

RATING ACTION COMMENTARY

Fitch Upgrades BMCE Bank's VR to 'bb-'; Affirms IDR at 'BB+'

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Fitch Ratings-London-28 February 2019: Fitch Ratings has upgraded Morocco-based BMCE Bank's (BMCE) Viability Rating (VR) to 'bb-' from 'b+'. It has also affirmed the bank's Long-Term Foreign- and Local-Currency Issuer Default Ratings (IDRs) at 'BB+', and affirmed the National Long-Term Rating at 'AA-(mar)'. The Outlook on the long-term ratings is Stable. A full list of rating actions is at the end of this Rating Action Commentary.

The VR upgrade reflects the improvement in the bank's risk appetite as evidenced by BMCE's strategic deleveraging and capital preservation drive.

KEY RATING DRIVERS

IDRS, NATIONAL RATINGS, SUPPORT RATING AND SUPPORT RATING FLOOR
BMCE's IDRs, National Ratings, Support Rating (SR) and Support Rating Floor (SRF) are driven by a moderate probability of support from the Moroccan sovereign (BBB-/Stable). BMCE is Morocco's third-largest bank, controlling about 15% of loans and deposits in the country. BMCE also operates in several other African countries, which represented 31% of consolidated assets in 1H18 and generated about 43% of consolidated net income for the six months to end-June 2018.

The Stable Outlook on the ratings mirrors that on Morocco's sovereign rating.

BMCE is classified as a domestic systemically important bank (D-SIB) in Morocco and

Fitch believes the authorities have a high propensity to support the bank, if required. However, the overall probability of support is moderate, given Morocco's financial flexibility. Fitch assigns the same SRF of 'BB+' to all D-SIBs in Morocco.

VR

We assess the operating environment for BMCE at 'bb-', one notch below the score assigned to banks operating exclusively in Morocco. This is because BMCE has a significant proportion of its business and risk exposures in countries that are less developed than its home market. The operating environment score acts as a constraint on the bank's standalone risk profile.

BMCE's business model is to serve all banking segments and to provide related financial services, but its domestic franchise is smaller than its two larger peers', each of which control market shares of approximately 26%. Following years of above-average loan expansion, the bank started strategic deleveraging and capital preservation in 2017. Further expansion into Africa, once the main driver of BMCE's strategy, has been put on hold as the bank consolidates its existing presence in the region. In our view, this signals a major reduction in risk appetite, which is credit positive and is driving the VR upgrade.

BMCE's VR also considers some asset-quality weakness. Our assessment is that BMCE's impaired loan ratio would be slightly below the 10% average for large Moroccan banks. Positively, coverage of non-performing loans is in line with the average. Single-name borrower concentrations are low by Moroccan standards, which we view positively. The top 20 loans were 15% of total consolidated gross loans at end-June 2018, lower than the 23% average for the country's leading banks. Such exposures are mainly towards well-established economic groups operating in fairly diversified sectors. Related-party lending is moderate (3% of loans) and we have no indications that such lending is not extended on market terms.

BMCE's capitalisation is a relative credit weakness. The bank's Fitch Core Capital (FCC)/risk weighted assets ratio of 8.9% is lower than the average for rated banks (about 10%) at end-June 2018. Regulatory capital ratios are higher than the FCC ratio because the regulator allowed banks to spread the impact of IFRS 9 on capital adequacy ratios over a five-year period, thus shielding prudential ratios from any immediate impact. Capitalisation should be additionally supported by decent earnings (ROE of 14% for 1H18, annualised) and moderate growth, reflecting the recent change of strategic focus.

Similar to peers, stable deposits provide the bulk of funding at BMCE, with customer deposits representing 75% of non-equity funding at end-June 2018. African subsidiaries fund themselves independently and in their own currency and operate with matched

foreign-currency positions, which minimises exposure to exchange-rate risks. BMCE's stock of liquid assets was 15% of total assets covering 23% of total customer deposits at end-1H18, which is in line with peers. BMCE is a regular issuer on the local capital markets and appetite for its certificates of deposit and bonds is strong.

RATING SENSITIVITIES

IDRS, NATIONAL RATINGS, SR AND SRF

BMCE's IDRs, National Ratings, SR and SRF are sensitive to a change in Fitch's view of the Moroccan state's willingness or ability to support the bank. A downgrade of the Moroccan sovereign rating could result in a downgrade of BMCE's support-driven ratings.

BMCE's National Ratings would not necessarily be downgraded if the sovereign were downgraded because national scale ratings are an opinion of creditworthiness relative to the universe of issuers within a single country. A sovereign downgrade would not necessarily alter the relativities between the sovereign and the bank. If the Moroccan state's willingness to support BMCE diminishes, due to loss of systemic importance, for example, the National Ratings could be downgraded but this scenario is unlikely in the foreseeable future.

VR

The bank's VR is unlikely to be upgraded until significant improvement is noted in asset quality and capital adequacy ratios. Potential VR upgrades may also be difficult to achieve until the operating environment for BMCE's business activities improves.

Evidence of weaker asset quality that would put further pressure on capital could put negative pressure on the VR.

The rating actions are as follows:

Long-Term Foreign- and Local-Currency IDR affirmed at 'BB+'; Outlook Stable

Short-Term Foreign- and Local-Currency IDR affirmed at 'B'

National Long-Term Rating affirmed at 'AA-(mar)'; Outlook Stable

National Short-Term rating affirmed at 'F1+(mar)'

Support Rating affirmed at '3'

Support Rating Floor affirmed at 'BB+'

Viability Rating upgraded to 'bb-' from 'b+'

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Applicable Criteria

[Bank Rating Criteria \(pub. 12 Oct 2018\)](#)

[National Scale Ratings Criteria \(pub. 18 Jul 2018\)](#)

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