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**PRESS RELEASE**

**Presentation of the 13<sup>th</sup> annual report on banking supervision for 2016**

**Casablanca, 20 July 2017**

The 13<sup>th</sup> annual report on banking supervision presents Bank Al-Maghrib's activities in the field of banking regulation, micro-prudential surveillance and of credit institutions' customer protection in the year 2016. It also covers developments of these institutions' activity and profitability and the major risks they incur.

In 2016, the network of the banking sector extended to about 6,300 branches and 6,821 ATMs. The number of bank accounts totaled 24 million and the penetration rate reached 69 percent.

Amid a weak economic growth, bank lending improved slightly to 4 percent, driven by loans to households, which rose to 4.1 percent, and those to nonfinancial corporations which increased to 3.4 percent after declining the previous year. At the same time, the volume of nonperforming loans grew at a slower pace compared to the past three years, causing the risk ratio to reach 7.6 percent, up from 7.4 percent in 2015.

On the prudential side, banks' financial base continued to strengthen, in accordance with Basel III capital regulatory requirements. The sector's average capital adequacy ratio thus improved to 14.2 percent for a core capital ratio of 11.5 percent.

In a fiercely competitive environment, banks' interest margin declined, affecting their profitability. However, this situation was partially offset by trading and fee income. Restated for a significant and non-recurring divestment operation, banks' aggregate net income on an equity basis decreased by 1.7 percent after dropping by 6.5 percent in the previous year. Net income of the nine banking groups, on a consolidated basis, rose by 6 percent due to the strong performance of their operations abroad and non-banking activities.

Bank Al-Maghrib continued to closely monitor the quality of credit institutions' loan portfolios and provisioning. In this context, it set higher standards for granting loans to counterparties within groups of corporations and initiated a reform of the rules for classifying claims with the aim of strengthening credit institutions' resilience to credit risk. The Bank also paid special attention to the supervision of activities carried out by banks outside Morocco and strengthened coordination with its counterparts abroad.

As part of its customer protection responsibilities, the Bank intensified its activities of monitoring credit institutions' compliance with the relevant legal and regulatory framework. Also, spurred by Bank Al-Maghrib, banks included 6 additional free services to the 16 services already agreed in 2010.

This year was also marked by Bank Al-Maghrib's mobilization to prepare the launch of participative banking. The Credit Institutions Committee, meeting in November 2016, gave a favorable opinion for licensing five participative banks and three windows. It finalized four circulars governing this activity, three of which received the required approval of the Higher Council of Ulemas. The accounting framework of credit institutions was adapted to the specificities of this new activity.

Moreover, Bank Al-Maghrib contributed, together with the relevant authorities, to establishing the other components required for the start of this activity, particularly those related to taxation, sukuks and takaful insurance.

The regulatory framework governing the future payment institutions was also finalized and published in the Official Gazette late Q1-2017. Its aim is to support electronic payment services and encourage innovative services.

As part of our country's strategy to fight against climate change and with a view to supporting its transition to a low-carbon economy, the Bank worked with the Ministry of Finance and other regulators to develop a comprehensive roadmap for the financial system to foster green finance.