CAPITAL INTELLIGENCE

Credit Rating Report

CREDIT DU MAROC

Country: Morocco; **Report Date**: 19 September 2019

Rating Action Snapshot

- **Foreign Currency**: LT and ST Affirmed; Outlook Remains Stable.
- **Core Financial Strength**: CFS Assigned.

Current Bank Ratings

International Issuer Credit Ratings	
Long-Term Foreign Currency (LT FCR)	**BBB-**
Short-Term Foreign Currency (ST FCR)	**A3**
LT FCR Outlook	**Stable**
Other	
Bank Standalone Rating (BSR)	**bb+**
BSR Outlook	**Stable**
Core Financial Strength (CFS)	**bb+**
Extraordinary Support Level (ESL)	**High**
Operating Environment Risk Anchor (OPERA)	**bb+**

Financial Highlights

MAD mn	2018	2017
Total Assets	55,897	52,514
Gross Customer Loans	44,608	43,141
Customer Deposits	41,377	40,591
Total Equity	5,175	4,811
Operating Income	2,303	2,185
Net Profit	594	361
Total Assets (USDmn)	5,844	5,620
Selected Ratios, %		
NPL Ratio	8.4	9.9
NPL Reserve Coverage	95.7	89.1
Tier 1 Capital Ratio	11.3	11.0
Loan-to-Deposit Ratio	99.1	96.9
Cost-to-Income Ratio	54.3	54.3
Return on Average Assets	1.1	0.7

Key Rating Factors

Credit Strengths

- Majority owned by Crédit Agricole with board and senior management representation.
- Good capital adequacy.
- Continued improvement in net and operating profitability performance. Net returns now adequate.
- Further improvement in loan asset quality and satisfactory loan-loss coverage.

Credit Challenges

- Low level of liquid assets.
- Lack of disclosure in the financial statements, including concentration, maturity mismatch etc.
- Challenging operating environment in terms of economic growth.

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RATING RATIONALE

Rating Action

Capital Intelligence Ratings (CI Ratings or CI) has affirmed the LT FCR and ST FCR of Crédit du Maroc (CM) at 'BBB-' and 'A3', respectively. At the same time, CI Ratings has also assigned to the Bank a BSR of 'bb+', a CFS rating of 'bb+' and an ESL of High. The Outlook for the LT FCR and BSR is Stable.

CM's Financial Strength Rating and Support Rating have been withdrawn in line with the changes to CI's Bank Rating Methodology announced in April 2019. CI will phase out FSRs and Support Ratings for all rated banks this year.

Rating Drivers

CM's FCRs reflect its financial credit strengths of good capital adequacy, including CET1, continued improvement in loan asset quality supported by a satisfactory level of provisioning coverage, and satisfactory operating and net profitability. The FCRs also incorporate a low level of liquid assets (although the liquidity coverage ratio is high), a slightly high level of stage 2 classified loans, as well as the challenging operating environment in Morocco in terms of economic growth.

The Bank's LT FCR is set one notch above the BSR and is constrained by CI's internal assessment of sovereign credit risk for Morocco. The uplift reflects our assessment of the high likelihood of extraordinary support, if needed, from the Bank's strong majority shareholder, France's Crédit Agricole (CA). We believe that CA has sufficient resources to support CM and would be willing to assist its subsidiary (although the Bank is very small in the context of CA's overall size and resources).
CM's BSR is derived from a CFS rating of 'bb+' and an OPERA of 'bb+'. The CFS is underpinned by adequate and improving profitability, strengthened capital ratios, improved and relatively satisfactory asset quality, together with a stable and defendable franchise. The principal challenges are the Bank's modest level of core liquid assets and the moderate level of Stage 2 classified loans. The BSR also takes into account the challenging operating environment in Morocco, particularly in terms of economic growth.

CM has a steady market position in the Moroccan banking sector, controlling just over 5% of sector assets. The Bank's activities are concentrated on the domestic market. It has various subsidiaries, including leasing, insurance, broking and asset management, but these are small. Key management and board positions are CA personnel and risk management is governed by parent-bank principles.

The Bank's profitability at the operating level has been stable and satisfactory for some time. This reflects a good and steady interest margin supported by a low-cost funding base. Net returns were previously weak but have improved year-on-year (YoY) for some time and are now at a satisfactory level. This has been in part due to improved loan asset quality. The stock of NPLs have fallen in each of the past three years and the level of NPLs is now moderate, although elevated against international standards. Loan loss reserve coverage has improved and is now close to full coverage. The net profit results for Q1 2019 net were steady and we expect returns for this year to be stable.

Capital ratios, including core capital have strengthened and are at a solid level. The Bank has an adequate buffer in place. It has good internal capital generation supported by a declining and low dividend payout ratio.

Although CM's level of liquid assets is low the net broad liquid assets ratio is reasonable. Moreover, the liquidity coverage ratio is high. The loan to deposits ratio is slightly elevated but against stable funds the position is comfortable.

Rating Outlook

The Outlook for all the ratings is Stable. CI expects CM to maintain its financials at a satisfactory level this year relative to its current ratings. Credit risk will remain a challenge, but we do not expect the current profile of loan classification to change significantly, and the NPL ratio should remain quite steady. Profitability is expected to remain sound this year with modest revenue growth supported by maintained good interest margins. Capital ratios are likely to remain around the current level. Overall funding and liquidity are expected to remain satisfactory. There are no non-financial factors currently present that would suggest a change in the Outlook was likely.

Rating Dynamics: Upside Scenario

A favourable rating action in the future would require a significant improvement in the Bank's loan asset quality, strengthened liquidity metrics, and enhanced capital buffers. An upward movement in the OPERA score of Morocco would also likely raise ratings provided all credit metrics continue to be maintained at least at current levels.

Rating Dynamics: Downside Scenario

A weakening of loan asset quality, liquidity or capital ratios that the Bank may not be able to correct in a reasonable period of time could lead to a lowering of the ratings.

DETAILED RATING ANALYSIS

Business Model and Strategy

CI View

CM is a universal bank in Morocco focusing on retail, private, corporate and investment banking and has a solid business model. The Bank benefits from its majority shareholder CA in terms of operations, strategy, technology, and product development. Its main customer focus has shifted more towards the middle and upper segments of the retail market, particularly mortgages and the growing SME market. It does however maintain a good presence in corporate banking. CM has a clear strategy aiming to selectively build its franchise in Morocco in retail banking and SME products, whilst also servicing the country's major corporates, particularly those with links to France.

Business Model

CM has typically concentrated on lending to individuals and large companies. Although on a small scale, CM follows a universal banking model, providing a wide range of banking services and products – from simple retail activities to investment banking and capital market operations. Subsidiary operations include leasing, capital markets and insurance. These remain very small against the Bank's total assets. The Bank operates a network of 350 branches in Morocco, two branches in France and one representative office in Milan, Italy. The Bank aims to continue developing services and infrastructure across its three main divisions: retail, SME and corporate banking.

Franchise Strength

CM has a small but solid franchise in the Moroccan banking sector. The Bank commands a market share of approximately 5.5% in assets and is the country's eighth largest bank. Although holding a reasonable size, the market is very competitive. Nonetheless, the Bank's market share has been reasonably steady for some years. It has approximately 0.7 million customers.

Management and Strategy

Although also focusing on the retail market, CM is differentiating itself from competitors by concentrating more towards the middle market, including the SME sector. Its main emphasis in this area is geared to exporters. The retail operations are performing well and main activities include consumer credits and mortgages. The latter is experiencing reasonable growth. In the retail segment, growth in the Bank's operations are benefiting from a widening branch network.

CM's third segment is the corporate sector, with the Bank's link to CA supporting activities. It is active with most of Morocco's main blue-chip corporates, as well foreign company subsidiaries operating in the country. CA also provides significant support on the retail banking side, particularly in terms of product design, marketing, operations and risk management.

Much of the broader strategy focuses on increasing operational efficiency, at the same time achieving customer satisfaction, excellence of human resources, and creating effective governance while improving financial performance. During the past few years, CM has invested in several projects, accelerating its digitalisation with the launch of electronic signature – a first for Morocco. CM has also implemented a range of e-Banking solutions accompanying exporting operators on the settlement of trade transactions, as well as enhanced its bancassurance products.

Ownership and Governance

CI View

CM has strong ownership and governance. CA holds 6 of 12 seats on the Conseil de Surveillance (Board), including the President, and is heavily involved in management, with a number of French expatriate secondees in senior leadership positions. The French parent contributes significantly to the

Bank's strategy and operations. The Bank also receives support from CA through product and technology expertise.

History and Ownership

CM was established in 1963 when the 34-year-old branch of France's Crédit Lyonnais (CL) was incorporated as Crédit Lyonnais Maroc – adopting its present name in 1966. Current ownership consists principally of France's Crédit Agricole S A. Wafa Assurance, one of the largest Moroccan insurance companies and owned by Attijariwafa Bank (AWB), holds an 11% stake (previously 34%). In 2004, CL was acquired by Crédit Agricole S.A. The latter event meant that CL's 51% stake in CM passed to Crédit Agricole S.A. In late 2008, Crédit Agricole S.A. signed an agreement with Morocco's AWB to sell its stakes in some African operations to it. In turn, Crédit Agricole purchased another 24% of Crédit du Maroc, held by Wafa Assurance to raise its share in CM to 77% (since increased to 79%).

CM's shareholders as at end 2018 were:

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

Crédit Agricole Group's CET1 ratio was 15.4% at end-June 2019, well above the minimum of 9.5% set by the ECB. The liquidity position of Crédit Agricole Group is very solid. Its banking cash balance sheet, at EUR1,273bn at 30 June 2019, showed a surplus of stable funding sources over stable assets of EUR116bn. The surplus of stable resources finances the HQLA (high quality liquid assets) securities portfolio generated by the liquidity coverage ratio (LCR) requirement for customer and customer-related activities. These securities (EUR116bn) covered more than three times the short-term debt net of central bank deposits. The liquidity reserves stood at EUR277bn at 30 June 2019. The Group's average LCR ratio over 12 months stood at 131.9% at end-June 2019. Group net income was EUR3.3bn in H1 2019.

Organisational Structure and Complexity

CM has small subsidiaries in the areas of leasing, asset management, insurance and stock broking. The Bank has a simple operating structure, practically all domestic-focused. The Bank's main business units include retail banking, corporate banking, private banking and investment banking.

Risk Management and Control

CM is considered to have good risk management in place. The Bank follows risk management rules and procedures as per Crédit Agricole Group. Risk management is supported by the parent company's systems and knowledge. These are based fully on international best practice and the latest Basel and European guidelines.

Accounting, Disclosure and Transparency

CM's 2018 financial statements were audited to International Financial Reporting and Auditing Standards (IFRS) by Mazars and PwC. The auditors' report is unqualified. Disclosure is generally poor in the publicly available accounts, as is the case for other Moroccan banks.

IFRS 9 First Time Adoption in Morocco. Application of IFRS 9 has resulted in changes in methodology of credit risk provisioning especially through the impairment of performing loans based on statistical expected credit losses. This new accounting standard was mandatory as of 1st of January 2018 for Moroccan banks.

Risk Profile and Risk Mitigation

CI View

CM's risk profile is considered satisfactory. The Bank has a steady banking franchise in Morocco, and its financial performance has shown consistent improvement over the last few years. Returns at the operating level are reasonable and net returns are also now adequate. Loan asset quality has improved with a reduction in both absolute NPLs and the NPL ratio over the last few years. Stage 2 loans are also moderate. Loan-loss reserve (LLR) coverage is now near 100. Liquid assets are moderate but the LCR is at a good level. As a domestic-focused institution, CM is subject to the economic performance of the country. The credit environment will remain challenging, but the Bank has satisfactory buffers.

Balance Sheet Structure and Concentration Risk

CM's balance sheet is dominated by loans which represented 73% of total assets at end 2018. A very similar profile was maintained at end Q1 2019. The loan portfolio increased by a limited 4% in 2018 and fell slightly in Q1 2019 (Q1 has historically been weak in Morocco for all banks due to seasonal factors). Asset growth had been lacklustre at CM for the last few years (as has been the case for the sector), reflecting fairly limited growth in the economy. We expect this pattern to continue, at least in the short-term.

By sector, CM's growth over the last few years has been at a higher rate in retail loans, with mortgage loans (housing finance) the main driver behind the rise in retail loans. Corporate loan growth has been steady. CM has typically concentrated on lending to large companies but has been endeavouring to focus more on the retail sector. The latter represents higher growth potential but competition is intense as all the large banks in Morocco are focusing on this area.

Liquid assets (cash and balances with central banks plus government securities) accounted for a moderate 10% of total assets, similar to the previous year. All government securities are Moroccan government treasury bills (Dirham-denominated), and the Bank's overall exposure to government credit risk is considered satisfactory. There is a good secondary market for these securities and they can be repo'd to the central bank. Deposits with banks formed a higher 8% of total assets. Other marketable securities (5% of total assets) are mainly corporate bonds from leading domestic banks and other financial institutions.

CM's loan portfolio is considered well-diversified by economic sector**.** At end 2018, the largest sector exposure was to individuals/retail sector. Mortgages constitute 30% of the portfolio. Higher risk sectors such as auto, agriculture, textiles and hotels are small in exposure. However, these have been the main source of NPLs. The corporate sector previously suffered due to the deterioration in Morocco's main export market – the Eurozone. In addition, the hotel and tourism sector was previously hit through a fall in visitors.

There is likely to be quite significant large exposure within the loan portfolio, particularly against Tier 1 capital, given the profile of the Moroccan economy. Details are not provided. Large exposures are likely to present vulnerabilities in Morocco, especially since it is unclear whether banks have seniority in corporate debt restructuring and the legal framework for restructuring private debt in the country is relatively weak.

Asset Quality and Credit Risk

Loan asset quality is viewed as satisfactory. The stock of NPLs have fallen YoY for the past three years, declining by another 12% in 2018. The NPL ratio was a reduced 8.4% at year end 2018. Although high by international standards, the level is much below its two main French-owned competitor banks in Morocco, Société Générale Marocaine de Banques and Banque Marocaine pour le Commerce et l'Industrie. In addition, CM's stage 2 classified loans are moderate at 5.8% of gross loans at end 2018. All securities and other placements were classified as stage 1.

French subsidiary banks in Morocco have in the past been more conservative in their definition of NPLs. The French banks have commented that the interpretation of the fiscal law allowing the write-off of 100% of provisioned loans in Morocco is still unclear. It is not clear at which date the write-off could be done without any fiscal risk. The French banks have preferred not to take a fiscal risk with write-offs. This is one explanation as to why their NPL ratio is higher than other peer banks', particularly the Moroccan-owned competitors. French-owned banks in Morocco have traditionally had a more systematic and mechanical process of downgrading the quality of loans to NPL status than other local competitors. This is also stressed by the parent company which has strict rules of declassification of loans, especially when the regional environment is not positive. However, the introduction of IFRS 9 should narrow this gap.

Exposure & Staging	Stage 1	% of Gross Loans	Stage 2	% of Gross Loans	Stage 3	% of Gross Loans
Loans (MADmn)	38,263	85.8	2,587	5.8	3,758	8.4

Market Risk

CM's exposure to market risk is largely interest rate risk and currency risk. Although specific details are not provided, the Bank's market risk is low. Market risk charge was just MAD0.4mn in 2018. There is little currency exposure in the CM's activities as the balance sheet is very much focused domestically and interest rate management is conservative.

Credit Loss Absorption Capacity

CM's credit loss absorption capacity is viewed as adequate, reflecting its solid loan-loss coverage. LLR coverage was a higher 96% at end 2018 and has improved consistently for some years. The Bank's capital provides an additional cushion. Capital and LLRs represented a reasonable 222% of NPLs at end 2018, up from 196% at end 2017. There is little credit risk seen in CM's assets apart from loans. The Bank generates a satisfactory amount of operating profits that can absorb more provisioning expenses if necessary. The Bank of course holds collateral against its loan book and this has historically been valued at around one-half of gross loans. However, collateral enforcement is often delayed on account of the country's slow judicial system.

Asset Quality, Selected Metrics (% unless stated otherwise)	**2018**	**2017**	**2016**	**2015**
Customer Loan Growth	3.4	5.3	0.9	6.1
NPL Ratio	8.4	9.9	11.1	12.1
NPL Coverage Ratio	95.7	89.1	83.4	73.7
Unprovided NPLs to Total Equity	3.2	9.7	16.6	29.9
Government Bond Exposure	70.3	81.8	94.2	92.3

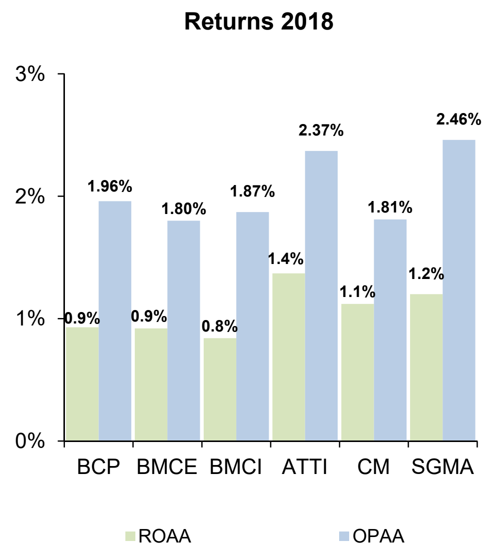
Earnings Strength

CI View

The Bank's earnings strength is satisfactory. Its returns at the operating profit level are sound and have been quite consistent for some years, recording improvement in 2018. Returns at the net level also improved and are now adequate. The Bank's interest margin is solid and has also been consistent for many years. Earnings are generated principally from core and stable banking operations. Q1 2019 results were stable and we expect full-year 2019 returns to be in line with last year's.

Profitability and Efficiency

CM's profitability had been low for some years, particularly at the net level due to a high cost of risk. However, returns improved sharply in 2018 at both the operating and net level, maintaining a positive trend seen over the past four years. This was driven by increased revenue across most income lines together with a reduced cost of risk in respect to loan-loss provision charges.



Net profit rose by an impressive 65% in 2018 with the ROAA increasing to a satisfactory 1.12%. Operating profit strengthened and remains sound at 1.81% of average assets. The latter is now in line with the peer group. We expect the Bank to maintain similar profitability in 2019, driven by slightly higher earning assets, a maintained healthy interest margin and reasonable cost of risk. Net profit in Q1 2019 was MAD123mn, up slightly from the corresponding period of last year.

The main contributor to CM's earnings is net interest income, driven principally by its loan book. This is supported by fee and commission income which recorded good growth in 2018 but remains a relatively small contributor. The Bank's fee structure and strategy had not been developed previously, with the Bank preferring to focus on interest activities. That said, CM's management hope to build its NII going forward, capitalising on its market position and growing retail activities. Management has made progress over the past few years. The bulk of NII is derived from core fee and commission income, mainly linked to loans and credit cards. It also includes insurance-related fees and bank customer-related fees. Going forward, we expect to see core NII growing, particularly as the retail and mortgage books expand.

CM's interest margin has been steady for some years and was a solid 3.52% in 2018. The Bank's good margin is supported by a low cost of funds, reflecting its healthy and generally cheap base of customer deposits. This, together with the growing retail portfolio, should see margins remain around the 3.5% level for the foreseeable future.

The customer loan impairment charge was MAD592mn in 2018. The overall impairment on financial assets was lower at MAD136mn due to reversals and recoveries. The impairment charge was lower at MAD77mn in Q1 2019. We do not expect the full year cost of risk to be above that of 2018; it is likely to be lower as credit risk remains under control.

Earnings and Profitability, Selected Metrics
(% unless stated otherwise)

	2018	2017	2016	2015
Return on Average Assets (ROAA)	1.1	0.7	0.6	0.2
Return on Average RWAs	1.4	0.9	-	-
Operating Profit (pre-impairm.) to Avge Assets	1.8	1.6	1.9	1.7
Net Interest Margin (NIM)	3.5	3.5	3.6	3.6
Cost to Income Ratio (C-I-R)	54.3	54.3	52.5	56.6
Loan Loss Provision Exp. to Operating Profit	61.7	27.4	44.2	82.9

Earnings Quality and Stability

We view CM as having satisfactory earnings quality and stability. Revenue has been very stable for some years, although it grew at a faster rate last year. CM's profitability was previously low but the Bank has recorded a pronounced upward trend in performance over the past few years and returns are now reasonable and in line with the peer average. The Bank's earnings are driven by core net interest income and returns at the operating level have been consistently steady. The Bank's main vulnerability is to any economic downturn in Morocco.

Funding and Liquidity

CI View

CM's liquidity and funding position is viewed as adequate. Its funding profile has been steady for some years and is not expected to change over the short- to medium-term. Around three-quarters of assets are funded by a stable customer deposit base, supported by medium- and long-term funding facilities and a comfortable level of bank deposits. Liquid assets are fairly low and loans to customer deposits on the high side, but the Bank's position is better than peer French-owned banks in Morocco. Moreover, CM's LCR ratio is very good. The overall position is supported by the fact that the Bank is part of the much stronger CA Group.

Funding Diversification and Stability

Customer deposits are the main source of funding for CM, representing 74% of total assets at end 2018. Customer deposit growth has been limited for some time, a symptom of the market; in 2018 the deposit base grew by 2%. Customer deposits were flat in Q1 2019 (the first quarter in Morocco tends to be very slow) but funded 75% of total assets. CM's customer funding base is viewed as very stable.

CM's deposit mix is considered favourable with a strong weighting towards CASA deposits. Demand deposits, which are either no-cost or very low cost, form 65% of total deposits, and rose at a faster rate in 2018. CM's market share of demand deposits increased by 83 basis points in 2018 to 6.3%. Together with savings deposits, CASA deposits formed a higher 88% (2017: 82%) of total customer deposits. Time deposits declined; this was strategic as the Bank focused on its margin.

Deposits from banks more than doubled in 2018 but formed only 5% of total assets. Moreover, CM remained a net placer on the interbank market. In Q1 2019, bank deposits declined and formed a lower 4% of total assets.

Medium and longer term funding is provided by debt securities issued on the local market. These facilities funded 5% of assets at end 2018 and similar at end-March 2019. Further long-term debt comprises subordinated facilities; these stood at MAD1.8bn, funding 3.2% of total assets. Overall, CM's funding profile is stable and diversified. In addition, the Bank has back-up funding facilities (the extent is not provided by management) from CA, if needed. However, this back-up has not been used as there has been no need for it.

Liquidity Risk

Liquidity ratios are satisfactory overall. The net loans to customer deposits ratio rose to a somewhat high 99% in 2018 but it has been in the range of 94%-100% for many years. It remains well below the ratio of the two other French-owned banks in Morocco. The liquid assets ratio (defined narrowly as cash, central bank balances and government securities as a percentage of total assets) was 11.5% which is low. The net broad liquid asset ratio is a slightly better 12.6%. Moreover, the net loans to stable funds ratio is a comfortable 80%. The Bank's LCR (based on ECB definition) was a strong 205% at end 2018 against a minimum required ratio of 90% in Morocco (increased to 100% in 2019). At end Q1 2019, liquidity ratios remained steady, as evidenced by the net loans to customer deposits and net loans to stable funds ratios at 98% and 80%, respectively.

Funding and Liquidity, Selected Metrics
(% unless stated otherwise)

	2018	2017	2016	2015
Liquidity Coverage Ratio (LCR)	205.0	145.0	-	-
Loan-to-Deposit Ratio (LDR)	99.1	96.9	95.4	96.3
Net Loans to Stable Funds	80.0	79.4	77.4	77.4
Wholesale Funding Ratio	13.6	10.6	12.8	14.7
Liquid Asset Ratio	11.5	9.5	12.4	10.5

Capitalisation and Leverage

CI View

CM has sound capital ratios. The Bank's capital position provides an adequate buffer against unforeseen events, with both the CET1 and CAR ratios at good levels and both improving in 2018. We expect year end 2019 capital ratios to remain around similar levels. The Bank has a good record on internal capital generation due to its low dividend payout ratio. Shareholders would be expected to participate in any capital raising activity initiated by the Bank; they have done so in the past. The Bank is likely to continue to issue subordinated debt on the local market, and also to generate capital through retaining a good proportion of net profit.

Capital Quality and Adequacy

CM's CAR strengthened to a solid 15.0% at end 2018 from 13.7%, with the increase driven mainly by retained earnings. The CET 1 ratio was sound at 11.3%. These capital ratios are good by Moroccan bank standards. Equity components adhere to Basel III standards, whilst risk-adjusted capital is based on Basel II standardised approach, including a charge for operational risk. The minimum capital ratio for Moroccan banks is 12%, with a minimum CET1=8% and CET1+AT1=9%. Capital ratios are expected to remain sound over the next one year. Total equity funded a slightly higher 9.4% of total assets at end-March 2019.

Capital Flexibility

CMs CAR is currently solid and there is no immediate need for additional capital. The Bank does have capital flexibility in CI's view. It has a strong parent in CA and would be expected to increase capital if needed (it has in the past, most recently in 2013 through a cash injection). It could issue further Tier 2 in the local market. Internal capital generation has been relatively good and rose further in 2018, to 10.7%. The dividend payout ratio was low. The Bank has reduced the payout ratio over the last few years in order to strengthen core capital (the payout ratio was above 100% in 2015 but has subsequently fallen to 15% YoY).

Capital Adequacy and Leverage, Selected Metrics
(% unless stated otherwise)

	2018	2017	2016	2015
Common Equity Tier 1 Ratio	11.3	11.0	11.0	-
Tier 1 Ratio	11.3	11.0	11.0	-
Total Capital Ratio (CAR)	15.0	13.7	14.5	-
Balance Sheet Leverage	9.3	9.2	8.9	8.4
Internal Capital Generation	10.7	5.6	5.1	-3.5

Operating Environment

Operating Environment Risk Anchor (OPERA)

Morocco's OPERA of 'bb+' (indicating moderate risk) reflects the economy's limited diversification and high reliance on agricultural exports and tourism, sound macroeconomic and fiscal policies, moderate monetary flexibility, in addition to low to moderate institutional strength. It also takes into account low macro-financial risks and the relatively sound banking system. The Moroccan banking sector has performed steadily for many years, reflecting a generally stable operating environment, prudent supervision and good governance at the major banks in the country. The sector is generally sound overall, although NPLs remain quite high and a challenge. There is also an element of large exposure risk in the sector. Aggregated data indicate that the banking sector as a whole is adequately capitalised with capital ratios (Basel III standards) above regulatory standards (12%), but not by a significant margin.

Economic and Financial Conditions

Morocco’s macroeconomic conditions have improved since 2016, but growth has remained below its potential rate of 5.5%, with real output growing by 3.1% in 2018, compared to 4.1% in 2017 due to a contraction in agricultural output. The unemployment rate decreased to 9.8% in 2018, while youth unemployment remains high at 21.8%. Headline inflation (YoY) reached 1.9%, reflecting higher food and energy prices.

External imbalances have fallen substantially following the approval of USD 3.47bn IMF PLL in May 2017, as Morocco’s short to medium term external financing needs were mitigated. Current account deficit increased to 5.0% of GDP in 2018, compared to 3.8% in 2017. Strong manufacturing and phosphates exports failed to offset the impact of increased energy and capital imports in addition to low tourism and remittances receipts. As a result, foreign exchange reserves slightly fell to a still healthy USD24.4bn, from USD 24.9 in 2017. External debt remained manageable at 43.2% of GDP, most of which is public debt or publicly guaranteed debt.

Fiscal consolidation has continued with a deficit, down from 4.5% in 2017 to about 3.7% of GDP in 2018 and is on its course to reach a healthy 3% in 2021, provided that fiscal consolidation efforts persist. This reflects higher VAT and income tax as well as contained current expenditures, which offset the grant shortfall of about 0.3% of GDP and a decline in corporate taxes. Central government debt is moderate at 65.2% of GDP (249.8% of revenues).

Industry Structure and Performance

The Moroccan banking sector has been quite steady for many years, generally performing well with adequate financial metrics. NPLs have fallen marginally as a percentage of gross loans over the past few years but remain somewhat high at around 7.7% of gross loans. Provisioning against NPLs is sufficient but not high – although improved in 2018 as a result of IFRS 9. There is also an element of large exposure risk in the sector due to the characteristics of the economy. Aggregated data indicate that the banking sector as a whole is adequately capitalised with capital ratios (Basel III standards) above regulatory standards (12%) but not by a significant margin. Capital ratios for the major banks are generally in the range of 12-14%, thus do not provide a significant buffer. Profitability has been consistently satisfactory for some time but returns overall lean more towards a modest level. One reason for the latter is that both loan and asset growth has been lack-lustre for some years, in part reflecting economic performance. The customer deposit market has also experienced low growth rates. Customer deposits represent the large bulk of funding and liquidity for the sector is generally comfortable. More modest asset growth domestically has also influenced a number of the larger Moroccan banks to seek opportunities in other markets in Africa. This activity has been through the acquisition of local banks, thus local deposits largely fund their subsidiaries. Banking supervision is viewed as effective and robust but pan-African expansion by the larger domestic banks increases the pressure on the central bank. The main risks and challenges for the banking sector is loan asset quality. A rise in impairments would put pressure on capital buffers particularly given the modest buffers currently in place.

Extraordinary Support

Parent Support

In CI’s opinion there is a high likelihood of the Bank receiving timely and sufficient extraordinary support from its parent, CA, in the event of need. CM has strong integration with CA, a large international financial institution with currently good financial metrics who as parent would be expected to provide support to the much smaller CM.

KEY PERFORMANCE METRICS

CREDIT DU MAROC SA

	(All figures are percentages, unless otherwise stated)	2018Y	2017Y	2016Y	2015Y	2014Y
A	**SIZE FACTORS**					
1	Total Assets (MAD000)	55,896,558	52,513,909	51,596,059	51,383,602	49,061,923
2	Total Assets (USD000)	5,844,414	5,619,526	5,101,903	5,185,235	5,411,043
3	Employees (FTE)	2,562	2,515	-	-	2,498
B	**ASSET QUALITY**					
4	Total Assets Growth Rate	6.4	1.8	0.4	4.7	-2.4
5	Customer Loan Growth Rate	3.4	5.3	0.9	6.1	-3.6
6	Customer Deposit Growth Rate	1.9	4.2	1.4	3.9	0.5
7	NPL Growth Rate	-12.0	-6.3	-7.5	5.1	15.1
8	NPL Ratio	8.4	9.9	11.1	12.1	12.3
9	NPL Coverage Ratio	95.7	89.1	83.4	73.7	68.8
10	Extended NPL Coverage Ratio	221.8	195.9	178.6	-	--
11	Unprovided NPLs to Total Equity	3.2	9.7	16.6	29.9	33.2
12	Loan Loss Provisioning Expenses to Gross Loans	1.3	0.5	1.0	1.7	1.5
13	Government Bond Exposure	90.8	81.8	94.2	92.3	48.2
14	Related Party Exposure	-	-	-	-	-
15	Off Bal Sheet Exposures to Total Assets	21.1	23.0	31.1	-	34.8
C	**EARNINGS AND PROFITABILITY**					
16	Return on Average Assets (ROAA)	1.12	0.70	0.61	0.15	0.48
17	Return on Average Risk-Weighted Assets (RWAs)	1.43	0.89	-	-	-
18	Operating Profit (pre-impairment) to Average Assets	1.81	1.57	1.87	1.68	1.92
19	Operating Income to Average Assets	4.33	4.26	4.25	4.17	4.21
20	Net Interest Margin (NIM)	3.52	3.50	3.56	3.58	3.52
21	Cost of Funds (COF)	1.09	2.15	1.23	1.53	1.93
22	Interest income on Average Assets	4.32	5.24	4.52	4.82	5.11
23	Non-Interest Income to Gross Income	26.1	25.5	19.4	17.3	19.5
24	Net Fee and Commission Income to Non-Interest Income	78.1	78.5	80.1	87.5	77.0
25	Cost to Income Ratio (CIR)	54.3	54.3	52.5	56.6	56.6
26	Loan Loss Provisioning Expenses to Operating Profit	61.7	27.4	44.2	82.9	59.0
27	Total Impairment on Financial Assets to Operating Profit	14.2	27.4	44.2	82.9	59.0
28	Return on Average Equity (ROAE)	12.2	7.7	6.9	1.7	5.6
D	**FUNDING AND LIQUIDITY**					
29	Customer Deposits to Total Liabilities	81.6	85.1	82.9	81.7	82.8
30	Loan-to-Deposit Ratio (LDR)	99.1	96.9	95.4	96.3	94.8
31	Net Loans to Stable Funds	80.0	79.4	77.4	77.4	74.8
32	Wholesale Funding Ratio	13.6	10.6	12.8	14.7	13.8
33	Short-term Wholesale Funding Ratio	-	-	-	-	-
34	Net Stable Funding Ratio (NSFR)	-	-	-	-	-
35	Liquidity Coverage Ratio (LCR)	205.0	145.0	-	-	-
36	Liquid Asset Ratio	11.5	9.5	12.4	10.5	7.5
37	Net Broad Liquid Asset Ratio	12.6	12.8	14.3	14.7	17.7
38	Interbank Ratio	156.3	226.6	145.7	186.9	480.7
39	FX Assets to FX Liabilities	-	-	-	-	-
E	**CAPITALISATION AND LEVERAGE**					
40	Common Equity Tier 1 (CET 1) Ratio	11.3	11.0	11.0	-	-
41	Tier 1 Ratio	11.3	11.0	11.0	-	11.1
42	Total Capital Adequacy Ratio (CAR)	15.0	13.7	14.5	-	14.5
43	Basel III Leverage Ratio	-	-	-	-	-
44	Balance Sheet Leverage	9.3	9.2	8.9	8.4	9.0
45	RWA Density	75.0	78.8	76.9	-	-
46	Internal Capital Generation	10.7	5.6	5.1	-3.5	-1.0
47	Dividend Payout Ratio	14.8	20.8	35.2	106.4	98.8

Note: Ratios annualised where appropriate.

Sources: CI Ratings, Bank financials, S&P Global Market Intelligence (SNL financial data).

SUMMARY FINANCIALS

BALANCE SHEET - ASSETS (MAD000)	2018Y	2017Y	2016Y	Growth (%)		% of Total Assets	
End of Period Date	**31/12/2018**	**31/12/2017**	**31/12/2016**	**31/12/2018**	**31/12/2017**	**31/12/2018**	**31/12/2017**
Cash and Balances with Central Banks	1,753,217	1,061,141	2,065,805	65.2%	-48.6%	3.1%	2.0%
Due from Banks	4,529,007	3,129,347	3,094,843	44.7%	1.1%	8.1%	6.0%
Gross Loans to Customers	44,608,207	43,140,644	40,984,182	3.4%	5.3%	79.8%	82.2%
o/w Non-performing Loans	3,758,401	4,271,923	4,561,460	-12.0%	-6.3%	6.7%	8.1%
Loan Loss Reserves (-)	3,595,252	3,805,820	3,802,517	-5.5%	0.1%	6.4%	7.2%
Net Loans to Customers	41,012,955	39,334,824	37,181,665	4.3%	5.8%	73.4%	74.9%
Total Securities	6,298,983	6,787,578	7,028,083	-7.2%	-3.4%	11.3%	12.9%
o/w Debt issued / gdt. By Natl. Gov.	3,639,841	3,936,487	4,316,106	-7.5%	-8.8%	6.5%	7.5%
Total Financial Assets	**53,594,162**	**50,312,890**	**49,370,396**	**6.5%**	**1.9%**	**95.9%**	**95.8%**
Equity Accounted Investments	-	-	-	-	-	-	-
Total Intangible Assets	193,454	160,728	133,202	20.4%	20.7%	0.3%	0.3%
Fixed Assets	1,247,315	1,342,997	1,390,885	-7.1%	-3.4%	2.2%	2.6%
Deferred Tax Assets	278,766	216,520	206,046	28.7%	5.1%	0.5%	0.4%
Total Other Assets	582,861	480,774	495,530	21.2%	-3.0%	1.0%	0.9%
Total Assets	**55,896,558**	**52,513,909**	**51,596,059**	**6.4%**	**1.8%**	**100.0%**	**100.0%**

BALANCE SHEET - LIABILITIES (MAD000)	2018Y	2017Y	2016Y	Growth (%)		% of Total Assets	
Total Deposits from Banks	2,897,766	1,380,750	2,123,778	109.9%	-35.0%	5.2%	2.6%
Total Deposits from Customers	41,376,789	40,590,600	38,969,287	1.9%	4.2%	74.0%	77.3%
Senior Debt	2,930,180	2,127,343	2,440,185	37.7%	-12.8%	5.2%	4.1%
Total Subordinated Debt	1,767,576	2,025,444	2,025,741	-12.7%	0.0%	3.2%	3.9%
Derivative Liabilities	-	-	-	-	-	-	-
Total Financial Liabilities	**48,987,033**	**46,143,419**	**45,564,686**	**6.2%**	**1.3%**	**87.6%**	**87.9%**
Total Other Liabilities	1,734,567	1,559,395	1,450,037	11.2%	7.5%	3.1%	3.0%
Total Liabilities	**50,721,600**	**47,702,814**	**47,014,723**	**6.3%**	**1.5%**	**90.7%**	**90.8%**
Equity Attributable to Parent Company	5,174,958	4,764,064	4,529,765	8.6%	5.2%	9.3%	9.1%
Non-controlling Interests	-	47,031	51,572	-	-8.8%	-	0.1%
Total Equity	**5,174,958**	**4,811,095**	**4,581,336**	**7.6%**	**5.0%**	**9.3%**	**9.2%**

INCOME STATEMENT (MAD000)	2018Y	2017Y	2016Y	Growth (%)*		% of Average Total Assets*	
Interest Income	2,297,999	2,688,297	2,302,644	-14.5%	16.7%	4.3%	5.2%
Interest Expense	508,208	971,039	558,505	-47.7%	73.9%	1.0%	1.9%
Net Interest Income	**1,789,791**	**1,717,259**	**1,744,139**	**4.2%**	**-1.5%**	**3.4%**	**3.3%**
Fee & Commission Income	-	-	-	-	-	-	-
Fee & Commission Expense	-	-	-	-	-	-	-
Net Fee & Commission Income	**400,728**	**366,625**	**336,611**	**9.3%**	**8.9%**	**0.8%**	**0.7%**
Net Insurance Income	-	-	-	-	-	-	-
Gains on Securities & Other Trading	191,586	176,895	163,465	8.3%	8.2%	0.4%	0.3%
Equity Accounted Results	-	-	-	-	-	-	-
Dividends from Equity Instruments	-	-	-	-	-	-	-
Other Operating Income	-79,050	-76,228	-79,736	3.7%	-4.4%	-0.1%	-0.1%
Operating Income	**2,303,055**	**2,184,551**	**2,164,479**	**5.4%**	**0.9%**	**4.3%**	**4.3%**
Personnel Expense	-	-	-	-	-	-	-
Other Operating Expense	-	-	-	-	-	-	-
Operating Expense	**1,342,435**	**1,376,443**	**1,211,244**	**-2.5%**	**13.6%**	**2.5%**	**2.7%**
Operating Profit (Pre-Impairment)	**960,621**	**808,108**	**953,235**	**18.9%**	**-15.2%**	**1.8%**	**1.6%**
Loans and Credit Commit. Impairment	-	-	-	-	-	-	-
Bank Loans Impairment Exp	-	-	-	-	-	-	-
Customer Loans Impairment Exp	592,441	221,479	421,599	167.5%	-47.5%	1.1%	0.4%
Impairment on Securities	-						
Impairment on Financial Assets	**136,143**	**221,479**	**421,599**	**-38.5%**	**-47.5%**	**0.3%**	**0.4%**
Non-Financial Inv Impairment	72,269	531	2,759	13510.0%	-80.8%	0.1%	-
Asset Writedowns	**208,413**	**222,010**	**424,358**	**-6.1%**	**-47.7%**	**0.4%**	**0.4%**
Non-recurring Revenue	-	-	-	-	-	-	-
Non-recurring Expense	-	-	-	-	-	-	-
Pre-tax Profit	**895,096**	**595,188**	**527,823**	**50.4%**	**12.8%**	**1.7%**	**1.2%**
Provision for Taxes	301,114	234,449	188,956	28.4%	24.1%	0.6%	0.5%
Other After-tax Items	-	-	-	-	-	-	-
Discontinued Operations	-	110	-29,874	-	-100.4%	-	-
Net Profit	**593,982**	**360,849**	**308,993**	**64.6%**	**16.8%**	**1.1%**	**0.7%**
Net Profit Attri. to Non-controlling Int	4,811	-4,541	240	-205.9%	-1992.1%	-	-
Net Profit Attributable to Parent	589,170	365,391	308,753	61.2%	18.3%	1.1%	0.7%

** Ratios annualised where appropriate*

Abbreviated versions of Balance Sheet and Income Statement. Individual line items may not sum to totals. Total Other Assets excludes insurance and non-current assets

Sources: CI Ratings, Bank financials, S&P Global Market Intelligence (SNL financial data)

SUPPLEMENTARY INFORMATION

I. Ratings History (Past Four Actions)

Bank's Issuer Ratings and Outlook

	Current	Sep 2018	Sep 2017	Sep 2016
LT Foreign Currency	BBB-	BBB-	BBB-	BBB-
ST Foreign Currency	A3	A3	A3	A3
Outlook Foreign Currency	Stable	Stable	Stable	Stable
Bank Standalone	bb+	-	-	-
Outlook Bank Standalone	Stable	-	-	-
Core Financial Strength	bb+	-	-	-

Memo:
Sovereign Ratings – Morocco

	Current
Long-Term Foreign Currency	NR*
Short-Term Foreign Currency	NR
Outlook Foreign Currency	NR

*Not Rated publicly; private internal shadow ratings assigned.

II. Regulatory Disclosures

About the Ratings

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

The rating has been disclosed to the rated entity and released with no amendment following that disclosure. Ratings on the issuer were first released in January 1996. The ratings were last updated in September 2018.

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

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