

RATING ACTION COMMENTARY

Fitch Downgrades 3 Moroccan Banks after Sovereign Downgrade; Outlook Stable

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Fitch Ratings - London - 03 Nov 2020: Fitch Ratings has downgraded Morocco-based Attijariwafa Bank (AWB), Bank of Africa (BOA) and Credit Immobilier Et Hotelier's (CIH) Long-Term Foreign-Currency and Local-Currency Issuer Default Ratings (IDRs) to 'BB' with a Stable Outlook from 'BB+' with a Negative Outlook. Fitch has also revised down the three banks' Support Rating Floors (SRFs) to 'BB' from 'BB+', while affirming their Support Ratings at '3'. The National Ratings and Viability Ratings (VRs) are unaffected by this rating action.

A full list of rating actions is at the end of this rating action commentary.

The rating actions follow the downgrade of Morocco's sovereign rating to 'BB+' from 'BBB-' on 23 October 2020 in light of the severe impact of the coronavirus pandemic on Morocco's economy and public and external finances (see "Fitch Downgrades Morocco to 'BB+'", published 23 October 2020, available on www.fitchratings.com).

Fitch expects the Moroccan economy to contract by 6.5% in 2020, while general government (GG) debt is expected to rise to 68.5% of GDP in 2021 from 56.4% of GDP in 2019, and to remain stable in 2022. The authorities aim to limit the deterioration in public finances, but a persistent impact from the pandemic on the budget and plans to expand social services amid an increase in unemployment will complicate debt-stabilisation efforts. Fitch believes there are downside risks to macroeconomic performance and public finances from a resurgence in domestic and global coronavirus infections and uncertainty surrounding the future course of the health crisis.

KEY RATING DRIVERS

The three banks' LT IDRs and SRFs are downgraded by one notch to 'BB', reflecting the weaker ability of the Moroccan sovereign to provide support to the banks in case of need, due to widening fiscal deficits and a rising GG debt/GDP. However, Fitch believes the Moroccan authorities' propensity to support the banking sector remains high. This considers the role the banking sector plays in financing the economy and the authorities' drive to preserve financial stability as the country implements its economic development plans. The banking sector is also a key element of the country's economic recovery plan. The government plans to inject around 7.5% of GDP in guaranteed loans in the economy, which is not insignificant.

BOA's and CIH's IDRs and Support Ratings and the three banks' SRFs are driven by a moderate probability of support from the Moroccan sovereign (BB+/Stable). For AWB, the LT IDRs and the VR are at the same level. The Stable Outlook on the three banks' IDRs mirrors that on the sovereign rating of Morocco.

AWB and BOA are classified as domestic systemically important banks (D-SIBs) in Morocco and Fitch believes the authorities would have a high propensity to support them, if required. However, our view of the overall probability of support considers limitations of the sovereign's financial flexibility, which is reflected in the SRF being notched down from the sovereign rating.

CIH's SRF is also notched down once from the sovereign rating. CIH, whose market share is around 4%, is not a D-SIB but its indirect state ownership has a high influence on our support assessment and on our decision to align its SRF of with that of the D-SIBs.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to negative rating action/downgrade:

A downgrade of AWB's Long-Term IDR would require a simultaneous downgrade of the bank's VR and a downward revision of its SRF. A downgrade of the Moroccan sovereign rating would trigger a downward revision of the SRF. A weaker sovereign propensity to support Moroccan banks could also lead to a downward revision of the SRF.

BOA's and CIH's IDRs and SRFs would be downgraded if Fitch takes a view that Moroccan state's ability or propensity to support the banks has weakened.

A downgrade of the banks' Support Ratings would require a multi-notch downgrade of the Moroccan sovereign rating.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

An upgrade of AWB's Long-Term IDR could be driven by either an upgrade of the VR or an upward revision of the SRF; the latter would require an upgrade of the sovereign's LT IDR.

An upgrade of BOA's and CIH's IDRs could be driven by either a multi-notch upgrade of their VR or an upward revision of their SRF; the latter would require an upgrade of the sovereign's LT IDR.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit [<https://www.fitchratings.com/site/re/10111579>]

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

BOA's and CIH's IDRs and SRs and the three banks' SRFs are driven by a moderate probability of support from the Moroccan sovereign (BB+/Stable).

ESG CONSIDERATIONS

AWB has an ESG Relevance Score of '4' for Governance Structure, reflecting our assessment that Al Mada (46% ownership) may be in a position to influence the bank's credit decisions, leading to heightened related-party lending, which has a negative impact on the credit profile, and is relevant to the rating in conjunction with other factors.

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entities, either due to their nature or the way in which they are being managed by the entities. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

RATING ACTIONS

ENTITY/DEBT	RATING			PRIOR
Attijariwafa Bank	LT IDR	BB Rating Outlook Stable	Downgrade	BB+ Rating Outlook Negative
	ST IDR	B	Affirmed	B
	LC LT IDR	BB Rating Outlook Stable	Downgrade	BB+ Rating Outlook Negative
	LC ST IDR	B	Affirmed	B
	Support	3	Affirmed	3
	Support Floor	BB	Support Rating Floor Revision	BB+

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APPLICABLE CRITERIA

[Bank Rating Criteria \(pub. 28 Feb 2020\) \(including rating assumption sensitivity\)](#)

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Attijariwafa Bank	EU Issued
Bank of Africa	EU Issued
Credit Immobilier Et Hotelier	EU Issued

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