Credit Rating Announcement

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Crédit du Maroc's Ratings Affirmed; Outlook Revised to Negative

Capital Intelligence Ratings (CI Ratings or CI) today announced that it has revised the Outlook for the the Long-Term Foreign Currency Rating (LT FCR) and Bank Standalone Rating (BSR) of Crédit du Maroc (CM) to Negative from Stable. At the same time, CI Ratings has affirmed the Bank's Long-Term Foreign Currency Rating (LT FCR) and Short-Term Foreign Currency Rating (ST FCR) of 'BBB-' and 'A3', respectively. CM's BSR and Core Financial Strength (CFS) rating of 'bb+' have also been affirmed. The Extraordinary Support Level (ESL) has been adjusted to Moderate from High.

The revision of the LT FCR Outlook is in response to the imminent sale of the majority shareholder's − France's Crédit Agricole S.A. (CA) − stake in CM. CA and the Moroccan Holmarcom Group recently concluded a share purchase agreement for the acquisition of CA's majority stake of 78.7% in CM, by the Holmarcom Group, through its holding company, Holmarcom Finance Company (HFC), and its subsidiary, AtlantaSanad Assurance. The acquisition is subject to regulatory approval by the Moroccan authorities. The transaction will take place in two stages: a tranche of 63.7% (51% by HFC and 12.7% by AtlantaSanad) by the end of 2022, and then a second tranche relating to CA's remaining 15%, to be sold to the Holmarcom Group eighteen months after the closing of the sale of the 63.7%. CA will continue to support CM during this transition phase, to ensure the continuity of its services and contribute to its full integration with the Holmarcom Group. In terms of commercial strategy, management has advised that no information can be revealed at the moment as the stage 1 transaction has not yet been formally realised. The Holmarcom Group is a Moroccan-based conglomerate with core businesses in the finance (mainly insurance), agro-industry, logistics and real estate sectors.

The Bank's LT FCR is set one notch above the BSR. The uplift reflects our assessment of the moderate (previously high due to CA's majority ownership) likelihood of extraordinary support, if needed, from the Moroccan authorities. CI notes that even in the unlikely event that the sale did not proceed, ESL would remain Moderate given that CM would appear to not be a part of CA's long-term plans. As the sixth largest bank in Morocco, we do not consider CM to be of systemic importance to the sector. However, the Bank is relatively sizeable and controls over 5% of customer deposits in the sector and thus the likelihood of support from the authorities is moderate.

For similar reasons reflecting the imminent change in ownership, the BSR Outlook has also been revised to Negative from Stable. CM's BSR is derived from a CFS rating of 'bb+' and an Operating Environment Risk Anchor (OPERA) of 'bb+'. The CFS is underpinned by satisfactory operating income and profitability, solid capital ratios (including CET1), relatively satisfactory loan asset quality with an adequate level of provisioning, together with a stable and defendable franchise. The rating also reflects the Bank's modest level of core liquid assets (although the liquidity coverage ratio is solid) and the moderate level of Stage 2 classified loans (the latter is low compared to most peer banks in Morocco, however). The loan to deposits ratio is satisfactory, and below that of the peer group average.

Other credit challenges include the operating environment with asset quality likely to remain an issue flowing from pressure on growth on the back of the Ukraine war, together with higher interest rates driven by inflationary pressures. Moroccan economic growth is expected to moderate this year from the high growth recorded in 2021, mainly on account of lower agricultural output and reduced net exports to the EU.

CM has a steady market position in the Moroccan banking sector, controlling just over 5% of sector assets and customer deposits. 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 – although income generation has been improving over the past few years. Key management and board positions are currently CA personnel, and risk management is at present governed by CA principles, but this will obviously change going forward.

Loan asset quality is satisfactory. CM's NPLs declined in 2021 and the Bank's level of NPLs is well below that of its peer French-owned banks in Morocco, and below that of the sector NPL ratio. Stage 2 classified loans also fell in 2021 and are at a moderate level. CM has satisfactory buffers in place, with loan loss reserve coverage adequate and capital ratios relatively good.

CM's earnings strength is sound and returns at the operating profit level are solid (the Bank records the second highest returns in the peer group). Profitability improved in 2021 due largely to a much lower cost of risk. The Bank's margins are solid and have been consistent for many years, aided by a low cost of funds through a cheap base of customer deposits. Q1 22 results were stronger, with net profit increasing by a healthy percentage. Operating income was higher driven by better net interest income and gains from securities. The cost or risk continued to fall.

The Bank's liquidity and funding position is considered adequate. Its funding profile has been steady for some years. Over 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. CM's loans to customer deposits ratio is satisfactory and much better than peer French-owned banks in Morocco.

CM has adequate capital ratios and metrics improved again in 2021. The Bank's capital position provides a satisfactory buffer against unforeseen events, with both the CET1 (12.7%) and CAR (15.5%) ratios at good levels.

Rating Outlook

The Outlook for the ratings is Negative, indicating that the ratings are likely to be lowered in the next 12 months.

Rating Dynamics: Upside Scenario

The likelihood of an upward revision in CM's ratings is remote given the current Negative Outlook. If the sale agreement did not proceed and CA remained the majority shareholder, the likely rating action would see the Outlook revert to Stable.

Rating Dynamics: Downside Scenario

As the existing Negative Outlook already captures the probability of a one notch reduction in both the LT FCR and ST FCR, as well as the BSR, the most likely downside scenario would be that these downgrades were also accompanied by a lowering of the CFS. A downgrade in CI's internal assessment of sovereign risk for Morocco and/or OPERA could also exert downward pressure on the ratings.

Ratings

Foreign Currency		Outlook	BSR	Outlook	CFS	ESL	OPERA
LT	ST	LT FC		BSR			
BBB-	A3	Negative	bb+	Negative	bb+	Moderate	bb+

Contact

Primary Analyst: Darren Stubing, Senior Credit Analyst; E-mail: darren.stubing@ciratings.com
Secondary Analyst: George Panayides, Senior Credit Analyst
Committee Chairperson: Morris Helal, Senior Credit Analyst

About the Ratings

The credit ratings have been issued by Capital Intelligence Ratings Ltd, P.O. Box 53585, Limassol 3303, Cyprus. The following information source was used to prepare the credit ratings: public information. Financial data and metrics have been derived by CI from the rated entity's financial statements for FY2017-21 and Q1 2022. CI may also have relied upon non-public financial information provided by the rated entity and may also have used financial information from credible, independent third-party data providers. CI considers the quality of information available on the rated entity 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 principal methodology used to determine the ratings is the Bank Rating Methodology, dated 3 April 2019 (see www.ciratings.com/page/rating-methodologies/bank-ratings). Information on rating scales and definitions, the time horizon of rating outlooks, and the definition of default can be found at www.ciratings.com/page/our-policies-procedures. Historical performance data, including default rates, are available from a central repository established by ESMA (CEREP) at http://cerep.esma.europa.eu

This rating action follows a scheduled periodic (annual) review of the rated entity. Ratings on the entity were first released in January 1996. The ratings were last updated in September 2021. The ratings and rating outlook were disclosed to the rated entity prior to publication and were not amended following that disclosure.

The ratings have been initiated by CI. The following scheme is therefore applicable in accordance with EU regulatory guidelines.

Unsolicited Credit Rating

With Rated Entity or Related Third Party Participation:	No
With Access to Internal Documents:	No
With Access to Management:	No

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