FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms Morocco's BMCE Bank at 'BB+'; Outlook Stable

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Fitch Ratings-London-07 March 2018: Fitch Ratings has affirmed BMCE Bank's (BMCE) Long-Term Foreign- and Local-Currency Issuer Default Ratings (IDR) at 'BB+', its National Long-Term Rating at 'AA-(mar)' and its Viability Rating (VR) at 'b+'. The Outlook on the Long-Term Ratings is Stable. A full list of ratings is below.

KEY RATING DRIVERS

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). The Stable Outlook mirrors that on the sovereign rating.

BMCE is the third-largest Moroccan bank, controlling a 15% domestic market share. BMCE also operates across several African countries, mainly under the Bank of Africa brand. African assets outside Morocco represented around 30% of consolidated assets at end-June 2017.

BMCE is classified as a domestic systemically important bank (DSIB) in Morocco and Fitch believes the authorities would have a high propensity to support it if required. However, the overall probability of support is only moderate, given Morocco's financial strength. Fitch assigns the same SRF to all Moroccan DSIBs.

VR

BMCE's risk appetite has a high influence on its VR. The bank's expansion into African countries indicates an above-average risk appetite, in our view. International banking activities generated 41% of consolidated net income in 1H17 and diversification supports profitability. However, African assets carry higher risks than Moroccan assets.

BMCE's domestic franchise is smaller than its two larger peers, each of which control market shares of around 25%. The three DSIBs follow similar diversification strategies into African countries, but BMCE's plans are more ambitious and it already relies on more volatile markets for a significant volume of its profits. The ownership structure of the African subsidiaries is complex and there are considerable minority holdings which can limit visibility.

Stable deposits provide the bulk of funding, although the bank's reliance on wholesale funding is slightly higher than peers. Liquid assets adequately cover short-term market funding maturities. African subsidiaries are largely self-funded, which supports the group's overall relatively strong liquidity profile.

Asset quality and capitalisation are on the weak side, in our view. The bank's loan book is split roughly 30% each for SMEs, corporates and retail, with the balance comprising loans to financial and other institutions, micro companies and miscellaneous segments. Impaired loans represented 7.7% of total loans at end-June 2017, which is below the 9.6% average for large Moroccan banks but loan loss cover, at around 64%, is below the 72% average.

We believe there is a risk that reported loan classifications in Morocco may not fully capture impairments, exposing banks to unexpected losses. Restructured loans are rapidly reclassified as performing and levels of foreclosed assets can be on the high side, suggesting a weakness in loan quality. Fitch's assessment of BMCE's capitalisation and leverage metrics has a high influence on the bank's VR.

Single name concentrations at BMCE are relatively low. At end-June 2017, the top 20 loans represented around 13% of gross loans, well below the 24% average for the country's largest banks. BMCE extends loans to related parties, as is the case for many Moroccan banks. We have no indication that such lending is not extended on market terms.

Capital buffers provide limited ability to absorb even moderate shocks. BMCE's Fitch core capital/weighted risks ratio (9.2% at end-June 2017) is below the average for leading rated Moroccan banks (12%). The adequacy of capital has a high influence on BMCE's VR.

RATING SENSITIVITIES

The bank'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. The ratings are also sensitive to a change in Fitch's assumptions regarding the availability of sovereign support for Moroccan financial institutions. We do not anticipate changes in these areas over the foreseeable future.

BMCE's National Ratings would not necessarily be downgraded if the sovereign were downgraded; this is because National Scale ratings are an opinion of creditworthiness relative to the universe of issuers within a single country and a sovereign downgrade would not automatically alter the relativities between the sovereign and the bank. If the Moroccan state's willingness to support BMCE diminishes, due to a 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 would benefit from an improvement in capital ratios and reduced risk appetite. Evidence of heightened risk appetite or weaker asset quality 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 affirmed at 'b+'

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Applicable Criteria

Global Bank Rating Criteria (pub. 25 Nov 2016)
National Scale Ratings Criteria (pub. 07 Mar 2017)

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