Major Moroccan Banks: 2019 Peer Review

Viability Ratings Still Challenged by Asset-Quality and Capital Weakness

Special Report

Issuer Ratings

Attijariwafa Bank

Long-Term Foreign-Currency IDR	BB+
National Long-Term Rating	AA-(mar)
Viability Rating	bb-
Support Rating	3

BMCE Bank S.A.

Long-Term Foreign-Currency IDR	BB+
National Long-Term Rating	AA-(mar)
Viability Rating	bb-
Support Rating	3

Credit Immobilier Et Hotelier

Long-Term Foreign-Currency IDR	BB+
National Long-Term Rating	AA-(mar)
Viability Rating	bb-
Support Rating	3

Societe Generale Marocaine de Banques

National Long-Term Rating	AAA(mar)
Support Rating	2

Banque Marocaine pour le Commerce et l'Industrie

National Long-Term Rating	AAA(mar)
Support Rating	2

The Outlook for all banks' Long-Term IDRs and National Ratings is Stable

Sovereign Ratings

Morocco

Long-Term Foreign-Currency IDR	BBB-
Outlook	Stable

Related Research

Morocco (November 2018)

Fitch Ratings 2019 Outlook: Francophone African Banks (November 2018)

Analysts

Janine Dow
+44 20 3530 1464
janine.dow@fitchratings.com

Jamal El Mellali
+44 20 3530 1959
jamal.elmellali@fitchratings.com

Support Drives Ratings: Issuer Default Ratings (IDRs) assigned by Fitch Ratings to the major Moroccan banks are driven by support. Sovereign support drives the IDRs of Attijariwafa Bank (AWB) and BMCE Bank S.A. (BMCE). Institutional support drives the IDRs of Credit Immobilier Et Hotelier (CIH) and the National Ratings of Societe Generale Marocaine de Banques (SGMB, 57.4% owned by Societe Generale S.A.) and Banque Marocaine pour le Commerce et l'Industrie (BMCI, 66.7% controlled by BNP Paribas S.A.).

CIH is 65.9% owned by Caisse de Depots et Gestion (CDG), a leading public-sector investor. In our view, state support to CIH would flow through CDG if required.

Foreign Expansion Heightens D-SIB Risk: We regard AWB, BMCE and Groupe Banque Centrale Populaire (GBCP, not rated by Fitch) as domestic systemically important banks (D-SIBs). Their pan-African strategies boost profits but the operating environments are higher risk and constrain the D-SIBs' standalone credit assessments. SGMB, BMCI and CIH operate exclusively in Morocco, where the operating environment is relatively lower risk.

Speculative Viability Ratings: The economic and business climate in Morocco is impacted by development weakness and low GDP/capita and ease of doing business data. This constrains banks' Viability Ratings (VR) to the speculative 'bb' category. VRs assigned to AWB, BMCE and CIH, all at 'bb-', denote moderate financial strength. Risk appetite is above average, even for banks operating exclusively in Morocco such as SGMB, BMCI and CIH. Competition for sound lending is tough.

Weak Asset Quality: Public disclosure of impaired loans under IFRS 9 is poor, except for CIH. Our assessment is that Stage 3 loans represent an average of 10% of gross loans at rated banks. Asset quality is a relative credit weakness.

Modest Core Capital Ratios: Capitalisation levels are modest. At end-1H18, the Fitch Core Capital (FCC)/risk-weighted assets (RWAs) ratio for the largest banks ranged from a high 11.3% at BMCI to 7.7% at AWB.

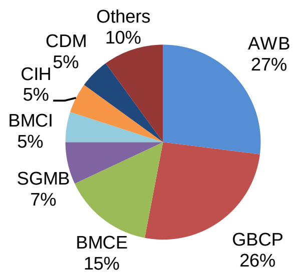
Sound Profitability, Funding and Liquidity: Major banks reported an average 2% annualised operating return on RWAs in 1H18, supported by reasonable margins (average 3.6%) and cost/income ratios (53%). Stable deposits provide the majority of banks' funding. CIH is traditionally more reliant than peers on domestic capital markets, which function well. Local investors' risk appetite is increasing, as evidenced by their growing acceptance of additional Tier 1 capital instruments. Liquidity ratios are good. African subsidiaries at AWB and BMCE are self-funded.

Rating Sensitivities

Sovereign Support Unlikely to Change: The probability of state support for AWB and BMCE is unlikely to change, which is reflected in Stable Outlooks.

Shareholder Support Stable: Ownership of SGMB, BMCI and CIH appears stable, as are integration levels with respective parents. We do not anticipate changes in the probability of parent support for these banks. Outlooks for Societe Generale (A), BNP Paribas (A+) and Morocco are Stable.

Domestic Deposits - Market Share - End-1H18



Source: Fitch Ratings, Banks

State Support Likely if Required

Our assessment is that Moroccan banks' standalone credit quality is speculative although we do not see any imminent signs of banks requiring extraordinary support. The main banks are privately owned. There is a significant foreign presence in the Moroccan banking sector, with seven foreign-controlled banks representing about a fifth of sector assets.

Morocco's financial flexibility is only moderate, as reflected in its Long-Term IDR of 'BBB-'. The authorities' ability to provide support is not expected to change, as indicated by the Stable Outlook on the sovereign rating.

The Moroccan government is supportive of the banking system. Fitch's discussions with the Moroccan central bank (Bank Al-Maghrib, BAM) indicate it would act as a lender of last resort for all big Moroccan banks if they faced financial stress. For foreign-owned banks, the Moroccan authorities are likely to heavily rely on majority shareholders to provide support in the first instance, should this be required.

We believe that the propensity of the Moroccan government to support AWB, BMCE and GBCP (not rated by Fitch) is high given their dominant positions. The overall probability of support is, however, moderate considering the sovereign's rating and we assign a D-SIB Support Rating Floor of 'BB+' to AWB and BMCE.

Institutional Support

SGMB, BMCI and Credit du Maroc (CDM, not rated by Fitch and 78.7% owned by France's Credit Agricole) are foreign-owned medium-sized banks. Government support for them, although possible, is less likely. We consider that support is likely to be forthcoming from their respective majority shareholders, BNP Paribas, Societe Generale and Credit Agricole. International ratings are not assigned to SGMB and BMCI. If they were, we would likely notch their ratings down once from their parents' Long-Term IDRs and cap the ratings at Morocco's 'BBB' Country Ceiling. These two banks are the most highly rated issuers on Morocco's National Ratings scale.

Under Moroccan law, public-sector entities are not allowed to fail or be liquidated. In our view, the Moroccan state's propensity to support CDG in case of need is very high, as is CDG's propensity to support CIH. The overall probability of support for CIH from CDG is moderate.

Abbreviations Used in this Report

Abbreviation	Name of Bank
AWB	Attijariwafa Bank
BMCE	BMCE Bank S.A.
BMCI	Banque Marocaine pour le Commerce et l'Industrie
CIH	Credit Immobilier et Hotelier
CDM	Credit du Maroc
GBCP	Groupe Banque Centrale Populaire
SGMB	Societe Generale Marocaine de Banques

Source: Fitch Ratings

Ratings Navigator Summary

The table on the following page highlights the scores assigned to AWB, BMCE and CIH when we consider the factors assessed to assign their VRs. The operating environment is scored at 'bb' for banks operating exclusively in Morocco and 'bb-' for those pursuing pan-African strategies. To some extent, the operating environment score is a constraining factor for the VRs of AWB, BMCE and CIH.

The VRs of AWB, BMCE and CIH are all 'bb-', but the banks display some differences in credit strengths and weaknesses across the various factors we analyse to derive the VRs. AWB's dominant franchise boosts its 'company profile' score as well as its earnings and profitability record, plus its funding profile is relatively stronger than peers'.

BMCE's revised strategy envisages a period of deleveraging, capital preservation and consolidation in its sub-Saharan African expansion plans. With this strategic change, the bank's management and strategy as well as its risk profile scores are now aligned with those of AWB. BMCE's profitability and funding and liquidity factors are slightly weaker than AWB's. Rapid expansion at CIH has eroded its relative capitalisation strengths and the outlook for this factor is negative. CIH's company profile, earnings and funding profile are slightly weaker than the D-SIBs', as expected given its focus on a still relatively narrow and domestic range of lending activities.

Related Criteria

Bank Rating Criteria (October 2018)
National Scale Ratings Criteria (July 2018)

Ratings Navigator Scores – Summary Moroccan Banks

Mid-point score	Operating environment	Company profile	Management & strategy	Risk appetite	Asset quality	Earnings & profitability	Capitalisation & leverage	Funding& liquidity
bbb+								
bbb								
bbb-								
bb+		AWB				AWB		AWB
bb	CIH	BMCE	AWB, BMCE, CIH			BMCE		BMCE
bb-	AWB, BMCE	CIH		AWB, BMCE, CIH		CIH	CIH (Negative Outlook)	CIH
b+					AWB, BMCE, CIH		AWB, BMCE	
b								
b-								

Blue = Moderate influence on the banks' VRs
Source: Fitch Ratings

The banks' VRs are not influenced by any particular credit consideration. All rating factors have a moderate influence on the banks' VRs. However, the VRs are unlikely to see significant upgrades until asset quality and capital weaknesses improve substantially.

Operating Environment

Stable Growth but Non-Agricultural Activity Still Subdued

Morocco's sovereign rating has been held at 'BBB-' with a Stable Outlook since it was first assigned by Fitch in 2007. The rating is supported by a record of macroeconomic stability, comfortable external buffers and a low share of foreign-currency debt in public debt. This is balanced against weak development and governance indicators, high government debt and budget and current account deficits that are wider than 'BBB' category rated peers.

We project annual GDP growth to average 3.2% in 2018-2020, in line with the 'BBB' category median. Growth is heavily influenced by the agricultural sector, which accounts for approximately 14% of GDP and employs roughly one-third of the population. Supportive weather conditions in 2018 boosted harvests, which is positive for overall growth. However, activity in the non-agricultural sector (particularly the automotive and aeronautic industries) remains constrained by structural impediments, including weak education, skill mismatches and low population participation rates in the economy. Unemployment, especially among the urban youth (40%), is high, dampening consumption rates. Morocco's current account balances are affected by oil prices given that the country is an oil importer.

Key Macroeconomic Data

	2018f	2019f	2020f
GDP growth (%)	3.3	2.9	3.5
General government debt/GDP (%)	52.0	52.7	53.3
Real private sector credit growth (%)	3.3	2.9	3.5
CPI (% annual average change)	2.0	1.3	2.0

Source: Fitch Ratings, Fitch Forecast Summary

Concentrated Banking Sector; Reasonable Regulation and Financial Market Development

The Moroccan banking sector is concentrated, with the seven largest banks accounting for approximately 90% of total sector deposits. AWB and GBCP are dominant leaders, each controlling market shares of about 25%.

Foreign-owned banks represent around 20% of the market. Banking system assets represent about 115% of GDP, which is not overly high for a developing market. However, private-sector loans represent a far lower rate of 60%-65% of GDP. Loan and deposit growth is sluggish relative to GDP, which is unusual for markets at similar levels of development.

Moroccan banks are regulated by the BAM, which aims to follow international best practices. The regulatory framework compares favourably with the standards of most African peers but the pace of reform can be a little slow. Basel II was adopted in 2007 and Basel III, which began to be introduced in 2014, is due for full implementation by end-2020. A deposit insurance scheme covers deposits up to MAD80,000. These form the basis of funding structures at the banks and are stable, supporting sector liquidity. There is no resolution legislation but the D-SIBs submit resolution plans to the BAM. A requirement for D-SIBs to comply with a 2.5%

additional capital buffer (over the minimum 9% Tier 1 regulatory capital ratio) was recently postponed to end-2020.

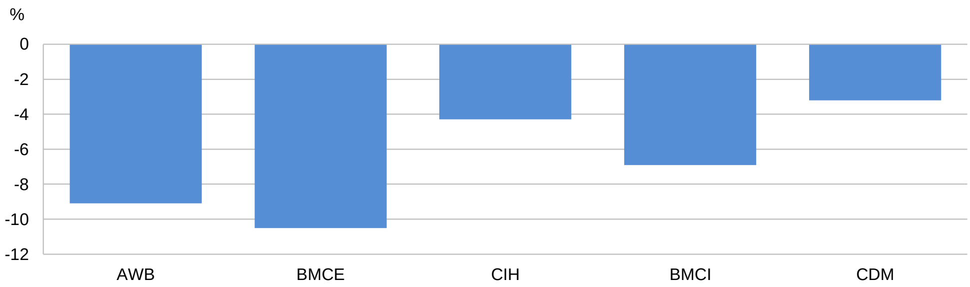
Banks report consolidated financial statements prepared in line with IFRS. Solo, Morocco-only, accounts are prepared according to local GAAP. The BAM tracks sector-wide data based on these local accounts where impaired loan classification guidelines can be flexible, reducing transparency and comparability across banks.

The BAM is driving harmonisation of how banks report troubled watch-listed loans. Long-awaited regulation (locally referred to as 19G) to impose strict classification rules on unauthorised overdrafts, classification of "sensitive" loans and limits on the number of times loans can be restructured and still be classified as performing, is expected to be announced in 1H19. This should help impose greater reporting standardisation that would help transparency, which is credit positive in our view.

IFRS 9

IFRS 9 was introduced in January 2018. The impact of first-time application of expected credit losses on banks' equity, reported in 1Q18 financial statements, was large, as illustrated below. The BAM granted banks a five-year transition period to fully reflect this in regulatory capital, therefore easing compliance pressures for the sector.

Impact of IFRS 9 First Time Application (FTA) on End-2017 Equity
Impact on End-2017 Equity (%)



SGMB is missing due to data limitations
Source: Fitch Ratings, Banks

Company Profiles

Moroccan banks are some of Africa's largest. The country's D-SIBs are privately owned. The largest bank, AWB, has links with the royal family, whose holding company, Al Mada, controls 47.9% of shares. GBCP is a cooperative banking group that is owned by its members while BMCE is 36.4% owned by Finance Com, a company controlled by the bank's chairman and chief executive. Three of the country's largest banks are French-owned (SGMB, BMCI and CDM). CIH is state-owned.

AWB has the strongest company profile among rated Moroccan banks. This reflects its dominant market shares across a wide range of financial segments in Morocco, its position as the country's leading corporate bank, its good share of public-sector financing business and additional business model strengths resulting from international diversification and expansion.

BMCE's company profile is slightly weaker, largely reflecting a more modest domestic market share and a less selective expansion strategy into Africa, in our view. Transparency regarding ownership of its African subsidiaries is limited, which weighs on the profile, but simplifying cross-ownership structures and the organisation's structure, combined with a drive to put international expansion on hold and boost capital, are objectives under the bank's latest business plan.

CIH focuses exclusively on the Moroccan market and the assessment of its company profile considers a business model that still relies on retail mortgages and real estate-related lending (63% of total lending at end-1H18).

SGMB and BMCI are second-tier banks with relatively modest domestic franchises. Their ability to service larger corporates and the public sector is limited due to their size, although these banks benefit from being part of large, international banking groups. This facilitates introductions to multinational corporate clients and makes it easier for the Moroccan subsidiaries to provide a sophisticated range of products and services. SGMB offers a broader product range than BMCI and is currently focused on expanding its consumer finance activities. BNP Paribas and Societe Generale appointed their Moroccan subsidiaries to act as the focal hubs for development and roll-out of the group's IT and digital African platforms, which suggests a relatively higher level of sophistication and competence at these banks.

In our view, all rated banks have adequate management and strategies. The executive team at AWB has the quality, depth and experience to manage the country's leading bank. Its strategy is to maintain a leading position in Morocco and to drive its international expansion. A strategic execution committee oversees implementation of a plan that extends to end-2020, under which AWB is to increase retail and SME lending in Morocco, reduce concentrations to large corporates and continue to invest in automation.

We have reassessed our concerns about potential key man risk at BMCE. We are comfortable that strategic decisions are made by experienced senior executives and that management structures have adequate depth. Mr Othman Benjelloun, who is 87 years old, is the bank's co-chairman, chief executive and the largest shareholder (36.3%) through FinanceCom. Mr Benjelloun has considerable influence, in our view, but structures are in place to ensure business and strategic continuity at the bank. The absence of clearly communicated succession and future ownership plans remain a modest concern. BMCE's latest strategic plan hinges on containment of African expansion and preservation of capital, which we view positively.

CIH's management is experienced in its core business segments and composition is stable. Five of the nine members on CIH's board are appointed by CDG, which sets the overall strategy. CIH's strategic plan shows a gradual shift in business mix, with corporate lending growing to represent 35%-45% of total loans (end1H18: 12%). Diversification is credit positive, in our view.

Management teams at BMCI and SGMB benefit from the depth of experience within their respective groups. Well-trained executives can be appointed from head offices and local staff benefit from extensive training programmes.

All banks fulfil their governance requirements. French-owned banks face additional requirements imposed by parents. Related-party lending is significant across many Moroccan banks but there is no evidence that such lending is conducted on preferential terms. High levels of related-party lending raise some concerns about the effectiveness of governance practices at the banks but these are insufficient to pose threats to creditors, in our view.

Risk Appetite

Above-Average Risk Appetite for all Moroccan Banks

The appetite for risk at the D-SIBs is higher than for banks operating exclusively in Morocco because international expansion has been into less developed markets. We reassessed BMCE's risk appetite following revision of its African acquisition plans. GBCP is not rated by Fitch and we are unable to comment on either the size of the ongoing acquisitions in Cameroon, Congo, Madagascar and Tunisia or on their impact on the group's overall risk profile.

Rated banks have well-articulated underwriting standards, with clear segregation between credit approval and commercial divisions. However, competition for quality Moroccan business is fierce and this can put pressure on standards. The quality of risk controls varies across the banks; SGMB and BMCI benefit from risk frameworks imposed by their parents.

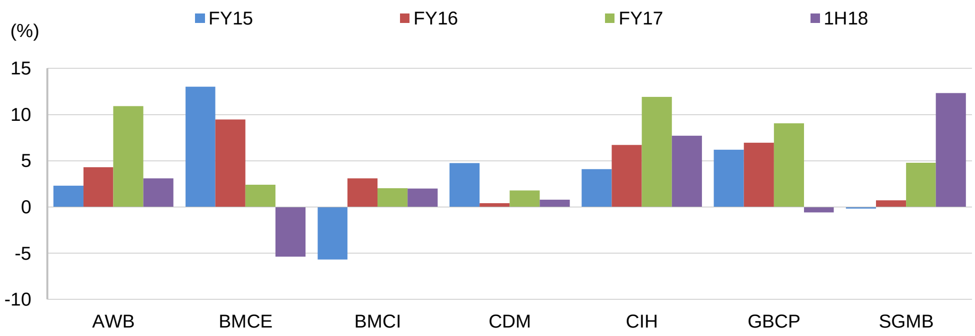
All rated banks use internal rating models to assist with underwriting standards and data is regularly updated. Depth of data appears to be more robust at AWB, although CIH's long experience in retail housing lending and real estate development finance means the bank has gathered high quality data in these sectors. Market risk faced by AWB is higher than for other rated banks. This is because structural positions arising from the equity investments in international subsidiaries are high. The impact of foreign-exchange movements against the Moroccan dirham can be significant for the group, exposing the bank to volatility in the value of its equity, which is credit negative.

Fitch has a high opinion of the underwriting standards and risk controls at Societe Generale and BNP Paribas. Underwriting standards at SGMB and BMCI are adapted to the local environment and we see little difference in practices employed by these banks and the domestically owned peers. Risk and reporting tools are more highly developed at the French-owned banks, in our view.

Volatile Loan Growth Trends

Loan growth trends are volatile, reflecting shifts in economic conditions. High growth reported by SGMB in 1H18 reflects the impact of first-time full consolidation of Eqdom, a consumer finance specialist; excluding this, like-for-like growth would have been 4%. BMCE's deliberate deleveraging strategy is driving contraction.

Growth of Total Assets



Source: Fitch Ratings, Banks

Asset Quality

Average Asset-Quality Ratios[a]

(%)	End-1H18	End-2017	End-2016
Growth of gross loans (annual growth)	5.1	5.1	4.7
Impaired loans[a]/gross loans	9.8	9.4	9.7
Reserves for impaired loans/impaired loans	83.0	73.4	70.0

[a] Average constituents: AWB, BMCI, BMCE, GBCP, CIH, SGMB, CDM ;GBCP not included in 1H18 due to data limitations; [a]IFRS 9 Stage 3 loans for 1H18
Source: Fitch Ratings, Banks

High Impaired Loan Ratios; IFRS 9 Boosts Loan-Loss Cover
Weak IFRS 9 Disclosure Complicates Asset-Quality Analysis

The average impaired loans/gross loans ratio reported by Morocco's largest banks over the past five years has hovered just below 10% and, on average, IFRS 9 reporting had no impact. This can be seen from the end-1H18 data in the table above.

Fitch uses loans classified as Stage 3 under IFRS 9 as its measure of impaired loans. The BAM did not issue disclosure guidelines and public information regarding banks' IFRS 9 loans has, to date, been poor. Only CIH reported the stock of its Stage 1, 2 and 3 loans in its 1H18 financial statements, but this may change as banks become more familiar with international IFRS 9 disclosure standards.

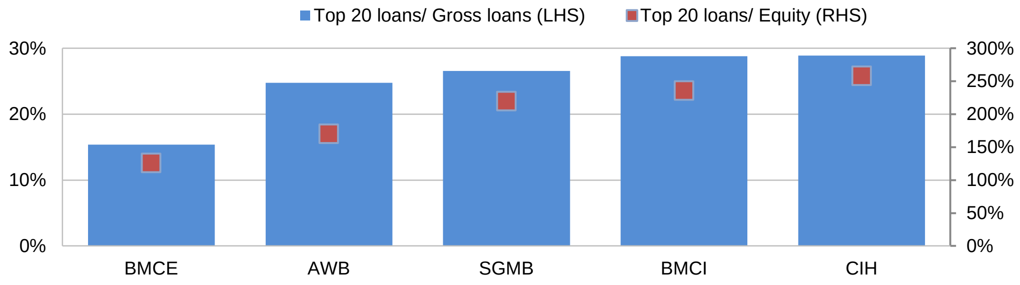
Confidential data provided to Fitch shows considerable variation across banks in levels of Stage 2 loans and our assessment is that banks still adopt a flexible approach to the classification of restructured exposures. Our assessment is that true impairment ratios, adequately capturing Stage 3 and restructured loans with high potential losses given default, are likely to be higher at 15%-18%.

IFRS 9 forced up loan-loss cover for all banks, which is credit positive, but, on average, Stage 3 loans are not fully reserved at the large banks. We are reasonably confident that loss expectations are better reflected under IFRS 9 and that Stage 3 loans are adequately reserved.

High Single-Obligor Concentrations

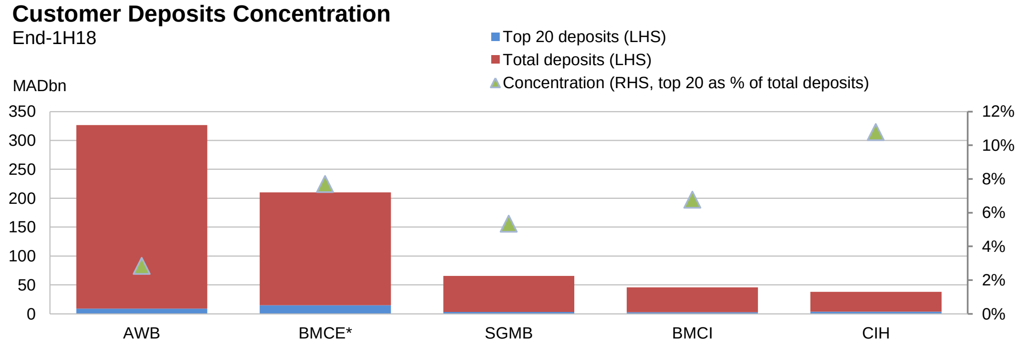
Single-obligor concentration risk is high for Moroccan banks. Among rated banks, the top 20 loans represented an average of 20% of total gross loans at end-1H18 (end-2017: 27%). Regulatory single large exposure limits (20% of regulatory capital on a risk-weighted basis) are set at entity rather than group level, which is a weakness, in our view. Fitch assesses single-obligor concentrations on a group basis, which explains why regulatory limits appear to be breached.

Lending Concentrations
End-1H18



Source: Fitch Ratings, Banks

Customer Deposits Concentration
End-1H18



Source: Fitch Ratings, Banks
*Figures for BMCE are at end-2017 due to data limitations

African Exposures Add to Risk and Complexity

The pan-African strategies followed by the country's D-SIBs bring growth opportunities and potentially higher profits, but add risks and complexities. At end-1H18, non-domestic activities represented a significant share of these banks' balance sheets and revenues, as illustrated in the tables below.

Geographical Split of Assets (End-1H18)

(%)	AWB	BMCE	GBCP
Banking in Morocco[a]	61	63	81
Specialised financial services including insurance (mainly Morocco)	15	6	5
International banking (mainly Africa)	24	31	14

[a] Includes offshore banking (all banks) and European banking (AWB)
Source: Fitch Ratings, Banks

Geographical Split of Net Income (1H18)

(%)	AWB	BMCE	GBCP
Banking in Morocco[a]	44	44	71
Specialised financial services (mainly Morocco)	10	7	6
International banking (mainly Africa)	37	43	22
Insurance & real estate (mainly Morocco)	9	n.a.	n.a.
Asset management & investment banking (mainly Morocco)	0	6	0

[a] Includes offshore banking (all banks) and Europe (AWB)
Source: Fitch Ratings, Banks

Geographic Mix Drives Operating Environment for D-SIBs

We adopt a blended approach for the operating environment scores of AWB and BMCE because these banks have material operations in other low-rated or unrated African countries. For these banks, the operating environments score is 'bb-'.

Earnings and Profitability

Stable Performance Trends

The following table highlights the stability of performance trends for Morocco's largest banks.

Average Earnings and Profitability Ratios[a]

(%)	1H18	2017	2016
Net interest income/average earning assets	3.6	3.7	3.8
Non-interest expense/gross revenue	52.6	53.5	52.2
Loans and securities impairment charges/ pre-impairment operating profit	26.5	34.2	38.6
Operating profit/risk weighted assets[b]	2.0	1.9	1.9
Operating profit/average equity	16.3	14.3	14.0

[a] Average constituents: AWB, BMCI, BMCE, GBCP, CIH, SGMB, CDM

Source: Fitch Ratings, Banks

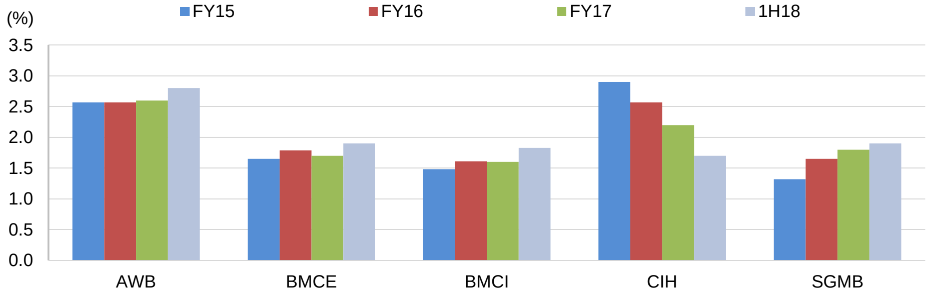
Domestically Owned D-SIBs Outperform French-Owned Banks

Moroccan banks continue to report sound earnings. AWB is consistently the best performer at operating profit level, reflecting lower loan impairment charges. Our assessment is that this reflects its loan book, which is more heavily weighted towards large corporates and public-sector lending where defaults tend to be lower. On average, net interest margins are stable at 3.6% and have shown minimal variation for over five years. The only notable difference is that BMCI and SGMB consistently report slightly higher margins, reflecting lower funding costs. This demonstrates their reputation as safe banks, boosted by the strength of international branding.

CIH's operating performance metrics lag those of the D-SIBs, reflecting a narrower focus and higher costs associated with the implementation of a diversification and growth plan. Trends in cost/income ratios for the banks, averaging 53% in 1H18, show no material signs of falling despite increased investment in automation.

Operating Return on Risk Weighted Assets

Operating profit/risk weighted assets



Source: Fitch Ratings, Banks

Capitalisation and Leverage

Capital Still a Credit Weakness for the Sector

The following table highlights the declining trend in capital adequacy ratios for the leading Moroccan banks.

Average Capitalisation and Leverage Ratios[a]

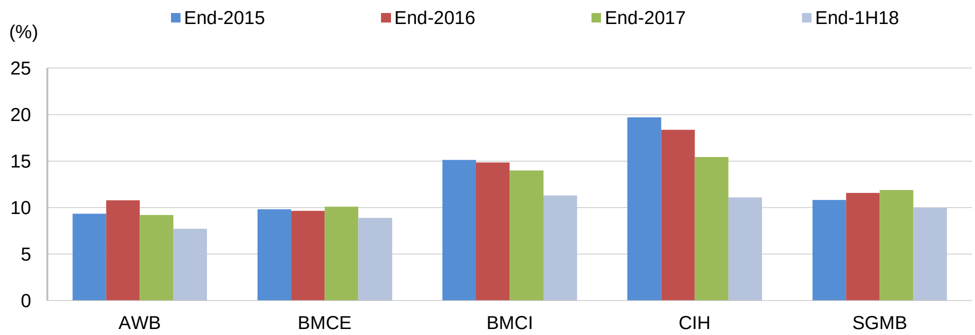
(%)	End-1H18	End-2017	End-2016
FCC/RWAs[b]	9.8	12.4	13.3
Tier 1 regulatory capital ratio	10.6	10.7	11.3
Total regulatory capital ratio	13.9	13.6	14.4
Tangible common equity/tangible assets	8.2	9.5	9.9

[a] Average constituents: AWB, BMCI, BMCE, GBCP, CIH, SGMB, CDM
[b] Excludes CDM and GBCP due to data limitations
Source: Fitch Ratings, Banks

Capital weakness is a characteristic of the Moroccan banking sector. Core capital reduced sharply in 1H18, as evidenced by the decline in the FCC/RWAs ratios. This was triggered by the application of IFRS 9. First-time application of expected credit loss provisions were deducted directly from equity, which is the starting point for our calculation of FCC. Regulatory ratios are unaffected due to the BAM's longer phase-in period of deductions on regulatory capital.

BMCE plans to raise capital but details of the amount and timing are not publicly available. Capital injections are rare at the D-SIBs and earnings retention is not particularly high as dividend pay-out ratios range between 30% and 35% for most banks. Pay-out ratios for BMCI (73% in 2017) and CIH (100%) are far steeper, in line with shareholder policies. The Outlook on CIH's score has been changed to Negative from Stable.

Fitch Core Capital/Risk Weighted Assets



Source: Fitch Ratings, Banks

Funding and Liquidity

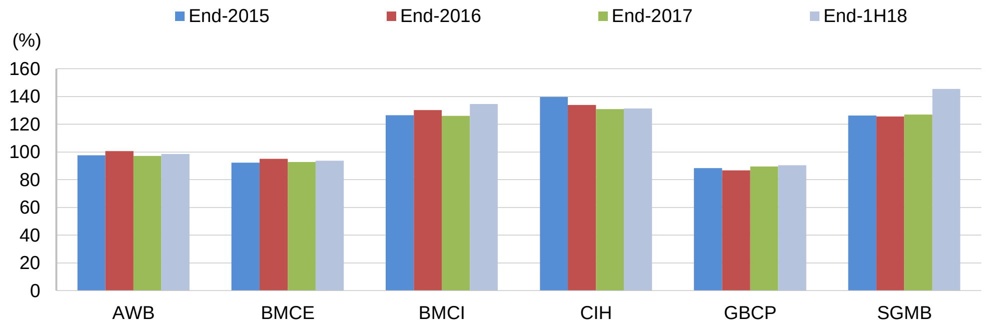
Deposits Dominate Banks' Funding Structures

Customer deposits represent approximately 80% of total non-equity funding in the banking sector. Deposits are stable and largely held in dirhams. The remaining 20% of sector deposits are remittances from Moroccan emigrants, but these also hold their deposits in local currency.

Customer-deposit growth in the sector in 2018 (3.5%) was lower than loan growth (6.4%) but this was exceptional, with lending boosted by large one-off VAT-related credits extended to corporates under a government-guaranteed scheme. Moroccan banks have good access to the local capital markets and regularly issue senior and subordinated bonds denominated in dirhams. AWB, BMCE and CIH have already issued additional Tier 1 instruments. In our view, this demonstrates the relative sophistication of the local market and investors compared with other African markets. There are no Moroccan bank bonds issued on the international markets.

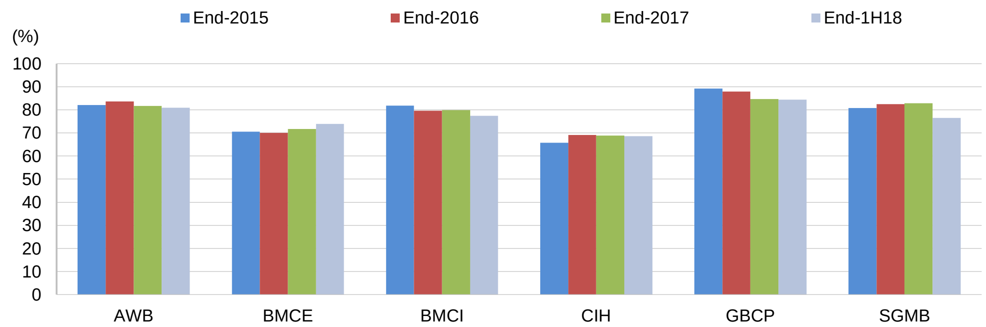
Among rated banks, CIH is the most dependent on the wholesale funding markets, where longer term funding instruments better match the long-term maturity profile of its mortgage and real estate loan books.

Loans/Customer Deposits



Source: Fitch Ratings, Banks

Customer Deposits/Total Funding (including Pref. Shares & Hybrids)



Source: Fitch Ratings, Banks