

Rating Action: Moody's affirms BMCE deposit ratings; downgrades BCA to b1

19 Jul 2017

Limassol, July 19, 2017 -- Moody's Investors Service ("Moody's") has today affirmed the Ba1 long-term global local currency deposit rating of BMCE bank (BMCE), a leading Moroccan bank with around 15% market share of total banking deposits and loans as of December 2016. At the same time, Moody's downgraded the bank's standalone baseline credit assessment (BCA) to b1 from ba3 and the bank's subordinate debt rating to B2 from B1. Furthermore, Moody's has affirmed the Ba2 long-term foreign currency deposit rating, which is constrained by the country's foreign currency deposit ceiling; the national scale local currency and foreign currency deposit ratings of Aa2.ma/MA-1 and Aa3.ma/MA-1 respectively; and the Counterparty Risk Assessment (CR Assessment) of Ba1(cr)/NP(cr). The ratings outlook is stable.

Today's decision to change the BCA to b1 is primarily underpinned by BMCE's ongoing asset quality pressures -- with the reported ratio of non-performing loans (NPL) to gross loans increasing to 7.8% as of December 2016 from 7% a year earlier -- and the bank's modest capital cushion, with reported Tier 1 ratio at 9.1% as of December 2016, compared with similarly-rated international peers and in light of our expectation that BMCE's level of problem loans will remain elevated and that the bank will continue its expansion in sub-Saharan Africa.

The affirmation of BMCE's deposit ratings reflects Moody's assessment of a very high probability of government support in case of need.

A full list of the bank's ratings is provided at the end of this press release.

RATINGS RATIONALE

RATIONALE FOR THE BCA DOWNGRADE

Moody's decision to downgrade BMCE's BCA is underpinned by its expectation that the bank's asset quality pressures will remain elevated, with a ratio of reported non-performing loans (NPLs) to gross loans that increased gradually to 7.8% as of December 2016 from 6% in 2012. This mainly reflects both the bank's fast expansion in higher-risk sub-Saharan Africa operating environments in recent years (11% NPL ratio as of December 2016) and increased reported Morocco asset quality pressures (NPL increased to 6.8% as of December 2016 from 4.7% in 2012) underpinned by subdued economic growth in recent years that negatively affected a number of sectors such as shipping, textile, hospitality and real estate. Although Moody's anticipates that the acceleration of the Moroccan economic conditions and increased level of problem loan recoveries will limit additional pressures, asset risks of the bank will remain elevated considering the fast pan-African growth and high borrower concentrations which will maintain NPL ratios broadly in line with the 7.4% global median for similarly-rated banks.

In addition, the BCA downgrade to b1 from ba3 reflects Moody's view that BMCE's capital buffers will remain modest in light of its fast expansion into sub-Saharan, which has increased the risk profile of the bank, sustained loan growth, as well as the bank's relatively high borrower concentration levels and modest provisioning coverage. As of December 2016, the group reported a Tier 1 ratio at 9.1% (9.5% as of December 2015). Despite the bank's increasing earning generation and additional T1 capital issuances this year, Moody's expects the bank's capital cushion will remain below the Moroccan average (11.5% as of December 2016) and below the 10.6% global median for banks with a BCA of b1.

Notwithstanding those credit challenges, BMCE continues to exhibit robust operating profits, albeit moderated by high cost of risk, together with relatively stable and granular deposit funding and solid levels of liquid assets.

AFFIRMATION OF THE DEPOSIT RATINGS

Moody's affirmation of BMCE deposit ratings reflects our assessment of a very high probability of government support given BMCE's systemic importance as the third-largest bank in Morocco (Ba1 positive) accounting for circa 15% of domestic deposits, and evidence of past government support to banks in case of need. Consequently, BMCE's local currency deposit rating benefits from a three-notch uplift from the bank's b1 BCA.

RATINGS OUTLOOK

The ratings outlook is stable. Although we view an improvement in the Moroccan government's capacity to provide support to the banks if needed, reflected in the positive outlook assigned to Morocco's Ba1 sovereign rating, we do not expect that an upgrade of the sovereign rating would increase the three notches government support uplift we already assign on top of BMCE's b1 BCA.

WHAT COULD MOVE THE RATINGS -- UP/DOWN

Upward pressure could develop following (1) a steady reduction in non-performing loans (NPLs) and the strengthening in the bank's capital and reserve buffers, and (2) an improvement in the sovereign rating which would indicate higher capacity to support the banking system.

Downward rating pressure could develop if BMCE's rising NPL trajectory continues and capital buffers remain low. Negative pressure could also develop from any deterioration in the Morocco government capacity to support banks in case of need, although not our central scenario given the positive outlook on the sovereign rating.

LIST OF AFFECTED RATINGS

Issuer: BMCE Bank

Downgrades:

- ...Subordinate (Foreign Currency), Downgraded to B2 from B1
- ...NSR Subordinate (Foreign Currency), Downgraded to Ba1.ma from Baa2.ma
- ...Adjusted Baseline Credit Assessment, Downgraded to b1 from ba3
- ...Baseline Credit Assessment, Downgraded to b1 from ba3

Affirmations:

- ...LT Bank Deposits (Local Currency), Affirmed Ba1, Outlook Remains Stable
- ...LT Bank Deposits (Foreign Currency), Affirmed Ba2
- ...ST Bank Deposits (Local & Foreign Currency), Affirmed NP
- ...Senior Unsecured Regular Bond/Debenture (Foreign currency), Affirmed Ba1, Outlook Remains Stable
- ...NSR LT Bank Deposits (Local Currency), Affirmed Aa2.ma
- ...NSR LT Bank Deposits (Foreign Currency), Affirmed Aa3.ma
- ...NSR Senior Unsecured Regular Bond/Debenture (Foreign Currency), Affirmed Aa2.ma
- ...NSR Other Short Term (Local & Foreign Currency), Affirmed MA-1
- ...LT Counterparty Risk Assessment, Affirmed Ba1(cr)
- ...ST Counterparty Risk Assessment, Affirmed NP(cr)

Outlook Actions:

- ...Outlook, Remains Stable

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks published in January 2016. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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The Local Market analyst for these ratings is Olivier Panis, +971.4.237.9533.

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