

# MOODY'S

## INVESTORS SERVICE

### CREDIT OPINION

16 January 2018

#### Update

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#### RATINGS

##### Credit du Maroc

Domicile	Morocco
Long Term Debt	Not Assigned
Long Term Deposit	Ba2
Type	LT Bank Deposits - Fgn Curr
Outlook	Not Assigned

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

### Semiannual update

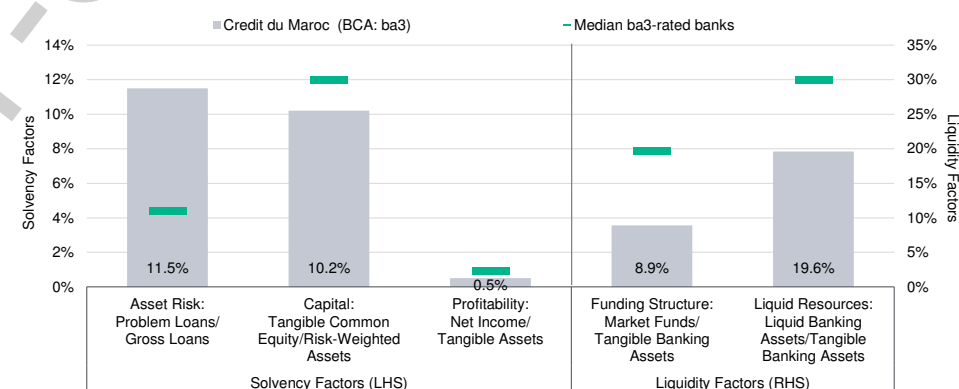
#### Summary

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 stable, Adjusted BCA baa1). Although we also assume a high probability of government support, 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; and a Counterparty Risk (CR) Assessment of Baa3(cr)/P-3(cr).

CdM's standalone ba3 BCA is driven by (1) weak 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 weak; (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 weak profitability metrics, but pressures are easing.
- » The bank has weak 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 positive outlook assigned to the [Government of Morocco](#)'s Ba1 sovereign rating. 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, which reflects a ba3 BCA and two notches of affiliate support uplift from its French majority shareholder, CASA. However, we assess the probability of government support to CdM to be high, considering its importance to the economy and the payment system as the fifth-largest bank. Hence, an improvement in the sovereign rating could introduce one notch of government support uplift on top of 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 is unlikely in the short term, given the positive outlook. However, in the medium term, negative pressure 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]

	6-17 <sup>2</sup>	12-16 <sup>2</sup>	12-15 <sup>2</sup>	12-14 <sup>2</sup>	12-13 <sup>2</sup>	CAGR/Avg <sup>3</sup>
Total Assets (MAD million)	50,944	51,596	51,384	49,062	50,248	0.4 <sup>4</sup>
Total Assets (USD million)	5,276	5,098	5,182	5,413	6,156	-4.3 <sup>4</sup>
Tangible Common Equity (MAD million)	4,441	4,337	4,110	4,165	4,045	2.7 <sup>4</sup>
Tangible Common Equity (USD million)	460	429	414	460	496	-2.1 <sup>4</sup>
Problem Loans / Gross Loans (%)	10.5	11.1	12.1	12.3	10.3	11.3 <sup>5</sup>
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	52.6	56.0	63.7	63.5	59.2	59.0 <sup>5</sup>
Net Interest Margin (%)	3.2	3.3	3.3	3.3	3.3	3.3 <sup>5</sup>
Net Income / Tangible Assets (%)	0.9	0.6	0.1	0.5	0.6	0.5 <sup>5</sup>
Cost / Income Ratio (%)	53.7	54.3	58.8	54.5	54.2	55.1 <sup>5</sup>
Market Funds / Tangible Banking Assets (%)	7.1	8.9	11.7	10.7	13.5	10.4 <sup>5</sup>
Liquid Banking Assets / Tangible Banking Assets (%)	17.3	19.6	20.1	22.7	22.8	20.5 <sup>5</sup>
Gross Loans / Due to Customers (%)	107.2	105.2	105.7	103.5	107.9	105.9 <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% of total loans and 4.6% of total deposits as of December 2016. As of March 2017, 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 (1) the historical volatility of credit growth in the country, underpinned by volatile agricultural output and the dependence of exporting industries on European economic growth, and (2) banks' increasing exposure to the higher risk Sub-Saharan Africa regions. These risks are somewhat mitigated by the gradual strengthening of bank supervision and macroprudential regulation in Morocco, to be codified in an upcoming banking law. 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 weak but pressures are easing

Although improving materially since 2016, CdM's profitability metrics remain relatively weak. As of June 2017, the bank's ratio of pre-provision income-to-average risk-weighted assets stood at 2.4% (2.2% in 2015), and its ratio of net income-to-tangible assets increased to 0.9%, up from 0.15% as of December 2015. As of June 2017, the bank's net income amounted to MAD222.7 million (\$23.7 million), a surge of 38% 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 (87% of deposits as of September 2017). However, the profitability of the bank in 2014 and 2015 was hurt by a slowdown in lending activity (gross loans reduced by 4.8% in 2014) as a result of a complete reorganisation of the sales and product teams to improve commercial efficiency and customer service. Although the bank's lending remained selective in recent years (+0.5% in 2016 and +2.2% during the first half of 2017), positive associated effects - from the bank's transformation - on profitability have started to materialise since 2016. Indeed, the increase in the bank's operating profits during the first six months of 2017 reflected (1) a 9.2% increase from the year-earlier period in fees and commissions, fueled by increased product offerings and a revamped commercial organisation and targets; (2) improving efficiency, with a cost-to-income ratio of 53.7% against 58.7% in 2015, in line with the bank's focus on reducing operating costs and restructuring operations; and (3) a 38% reduction from the year-earlier period in the bank's cost of risk after it had materially increased its provisioning efforts in previous years (loan-loss provisions consumed 70% of pre-provision income in 2015 before reducing to 33.2% as of June 2017) and its recoveries on problem loans. In turn, the bank's ratio of net income-to-tangible assets managed to increase to 0.9% during H1 2017 from 0.6% in 2016 despite a 30.7% contraction in market activity-related income, following exceptional fixed-income returns in 2016.

Over the next 12-18 months, we expect profitability to remain weak but to improve further because we estimate that (1) the reorganisation initiatives will continue to provide the bank with higher and more stable revenue generation, benefiting profitability metrics; and (2) the cost of risk has likely reached a peak in 2015 and has been consistently declining since 2016.

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. As of September 2017, current and savings accounts represented 87% of total client deposits.

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 deteriorated over the recent years. As of June 2017, **NPLs accounted for 10.5% of total loans**, a decline from 12.1% in 2015 on the back of recoveries, but still well above the Moroccan system average of 7.4% during the same period.

The growth in the volume of NPLs was mainly driven in the recent years by an increase in the volume of corporate NPLs owing to the bank's classification, which typically follows stricter standards than its domestic peers, of some large legacy corporate loans in the shipping, agriculture or real estate sectors, all affected by subdued economic growth in Morocco and a transformation of the country's industrial strategy. However, the stock of NPLs reduced by 7.5% in 2016 and 3.4% in H1 2017, 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 from a high level of collateralisation (around 100% of top 20 NPLs in 2016) and in part from a CASA guarantee, while the bank continued to increase its provisioning efforts, resulting in a material **improvement in NPL coverage to 89.4% as of June 2017** from 68.9% in 2014.

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 3.5% in 2018 and 4.5% in 2019; (2) the conservative classification practice at CdM; and (3) 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 **10.3% and 14.3%, respectively, as of June 2017**. This stability results from several capital increases, the majority of which, through the conversion





of share dividends, brought the **Tier 1 capital on a consolidated basis to MAD4.0 billion as of June 2017** (year-end 2012: MAD3.5 billion) and compensated for the decline in profitability. 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 11% and 14.2% as of December 2016. We consider these levels to be moderate in light of (1) the 11.9% median Tier 1 ratio for global peers with a BCA of ba3; (2) the high single-name borrower concentration (2.9x 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 9.3% and 13.0%, respectively.

However, in the recent years, CdM increased its provisioning efforts, with loan-loss reserves reaching 89.4% of NPLs as of June 2017 (68.9% in 2014), well above the 70% Moroccan system average. However, the bank's problem loans continue to represent a very high, although decreasing, proportion of its loss-absorption buffers, at around 51.4% of its shareholders' equity and loan-loss reserves as of June 2017, which is partly mitigated by a high level of 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. Nonetheless, capital could be negatively affected by the implementation of IFRS 9 standards, if fully implemented in 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 22% of total credits in 2016 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 86% of non-equity liabilities as of September 2017. The bank maintains a relatively solid and stable funding structure, with current and savings accounts representing around 87% of total deposits as of September 2017 and the top 20 depositors representing less than 6% of total deposits.

CdM grew its current and savings account deposit base by 3% in the first nine months of 2017 and 7% in 2016, primarily from retail depositors. Over the same period, the bank reduced its recourse to higher cost-term deposits by 27%, since year-end 2015. Customer deposits increased by 2.5% in the first nine months of 2017, higher than the 0.6% loan growth over the same period. As a result, the ratio of net loans-to-customer deposits reduced slightly but remained elevated at 94% as of September 2017. Market funding declined in the recent years and accounted for 5.5% of tangible banking assets as of September 2017 (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 higher than credit growth in the Moroccan banking system, which will be focusing primarily on retail banking customers.

CdM's liquidity buffers remain robust, although moderating, with a ratio of liquid assets-to-tangible assets of 15.3% as of September 2017 (December 2015: 20.0%). 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 4.6%, 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.

### 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

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## Rating methodology and scorecard factors

Exhibit 3

### Credit du Maroc

#### Macro Factors

Weighted Macro Profile      Moderate      100%

Factor	Historic Ratio	Macro Adjusted Score	Credit Trend	Assigned Score	Key driver #1	Key driver #2
Solvency						
Asset Risk						
Problem Loans / Gross Loans	11.5%	b3	← →	b3	Single name concentration	Expected trend
Capital						
TCE / RWA	--	--	--	ba3	Capital retention	Expected trend
Profitability						
Net Income / Tangible Assets	0.5%	ba3	← →	ba3	Expected trend	Loan loss charge coverage
Combined Solvency Score		b1		b1		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	8.9%	baa3	← →	baa3	Deposit quality	Expected trend
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	19.6%	ba3	← →	ba3	Expected trend	
Combined Liquidity Score		ba1		ba1		
Financial Profile				ba3		
Business Diversification				0		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				0		
Sovereign or Affiliate constraint:				Ba1		
Scorecard Calculated BCA range				ba2-b1		
Assigned BCA				ba3		
Affiliate Support notching				--		
Adjusted BCA				ba1		

Instrument class	Loss Given Failure notching	Additional Notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Assessment	1	0	baa3 (cr)	0	Baa3 (cr)	--
Deposits	0	0	ba1	0	Ba1	Ba2

Source: Moody's Financial Metrics

## Ratings

Exhibit 4

Category      Moody's Rating

#### CREDIT DU MAROC

Outlook	Positive
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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REPORT NUMBER

1107748



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