

# MOODY'S

## INVESTORS SERVICE

### CREDIT OPINION

3 December 2018

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
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

Update following affirmation at Ba1, outlook changed to stable

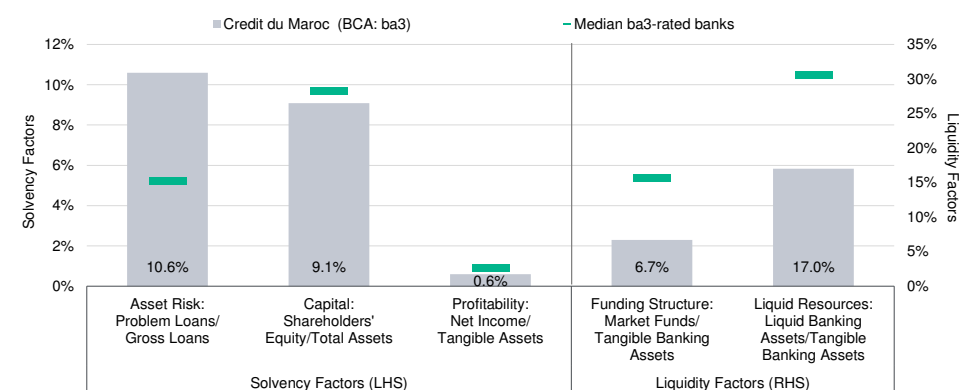
### Summary

The Ba1/Not-Prime local-currency deposit ratings of [Credit du Maroc](#) (CdM) reflect the bank's ba3 Baseline Credit Assessment (BCA) and incorporate two notches of uplift from the bank's BCA, based on our assessment of a high likelihood of affiliate support in the event of need from its French parent bank [Credit Agricole S.A.](#) (CASA, long-term bank deposits A1 positive, Adjusted BCA baa1). Although we also assume a high probability of support from [Morocco](#) government (Ba1 stable), CdM's ratings do not receive any uplift from government support. Furthermore, we have assigned a foreign-currency deposit rating of Ba2, constrained by the relevant country ceiling; national scale local-currency and foreign-currency deposit ratings of Aa1.ma/MA-1 and Aa3.ma/MA-1, respectively; a Counterparty Risk (CR) Assessment of Baa3(cr)/P-3(cr) and a Counterparty Risk Rating (CRR) of Baa3/P-3.

CdM's standalone ba3 BCA is driven by (1) modest profitability metrics in the recent years, although gradually improving after the bank reorganised its commercial activities and increased its provisioning efforts; (2) our expectation that CdM's asset quality will continue to improve in the medium term, although still relatively modest; (3) the bank's moderate capital buffer; and (4) its stable deposit base that supports its funding profile.

Exhibit 1

#### Rating Scorecard - Key financial ratios



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

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

## Credit challenges

- » The bank has modest but gradually improving profitability metrics.
- » The bank has modest asset-quality metrics, but we expect continued improvement over the next 12-18 months.
- » The bank has high, although decreasing, credit concentrations.

## Rating outlook

The outlook on CdM's ratings is in line with the stable outlook assigned to the [Government of Morocco](#)'s Ba1 sovereign rating. The bank's ratings benefit from a high probability of Affiliate support from CASA (long-term bank deposits A1 positive, Adjusted BCA baa1), underpinning a two notches uplift from its ba3 BCA to an Adjusted BCA of ba1. An improvement in CASA's ratings would not introduce any additional uplift. Although we assess a high probability of government support to CdM, considering its importance to the economy and the payment system as the fifth-largest bank, the bank's deposit ratings do not incorporate any government support uplift since the government support provider is at the Ba1 rating level, in line with the bank's Adjusted BCA.

## Factors that could lead to an upgrade

Upward pressure on CdM's ratings could develop following (1) a significant strengthening of the bank's capital buffers; (2) a material reduction in nonperforming loans (NPLs) and borrower concentrations; and (3) material improvements in the domestic operating environment, which would be reflected in the Macro Profile or sovereign rating.

## 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 NPL formation that will also erode the bank's profitability and capital; and (2) a weakening capacity or willingness of CdM's parent bank to provide support.

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.

## Key indicators

Exhibit 2

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

	6-18 <sup>2</sup>	12-17 <sup>2</sup>	12-16 <sup>2</sup>	12-15 <sup>2</sup>	12-14 <sup>2</sup>	CAGR/Avg <sup>3</sup>
Total Assets (MAD million)	52,921	52,514	51,596	51,384	49,062	2.2 <sup>4</sup>
Total Assets (USD million)	5,579	5,619	5,098	5,182	5,413	0.9 <sup>4</sup>
Tangible Common Equity (MAD million)	4,598	4,564	4,337	4,110	4,165	2.9 <sup>4</sup>
Tangible Common Equity (USD million)	485	488	429	414	460	1.5 <sup>4</sup>
Problem Loans / Gross Loans (%)	-	9.9	11.1	12.1	12.3	11.4 <sup>5</sup>
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	-	51.0	56.0	63.7	63.5	58.6 <sup>5</sup>
Net Interest Margin (%)	3.3	3.2	3.3	3.3	3.3	3.3 <sup>5</sup>
Net Income / Tangible Assets (%)	1.0	0.7	0.6	0.1	0.5	0.6 <sup>5</sup>
Cost / Income Ratio (%)	52.2	56.1	54.3	58.8	54.5	55.2 <sup>5</sup>
Market Funds / Tangible Banking Assets (%)	7.5	6.7	8.9	11.7	10.7	9.1 <sup>5</sup>
Liquid Banking Assets / Tangible Banking Assets (%)	21.3	17.0	19.6	20.1	22.7	20.1 <sup>5</sup>
Gross Loans / Due to Customers (%)	106.9	106.3	105.2	105.7	103.5	105.5 <sup>5</sup>

[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.

Source: Moody's Financial Metrics

## Profile

Credit du Maroc's (CdM) history dates back to the establishment of the French banking institution Crédit Lyonnais in Morocco in 1929. In 1963, Crédit Lyonnais and BMCE together created Crédit Lyonnais Maroc (CLM), holding 65% and 35%, respectively, of the new institution's equity. After acquiring the Compagnie Africaine de Banque in 1966, CLM was renamed Crédit du Maroc.

As the fifth-largest bank in Morocco, CdM serves both corporate and retail customers and offers a wide range of products, including consumer credit, savings and investment products, insurance, debit and credit cards, asset management, cash management, trade finance and foreign exchange. CdM had a market share of about 5.1% of total loans and 4.5% of total deposits as of December 2017. As of June 2018, CdM's main shareholder was Credit Agricole S.A. (CASA), with a 78.7% stake in the bank.

## Detailed rating considerations

### CdM's ratings are supported by Morocco's Moderate- Macro Profile

CdM operates in Morocco ([Macro Profile of Moderate-](#)) and benefits from (1) the country's relatively strong and sustained growth over the past several years; (2) its industrial policy agenda that supports the development of higher-value-added exporting sectors; (3) the coherent and sound economic policies and a high degree of political stability; and (4) the country's limited susceptibility to external risks. Nonetheless, operating conditions are also affected by Morocco's significant structural rigidities in terms of purchasing power, unemployment and competitiveness.

Our view of Moroccan banks' operating environment also incorporates modest and broadly stable credit growth, as volatility in agricultural output is offset by solid demand from advanced economies and resilient household consumption. Although banks' asset quality began to stabilise in 2017, reflecting positive domestic economic conditions and improved underwriting standards, the banking system remains vulnerable to banks' increasing exposure to the higher risk Sub-Saharan Africa regions. These risks are somewhat mitigated by the gradual strengthening in bank supervision and macroprudential regulation under the banking law adopted in 2014 and the central bank law adopted in 2017. Moroccan banks benefit from relatively stable funding, consisting primarily of customer deposits.

For more details on the Macro Profile of each country, please refer to [Moody's Compendium of Macro Profiles](#).

### Profitability metrics are modest but gradually improving

Although improving materially since 2016, CdM's profitability metrics remain relatively modest. As of June 2018, the bank's ratio of pre-provision income-to-average risk-weighted assets stood at 2.6% (2.2% in 2015), and its ratio of net income-to-tangible assets increased to 1.0%, up from 0.15% as of December 2015. As of June 2018, the bank's net income amounted to MAD265.3 million (\$27.9 million) for the first half of the year, a surge of 18.6% from a year earlier.

Since 2014, CdM has maintained a stable net interest margin at around 3.2%-3.3%, supported by the increased focus on the collection of relatively low-cost sources of funding, such as current and savings accounts (88% of deposits as of June 2018). Although the bank's lending remained selective in recent years (+3% year on year as of June 2018) positive associated effects on profitability from the bank's transformation of sales and product teams in 2014-2015 have started to materialise since 2016. Indeed, the increase in the bank's operating profits as of June 2018 reflected (1) a 9.8% increase in H1 2018 from the year-earlier period in fees and commissions, fueled by increased product offerings and revamped commercial organisation and targets; (2) improving efficiency, with a cost-to-income ratio of 52.2% against 58.7% in 2015, in line with the bank's focus on reducing operating costs and restructuring operations; and (3) sustained decrease in cost of risk (-6.5% in H1 2018 following a 17.6% reduction in 2017) after the bank had materially increased its provisioning efforts between 2015 and 2016 (loan-loss provisions consumed 70% of pre-provision income in 2015 before reducing to 9.3% as of June 2018) and increased its recoveries on problem loans. In turn, the bank's ratio of net income-to-tangible assets increased to 1.0% as of June 2018 from 0.7% in December 2017.

Over the next 12-18 months, we expect profitability to stabilise because we estimate that cost of risks have probably reached a floor in 2018 and most of the reorganisation initiatives will continue to provide the bank with a more stable revenue generation.

Besides, CdM's earnings-generating capacity is supported by its well-established domestic franchise, both in corporate and retail banking. In the 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 340 branches to source inexpensive current and savings deposits, resulting in a strong net interest margin.

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 continued improvement over the next 12-18 months**

CdM's asset-quality metrics have steadily improved over the recent years from weak levels. As of June 2018, NPLs accounted for 9.2% of gross loans, a decline from 12.1% in 2015 on the back of recoveries, but still well above the Moroccan system average of 7.5%.

The stock of NPLs reduced by 7.5% in 2016, 6.3% in 2017 and 7% in H1 2018, mainly underpinned by improving economic conditions, a selective corporate lending strategy in the past two years, a more active recovery strategy and the implementation of a stricter risk appetite at the bank's retail and factoring specialised subsidiaries.

The remaining large legacy corporate problem loan exposures benefit in part from a CASA guarantee, while the bank continued to increase its provisioning efforts, resulting in a material improvement in NPL coverage to 89.1% as of December 2017 from 68.9% in 2014. The implementation of IFRS 9 provisioning standards in Morocco as of June 2018 resulted in a further increase in loan loss reserves to 97.3% of problem loans as of June 2018.

We expect continued improvement in the NPL ratio over the next 12-18 months and a stabilisation of the cost of risk considering (1) improved Moroccan economic growth, which we expect to remain elevated at around 3% average in the next 18 months and (2) the growing share of the less risky retail segment.

#### **Moderate capitalisation in light of high, although decreasing, credit concentrations**

CdM's reported Tier 1 and capital adequacy ratios (CAR) have remained broadly stable in the recent years and stood at 11.1% and 13.4%, respectively, as of June 2018. This stability results from several capital increases, the majority of which, through the conversion of share dividends over the last five years. This brought the Tier 1 capital on a consolidated basis to MAD4.6 billion as of June 2018 (year-end 2012: MAD3.5 billion) and compensated for the relatively low profits posted between 2014 and 2016. We still believe the bank's main shareholder, CASA, will continue to support its growth and increase in market share. The bank's reported Tier 1 ratio and CAR (in accordance with central bank requirements, which allow for 0% risk weighting of Moroccan government bonds) stood well above the 9% and 12% respective regulatory minimum implemented in 2013 and in line with the system average of 10.9% and 13.9% as of December 2017. We consider these levels to be moderate in light of (1) the 11.5% median Tier 1 ratio for global peers with a BCA

of ba3; (2) the high single-name borrower concentration (2.4x Tier 1 capital), which, although decreasing, renders the bank vulnerable to event risk in case a large borrower defaults; and (3) the 100% risk-weight assigned to Moroccan government securities, our standard adjustment, which brings the bank's Tier 1 and CAR ratios to 10.2% and 12.4%, respectively.

However, in the recent years, CdM increased its provisioning efforts, further boosted by the implementation of IFRS 9 standards in H1 2018, with loan-loss reserves reaching 97.3% of NPLs as of June 2018 (68.9% in 2014). Although the bank's problem loans continue to represent a high proportion of its loss-absorption buffers, at around 45.8% of its shareholders' equity and loan-loss reserves as of June 2018, it has steadily decreased from 62.3% in 2015 and remaining risk is also partly mitigated by collateralisation of corporate NPLs, which reduces the loss expectations on the loan portfolio.

We expect CdM's capital ratios to remain broadly stable over the next 12-18 months as credit growth will be relatively modest, focusing mainly on the retail segment and earnings generation increases. As of March 2018, CdM reported a modest MAD242 million gross impact on capital from the full implementation of IFRS 9 accounting standards following strong provisioning efforts that the bank undertook up to 2015 (10bps impact on the CAR ratio as of March 2018). While pressures on asset quality and profitability are easing, the bank's consistent efforts to reduce its risk concentration (its top 10 credits represented around 20% of total credits in 2017 versus 35% in 2010), combined with the active provisioning of the large corporate segment in 2013-15, should mitigate that risk.

### Funding profile underpinned by a stable deposit base

CdM is predominantly deposit-funded, with customer deposits accounting for 84% of non-equity liabilities as of June 2018. The bank maintains a relatively solid and stable funding structure, with current and savings accounts representing around 88% of total deposits as of June 2018 and the top 20 depositors representing less than 5% of total deposits.

CdM grew its current and savings account deposit base by 3.9% in 2017 and 17% in 2016, primarily from retail depositors. Over the same period, the bank reduced its recourse to higher cost term deposits by 24%, since year-end 2015. Customer deposits increased by 4.2% in 2017, slower than the 5.8% net loan growth over the same period. As a result, the ratio of net loans-to-customer deposits remained elevated at 97% as of December 2017 (stable as of June 2018). Market funding declined in the recent years and accounted for 7.4% of tangible banking assets as of June 2018 (11.7% as of December 2015). We expect the bank's funding profile to remain broadly stable over the next 12-18 months because we expect deposit growth to remain in line with a modest credit growth in the Moroccan banking system, which will be focusing primarily on retail banking customers.

CdM's liquidity buffers remain sound, although moderating, with a ratio of liquid assets-to-tangible assets of 21.3% as of June 2018 (December 2017: 17%). 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.

## 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

We assess the probability of systemic support to CdM to be high. This assessment is based on the bank's importance to the economy and the payment system as the fifth-largest bank in Morocco, with a deposit market share of around 4.5%, and a key lender to domestic businesses. Nevertheless, since the systemic support provider is at the Ba1 rating level, CdM's deposit ratings do not receive any additional government support uplift.

### Counterparty Risk (CR) Assessment

#### 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 the deposit ratings, 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 in order to limit contagion, minimise losses and avoid disruption of critical functions.

### Counterparty Risk Rating

Moody's Counterparty Risk Ratings are opinions of the ability of entities to honour the uncollateralized 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 uncollateralized portion of payables arising from derivatives transactions and the uncollateralized 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 CRR is placed at Baa3 / P-3

We consider Morocco jurisdiction with a non-operational resolution (non-ORR) regime. For non-ORR 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)

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. 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 the agency's global scale ratings. For example, NSRs in Morocco have the country abbreviation "ma".

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

### Sources of facts and figures cited in this report

Unless noted otherwise, we have sourced data relating to systemwide trends and market shares from the central bank. The global medians quoted in the report have been updated as of the end of September 2017 and are calculated using the most recent full-year financial data for rated 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 13 June 2017).

### 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%**

Factor	Historic Ratio	Initial Score	Expected Trend	Assigned Score	Key driver #1	Key driver #2
Solvency						
Asset Risk						
Problem Loans / Gross Loans	--	--	--	b2	Collateral and provisioning coverage	Single name concentration
Capital						
TCE / RWA	--	--	--	ba3	Capital retention	Expected trend
Profitability						
Net Income / Tangible Assets	0.6%	ba3	← →	ba3	Loan loss charge coverage	Expected trend
Combined Solvency Score		b1		b1		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	6.7%	baa2	← →	baa2	Deposit quality	
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	17.0%	ba3	← →	ba3	Stock of liquid assets	
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 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 Financial Metrics

## 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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