MOODY'S INVESTORS SERVICE

CREDIT OPINION
18 May 2020

Update

Rate this Research

RATINGS

Credit du Maroc

Domicile	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.

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CLIENT SERVICES

Americas 1-212-553-1653

Credit du Maroc

Update post full year 2019 profits

Summary

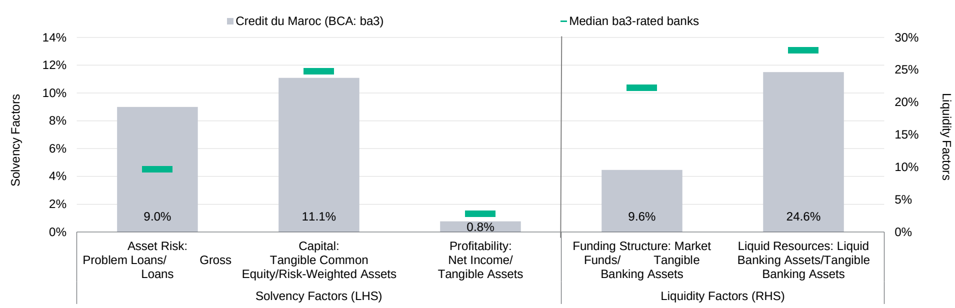
Credit du Maroc's (CdM) ba3 Baseline Credit Assessment (BCA) reflects its sound capitalisation and profitability, as well as stable funding and sound liquidity. These strengths are moderated by the bank's relatively weak asset quality metrics.

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. (Credit Agricole, Adjusted BCA of a3). The parental uplift reflects CdM's strategic fit within the Credit Agricole group.

CdM's Ba1 long-term local-currency deposit rating is aligned with its ba1 Adjusted 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.

The bank's long-term foreign-currency deposit rating is capped by the foreign currency deposit ceiling at 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

» Stable deposit base

» Sound liquidity

» High likelihood of parental support in case of need

Credit challenges

» Relatively weak asset quality metrics, reflecting high 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.

Factors that could lead to an upgrade

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

Factors that could lead to a downgrade

Downward pressure on the ratings could develop from (1) a material deterioration in capitalisation, (2) a significant weakening in asset quality, or (3) 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]

	12-19[2]	12-18[2]	12-17[2]	12-16[2]	12-15[2]	CAGR/Avg.[3]
Total Assets (MAD Million)	59,159.5	55,896.6	52,513.9	51,596.1	51,383.6	3.6[4]
Total Assets (USD Million)	6,188.2	5,838.2	5,618.5	5,097.9	5,181.8	4.5[4]
Tangible Common Equity (MAD Million)	5,209.4	4,903.4	4,564.5	4,337.5	4,110.1	6.1[4]
Tangible Common Equity (USD Million)	544.9	512.1	488.4	428.6	414.5	7.1[4]
Problem Loans / Gross Loans (%)	8.4	8.7	9.9	11.1	12.1	10.1[5]
Tangible Common Equity / Risk Weighted Assets (%)	11.1	10.8	11.0	--	--	11.0[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	43.7	44.2	51.0	56.0	63.7	51.7[5]
Net Interest Margin (%)	3.2	3.2	3.2	3.3	3.3	3.3[5]
PPI / Average RWA (%)	2.4	2.5	2.5	--	--	2.5[6]
Net Income / Tangible Assets (%)	0.8	0.8	0.7	0.6	0.1	0.6[5]
Cost / Income Ratio (%)	55.5	55.9	56.1	54.3	58.8	56.1[5]
Market Funds / Tangible Banking Assets (%)	9.6	10.5	6.7	8.9	11.7	9.5[5]
Liquid Banking Assets / Tangible Banking Assets (%)	24.6	24.8	17.0	19.6	20.1	21.2[5]
Gross Loans / Due to Customers (%)	103.1	104.4	106.3	105.2	105.7	104.9[5]

[1]All figures and ratios are adjusted using Moody's standard adjustments. [2]Basel II; IFRS. [3]May include rounding differences due to scale of reported amounts. [4]Compound Annual Growth Rate (%) based on time period presented for the latest accounting regime. [5]Simple average of periods presented for the latest accounting regime. [6]Simple average of Basel II periods presented.

Source: Moody's Investors Service; 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 $6.2 billion as of December 2019. As of December 2019, CdM has around 5% market share 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 2019) and Societe de financement specialises (2%). As of December 2019, 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 scorecard on page 8).

Recent developments

The global spread of the coronavirus is resulting in simultaneous supply and demand shocks. We expect these shocks to materially slow economic activity, particularly in the first half of this year. 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. 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 policy response is likely to be strong in affected countries. The coronavirus outbreak will have a direct negative impact on the asset quality and profitability of banks, in some cases in a pronounced manner, for example for undiversified banks with material exposure to high-risk sectors and small and medium-sized enterprises.

In Morocco, we expect the global coronavirus pandemic to negatively impact economic growth through lower activity in the confidence-sensitive tourism sector, and through lower exports to Europe, where the cyclical automotive industry has been particularly hard hit. 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 support the economic recovery in the aftermath of the crisis. However, depending on the duration of the crisis, the downside risks to our current 2.0% real GDP growth forecast for 2020 (from 2.4% in 2019) are increasing, reflecting both the coronavirus shock and continued dry weather conditions partially mitigated by the benefits of the reduction in oil price.

On 30 March, Morocco's (Ba1 stable) 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

Sound profitability

We expect the bank's profitability to remain relatively sound, but face some pressure from the economic effects of the coronavirus outbreak. over the next 12 to 18 months. CdM's profitability has steadily improved over 2015-19, reflecting faster growth, efficiency improvement and cost of risk reduction. Net income to tangible banking assets was 0.8% in 2019 (1.0% local average), compared to from 0.8% in 2018 (1.1% when including non-recurring profit from a land sale).

The sound profitability will reflect the bank's 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.

The improvement in profitability over the recent years reflects faster growth in the bank's sale of retail products (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.

Net interest margin was stable at 3.2% in 2019 (3.2% in 2018), reflecting stable gross yields and funding cost (1.0% in 2019). Non-interest income was 26% of operating income. The bank has also over the years improved its efficiency, through an overhauling of operations aimed at reducing operating costs. Under Moody's bank rating methodology, CdM's cost-to-income ratio (including income and expenses for other activities) slightly declined to 55% in 2019, from 56% in 2018 (52% local average). The bank's cost-to-income ratio excluding income and expenses from other activities was around 52% in 2019.

We expect CdM's cost of risk to increase owing to pressure from the economic effects of the coronavirus outbreak. The bank's cost of risk increased materially because of a portfolio clean up during 2015-16 (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. Loan-loss provisions consumed 14% of the bank's pre-provision income in 2019 (13% in 2018).

Relatively weak asset quality metrics, reflecting high credit concentrations, legacy exposures and conservative classification

We expect asset quality metrics to weaken owing to the economic effects of the coronavirus outbreak. This weakening follows an improvement in asset quality metrics over recent years, owing to the bank's more conservative risk appetite, improved risk management (stricter risk appetite and more active recovery approach) and alignment of risk management framework with that of Credit Agricole.

In Morocco, we expect borrowers in tourism, trade and transportation sectors to be most badly affected by the coronavirus outbreak, and 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.

Similar to 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 to 35% as of December 2010.

During 2015-19, CdM's problem loans/gross loans declined materially to 8.4% as of December 2019 (8.7% as of December 2018) from a high 12.1% as of December 2015. CdM's problem loan ratio was slightly higher than the 8.1% local average for Morrocan banks, but we believe that 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 — were manageable at 6% of gross loans as of December 2019 and lower than other Morrocan banks (around 9%).

The bank's loan-loss reserves/problem loans was 91% at end-2019 (93% local average) and 96% at end-2018, compared with 74% at end-2015. The improvement reflected the bank's adoption of IFRS9 accounting standards in 2018, following portfolio clean up and active provisioning in the large corporate segment over 2015-17.

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 IFRS9 adoption impact. 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 December 2019, CdM's tangible common equity (TCE)/risk-weighted assets increased to 11.1% from 10.8% as of December 2018, which is well above the 8.0% local average. This 11.1% TCE ratio incorporates the aforementioned adjustment for minority interest (11 bps) and for government securities holdings (70 bps).

CdM's reported regulatory capital figures, with a Basel III Tier 1 ratio of 11.5% and a total capital adequacy ratio of 14.7% as of December 2019, 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 82% of non-equity liabilities as of December 2019), with the expansion of retail activities supporting deposit collection.

CdM's deposit base comprises primarily of low-cost current and savings accounts, which represented 90% of total deposits as of December 2019. 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 9.6% of tangible banking assets as of December 2019 (11.7% as of December 2015), which is a credit positive.

Sound liquidity

CdM's liquidity buffers will remain sound, with liquid assets/tangible assets of 24.6% as of December 2019 (24.8% as of December 2018). This level compares unfavourably with the 32.3% local average.

CdM's Basel III liquidity coverage ratio was strong at 138% as of December 2019 (205% as of year-end 2018), which is materially higher than the 100% minimum regulatory requirement. However, the bank's net loans/customer deposits remained elevated at 101% as of December 2019.

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 a low exposure to **environmental risk**, as explained in our Environmental 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. 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 for 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 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 company'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, its 78.7% controlling stake and continued reinvestment in the bank.

Government support

The bank'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 a 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 be more likely preserved to limit contagion, minimise losses and avoid 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 rated Moroccan banks. 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 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	9.0%	b2	←→	b2	Collateral and provisioning coverage	Single name concentration	
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel II)	11.1%	ba3	←→	ba3	Capital retention	Expected trend	
Profitability							
Net Income / Tangible Assets	0.8%	ba2	←→	ba2	Loan loss charge coverage	Expected trend	
Combined Solvency Score		b1		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

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CLIENT SERVICES

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