MOODY'S
INVESTORS SERVICE

CREDIT OPINION
2 March 2017

Update

Rate this Research

RATINGS

Credit du Maroc

Domicile	Morocco
Long Term Deposit	Ba2
Type	LT Bank Deposits - Fgn Curr

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

Analyst Contacts

Alexios Philippides 357-2569-3031
AVP-Analyst
alexios.philippides@moodys.com

Olivier Panis 971-4-237-9533
VP-Sr Credit Officer
olivier.panis@moodys.com

Constantinos Kypreos 357-2569-3009
VP-Sr Credit Officer
constantinos.kypreos@moodys.com

Jean-Francois Tremblay 44-20-7772-5653
Associate Managing Director
jean-francois.tremblay@moodys.com

Credit du Maroc

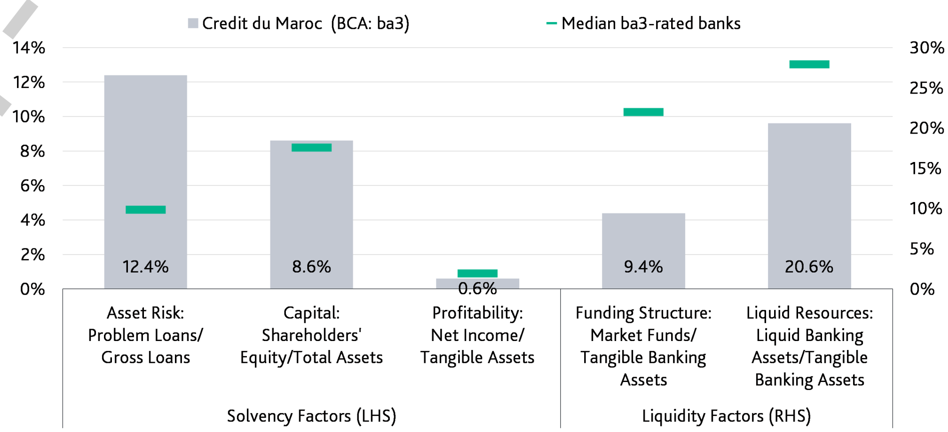
Update Following Recent Rating Action

Summary Rating Rationale

The Ba1/Not-Prime local deposit ratings of Crédit du Maroc (CdM) - which were affirmed on February 28 - currently incorporate two notches of uplift from the bank's ba3 baseline credit assessment (BCA), based on our assessment of a high likelihood of affiliate support in the event of need, from its French parent bank – Crédit Agricole S.A. (CASA, deposits A1 stable, adjusted BCA baa1). Although we also assume a high probability of government support, CdM's ratings do not receive any uplift from government support. Furthermore, Moody's has assigned a foreign currency deposit rating of Ba2, constrained by the relevant country ceiling; national scale local currency and foreign currency deposit ratings of Aa1.ma/MA-1 and Aa3.ma/MA-1, respectively; and a Counterparty Risk Assessment (CR Assessment) of Baa3(cr)/P-3(cr).

CdM's standalone ba3 BCA is driven by (1) weak profitability metrics in recent years, although we expect pressures to ease after the bank reorganized its commercial activities and increased its provisioning efforts; (2) our expectation that CdM's asset quality will improve in the medium term, despite the recent deterioration; (3) the bank's moderate capital buffer; and (4) its stable deposit base that supports its funding profile.

Exhibit 1
Rating Scorecard - Key Financial Ratios



Note: CdM's ratios are as of June 2016
Source: Moody's Financial Metrics

Credit Strengths

- Moderate- Macro Profile supports the bank's ratings
- Moderate capitalisation supported by CASA's frequent injections
- Funding profile underpinned by a stable deposit base
- High likelihood of parental support (in case of need)

Credit Challenges

- Weak profitability metrics but pressures expected to ease
- Weak asset quality metrics but we expect an improvement over the next 12-18 months
- High - albeit decreasing - credit concentrations

Rating Outlook

Moody's assigned a positive outlook to CdM's ratings on 28 February in line with the positive outlook assigned to Morocco's Ba1 sovereign rating. The bank's deposit ratings do not incorporate any government support uplift, since the systemic support provider is at the Ba1 rating level, in line with the adjusted BCA of the bank which reflects the bank's ba3 BCA and two notches of affiliate support uplift from its French majority shareholder, Credit Agricole S.A. (CASA, LT Bank deposits A1 Stable, adjusted BCA baa1). However, we assess the probability of government support to CdM to be high, considering the bank's importance to the economy and the payment system as the fifth-largest bank. Hence, an improvement in the sovereign rating to Baa3 could introduce one notch of government support uplift on top of the bank's adjusted BCA.

Factors that Could Lead to an Upgrade

Upwards pressure on CdM's ratings could develop following (1) a significant strengthening of CdM's capital buffers; (2) a material reduction in non-performing loans and borrower concentrations; and (3) material improvements in the domestic operating environment, that would be reflected in the macro profile and/or sovereign rating.

Factors that Could Lead to a Downgrade

Downward pressure on CdM's ratings is unlikely in the short term given the current positive outlook. However, in the medium term, negative pressure could develop following (1) a deterioration in the operating environment, leading to an acceleration in non-performing loan (NPL) formation that will also erode the bank's profitability and capital; (2) and a weakening capacity or willingness of CdM's parent bank to provide support.

Key Indicators

Exhibit 2

Credit du Maroc (Consolidated Financials) [1]

	6-16[2]	12-15[2]	12-14[2]	12-13[2]	12-12[2]	Avg.
Total Assets (MAD million)	51,405.1	51,383.6	49,061.9	50,247.6	47,799.5	1.8[3]
Total Assets (USD million)	5,254.3	5,181.8	5,413.4	6,156.2	5,650.2	-1.8[3]
Tangible Common Equity (MAD million)	4,185.3	4,110.1	4,164.5	4,044.9	3,453.6	4.9[3]
Tangible Common Equity (USD million)	427.8	414.5	459.5	495.6	408.2	1.2[3]
Problem Loans / Gross Loans (%)	12.4	12.1	12.3	10.3	8.4	11.1[4]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	64.0	63.7	63.5	59.2	53.7	60.8[4]
Net Interest Margin (%)	3.2	3.3	3.3	3.3	3.6	3.4[4]
Net Income / Tangible Assets (%)	0.6	0.1	0.5	0.6	0.7	0.5[4]

Cost / Income Ratio (%)	53.7	58.8	54.5	54.2	50.9	54.4[4]
Market Funds / Tangible Banking Assets (%)	9.4	11.7	10.7	13.5	16.4	12.3[4]
Liquid Banking Assets / Tangible Banking Assets (%)	20.6	20.1	22.7	22.8	21.8	21.6[4]
Gross loans / Due to customers (%)	105.1	105.7	103.5	107.9	112.6	107.0[4]

[1] All figures and ratios are adjusted using Moody's standard adjustments [2] Basel II; IFRS [3] IFRS reporting periods have been used for average calculation [4] Compound Annual Growth Rate based on IFRS reporting periods
Source: Moody's Financial Metrics

Detailed Rating Considerations

CdM's RATINGS ARE SUPPORTED BY ITS MODERATE- MACRO PROFILE

CdM operates in Morocco and benefits from the country's relatively strong and sustained growth over the past several years; its industrial policy agenda that supports the development of higher-value-added exporting sectors; the coherent and sound economic policies and a high degree of political stability and the country's limited susceptibility to external risks. Nonetheless, operating conditions are also impacted by Morocco's significant structural rigidities in terms of purchasing power, unemployment and competitiveness.

Our view of Moroccan banks' operating environment also incorporates (1) the historical volatility of credit growth in the country, underpinned by volatile agricultural output and the dependence of exporting industries on European economic growth, and (2) banks' increasing exposure to higher risk Sub-Saharan Africa regions. These risks are somewhat mitigated by the gradual strengthening of bank supervision and macroprudential regulation in Morocco, to be codified in an upcoming banking law. Moroccan banks benefit from relatively stable funding, consisting primarily of customer deposits.

PROFITABILITY METRICS ARE WEAK BUT PRESSURES ARE EASING

Albeit improving during the first six months of 2016, CdM's profitability metrics remain relatively weak. As of December 2015, the bank's pre-provision income-to-average total assets ratio stood at 1.8%, and its net income-to-tangible assets ratio bottomed to 0.15% before trending back upwards during the first half of 2016 at 2.1% and 0.63% respectively. As of June 2016, net income amounted to MAD 160.9 million ($ 16.4 million), a year-on-year surge of 93% which follows 65.5%, 15% and 20% consecutive profit reductions in 2015, 2014 and 2013 respectively.

Whilst prior to 2014 the pressure on the bank's profitability was underpinned by the impact of higher interest rates and the relative increase in term deposits on the cost of resources, since 2014 the bank has maintained a stable net interest margin at around 3.3%, supported by the increased focus on collection of relatively low-cost sources of funding such as savings and current accounts (82% of deposits as of December 2015). However, the profitability of the bank in 2014 and 2015 was impacted by a slowdown of the lending activity (gross loans reduced by 3.5% in 2014) in a context of a complete reorganization of the sales and product teams, designed to improve the commercial efficiency and the customer service. Although the bank gradually increased lending in 2015 (+5.5%), positive associated effects on profitability have only started to materialize during H1-2016. Indeed, the increase in the banks' operating profits as of June 2016 reflects (1) a +64% year-on-year jump in market activity revenues stemming from declining government bond yields and (2) an improving efficiency with a cost-to-income ratio at 53.7% against 58.7% in 2015 – in line with the bank's focus on reducing operating costs and revamping operations; and (3) a 24% reduction in the bank's cost of risk in the first half the year after the bank had materially increased its provisioning efforts in previous years (loan loss provisions consumed 70% and 60% of pre-provision income in 2015 and 2014 respectively before reducing to 55% as of the first six months of 2016) and its recoveries on problem loans.

Over the next 12 to 18 months, we expect profitability to remain weak but pressures to ease further as we estimate that (1) the reorganization initiatives will continue to provide the bank with higher and more stable revenue generation, benefiting profitability metrics (net income to tangible assets is at 0.63% as of June 2016); and (2) the cost of risk has likely reached a peak in 2015 with provisioning having increased at a higher pace (+7%) than problem loans (+5.1%) during 2014-2015.

Besides, CdM's earnings generating capacity is supported by its well-established domestic franchise, both in corporate and retail banking. CdM is Morocco's fifth-largest bank, with approximately 5.3% of total banking assets as of YE2015 in a concentrated banking system, where the three largest banks account for around two thirds of system assets. In recent years, CdM has focused on growing its retail franchise - particularly mortgages - and invested in its branch network and staff. The bank leverages its network of 344 branches to source inexpensive current and savings deposits resulting in strong net interest margin. As of December 2015, current and saving accounts represented 82% of total client deposits (at the same level as of December 2014).

CdM also benefits from CASA's strong brand name and customer referrals, including the use of CASA's network in France to attract business from Morocco's expatriate community. From an operating perspective, the French group is also making available its experience in specialized business lines such as investment banking, consumer finance, insurance, factoring and more sophisticated treasury products. We also view positively the integration of CdM's risk and financing governance within CASAs framework, which provides a solid control framework in line with the development of international norms.

WEAK ASSET QUALITY METRICS, BUT WE EXPECT A GRADUAL IMPROVEMENT OVER THE NEXT 12 TO 18 MONTHS

CdMs asset-quality metrics have steadily deteriorated over recent years. As of June 2016, NPLs accounted for 12.4% of total loans (December 2015: 12.2%), well above the estimated system average of 7.7% as of March 2016. The year-on-year growth in the volume of NPLs was mainly driven by an increase in the volume of corporate NPLs due to the classification of some large legacy corporate loans in the agriculture and real estate sectors in particular. However, some of these exposures benefit from a CASA guarantee and a high level of collateralization (110% of top 20 NPLs in 2015 against 98% in 2014 while the total NPL coverage increased to 74.4% as of June 2016 from 68.9% in 2014). Also, around 70% of the bank's NPL stock is estimated to be composed of legacy exposures and given the conservative classification practice at CdM and the growing share of the less risky retail segment, we anticipate a gradual improvement of the NPL ratio in the near term and a stabilization of the cost of risk.

Over the next 12 to 18 months, we expect a stabilization of the NPL ratio driven by (1) higher level of NPL recovery, in line with the 26% increase in recoveries year-on-year posted as of September 2016; (2) increasing levels of write-off by year-end 2016 and (3) our estimation that the bank's credit growth will be at around 4-5% over the outlook period.

In 2016, the expected below average agricultural season due to droughts has lead to a reversal in the primary growth contribution and thus we expect overall real GDP growth to slow down at 1.8% in 2016 (from 4.4% in 2015) before picking back up to 3.5% in 2017. Morocco's economy will continue to be affected by volatile primary sectors output and the weak, albeit improving, European growth (the EU attracts 60% of Morocco's exports). However solid FDI inflows and the encouraging results of the National Industrial Growth Plan on the country's industrial growth should be supporting, among other factors, a higher economic expansion. Our macro-economic forecasts, combined with the conservative provisioning approach applied by the bank in the last two years on the corporate and SME portfolios (NPL coverage at 74.4% as of June 2016 is among the highest in the market and in line with global peers with a ba3 BCA), and the increasing focus on retail lending activities (around 45% of gross loans as of December 2015) should stabilize CdM's asset quality metrics in the medium term (next 12 to 18 months).

MODERATE CAPITALISATION IN LIGHT OF HIGH - ALBEIT DECREASING - CREDIT CONCENTRATIONS

CdM's reported Tier 1 and Capital Adequacy ratios have remained broadly stable in recent years and stood respectively at 10.6% and 13.4% as of June 2016 (December 2015: 10.7% and 13.6%). This stability results from several capital increases that occurred in 2013 and 2014, the majority of which through conversion of share dividends, bringing the Tier 1 capital on a consolidated basis to MAD 4.2 billion as of June 2016 (year-end 2012: MAD 3.5 billion), and compensated the decline in profitability over the period. We still believe the bank's main shareholder (Credit Agricole S.A. baa1 adjusted BCA/ A1 long term rating) will continue supporting its growth and increase in market share. The bank's reported Tier 1 ratio (in accordance with central bank requirements which allow for 0% risk weighting of Moroccan government bonds) stands well above the 9% regulatory minimum implemented in 2013 but remains lower than the estimated system average of 11.8% as of December 2015. We consider these levels to be moderate, in light of the 12.1% median Tier 1 ratio for global peers with a BCA of ba3, and the high single-name borrower concentration (2.6x Tier 1 capital), which - although decreasing - renders the bank vulnerable to event risk in case a large borrower defaults. The bank increased in recent years its provisioning efforts with loan loss reserves reaching 74.4% of NPLs as of June 2016 (68.9% in 2014), now in line with global peers with a BCA of ba3. However the bank's problem loans continue to represent a very high, albeit decreasing, proportion of its loss absorption buffers, at around 62% of its shareholders equity and loan loss reserves as of June 2016, which is partly mitigated by a high level of collateralization of corporate NPLs which reduces the loss expectations on the loan portfolio.

We expect the bank's capital ratios to remain broadly stable over the next 12 to 18 months as credit growth will be relatively stable in a context of a modest Moroccan credit growth. Whilst pressures on asset quality and profitability are easing, we also note the bank's consistent efforts to reduce its risk concentration, with top 10 credits representing around 19% of total credits in 2015 versus 35% in 2010, which, combined with the active provisioning of the large corporate segment in 2013-2015, should mitigate that risk.

FUNDING PROFILE UNDERPINNED BY A STABLE DEPOSIT BASE

CdM is predominantly deposit funded, with customer deposits accounting for 76.6% of assets as of June 2016. The bank maintains a relatively solid and stable funding structure, with current and saving accounts representing around 82% of total deposits as of December 2015 (versus 67% on average in Morocco) and the top 20 depositors representing only 6.1% of total deposits during the same period. CdM grew its current and savings account deposit base by 4% in 2015 (2.5% in 2014), primarily from retail depositors, although increasing its higher cost term deposits by 1.3% during the same period.

With the pick-up in lending activity of 6.1% in 2015 (4.8% as of June 2016 year-on-year) growing faster than deposits at +4% during the same period (+2.9% as of June -2016 year-on- year) the gross loans-to-deposit ratio increased to 105.7% as of December 2015 (H1-2016: 105.1%). Market funding remained limited, and accounted for 9.4% of tangible banking assets as of June 2016 (11.7% as of December 2015). We expect the banks' funding profile to remain broadly stable over the next 12-18 months, as we expect deposit growth to remain higher than credit growth in the Moroccan banking system over the outlook horizon.

CdM's liquidity buffers remain robust, with the liquid assets to tangible assets ratio at 20.5% as of June 2016 (December 2015: 20.0%). As a result of its integration within the CASA group, CdMs Basel III Liquidity Coverage Ratio is already in line with the group definition and exceeds (by a significant margin) the 100% ratio that will be required in Morocco by 2019.

SOURCE OF FACTS AND FIGURES CITED IN THIS REPORT

Unless noted otherwise, data related to system-wide trends is sourced from the central bank. Bank-specific figures originate from the bank's reports and Moody's Banking Financial Metrics. All figures are based on our own chart of account and may be adjusted for analytical purposes. Please refer to the documents: "Financial Statement Adjustments in the Analysis of Financial Institutions" published on 12 February 2016.

Notching Considerations

AFFILIATE SUPPORT

CdM's deposit ratings incorporate two notches of parental support uplift, reflecting CASA's long track record of operational support to CdM, its 78.7% controlling stake and continued reinvestment in the bank.

GOVERNMENT SUPPORT

We assess the probability of systemic support to CdM to be high. This assessment is based on the bank's importance to the economy and the payment system as the fifth-largest bank in Morocco with a deposit market share of around 5% and a key lender to domestic businesses. Nevertheless, since the systemic support provider is at the Ba1 rating level, CdM's deposit ratings do not receive any additional systemic support uplift.

CR ASSESSMENT

CR Assessments are opinions of how counterparty obligations are likely to be treated if a bank fails and are distinct from debt and deposit ratings in that they (1) consider only the risk of default rather than both the likelihood of default and the expected financial loss suffered in the event of default and (2) apply to counterparty obligations and contractual commitments rather than debt or deposit instruments. The CR assessment is an opinion of the counterparty risk related to a bank's covered bonds, contractual performance obligations (servicing), derivatives (e.g., swaps), letters of credit, guarantees and liquidity facilities.

The CR Assessment is positioned at Baa3(cr). The CR Assessment, prior to government support, is positioned one notch above the Adjusted BCA of ba1 and therefore above deposit ratings, reflecting our view that its probability of default is lower than that of deposits. We believe senior obligations represented by the CRA will be more likely preserved in order to limit contagion, minimize losses and avoid disruption of critical functions.

NATIONAL SCALE RATING

CdM's national scale ratings of Aa1.ma/MA-1 for local currency deposits and Aa3.ma/MA-1 for foreign currency deposits are derived from the bank's global scale deposit ratings and demonstrate that CdM is one of the strongest credits in the country, primarily reflecting the high probability of parental support and its strong funding and liquidity metrics. National scale ratings (NSRs) are not intended to rank credits across multiple countries; instead they provide a measure of relative creditworthiness within a single country (Morocco in the case of CdM). Moody's NSRs are given a two-letter suffix to distinguish them from the agency's Global Scale Ratings. For example, NSRs in Morocco have the country abbreviation “ma”.

The Aa1.ma rating is the second highest rating of three NSR categories corresponding to the bank's local currency deposit GSR. The bank's national scale foreign currency deposit ratings of Aa3.ma/MA-1 are constrained by the relevant country ceiling.

About Moody's Bank Scorecard

Our Scorecard is designed to capture, express and explain in summary form our Rating Committee's judgment. When read in conjunction with our research, a fulsome presentation of our judgment is expressed. As a result, the output of our Scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The Scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating Methodology and Scorecard Factors

Exhibit 3

Credit du Maroc

Macro Factors		
Weighted Macro Profile	**Moderate -**	**100%**

Financial Profile						
Factor	**Historic Ratio**	**Macro Adjusted Score**	**Credit Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**
Solvency						
Asset Risk						
Problem Loans / Gross Loans	12.4%	b3	←→	b3	Single name concentration	Expected trend
Capital						
TCE / RWA	--	--	--	ba3	--	--
Profitability						
Net Income / Tangible Assets	0.5%	b1	↑	ba3	Expected trend	Loan loss charge coverage
Combined Solvency Score		b1		b1		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	11.7%	baa3	←→	baa3	Deposit quality	Expected trend
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	20.1%	ba2	←→	ba2	Expected trend	
Combined Liquidity Score		ba1		ba1		
Financial Profile				ba3		
Business Diversification				0		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				0		
Sovereign or Affiliate constraint:				Ba1		
Scorecard Calculated BCA range				ba2-b1		
Assigned BCA				ba3		
Affiliate Support notching				2		
Adjusted BCA				ba1		

Instrument class	Loss Given Failure notching	Additional Notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Assessment	1	0	baa3 (cr)	0	Baa3 (cr)	--
Deposits	0	0	ba1	0	Ba1	Ba2

Source: Moody's Financial Metrics

Ratings

Exhibit 4

Category	Moody's Rating
CREDIT DU MAROC	
Outlook	Positive
Bank Deposits -Fgn Curr	Ba2/NP
Bank Deposits -Dom Curr	Ba1/NP
Baseline Credit Assessment	ba3
Adjusted Baseline Credit Assessment	ba1
Counterparty Risk Assessment	Baa3(cr)/P-3(cr)

Source: Moody's Investors Service

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Contributors

Badis Shubailat 971-4-237-9505
Associate Analyst
badis.shubailat@moodys.com

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

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