CAPITAL intelligence

BANK RATING

Credit du Maroc

Capital Intelligence Ratings Ltd, Oasis Complex, Block E, Gladstone Street, P.O. Box 53585, 3303, Limassol, Cyprus
Telephone: +357 25 342300 Facsimile: +357 25 817750 E-mail: capital@ciratings.com Website: http://www.ciratings.com

Bank Rating Report

Credit du Maroc

Morocco

Capital Intelligence Ratings Ltd
Oasis Complex, Block E, Gladstone Street
PO Box 53585
CY 3303 Limassol
Cyprus

Telephone: +357 2534 2300
Facsimile: +357 2581 7750

E-mail: capital@ciratings.com
Web site: http://www.ciratings.com

CONTACT

Primary Analyst
Darren Stubing
Senior Credit Analyst
Tel: +357 2534 2300
Email: darren.stubing@ciratings.com

Secondary Analyst
Tom Kenzik
Senior Credit Analyst
Email: tom.kenzik@ciratings.com

Rating Committee Chairman
Rory Keelan
Senior Credit Analyst

The ratings have been initiated by CI. The issuer did not participate in the rating process. The information source used to prepare the credit ratings is public information. CI has access to the published financial statements of the issuer for the purpose of the rating, but did not have access to the issuer's internal accounts, management and other relevant internal documents. Nevertheless, CI considers the quality of information available on the issuer to be satisfactory for the purpose of assigning and maintaining credit ratings. CI does not audit or independently verify information received during the rating process.

The rating has been disclosed to the rated entity and released with no amendment following that disclosure. Ratings on the issuer were first released in January 1996. The ratings were last updated in September 2017.

The principal methodology used in determining the ratings is the Bank Rating Methodology. The methodology, the meaning of each rating category, the time horizon of rating outlooks and the definition of default, as well as information on the attributes and limitations of CI's ratings, can be found at www.ciratings.com. CI's policy on unsolicited ratings including an explanation of the colour coding of credit rating symbols can be found at the same location. Historical performance data, including default rates, are available from a central repository established by ESMA (CEREP) at http://cerep.esma.europa.eu

A Capital Intelligence rating is not a recommendation to purchase, sell, or hold a security of the institution, inasmuch as it does not comment as to market price or suitability for a particular investor.

Reproducing or distributing this publication without the publisher's consent is prohibited. Information has been obtained by Capital Intelligence from sources believed to be reliable. However, because of the possibility of human or mechanical error by our source, Capital Intelligence, or others, Capital Intelligence does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any error or omissions or for the results obtained from use of such information.

Copyright © Capital Intelligence Ratings Ltd 2018

Ref: MA00317BNK00-1/09-18

CREDIT DU MAROC

Casablanca, Morocco
21 September 2018

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	**Positive**	Stable	Aug 18

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

FINANCIAL HIGHLIGHTS

USD (mn) MAD (mn)	2017 USD	2017 MAD	2016 MAD	2015 MAD
Total Assets	5,629	52,514	51,596	51,384
Net Loans	4,216	39,335	37,182	36,990
Customer Deposits	4,579	42,718	41,409	41,944
Total Capital	517	4,811	4,581	4,336
Gross Income	234	2,185	2,164	2,094
Net Income	39	361	309	76
Exchange Rate: USD/MAD		*9.33*	*10.18*	*9.92*

%	2017	2016	2015
NPL / Gross Loans	9.90	11.13	12.14
Loan-Loss Reserves /NPLs	89.09	83.36	73.73
Capital Adequacy Ratio	13.65	14.46	14.40
Net Loans / Stable Funds	82.68	80.85	80.19
Estimated Net Interest Margin	3.30	3.39	3.46
Cost / Income	54.30	52.45	56.55
Return on Average Assets	0.69	0.60	0.15

RATINGS DRIVERS

Supporting the Rating

- Majority owned by Crédit Agricole with board and senior management representation.
- Continued improvement in net profitability performance in 2017, as a result of a reduced cost of risk, with higher ROAA. Good increase in net profit in H1 2018.
- Further reduction in the stock of non-performing loans (NPLs) and lower NPL ratio in 2017. Positive momentum maintained in H1 2018 including increased loan-loss coverage.

Constraining the Rating

- Low revenue growth in 2017 resulted in a slight fall in operating profitability.
- Challenging operating environment with weak loan demand and a tight deposit market.
- Low rate of internal capital generation.

RATING RATIONALE

Capital Intelligence Ratings (CI Ratings or CI) has affirmed the Financial Strength Rating (FSR) of Credit du Maroc (CM) at 'BB+'. The rating is supported by improving loan asset quality, very good loan loss coverage, adequate liquidity and capital adequacy, and increasing net profit. It is constrained by a still high level of NPLs, modest profitability, and limited balance sheet growth. The Outlook for the FSR is revised to 'Positive' from 'Stable', reflecting the continued positive momentum in regard to asset quality and profitability. Maintained improvement in both areas in 2018, whilst keeping other key metrics fairly steady, could result in an upgrade in the FSR.

CM's Long- and Short-Term Foreign Currency Ratings (FCRs) are also affirmed at 'BBB-' and 'A3', respectively, with a 'Stable' Outlook. The Support Rating is maintained at '2', reflecting majority ownership by Crédit Agricole and the high likelihood of support from the parent. The Crédit Agricole ownership provides uplift to the FCRs from CM's current FSR. CI Ratings 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 Group's operations in North Africa.

CM is majority owned and managed by the large French financial institution Crédit Agricole. CM holds a sound position in the Moroccan banking sector, controlling just over five per cent of sector assets, loans and customer deposits. CM has recorded good improvement in loan asset quality with NPLs declining

for the last two consecutive years. In tandem, loan-loss coverage has risen to a very good level. The positive trend in both metrics was maintained in H1 2018. Although the level of NPLs remains high, the Bank's provision coverage is now approaching a full position. The credit picture in CM's loan portfolio has improved, particularly in regard to the corporate and commercial loan books.

Improving loan asset quality has resulted in a lower cost of risk, which has benefited the bottom line. Continued weak asset growth (although loans increased at a higher rate in 2017), led to lacklustre growth in gross income. In combination with higher expenses, operating profit fell slightly. However, profit and loss results in H1 2018 were very good, with a good uplift in both operating and net profitability, driven by both net and non-interest income (NII).

CM's capital adequacy is moderate but remained comfortably above regulatory standards at end June 2018 and included the impact of IFRS9. CM 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, particularly so in the case of other French-owned banks in Morocco. The stock of liquid assets remains somewhat limited however.

OUTLOOK

CM again achieved good progress in 2017 in regard to loan asset quality and, to a slightly lesser extent, profitability. NPLs declined in 2017 for the second year in a row and CI expects continued improvement in the portfolio for full year 2018. H1 2018 saw a further reduction in NPLs and increased provisioning coverage. H1 2018 profitability results were stronger with a good increase in operating and net profit. This was driven by all lines. Full year 2018 returns are expected to show good improvement.

Currently the Bank's return on average assets is modest; low returns are partly due to weak asset growth, a function of the challenging operating environment. CM's position is supported by its majority shareholder, Crédit Agricole, which provides management, operational and system support to the Bank. The liquidity, funding position and capital of the Bank are sound but managed on a fairly competitive basis. Nearly all of the Bank's funding is sourced from domestic retail customer deposits.

Morocco's real GDP growth rate reached a higher 4% in 2017, boosted by a rebound in agricultural output. GDP growth is projected to decline to 3% in 2018.

BANK HISTORY AND STRATEGIES

Bank History

Crédit du Maroc was established in 1963, when the 34-year-old branch of France's 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 France's 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 CL's 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

Credit du Maroc's Shareholders December 2017	%
Crédit Agricole S.A.	78.70
Wafa Assurance	10.69
Others	10.61
Total	**100.00**

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 company's systems and knowledge.

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.

Crédit Agricole Group's fully-loaded CET1 ratio was 14.8% at end June 2018, well above the minimum of 9.5% set by the ECB. The MREL ratio stood at circa 13% at 30 June 2018. The liquidity position of Crédit Agricole Group is solid. Its banking cash balance sheet, at €1,191 billion at 30 June 2018, shows a surplus of stable funding resources over stable application of funds of €106 billion. The liquidity reserves, which include capital gains and discounts on securities portfolios, stood at €256 billion on 30 June 2018, covering the level of short-term debt (€106 billion) more than twice over. Total shareholders' equity is over €102 billion with group assets over €1,763 billion. Group net income was €3.5 billion in H1 2018 with total revenue of €16.7 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.

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 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 economy's resilience and fostering higher and more inclusive economic growth. The authorities 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.

Real GDP growth slowed significantly in 2016 to 1.1%, against 4.4% in 2015, due to a sharp slowdown in agriculture and subdued non-agricultural activity. Growth reached 4% in 2017, boosted by a rebound in agricultural output with growth rate at 15.1%. Non-agricultural GDP remained sluggish at 2.8%. GDP growth is projected to decline to 3% in 2018. Cereal production is projected to return to its long-term average and non-agricultural GDP growth is expected to remain around 3%.

Inflation remained low at 0.6% in 2017. Unemployment rose from 9.9% in 2016 to 10.2% in 2017. The fiscal deficit declined in 2017, while the slight improvement of exports was not enough to reduce the trade deficit as imports increased. Due to a conservative fiscal policy, the fiscal deficit was reduced to 3.5% of GDP in 2017 and the government's debt ratio stabilised at around 65.1%. The current account deficit is estimated to have declined to 4% of GDP in 2017 (4.4% in 2016).

Morocco's central bank adopted the reform towards a more flexible exchange regime, allowing the currency to fluctuate within a wider band of ± 2.5%, compared with the previous band of 0.3%. Bank Al-Maghreb (BAM) will progressively enlarge the band. The mechanism will progressively dis-anchor

MAD from the current currency basket moving toward the equilibrium price. BAM will intervene in the market, only if needed, in order to monitor liquidity and defend its target range.

Recently, the government has been confronted by increased pressure from the population of the Jerada province (North Eastern Morocco), claiming an 'alternative economy' to alleviate poverty in the region. The government is working on the development of a vision to respond to King Mohammed VI's call to review the country's development model. This follows his decision to dismiss several high-level officials in late 2017 due to shortcomings in the delivery of development programmes for the Rif region; a region that also staged social protests over the past year. More recently, King Mohammed sacked the minister for the economy and finance, three days after the monarch urged action to tackle social and economic problems.

Indicators	2014	2015	2016	2017	2018f
Real GDP Growth (%)	2.9	4.4	1.1	4.4	3.1
CPI inflation, period avg. (%)	0.4	1.6	1.6	0.6	1.3
Total external debt (% GDP)	32.7	34.1	34.8	33.5	33.9
Gross reserves (in billions of USD)	20.4	23.5	28.8	24.8	27.6
Total Government Debt (% GDP)	63.4	63.6	64.8	64.3	64.0
Reserves Months of Imports	5.3	6.7	6.9	5.9	6.2

Source: IMF

Banking Sector

A new banking law introduced in December 2014 aimed to strengthen consolidated supervision and improve bank resolution. The central bank law further enhanced central bank independence and expands its role to include, inter alia, contributions to financial stability and the oversight of financial market infrastructures. Banks are (just) 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 due to weak activity in certain sectors, although they are quite well provisioned. Vulnerabilities include difficulties faced by companies involved in construction and real estate development. Nonetheless, the sector's NPL ratio fell for the first time for some years in 2017, to 7.8% from 7.9%.

Banking supervision is effective and improving. The 2014 banking law extended 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 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 a 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 established 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.

Morocco's financial sector weathered the global financial crisis quite comfortably, mainly because of banks' limited 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 Morocco's close links with Europe via trade, remittances, and FDI.

Weak economic activity in certain sectors resulted in rising NPLs from 2012 although they were somewhat stabilised in 2017. Bank lending has been weak since 2012 driven by lacklustre 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 BAM's liquidity facilities. The situation has significantly improved since 2014, but lending conditions have remained tight, especially for small and medium-sized enterprises. Morocco's financial system is bank-dominated and highly concentrated. With total assets of around 136% of GDP, banks comprise about half of the financial system. 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.

Banks' 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 banks' consolidated 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 definition of capital by the Basel Committee was adopted in April 2013. The Central Bank increased the Tier 1 Capital to RWA ratio requirement to 9% and the regulatory capital adequacy ratio (CAR) to 12% (effective June 2013). Compliance with Basel 3 rules regarding regulatory capital and CAR was adopted in June 2014. This saw minimum requirements as: CET1=8%; CET1+AT1=9%; CAR=12% (instead of core Tier 1=9% and CAR=12% previously). Regarding the liquidity coverage ratio (LCR), a transitional period (2015:2019) is being observed before this ratio becomes fully operational. The current minimum LCR is 90% (2018). IFRS 9 is to be adopted in 2018.

Key Banking Sector Metrics

The sector remains sound overall although NPLs are a challenge. Aggregated data indicate that the banking sector as a whole is adequately capitalised. At end 2017, the average CAR was 12.5%, above the minimum requirement. Deposits are the main funding source for banks, amounting to two-thirds of their liabilities on average in 2017.

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. NPLs are adequately provisioned at 70%. The NPL ratio for the sector declined slightly in 2017, to 7.8% from 7.9% at end 2016. 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.

Forex exposure remains relatively small. Domestic private credit is provided mainly in dirham; only about 3% of total domestic credit is in forex. Large exposures continue to pose risks despite tight

rules. Total large exposures represent around 300% of the banking system's Tier 1 (T1) capital, based on a stricter definition than the Basel III. BAM sets the limit for a bank's exposure to a single counterparty or a group of connected counterparties at 20% of T1 capital, compared to 25% in Basel III; exposures above this limit are deducted from the banks' 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. In 2017, customer deposit growth was 3% (to MAD844mn). BAM reduced its policy rate to 2.25% in March 2016 and it remains at this level. In 2017, credit growth for the sector was 3% (to MAD816mn).

Current Business Model

CM is the smallest in a field of six main Moroccan banks, with a market share of around 5% at end 2017. 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 Bank's 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 Bank's operations are benefiting from a widening branch network.

CM's third segment is the corporate sector, with the Bank's link to Crédit Agricole supporting activities. It is active with most of Morocco's main blue-chip corporate, as well foreign company subsidiaries operating in the country. Crédit 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 final stages of a four-year plan to end 2018. The 'CAP 2018' is a transformation project structured around four directions: increasing commercial efficiency, raising 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 product. Part of this strategy is focusing on home mortgages and the Bank has enjoyed success in this area.

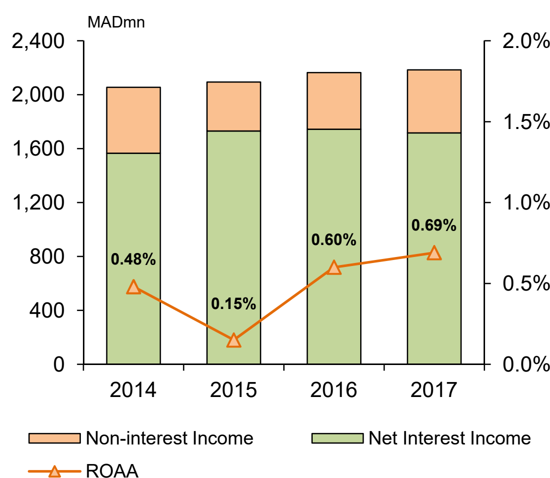
KEY FINANCIAL ISSUES

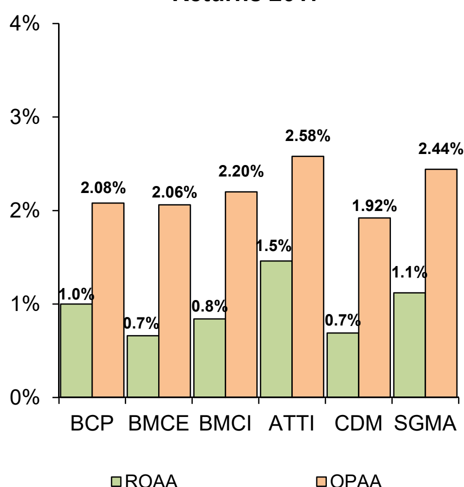
Accounts for 2017 were audited by PricewaterhouseCoopers Maroc and Fidaroc Grant Thornton, *Expert Comptable*, both of Casablanca, and presented according to International Financial Reporting Standards (IFRS). The accounts were unqualified. Credit du Maroc Leasing (66.67% owned), Credit du Maroc Offshore (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.

FINANCIAL PERFORMANCE

Slightly better performance in 2017 as both net profit and return on average assets improved on the back of lower cost of risk. Operating profit fell however as gross income remained flat. CM's returns strengthened marginally in 2017 with net profit rising by 17% to MAD361mn and maintaining the positive trend of the previous year. The improvement in 2017 was driven by a fall in the cost of risk. At the gross income level, performance was flat as net interest income was lower with NII compensating through higher fee and investment income. The Bank's still modest returns are due to a relatively low level of net interest income, fairly weak NII, a high operating cost base and high provision charges relative to operating profit. In addition, asset growth has been modest. In 2017, CM's return on average assets increased to 0.69% from 0.60% in 2016. CM's operating profit on average assets declined to 1.92% (2016: 2.00%), however.





The Bank's main earnings drivers are its net interest income and a good margin (although, in 2017, higher NII propelled the performance). Interest income was MAD2,688mn in 2017, up by 16.8% (2016: -4.8%) YoY. By far the main contributor is income from the Bank's loan portfolio. In 2017, the loan portfolio grew by a higher 5.8%, with CM experiencing better credit demand on the back of increased economic growth in Morocco last year. Gross interest income rose in 2017 due to an increase in lending. Reflecting the rise in deposits in 2017, and specifically the increase in time deposits, interest expense grew by a much greater 74% in 2017, its first increase for some years.

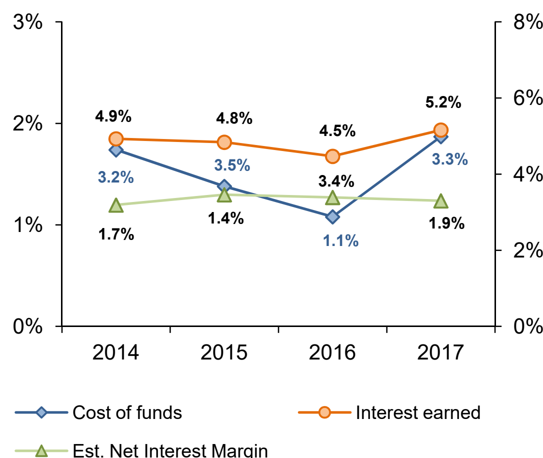
Key:

***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*

CM's operating profit on average assets is lower than the peer-group average. The Bank's operating profit on average assets, at 1.92% (2016: 2.00%), is below the peer-group average of 2.16%. It is some way below that of the highest ratio, which is recorded by Attijariwafa. CM's return on average assets (ROAA), at 0.69%, is the second lowest in the peer group.

CM's margins narrowed slightly in 2017 as cost of funds rose. The Bank's estimated net interest margin (NIM) decreased in 2017, narrowing by 9 basis points (bps) to 3.30% from 3.39% in 2016. Estimated interest on average earning assets rose by 69 bps to 5.16%. The Bank's cost of funds increased by a higher 79bps to 1.87% in 2017. As described above, the rise in the cost of funds reflected the faster rise in deposits in 2017 (and particularly time deposits). Tight margins in better quality corporate loans – and lower benchmark rates – have been factors in the fall in yields up to 2017. For the first time in four years, in 2017 market interest rates did not fall. CM's estimated NIM of 3.30% is in line with the peer-group average (3.18% - excluding BCP).

Estimated Net Interest Margin



Stronger NII in 2017. NII rose in 2017, by 11.2% to MAD467mn. This was due to increased fee and commission income together with higher gains on securities. Increased gains on securities were seen as CM took advantage of both attractive yield differentials in the market to capitalise on good gains and the higher stock market. CM's level of NII is low however, representing 21.4% (cf. 19.4% in 2016) of gross income at end 2016. The Bank's fee structure and strategy has not been developed over the years, with the Bank preferring to focus on interest activities. That said, CM's management hope to build its NII going forward, capitalising on its market position and growing retail activities. Management has made some progress over the past two years. 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 0.70% however.

Small rise in operating expenses in 2017 but efficiency ratios are weaker than those of peer banks. Operating expenses rose by 4.5% in 2017 (due to increased staff and administration charges) and formed a higher 2.28% of average total assets (ATA) against 2.20% in 2016. CM has a high operating expense base against both average assets (2.16% for the peer group, excluding BCP) and gross income (47.7% for peer group). The operating expenses to gross income ratio deteriorated to 54.30% (based on CI calculations), against 52.45% in 2016. At 54%, there remains much scope to improve efficiency further, mainly through lifting income, which is currently low.

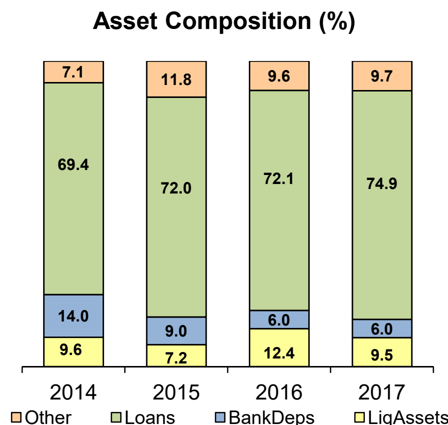
Operating profit weakened. Operating profit fell by 3.0% in 2017 to MAD998mn. This was on the back of higher expenses and flat gross income. Operating profit on average assets declined to 1.92% (as discussed above).

Cost of risk fell. CM's net provision charge for doubtful debts declined by 18% to MAD412mn (includes 'other provisions and recoveries for risks and charges'). Provisions for impairment of loans and receivables were MAD259mn (2016: MAD486mn), and other provisions for risks and charges were MAD176mn (2016: MAD43mn). Provision reversals were MAD200mn (2016: MAD294mn). Losses on loans and bad debts provisioned amounted to MAD171mn (2016: MAD258mn).

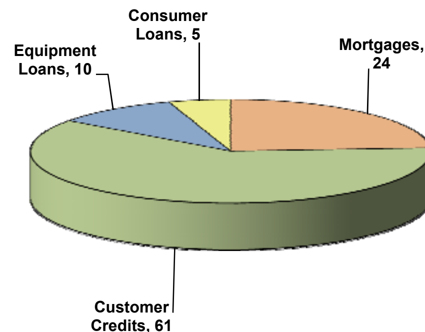
NPLs declined by 6.4% in 2017. The provisioning charge consumed a lower 41.3% (2016: 48.6%) of operating profit. Net profit rose by 16.8% (2016: +304%) to MAD361mn.

BALANCE SHEET

Asset Composition (%)



Loan Distribution by Segment 2017 (%)



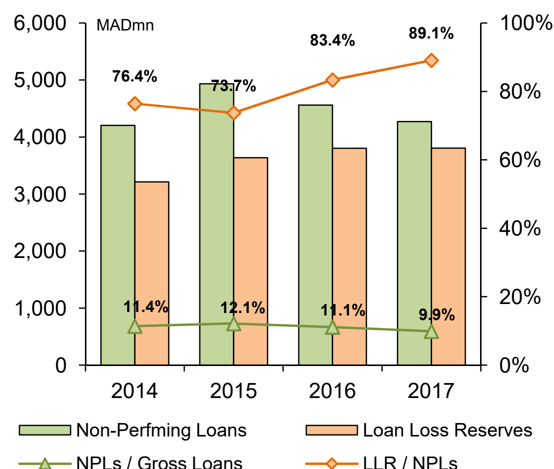
Loans rose in 2017 with credit conditions improving. Economic growth was stronger in 2017, with CM's assets increasing by a slightly higher 1.8% (2016: +0.4%). However, the loan portfolio rose by 5.8% (2016: +0.5%). Asset growth had been weak at CM for the last few years (as has been the case for the sector), reflecting lacklustre growth in the economy. In turn, CM's loan growth had been limited. A factor had also been CM's rising level of NPLs (up to 2016) which in turn saw management reduce credit expansion and focus more on credit quality. CM's loans accounted for 74.9% (2016: 72.1%) of total assets at end 2017. By sector, growth over the last few years has been at a higher rate in retail loans, with mortgage loans (housing finance) the main driver behind the rise in retail loans. Corporate loans recorded increased growth in 2017. CM has typically concentrated on lending to large companies but has been endeavouring to focus more on the retail sector.

Total liquid assets (liquid assets: cash, central bank and government securities, plus deposits with banks) accounted for 15.5% (2016: 18.4%) of total assets. Government securities (T-bills) declined slightly as did cash at the central bank. Deposits with banks formed 5.96% of total assets (2016: 6.00%). 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 (5.4% 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 asset ratio at 20.9% is sound.

CM has a well-diversified loan book by economic sector. At end 2017, the largest sector exposure was to individuals/retail sector. Mortgages constitute 24% 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.

NPLs declined again in 2017 as the quality of the portfolio improved but the NPL ratio remains high. CM's NPLs declined by 6.4% (2016: -7.6%) in 2017 to MAD4,272mn. NPLs had risen briskly over the past six years up to 2015 but have since declined in two consecutive years. The previous 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 country's credit environment improved in 2016 and 2017.

At year-end 2017, NPLs represented a lower 9.9% of gross loans against 11.1% at end 2016. Loans are classified as NPLs at 90 days past due as per Central Bank regulations. CM's NPL ratio of 9.9% is higher than the sector NPL ratio of 7.8% at end 2017. 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, which has strict rules of classification of loans, especially when the regional environment is not positive.

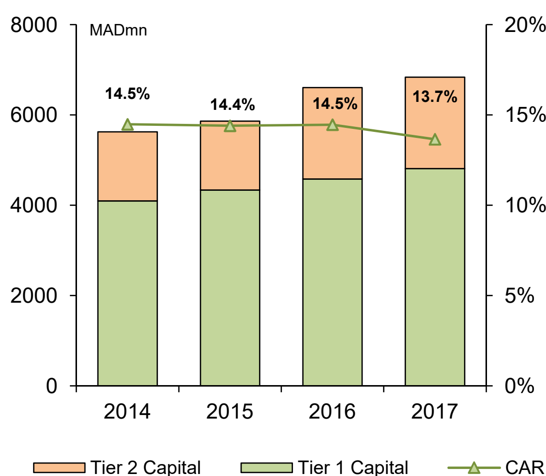


Moreover, the interpretation of the fiscal law allowing the write-off of 100% provisioned loans in Morocco is still unclear as to the starting date when the write-off could be done without any fiscal risk. CM has taken the conservative approach and prefers not to take a fiscal risk with write-offs. This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

Provisioning coverage improved further in 2017 and is at a good level. Coverage higher than other French-owned Moroccan banks. The ratio of loan-loss reserves (LLRs) to NPLs stood at a higher and sound 89.1% at end 2017 against 83.4% at end 2016. Looking at unprovided NPLs against free capital, the ratio was a lower 16.5% at end 2017 against 26.5% at end 2016 and 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 1.55x although improving YoY.

There was a slight fall in contingents in 2017, declining by 2.2% through LCs. Contingent activity is not significant, representing 28.3% of total assets.

Overall, the Bank's asset base is dominated by the loan portfolio, which experienced an increase in NPLs up to 2015. In each of the past two years improvement in loan asset quality has been seen and this trend is expected to continue in 2018.



Capital adequacy position reasonable at end 2017 but CAR declined YoY. CM's CAR weakened to 13.65% at end 2017 from 14.46% at end 2016. 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 (and CET-1 ratio) was a slightly higher 11.02% at end 2017 (2016: 10.95%).

Total capital was higher by 5.0% to MAD4,811mn, representing a higher and adequate 9.16% of total assets against 8.88% at end 2016. 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.

CM has a stock of Tier 2 Capital which includes subordinated debt. In 2016, CM issued 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% plus a risk premium of between 90 and 110 basis points, i.e. between 3.93% and 4.13%.

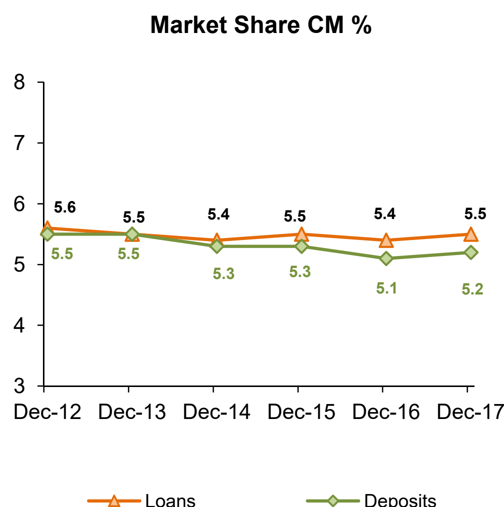
Prior to this, the most recent issue had been in 2011: a ten-year subordinated debt issue of MAD500mn, which was structured under five tranches with an overall cost of around 5.3%. CM issues subordinated debt (Tier 2) to the extent required by the growth of its loan portfolio. CM‘s first issue of subordinated 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 2017.

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 CAR (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 the minimum currently at 80% in Morocco (90% for end 2018).

Fixed assets comprised 2.6% of total assets at end 2017. Investments in affiliates (these include leasing, insurance, brokerage, fund structuring and Banque International de Tanger) consume another 1.2%. Both figures are low and hence do not significantly impact the free capital position. Free capital stood at MAD2,832mn at end 2017.

CM has an adequate liquidity position, although the overall position weakened slightly in 2017. However, CM’s net loans to customer deposits ratio is better than that of the other French-owned banks in Morocco. CM’s liquidity and funding position is viewed as adequate. Liquidity ratios tightened in 2017 as the growth in net loans outpaced that of deposits. Moreover, the stock of liquid assets fell. Domestic market liquidity conditions for Moroccan banks have remained quite tight for some years. 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 remained low and steady over the past two years. Banking-sector liquidity has improved but the customer deposit market remains thin.



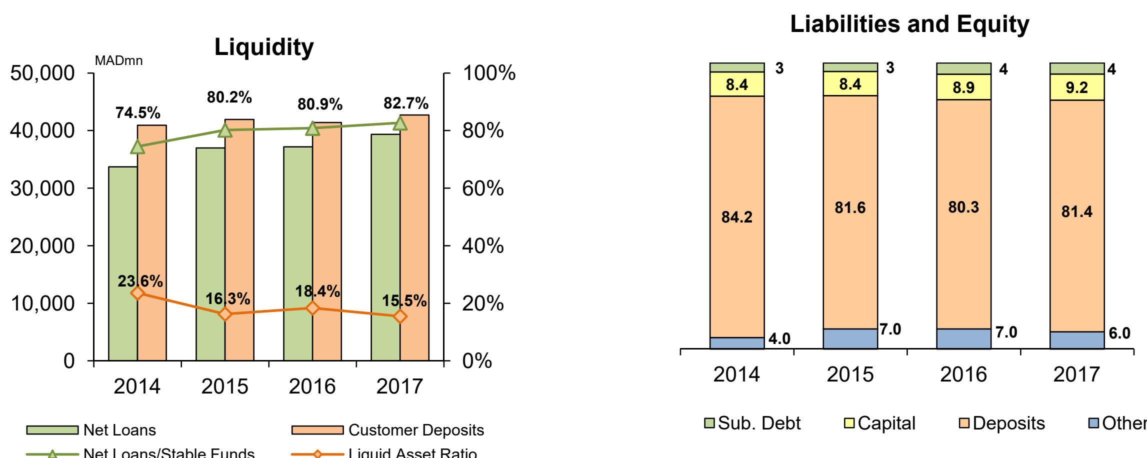
CM’s funding is sourced mainly from customer deposits. Customer deposits are the main source of funding for CM. However, deposit growth has been limited. In 2017 the deposit base grew by 3.2% (2016: -1.3%) to MAD42,718mn. At end 2017 customer deposits represented a higher 81.4% (2016: 80.3%) of total liabilities and capital. Funding is very much retail-dominated and not subject to the vagaries of the wholesale market. At 81%, the contribution of customer deposit funding to overall funding is higher at CM compared to peer banks.

The rise in overall deposits in 2017 was due to the increase in demand deposits in particular and, to a lesser extent, expensive time deposits. Demand deposits, which are either no-cost or very low cost, form well over one-half of total deposits, increasing by 4.1% to MAD25,744mn. Savings deposits increased by 2.8% to MAD9,266mn. CASA deposits form a high 82.0% (2016: 81.5%) of total customer deposits. Time deposits rose by 4.5% to MAD4,487mn. CDs (classified as other deposits in the CI spreads) fell by 4.5% in 2017 to MAD3,221mn. Within CDs there are longer-term tenors of over one year, thus providing support to maturity matching. The Bank's market share was 5.2% at end 2016.

Loan-based liquidity ratios tightened slightly in 2017 but remained sound, particularly relative to the other French-owned banks in Morocco. The net loans to customer deposits ratio rose slightly to 92.1% in 2017 from 89.8% in 2016. The net loans to stable funds ratio rose to 82.7% (80.9% in 2016). Both ratios remain sound. CM's liquid asset ratio stood at a lower 15.5% (2016: 18.4%). There are also liquid assets (including some government paper) in the Bank's other marketable securities portfolio. Hence, its quasi-liquid asset ratio at 20.9% is sound. CM's holdings in liquid assets, including treasury bills, cash and Central Bank placements, together with bank placements, provide the Bank with an adequate stock of readily available liquid assets. With the fall in bank liabilities in 2017, the Bank's net interbank position rose. The net liquid asset ratio was slightly lower at 12.9%, because of the reduction in liquid assets.

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

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



The Bank's LCR (based on ECB definition) was over 120% as at end 2017 against a minimum required ratio of 80% in Morocco currently (90% in 2018). Overall, CM's liquidity position is adequate, 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.

H1 2018 Summary Update

Total loans were flat against YE 2017. Liquidity stable. At end H1 2018, Crédit du Maroc's loan portfolio grew by 3% to MAD39,163mn from end of June 2017 (marginal decline from end December 2017). Growth in mortgage loans and consumer loans were 5.9% and 14.9% respectively compared to end-June 2017. Equipment loans rose by 5.1%. Total customer deposits were MAD42,189mn and hence steady for the period. Total assets stood at MAD52,921mn with equity of MAD4,852mn. Net loans to customer deposits ratio was steady at 92.8%.

Net profit increased by 19%. Net profit for H1 2018 was MAD265.3mn, 18.6% higher than the MAD223.7mn recorded in H1 2017. Net interest income grew to MAD893mn in H1 2018 from MAD855mn in H1 2017. NII also strengthened, including core fee and commission income (stronger

electronic banking fees) and gains from investments. In the first half of 2018, CM's total net banking income increased by 7.6% compared to H1 2017, to MAD1,170mm. Operating profit grew by 11% to MAD580mn. The provision charge was MAD163mn (H1 2017: MAD174mn).

Loan asset quality metrics improved. The loan-loss coverage ratio of NPLs increased to 92.7% with the NPL ratio at 9.5%. At the end of June 2018, Crédit du Maroc had a solvency ratio (CAR) of 13.45% and a Core Tier 1 ratio of 11.08%. The impact of transition to IFRS 9 has been fully absorbed by equity since its first application as of January 1, 2018.

CREDIT DU MAROC

MA003

PERFORMANCE RATIOS	Audited	AUD 12/2017	AUD 12/2016	AUD 12/2015	AUD 12/2014
A . SIZE FACTORS (USD 000)					
1 . Total Assets		5,628,802	5,067,877	5,180,772	5,358,644
2 . Total Capital		515,686	449,989	437,223	451,804
3 . Net Profit		38,678	30,350	7,703	26,266
B . ASSET QUALITY					
4 . Total Assets Growth Rate (YoY%)		1.78	0.41	5.78	-2.31
5 . Estimated Non-Peforming Loans (NPLs) Net Accretion Rate (%)		-6.35	-7.55	21.09	17.69
6 . NPL Ratio (%)		9.90	11.13	12.14	11.39
7 NPAs (Including NPLs) To Total Assets (%)		8.13	8.84	9.60	8.65
8 . Loan-Loss Reserve To NPLs (%)		89.09	83.36	73.73	76.44
9 . Loan-Loss Reserve To Gross Loans (%)		8.82	9.28	8.95	8.70
10 . Unprovided Non-Performing Loans To Free Capital (%)		16.46	29.70	48.73	35.28
11 . Effective NPL Coverage Ratio (Times)		1.55	1.39	1.28	1.43
12 . Unprovided NPLs To Operating Profit (Months)		5.60	8.85	17.10	13.61
13 . Loan-Loss Provisioning Expense To Gross Loans (%)		0.96	1.22	1.89	2.76
14 . Related Party Exposure To Total Capital (%)		0.00	0.00	0.00	0.00
15 . Total Contingents To Total Assets (%)		28.30	29.44	29.65	31.46
C . CAPITAL ADEQUACY					
16 Reported Common Equity Tier 1 Ratio To Local Standards (%)					
17 . Reported Tier 1 Ratio To Local Standards (%)		11.02	10.95		11.13
18 . Reported Total Capital Adequacy Ratio To Local Standards (%)		13.65	14.46	14.40	14.48
19 . Internal Capital Generation (%)		7.68	5.33	-0.06	0.72
20 . Total Capital Growth Rate (YOY %)		5.02	5.65	5.88	3.19
21 . Total Capital To Total Assets (%)		9.16	8.88	8.44	8.43
22 . Total Capital To Gross Loans (%)		11.15	11.18	10.67	11.09
23 . Free Capital (MAD 000)		2,831,882	2,555,098	2,659,618	2,807,647
24 . Free Capital To Total Capital (%)		58.86	55.77	61.33	68.55
25 . Dividend Payout Ratio (%)		0.00	35.22	113.93	98.67
D . LIQUIDITY					
26 . Stable Funds (MAD 000)		47,575,269	45,990,311	46,129,875	45,255,100
27 . Net Loans To Total Assets (%)		74.90	72.06	71.99	69.38
28 . Net Loans To Total Customer Deposits (%)		92.08	89.79	88.19	82.37
29 . Net Loans To Total Deposits (%)		89.21	85.41	83.26	79.83
30 . Net Loans To Stable Funds (%)		82.68	80.85	80.19	74.48
31 . Net Investments To Total Assets (%)		13.04	13.75	12.49	9.24
32 . Liquid Asset Ratio (%)		15.48	18.37	16.26	23.59
33 . Net Liquid Asset Ratio (%)		12.86	14.25	11.42	20.91
34 . Quasi-Liquid Asset Ratio (%)		20.91	23.62	24.48	27.68
35 . Short-Term Funding Coverage Ratio (%)		799.97	573.92	506.10	1,031.92
36 . Net FX Currency Assets (MAD 000)					
37 . FX Deposits Less FX Loans (MAD 000)					
38 . Net Interbank Assets (MAD 000)		1,757,033	971,075	2,159,212	5,478,159
E . PROFITABILITY					
39 . Return on Average Assets (%)		0.69	0.60	0.15	0.48
40 . Operating Profit To Average Assets (%)		1.92	2.00	1.82	1.78
41 . Gross Income To Average Assets (%)		4.20	4.20	4.19	4.18
42 . Estimated Funding Cost (%)		1.87	1.08	1.38	1.74
43 . Estimated Interest on Average Total Assets (%)		5.16	4.47	4.84	4.93
44 . Estimated Net Interest Margin (%)		3.30	3.39	3.46	3.19
45 . Non-Interest Income To Gross Income (%)		21.39	19.42	17.32	23.79
46 . Operating Expenses To Gross Income (%)		54.30	52.45	56.55	57.52
47 Operating Expenses To Average Assets (%)		2.28	2.20	2.37	2.41
48 . Operating Profit Growth Rate (YOY %)		-3.01	13.13	4.18	-2.12
49 . Risk Provisioning Expense To Operating Profit (%)		41.29	48.61	84.24	56.78
50 . Return on Average Equity (%)		7.68	6.93	1.81	5.90
RATES					
. Exchange Rate (Units per USD)		9.33	10.18	9.92	9.07
. Inflation Rate (%)		0.70	1.60	1.60	0.40
. Benchmark Interest Rate (MAD)		2.25	2.25	2.50	2.75

NOTES:

CREDIT DU MAROC

BALANCE SHEET - ASSETS (MAD 000) — External Audit	12/2017 USD 000	AUD 12/2017	AUD 12/2016	AUD 12/2015	AUD 12/2014	Growth (%) 12/2017	12/2016	12/2015	12/2014	Breakdown (%) 12/2017	12/2016	12/2015	12/2014
CASH & EQUIVALENT ASSETS:													
Cash				113,883	619,246		-100.00	-81.61	-30.11			0.22	1.27
Central Bank	113,740	1,061,141	2,065,805	1,409,177	1,564,440	-48.63	46.60	-9.92	25.56	2.02	4.00	2.74	3.22
Treasury Bills	421,940	3,936,487	4,316,106	2,186,475	2,495,875	-8.80	97.40	-12.40	-51.35	7.50	8.37	4.26	5.14
Government Securities													
Reverse Repos													
Other													
TOTAL CASH & EQUIVALENT ASSETS	535,680	4,997,628	6,381,911	3,709,535	4,679,561	-21.69	72.04	-20.73	-35.56	9.52	12.37	7.22	9.63
DEPOSITS WITH BANKS:													
Short - Up to 1 Year	335,425	3,129,347	3,094,843	4,644,599	6,781,399	1.11	-33.37	-31.51	65.25	5.96	6.00	9.04	13.96
Medium - Over 1 Year													
TOTAL DEPOSITS WITH BANKS	335,425	3,129,347	3,094,843	4,644,599	6,781,399	1.11	-33.37	-31.51	65.25	5.96	6.00	9.04	13.96
TOTAL LIQUID ASSETS	871,105	8,126,975	9,476,754	8,354,134	11,460,960	-14.24	13.44	-27.11	0.84	15.48	18.37	16.26	23.59
OTHER MARKETABLE SECURITIES	305,600	2,851,091	2,711,977	4,224,369	1,987,401	5.13	-35.80	112.56	31.05	5.43	5.26	8.22	4.09
LOANS AND ADVANCES:													
Short Term	3,219,442	30,035,785	27,351,252	27,151,265	25,033,518	9.82	0.74	8.46	-1.18	57.20	53.01	52.84	51.53
Medium/Long Term (MLT)	1,404,669	13,104,857	13,632,930	13,476,160	11,885,054	-3.87	1.16	13.39	-7.56	24.96	26.42	26.23	24.47
Other													
Leasing and Factoring													
of which : Non-Performing Loans	457,894	4,271,923	4,561,460	4,933,766	4,204,100	-6.35	-7.55	17.36	13.45	8.13	8.84	9.60	8.65
GROSS LOANS AND ADVANCES	4,624,111	43,140,642	40,984,182	40,627,425	36,918,572	5.26	0.88	10.05	-3.33	82.15	79.43	79.07	76.00
Loan-Loss Reserve	-407,934	-3,805,820	-3,802,517	-3,637,611	-3,213,514	0.09	4.53	13.20	13.99	-7.25	-7.37	-7.08	-6.62
NET LOANS AND ADVANCES	4,216,177	39,334,822	37,181,665	36,989,814	33,705,058	5.79	0.52	9.75	-4.71	74.90	72.06	71.99	69.38
NON-MARKETABLE SECURITIES	6,547	61,080	66,223	6,965	5,975	-7.77	850.80	16.57		0.12	0.13	0.01	0.01
SUBSIDIARIES & AFFILATES	68,194	636,216	635,353	312,496	304,191	0.14	103.32	2.73	-2.23	1.21	1.23	0.61	0.63
NET NON-PERFORMING ASSETS (Excluding NPLs)													
FIXED ASSETS	143,952	1,342,997	1,390,885	1,364,325	983,835	-3.44	1.95	38.67	-4.58	2.56	2.70	2.66	2.03
OTHER ASSETS	17,228	160,728	133,202	131,499	129,513	20.66	1.30	1.53	3.82	0.31	0.26	0.26	0.27
TOTAL ASSETS	5,628,802	52,513,909	51,596,059	51,383,602	48,576,933	1.78	0.41	5.78	-2.31	100.00	100.00	100.00	100.00
CONTINGENT ACCOUNTS:													
Financial Guarantees / SLCs / Acceptances	1,306,446	12,188,489	12,319,386	11,926,684	11,149,931	-1.06	3.29	6.97	-11.74	23.21	23.88	23.21	22.95
Irrevocable Commitments													
Documentary L/Cs	286,638	2,674,189	2,869,915	3,306,111	4,131,497	-6.82	-13.19	-19.98	-32.70	5.09	5.56	6.43	8.51
Bid / Performance / Retention Bonds													
TOTAL CONTINGENT ACCOUNTS	1,593,084	14,862,678	15,189,301	15,232,795	15,281,428	-2.15	-0.29	-0.32	-18.59	28.30	29.44	29.65	31.46

BALANCE SHEET - LIABILITIES (MAD 000) — External Audit	43,098 USD 000	AUD 12/2017	AUD 12/2016	AUD 12/2015	AUD 12/2014	Growth (%) 12/2017	12/2016	12/2015	12/2014	Breakdown (%) 12/2017	12/2016	12/2015	12/2014
SHORT-TERM INTERBANK LIABILITIES:													
ST Placements From Banks	147,094	1,372,314	2,123,768	2,485,387	1,303,240	-35.38	-14.55	90.71	21.31	2.61	4.12	4.84	2.68
Current Portion of LT Bank Debt													
Repos With Banks													
Interbank Liability To Parent / Related Party													
TOTAL SHORT-TERM INTERBANK LIABILITIES	147,094	1,372,314	2,123,768	2,485,387	1,303,240	-35.38	-14.55	90.71	21.31	2.61	4.12	4.84	2.68
CUSTOMER DEPOSITS:													
Demand	2,759,407	25,743,891	24,730,886	22,654,577	21,737,748	4.10	9.17	4.22	1.41	49.02	47.93	44.09	44.75
Savings	993,143	9,265,525	9,012,029	8,843,468	8,532,005	2.81	1.91	3.65	5.20	17.64	17.47	17.21	17.56
Time	480,959	4,487,106	4,294,026	5,888,792	5,812,340	4.50	-27.08	1.32	-8.98	8.54	8.32	11.46	11.97
Other	345,294	3,221,421	3,372,531	4,557,231	4,837,182	-4.48	-26.00	-5.79	-24.97	6.13	6.54	8.87	9.96
TOTAL CUSTOMER DEPOSITS	4,578,803	42,717,943	41,409,472	41,944,068	40,919,275	3.16	-1.27	2.50	-3.45	81.35	80.26	81.63	84.24
OFFICIAL DEPOSITS													
TOTAL DEPOSITS + ST INTERBANK LIABILITIES	4,725,897	44,090,257	43,533,240	44,429,455	42,222,515	1.28	-2.02	5.23	-2.83	83.96	84.37	86.47	86.92
NON-BANK SHORT-TERM DEBT													
MEDIUM / LONG TERM FUNDING													
SUBORDINATED DEBT	217,101	2,025,444	2,025,741	1,526,189	1,528,178	-0.01	32.73	-0.13	-0.08	3.86	3.93	2.97	3.15
HYBRID CAPITAL													
OTHER LIABILITIES	170,118	1,587,113	1,455,742	1,091,519	730,567	9.02	33.37	49.41	-5.54	3.02	2.82	2.12	1.50
TOTAL LIABILITIES	5,113,116	47,702,814	47,014,723	47,047,163	44,481,260	1.46	-0.07	5.77	-2.79	90.84	91.12	91.56	91.57
CAPITAL:													
Paid Up Capital	116,632	1,088,121	1,088,121	1,088,121	1,067,899			1.89	3.09	2.07	2.11	2.12	2.20
Reserves	399,054	3,722,974	3,493,215	3,248,318	3,027,774	6.58	7.54	7.28	3.23	7.09	6.77	6.32	6.23
Minority Interest													
TOTAL CAPITAL	515,686	4,811,095	4,581,336	4,336,439	4,095,673	5.02	5.65	5.88	3.19	9.16	8.88	8.44	8.43
TOTAL LIABILITIES + TOTAL CAPITAL	5,628,802	52,513,909	51,596,059	51,383,602	48,576,933	1.78	0.41	5.78	-2.31	100.00	100.00	100.00	100.00
REGULATORY CAPITAL													

PROFIT AND LOSS ACCOUNT (MAD 000) — External Audit	43,098 USD 000	AUD 43,098	AUD 42,733	AUD 42,368	AUD 42,003	Growth (%) 12/2017	12/2016	12/2015	12/2014	% of Average Total Assets 12/2017	12/2016	12/2015	12/2014
Interest Income	288,150	2,688,297	2,302,644	2,419,610	2,423,297	16.75	-4.83	-0.15	-1.37	5.16	4.47	4.84	4.93
Interest Expense	-104,083	-971,039	-558,505	-688,327	-856,903	73.86	-18.86	-19.67	-6.44	-1.87	-1.08	-1.38	-1.74
Net Interest Income	184,068	1,717,258	1,744,139	1,731,283	1,566,394	-1.54	0.74	10.53	1.64	3.30	3.39	3.46	3.19
Net Fees and Commissions	39,297	366,625	336,611	317,386	259,860	8.92	6.06	22.14	9.23	0.70	0.65	0.64	0.53
FX Trading Income					78,690			-100.00	-58.39				0.16
Derivatives Income													
Gain / Loss on Securities	18,961	176,895	163,465	121,238	69,705	8.22	34.83	73.93		0.34	0.32	0.24	0.14
Other Investment Income					55,903			-100.00	-7.93				0.11
Gains/Loss on Real Estate Held For Investment													
Share of Profits From Associates													
Net Insurance Income													
Other Income	-8,171	-76,228	-79,737	-75,965	24,914	-4.40	4.97	-404.91	154.38	-0.15	-0.15	-0.15	0.05
Total Non-Interest Income	50,088	467,292	420,339	362,659	489,072	11.17	15.90	-25.85	-1.70	0.90	0.82	0.73	1.00
GROSS INCOME	234,155	2,184,550	2,164,478	2,093,942	2,055,466	0.93	3.37	1.87	0.83	4.20	4.20	4.19	4.18
Operating Expenses	127,158	1,186,318	1,135,313	1,184,200	1,182,205	4.49	-4.13	0.17	3.12	2.28	2.20	2.37	2.41
OPERATING PROFIT	106,997	998,232	1,029,165	909,742	873,261	-3.01	13.13	4.18	-2.12	1.92	2.00	1.82	1.78
Total Provisioning Expenses	-44,175	-412,135	-500,289	-766,395	-495,797	-17.62	-34.72	54.58	-3.45	-0.79	-0.97	-1.53	-1.01
GROSS PROFIT / (LOSS)	62,822	586,097	528,876	143,347	377,464	10.82	268.95	-62.02	-0.30	1.13	1.03	0.29	0.77
Extraordinary Items	986	9,201	-30,927	-8,300	-25,606	-129.75	272.61	-67.59	433.90	0.02	-0.06	-0.02	-0.05
Tax & Equivalent	-25,130	-234,449	-188,956	-58,643	-113,757	24.08	222.21	-48.45	46.94	-0.45	-0.37	-0.12	-0.23
NET PROFIT (or -LOSS)	38,678	360,849	308,993	76,404	238,101	16.78	304.42	-67.91	-19.66	0.69	0.60	0.15	0.48
Net Changes in Fair Value													
Net FX Translation Gains													
Other													
COMPREHENSIVE INCOME	38,678	360,849	308,993	76,404	238,101	16.78	304.42	-67.91	-19.66	0.69	0.60	0.15	0.48
Proposed Cash Dividends			108,812	87,050	234,938	-100.00	25.00	-62.95	-16.00		0.21	0.17	0.48

RATIO FORMULAE

	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

RATIO FORMULAE

Section	Ratio	Formula
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
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
	43.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)	

CAPITAL intelligence

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.

CAPITAL intelligence

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.

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.

CAPITAL intelligence

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.