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**LOAN NUMBER 7350 -MOR**

# **Loan Agreement**

**(Financial Sector Development Policy Loan)**

**between**

**KINGDOM OF MOROCCO**

**and**

**INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT**

**Dated December 16, 2005**

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Public Disclosure Authorized

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**LOAN NUMBER 7350 -MOR**

**LOAN AGREEMENT**

AGREEMENT, dated December 16, 2005, between the KINGDOM OF MOROCCO (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Bank has received from the Borrower a letter, dated November 14, 2005, describing a program of actions, objectives, and policies designed to strengthen the Borrower's legal, regulatory and supervisory framework governing the financial sector, restructure specialized public financial institutions and enhance the financial sector's infrastructure, transparency and integrity (hereinafter called the Program) declaring the Borrower's commitment to the execution of the Program, and requesting assistance from the Bank in support of the Program during the execution thereof; and

(B) on the basis, *inter alia*, of the foregoing, the Bank has decided in support of the Program to provide such assistance to the Borrower by making the Loan in two (2) tranches as hereinafter provided;

NOW THEREFORE the parties hereto hereby agree as follows:

**ARTICLE I**

**General Conditions; Definitions**

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements for Fixed-Spread Loans" of the Bank dated September 1, 1999 (as amended through May 1, 2004), with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) Section 2.01, paragraph 41, is modified to read:

"'Project' means the program, referred to in the Preamble to the Loan Agreement, in support of which the Loan is made."

(b) Section 3.08 is modified to read:

"Each withdrawal of an amount of the Loan from the Loan Account shall be made in the Loan Currency. The Bank, at the request and acting as an agent of the Borrower, shall purchase with the Loan Currency withdrawn from the Loan Account such currencies as shall be required to meet payments to be financed out of the proceeds of the Loan."

- (c) Section 5.01 is modified to read:

“The Borrower shall be entitled to withdraw the proceeds of the Loan from the Loan Account in accordance with the provisions of the Loan Agreement and of these General Conditions.”;

- (d) the last sentence of Section 5.03 is deleted;

- (e) Section 9.07 (c) is modified to read:

“(c) Not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, the Borrower shall prepare and furnish to the Bank a report, of such scope and in such detail as the Bank shall reasonably request, on the execution of the program referred to in the Preamble to the Loan Agreement, the performance by the Borrower and the Bank of their respective obligations under the Loan Agreement and the accomplishment of the purposes of the Loan.”; and

(f) Section 9.05 is deleted in its entirety and Sections 9.06, 9.07 (as modified above), 9.08 and 9.09 are renumbered, respectively, Sections 9.05, 9.06, 9.07 and 9.08.

Section 1.02 Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) “BAM” means Bank Al-Maghrib, the Borrower’s central Bank established and operating pursuant to Dahir No. 1-59-233 dated June 30, 1959, as the same may be amended from time to time;

(b) “CDG” means Caisse de Dépôt et de Gestion, a non-bank, financial institution, owned by the Borrower and established and operating pursuant to the Borrower’s Law No. 1-59-074 dated February 10, 1959, as the same may be amended from time to time;

(c) “CDVM” means Conseil Déontologique des Valeurs Mobilières, the Borrower’s capital market regulator established and operating pursuant to the Borrower’s Law No. 1-93-212 dated September 21, 1993, as the same may be amended from time to time;

(d) “CIH” means Crédit Immobilier et Hôtelier, the housing and hotel industry bank established and operating pursuant to the Borrower’s Law No. 552-67 dated December 17, 1968, as the same may be amended from time to time;

(e) “Deposit Account” means the account referred to in Section 2.02 (b) of this Agreement; and

(f) “IOSCO” means International Organization of Securities Commissions.

## ARTICLE II

### The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, an amount equal to one hundred sixty six million three hundred thousand Euros (□66,300,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.09 of this Agreement.

Section 2.02. (a) Subject to the provisions of paragraphs (b), (c) and (d) of this Section, the Borrower shall be entitled to withdraw the amount of one hundred sixty five million eight hundred and eighty four thousand two hundred and fifty Euros (□65,884,250) from the Loan Account in support of the Program.

(b) Except as the Bank may otherwise agree: (i) all withdrawals from the Loan Account shall be deposited by the Bank into the Deposit Account designated by the Borrower in its Central Bank (BAM); and (ii) the Borrower shall ensure that upon each deposit of an amount of the Loan into said account, an equivalent amount is accounted for in the Borrower’s budget management system, in a manner acceptable to the Bank.

(c) The Borrower undertakes that the proceeds of the Loan shall not be used to finance expenditures excluded pursuant to the provisions of Schedule 1 to this Agreement. If the Bank determines at any time that an amount of the Loan was used to make a payment for an expenditure so excluded, the Borrower shall, promptly upon notice from the Bank, refund an amount equal to the amount of said payment to the Bank. Amounts refunded to the Bank upon such request shall be cancelled.

(d) No withdrawals shall be made from the Loan Account after the aggregate amount of the Loan withdrawn from the Loan Account has reached the amount of one hundred and eight million four hundred and ninety two thousand Euros (□8,492,000) unless the Bank is satisfied, after an exchange of views as described in Section 3.01 of this Agreement based on evidence satisfactory to the Bank:

- (A) with the progress achieved by the Borrower in the carrying out of the Program;
- (B) that the macroeconomic policy framework of the Borrower is satisfactory and in line with the Program, as measured on the

basis of indicators agreed between the Borrower and the Bank;  
and

- (C) that the actions described in Schedule 3 to this Agreement have been taken.

If, after said exchange of views, the Bank is not so satisfied, the Bank may give notice to the Borrower to that effect and, if within ninety (90) days after such notice, the Borrower has not taken steps satisfactory to the Bank, in respect of (A), (B), and (C) above, as the case may be, then the Bank may, by notice to the Borrower, cancel the unwithdrawn amount of the Loan or any part thereof.

Section 2.03. The Closing Date shall be June 30, 2007 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a front-end fee in an amount equal to one percent (1%) of the amount of the Loan, subject to any waiver of a portion of such fee as may be determined by the Bank from time to time. On or promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount of such fee.

Section 2.05. The Borrower shall pay to the Bank a commitment charge on the principal amount of the Loan not withdrawn from time to time, at a rate equal to: (i) eighty five one-hundredths of one per cent (0.85%) per annum from the date on which such charge commences to accrue in accordance with the provisions of Section 3.02 of the General Conditions to but not including the fourth anniversary of such date; and (ii) seventy five one-hundredths of one per cent (0.75%) per annum thereafter.

Section 2.06. The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, in respect of each Interest Period at the Variable Rate, provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the Borrower shall, during the Conversion Period, pay interest on such amount in accordance with the relevant provisions of Article IV of the General Conditions.

Section 2.07. Interest and commitment charges shall be payable semiannually in arrears on May 15 and November 15 in each year.

Section 2.08. The Borrower shall repay the principal amount of the Loan in accordance with the provisions of Schedule 2 to this Agreement.

Section 2.09. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management:

- (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency;
- (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan from a Variable Rate to a Fixed Rate, or vice versa; and
- (iii) the setting of limits on the Variable Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on said Variable Rate.

(b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a "Conversion", as defined in Section 2.01(7) of the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

(c) Promptly following the Execution Date for an Interest Rate Cap or Interest Rate Collar in respect of which the Borrower has requested that the premium be paid out of the proceeds of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amounts required to pay any premium payable in accordance with Section 4.04(c) of the General Conditions.

### **ARTICLE III**

#### **Particular Covenants**

Section 3.01. (a) The Borrower and the Bank shall from time to time, at the request of either party, exchange views on the progress achieved in carrying out the Program and the actions specified in Schedule 3 to this Agreement.

(b) Prior to each such exchange of views, the Borrower shall furnish to the Bank for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Bank shall reasonably request.

(c) Without limitation upon the provisions of paragraph (a) of this Section, the Borrower shall exchange views with the Bank on any proposed action to be taken after the disbursement of the Loan which would have the effect of materially reversing the objectives of the Program, or any action taken under the Program including any action specified in Schedule 3 to this Agreement.

Section 3.02. (a) Without limitation upon the provisions of Section 9.01(a) of the General Conditions, the Borrower shall promptly furnish to the Bank such information

relating to the provisions of Article II of this Agreement as the Bank may, from time to time, reasonably request.

- (b) Upon the Bank's request, the Borrower shall:
  - (i) have the Deposit Account audited in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;
  - (ii) furnish to the Bank as soon as available, but in any case not later than nine (9) months after the date of the Bank's request for such audit, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and
  - (iii) furnish to the Bank such other information concerning the Deposit Account and the audit thereof as the Bank shall have reasonably requested.

#### **ARTICLE IV**

##### **Additional Event of Suspension**

Section 4.01. Pursuant to Section 6.02(p) of the General Conditions, the following additional event is specified, namely, that a situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out.

#### **ARTICLE V**

##### **Termination**

Section 5.01. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

#### **ARTICLE VI**

##### **Representative of the Borrower; Addresses**

Section 6.01. The Minister of Finance and Privatization of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministère des Finances et de la Privatisation  
Avenue Mohammed V  
Rabat,  
Kingdom of Morocco

Cable address:

MINFIN

Facsimile:

212-37-67-75-30/31

For the Bank:

International Bank for  
Reconstruction and Development  
1818 H Street, N.W.  
Washington, D.C. 20433  
United States of America

Cable address:

INTBAFRAD  
Washington, D.C.

Telex:

248423 (MCI) or  
64145 (MCI)

Facsimile:

(202) 477-6391

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in Rabat, Kingdom of Morocco, as of the day and year first above written.

KINGDOM OF MOROCCO

By /s/ Fathallah Oualalou

Authorized Representative

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ Ferid Belhaj

Authorized Representative

## SCHEDULE 1

### Excluded Expenditures

For purposes of Section 2.02(c) of this Agreement, the proceeds of the Loan shall not be used to finance any of the following expenditures:

1. expenditures for goods or services supplied under a contract which any national or international financing institution or agency other than the Bank or the Association shall have financed or agreed to finance, or which the Bank or the Association shall have financed or agreed to finance under another loan, credit, or grant;
2. expenditures for goods included in the following groups or subgroups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Bank by notice to the Borrower:

<u>Group</u>	<u>Subgroup</u>	<u>Description of Items</u>
112		Alcoholic beverages
121		Tobacco, unmanufactured, tobacco refuse
122		Tobacco, manufactured (whether or not containing Tobacco substitutes)
525		Radioactive and associated materials
667		Pearls, precious and Semiprecious stones, Unworked or worked
718	718.7	Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors
728	728.43	Tobacco processing machinery

<u>Group</u>	<u>Subgroup</u>	<u>Description of Items</u>
897	897.3	Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971		Gold, non-monetary (excluding gold ores and concentrates)

3. expenditures for goods intended for a military or paramilitary purpose or for luxury consumption;
4. expenditures for environmentally hazardous goods (for purposes of this paragraph the term "environmentally hazardous goods" means goods, the manufacture, use or import of which is prohibited under the laws of the Borrower or international agreements to which the Borrower is a party;
5. expenditures on account of any payment to persons or entities, or any import of goods, if such payment or import is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and
6. expenditures under a contract in respect of which the Bank determines that corrupt, fraudulent, collusive or coercive practices were engaged in by representatives of the Borrower or of a beneficiary of the Loan during the procurement or execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Bank to remedy the situation.

## SCHEDULE 2

### Amortization Schedule

1. The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date (Installment Share). If the proceeds of the Loan shall have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by the Bank by multiplying: (a) the total principal amount of the Loan withdrawn and outstanding as of the first Principal Payment Date; and (b) the Installment Share for each Principal Payment Date, such repayment amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

<u>Payment Date</u>	<u>Installment Share (Expressed as a %)</u>
May 15, 2014	4.17%
November 15, 2014	4.17%
May 15, 2015	4.17%
November 15, 2015	4.17%
May 15, 2016	4.17%
November 15, 2016	4.17%
May 15, 2017	4.17%
November 15, 2017	4.17%
May 15, 2018	4.17%
November 15, 2018	4.17%
May 15, 2019	4.17%
November 15, 2019	4.17%
May 15, 2020	4.17%
November 15, 2020	4.17%
May 15, 2021	4.17%
November 15, 2021	4.17%
May 15, 2022	4.17%
November 15, 2022	4.17%
May 15, 2023	4.17%
November 15, 2023	4.17%
May 15, 2024	4.17%
November 15, 2024	4.17%
May 15, 2025	4.17%
November 15, 2025	4.09%

2. If the proceeds of the Loan shall not have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:

(a) To the extent that any proceeds of the Loan shall have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the amount withdrawn and outstanding as of such date in accordance with paragraph 1 of this Schedule.

(b) Any withdrawal made after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by the Bank by multiplying the amount of each such withdrawal by a fraction, the numerator of which shall be the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (the Original Installment Share) and the denominator of which shall be the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such repayment amounts to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

3. (a) Withdrawals made within two calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable on any Principal Payment Date, be treated as withdrawn and outstanding on the second Principal Payment Date following the date of withdrawal and shall be repayable on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.

(b) Notwithstanding the provisions of sub-paragraph (a) of this paragraph 3, if at any time the Bank shall adopt a due date billing system under which invoices are issued on or after the respective Principal Payment Date, the provisions of such sub-paragraph shall no longer apply to any withdrawals made after the adoption of such billing system.

4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the withdrawn principal amount of the Loan to an Approved Currency, the amount so converted in said Approved Currency that shall be repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by the Bank by multiplying such amount in its currency of denomination immediately prior to said Conversion by either: (i) the exchange rate that reflects the amounts of principal in said Approved Currency payable by the Bank under the Currency Hedge Transaction relating to said Conversion; or (ii) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.

5. If the principal amount of the Loan withdrawn and outstanding from time to time shall be denominated in more than one Loan Currency, the provisions of this Schedule shall apply separately to the amount denominated in each Loan Currency, so as to produce a separate amortization schedule for each such amount.

### SCHEDULE 3

#### Actions Referred to in Section 2.02 (d)(C) of this Agreement

1. For the purpose of strengthening the financial sector's legal, regulatory and supervisory framework, the Borrower has:

(a) enacted a ministerial order ("arrêté ministériel") extending the scope of banking supervision to the banking activities of CDG;

(b) submitted to the Bank BAM's procedures for the treatment of financially troubled commercial banks;

(c) submitted to the Bank and the International Monetary Fund a request for an updated assessment, to be undertaken not later than the second semester of calendar year 2007, with regard to the Borrower's compliance with the Basel Principles on banking supervision;

(d) enacted a ministerial order ("arrêté ministériel") on insurance and reinsurance companies, including, *inter alia*, provisions relating to assets diversification and valuation, solvency requirements, calculation of technical provisions and the recourse to reinsurance;

(e) enacted a ministerial order ("arrêté ministériel") setting forth the accounting standards for the insurance sector;

(f) liberalized the setting of price for insurance premia;

(g) prepared an action plan providing for the reform of the Borrower's labor funds ("Fonds du travail");

(h) submitted to the Bank an issues note regarding the generalization of insurance on work-related accidents;

(i) prepared an action plan providing for the establishment of insurance mechanisms for natural disasters and political events;

(j) ensured that all insurance companies have complied with the Borrower's prudential regulations. In the event that an insurance company does not comply with said regulations, the Borrower shall have caused the insurance regulator ("Contrôleur des assurances"), for each said company to: (i) endorse a restructuring plan ("plan de redressement") for restoring said company's compliance with said regulations; or (ii) impose a total or partial withdrawal of said company's insurance license, as the case may be;

(k) submitted to its Council of Government a draft law on collective management schemes;

(l) adopted in its Council of Government a draft law amending the Borrower's Law No. 10-98 dated August 25, 1999, on securitization;

(m) submitted to its Secrétariat Général du Gouvernement a draft decree granting operational budget autonomy ("contrôle d'accompagnement") to CDVM pursuant to article 17 of the Borrower's Law No. 69-00 dated; and

(n) submitted to the Bank an external assessment of CDVM's compliance with IOSCO principles.

2. For the purpose of restructuring the Borrower's public financial institutions, the Borrower has provided evidence confirming compliance by CIH, for calendar year 2007, with BAM's prudential regulations.

3. For the purpose of enhancing the financial sector's infrastructure, transparency and integrity, the Borrower has:

(a) established a national committee for payment systems ("comité national de systèmes de paiements");

(b) has launched the real time gross settlements system ("RTGS"); and

(c) adopted in its Council of Government a draft law on anti-money laundering.