CAPITAL intelligence

BANK RATING

Credit du Maroc

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Bank Rating Report

Credit du Maroc

Morocco

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CREDIT DU MAROC

Casablanca, Morocco
19 September 2017

RATINGS

	Current	Previous	Last Changed
Sovereign	***NR**		
Foreign Currency			
Long-Term:	**BBB-**	BB+	Nov 07
Short-Term:	**A3**	B	Nov 07
Financial Strength	**BB+**	BBB-	Aug 13
Support	**2**	-	-
Outlook			
Foreign Currency	**Stable**	-	-
Financial Strength	**Stable**	Negative	Aug 13

**Not publicly rated; internal shadow sovereign rating assigned*

FINANCIAL HIGHLIGHTS

USD (mn) MAD (mn)	2016 USD	2016 MAD	2015 MAD	2014 MAD
Total Assets	5,068	51,596	51,384	48,577
Net Loans	3,652	37,182	36,990	33,705
Customer Deposits	4,067	41,409	41,944	40,919
Total Capital	450	4,581	4,336	4,096
Gross Income	213	2,164	2,094	2,055
Net Income	30	309	76	238
Exchange Rate: USD/MAD		*10.18*	*9.92*	*9.07*

%	2016	2015	2014
NPL / Gross Loans	11.13	12.14	11.39
Loan-Loss Reserves /NPLs	83.36	73.73	76.44
Capital Adequacy Ratio	14.90	14.40	14.48
Net Loans / Stable Funds	80.30	80.19	74.48
Estimated Net Interest Margin	3.39	3.46	3.19
Cost / Income	52.45	56.55	57.52
Return on Average Assets	0.60	0.15	0.48

RATINGS DRIVERS

Supporting the Rating

- Majority owned by Credit Agricole with board and senior management representation.
- Improved profitability performance in 2016, with higher ROAA and operating profitability.
- Sound capital position with increased CAR in 2016.

Constraining the Rating

- Although improving, the NPL ratio remains high. Also in mitigation, loan loss coverage has improved.
- Despite increasing in 2016, profitability is very modest, in part impacted by weak asset growth.
- Challenging operating environment with weak loan demand and a tight deposit market.

RATING RATIONALE

Credit du Maroc (CM) is majority owned and managed by the French financial institution Credit Agricole. CM holds a reasonable position in the Moroccan banking sector, controlling just over five per cent of sector assets. Until 2016 CM had experienced deterioration in its performance during the previous few years. The Bank's financial profile was impacted through increasing NPLs due to weakness in the corporate and commercial loan book. This resulted in consistently falling profitability and an associated high cost of risk. Encouragingly, improvement was seen in most areas in 2016. The Bank's NPLs decreased year-on-year (YoY) and loan loss coverage rose. Although the level of NPLs is high, the Bank's provision coverage is sound and has continued to improve.

Despite continued weak asset and loan growth, gross income was up slightly. As a result, and in combination with reduced expenses, operating and net profit improved, particularly the latter. CM's capital adequacy also strengthened in 2016 due to higher retained earnings and a subordinated debt issue. The Bank's CAR is at a sound level. CM also has a relatively good liquidity profile; funding is nearly all sourced from domestic customer deposits and loan-based liquidity ratios are better than most peer banks.

CMφs Financial Strength Rating (FSR) is affirmed at ±BB+q supported by the sound capital position, adequate liquidity and better loan asset quality. It is constrained by a high level of NPLs and modest profitability. The Outlook for the FSR is maintained at ±Stableq However, continuing improvement in performance, specifically loan asset quality and profitability, will put upward pressure on the FSR. CMφs Long- and Short-Term Foreign Currency Ratings (FCRs) are maintained at ±BBB-q and ±A3q respectively, with a ±Stableq Outlook. The Support Rating is maintained at ±2q reflecting majority ownership by Credit Agricole and the high likelihood of support from the parent. The Credit Agricole ownership provides uplift to the FCRs from CMφs current FSR. Capital Intelligence Ratings (CI Ratings or CI) believes there is a high probability that Credit Agricole would be willing to support CM, in case of need, as it remains important to the Groupφs operations in North Africa.

OUTLOOK

Good progress was made by the Bank in 2016 in regard to loan asset quality and profitability. CMφs main challenges are to maintain this by further improving loan asset quality and lifting returns. NPLs declined in 2016 for the first time in some years and CI Ratings expects continued improvement in the portfolio this year. The cost of risk is forecast to decline again in 2017. This, together with slightly higher gross revenue, should see a further uptick in returns. CMφs return on average assets is modest; Low returns are also partly due to weak asset growth, a function of the challenging operating environment. Some marginal improvement in asset growth is seen in 2017, on the back of stronger economic growth.

CMφs position is supported by its majority shareholder, Credit Agricole, which provides management and system support to the Bank. The liquidity, funding position and capital of the Bank are sound. Nearly all of the Bankφs funding is sourced from domestic retail customer deposits.

In terms of the domestic economy, the pace of GDP growth is expected to accelerate this year due to stronger agricultural and non-agricultural growth. GDP growth is forecast at 4.8% against 1.1% in 2016. This should support CMφs banking income growth.

BANK HISTORY AND STRATEGIES

Bank History

Crédit du Maroc (CM) was established in 1963, when the 34-year-old branch of Franceφs Crédit Lyonnais (CL) was incorporated as Crédit Lyonnais Maroc . adopting its present name in 1966. The Bank was founded as a joint-venture wherein local investors, including the then state-owned BMCE, held a minority interest. Current ownership consists principally of Franceφs Crédit Agricole S A. Wafa Assurance, one of the largest Moroccan insurance companies and owned by Attijariwafa Bank (AWB), holds a 10% stake (previously 34%, see below). In 2004 Wafa Bank was acquired by Banque Commerciale du Maroc (BCM), while in France CL was acquired by Crédit Agricole S.A. The latter event, of course, meant that CLφs 51% stake in CM passed to Crédit Agricole S.A. In September 2004 BCM merged with its newly-acquired WB subsidiary, creating a successor bank (AWB).

In late 2008 Credit Agricole S.A. signed an agreement with Morocco's Attijariwafa Bank to sell its stakes in some African operations to Attijariwafa. The transaction included selling assets in Congo, Cameroon, Gabon, Senegal and some other countries for an amount of EUR250mn. In turn, Credit Agricole purchased another 24% of Credit du Maroc, held by Wafa Assurance for EUR144mn to raise its share in CM to 77% (officially this was approved by the authorities only in late 2009).

Ownership Structure

The Bank receives support from Credit Agricole through board and senior management representatives, as well as product and technology expertise. Risk management is supported by the parent companyҫs systems and knowledge.

Credit du Maroc's Shareholders December 2016	%
Crédit Agricole S.A.	78.70
Wafa Assurance	10.69
Others	10.61
Total	**100.00**

As the majority owner, support in case of need is expected to come from Crédit Agricole. However, this is not guaranteed. Support from the Moroccan authorities is also likely in case of need, as would be the situation for other major domestic banks.

In the second quarter of 2017 Crédit Agricole Group's net income Group share was ” 2,106mn against ” 1,942mn in the second quarter of 2016. For 1H 2017 net income Group Share was ” 3,706mn, up by 34.3%. The fully-loaded Common Equity Tier 1 (CET1) ratio was 15.0%, up +50 basis points compared with end-March 2017. This ratio provides a substantial buffer above the distribution restriction trigger applicable to Crédit Agricole Group as of 1 January 2019, set at 9.5% by the ECB.

Crédit Agricole Group's liquidity position is robust. Its banking cash balance sheet, at ” 1,115 billion at 30 June 2017, showed a surplus of stable funding over LT applications of funds of ” 117 billion, up +1 billion Euros compared with end-March 2017 and by +13 billion Euros compared with the second quarter of 2016. The surplus of stable funds finances the HQLA (high quality liquid assets) securities portfolio generated by the LCR (liquidity coverage ratio) requirement for customer and customer-related activities. Total assets stood at ” 1,540.7 billion and equity of ” 63.8 billion.

Moroccan Economy

Following the October 2016 elections, a new coalition government was appointed in April 2017. On March 17, 2017 the King appointed a new Prime Minister, Saad-Eddine El Othmani, from the Islamist Justice and Development Party (PJD) that won the majority of seats in the October 2016 parliamentary elections. The new cabinet was appointed on April 5, 2017. Policy continuity is expected, as the new coalition consists mostly of the same political parties as in the previous government.

Economic growth has slowed in recent years. On average, real GDP grew by 3.8% during 2013-15 underperforming its trend of 4.6% per annum during 2003-12. While domestic demand had been the main driver of growth before 2012, its contribution started to weaken in 2013. The 2016 budget law confirmed the government's resolution to solidify the tax base, rein in expenditures and implement a pension reform that would lengthen the systemҫs sustainability and reduce its contingent liabilities. Along with the ongoing subsidy, fiscal and financial reforms, all these actions are contributing to consolidating the macroeconomic framework, improving the business environment, and enhancing growth potential.

In July 2016 the IMF approved a USD3.47 billion Precautionary and Liquidity Line (PLL) for Morocco. In recent years, the authorities have successfully reduced fiscal and external vulnerabilities and implemented key reforms with the support of two successive 24-month PLL arrangements. The new PLL arrangement will provide Morocco with useful insurance against external shocks, as the authorities pursue their reform agenda aimed at further strengthening the economyҫs resilience and fostering higher and more inclusive economic growth. The authorities have stated that they intend to treat the arrangement as precautionary, as they have done under the previous two arrangements, and they do not intend to draw under the PLL unless Morocco experiences actual balance of payments needs from a significant deterioration of external conditions.

Morocco's first PLL arrangement for SDR4,117.4 million (about USD6.21 billion at the time of approval) was approved on August 3, 2012. Morocco's second 24-month PLL arrangement for SDR3.2351 billion (about USD5 billion at the time of approval) was approved on July 28, 2014.

Growth slowed significantly in 2016, to 1.1%, against 4.5% in 2015, due to a sharp slowdown in agriculture and subdued non-agricultural activity. The unemployment rate decreased to 9.4% in 2016, from 9.7% in 2015, while youth unemployment increased to 22.5% in 2016 from 20.8% in 2015. The external position remains strong despite a larger current account deficit than expected in 2016. The current account deficit reached 4.4% of GDP in 2016, more than that expected. The current account has been strengthening from its level of 9.3% of GDP in 2012, due mainly to lower oil prices and strong export growth in emerging sectors, such as automobiles, while steady foreign direct investment (FDI) inflows (averaging 2.5% of GDP), international bond issuances, and trade credit supported the capital account. As a result, international reserves exceeded the end-September indicative target, and reached 6.6 months of imports.

Led by both agricultural and non-agricultural growth, GDP growth is forecast to be a higher 4.8% in 2017.

Indicators	2013	2014	2015	2016	2017f
Real GDP Growth (%)	4.4	2.9	4.4	1.1	4.8
CPI inflation, period avg. (%)	1.9	0.4	1.6	1.6	1.2
Primary balance, ex grants (% GDP)	-3.3	-3.7	-2.5	-2.4	-1.8
Total external debt (% GDP)	30.2	32.7	34.1	34.8	35.1
Gross reserves (in billions of USD)	19.3	20.4	23.5	28.8	32.2
Total Government Debt (% GDP)	63.6	63.4	63.6	64.8	64.3
Private sector credit growth (%)	3.8	4.6	3.3	3.5	-
Reserves Months of Imports	4.6	5.3	6.7	6.9	6.9

Source: IMF

Banking Sector

A new banking law introduced in December 2014 aims to strengthen consolidated supervision and improve bank resolution. The new central bank law further enhances central bank independence and expands its role to include, inter alia, contributions to financial stability and the oversight of financial market infrastructures. Banks are adequately capitalised and profitable, with stable funding. Banks provide mostly short- and medium-term customer loans, funded mainly by stable retail deposits, including from Moroccans living abroad. However, NPLs have risen recently due to weak activity in certain sectors, although they are well provisioned. Vulnerabilities include difficulties faced by companies involved in construction and real estate development.

Banking supervision is effective and improving. The new banking law extends Bank Al-Maghreb's (BAM) regulatory and supervisory power to financial conglomerates, microfinance institutions, and off-shore banks. The law also aims at improving cross-border supervision and tightening rules for consolidated risk management. Supervisory colleges have just been set up for the three banks with significant Sub-Sahara Africa (SSA) exposures.

The new banking law created a macro-prudential policy committee, the Systemic Risk Surveillance and Coordination Committee (CCSRS), in which the central bank plays a leading role. A special bank resolution regime is in place but needs stronger legal basis. The resolution regime provides various options . such as purchase and assumption, bridge bank, and asset management companies . but remains untested. The legal framework needs to be strengthened, including by embedding the least-cost principle, bail-in powers, and depositor preference.

In addition, the new banking law establishes the possibility of special measures for domestic systemic institutions, including special resolution plans. The banking law authorises the governor of the central bank to institute prudential measures for those banks considered as systemic domestically. In addition, it provides the governor with the power to set up an urgency mechanism to resolve banking crises through the establishment of a provisional administrator and the transfer of nonperforming

assets to an ad hoc structure, or through a possible split. The new banking law grants BAM additional powers for early intervention and prompt remedial actions. Besides the standard powers of a supervisor (warning, injunction, order, sanction, and suspension and withdrawal of the license), the new banking law provides the central bank with a very broad spectrum of additional early intervention measures. Currently both BAM and the Deposit Guarantee Fund (DGF) can extend emergency liquidity assistance to banks.

Moroccoqs financial sector weathered the global financial crisis quite comfortably, mainly because of banksqlimited exposure to risky global assets, low private and public foreign debt, and the relatively weak linkage of the Moroccan financial system to global financial markets. Capital outflows are restricted for residents and the exchange rate is pegged to a basket of the Euro and US dollar. The system has been indirectly affected due to Moroccoqs close links with Europe via trade, remittances, and FDI.

Weak economic activity in certain sectors has resulted in rising NPLs since 2012. Bank lending has slowed since 2012 driven by weak demand as well as by supply-side factors including tight liquidity, increased credit risks and rising NPLs. Banks with limited access to the interbank market relied on BAMqs liquidity facilities. The situation has significantly improved since 2014 but lending conditions have remained tight, especially for small and medium-sized enterprises. Moroccoqs financial system is bank-dominated and highly concentrated. With total assets of 140% of GDP, banks comprise about half of the financial system. The share of public banks has declined steadily to 16% from 40% in 2002. Of the 19 banks, five are majority public-owned and seven majority foreign-owned. The sector is dominated by the six largest banks, which hold a market share of deposits and credit of about 84%. The three largest banks, Attijariwafa, Banque Marocaine du Commerce Extérieur (BMCE) and Banque Centrale Populaire (BCP), hold about two-thirds of total bank assets.

Banksq expansion in SSA has brought about benefits but also potential vulnerabilities. Moroccan banks have built up their presence overseas mainly through the acquisition of local banks, thus local deposits largely fund their subsidiaries. Operations in SSA have been profitable. Compared to other pan-African banks, the share of cross-border operations is higher for Moroccan banks, although these operations are more diversified geographically. Potential risks could arise due to the weaknesses in banksqconsolidated risk management framework, regulatory gaps in key host countries, and the lack of an effective cross-border crisis management framework. BAM is taking steps to address the risks, including setting up supervisory colleges for the three largest banks and signing seven bilateral MOUs with host countries.

Basel III

BAM is committed to the gradual adherence to Basel III norms on capital adequacy and liquidity. The Central Bank increased the Tier 1 Capital to RWA ratio requirement to 9% and the regulatory CAR to 12% (effective June 2013). The definition of capital by the Basel Committee was adopted in April 2013. Regarding the liquidity coverage ratio, a transitional period is being observed before this ratio becomes fully operational.

Key Banking Sector Metrics

The sector remains sound overall. Aggregated data indicate that the banking sector as a whole is well capitalised. At end 2016 the average capital adequacy ratio was 13%, comfortably above the minimum requirement. Tier 1 capital accounted for 85% of total capital. Deposits are the main funding source for banks, amounting to two-thirds of their liabilities on average in 2016.

NPLs have increased recently, reflecting the economic slowdown. The highest NPL ratios are observed in sectors most affected by the weak growth in Europe, such as the hotel and restaurant sector, followed by the transport and communication, agriculture, and trade sectors. Continued difficulties faced by companies involved in these sectors could further increase NPLs. The NPLs are adequately provisioned at 70%. NPL ratios, at 7.8% at the end of 2016, were higher than 2015 (7.6%), and provisioning levels are comfortable. Large exposure risks persist despite stricter limits

than Basel III. The expansion of Moroccan banks in Africa opens new channels of risk transmission given the riskier environment, but cross-border supervision continues to be strengthened.

Since 2011 banks have been required to submit a list of risky loans to BAM. BAM has closely monitored these watch-list loans, and imposed a 10% provisioning requirement on these loans. More recently, the criteria for the watch-list loans have been tightened.

FX exposure remains relatively small. Domestic private credit is mainly provided in dirham; only about 3% of total domestic credit is in FX. Large exposures continue to pose risks despite tight rules. Total large exposures represent around 300% of the banking systemqs Tier 1 capital, based on a stricter definition than the Basel III. BAM sets the limit for a bankqs exposure to a single counterparty or a group of connected counterparties at 20% of Tier 1 capital, compared to 25% in Basel III; exposures above this limit are deducted from the banksq own funds. Exposures with explicit government guarantees are excluded. Large exposures present vulnerabilities, especially since it is unclear whether banks have seniority in corporate debt restructuring and the legal framework for restructuring private debt in Morocco is relatively weak.

Sector customer deposits rose by 4% in 2016, to MAD802 billion. Non-interest-bearing deposits accounted for around 60% of total deposits. Loans outstanding increased by 3.8% in 2016, to MAD790 billion. The loan-to-deposit ratio stood at 98.5% at the end of 2016 against 99.5% at end 2015 and 103.4% in 2014.

Average inflation was 1.6% in 2016. Since Bank-Al-Maghrib (BAM) reduced its policy rate to 2.25% in March 2016, lending rates have declined and credit growth recovered to 4.2% by December 2016 (YoY), driven by household (mortgage and consumption) and investment lending. Banks are well capitalised, but rising NPLs, credit concentration risks, and rapid expansion in Sub-Saharan Africa are sources of concern.

The authorities continue to implement the 2015 FSAP recommendations, including by increasing supervisory capacity. The new central bank law, which will strengthen the central bankqs independence and clarify its role for financial stability, is expected to be approved by parliament in 2017.

Current Business Model

CM is the smallest in a field of six main Moroccan banks, with a market share of around 5% at end 2016. CM has typically concentrated on lending to individuals and large companies. The Bank operates a network of 348 branches in Morocco, two branches in France and one representative office in Milan, Italy.

Although on a small scale, CM follows a universal banking model, providing a wide range of banking services and products from simple retail activities to investment banking and capital market operations. Subsidiary operations include leasing, capital markets and insurance. These remain very small against the Bankqs total assets.

The Bank aims to continue developing services and infrastructure across its three main divisions: retail, SME and corporate banking.

Principal Business Strategies

Although also focusing on the retail market, CM is differentiating itself from competitors by concentrating more towards the middle market, including the SME sector. Its main emphasis in this area is geared to exporters. The retail operations are performing well and main activities include consumer credits and mortgages. The latter is experiencing good growth. In the retail segment, growth in the Bankqs operations are benefiting from a widening branch network.

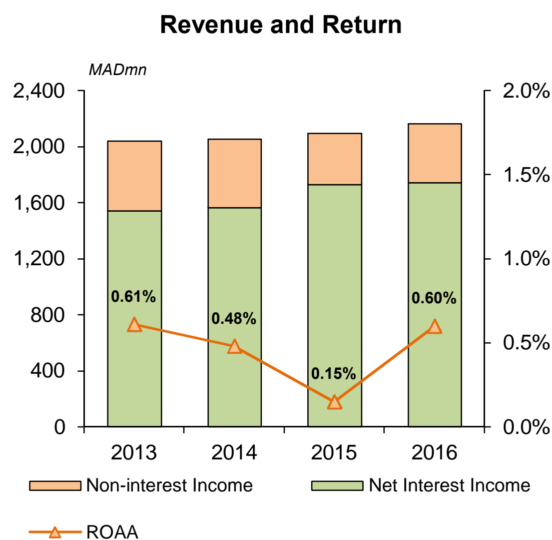
CM's third segment is the corporate sector, with the Bank's link to Credit Agricole supporting activities. It is active with most of Morocco's main blue chip corporate, as well foreign company subsidiaries operating in the country. Credit Agricole also provides significant support on the retail banking side, particularly in terms of product design, marketing, operations and risk management.

CM is in the midst of a four-year plan to end 2018. The 'CAP 2018' is a transformation project structured around four directions: increasing commercial efficiency, raise operational efficiency whilst achieving customer satisfaction, excellence of human resources, and creating effective governance while improving financial performance. During the past two years, CM has invested in several projects into the framework of CAP 2018. It accelerated the digitalization of the Bank with the launch of electronic signature, a first for Morocco. CM implemented a range of e-Banking solutions accompanying exporting operators on the settlement of trade transactions. It also enhanced its bancassurance. Part of this strategy is focusing on home mortgages and the Bank has enjoyed success in this area.

KEY FINANCIAL ISSUES

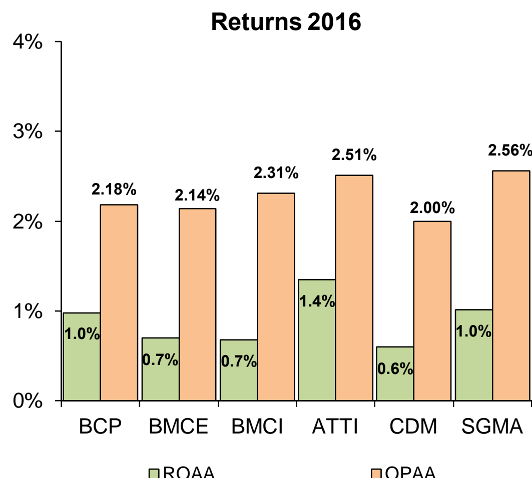
Accounts for 2016 were audited by PricewaterhouseCoopers Maroc and Fidaroc Grant Thornton, *Expert Comptable*, both of Casablanca, and presented according to International Financial Reporting Standards (IFRS). The accounts were unqualified. Credit du Maroc Leasing (66.67% owned), Credit du Maroc Offshore (100% owned), Credit du Maroc Assurance (100% owned), Credit du Maroc Capital (100% owned), and SIFIM (100% owned, Housing Finance) subsidiaries are consolidated into the accounts. Data on restructured loans and debt maturity is not available. Comprehensive income details are also not given. Half year figures are not released until mid-September.

FINANCIAL PERFORMANCE



Improved performance in 2016 with net profit and returns rising sharply, reflecting slightly higher gross income and a reduced cost of risk. First rise in net profit for four years. CM's returns strengthened in 2016, the first time the ROAA has increased in six years with net profit rising for the first time in four years. The improvement in 2016 was driven by higher non-interest income, reduced operating expenses and a lower cost of risk. The Bank's still modest returns, and the downward pressure for many years up to 2016, are due to a relatively low level of net interest income, squeezed non-interest income (NII), a high operating cost base and high provision charges (reflecting the rise in NPLs over the years) relative to operating profit. In addition, asset growth has been weak. CM's profitability record has long-been modest, and had been on a continual downward trend since 2008. In 2016, CM's return on average assets increased to 0.60% from 0.15% in 2015. CM's operating profit on average assets rose to 2.00% (2015: 1.82%), also reversing the previous downward trend.

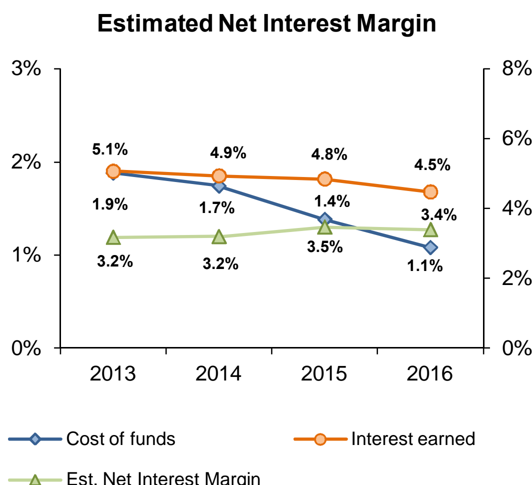
CMqs main earnings drivers are its net interest income and a good margin. Interest income was MAD2,303mn in 2016, down by 4.8% (2015: -0.2%) YoY. By far the main contributor is income from the Bankqs loan portfolio. In 2016, the loan portfolio grew by just 0.5%, with CM experiencing weak credit demand on the back of reduced economic growth in Morocco last year. For some years, credit growth has been weak in Morocco. Loan yields again fell in 2016 due to the decrease in the countryqs key benchmark rate and competitiveness in better quality credits. Both factors contributed to the fall in interest income. Reflecting the fall in market rates in 2016, rise in demand deposits, and overall fall in customer deposits. Interest expense fell by a higher 18.9% in 2016.



Key:
BMCI*-Banque Marocaine pour le Commerce et l'Industrie*
ATTI*-Attijariwafa*
BCP*-Banque Centrale Populaire*
CDM*-Credit du Maroc*
SGMA*- Société Générale Marocaine de Banques*
BMCE*-Banque Marocaine Commerce Exterior*

Despite the improvement, CM's operating profit on average assets is lower than the peer group average. The Bankqs operating profit on average assets, at 2.00% (2015: 1.82%), is below the peer group average of 2.28%. It is some way below that of the highest ratio, which is recorded by Société Générale Marocaine de Banques, followed by Attijariwafa. CMqs return on average assets (ROAA), at 0.60%, is the lowest in the peer group.

CM's margins narrow slightly in 2016 as yields fall. The Bankqs estimated net interest margin (NIM) decreased in 2016, narrowing by 7 basis points (bps) to 3.39% from 3.46% in 2015. Estimated interest on average earning assets declined by 37 bps to 4.47%. The Bankqs cost of funds declined by 30bps to 1.08% in 2016. The decrease in the cost of funds reflected the fall in market rates in 2016 together with the faster rise in demand and savings deposits (and fall in time deposits). Tight margins in better quality corporate loans . and lower benchmark rates . have been factors in the fall in yields. CMqs estimated NIM of 3.39% is in line with the peer group average (3.4%).



Higher non-interest income (NII) in 2016. NII rose in 2016, by 15.9% to MAD414mn. This was due to increased fee and commission income together with higher gains on securities. Increased gains on securities were seen as CM (and other banks) took advantage of attractive yield differentials in the market to capital on good gains as well as the higher stock market. CMqs level of NII is low however, representing 19.4% (cf. 17.3% in 2015) of gross income at end 2016. The Bankqs fee structure and strategy has not been developed over the years, with the Bank preferring to focus on interest activities. That said, CMqs management hope to build its NII going forward, capitalising on its market position and growing (once the economy improves) retail activities. The bulk of NII is derived from core fee and commission income, mainly linked to loans and credit cards. It also includes insurance related fees and bank customer related fees. Fee and commission income is very small against average assets at just 0.65%.

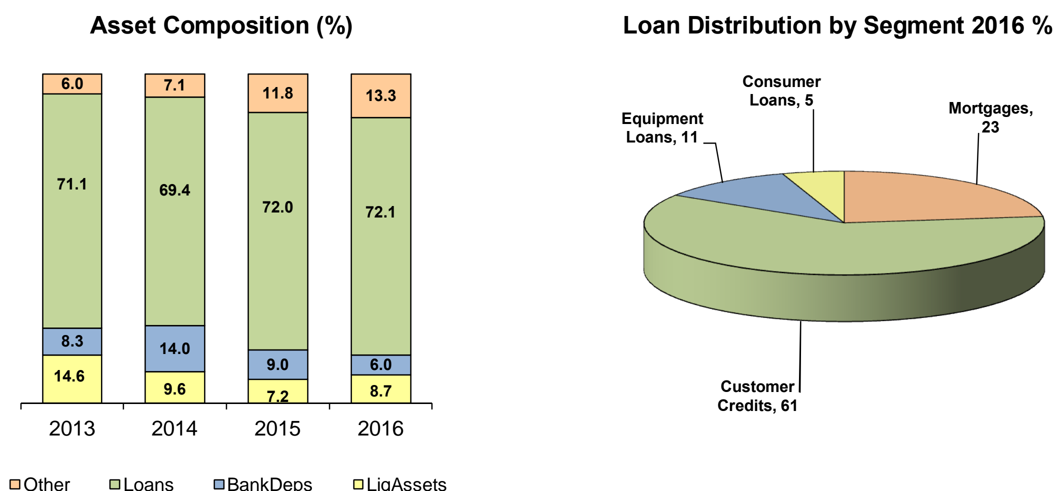
Operating expenses fell in 2016 but CM has lower efficiency ratios than peer banks. Operating expenses declined by 4.1% in 2016 (due to reduced administration charges) but formed a lower 2.20% of average total assets (ATA) against 2.37% in 2015. CM has a high operating expense base against both average assets (2.0% for the peer group) and gross income (47.4% for peer group). The operating expenses to gross income ratio improved to 52.45% (based on CI calculations), against 56.55% in 2015. At 52%, there remains much scope to improve efficiency further, but mainly through lifting income which is currently low.

Operating profit improves. Operating profit grew by 13.1% in 2016 to MAD1,029mn. This was on the back of reduced expenses and slightly higher gross income. Operating profit on average assets increased to 2.0% (as discussed above).

Cost of risk falls in 2016. CM's net provision charge for doubtful debts declined by 34% to MAD500mn (includes 'other provisions and recoveries for risks and charges'). Total gross provisions were MAD1,267mn (2015: MAD1,065mn) including MAD676mn (2015: MAD844mn) provisions for receivables and commitments, MAD261mn (2015: MAD157mn) for loan losses, and MAD329mn (2015: MAD64mn) for other charges. Recoveries of provisions on loans was MAD926mn in 2016 (2015: MAD456mn) with reversals of provisions for loans MAD870mn (2015: MAD415mn), other provision reversals MAD45mn (2015: MAD28mn) and recoveries of loans written off MAD10mn (2015: MAD12mn).

NPLs declined by 7.6% in 2016. The provisioning charge consumed a lower 48.6% (2015: 84.2%) of operating profit. Other expenses included those related to discontinued business and additional tax charges. Net profit rose by 304% to MAD309mn.

BALANCE SHEET



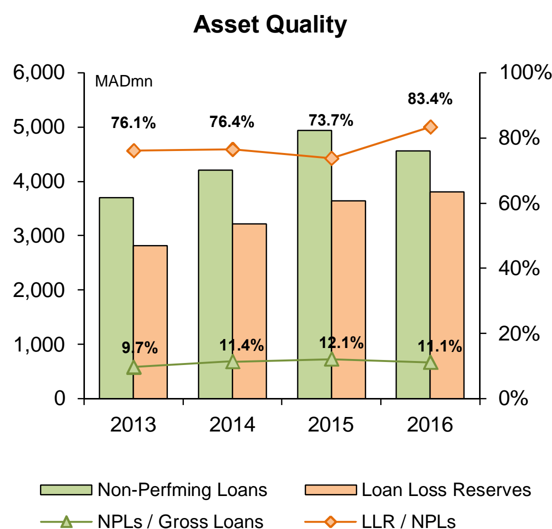
Flat asset base in 2016 with loans static. Economic growth was weaker in 2016, continuing a trend for some years, with CM's assets increasing by only 0.4%. The loan portfolio rose by just 0.5%. Asset growth has been weak at CM for the last few years. Previously for CM, with Morocco achieving solid economic growth for some years and thus creating good loan demand and increased penetration of the banking sector into the economy, loans to assets at CM increased to 77% at end 2009. CM's loan growth since then has been very limited. A factor has also been CM's rising level of NPLs which in turn saw management reduce credit expansion and focus more on credit quality, or at least trying to arrest the increase in NPLs. CM's loans accounted for 72.1% (2015: 72.0%) of total assets at end 2016. By sector, growth over the last few years has been at a marginally higher rate in retail loans, with mortgage loans (housing finance) the main driver behind the rise in retail loans. Corporate loans have

seen little growth over recent time. CM has typically concentrated on lending to large companies, but has been endeavouring to focus more on the retail sector, as is the case for other banks in Morocco.

Total liquid assets (liquid assets: cash, central bank and government securities, plus deposits with banks) continue to account for 14.7% (2015: 16.3%) of total assets. Government securities (T-bills) were stable. Deposits with banks formed 6.0% of total assets (2015: 9.4%). All government securities are Moroccan government treasury bills (Dirham denominated). There is a good secondary market for these securities and they can be repo’d to the central bank. Other marketable securities (9.5% of total assets) are mainly corporate bonds from financial institutions but the portfolio also includes some Moroccan government securities (full breakdown not given). Hence, the quasi-liquid assets ratio at 24.2% is sound.

Well diversified loan book by economic sector. CM has a well diversified loan portfolio by sector. At end 2016, the largest sector exposure was to individuals/retail sector. Mortgages comprise 23% of the portfolio. Higher risk sectors such as auto, agriculture, textiles and hotels are small in exposure. However, these have been the main source of NPLs. The corporate sector has suffered over the last few years due to the deterioration in Morocco’s main export market – the Eurozone. In addition, the hotel and tourism sector has been hit through a fall in visitors. Just over one-half of loans are short- and medium-term loans. Long-term loans are mainly corporate loans and mortgages.

Fall in NPLs in 2016 but the NPL ratio remains elevated. CM’s NPLs declined by 7.6% (2015: +17.4%) in 2016 to MAD4,561mn. NPLs had risen briskly over the past six years up to 2016. The increased rate of defaults reflected pressure in the corporate loan book, particularly in the textile, auto, construction and electronics industry. Weakness had been felt in the Moroccan economy as a result of, initially, the global financial crisis and, in particular, the problems in the EU. The Moroccan economy has seen pressure, particularly for manufacturers and exporters as the key EU market (particularly France and Spain) has been hit. High end property developments and hotels have also been impacted. However, the Bank’s credit environment improved in 2016 and is believed that NPLs have peaked in the current cycle.



At year-end 2016, NPLs represented a lower 11.1% of gross loans against 12.1% at end 2015. Loans are classified as NPLs at 90 days past due as per Central Bank regulations. CM’s NPL ratio of 11.1% is higher than the sector NPL ratio of 7.8% at end 2016. This is in part due to the fact that the French owned banks, like CM, have a more systematic and mechanical process of downgrading the quality of loans to NPLs than other local competitors. This is also stressed by the mother company who has strict rules of classification of loans, especially when the regional environment is not positive.

Moreover, the interpretation of the fiscal law allowing the write-off of 100% provisioned loans in Morocco is still unclear. It is not clear at which date the write-off could be done without any fiscal risk. CM has taken the conservative side and prefers not to take a fiscal risk with write-offs. This is one reason why CM’s NPL ratio is higher than other 100% Moroccan owned competitors.

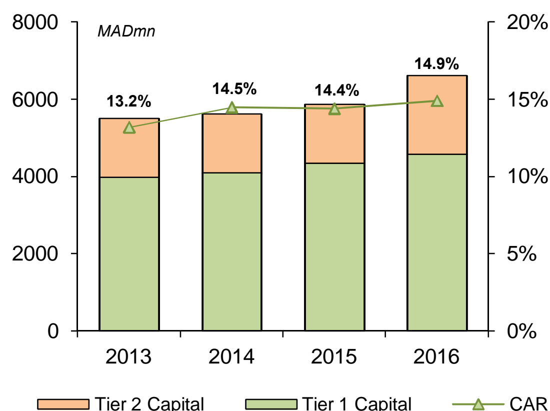
Provisioning coverage improves in 2016 and is at a relatively good level. Coverage higher than other French-owned Moroccan banks. Loan-loss reserves (LLRs) to NPLs stood at a higher and sound 83.4% at end 2016 against 73.7% at end 2015. Looking at unprovided NPLs against free capital, the ratio was a lower 26.5% at end 2016 against 48.7% at end 2015. The Bank is considered to have good collateral – including real estate, securities and cash – linked to its NPL portfolio, which, when

included with specific provisions, increases coverage to over 100%. The effective NPL coverage, which also takes into account free capital, is however relatively low at 1.46x.

There was a slight fall in contingents in 2016, declining by 0.3% through LCs. Contingent activity is not significant, representing 29% of total assets.

Overall, the bank's asset base is dominated by the loan portfolio which has experienced an increase in NPLs up to 2016. Last year saw an improvement in loan asset quality and this trend is expected to continue in 2017.

Sound capital adequacy position at end 2016; higher CAR YoY. CM's CAR improved marginally to 14.9% at end 2016 from 14.4% at end 2015. Equity components adhere to Basel III standards whilst risk adjusted capital is based on Basel II standardised approach, including a charge for operational risk. The tier 1 ratio was 11.2% at end 2015 (2015: 11.0%).



Total capital was higher by 5.7% to MAD4,581mn, representing an adequate 8.88% of total assets against 8.44% at end 2015. The rise was due to increased reserves through retained earnings. The last paid-up capital increase was in 2013: CM's share capital increased by MAD71.5mn in 2013 through the issuance of 715,030 new CM shares.

The Bank has a stock of Tier 2 Capital which includes subordinated debt. In 2016, CM issued a further MAD500mn in subordinated debt. The transaction was broken down as follows: An 'A' tranche with a rate fixed in reference to the 10-year Moroccan treasury bond (BDT) rate, listed on the Casablanca Stock Exchange; A 'B' tranche, with a rate revisable annually in reference to the 52-week Moroccan treasury bond (BDT) rate, listed on the Casablanca Stock Exchange; A 'C' tranche with a rate fixed in reference to the 10-year Moroccan treasury bond (BDT) rate, not listed on the Casablanca Stock Exchange; A 'D' tranche with a rate revisable annually in reference to the 52-week Moroccan treasury bond (BDT) rate, not listed on the Casablanca Stock Exchange. The fixed interest rate was determined in reference to the 10-year Moroccan treasury bond (BDT) rate calculated on the basis of secondary yield curve of treasury bonds as published by Banque Al-Maghrib on 17 November 2016, i.e. 3.03% increased by a risk premium between 90 and 110 basis points, i.e. between 3.93% and 4.13%.

Prior to this, the most recent issue was in 2011: a ten-year subordinated debt issue of MAD500mn, which was structured under five tranches with an overall cost of around 5.3%. CM issues subordinated debt (Tier 2) to the extent required by the growth of its loan portfolio. CM's first issue of subordinated debt was in late 2008; this was a facility of MAD1 billion of ten year maturity at a fixed rate of 4.98%. The rate of internal capital generation ratio is low, reflecting the very high payout to shareholders (although the payout ratio was much lower in 2016). CM often increases its Tier 1 by distributing stock dividends. Total subordinated debt stood at MAD2,025mn at end 2016.

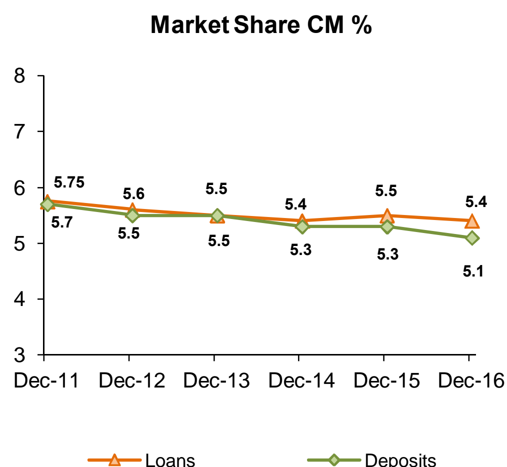
The minimum capital ratio for Moroccan banks is 12% (introduced from June 2013), with a minimum Tier 1 capital ratio of 9%. Bank Al-Maghrib is committed to enhanced regulation and supervision, including the gradual adherence to Basel III norms on capital adequacy and liquidity. The new definition of capital by the Basel Committee was adopted in April 2013.

There is an ongoing transition to Basel II advanced approach for RWA. The Bank is in compliance with Basel III rules regarding regulatory capital and capital adequacy ratio (from June 2014 with full implementation in 2019). Minimum requirements are currently: CET1=8%; CET1+AT1=9%;

CAR=12%. CM is also in compliance with Basel III rules regarding liquidity (LCR) with minimum currently at 70% in Morocco.

Fixed assets comprise 2.7% of total assets. Investments in affiliates (these include leasing, insurance, brokerage, fund structuring and Banque International de Tanger) consume another 0.6%. Both figures are low and hence do not significantly impact the free capital position. Free capital stood at MAD2,868mn at end 2016. Free capital to total capital was sound at 63%.

CM has an adequate liquidity position, with the position stable in 2016. CM's liquidity and funding position is viewed as sound. Most ratios were steady in 2016 with net loans barely growing and customer deposits recording a slight small. Domestic market liquidity conditions for Moroccan banks were quite tight up to 2015. The Central Bank of Morocco responded to the tightening of monetary conditions by increasing liquidity injections. More recently, increased international reserves have aided bank liquidity. Moreover, the central bank's key interest rate has been decreased by 25bp in each of the last two years. Banking sector liquidity has improved by the customer deposit market remains thin.



CM's funding is mainly sourced from customer deposits. Customer deposits are the main source of funding for CM. However, deposit growth has been limited. In 2016 the deposit base fell by 1.3% to MAD41,409mn. In 2015 customer deposits grew by just 2.5%. At end 2016 customer deposits represented a slightly lower 80.3% (2015: 81.6%) of total liabilities and capital. Funding is very much retail dominated and not subject to the vagaries of the wholesale market. At 80%, the contribution of customer deposit funding to overall funding is higher at CM than compared to peer banks.

The fall in overall deposits in 2016 was due to the decrease in expensive time deposits. These fell by 27% to MAD4,294mn. CD's (classified as other deposits in the CI spreads) fell by 26% in 2016 to MAD3,373mn. Within CDs there are longer term tenors over one year, thus providing support to maturity matching. CDs fell in 2016 due to lower rates.

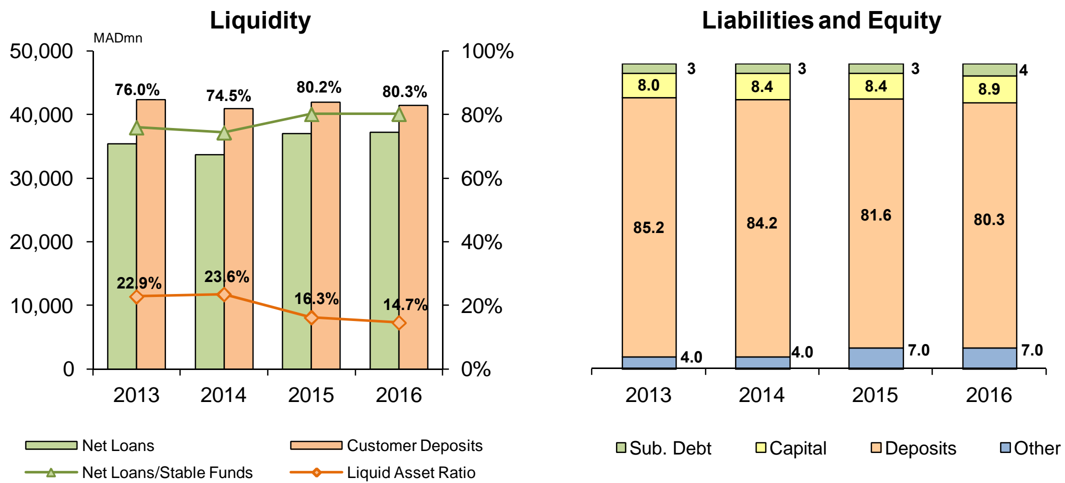
On the other hand, both demand and savings deposits rose. Demand deposits, which are either no-cost or very low cost, form well over one-half of total deposits, increasing by 9.2% to MAD24,371mn. Savings deposits increased by 1.9% to MAD9,012mn. CASA deposits form a high 81.5% (2015: 75.2%) of total deposits. The Bank's market share was 5.2% at end 2016.

Loan-based liquidity ratios were quite steady in 2016. The net loans to customer deposits ratio rose slightly to 89.8% in 2016 from 88.2% in 2015. The net loans to stable funds ratio was stable at 80.3% (80.2% in 2015). Both ratios remain sound. CM's liquid asset ratio stood at a lower 14.7% (2015: 16.3%). There are also liquid assets (including some government paper) in the Bank's other marketable securities portfolio. Hence, its quasi-liquid assets ratio at 24.2% is sound. CM's holdings in liquid assets, including treasury bills, cash and Central Bank placements, together with bank placements, provide CM with an adequate stock of readily available liquid assets. With the fall in bank placements in 2016, the Bank's net interbank position fell. The net liquid assets ratio was steady at 10.6%.

The Bank has back-up funding facilities (the extent is not provided by management) from Credit Agricole, if needed. However, this back-up has not been used as there has been no need for it.

As discussed in *Capital* section, the Bank is quite a frequent issuer of subordinated debt on the local market, thus providing increased MLT funding.

CAPITAL intelligence



The Bank’s LCR (based on ECB definition) was over 125% as at end 2016 against a minimum required ratio of 70% in Morocco currently. Overall, CM’s liquidity position is sound, aided by a good base of customer deposits that provide the vast bulk of funding and an adequate stock of liquid assets. Its position is better than the other French-owned banks in Morocco which display tighter liquidity, particularly in regard to net loans to customer deposits.

CREDIT DU MAROC

MA003

PERFORMANCE RATIOS	Audited	AUD 12/2016	AUD 12/2015	AUD 12/2014	AUD 12/2013
A . SIZE FACTORS (USD 000)					
1 . Total Assets		5,067,877	5,180,772	5,358,644	6,101,291
2 . Total Capital		449,989	437,223	451,804	486,992
3 . Net Profit		30,350	7,703	26,266	36,366
B . ASSET QUALITY					
4 . Total Assets Growth Rate (YoY%)		0.41	5.78	-2.31	4.78
5 . Estimated Non-Peforming Loans (NPLs) Net Accretion Rate (%)		-7.55	21.09	17.69	27.43
6 . NPL Ratio (%)		11.13	12.14	11.39	9.70
7 NPAs (Including NPLs) To Total Assets (%)		8.84	9.60	8.65	7.45
8 . Loan-Loss Reserve To NPLs (%)		83.36	73.73	76.44	76.08
9 . Loan-Loss Reserve To Gross Loans (%)		9.28	8.95	8.70	7.38
10 . Unprovided Non-Performing Loans To Free Capital (%)		26.46	48.73	35.28	33.75
11 . Effective NPL Coverage Ratio (Times)		1.46	1.28	1.43	1.47
12 . Unprovided NPLs To Operating Profit (Months)		8.85	17.10	13.61	11.92
13 . Loan-Loss Provisioning Expense To Gross Loans (%)		1.22	1.89	2.76	2.79
14 . Related Party Exposure To Total Capital (%)		0.00	0.00	0.00	0.00
15 . Total Contingents To Total Assets (%)		29.44	29.65	31.46	37.75
C . CAPITAL ADEQUACY					
16 Reported Common Equity Tier 1 Ratio To Local Standards (%)					
17 . Reported Tier 1 Ratio To Local Standards (%)				11.13	9.96
18 . Reported Total Capital Adequacy Ratio To Local Standards (%)		14.90	14.40	14.48	13.19
19 . Internal Capital Generation (%)		5.33	-0.06	0.72	0.64
20 . Total Capital Growth Rate (YOY %)		5.65	5.88	3.19	18.33
21 . Total Capital To Total Assets (%)		8.88	8.44	8.43	7.98
22 . Total Capital To Gross Loans (%)		11.18	10.67	11.09	10.39
23 . Free Capital (MAD 000)		2,868,492	2,659,618	2,807,647	2,626,820
24 . Free Capital To Total Capital (%)		62.61	61.33	68.55	66.18
25 . Dividend Payout Ratio (%)		35.22	113.93	98.67	94.36
D . LIQUIDITY					
26 . Stable Funds (MAD 000)		46,303,705	46,129,875	45,255,100	46,535,638
27 . Net Loans To Total Assets (%)		72.06	71.99	69.38	71.13
28 . Net Loans To Total Customer Deposits (%)		89.79	88.19	82.37	83.46
29 . Net Loans To Total Deposits (%)		85.41	83.26	79.83	81.40
30 . Net Loans To Stable Funds (%)		80.30	80.19	74.48	76.01
31 . Net Investments To Total Assets (%)		13.76	12.49	9.24	13.38
32 . Liquid Asset Ratio (%)		14.70	16.26	23.59	22.86
33 . Net Liquid Asset Ratio (%)		10.58	11.42	20.91	20.70
34 . Quasi-Liquid Asset Ratio (%)		24.23	24.48	27.68	25.91
35 . Short-Term Funding Coverage Ratio (%)		588.76	506.10	1,031.92	1,199.15
36 . Net FX Currency Assets (MAD 000)					
37 . FX Deposits Less FX Loans (MAD 000)					
38 . Net Interbank Assets (MAD 000)		971,075	2,159,212	5,478,159	3,029,551
E . PROFITABILITY					
39 . Return on Average Assets (%)		0.60	0.15	0.48	0.61
40 . Operating Profit To Average Assets (%)		2.00	1.82	1.78	1.84
41 . Gross Income To Average Assets (%)		4.20	4.19	4.18	4.20
42 . Estimated Funding Cost (%)		1.08	1.38	1.74	1.88
43 . Estimated Interest on Average Total Assets (%)		4.47	4.84	4.93	5.06
44 . Estimated Net Interest Margin (%)		3.39	3.46	3.19	3.17
45 . Non-Interest Income To Gross Income (%)		19.42	17.32	23.79	24.41
46 . Operating Expenses To Gross Income (%)		52.45	56.55	57.52	56.24
47 Operating Expenses To Average Assets (%)		2.20	2.37	2.41	2.36
48 . Operating Profit Growth Rate (YOY %)		13.13	4.18	-2.12	-1.95
49 . Risk Provisioning Expense To Operating Profit (%)		48.61	84.24	56.78	57.56
50 . Return on Average Equity (%)		6.93	1.81	5.90	8.09
RATES					
. Exchange Rate (Units per USD)		10.18	9.92	9.07	8.15
. Inflation Rate (%)			1.60	0.40	1.90
. Benchmark Interest Rate (MAD)			2.50	2.75	2.90

NOTES:

CREDIT DU MAROC

External Audit BALANCE SHEET - ASSETS (MAD 000)	12/2016 USD 000	AUD 12/2016	AUD 12/2015	AUD 12/2014	AUD 12/2013	Growth (%) 12/2016	12/2015	12/2014	12/2013	Breakdown (%) 12/2016	12/2015	12/2014	12/2013
CASH & EQUIVALENT ASSETS:													
Cash	30,952	315,127	113,883	619,246	885,979	176.71	-81.61	-30.11	-30.93	0.61	0.22	1.27	1.78
Central Bank	202,908	2,065,805	1,409,177	1,564,440	1,245,974	46.60	-9.92	25.56	-44.62	4.00	2.74	3.22	2.51
Treasury Bills	207,113	2,108,622	2,186,475	2,495,875	5,129,985	-3.56	-12.40	-51.35	7.55	4.09	4.26	5.14	10.32
Government Securities													
Reverse Repos													
Other													
TOTAL CASH & EQUIVALENT ASSETS	440,974	4,489,554	3,709,535	4,679,561	7,261,938	21.03	-20.73	-35.56	-12.53	8.70	7.22	9.63	14.60
DEPOSITS WITH BANKS:													
Short - Up to 1 Year	303,982	3,094,843	4,644,599	6,781,399	4,103,834	-33.37	-31.51	65.25	68.06	6.00	9.04	13.96	8.25
Medium - Over 1 Year													
TOTAL DEPOSITS WITH BANKS	303,982	3,094,843	4,644,599	6,781,399	4,103,834	-33.37	-31.51	65.25	68.06	6.00	9.04	13.96	8.25
TOTAL LIQUID ASSETS	744,956	7,584,397	8,354,134	11,460,960	11,365,772	-9.21	-27.11	0.84	5.78	14.70	16.26	23.59	22.86
OTHER MARKETABLE SECURITIES	483,200	4,919,461	4,224,369	1,987,401	1,516,477	16.45	112.56	31.05	86.51	9.53	8.22	4.09	3.05
LOANS AND ADVANCES:													
Short Term	2,686,500	27,351,252	27,151,265	25,033,518	25,332,338	0.74	8.46	-1.18	3.71	53.01	52.84	51.53	50.94
Medium/Long Term (MLT)	1,339,056	13,632,930	13,476,160	11,885,054	12,857,144	1.16	13.39	-7.56	4.43	26.42	26.23	24.47	25.86
Other													
Leasing and Factoring													
of which : Non-Performing Loans	448,037	4,561,460	4,933,766	4,204,100	3,705,617	-7.55	17.36	13.45	24.21	8.84	9.60	8.65	7.45
GROSS LOANS AND ADVANCES	4,025,556	40,984,182	40,627,425	36,918,572	38,189,482	0.88	10.05	-3.33	3.95	79.43	79.07	76.00	76.80
Loan-Loss Reserve	-373,492	-3,802,517	-3,637,611	-3,213,514	-2,819,089	4.53	13.20	13.99	22.63	-7.37	-7.08	-6.62	-5.67
NET LOANS AND ADVANCES	3,652,064	37,181,665	36,989,814	33,705,058	35,370,393	0.52	9.75	-4.71	2.70	72.06	71.99	69.38	71.13
NON-MARKETABLE SECURITIES	6,874	69,986	6,965	5,975	5,975	904.82	16.57		-92.14	0.14	0.01	0.01	0.01
SUBSIDIARIES & AFFILATES	31,624	321,959	312,496	304,191	311,123	3.03	2.73	-2.23	7.65	0.62	0.61	0.63	0.63
NET NON-PERFORMING ASSETS (Excluding NPLs)													
FIXED ASSETS	136,616	1,390,885	1,364,325	983,835	1,031,040	1.95	38.67	-4.58	6.27	2.70	2.66	2.03	2.07
OTHER ASSETS	12,544	127,706	131,499	129,513	124,743	-2.88	1.53	3.82	0.91	0.25	0.26	0.27	0.25
TOTAL ASSETS	5,067,877	51,596,059	51,383,602	48,576,933	49,725,523	0.41	5.78	-2.31	4.78	100.00	100.00	100.00	100.00
CONTINGENT ACCOUNTS:													
Financial Guarantees / SLCs / Acceptances	1,210,037	12,319,386	11,926,684	11,149,931	12,632,510	3.29	6.97	-11.74	23.06	23.88	23.21	22.95	25.40
Irrevocable Commitments													
Documentary L/Cs	281,889	2,869,915	3,306,111	4,131,497	6,138,694	-13.19	-19.98	-32.70	4.29	5.56	6.43	8.51	12.35
Bid / Performance / Retention Bonds													
TOTAL CONTINGENT ACCOUNTS	1,491,926	15,189,301	15,232,795	15,281,428	18,771,204	-0.29	-0.32	-18.59	16.22	29.44	29.65	31.46	37.75

BALANCE SHEET - LIABILITIES (MAD 000) External Audit	42,733 USD 000	AUD 12/2016	AUD 12/2015	AUD 12/2014	AUD 12/2013	Growth (%) 12/2016	12/2015	12/2014	12/2013	Breakdown (%) 12/2016	12/2015	12/2014	12/2013
SHORT-TERM INTERBANK LIABILITIES:													
ST Placements From Banks	208,601	2,123,768	2,485,387	1,303,240	1,074,283	-14.55	90.71	21.31	-2.98	4.12	4.84	2.68	2.16
Current Portion of LT Bank Debt													
Repos With Banks													
Interbank Liability To Parent / Related Party													
TOTAL SHORT-TERM INTERBANK LIABILITIES	208,601	2,123,768	2,485,387	1,303,240	1,074,283	-14.55	90.71	21.31	-2.98	4.12	4.84	2.68	2.16
CUSTOMER DEPOSITS:													
Demand	2,429,122	24,730,886	22,654,577	21,737,748	21,436,427	9.17	4.22	1.41	9.10	47.93	44.09	44.75	43.11
Savings	885,181	9,012,029	8,843,468	8,532,005	8,110,429	1.91	3.65	5.20	7.18	17.47	17.21	17.56	16.31
Time	421,769	4,294,026	5,888,792	5,812,340	6,385,487	-27.08	1.32	-8.98	15.34	8.32	11.46	11.97	12.84
Other	331,257	3,372,531	4,557,231	4,837,182	6,447,022	-26.00	-5.79	-24.97	-17.19	6.54	8.87	9.96	12.97
TOTAL CUSTOMER DEPOSITS	4,067,329	41,409,472	41,944,068	40,919,275	42,379,365	-1.27	2.50	-3.45	4.55	80.26	81.63	84.24	85.23
OFFICIAL DEPOSITS													
TOTAL DEPOSITS + ST INTERBANK LIABILITIES	4,275,930	43,533,240	44,429,455	42,222,515	43,453,648	-2.02	5.23	-2.83	4.35	84.37	86.47	86.92	87.39
NON-BANK SHORT-TERM DEBT													
MEDIUM / LONG TERM FUNDING													
SUBORDINATED DEBT	198,973	2,025,741	1,526,189	1,528,178	1,529,453	32.73	-0.13	-0.08	0.11	3.93	2.97	3.15	3.08
HYBRID CAPITAL													
OTHER LIABILITIES	142,986	1,455,742	1,091,519	730,567	773,439	33.37	49.41	-5.54	-16.79	2.82	2.12	1.50	1.56
TOTAL LIABILITIES	4,617,889	47,014,723	47,047,163	44,481,260	45,756,540	-0.07	5.77	-2.79	3.75	91.12	91.56	91.57	92.02
CAPITAL:													
Paid Up Capital	106,878	1,088,121	1,088,121	1,067,899	1,035,848		1.89	3.09	12.30	2.11	2.12	2.20	2.08
Reserves	343,111	3,493,215	3,248,318	3,027,774	2,933,135	7.54	7.28	3.23	20.61	6.77	6.32	6.23	5.90
Minority Interest													
TOTAL CAPITAL	449,989	4,581,336	4,336,439	4,095,673	3,968,983	5.65	5.88	3.19	18.33	8.88	8.44	8.43	7.98
TOTAL LIABILITIES + TOTAL CAPITAL	5,067,877	51,596,059	51,383,602	48,576,933	49,725,523	0.41	5.78	-2.31	4.78	100.00	100.00	100.00	100.00
REGULATORY CAPITAL													

PROFIT AND LOSS ACCOUNT (MAD 000) External Audit	42,733 USD 000	AUD 42,733	AUD 42,368	AUD 42,003	AUD 41,638	Growth (%) 12/2016	12/2015	12/2014	12/2013	% of Average Total Assets 12/2016	12/2015	12/2014	12/2013
Interest Income	226,171	2,302,644	2,419,610	2,423,297	2,456,928	-4.83	-0.15	-1.37	-1.88	4.47	4.84	4.93	5.06
Interest Expense	-54,858	-558,505	-688,327	-856,903	-915,868	-18.86	-19.67	-6.44	8.84	-1.08	-1.38	-1.74	-1.88
Net Interest Income	171,313	1,744,139	1,731,283	1,566,394	1,541,060	0.74	10.53	1.64	-7.30	3.39	3.46	3.19	3.17
Net Fees and Commissions	33,063	336,611	317,386	259,860	237,907	6.06	22.14	9.23	-3.94	0.65	0.64	0.53	0.49
FX Trading Income				78,690	189,127		-100.00	-58.39	165.39			0.16	0.39
Derivatives Income													
Gain / Loss on Securities	16,056	163,465	121,238	69,705		34.83	73.93			0.32	0.24	0.14	
Other Investment Income				55,903	60,720		-100.00	-7.93	6.11			0.11	0.12
Gains/Loss on Real Estate Held For Investment													
Share of Profits From Associates													
Net Insurance Income													
Other Income	-7,832	-79,737	-75,965	24,914	9,794	4.97	-404.91	154.38	-63.90	-0.15	-0.15	0.05	0.02
Total Non-Interest Income	41,287	420,339	362,659	489,072	497,548	15.90	-25.85	-1.70	23.38	0.82	0.73	1.00	1.02
GROSS INCOME	212,600	2,164,478	2,093,942	2,055,466	2,038,608	3.37	1.87	0.83	-1.31	4.20	4.19	4.18	4.20
Operating Expenses	111,513	1,135,313	1,184,200	1,182,205	1,146,475	-4.13	0.17	3.12	-0.81	2.20	2.37	2.41	2.36
OPERATING PROFIT	101,087	1,029,165	909,742	873,261	892,133	13.13	4.18	-2.12	-1.95	2.00	1.82	1.78	1.84
Total Provisioning Expenses	-49,139	-500,289	-766,395	-495,797	-513,537	-34.72	54.58	-3.45	43.24	-0.97	-1.53	-1.01	-1.06
GROSS PROFIT / (LOSS)	51,947	528,876	143,347	377,464	378,596	268.95	-62.02	-0.30	-31.33	1.03	0.29	0.77	0.78
Extraordinary Items	-3,038	-30,927	-8,300	-25,606	-4,796	272.61	-67.59	433.90	-67.23	-0.06	-0.02	-0.05	-0.01
Tax & Equivalent	-18,560	-188,956	-58,643	-113,757	-77,416	222.21	-48.45	46.94	-66.42	-0.37	-0.12	-0.23	-0.16
NET PROFIT (or -LOSS)	30,350	308,993	76,404	238,101	296,384	304.42	-67.91	-19.66	-3.19	0.60	0.15	0.48	0.61
Net Changes in Fair Value													
Net FX Translation Gains													
Other													
COMPREHENSIVE INCOME	30,350	308,993	76,404	238,101	296,384	304.42	-67.91	-19.66	-3.19	0.60	0.15	0.48	0.61
Proposed Cash Dividends	10,688	108,812	87,050	234,938	279,679	25.00	-62.95	-16.00	-5.25	0.21	0.17	0.48	0.58

RATIO FORMULAE

Category	Ratio	Formula
A.SIZE FACTORS (USD 000)	1. TOTAL ASSETS	TOTAL ASSETS
	2. TOTAL CAPITAL	TOTAL CAPITAL
	3. NET PROFIT	NET PROFIT
B.ASSET QUALITY	4. TOTAL ASSETS GROWTH RATE (YOY%)	(CURRENT YEAR TOTAL ASSETS – PREVIOUS YEAR TOTAL ASSETS) X 100 PREVIOUS YEAR TOTAL ASSETS
	5. ESTIMATED NON-PEFORMING LOANS (NPLS) NET ACCRETION RATE (%)	(NON-PERFORMING LOANS + WRITEOFFS- NON-PERFORMING LOANS(PREVIOUS YEAR)) X 100 NON-PERFORMING LOANS(PREVIOUS YEAR)
	6. NPL RATIO (%)	NON-PERFORMING LOANS X 100 GROSS LOANS
	7. NPAS (INCLUDING NPLS) TO TOTAL ASSETS (%)	(NON-PERFORMING ASSETS + NON-PERFORMING LOANS) X 100 TOTAL ASSETS
	8. LOAN-LOSS RESERVE TO NPLS (%)	LOAN-LOSS RESERVE X 100 NON-PERFORMING LOANS
	9. LOAN-LOSS RESERVE TO GROSS LOANS (%)	LOAN-LOSS RESERVE X 100 GROSS LOANS
	10. UNPROVIDED NON-PERFORMING LOANS TO FREE CAPITAL (%)	(NON-PERFORMING LOANS - LOAN LOSS RESERVE) X 100 FREE CAPITAL
	11. EFFECTIVE NPL COVERAGE RATIO (TIMES)	(LOAN-LOSS RESERVE + FREE CAPITAL) NPLs
	12. UNPROVIDED NPLS TO OPERATING PROFIT (MONTHS)	(NON-PERFORMING LOANS - LOAN LOSS RESERVE) X 12 OPERATING PROFIT
	13. LOAN-LOSS PROVISIONING EXPENSE TO GROSS LOANS (%)	PROVISIONS FOR LOANS (SPEC + GEN) X 100 GROSS LOANS
	14. RELATED PARTY EXPOSURE TO TOTAL CAPITAL (%)	RELATED-PARTY EXPOSURE (FUNDED + UNFUNDED) X 100 TOTAL CAPITAL
	15. TOTAL CONTINGENTS TO TOTAL ASSETS (%)	(TOTAL CONTINGENT ACCOUNTS) X 100 TOTAL ASSETS
C.CAPITAL ADEQUACY	16. REPORTED COMMON EQUITY TIER 1 RATIO TO LOCAL STANDARDS (%)	AS REPORTED ACCORDING TO LOCAL STANDARDS
	17. REPORTED TIER 1 RATIO TO LOCAL STANDARDS (%)	AS REPORTED ACCORDING TO LOCAL STANDARDS
	18. REPORTED TOTAL CAPITAL ADEQUACY RATIO TO LOCAL STANDARDS (%)	AS REPORTED ACCORDING TO LOCAL STANDARDS
	19. INTERNAL CAPITAL GENERATION (%)	(COMPREHENSIVE INCOME – PROPOSED CASH DIVIDENDS – EXTRAORDINARY ITEMS) X 100 PREVIOUS YEAR TOTAL CAPITAL
	20. TOTAL CAPITAL GROWTH RATE (YOY %)	(CURRENT YEAR TOTAL CAPITAL – PREVIOUS YEAR TOTAL CAPITAL) X 100 PREVIOUS YEAR TOTAL CAPITAL
	21. TOTAL CAPITAL TO TOTAL ASSETS (%)	TOTAL CAPITAL X 100 TOTAL ASSETS
	22. TOTAL CAPITAL TO GROSS LOANS (%)	TOTAL CAPITAL X 100 GROSS LOANS
	23. FREE CAPITAL (AED 000)	TOTAL CAPITAL – SUBSIDIARIES AND AFFILIATES – FIXED ASSETS
	24. FREE CAPITAL TO TOTAL CAPITAL (%)	FREE CAPITAL X 100 TOTAL CAPITAL
	25. DIVIDEND PAYOUT RATIO (%)	PROPOSED CASH DIVIDENDS X 100 NET PROFIT
D.LIQUIDITY	26. STABLE FUNDS (AED 000)	TOTAL CUSTOMER DEPOSITS + MEDIUM & LONG-TERM FUNDING + SUBORDINATED DEBT + HYBRID CAPITAL + FREE CAPITAL
	27. NET LOANS TO TOTAL ASSETS (%)	NET LOANS X 100 TOTAL ASSETS
	28. NET LOANS TO TOTAL CUSTOMER DEPOSITS (%)	NET LOANS X 100 TOTAL CUSTOMER DEPOSITS
	29. NET LOANS TO TOTAL DEPOSITS (%)	NET LOANS X 100 TOTAL CUST. DEP. + OFFICIAL DEP. + ST PLACEMENTS FROM BANKS + INTERBANK DEP. TO PARENT OR RELATED PARTY
	30. NET LOANS TO STABLE FUNDS (%)	NET LOANS X 100 STABLE FUNDS
	31. NET INVESTMENTS TO TOTAL ASSETS (%)	(TREAS BILLS & GOV. SEC. + OTHER MKT SEC. + NON-MKT SEC.) X 100 TOTAL ASSETS
	32. LIQUID ASSET RATIO (%)	TOTAL LIQUID ASSETS X 100 TOTAL ASSETS
	33. NET LIQUID ASSET RATIO (%)	(TOTAL LIQUID ASSETS – TOTAL ST INTERBANK LIABILITIES - NON-BANK ST DEBT) X 100 TOTAL ASSETS
	34. QUASI-LIQUID ASSET RATIO (%)	(TOTAL LIQUID ASSETS + OTHER MARKETABLE SECURITIES) X 100 TOTAL ASSETS
	35. SHORT-TERM FUNDING COVERAGE RATIO (%)	(TOTAL LIQUID ASSETS + OTHER MARKETABLE SECURITIES) X 100 TOTAL ST INTERBANK LIABILITIES + NON-BANK SHORT-TERM DEBT
	36. NET FX CURRENCY ASSETS (AED 000)	FOREIGN CURRENCY ASSETS – FOREIGN CURRENCY LIABILITIES
	37. FX DEPOSITS LESS FX LOANS (AED 000)	FOREIGN CURRENCY LOANS – FOREIGN CURRENCY DEPOSITS
	38. NET INTERBANK ASSETS (AED 000)	TOTAL DEPOSITS WITH BANKS – TOTAL ST INTERBANK LIABILITIES

RATIO FORMULAE

	Ratio	Formula
E.PROFITABILITY	39. RETURN ON AVERAGE ASSETS (%)	NET PROFIT X 100 AVERAGE TOTAL ASSETS
	40. OPERATING PROFIT TO AVERAGE ASSETS (%)	OPERATING PROFIT X 100 AVERAGE TOTAL ASSETS
	41. GROSS INCOME TO AVERAGE ASSETS (%)	GROSS INCOME X 100 AVERAGE TOTAL ASSETS
	42. ESTIMATED FUNDING COST (%)	INTEREST EXPENSE X 100 AVERAGE TOTAL ASSETS
	44.ESTIMATED INTEREST ON AVERAGE TOTAL ASSETS	INTEREST INCOME X 100 AVERAGE TOTAL ASSETS
	44. ESTIMATED NET INTEREST MARGIN (%)	ESTIMATED INTEREST ON AVERAGE TOTAL ASSETS (%) – ESTIMATED FUNDING COST (%)
	45. NON-INTEREST INCOME TO GROSS INCOME (%)	NON-INTEREST INCOME X 100 GROSS INCOME
	46. OPERATING EXPENSES TO GROSS INCOME (%)	OPERATING EXPENSES X 100 GROSS INCOME
	47. OPERATING EXPENSES TO AVERAGE ASSETS (%)	OPERATING EXPENSES X 100 AVERAGE TOTAL ASSETS
	48. OPERATING PROFIT GROWTH RATE (YOY %)	(CURRENT-YEAR OPERATING PROFIT – PREV-YEAR OPERATING PROFIT) X 100 PREV-YEAR OPERATING PROFIT
	49. RISK PROVISIONING EXPENSE TO OPERATING PROFIT (%)	TOTAL PROVISONING EXPENSES X 100 OPERATING PROFIT
	50. RETURN ON AVERAGE EQUITY (%)	NET PROFIT X 100 AVERAGE TOTAL CAPITAL
F. COUNTRY SPECIFIC RATIOS	. EXCHANGE RATE (UNITS PER USD)	
	. INFLATION RATE (%)	
	. BENCHMARK INTEREST RATE (AED)	

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RATINGS DEFINITIONS

International Issuer Credit Ratings: Foreign Currency and Local Currency

CI's international issuer credit ratings indicate the general creditworthiness of an entity (such as a bank, corporate or sovereign) and the likelihood that it will meet its financial obligations in a timely manner. Foreign currency ratings refer to an entity's ability and willingness to meet its foreign currency denominated financial obligations as they come due. Foreign currency ratings take into account the likelihood of a government imposing restrictions on the conversion of local currency to foreign currency or on the transfer of foreign currency to residents and non-residents.

Local currency ratings are an opinion of an entity's ability and willingness to meet all of its financial obligations on a timely basis, regardless of the currency in which those obligations are denominated and absent transfer and convertibility restrictions. Both foreign currency and local currency ratings are internationally comparable assessments.

Foreign and local currency ratings take into account the economic, financial and country risks that may affect creditworthiness, as well as the likelihood that an entity would receive external support in the event of financial difficulties.

Ratings assigned to banks and corporates are generally not higher than the ratings assigned by CI to the relevant sovereign government. However, it may be possible for an issuer with particular strengths and attributes such as inherent financial strength, geographically diversified cash flow, substantial foreign assets, and guaranteed external support, to be rated above the sovereign.

CI may assign either a public rating or an internal 'shadow' rating to the sovereign. Shadow sovereign ratings are not intended for publication and are used to ensure that sovereign risk factors are adequately reflected in the ratings of non-sovereign issuers.

The following rating scale applies to both foreign currency and local currency ratings. Short-term ratings assess the time period up to one year.

Long-Term Issuer Ratings

Investment Grade

AAA The highest credit quality. Exceptional capacity for timely fulfilment of financial obligations and most unlikely to be affected by any foreseeable adversity. Extremely strong financial condition and very positive non-financial factors.

AA Very high credit quality. Very strong capacity for timely fulfilment of financial obligations. Unlikely to have repayment problems over the long term and unquestioned over the short and medium terms. Adverse changes in business, economic and financial conditions are unlikely to affect the institution significantly.

A High credit quality. Strong capacity for timely fulfilment of financial obligations. Possesses many favourable credit characteristics but may be slightly vulnerable to adverse changes in business, economic and financial conditions.

BBB Good credit quality. Satisfactory capacity for timely fulfilment of financial obligations. Acceptable credit characteristics but some vulnerability to adverse changes in business, economic and financial conditions. Medium grade credit characteristics and the lowest investment grade category.

Speculative Grade

BB Speculative credit quality. Capacity for timely fulfilment of financial obligations is vulnerable to adverse changes in internal or external circumstances. Financial and/or non-financial factors do not provide significant safeguard and the possibility of investment risk may develop.

B Significant credit risk. Capacity for timely fulfilment of financial obligations is very vulnerable to adverse changes in internal or external circumstances. Financial and/or non-financial factors provide weak protection; high probability for investment risk exists.

C Substantial credit risk is apparent and the likelihood of default is high. Considerable uncertainty as to the timely repayment of financial obligations. Credit is of poor standing with financial and/or non-financial factors providing little protection.

RS Regulatory supervision (this rating is assigned to financial institutions only). The obligor is under the regulatory supervision of the authorities due to its weak financial condition. The likelihood of default is extremely high without continued external support.

SD Selective default. The obligor has failed to service one or more financial obligations but CI believes that the default will be restricted in scope and that the obligor will continue honouring other financial commitments in a timely manner.

D The obligor has defaulted on all, or nearly all, of its financial obligations.

Short-Term Issuer Ratings

Investment Grade

A1 Superior credit quality. Highest capacity for timely repayment of short-term financial obligations that is extremely unlikely to be affected by unexpected adversities. Institutions with a particularly strong credit profile have a "+" affixed to the rating.

A2 Very strong capacity for timely repayment but may be affected slightly by unexpected adversities.

A3 Strong capacity for timely repayment that may be affected by unexpected adversities.

Speculative Grade

B Adequate capacity for timely repayment that could be seriously affected by unexpected adversities.

C Inadequate capacity for timely repayment if unexpected adversities are encountered in the short term.

RS Regulatory supervision (this rating is assigned to financial institutions only). The obligor is under the regulatory supervision of the authorities due to its weak financial condition. The likelihood of default is extremely high without continued external support.

SD Selective default. The obligor has failed to service one or more financial obligations but CI believes that the default will be restricted in scope and that the obligor will continue honouring other financial commitments in a timely manner.

D The obligor has defaulted on all, or nearly all, of its financial obligations.

Capital Intelligence appends "+" and "-" signs to foreign and local currency **long term** ratings in the categories from "AA" to "C" to indicate that the strength of a particular rated entity is, respectively, slightly greater or less than that of similarly rated peers.

Outlook – expectations of improvement, no change or deterioration in a bank or corporate rating over the 12 months following its publication are denoted Positive, Stable or Negative. The time horizon for a sovereign rating outlook is longer, at 12-24 months.

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Financial Strength Ratings

CI's financial strength ratings provide an opinion of a bank's inherent financial strength, soundness and risk profile. These ratings do not address sovereign risk factors, including transfer risk, which may affect an institution's capacity to honour its financial obligations, be they local or foreign currency. Financial strength ratings also exclude support factors, which are addressed by foreign and local currency ratings, as well as CI's support ratings. However, financial strength ratings do take into account the bank's operating environment including the economy, the structure, strength and stability of the financial system, the legal system, and the quality of banking regulation and supervision. Financial strength ratings do not assess the likelihood that specific obligations will be repaid in a timely manner.

The following rating scale applies to the financial strength rating.

AAA Financially in extremely strong condition with positive financial trends; significant strengths in other non-financial areas. Operating environment likely to be highly attractive and stable.

AA Financially in very strong condition and significant strengths in other non-financial areas. Operating environment likely to be very attractive and stable.

A Strong financial fundamentals and very favourable non-financial considerations. Operating environment may be unstable but institution's market position and/or financial strength more than compensate.

BBB Basically sound overall; slight weaknesses in financial or other factors could be remedied fairly easily. May be limited by unstable operating environment.

BB One or two significant weaknesses in the bank's financial makeup could cause problems. May be characterised by a limited franchise; other factors may not be sufficient to avoid a need for some degree of temporary external support in cases of extraordinary adversity. Unstable operating environment likely.

B Fundamental weaknesses are present in the bank's financial condition or trends, and other factors are unlikely to provide strong protection from unexpected adversities; in such an event, the need for external support is likely. Bank may be constrained by weak market position and/or volatile operating environment.

C In a very weak financial condition, either with immediate problems or with limited capacity to withstand adversities. May be operating in a highly volatile operating environment.

D Extremely weak financial condition and may be in an untenable position.

Capital Intelligence appends "+" and "-" signs to financial strength ratings in the categories from "AA" to "C" to indicate that the strength of a particular institution is, respectively, slightly greater or less than that of similarly rated peers.

Outlook – expectations of improvement, no change or deterioration in a rating over the 12 months following its publication are denoted Positive, Stable or Negative.

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Support Ratings

CI's support ratings assess the likelihood that, in the event of difficulties, a bank would receive sufficient financial assistance from the government or private owners to enable it to continue meeting its financial obligations in a timely manner. Support ratings complement CI's financial strength ratings which, in effect, indicate the likelihood that a bank will fail due to inherent financial weaknesses and/or an unstable operating environment and therefore may require external support to avoid defaulting on its obligations. Neither financial strength ratings nor support ratings take account of transfer and convertibility risks associated with sovereign events. The overall creditworthiness of an institution and default risk is captured by CI's foreign currency ratings. Foreign currency ratings take into account all factors affecting the likelihood of repayment including inherent financial strength, external support, the operating environment, and sovereign-related risks.

Although subjective, support ratings are based on a thorough assessment of a bank's ownership, market position and importance within the sector and economy, as well as the country's regulatory and supervisory framework and the credit standing of potential supporters.

The following rating scale applies to support ratings.

1. The likelihood of a bank receiving support in the event of difficulties is extremely high. The characteristics of a bank with this support rating may include strong government ownership and/or clear legal guarantees on the part of the state. The bank may also be of such importance to the national economy that state intervention is virtually assured. The ability and willingness of potential supporters to provide sufficient and timely support is extremely strong.

2. The likelihood of support is very high. The ability and willingness of potential supporters to provide sufficient and timely support is very strong.

3. The likelihood of support is high. The ability and willingness of potential supporters to provide sufficient and timely support is strong.

4. The likelihood of support is moderate. There is some uncertainty about the ability and willingness of potential supporters to provide sufficient and timely assistance.

5. The likelihood of support is low. There is considerable uncertainty about the ability and willingness of potential supporters to provide sufficient and timely assistance.

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ATTRIBUTES AND LIMITATIONS OF CREDIT RATINGS

Users of Capital Intelligence's (CI) credit ratings should be aware of the following attributes and limitations of the ratings:

- CI's credit ratings are statements of opinion and not statements of fact. They are an independent opinion of the creditworthiness of an entity or obligor either in general (an issuer rating) or with regard to a specific financial obligation (an issue rating).
- CI's credit ratings are intended to provide a relative ranking of credit risk among rated entities and obligations based on fundamental credit analysis and expressed in rating symbols from 'AAA' to 'D'. Reflecting the limited number of gradations, entities or obligations with the same rating may not be of exactly the same credit quality, but they will share substantially similar credit risk characteristics.
- CI's credit ratings are assigned by, and all subsequent rating actions (including upgrades, downgrades and changes in outlook) determined by, rating committees and never by an individual analyst.
- CI's credit ratings indicate the likelihood of default, but they do not indicate a specific probability of default over any given time period.
- CI may initiate credit ratings on issuers without the request of the issuer provided there is adequate public information available to form a credible opinion of the issuer's creditworthiness.
- CI does not audit or verify the accuracy of information obtained from issuers as part of the rating process and may, in some cases, rely on unaudited financial data.
- A credit rating may, at any time, be raised, lowered, placed under review, suspended or withdrawn in accordance with CI's policies and procedures.
- CI may assign private 'shadow' sovereign ratings – internal assessments of sovereign risk that are not intended for publication and are used as an input into other rating assessments. Shadow sovereign ratings may constrain or cap the ratings of other rated issuers within a country. Shadow sovereign ratings may be based on a lower level of information or less detailed analysis compared to public sovereign ratings and, although monitored, may be reviewed less frequently than every six months. They do not represent a full rating opinion.

CI's credit ratings may be used as an analytical input into, but are not a substitute for, investors' own risk management. Investors in particular should be aware that:

- CI's credit ratings focus on one aspect of investment risk – credit (or repayment) risk – and do not explicitly capture loss severity or recovery prospects.
- CI's ratings are not recommendations to purchase, sell, or hold stocks or shares in an institution or particular security.
- CI's ratings do not assess or indicate the likelihood of changes in the market price of rated instruments due to market-related factors such as changes in interest rates or liquidity.
- CI's ratings do not provide an opinion of the liquidity in the market of an issuer's securities.