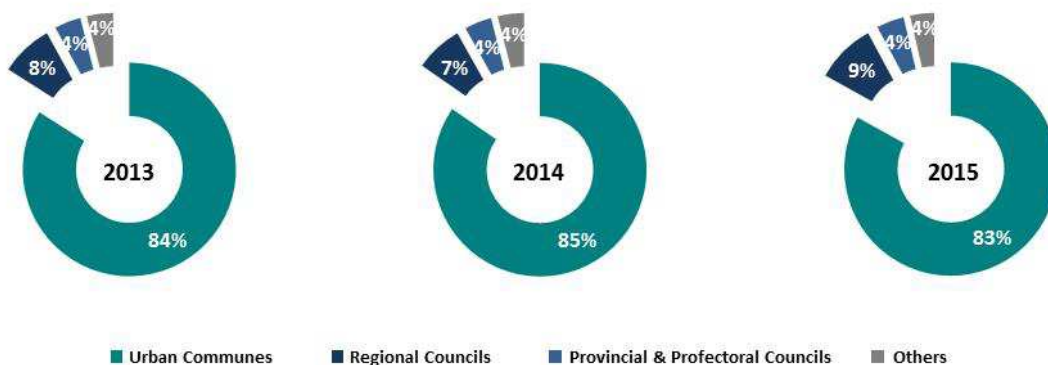
- conventional loans to finance investment projects ;
- lines of credit (LOCs), in place since 2004, for the financing of development programs. This type of financing allows Local Authorities to have the visibility needed to secure funding for their development projects. It encourages Local Authorities to plan their investment programs in the medium and long term and enables them, thanks to its flexibility, to optimize the financing of the different components of the program.

## 2. EVOLUTION OF THE GROSS OUTSTANDING<sup>1</sup>



Source : FEC

## 3. EVOLUTION OF THE GROSS OUTSTANDING BY TYPE OF BORROWER<sup>2</sup>



Source : FEC - Urban Communes – Regional Councils - Provincial and Prefectoral Councils - Others

<sup>1</sup>The gross outstanding is the due capital (disbursed amount minus capital amortization)

<sup>2</sup>The gross outstanding is the due capital (disbursed amount minus capital amortization)

### 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.

### IV. ADMINISTRATION ORGANS

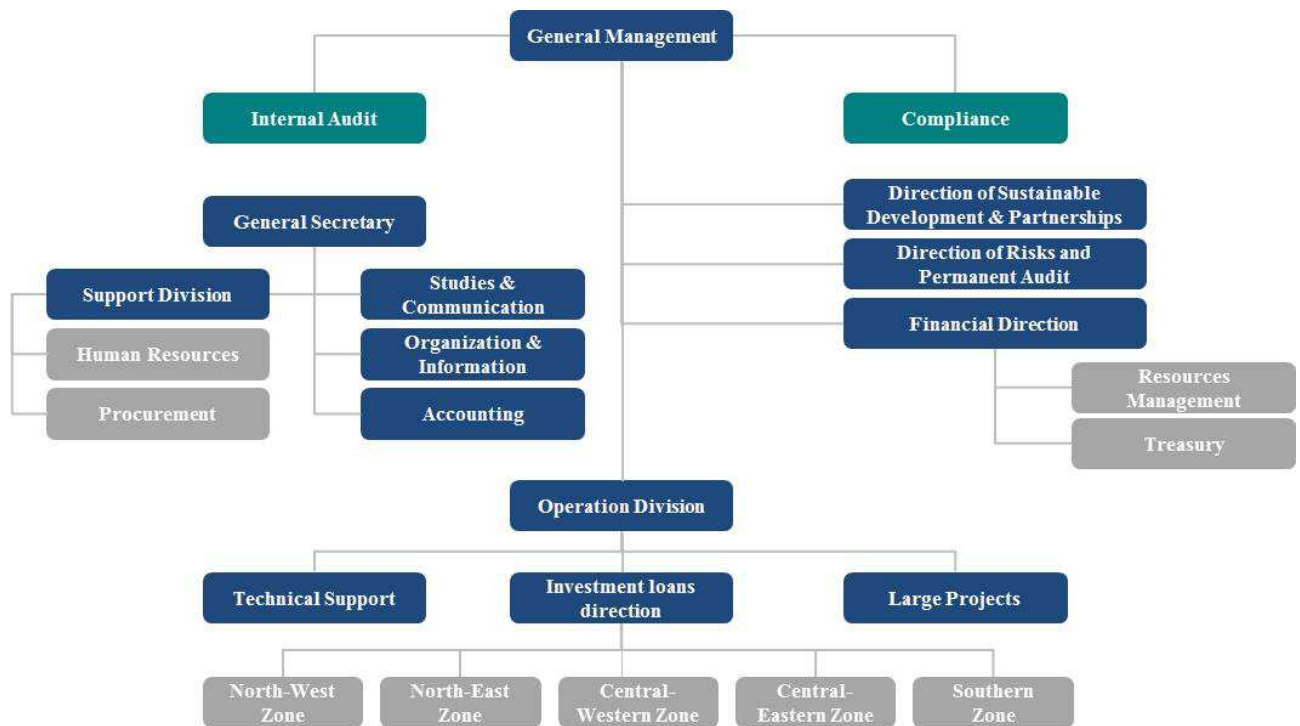
At the end of June 2016, the Board of directors is constituted as follows:

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
Mrs Saadia LAAROUSSI Mr Hicham TALBY Representatives of the Ministry of Economy and Finance	Mrs Jamila AFIF Representing the local representatives
Mr Abderrahmane ALAOUI Representative of the Ministry of Health	Mr Mohamed BENCHAIIB Representing the local representatives
Mr Said BENAMAR Representing the Ministry of Equipment and Transport	Mr Brahim LAKHLIGUI Representing local representatives
Mr Abderrahim EL HAFIDI Representative of the Ministry of Energy and Mines, Water and the Environment	Mr Bensallam AGOUMI Representing local representatives
Mr Omar LAHLOU Representing the Director of the Caisse de Dépôt et de Gestion	3 Members to be appointed

*Source: FEC*

## V. LEGAL ORGANIZATIONAL CHART OF THE FEC

At the end of June 2016, the organizational chart of the FEC is as follows:



*Source: FEC*

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## **PART III.**

## **FINANCIAL DATA OF THE FEC**

## I. FINANCIAL DATA FOR THE PERIOD 2013-2015

### I.1. PRESENTATION OF THE INCOME STATEMENT

The income statement of the Fonds d'Equipelement Communal (FEC) is as follows for the period 2013 - 2015:

Million MAD	2013	2014	2015	Var. 14/13	Var. 15/14
<b>Banking operating income</b>	<b>821</b>	<b>874</b>	<b>923</b>	<b>6.4%</b>	<b>5.6%</b>
Interest and similar income from transactions with credit institutions	6	5	4	-19.2%	-9.8%
Interest and similar income from transactions with customers	815	868	914	6.6%	5.2%
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	-	0	5	N/A	NA
<b>Banking operating expenses</b>	<b>484</b>	<b>513</b>	<b>507</b>	<b>5.9%</b>	<b>-1.1%</b>
Interest and similar expenses on transactions with credit institutions	192	210	222	9.5%	5.3%
Interest and similar expenses on transactions with customers	-	-	-	N/A	N/A
Interest and similar expenses on debt issued	292	302	285	3.6%	-5.6%
Charges on assets leased and rented	-	-	-	N/A	N/A
Other bank expenses	0	0	0	N/A	N/A
<b>Net banking income</b>	<b>337</b>	<b>361</b>	<b>416</b>	<b>7.1%</b>	<b>15.2%</b>
Non-banking revenue	0	1	1	1372.9%	-26.6%
Nonbank operating expenses	0	0	0	N/A	N/A
<b>General operating expenses</b>	<b>54</b>	<b>54</b>	<b>54</b>	<b>1.3%</b>	<b>-0.6%</b>
Personnel costs	39	41	40	4.3%	-3.5%
Taxes and levies	1	1	1	1.2%	-0.4%
External expenses	7	7	7	0.0%	1.8%
Other general operating expenses	1	2	3	7.3%	86.8%
Allocation to depreciations and provisions of assets	6	4	4	-19.7%	-8.4%
<b>Allocations to provisions and unrecoverable debt write-offs</b>	<b>3</b>	<b>2</b>	<b>2</b>	<b>-29.2%</b>	<b>-20.6%</b>
Appropriations to provisions on debts and pending commitments by signature	3	2	2	-29.2%	-20.6%
Losses on unrecoverable debts	-	-	-	N/A	N/A
Other provisions	-	-	-	N/A	N/A
<b>Reversals of provisions and recoveries on written off loans</b>	<b>9</b>	<b>12</b>	<b>11</b>	<b>44.3%</b>	<b>-9.4%</b>

Reversals of provisions on debts and pending commitments by signature	9	12	3	44,3%	-78,8%
Recoveries on written off loans	-	-	-	ns	ns
Other reversals	-	-	9	ns	ns
<b>Operating result</b>	<b>288</b>	<b>317</b>	<b>371</b>	<b>10,0%</b>	<b>17,1%</b>
Non-current income	0	0	0	-55,1%	-52,2%
Non-recurring expenses	4	4	10	10,1%	143,1%
<b>Pre-tax income</b>	<b>285</b>	<b>313</b>	<b>362</b>	<b>10,0%</b>	<b>15,5%</b>
Taxes on income	107	118	135	10,0%	14,2%
<b>Net income</b>	<b>177</b>	<b>195</b>	<b>227</b>	<b>10,0%</b>	<b>16,3%</b>

Source: FEC

## I.2. BALANCE SHEET

The FEC's balance sheet is as follows for the last three exercises (2013, 2014 and 2015):

Million MAD	2013	2014	2015	Var. 14/13	Var. 15/14
<b>Assets</b>	<b>13 411</b>	<b>14 296</b>	<b>15 407</b>	<b>6,6%</b>	<b>7,8%</b>
Cash, central banks, public treasury, postal checks service	134	160	362	19,1%	126,0%
Claims on credit and assimilated institutions	3	4	7	14,9%	88,5%
Advances to customers	13 179	14 011	14 922	6,3%	6,5%
Receivables acquired through factoring	-	-	-	N/A	N/A
Trading and investment securities	-	-	-	N/A	N/A
Other assets	33	62	58	88,3%	-5,4%
Investment securities	-	-	-	N/A	N/A
Equity securities and similar assets	0	0	0	0	0,0%
Subordinated debts	-	-	-	N/A	N/A
Fixed assets given in leasing and renting	-	-	-	N/A	N/A
Intangible assets	2	1	1	-17,2%	-44,6%
Tangible assets	60	59	56	-2,5%	-4,3%
<b>Liabilities</b>	<b>13 411</b>	<b>14 296</b>	<b>15 407</b>	<b>6,6%</b>	<b>7,8%</b>
Central banks, public treasury, postal checks service	-	-	-	N/A	N/A
Amounts owed to credit and related institutions	3 523	4 412	4 682	25,2%	6,1%
Customer deposits	-	-	-	N/A	N/A
Issued debt securities	7 182	7 179	8 006	0,0%	11,5%
Other liabilities	33	72	44	115,2%	-38,8%
Provisions for liabilities and charges	9	9	-	0%	-100%
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	2 132	2 074	1 447	-2,7%	-30,2%
Capital	355	355	1 000	0,0%	181,8%
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 (+/-)	177	195	227	10,3%	16,3%

Source : FEC

## II. FINANCIAL DATA FOR THE 1<sup>ST</sup> SEMESTER OF 2015 AND 2016

The financial data for the 1<sup>st</sup> semester of 2016 presented below have not been subject to audit work.

### II.1. INCOME STATEMENT

The income statement of the Fonds d'Equipelement Communal (FEC) is as follows for the 1<sup>st</sup> semester of 2015 and 2016:

Million MAD	S1 2015	S1 2016	Var. S1 16/15
<b>Banking operating income</b>	<b>451</b>	<b>480</b>	<b>6,5%</b>
Interest and similar income from transactions with credit institutions	2	3	23,7%
Interest and similar income from transactions with customers	448	477	6,4%
Interest and similar income from debt securities	0	0	ns
Income from property titles	0	0	ns
Income from capital goods leasing and renting	0	0	ns
Commissions on service delivery	0	0	ns
Other banking products	0	0	ns
<b>Banking operating expenses</b>	<b>252</b>	<b>248</b>	<b>-1,4%</b>
Interest and similar expenses on transactions with credit institutions	113	105	-7,3%
Interest and similar expenses on transactions with customers	0	0	ns
Interest and similar expenses on debt issued	139	144	3,5%
Charges on assets leased and rented	0	0	ns
Other bank expenses	0	0	ns
<b>Net banking income</b>	<b>199</b>	<b>231</b>	<b>16,5%</b>
Non-banking revenue	1	0	-94,6%
Nonbank operating expenses	0	0	ns
<b>General operating expenses</b>	<b>27</b>	<b>30</b>	<b>10,0%</b>
Personnel costs	21	22	8,0%
Taxes and levies	0	1	92,3%
External expenses	2	2	6,8%
Other general operating expenses	2	2	43,9%
Allocation to depreciations and provisions of assets	2	2	-9,1%
<b>Allocations to provisions and unrecoverable debt write-offs</b>	<b>3</b>	<b>0</b>	<b>-83,9%</b>
Appropriations to provisions on debts and pending commitments by signature	3	0	-83,9%
Losses on unrecoverable debts	0	0	ns

Other provisions	0	0	ns
<b>Reversals of provisions and recoveries on written off loans</b>	<b>1</b>	<b>2</b>	<b>10,3%</b>
Reversals of provisions on debts and pending commitments by signature	1	2	10,3%
Recoveries on written off loans	0	0	ns
Other reversals	0	0	ns
<b>Operating result</b>	<b>171</b>	<b>203</b>	<b>18,7%</b>
Non-current income	0	0	ns
Non-recurring expenses	2	0	-100,0%
<b>Pre-tax income</b>	<b>169</b>	<b>203</b>	<b>20,2%</b>
Taxes on income	63	75	18,7%
<b>Net income</b>	<b>105</b>	<b>128</b>	<b>21,2%</b>

Source: FEC

## II.2 BALANCE SHEET

The FEC's balance sheet is as follows for the 1<sup>st</sup> semester of 2015 and 2016:

Million MAD	2015	S1 2016	Var. S1 16/15
<b>Assets</b>	<b>15 407</b>	<b>14 909</b>	<b>-3,2%</b>
Cash, central banks, public treasury, postal checks service	362	128	-64,7%
Claims on credit and assimilated institutions	7	6	-12,6%
Advances to customers	14 922	14 669	-1,7%
Receivables acquired through factoring	-	-	ns
Trading and investment securities	-	-	ns
Other assets	58	51	-13,5%
Investment securities	-	-	ns
Equity securities and similar assets	0	0	ns
Subordinated debts	-	-	ns
Fixed assets given in leasing and renting	-	-	ns
Intangible assets	1	1	35,7%
Tangible assets	56	55	-2,4%
<b>Liabilities</b>	<b>15 407</b>	<b>14 909</b>	<b>-3,2%</b>
Central banks, public treasury, postal checks service	-	-	ns
Amounts owed to credit and related institutions	4 682	4 790	2,3%
Customer deposits	-	-	ns
Issued debt securities	8 006	7 214	-9,9%
Other liabilities	44	103	133,9%
Provisions for liabilities and charges	-	-	ns
Regulated provisions	-	-	ns
Subsidies, allocated public funds and special guarantee funds	-	-	ns
Subordinated debt	-	-	ns
Revaluation surplus	-	-	ns
Reserves and additional paid-in capital	1 447	1 674	15,7%
Capital	1 000	1 000	ns
Shareholders, unpaid capital (-)	-	-	ns
Retained earnings (+/-)	-	-	ns
Net income pending allocation (+/-)	-	-	ns
Net income for the fiscal year (+/-)	227	128	ns

Source: FEC

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## **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 economic 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. CREDIT 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.

Regarding loans targeted to the funding of specific operations such as capital increase or the contributions of shareholders' current accounts, credit risk is assessed on the basis of:

- Study of the solvency of the operator in charge of the project, through the study of its balance sheet and the assessment of its financial situation ;
- Study of the profitability through the determination of operating results, financial income and appreciation of the cash flow;
- Evaluation of the project's business plan of the financed project and appreciation of the generated cash flow.
- This assessment is complemented by the appreciation of various ratios: Ratio of coverage of debt service, financial autonomy ratio, repayment capacity ratio and debt ratio.
- When it is deemed necessary, the loan is conditioned by the development of credit risk mitigants such as mortgage guarantee or registration in favor of the FEC.

### 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

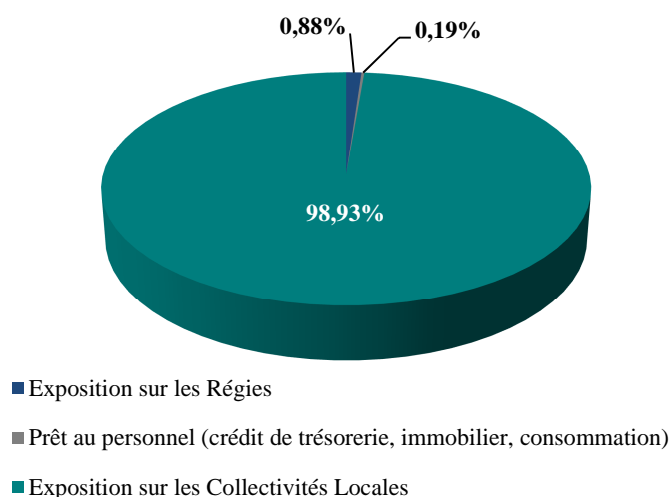
The calculation of the solvency ratio was marked by the passage of the FEC to the Basel III standards since the order of December, 2012. Indeed, as of 31 December 2012, this ratio is calculated in accordance with the provisions of circular n° 26/G/2006 of Bank Al Maghrib, as amended by circular n°13/G/13. It equals the ratio between the prudential capital and the weighted assets in terms of credit and operational risks.

As of December 31st 2015, the net weighted risks borne by the FEC amount to M.MAD 4,265 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 (Total Capital Ratio) and the Tier One ratio (T1 Capital Ratio and CET1 Capital Ratio) are displayed at 62.63%, thereby reflecting the good solvency level of the Institution.

### Analysis of the credit portfolio

Amounts due from customers composed of 98.93% of commitment to local Communities amounted to a total of M.MAD 14,935 as of 31 December 2015:



*Source : FEC*

The funding commitments given by the FEC to customers amount, as of 31 December 2015, to M.MAD 4,531 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 2015, reveals that 77% of the global volume corresponds 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.

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 capital 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/2012 of Bank Al Maghrib (applicable since 2013), at 16,17% as of the end of December 2015, 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 2%.

## **II. 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.

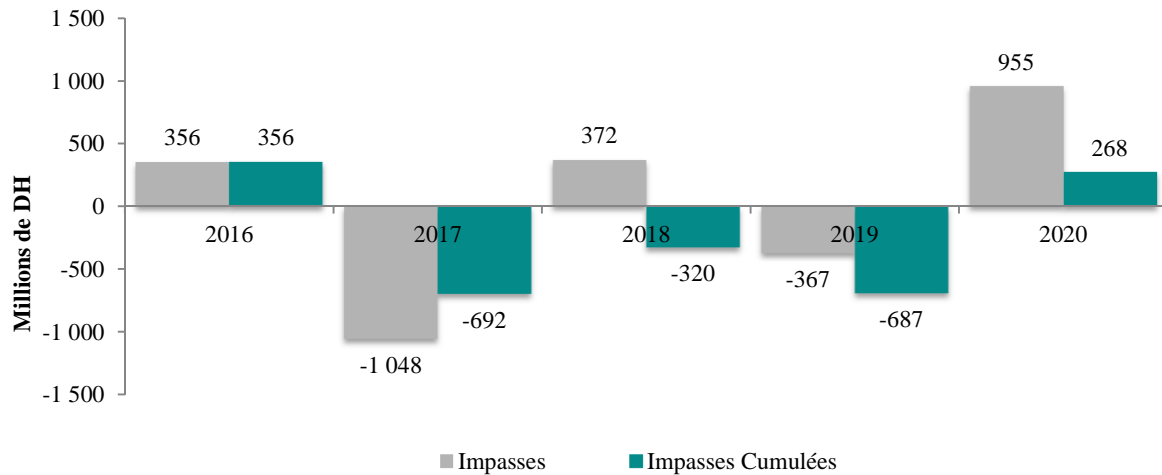
A report shall be produced every six months and is to be submitted to the The Head office and to the Risks Committee.

### **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 2015

### Annual static liquidity gaps as of December 2015 (in M.MAD)



Source : FEC

## Liquidity Ratio

The liquidity ratio stood at 102.09% as of 31 December 2015.

### II.2. RATE RISK

The rate risk monitoring is set 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 2015

The rate gaps per rate type and residual maturity are determined, as of 31 December 2015, 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
<b>Gaps</b>	<b>-162</b>	<b>-687</b>	<b>-168</b>	<b>-491</b>	<b>-842</b>	<b>-624</b>

Source: FEC

### ▪ 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
<b>Gaps</b>	<b>-129</b>	<b>248</b>	<b>-409</b>	<b>-646</b>	<b>3 951</b>	<b>1 966</b>

*Source: FEC*

The stress tests/reports relating to the rate risk impact on the portfolio and on the economic 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 2015, the stress tests results reveal that a choc of 200 bases points of the rates yielded a GNP win of 14.23% on a 12 months horizon and a decrease in the economic value by 8.42% in terms of equity.

Impact	Rate Evolution:
	Variation of 200 base points
GNP	14,23%
Economic value in % compared to Equity	8,42%

*Source: FEC*

### III. OPERATIONAL 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 evaluative 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 that was established according to the ISO 9001 V2008 Quality Standard.

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.

### Internal control manual

In accordance with the applicable regulations and best practices, the FEC has an internal control manual that enables 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, in accordance with the provisions of Circular n°4/W/2014 relative to the internal control of credit institutions and the Directive n°47/G72007 of Bank Al-Maghrib relative to compliance, a Business Continuity Plan that is approved by the Board of Directors and that enables it to guarantee the continuous operations of its activities, to mitigate the risks likely to materialize and to limit the losses from occurring.

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 proceeded, 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.

## **IV. NON-COMPLIANCE RISKS**

In accordance with the circular n°4/W/2014 and the circular n°49/G/2007 of Bank Al-Maghrib, the FEC adopted a compliance policy and charter as well as cartography of non-compliance risks.

## **V. 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 The Moroccan Capital Market Authority (AMMC) under reference n° VI/EM/024/2016, on the 27<sup>th</sup> of September.**

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