MOODY'S
INVESTORS SERVICE

CREDIT OPINION
5 November 2020

Update

Rate this Research

RATINGS

Credit du Maroc

Domicile	Casablanca, Morocco
Long Term CRR	Baa3
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Not Assigned
Long Term Deposit	Ba2 / Ba1
Type	LT Bank Deposits - Fgn Curr / Dom Curr
Outlook	Stable

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.

Contacts

Mik Kabeya +971.4.237.9590
AVP-Analyst
mik.kabeya@moodys.com

Lea Hanna +971.4.237.9692
Associate Analyst
lea.hanna@moodys.com

Olivier Panis +33.1.5330.5987
VP-Sr Credit Officer
olivier.panis@moodys.com

Antonello Aquino +44.20.7772.1582
Associate Managing Director
antonello.aquino@moodys.com

Sean Marion +44.20.7772.1056
MD-Financial Institutions
sean.marion@moodys.com

Credit du Maroc

Update following H1 2020 results

Summary

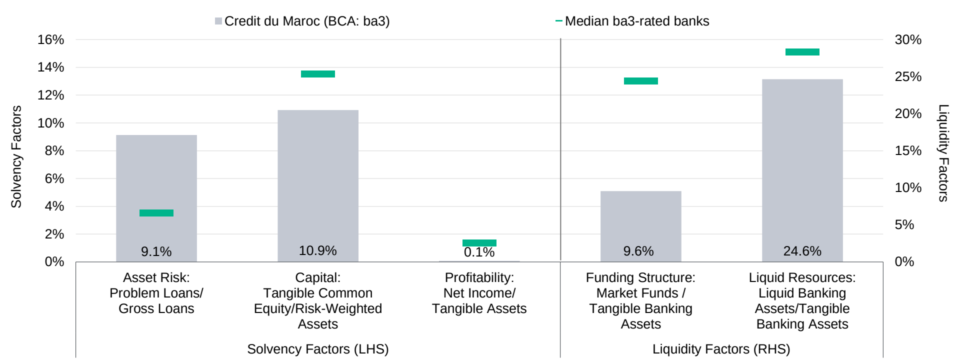
Credit du Maroc's (CdM) Ba1 long-term local-currency deposit rating is aligned with its ba1 Adjusted Baseline Credit Assessment (BCA), which is at the same level as the rating of the Government of Morocco (Ba1 stable). As a result, there is no government support uplift for the bank's deposit ratings despite our assessment of a high likelihood of government support in case of need.

CdM's ba1 Adjusted BCA reflects two notches of uplift from its ba3 BCA based on our assessment of a high probability of parental support from Credit Agricole S.A. (CASA, adjusted BCA of a3, stable). The parental uplift reflects CdM's strategic fit within the Credit Agricole group.

CdM's ba3 BCA reflects its sound capitalisation and profitability (although lower this year because of the pandemic), as well as stable funding and solid liquidity. These strengths are moderated by the economic slowdown caused by the coronavirus pandemic, as well as the bank's relatively weak asset-quality metrics.

The bank's long-term foreign-currency deposit rating is capped by the foreign-currency deposit ceiling of Ba2. CdM's long-term deposit ratings (local and foreign currency) have a stable outlook. The bank also carries national scale local-currency deposit ratings of Aa1.ma/MA-1, and national scale foreign-currency deposit ratings of Aa3.ma/MA-1.

Exhibit 1
Rating Scorecard - Key financial ratios



The problem loan and profitability ratios are the weaker of the average three-year ratios and the latest reported ratios. The capital ratio is the latest reported figure. The funding structure and liquid asset ratios are the latest year-end figures.
Source: Moody's Financial Metrics

Credit strengths

» Sound capitalisation, supported by improved capital generation

» Sound profitability, although lower this year because of provisioning requirements as a result of the pandemic

» Stable deposit base and sound liquidity

» High likelihood of parental support in case of need

Credit challenges

» Economic slowdown poses risk to asset quality; already weak asset quality metrics reflect credit concentrations, legacy exposures and conservative classification

Outlook

The stable outlook reflects our expectation that the bank's sound profitability and capitalisation, as well as its stable deposit base, will balance the risks from high credit concentrations and legacy exposures over the next 12-18 months.

Factors that could lead to an upgrade

Upward pressure on the ratings could develop from continued strengthening of the bank's capital buffers and a significant reduction in problem loans and borrower concentrations.

Factors that could lead to a downgrade

Downward pressure on the ratings could emerge from a significant deterioration in capitalisation, including as a result of sizeable provisioning because of the pandemic; a significant weakening in asset quality; or lower capacity or willingness of Credit Agricole to provide support to CdM in case of need.

Key indicators

Exhibit 2
Credit du Maroc (Consolidated Financials) [1]

	06-20[2]	12-19[2]	12-18[2]	12-17[2]	12-16[2]	CAGR/Avg.[3]
Total Assets (MAD Million)	57,573.5	59,159.5	55,896.6	52,513.9	51,596.1	3.2[4]
Total Assets (USD Million)	5,929.6	6,188.2	5,838.2	5,618.5	5,097.9	4.4[4]
Tangible Common Equity (MAD Million)	4,995.6	5,209.4	4,903.4	4,564.5	4,337.5	4.1[4]
Tangible Common Equity (USD Million)	514.5	544.9	512.1	488.4	428.6	5.4[4]
Problem Loans / Gross Loans (%)	9.1	8.4	8.7	9.9	11.1	9.5[5]
Tangible Common Equity / Risk Weighted Assets (%)	10.9	11.1	10.8	--	--	10.9[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	48.2	43.7	44.2	51.0	56.0	48.6[5]
Net Interest Margin (%)	3.1	3.2	3.2	3.2	3.3	3.2[5]
PPI / Average RWA (%)	2.2	2.4	--	--	--	2.3[6]
Net Income / Tangible Assets (%)	0.1	0.8	0.8	0.7	0.6	0.6[5]
Cost / Income Ratio (%)	59.8	55.5	55.9	56.1	54.3	56.3[5]
Market Funds / Tangible Banking Assets (%)	7.4	9.6	10.5	6.7	8.9	8.6[5]
Liquid Banking Assets / Tangible Banking Assets (%)	22.3	24.6	24.8	17.0	19.6	21.7[5]
Gross Loans / Due to Customers (%)	103.4	103.1	104.4	106.3	105.2	104.5[5]

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel II; IFRS. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel II periods.
Sources: Moody's Investors Service and company filings

Profile

Credit du Maroc (CdM) is a Casablanca-based bank established in 1929 as the Moroccan branch of Credit Lyonnais. Credit Lyonnais was renamed Credit Lyonnais Maroc in 1963, then Credit du Maroc in 1966. CdM is the fifth-largest bank in Morocco, with total assets of $5.9 billion as of June 2020. As of June 2020, CdM had market shares of around 4% in terms of loans and around 4.5% in terms of deposits in Morocco.

CdM operates within two main business segments: Banque Maroc et Banque Offshore (98% of the operating income in the first half of 2020) and Societe de financement specialises (2%). As of June 2020, Credit Agricole was the bank's largest shareholder with a 78.7% majority stake. Other shareholders include Wafa Assurance (10.7%).

For assessing CdM's operating environment, we use Morocco's Moderate- Macro Profile, given that the bank operates exclusively in Morocco (see Exhibit 3).

Recent developments

The global spread of the coronavirus is resulting in simultaneous supply and demand shocks. We expect these shocks to significantly slow economic activity. The full extent of the economic costs will be unclear for some time. Fear of contagion will dampen consumer and business activity. The longer it takes for households and businesses to resume normal activity, the greater the economic impact will be. Fiscal and monetary policy measures will likely help limit the damage in individual economies. Policy announcements from fiscal authorities, central banks and international organizations so far suggest that the policy response is likely to be strong in affected countries. The coronavirus pandemic will have a direct negative impact on the asset quality and profitability of banks.

In Morocco, we expect the pandemic to limit economic growth through lower activity in the confidence-sensitive tourism sector, and lower exports to Europe, where the cyclical automotive industry has been particularly hit severely. This will be partially offset by lower energy import prices, given that Morocco is an oil importer. The government's early and comprehensive response will limit the spread of the virus and support the economic recovery in the aftermath of the crisis. We forecast real GDP to contract by 5.0% in 2020 (compared with 2.4% growth in 2019), reflecting that both the pandemic-induced shock and continued dry weather conditions offset the benefits of the reduction in oil price.

On 30 March, Morocco's central bank announced measures to reduce the adverse effects of the coronavirus pandemic on the economy and banks. We expect the measures, if implemented at their full scale, to triple the refinancing capacity of banks at the central bank and support the liquidity of Moroccan banks. The central bank's measures will provide banks with easier and wider access to funding so that they can meet cash calls from affected borrowers. See Moroccan central bank's measures will soften coronavirus' negative effects on banks.

Detailed credit considerations

Economic slowdown poses risk to asset quality; already-weak asset-quality metrics reflect high credit concentrations, legacy exposures and conservative classification

We expect asset quality to weaken as a result of the coronavirus pandemic, as the economic slowdown reduces borrowers' repayment capacity in the country. This weakening follows an improvement in asset-quality metrics over recent years, because of the bank's more conservative risk appetite, improved risk management (stricter risk appetite and more active recovery approach) and alignment of its risk management framework with that of Credit Agricole.

In Morocco, we expect borrowers in the tourism, trade and transportation sectors to be most badly affected by the pandemic, and small and medium-sized enterprises (SMEs) to be particularly vulnerable to economic shocks. The manufacturing sector may also face challenges as exports to Europe decline. Nonetheless, the government's early and comprehensive response will limit the spread of the virus and support the economic recovery in the aftermath of the crisis, while the central bank's measures help limit the extent of asset-quality deterioration.

In addition to Bank Al Maghrib's support scheme launched in March 2020, CdM has since then provided payment relief (by deferring interest and principal due) to customers affected by the economic effects of the pandemic.

Similar to those of other Moroccan banks, CdM's high credit concentrations pose risks to its asset quality. Nonetheless, the bank has noticeably and consistently reduced this concentration over recent years, with the top 20 credits representing 28% of total credits (around 260% of the bank's Tier 1 capital) as of December 2018, compared with 35% as of December 2010.

As of June 2020, problem loans increased to 9.1% of gross loans, reflecting the economic effects of the pandemic, as well as subdued economic growth in Morocco. This follows a noticeable decline in 2015-19, with CdM's problem loans/gross loans declining to 8.4% as of December 2019 from a high 12.1% as of December 2015. CdM's problem loan ratio remains higher than the 8.1% local average for Moroccan banks; however, CdM's conservative classification approach (in line with Credit Agricole's criteria) partly distorts the comparison. In addition, part of the large legacy corporate problem loan exposures at CdM benefits from a guarantee from Credit Agricole.

The balance of loans and advances that are not impaired but exhibit a significant increase in credit risk — classified in the Stage 2 bucket under IFRS9 — was relatively high at 11% of gross loans as of June 2020 (from 6% as of December 2019) and higher than that of other Moroccan banks (around 9%).

The bank's loan-loss reserves/problem loans was 87% as of June 2020 (93% local average) and 91% as of year-end 2019, compared with 74% as of year-end 2015. The improvement between 2015 and 2019 reflected the bank's adoption of IFRS9 accounting standards in 2018, following a portfolio clean-up and active provisioning in the large corporate segment in 2015-17.

Sound profitability, although lower this year because of provisioning requirements as a result of the pandemic

We expect CdM's profitability — as measured by its net income/tangible assets — to remain under pressure over the next 12-18 months because of higher loan-loss provisioning as a result of the pandemic. CdM's profitability improved steadily in 2015-19, but declined significantly in H1 2020 because of high provisioning in view of the pandemic. Net income/tangible banking assets was 0.1% in H1 2020, compared with 0.8% in full-year 2019 (0.1% in full-year 2015).

The improvement in profitability in 2015-19 reflects faster growth in the retail segment (consumer lending and mortgages), combined with increased non-interest income resulting from a wider product offering in investment banking, private banking, consumer finance, insurance, factoring and treasury. Its higher profitability also reflected an improvement in efficiency and a reduction in cost of risk.

CdM's sound underlying profitability reflects its established domestic franchise, partly supported by its association with Credit Agricole. The strong brand name of Credit Agricole supports CdM's domestic franchise in Morocco, while Credit Argicole's large network in France helps attract non-resident Moroccan expats based in France.

CdM's net interest margin was slightly lower at 3.1% in H1 2020 (3.2% during full-year 2019), as lower gross yields offset the lower funding cost (0.9% in H1 2020 compared with 1.0% in 2019). Non-interest income was 26% of net revenue. CdM's cost-to-income ratio (including income and expenses for other activities) increased to 60% in H1 2020 from 55% in 2019 (52% local average), partially because of the bank's contribution to a national special fund for management of the coronavirus pandemic.

The bank's cost of risk increased materially during 2015-16 because of a portfolio clean up (156 bps in 2015 and 123 bps in 2016), after which provisioning requirements declined to 31 bps in 2018 and during 34 bps in 2019.

Following the coronavirus outbreak, the cost of risk increased to 182 bps in H1 2020 as a result of increased provisioning efforts because of the difficult environment. Loan-loss provisions consumed 83% of the bank's pre-provision income in H1 2020 (14% in 2019). We expect the cost of risk to remain under pressure over the next 12-18 because of the economic effects of the pandemic.

Sound capitalisation supported by improved capital generation

We expect CdM's capitalisation to remain sound, reflecting modest credit growth, improved earnings generation and continued sizeable retention (through conversion of dividends into shares).

We adjust the bank's capitalisation ratios for (1) minority interests, a capital component that is unlikely to provide absorption at the holding company level; and (2) the risk weighting on the bank's holding of Moroccan government securities, in line with the Basel II framework.

However, contrary to other Moroccan banks that we rate, we do not adjust CdM's capitalisation for the impact of IFRS9 adoption. This reflects the fact that CdM fully absorbed the IFRS9 adoption impact upon introduction in 2018, while its local peers phased-in the impact over 2018-23.

As of June 2020, CdM's tangible common equity (TCE)/risk-weighted assets slightly declined to 10.9% from 11.1% as of December 2019, which is well above the 7.6% local average. This 10.9% TCE ratio incorporates the aforementioned adjustment for minority interest (12 bps) and for government securities holdings (64 bps).

CdM's reported regulatory capital figures, with a Basel III Tier 1 ratio of 11.7% and a total capital adequacy ratio of 14.8% as of June 2020, were solid and above the local regulatory minima. As of 1 January 2019, Moroccan banks had to comply with a minimum 9.0% Tier I capital ratio.

Funding underpinned by a stable deposit base

We expect CdM to remain predominantly deposit funded (customer deposits accounted for 84% of non-equity liabilities as of June 2020), with the expansion of retail activities supporting deposit collection. CdM's deposit base primarily comprises low-cost current and savings accounts, which represented 90% of total deposits as of June 2020.

In addition, the bank's funding base is relatively granular, with the top 20 depositors representing less than 10% of total deposits as of December 2018. The bank's market funding was modest at 7.4% of tangible banking assets as of June 2020 (11.7% as of December 2015), which is credit positive.

Sound liquidity

CdM's liquidity buffers will remain sound, with liquid assets/tangible assets of 22.3% as of June 2020 (24.6% as of December 2019). However, this level compares unfavourably with the 32.3% local average.

CdM's Basel III liquidity coverage ratio was strong at 175% as of June 2020 (138% as of year-end 2019), which is significantly higher than the 100% minimum regulatory requirement. However, the bank's net loans/customer deposits was relatively high at 100% as of June 2020.

The central bank's measures announced on 30 March will, if implemented at their full scale, triple the refinancing capacity of banks at the central bank and support the liquidity of banks. The measures include the provision of access to all refinancing tools in Moroccan dirhams and in foreign currencies, a broadening of the securities and commercial papers eligible as collateral for refinancing at the central bank, and the lengthening of the tenor of refinancing operations at the central bank. The central bank also strengthened its refinancing programme targeting SMEs.

Environmental, social and governance considerations

Banks generally have low exposure to environmental risk, as explained in our Environmental risk heat map, but certain banks could face a higher risk from sizeable lending to individual sectors. This is the case for all Moroccan banks, which are exposed to the seasonality and volatility in agriculture production. The importance of the agricultural sector in the national output and in employment exposes Moroccan banks' credit profiles to environmental risk. For instance, the severe drought conditions in 2016 reduced cereal yields by about 70% and led to a decline in agriculture output by about 10% with a concomitant impact on growth, imports and food prices. Similar, although less severe, drought conditions have recurred in 2019. The government's strategic orientation towards renewable energy sources, in particular solar and wind, is geared towards reducing the country's dependence on fuel imports and reducing its vulnerability to climate-related risks.

In terms of social considerations, we place CdM in line with our general view of the Moroccan banking sector. Social risks exert some impact on Moroccan banks' credit profile. The issue of structural unemployment, coupled with a relatively low GDP per capita, has in the past triggered sporadic social protests. In particular, social issues remain high on the political agenda following protests in 2016-17 in the Rif region and in the former mining city of Jerada in the north of the country. For more information on social considerations, please see our Social risk heat map.

Governance is highly relevant for CdM, as it is to all participants in the banking industry. Corporate governance weaknesses can lead to a deterioration in a bank's credit quality, while governance strengths can benefit its credit profile. Governance risks are largely internal rather than externally driven, and for CdM, we do not have any particular governance concern. Nonetheless, corporate governance remains a key credit consideration and requires ongoing monitoring.

Support and structural 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, as well as its 78.7% controlling stake.

Government support considerations

CdM's long-term foreign-currency deposit rating is capped by the foreign-currency deposit ceiling at Ba2. The bank's local-currency deposit rating at Ba1 is aligned with its Adjusted BCA, which are at the same level as the sovereign rating. As a result, there is no support notching uplift for the bank's deposit rating despite our continued assessment of a high probability of government support in case of need.

Our assessment of a high likelihood of government support in case of need reflects the bank's importance to the local financial system as the fifth-largest bank in the country with around 4% deposit market share.

Counterparty Risk (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 (for example, swaps), letters of credit, guarantees and liquidity facilities.

CdM's CR Assessment is positioned at Baa3(cr)/P-3(cr)

The CR Assessment, before government support, is positioned one notch above the Adjusted BCA of ba1, reflecting our view that its probability of default is lower than that of deposits. We believe senior obligations represented by the CR Assessment will more likely be preserved to limit contagion, minimise losses and avoid the disruption of critical functions.

Counterparty Risk Ratings (CRRs)

CRRs are opinions of the ability of entities to honour the uncollateralised portion of non-debt counterparty financial liabilities (CRR liabilities) and also reflect the expected financial losses in the event such liabilities are not honoured. CRR liabilities typically relate to transactions with unrelated parties. Examples of CRR liabilities include the uncollateralised portion of payables arising from derivatives transactions and the uncollateralised portion of liabilities under sale and repurchase agreements. CRRs are not applicable to funding commitments or other obligations associated with covered bonds, letters of credit, guarantees, servicer and trustee obligations, and other similar obligations that arise from a bank performing its essential operating functions.

CdM's CRRs are positioned at Baa3/P-3

We consider Morocco a jurisdiction with a nonoperational resolution regime. For nonoperational resolution regime countries, the starting point for the CRR is one notch above the bank's Adjusted BCA, to which we then typically add the same notches of government support uplift as applied to deposit and senior unsecured debt ratings. CdM's CRR liabilities will not benefit from any government support as the bank's CRR is already above the government rating level.

National scale rating (NSR)

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). Our NSRs are given a two-letter suffix to distinguish them from our global scale ratings. For example, NSRs in Morocco have the country abbreviation "ma".

CdM's NSRs 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.

Sources of facts and figures cited in this report

The global medians quoted in the report are calculated using the most recent full-year financial data for rated banks. Local averages used in this report are as of December 2019 for Moroccan banks that we rate. Bank-specific figures originate from the banks' 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 document titled Financial Statement Adjustments in the Analysis of Financial Institutions (published on 9 August 2018).

About Moody's Bank Scorecard

Our scorecard is designed to capture, express and explain in summary form our Rating Committee's judgement. When read in conjunction with our research, a fulsome presentation of our judgement 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%**					
Factor		**Historic Ratio**	**Initial Score**	**Expected Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**
Solvency							
Asset Risk							
Problem Loans / Gross Loans		9.1%	b2	←→	b2	Collateral and provisioning coverage	Single name concentration
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel II)		10.9%	ba3	←→	ba3	Capital retention	Expected trend
Profitability							
Net Income / Tangible Assets		0.1%	caa1	←→	ba2	Loan loss charge coverage	Expected trend
Combined Solvency Score			b2		b1		
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets		9.6%	baa3	←→	baa3	Deposit quality	
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets		24.6%	ba2	←→	ba2	Stock of liquid assets	
Combined Liquidity Score			ba1		ba1		
Financial Profile					ba3		
Qualitative Adjustments					Adjustment		
Business Diversification					0		
Opacity and Complexity					0		
Corporate Behavior					0		
Total Qualitative Adjustments					0		
Sovereign or Affiliate constraint					Ba1		
BCA Scorecard-indicated Outcome - 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 Rating	1	0	baa3	0	Baa3	Baa3
Counterparty Risk Assessment	1	0	baa3 (cr)	0	Baa3(cr)	
Deposits	0	0	ba1	0	Ba1	Ba2

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.
Source: Moody's Investors Service

Ratings

Exhibit 4

Category	Moody's Rating
CREDIT DU MAROC	
Outlook	Stable
Counterparty Risk Rating	Baa3/P-3
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

REPORT NUMBER 1242904

CLIENT SERVICES

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

MOODY'S INVESTORS SERVICE