

# MOODY'S

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### CREDIT OPINION

14 June 2016

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#### RATINGS

##### Credit du Maroc

Domicile	Morocco
Long Term Rating	Ba2
Type	LT Bank Deposits - Fgn 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.

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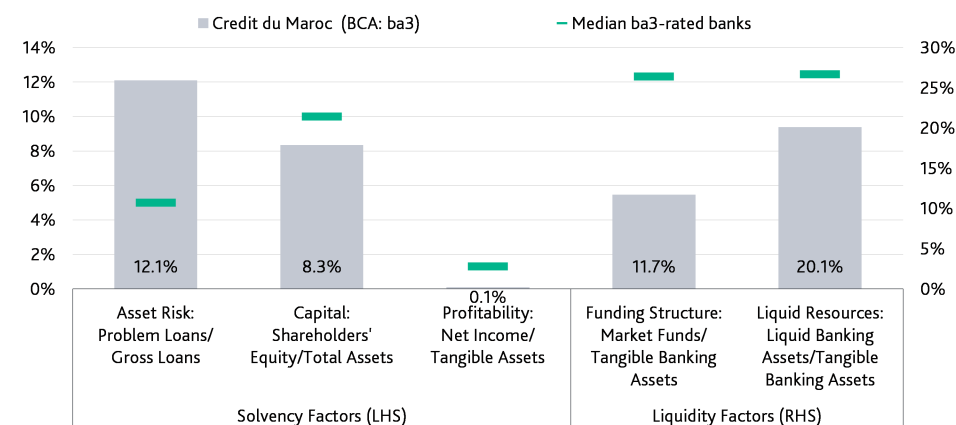
## Credit du Maroc

### Summary Rating Rationale

The Ba1/NP local deposit ratings of Crédit du Maroc (CdM) 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 A2 positive, BCA ba1). Although we also assume a very high probability of government support, CdM's ratings do not receive any further uplift. Furthermore, Moody's has assigned 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 effort; (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



Source: Moody's Financial Metrics

## Credit Strengths

- » Moderate- Macro Profile supports the bank's rating
- » Moderate capitalisation in light of relatively modest provisioning coverage and high - albeit decreasing - credit concentrations
- » 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

## Rating Outlook

CdM's ratings carry a stable outlook in line with the stable operating conditions and outlook on the sovereign rating.

## 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 reduction in single-name concentrations; and (3) material improvements in the domestic operating environment, notably existing competitiveness challenges that constrain economic growth potential.

## Factors that Could Lead to a Downgrade

Downward pressure on CdM's ratings could develop following (1) a deterioration in the operating environment, leading to an acceleration in non-performing loan (NPL) formation, which would erode the bank's profitability and capital; (2) intensifying liquidity pressures; or (3) a weakening in the capacity of CdM's parent bank to provide support.

## Key Indicators

Exhibit 2

### Credit du Maroc (Consolidated Financials) [1]

	12-15 <sup>2</sup>	12-14 <sup>2</sup>	12-13 <sup>2</sup>	12-12 <sup>2</sup>	12-11 <sup>2</sup>	Avg.
Total Assets (MAD million)	51383.6	49061.9	50247.6	47799.5	46876.4	2.3 <sup>3</sup>
Total Assets (USD million)	5181.8	5413.4	6156.2	5650.2	5469.0	-1.3 <sup>3</sup>
Tangible Common Equity (MAD million)	4110.1	4164.5	4044.9	3453.6	3173.5	6.7 <sup>3</sup>
Tangible Common Equity (USD million)	414.5	459.5	495.6	408.2	370.2	2.9 <sup>3</sup>
Problem Loans / Gross Loans (%)	12.1	12.3	10.3	8.4	8.3	10.3 <sup>4</sup>
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	63.7	63.5	59.2	53.7	57.4	59.5 <sup>4</sup>
Net Interest Margin (%)	3.3	3.3	3.3	3.6	3.8	3.5 <sup>4</sup>
Net Income / Tangible Assets (%)	0.1	0.5	0.6	0.7	0.7	0.5 <sup>4</sup>
Cost / Income Ratio (%)	58.8	54.5	54.2	50.9	49.6	53.6 <sup>4</sup>
Market Funds / Tangible Banking Assets (%)	11.7	10.7	13.5	16.4	15.8	13.6 <sup>4</sup>
Liquid Banking Assets / Tangible Banking Assets (%)	20.1	22.7	22.8	21.8	21.2	21.7 <sup>4</sup>
Gross loans / Due to customers (%)	105.7	103.5	107.9	112.6	111.3	108.2 <sup>4</sup>

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

Source: Moody's Financial Metrics

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on [www.moody's.com](http://www.moody's.com) for the most updated credit rating action information and rating history.

## 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 under the recently adopted banking law in 2014. Moroccan banks benefit from relatively stable funding, consisting primarily of customer deposits.

### WEAK PROFITABILITY METRICS BUT PRESSURES EXPECTED TO EASE

CdM's profitability metrics have deteriorated in recent years. As of December 2015, the pre-provision income-to-average total assets ratio stood at 1.8%, with the net income-to-average assets ratio at 0.15% (December 2011: 2.3% and 0.7%, respectively). In 2015, net income amounted to MAD 81.8 million (\$ 8.5 million), a yearly decline of 65.5% which follows a 15% and 20% profit reduction in 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 maintained a stable net interest margin at around 3.3%, supported by the focus on relatively low-cost sources of funding such as savings and current accounts although the bank increased the level of term deposits in 2015. However, the profitability of the bank in 2014 and 2015 was impacted by a slow-down 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 reinitiated gradually lending growth in 2015 (+5.5%), positive associated effects on profitability are expected in 2016. Despite the stabilization of the operating environment, the bank continued to maintain a relatively high provisioning effort (loan loss provisions consumed 70% and 60% of pre-provision income in 2015 and 2014 respectively). Finally, the reduction in the bank's profits also reflected (1) a 27% drop in market activity revenues in line with the rest of the market in a context of unchanged interest rates in 2015 and (2) a one-off tax adjustment that we don't expect to see recurring.

Over the next 12 to 18 months, we expect profitability to remain weak but pressures to ease as we estimate that (1) the reorganization exercise will provide the bank with higher and more stable revenue generation, benefiting profitability metrics (net income to tangible assets is estimated at 0.5% as of March 2016; (2) the cost efficiency of the bank (cost-income ratio of 58% as of 2015) to improve with a number of identified strategic actions aiming at reducing cost of operations; (3) 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 and (4) the falling interest rates in 2016 will boost market activity revenues.

CdM's earnings generating capacity is, however, supported by its well-established domestic franchise, both in corporate and retail banking. CdM is Morocco's sixth-largest bank, with approximately 5% of total banking assets in a concentrated banking system, where the three largest banks account for around two thirds of system loans. 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 346 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 specialised 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 CASA's framework, which provides a solid control framework in line with the development of international norms.

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

CdM's asset-quality metrics have steadily deteriorated over recent years. As of December 2015, NPLs accounted for 12.2% of total loans (December 2014: 12.3%), well above the estimated system average of 7.2% in 2015. In line with previous year, 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.

A strong agricultural season in 2015 boosted Morocco's real GDP growth to 4.4%. For 2016, the expected below average agricultural season due to droughts will lead to a reversal in the primary growth contribution and thus expect overall real GDP growth to slowdown at 2.5% in 2016 before picking back-up to 4.5% in 2017. Morocco's economy will continue to be affected by volatile primary sector's 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% as of December 2015 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 40% of gross loans as of December 2015) should stabilise CdM's asset quality metrics in the medium term (next 12 to 18 months).

#### MODERATE CAPITALISATION IN LIGHT OF RELATIVELY MODEST PROVISIONING COVERAGE AND HIGH - ALBEIT DECREASING - CREDIT CONCENTRATIONS

As at December 2015, CdM's reported Tier 1 and Capital Adequacy ratios increased respectively to 10.7% and 13.6% (December 2013: 9.3% and 13.2%) mainly resulting from the capital increases that occurred in 2013 and 2014, the majority of which through conversion of share dividends, and bringing the Tier 1 capital on a consolidated basis to MAD 4.1 billion as of December 2015 (year-end 2012: MAD 3.5 billion). In light of the low profitability performance of the bank in 2015 constrained by high provisioning efforts, capital increase was modest. However we still believe the bank's main shareholder (Credit Agricole S.A. ba1 BCA/ A2 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) stood well above the 9% regulatory minimum implemented in 2013 and compared well with the estimated system average of 11.6% as of December 2014. 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 client concentrations (2.6x Tier 1 capital), which – although decreasing - render 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% of NPLs as of December 2015 (68.9% in 2014), exceeding the 65% Moroccan system average and 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 December 2015, 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 marginal in a context of low Moroccan credit growth. Whilst persisting pressure on asset quality and profitability represent a downside risk to capitalisation, 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 75% of assets as of December 2015. 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. Despite tightening liquidity in the Moroccan banking system, CdM grew its current account 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 (-3.5% in 2014) growing faster than the capture of new deposits (+4% in H1 2015) the gross loans-to-deposit ratio to increased to 105.7% as of December 2015 (December 2014: 103.5%). Market funding remained limited, and accounted for 11.7% of tangible banking assets (10.7% as of December 2014). We expect the bank's funding profile to remain broadly stable over the next 12-18 months, despite the intensifying competition for deposits in the Moroccan market.

CdM's liquidity buffers remain robust, with the liquid assets-to-total assets ratio at 20.1% as of December 2015 (December 2014: 22.7%). As a result of its integration within the CASA group, CdM's 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, we have sourced data relating to system-wide trends and market shares from the central bank. Bank specific figures originate from 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: "Financial Statement Adjustments in the Analysis of Financial Institutions" ([https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC\\_187419](https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_187419)) 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 very high. This assessment is based on the bank's importance to the economy and the payment system as the sixth-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 Ba1 rating level, CdM's deposit ratings do not receive any additional government 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.

#### 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
<b>Solvency</b>						
<b>Asset Risk</b>						
Problem Loans / Gross Loans	12.1%	b3	← →	b3	Single name concentration	Expected trend
<b>Capital</b>						
TCE / RWA	--	--	--	ba3	--	--
<b>Profitability</b>						
Net Income / Tangible Assets	0.1%	b3	↑ ↑	b1	Expected trend	Loan loss charge coverage
Combined Solvency Score		b2		b1		
<b>Liquidity</b>						
<b>Funding Structure</b>						
Market Funds / Tangible Banking Assets	11.7%	baa3	← →	baa3	Deposit quality	Expected trend
<b>Liquid Resources</b>						
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	Stable
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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