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CREDIT OPINION

5 September 2023

Update

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RATINGS

Credit du Maroc

Domicile	Casablanca, Morocco
Long Term CRR	Ba1
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.

Contacts

Badis Shubailat +971.4.237.9505
Analyst
badis.shubailat@moodys.com

Azhar Bouzidi +971.4.503.9835
Associate Analyst
azhar.bouzidi@moodys.com

Antonello Aquino +44.20.7772.1582
Associate Managing Director
antonello.aquino@moodys.com

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Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

Credit du Maroc

Update to credit analysis

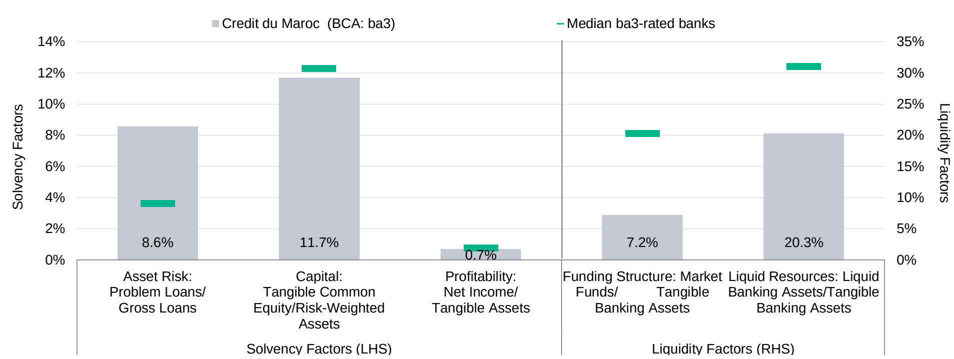
Summary

Credit du Maroc's (CdM) Ba2 long-term deposit ratings is one notch above its ba3 Baseline Credit Assessment (BCA) capturing one notch of rating uplift from the Government of Morocco (Ba1 stable) based on our assessment of a high probability of government support, in case of need.

CdM's ba3 BCA reflects its sound capitalisation and profitability that is recovering from the pandemic, as well as stable funding and solid liquidity. These strengths are moderated by the bank's high credit concentrations and the repercussions from the Russia-Ukraine military conflict with inflationary pressures on the Moroccan economy that will weigh on the bank's already high stock of problem loans.

CdM's long-term deposit ratings have a stable outlook. The bank also carries national scale local and foreign currency deposit ratings of Aa3.ma/MA-1.

Exhibit 1
Rating Scorecard - Key financial ratios



The problem loan and profitability ratios are the weaker of the average three-year ratios and the latest reported ratios. The capital ratio is the latest reported figure. The funding structure and liquid asset ratios are the latest figures
Source: Moody's Financial Metrics

Credit strengths

» Sound capitalisation, supported by improved capital generation

» Sound profitability

» Stable deposit base and sound liquidity

Credit challenges

» Lagged impact of inflationary pressures pose risk to asset quality; high stock of problem loans reflect credit concentrations, legacy exposures and conservative classification

Outlook

The stable outlook on CdM's long-term ratings is in line with the stable outlook on the government of Morocco's rating and reflects our expectation that the bank's moderate profitability and sound capitalization as well as a stable and sizeable deposit base will continue to balance risks from high credit concentrations over the next 12 to 18 months.

Factors that could lead to an upgrade

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

Factors that could lead to a downgrade

Downward pressure on the ratings could emerge from a significant deterioration in capitalization, on the back of sizeable provisioning; a significant weakening in asset quality; or lower willingness from the government to extend support to CdM in case of need. The agency may also downgrade the ratings in the event of a less conservative risk management and strategy.

Key indicators

Exhibit 2

Credit du Maroc (Consolidated Financials) [1]

	06-23[2]	12-22[2]	12-21[2]	12-20[2]	12-19[2]	CAGR/Avg.[3]
Total Assets (MAD Million)	66,479.9	62,862.5	59,346.0	57,913.4	59,159.5	3.4[4]
Total Assets (USD Million)	6,711.9	6,011.2	6,417.8	6,504.1	6,188.2	2.3[4]
Tangible Common Equity (MAD Million)	5,618.8	5,697.4	5,716.9	5,274.0	5,209.4	2.2[4]
Tangible Common Equity (USD Million)	567.3	544.8	618.2	592.3	544.9	1.2[4]
Problem Loans / Gross Loans (%)	8.0	8.1	8.5	9.8	8.0	8.5[5]
Tangible Common Equity / Risk Weighted Assets (%)	11.7	11.4	11.9	11.5	11.1	11.5[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	46.5	44.5	43.2	48.3	41.4	44.7[5]
Net Interest Margin (%)	3.3	3.2	3.3	3.1	3.2	3.2[5]
PPI / Average RWA (%)	2.9	2.2	2.4	2.3	2.4	2.4[6]
Net Income / Tangible Assets (%)	0.9	0.7	1.1	0.3	0.8	0.8[5]
Cost / Income Ratio (%)	52.9	60.1	56.2	57.3	55.5	56.4[5]
Market Funds / Tangible Banking Assets (%)	5.6	7.2	6.3	6.2	9.6	7.0[5]
Liquid Banking Assets / Tangible Banking Assets (%)	18.2	20.3	22.0	23.0	24.6	21.6[5]
Gross Loans / Due to Customers (%)	101.7	104.5	102.0	102.6	103.3	102.8[5]

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel II; IFRS. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel II periods.
Sources: Moody's Investors Service and company filings

Profile

Credit du Maroc (CdM) is a Casablanca-based bank established in 1929 as the Moroccan branch of Credit Lyonnais. Credit Lyonnais was renamed Credit Lyonnais Maroc in 1963, then Credit du Maroc in 1966. CdM is the fifth-largest bank in Morocco, with total assets of

$6.01 billion as of December 2022. As of December 2022, CdM had market shares of around 4.8% in terms of loans and around 4.3% in terms of deposits in Morocco.

CdM operates within two main business segments: Banque Maroc et Banque Offshore (99% of the operating income in the first half of 2021) and Societe de financement specialises (1%). As of December 2022, the Moroccan group, Holmarcom became the bank's new largest shareholder with a 63.7% majority stake. Other shareholders include CASA (15%) and Wafa Assurance (10.7%).

For assessing CdM's operating environment, we use Morocco's Moderate- Macro Profile, given that the bank operates exclusively in Morocco (see Exhibit 3).

Recent developments

On 7 December 2022, Credit Agricole S.A. (CASA: long-term deposit rating of Aa3 stable, Adjusted BCA of a3 and BCA of baa2) announced that it effectively sold the first tranche of 63.7% of its stake in Crédit du Maroc to the Moroccan group, Holmarcom.

According to the agreement, Crédit Agricole S.A. will sell the second tranche covering the remaining 15% to the Holmarcom group within the next 18 months.

This transaction occurred after having obtained the required regulatory approvals in line with the schedule announced in April 2022 by Crédit Agricole S.A. as part of the agreement to sell its total 78.7% stake in Crédit du Maroc.

Detailed credit considerations

Inflationary pressures pose risk to asset quality; relatively high stock of problem loans reflects credit concentrations, legacy exposures and conservative classification

We anticipate that asset quality will weaken due to inflationary pressures stemming from the repercussions of the Russia-Ukraine conflict, which will impact borrowers' repayment capacity in the country. This deterioration follows an improvement in asset-quality metrics in recent years, driven by the bank's more conservative risk appetite, enhanced risk management practices (including stricter risk appetite and a proactive recovery approach), and alignment of its risk management framework with that of Credit Agricole, which remains a minority shareholder in the bank. However, this alignment may unwind as CASA gradually withdraws its influence on the bank over the coming year.

In Morocco, we expect loans to households (31% of systemwide lending) and small businesses (25%) to be more vulnerable to cost increases than corporates. Separately, we expect real estate developers (5% of total loans) and the construction industry to continue to face financial difficulties.

Similar to those of other Moroccan banks, CdM's high credit concentrations pose risks to its asset quality. Nevertheless, the bank has made noticeable and consistent efforts to reduce this concentration in recent years. As of December 2022, the top 20 credits accounted for 22% of total credits (approximately 214% of the bank's Tier 1 capital), compared to 35% in December 2010.

As of December 2022, problem loans stood at 8.1% of gross loans (8.5% as of June 2023), with a significant increase observed in 2020 to 9.9%, reflecting the economic impact of the pandemic and subdued economic growth in Morocco until 2022. CdM's problem loan ratio is broadly in line with the 9.2% local average for Moroccan banks.

The balance of loans and advances that are not impaired but exhibit a significant increase in credit risk — classified in the Stage 2 bucket under IFRS9 — significantly increased to 9.0% of gross loans as of June 2023 (6.0% as of December 2022) and was slightly above the average for Moroccan banks (around 8.5%).

The bank's loan-loss reserves/problem loans was 83% as of June 2023 (89% local average) and 86% as of year-end 2022, compared with 74% as of year-end 2015. The improvement between 2015 and 2019 reflected the bank's adoption of IFRS9 accounting standards in 2018, following a portfolio clean-up and active provisioning in the large corporate segment during 2015-17.

Sound profitability

CdM's profitability is expected to face pressure in the next 12-18 months due to higher loan-loss provisioning resulting from inflationary pressures. While profitability improved from 2015-2019, it declined significantly in 2020 due to pandemic-related provisions. Net income/tangible banking assets recovered to 0.7% in 2022 (0.9% in H1 2023), bouncing back from a dip to 0.3% in 2020.

Prior to the pandemic, the improvement in profitability in 2015-19 reflects faster growth in the retail segment (consumer lending and mortgages), combined with increased non-interest income resulting from a wider product offering in investment banking, private banking, consumer finance, insurance, factoring and treasury. CdM's higher profitability also reflected an improvement in efficiency and a reduction in cost of risk over that period.

CdM's sound underlying profitability reflects its established domestic franchise in Morocco. This was only partly supported by its association with Credit Agricole given its strong brand name and large network in France that helps attract non-resident Moroccan expats based in France. Following the closing of the sale of the parent's majority stake in the bank, CdM will no longer leverage Credit Agricole's strong franchise.

CdM's net interest margin remained stable at 3.2% in 2022 (3.3% for the first half of 2023), while non-interest income increased to 25.5% of net revenue during full year 2022 (27.2% as of June 2023). CdM's cost-to-income ratio (including income and expenses for other activities) increased to 60% in 2022 before improving to 52.9% as of June 2023 - broadly in line with the local average of 50% - despite the contribution to a national special fund for the management of the coronavirus pandemic during 2020.

The bank's cost of risk increased materially during 2015-16 because of a portfolio clean up (156 bps in 2015 and 123 bps in 2016), after which provisioning requirements declined to 31 bps in 2018 and during 33 bps in 2019.

Following the coronavirus outbreak, the cost of risk increased to 143 bps in 2020 as a result of increased provisioning efforts because of the difficult environment before easing to 52 bps in 2022 and 50 bps in H1-2023. Loan-loss provisions consumed 24.8% of the bank's pre-provision income during the full year 2022 (19.4% as of June 2023). We expect the cost of risk to remain under some pressure over the next 12-18 months due to still lagging economic effects of inflationary pressures on the Moroccan economy.

Sound capitalisation supported by improved capital generation

We expect CdM's capitalisation to remain sound, reflecting modest credit growth, improved earnings generation and continued sizeable retention.

We adjust the bank's capitalisation ratios for (1) minority interests, a capital component that is unlikely to provide absorption at the holding company level; and (2) the risk weighting of the bank's holding of Moroccan government securities, in line with the Basel II framework.

However, contrary to other Moroccan banks that we rate, we do not adjust CdM's capitalisation for the impact of IFRS9 adoption. This reflects the fact that CdM fully absorbed the IFRS9 adoption impact upon introduction in 2018, while its local peers phased-in the impact over 2018-23.

CdM's tangible common equity (TCE)/risk-weighted assets was at 11.4% in 2022 (11.9% as of June 2023), which is well above the 7.4% local average. This TCE ratio incorporates the aforementioned adjustment for minority interest and for government securities holdings.

CdM's reported regulatory capital figures, with a Basel II Tier 1 ratio of 12.1% and a total capital adequacy ratio of 14.5% as of December 2022 (11.8% and 14.2% as of June 2023, respectively), were solid and above the local regulatory minima. As of 1 January 2019, Moroccan banks had to comply with a minimum 9.0% Tier I capital ratio.

Funding underpinned by a stable deposit base and sound liquidity

We expect CdM to remain predominantly deposit funded (customer deposits accounted for 85.90% of non-equity liabilities as of December 2022 and 87.0% as of June 2023), with the expansion of retail activities supporting deposit collection. CdM's deposit base primarily comprises low-cost current and savings accounts, which represented 90% of total deposits as of December 2022 (88% as of June 2023).

In addition, the bank's funding base is relatively granular, with the top 20 depositors representing 10.5% of total deposits as of December 2022. The bank's market funding was modest at 7.2% of tangible banking assets as of December 2022 (5.6% as of June 2023), which is credit positive.

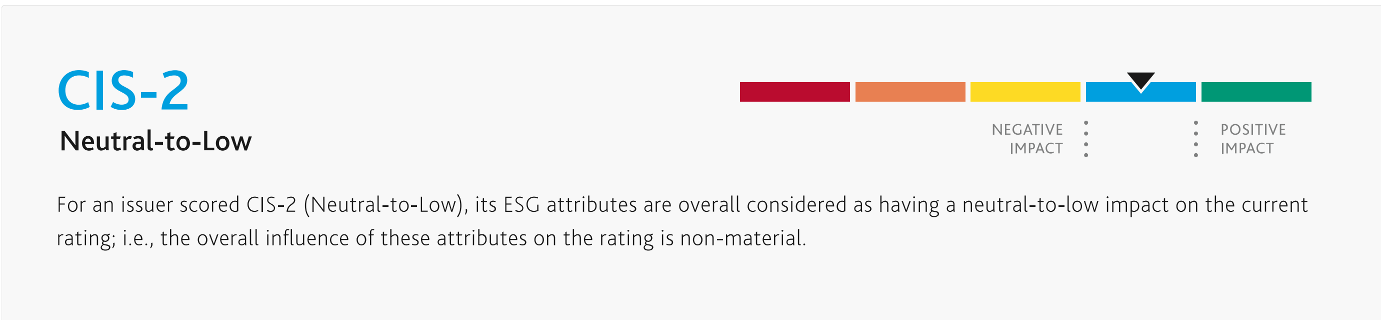
CdM's liquidity buffers will remain relatively sound, with liquid assets/tangible assets of 20% as of December 2022 (18.2% as of June 2023). However, this level compares unfavourably with the 36.1% local average.

CdM's Basel III liquidity coverage ratio was strong at 134.5% as of December 2022, which is higher than the 100% minimum regulatory requirement. However, the bank's net loans/customer deposits remains relatively high at 97% as of December 2022 (unchanged as of June 2023).

ESG considerations

Credit du Maroc's ESG Credit Impact Score is Neutral-to-Low CIS-2

Exhibit 3
ESG Credit Impact Score



Source: Moody's Investors Service

Credit du Maroc's **CIS-2** reflects limited impact from environmental and social risks on the rating to date and low governance risk although ownership, board oversight and management are evolving.

Exhibit 4
ESG Issuer Profile Scores

Source: Moody's Investors Service

Environmental

CdM faces moderate environmental risks. Physical climate risks reflect Morocco's strong dependence on rain-fed agriculture, and water scarcity that is leading to dwindling groundwater reserves. In addition, the importance of the agricultural sector in the national output and in employment (primary sector accounts for 10-15% of GDP and about 35% of total employment) contributes to a volatile growth pattern and exposes Moroccan banks' credit profiles to environmental risk. Mitigants to environmental risks include CdM's loan book diversification. In line with global peers, the bank is facing mounting business risks and stakeholder pressure to meet broader carbon transition goals. In response, CdM is engaging in developing its climate risk and portfolio management capabilities.

Social

CdM faces high industrywide social risks. Customer relations risks captures increased supervisory focus on promoting the fair treatment of financial customers. Risks related to societal and demographic trends reflect the relatively modest population growth and the already high banking penetration, which together limit business growth prospects in Morocco. High cyber and personal data risks are mitigated by a solid and improving IT framework. The aforementioned risks are partly moderated by some banks' growing exposure to Sub-Saharan Africa.

Governance

Credit du Maroc faces low governance risks. The bank has sound corporate governance practices and conservative risk management. However, Credit du Maroc's evolving ownership, board oversight and management structure can introduce change in terms of financial strategy, risk appetite and governance profile.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Support and structural considerations

Government support considerations

CdM's local and foreign currency deposit ratings at Ba2 incorporate a one notch rating uplift from government support from the bank's ba3 BCA based on our continued assessment of a high probability of government support in case of need. These support assumptions reflect our assessment of the bank's importance to the local financial system as the fifth-largest bank in the country with around 4% deposit market share.

Counterparty Risk (CR) Assessment

CdM's CR Assessment is positioned at Ba1(cr)/NP(cr)

The CR Assessment, before government support, is positioned one notch above the Adjusted BCA of ba3, reflecting our view that its probability of default is lower than that of deposits. We believe senior obligations represented by the CR Assessment will more likely be preserved to limit contagion, minimize losses and avoid the disruption of critical functions.

Counterparty Risk Ratings (CRRs)

CdM's CRRs are positioned at Ba1/NP

National scale rating (NSR)

NSRs are not intended to rank credits across multiple countries, instead they provide a measure of relative creditworthiness within a single country (Morocco in the case of CdM). Our NSRs are given a two-letter suffix to distinguish them from our global scale ratings. For example, NSRs in Morocco have the country abbreviation “ma”.

CdM’s NSRs of Aa3.ma/MA-1 for local and foreign currency deposits are derived from the bank’s global scale deposit ratings and demonstrate that CdM is one of the strongest credits in the country, primarily reflecting the high probability of parental support and its strong funding and liquidity metrics.

Sources of facts and figures cited in this report

The global medians quoted in the report are calculated using the most recent full-year financial data for rated banks. Local averages used in this report are as of December 2021 for Moroccan banks that we rate. 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 titled Financial Statement Adjustments in the Analysis of Financial Institutions (published on 9 August 2018).

About Moody's Bank Scorecard

Our scorecard is designed to capture, express and explain in summary form our Rating Committee's judgement. When read in conjunction with our research, a fulsome presentation of our judgement is expressed. As a result, the output of our scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating methodology and scorecard factors

Exhibit 5
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	8.6%	b2	↔	b2	Collateral and provisioning coverage	Single name concentration
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel II)	11.7%	ba2	↔	ba3	Capital retention	Expected trend
Profitability						
Net Income / Tangible Assets	0.7%	ba3	↔	ba2	Loan loss charge coverage	Expected trend
Combined Solvency Score		ba3		b1		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	7.2%	baa2	↔	baa3	Deposit quality	
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	20.3%	ba2	↔	ba2	Stock of liquid assets	
Combined Liquidity Score		baa3		ba1		
Financial Profile				ba3		
Qualitative Adjustments				Adjustment		
Business Diversification				0		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				0		
Sovereign or Affiliate constraint				Ba1		
BCA Scorecard-indicated Outcome - Range				ba2 - b1		
Assigned BCA				ba3		
Affiliate Support notching				0		
Adjusted BCA				ba3		

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	ba2	1	Ba1	Ba1
Counterparty Risk Assessment	1	0	ba2 (cr)	1	Ba1(cr)	
Deposits	0	0	ba3	1	Ba2	Ba2

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.
Source: Moody's Investors Service

Ratings

Exhibit 6

Category	Moody's Rating
CREDIT DU MAROC	
Outlook	Stable
Counterparty Risk Rating	Ba1/NP
Bank Deposits	Ba2/NP
Baseline Credit Assessment	ba3
Adjusted Baseline Credit Assessment	ba3
Counterparty Risk Assessment	Ba1(cr)/NP(cr)

Source: Moody's Investors Service

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