CREDIT DU MAROC

Country: Morocco; **Report Date**: 31 August 2023

Rating Action Snapshot

- **Foreign Currency**: LT and ST Downgraded; Outlook revised to Stable from Negative.
- **Core Financial Strength**: CFS Lowered.

Current Bank Ratings

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

Financial Highlights

MADmn	**2022**	**2021**
Total Assets	62,863	59,346
Gross Customer Loans	52,018	49,665
Customer Deposits	48,582	46,239
Total Equity	6,359	6,304
Operating Income	2,553	2,456
Net Profit	398	631
Total Assets (USDmn)	6,017	6,416
Selected Ratios, %		
NPL Ratio	7.9	8.1
NPL Reserve Coverage	85.9	89.3
CET 1 Capital Ratio	12.1	12.7
Loan-to-Deposit Ratio	99.8	99.7
Cost-to-Income Ratio	62.1	48.2
Return on Average Assets	0.6	1.1

Key Rating Factors

Credit Strengths

- Satisfactory capital adequacy including CET 1 and total CAR.
- Good loan asset quality compared to peer group and satisfactory loan-loss coverage.
- Reasonable franchise in Moroccan banking sector.

Credit Challenges

- New majority shareholder HG with associated transition pressure going forward.
- Profitability strain with lower returns in both 2022 and H1 23.
- Credit risk remains heightened due to ongoing challenges in the operating environment.
- Low level of liquid assets.

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RATING RATIONALE

Rating Action

Capital Intelligence Ratings (CI Ratings or CI) has downgraded the LT and ST FCR of Crédit du Maroc (CM) to ‘BB+’ and ‘B’, respectively, from ‘BBB-’ and ‘A3’. The Outlook for the LT FCR has been revised to Stable from Negative. At the same time, CI Ratings has lowered both the Bank’s BSR and CFS rating to ‘bb’ from ‘bb+’. The Outlook for the BSR has also been revised to Stable from Negative. The ESL has been maintained at Moderate.

Rating Drivers

The downgrade in CM’s ratings reflects the change in ownership in late 2022 in addition to certain weaker financial metrics, as well as strategic challenges going forward. The previous majority shareholder, France’s Crédit Agricole S.A. (CA), sold its stake in CM to the Moroccan Holmarcom Group (HG) in December 2022. CI had placed CM’s ratings on a Negative Outlook in August 2022 to reflect the imminent sale of CA’s majority stake. CA sold a 63.7% stake in CM to HG and will sell a second tranche of its remaining 15% stake to HG within eighteen months from the first tranche sale. HG acquired the stake through its holding company, Holmarcom Finance Company (51% stake), and its subsidiary, AtlantaSanad Assurance (12.7% stake). HG is a Moroccan-based conglomerate with core businesses in the finance (mainly insurance), agro-industry, logistics and real estate sectors. CA will continue to support CM during this transition phase, to ensure the continuity of its services and contribute to its full integration with HG. However, following the acquisition by HG, there have been board and executive management changes at CM.

The Bank’s LT FCR is set one notch above the BSR. The uplift reflects our assessment of the moderate likelihood of extraordinary support, if needed, from the Moroccan authorities. 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 change in ownership and transitional challenges such as management and strategy, but also due to certain weaker financial metrics, the BSR has been downgraded. CM’s BSR is derived from a lowered CFS rating of ‘bb’ and an Operating Environment Risk Anchor (OPERA) of ‘bb+’. The CFS is underpinned 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 weaker profitability and relatively low returns, modest level of core liquid assets (although the liquidity coverage ratio is satisfactory) and the moderate level of Stage 2 classified loans (the latter is low compared to most peer banks in Morocco, however, but we note a sharp rise in H1 23). Other credit challenges include the operating environment, with asset quality likely to come under pressure from higher interest rates driven by inflationary pressures. Nonetheless, Moroccan economic growth is expected to improve slightly this year from a rebound in the agricultural sector, as well as the regained momentum in Morocco’s tourism, mining and industrial sectors.

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.

Loan asset quality is satisfactory, with CM’s level of NPLs below that of peer banks in Morocco. Stage 2 classified loans are also low compared to the market, but the Bank recorded a significant rise in Stage 2 loans in H1 23. CM has satisfactory buffers in place, with loan loss reserve coverage adequate and capital ratios solid.

CM’s earnings strength is satisfactory, although returns weakened in 2022 in part due to the change in ownership with higher expenses and charges. Additionally, 2021 results had a non-recurring positive item linked to an exceptional recovery. Net profit for 2022 was 37% lower y-o-y. However, excluding non-recurring charges and the exceptional item of 2021, net profit was down by 7%. Returns are currently below the peer group average. The Bank’s net interest margin is solid, and CM currently has the lowest cost of funds in the peer group. Earnings are generated principally from core and stable banking operations.

Net profit was 18% lower in H1 23 compared with H1 22 despite operating income improving on the back of stronger net interest income. The fall in net profit against H1 22 was due to the increase in the cost of risk but H1 22 benefited from exceptional recoveries. Excluding the latter, net profit was 17% higher.

CM's liquidity and funding position is considered adequate. 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 but the level of liquid assets is low. Medium and longer-term funding is provided by debt securities issued on the local market, including subordinated facilities. In February 2023, CM received a USD50mn loan from the IFC (IFC acquired a minority stake in Holmarcom in 2021) to support trade-related activities of both large and small businesses in Morocco. Overall, CM's funding profile is stable and diversified.

CM has adequate capital ratios and metrics, and ratios are better than peer banks. The Bank's capital position provides a satisfactory buffer against unforeseen events, with both the CET1 (12.1%) and CAR (14.2%) ratios at sound levels at H1 23. In July 2023, CM issued a further subordinated bond of MAD500mn.

Rating Outlook

The Outlook for all the ratings is Stable. CI expects CM to maintain its overall financials at a satisfactory level this year. Credit risk and profitability will remain the main challenges. Funding and liquidity are expected to remain adequate.

Rating Dynamics: Upside Scenario

The likelihood of an upward revision in CM's ratings is currently unlikely. A favourable rating action in the future would require a significant improvement in the Bank's profitability, as well as strengthened liquidity and capital metrics. An upward revision in CI's internal assessment of sovereign credit risk for Morocco and/or OPERA, which is considered very remote at present, could likely exert upward pressure on the ratings.

Rating Dynamics: Downside Scenario

A significant weakening of CM's loan asset quality, liquidity and/or capital which the Bank could not address in a reasonable time could lead to a lowering of the ratings. A downgrade in CI's internal assessment of sovereign risk for Morocco and/or OPERA could also exert downward pressure on 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 has benefited from its (up to now) 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.

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 around 300 branches in Morocco. It 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% in assets and is the country's sixth largest bank. Although holding a reasonable size, the market is competitive. Nonetheless, the Bank's market share has been reasonably steady for some years. It has approximately 0.8 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 is benefiting from a widening branch network.

CM's third segment is the corporate sector, with the Bank's link to CA supporting activities up to now. It is active with most of Morocco's main blue-chip corporates, as well foreign company subsidiaries operating in the country. CA also provided 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, and 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.

Board and executive management changes have occurred since the sale of CA's majority stake, reflecting the new controlling shareholder. Under the new ownership, commercial dynamics are likely to be accelerated once the transformation has been completed.

Ownership and Governance

CI View

Majority ownership is now with HG, a well-regarded Moroccan conglomerate. Governance is adequate and complies with Bank Al-Maghrib regulations in terms of oversight, independent directors and committees. Board and senior management changes have occurred due to the new majority owner. CA will continue to support CM during the transition phase, nonetheless.

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. In 2004, CL was acquired by CA. The latter event meant that CL's 51% stake in CM passed to CA. In late 2008, CA 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%, which over time rose to 78.7%.

CA and the Moroccan HG in mid-2022 concluded a share purchase agreement relating to the acquisition of CA's majority stake of 78.7% in CM, by the HG, through its holding company, HFC, and its subsidiary, AtlantaSanad Assurance. The transaction will take place in two stages: a tranche of 63.7% (51% by HFC and 12.7% by AtlantaSanad) was concluded in December 2022. The second tranche relating to the remaining 15% will conclude eighteen months following the December 2022 63.7% sale. CA will continue to support CM during this transition phase, to ensure the continuity of its services and contribute to its full integration with HG. HG is a Moroccan-based conglomerate with core businesses in the finance (mainly insurance), agro-industry, logistics and real estate sectors.

Over the last few years, HG has carried out a structural reorganisation of its financial division with the aim to strengthen its position in the insurance sector, diversify its financial businesses and accelerate its expansion in sub-Saharan Africa. In 2021, IFC acquired a minority stake in Holmarcom Insurance, investing MAD450mn (ca. USD50mn). The partnership aims to broaden access to a range of insurance products (non-life and life) in Morocco and select countries in sub-Saharan Africa.

CM's shareholders currently are:

Credit du Maroc's Shareholders	(%)
Holmarcom Group	63.7
Holmarcom Finance Company	*51.0*
AtlantaSanad Assurance	*12.7*
Crédit Agricole S.A.	15.0
Wafa Assurance	10.7
Others	10.6
Total	**100.00**

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 has good risk management in place as it currently follows risk management rules and procedures as per Crédit Agricole Group, based on international best practice and the latest Basel and European guidelines.

Accounting, Disclosure and Transparency

CM's 2022 financial statements were audited to International Financial Reporting and Auditing Standards (IFRS) by Mazars and PwC. The auditors' report is unqualified. H1 23 figures have been stated where appropriate.

Risk Profile and Risk Mitigation

CI View

CM's risk profile is considered satisfactory. The Bank has a stable banking franchise in Morocco, and its financial performance has been adequate over the years. Loan asset quality is satisfactory with adequate LLR coverage. Liquid assets are moderate, but the liquidity coverage ratio (LCR) is at a satisfactory level. As a domestic-focused institution, CM is subject to the economic performance of the country. CM has satisfactory buffers in place with capital ratios relatively good in the context of the Moroccan banking sector.

Balance Sheet Structure and Concentration Risk

CM's balance sheet is dominated by loans, which represented 77% of total assets at end-2022 and similar at H1 23. The loan portfolio grew by a moderate 5% in 2022, and was up by the same percentage in H1 23. By sector, CM's growth over the last few years has been at a higher rate 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 modest 9% of total assets at end-2022. All government securities (6% of total assets) 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 8% of total assets at end-2022. Other marketable securities (3% of total assets) are mainly corporate bonds from leading domestic banks and other financial institutions.

The loan portfolio is considered well-diversified by economic sector. At end-2022, the largest sector exposure was to individuals/retail sector. Mortgages constitute 31% of the loan portfolio, and the Bank has a 7% market share in home mortgages (market share of overall loans is around 4.3%), although mortgage loans grew by only 3% in 2022. Higher risk sectors such as auto, manufacturing, agriculture, textiles and hotels are small in exposure. However, these have been the main source of NPLs and remain the most vulnerable to credit quality concerns. In previous years, the corporate sector suffered due to the deterioration in Morocco's main export market – the eurozone. Credit challenges remain due to pressure from higher interest rates and inflation together with continued lacklustre economic growth both home and abroad.

There is likely to be concentration of 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. Nonetheless, CM has relatively large exposure to the retail market and hence the overall portfolio is more diversified than some peer banks.

Asset Quality and Credit Risk

CM's loan asset quality is viewed as satisfactory. NPLs rose by only 2% in 2022, following an 11% fall in 2021. The NPL ratio was a lower 7.9% at end-2022. Although high by international standards, the level is much below the two main French-owned competitor banks in Morocco, Societe Generale Marocaine de Banques (NPL ratio 16.2%) and Banque Marocaine pour le Commerce et l'Industrie (NPL ratio 13.9%), and well below the peer average of 10.8%. CM's stage 2 classified loans fell to a moderate 7.1% (2021: 7.1%) of gross loans in 2022. All securities and other placements were classified as stage 1. At H1 23, CM's NPL ratio was steady at 7.8%, although stage 2 classified loans rose sharply to 8.9% of gross loans.

Exposure & Staging	Stage 1	% of Gross Loans	Stage 2	% of Gross Loans	Stage 3	% of Gross Loans
H1 23 Loans (MADmn)	45,295	83.2	4,866	8.9	4,250	7.8
2022 Loans (MADmn)	44,786	86.1	3,134	6.0	4,098	7.9
2021 Loans (MADmn)	42,118	84.8	3,530	7.1	4,017	8.1
2020 Loans (MADmn)	38,474	80.2	4,973	10.4	4,501	9.4

Market Risk

CM's exposure to market risk is largely interest rate risk (details not provided). There is little currency exposure in CM's activities as the balance sheet is very much focused domestically and interest rate management is conservative, we believe.

Credit Loss Absorption Capacity

CM's credit loss absorption capacity is viewed as adequate, reflecting its solid LLR coverage. The latter was 86% at end 2022 and 83% at H1 23. The Bank's capital provides an additional cushion. Capital and LLRs represented a reasonable 221% of NPLs at end 2022. 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. CM of course holds collateral against its loans, 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)	2022	2021	2020	2019
Customer Loan Growth	4.7	3.6	0.4	7.0
NPL Ratio	7.9	8.1	9.4	7.6
NPL Coverage Ratio	85.9	89.3	90.0	97.8
Unprovided NPLs to Total Equity	9.1	6.8	7.9	1.4
Government Bond Exposure	60.5	64.0	38.6	49.7

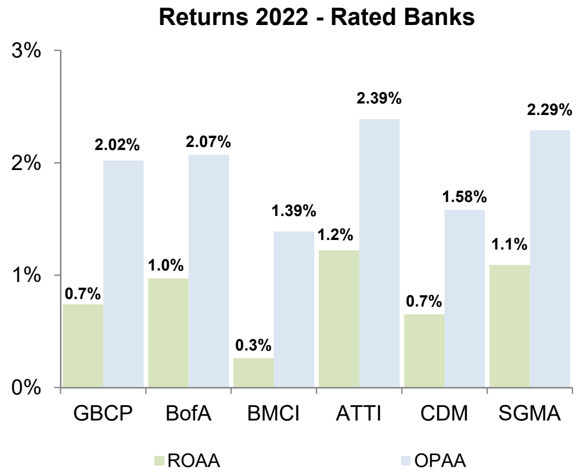
Earnings Strength

CI View

CM's earnings strength is satisfactory although returns weakened in 2022 in large part due to the change in ownership with higher expenses and charges. Returns are currently below the peer group average. The Bank's NIM is solid, and CM currently has the lowest cost of funds in the peer group. Earnings are generated principally from core and stable banking operations.

Profitability and Efficiency

CM's net profit and ROAA (0.65% against peer average of 0.82%) weakened in 2022 due to the change in ownership which generated additional expenses and charges. Operating income was higher by 4% driven by slightly increased net interest income (NII) and gains from securities. However, operating expenses were up by 34% to MAD2,553mn with the large increase connected to the change in the bank ownership in 2022 with associated expenses and charges. Additionally, 2021 results had a non-recurring positive item of MAD176mn linked to an exceptional recovery. Net profit for 2022 was MAD398mn, 37% lower y-o-y. However, excluding non-recurring charges and the exceptional item of 2021, net profit was down by 7% at MAD482mn.



H1 23 net profit was MAD267mn, 18% lower than H1 22 net profit of MAD326mn. Operating income in H1 23 was 11% higher at MAD1,426mn, led by stronger NII. The fall in net profit against the corresponding period of 2022 was due to the cost of risk which was MAD166mn in H1 23 against only MAD10mn in H1 22. H1 22 also benefited from exceptional recoveries. Excluding the latter, the cost of risk rose by 20% and net profit was 17% higher.

The main contributor to CM's earnings is NII, driven principally by its loan book. This is supported by fee and commission income, but the latter 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 core non-interest income (non-II) going forward, capitalising on its market position and growing retail activities. Management has made progress over the past few years. The bulk of non-II 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.

CM's NIM has been good for some years and was a solid 3.26% in 2022. The Bank's good margin is supported by a very low cost of funds (lowest in the peer group at 0.64%), reflecting its healthy and cheap base of customer deposits. This, together with the growing retail portfolio, should see margins remain at a relatively high level for the foreseeable future.

The cost based measured against average assets was a higher 2.6% in 2022 due to additional expenses and costs linked to the ownership change. The cost-to-income ratio jumped to 62.1% but we expect it to slowly normalize over the medium term. The overall cost of risk was MAD310mn in 2022, against only MAD64mn in 2021, with a more conservative approach taken.

Earnings and Profitability, Selected Metrics (% unless stated otherwise)	2022	2021	2020	2019
Return on Average Assets (ROAA)	0.6	1.1	0.3	0.9
Return on Average RWAs	0.9	1.4	0.4	1.2
Operating Profit (pre-impairm.) to Avg. Assets	1.6	2.2	1.8	2.0
Net Interest Margin (NIM)	3.3	3.3	3.2	3.3
Cost to Income Ratio (CIR)	62.1	48.2	56.8	54.1
Loan Loss Provision Exp. to Operating Profit	22.2	51.7	13.1	20.3

Earnings Quality and Stability

We view CM as having satisfactory earnings quality, driven by NII. Revenue has been fairly stable for some years. CM's current profitability is modest, however. The Bank's main vulnerability is to the economic performance of Morocco, and performance during the transition phase following new ownership. Nonetheless, CM's earnings quality is underpinned by a low cost of funds, and relatively good loan asset quality currently.

Funding and Liquidity

CI View

CM's liquidity and funding position is considered adequate. Its funding profile has been steady, and 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. Liquid assets are low, but the loans to customer deposits ratio is adequate. The Bank's funding profile has remained steady despite the change in ownership, and in fact customer deposits rose solidly in H1 23.

Funding Diversification and Stability

Customer deposits are the main source of funding for CM, representing 77% of total assets at end-2022, and a higher 79% at H1 23. Customer deposits grew by 5% in 2022 and by 8% in H1 23. CM's customer funding base is viewed as stable. The deposit mix is considered favourable with a strong weighting towards CASA deposits. Demand deposits, which are either no-cost or very low cost, form 70% of total deposits. CM's market share of demand deposits is approximately 6.5%. Together with savings deposits, CASA deposits formed 89% of total customer deposits.

Deposits from banks declined in 202 and formed 4.6% of total assets. In H1 23, they fell further to 3.3% of total assets. CM remained a net placer on the interbank market. Medium and longer-term funding is provided by debt securities issued on the local market. Further long-term debt comprises subordinated facilities; these stood at MAD1.3bn, funding 2.0% of total assets. In July 2023, CM launched a further subordinated bond of MAD500mn. In February 2023, CM received a USD50mn loan from the IFC (Holmarcom has been a partner of IFC since 2021) to support trade-related activities of both large and small businesses in Morocco. Overall, CM's funding profile is stable and diversified.

Liquidity Risk

Liquidity ratios are satisfactory. The net loans to customer deposits ratio was satisfactory at 99.8% at end 2022, and improved to 97.4% in H1 23. The liquid assets ratio (defined narrowly as cash, central bank balances and government securities as a percentage of total assets) was 9%, which is considered low. The net loans to stable funds ratio is a comfortable 84%, however. The Bank's LCR (based on ECB definition) was a sound 135% at end-2022, against a minimum required ratio of 100% in Morocco.

Funding and Liquidity, Selected Metrics (% unless stated otherwise)				
	2022	**2021**	**2020**	**2019**
Liquidity Coverage Ratio (LCR)	134.5	160.8	206.3	138.3
Loan-to-Deposit Ratio (LDR)	99.8	99.7	98.6	100.9
Net Loans to Stable Funds	83.8	84.5	82.1	82.9
Wholesale Funding Ratio	9.3	8.5	9.4	12.7
Liquid Asset Ratio	9.1	10.0	8.2	8.1

Capitalisation and Leverage

CI View

CM has satisfactory capital ratios. The Bank's capital position provides an adequate buffer against unforeseen events, with both the CET1 and CAR ratios at solid levels. CM has a reasonable record on internal capital generation due to its normally low dividend payout ratio. The Bank is likely to continue to issue subordinated debt on the local market, and also to generate capital through retaining net profit.

Capital Quality and Adequacy

CM's CAR was a satisfactory 14.5% at end-2022, although lower y-o-y. The CET 1 ratio was sound at 12.1%. At H1 23, the CAR was 14.2%. These capital ratios are good by Moroccan bank standards (CM's CAR was the highest in the peer group at end 2022). 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 of 8% and CET1 plus AT1 of 9%. Capital ratios are expected to remain sound over the next one year.

Capital Flexibility

The Bank does have capital flexibility in CI's view. The change in majority ownership does present a new background as previously CM had a very strong parent in CA. Nonetheless, the new owner would be expected to increase capital if needed (although the extent of capacity to provide support is not clear). Nonetheless, the Holmarcon has a good standing in Morocco. The Bank launched a new subordinated bond issue of MAD500mn in July 2023 which qualifies as Tier 2 capital. It could issue further Tier 2 in the local market. Internal capital generation has been mixed and the payout ratio could be managed to boost internal capital if needed.

Capital Adequacy and Leverage, Selected Metrics (% unless stated otherwise)				
	2022	**2021**	**2020**	**2019**
Common Equity Tier 1 Ratio	12.1	12.7	11.9	11.5
Tier 1 Ratio	12.1	12.7	11.9	11.5
Total Capital Ratio (CAR)	14.5	15.5	15.0	14.7
Balance Sheet Leverage	10.1	10.6	9.9	9.4
Internal Capital Generation	1.9	10.1	-0.2	8.1

Operating Environment

Operating Environment Risk Anchor (OPERA)

The OPERA for Morocco is ‘bb+’ (indicating moderate risk). The assessment 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 a 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. Challenges remain in respect of a moderately high NPL ratio, low customer deposit growth and only modest capital ratios.

The Moroccan banking sector currently enjoys a reasonably sound base, as well as prudent supervision and good governance at the major banks in the country. The sector is generally sound overall, although NPLs remain quite high (sector NPL ratio 8.4%) and a challenge. Provisioning against NPLs is sufficient but not high. Earnings and profitability improved in 2022 and returns are adequate.

Economic and Financial Conditions

Morocco has experienced some deterioration in international liquidity, reflecting the unfavourable external environment and adverse economic spillovers from the country’s main trading partners. Morocco’s economy has been adversely affected by the slowdown in the euro area as well as weak domestic demand. Real GDP grew by only 1.1% in 2022, compared to 7.9% in 2021. Moving forward, CI views that the rebound in the agricultural sector as well as the regained momentum in Morocco’s tourism, mining and industrial sectors will fuel real growth of 3.0% in 2023, and an average of 3.1% in 2024-25. The medium- to long-term growth outlook is also expected to be bolstered by the completion of significant infrastructural projects that enhance the country’s exporting capacity, such as the modernisation of the ports. The Moroccan government continues to introduce new reforms aimed at promoting inclusive growth, increasing private sector participation and creating a business-friendly environment to attract much needed foreign direct investments. Notwithstanding the above, risks to the outlook remain pronounced, with lower growth in the European economies and the spillovers of the war in Ukraine weighing on the Moroccan economy. GDP per capita remained low at USD765 in 2022.

The diversification of the Moroccan economy is relatively modest, with a reliance on the agricultural sector, which accounted for around 12% of GDP and 40% of total employment as of 2022. The economy is trade open with strong linkages to the EU. Dependence on the agricultural sector has led to volatile economic growth in the past few years. However, the authorities have nonetheless managed to bolster the resilience of the sector to adverse weather patterns over the past years, following modernization and agricultural diversification promoted in the Green Morocco Plan.

Morocco’s political risk factors remained broadly stable. This has been largely due to continued constitutional reforms, and the continued popularity of King Mohammed VI. The king chairs the Council of Ministers, which deliberates on strategic laws and state policy orientations. Moreover, ethnic, tribal, religious, and regional divisions are less pronounced in Morocco than in much of the Middle East and North Africa. Ongoing social tensions in the Rif region show the growing demand from some parts of the population for more inclusive economic growth, and stem from Morocco's currently high youth unemployment and income and regional disparities. The government has expressed its willingness to accelerate the regional development program which targets developing areas in the Rif in the tune of USD700mn to mitigate the rising social demands for better living standards, including education and health care, and strengthening social welfare programs.

Morocco held its parliamentary elections in November 2021, with the National Rally of Independents (RNI) securing the majority of the seats. Geopolitical risks have increased in view of the continued dispute with Algeria. Institutional strength continues to improve as the government presses ahead with its reform agenda, implementing a new investment charter, tax system reforms and small business acts. The authorities have also embarked on a comprehensive set of reforms of the social security system to expand health care coverage and increase social transfers, while broadening the tax and social contribution bases. The government also settled its arrears to the private sector. Monetary policy flexibility and predictability has also improved as the central bank widened the range of the managed float of the Dirham (to +/-5% from +/-2.5%). To rein in high inflation, the central bank has increased its key interest rate to 3% in 2023 from a record low of 2.25% in 2021.

Inflationary pressures started to ease from their peaks in 2022. After increasing by 6.6% in 2022, CPI inflation is expected to increase at a moderating pace of 4.6% in 2023, before easing to a more manageable 2.7% in 2024-25.

Fiscal strength is still deemed moderate, with the central government budget deficit (excluding privatization proceeds) expected to slightly narrow to 4.9% in 2023, compared to a deficit of 5.1% in 2022. This improvement reflects a recovery in revenues and lower spending with the gradual reversal of subsidies. CI notes that the budget deficit remains higher than similar risk sovereigns.

The Moroccan government continues to provide socially sensitive subsidies on basic goods (flour, sugar, and liquefied petroleum gas) and is implementing a single subsidy registry to provide better targeted and efficient support. However, despite the partial reversal of some of these subsidies, they continue to weigh on the budget (accounting for 15% of revenues). On the revenue side, the government has been more active in terms of fiscal reforms as it has implemented several measures to improve tax collection such as tougher regulations on tax evasion, reducing exempted goods and services, and scrapping some personal allowances from the income tax for the higher tiers of income.

The fiscal outlook remains uncertain and hinges on further government consolidation measures. In this regard, CI projects the budget deficit to narrow to 4.4% of GDP in 2024 provided fiscal discipline is maintained. Central government debt is expected to slightly decrease to 67.9% of GDP in 2023 (253.5% of revenues) compared to 68.4% (265.2% of revenues) in 2022, and to stabilize at 68% in the medium term. At present, refinancing risks are deemed moderate, as the outstanding debt portfolio enjoys a satisfactory duration of 6.7 years. Almost 80% of government debt is dirham-denominated, limiting Morocco's debt service sensitivity to exchange-rate volatility. It is understood that by the end of March 2023, Morocco had already funded more than 40% of the year's budgeted financing needs.

Contingent liabilities remain considerable and mainly stem from the outstanding government guarantees to the debt of State-Owned Enterprises (SOEs). That said, the government's efforts to reform the SOEs, privatize them and use the privatization proceeds for further fiscal consolidation is expected to gradually lower the magnitude and the risks of the above mentioned contingent liabilities.
External strength remained moderate, with the current account deficit widening to 4.4% of GDP in 2022, compared to 2.7% in 2021, due to high international food and energy prices. External debt remains moderate at around 43.6% of GDP in 2022. Reflecting the deterioration in the external finances, the country's stock of official foreign exchange reserves declined to USD31.8bn in 2022, from USD35.6bn in 2021. Despite the decline, the reserves still provide adequate coverage of the short-term external debt at a remaining maturity basis, as well as 5.4 months of imports and around 27% of money supply M2.

Morocco finances most of its current account through FDI inflows and external borrowing. While the inflow of FDI slowed in the past few years, Morocco maintained its access to capital markets as evidenced by the latest issues in March 2023, where the government raised USD2.5bn in two equal tranches of five and ten years. The coupon was 5.95% on the former and 6.5% on the latter. Moreover, the likelihood of continued conditional support from the IMF remains a supporting factor provided that the monetary authorities accelerate the process of floating the dirham.

Industry Structure and Performance

The Moroccan banking sector has been quite steady for many years, generally performing well with adequate financial metrics. NPLs represent 8.4% of gross loans with provisioning against NPLs sufficient but not high. 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 in the range of 12-14% thus do not provide a significant buffer. Profitability has been satisfactory for some time but returns overall lean towards a modest level. One reason for the latter is that both loan and asset growth has been lacklustre for some years, partly 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 risk and challenge for the banking sector is loan asset quality. A rise in impairments would put pressure on capital buffers particularly given the modest buffers in place.

Extraordinary Support

Parent Support

In CI's opinion, there is a moderate likelihood of the Bank receiving timely and sufficient extraordinary support from the authorities. As the sixth largest bank in Morocco, we do not consider CA 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 authorities is also moderate.

The new majority shareholder, HG, may be willing to support the Bank in case of need. However, CI currently assesses its capacity to provide sufficient and timely support as uncertain. The ESL was previously high due to CA's majority ownership.

KEY PERFORMANCE METRICS

CREDIT DU MAROC

	(All figures are percentages, unless otherwise stated)	2022Y	2021Y	2020Y	2019Y	2018Y
A	**SIZE FACTORS**					
1	Total Assets (MAD000)	62,862,521	59,345,976	57,913,449	59,159,457	55,896,558
2	Total Assets (USD000)	6,016,761	6,415,989	6,501,431	6,189,976	5,844,414
3	Employees (FTE)	2,403	2,406	2,504	2,524	2,562
B	**ASSET QUALITY**					
4	Total Assets Growth Rate	5.9	2.5	-2.1	5.8	6.4
5	Customer Loan Growth Rate	4.7	3.6	0.4	7.0	3.4
6	Customer Deposit Growth Rate	5.1	3.9	1.6	5.9	1.9
7	NPL Growth Rate	2.0	-10.8	24.3	-3.7	-12.0
8	NPL Ratio	7.9	8.1	9.4	7.6	8.4
9	NPL Coverage Ratio	85.9	89.3	90.0	97.8	95.7
10	Extended NPL Coverage Ratio	221.1	227.4	205.6	238.1	221.8
11	Unprovided NPLs to Total Equity	9.1	6.8	7.9	1.4	3.2
12	Loan Loss Provisioning Expenses to Gross Loans	0.4	1.3	0.3	0.5	1.3
13	Government Bond Exposure	60.5	64.0	38.6	49.7	70.3
14	Related Party Exposure	19.3	39.8	29.5	57.4	-
15	Off Bal Sheet Exposures to Total Assets	17.3	18.8	18.8	17.6	21.1
C	**EARNINGS AND PROFITABILITY**					
16	Return on Average Assets (ROAA)	0.65	1.08	0.34	0.91	1.12
17	Return on Average Risk-Weighted Assets (RWAs)	0.87	1.44	0.45	1.19	1.43
18	Operating Profit (pre-impairment) to Average Assets	1.58	2.17	1.79	1.98	2.08
19	Operating Income to Average Assets	4.17	4.19	4.14	4.32	4.60
20	Net Interest Margin (NIM)	3.26	3.33	3.23	3.29	3.37
21	Cost of Funds (COF)	0.64	0.57	0.84	1.00	1.09
22	Interest income on Average Assets	3.81	3.83	3.97	4.18	4.32
23	Non-Interest Income to Gross Income	21.8	20.4	21.9	23.9	26.8
24	Net Fee and Commission Income to Non-Interest Income	72.4	78.5	73.9	72.0	61.1
25	Cost to Income Ratio (CIR)	62.1	48.2	56.8	54.1	54.9
26	Loan Loss Provisioning Expenses to Operating Profit	22.2	51.7	13.1	20.3	53.7
27	Total Impairment on Financial Assets to Operating Profit	18.5	13.0	64.0	19.3	12.3
28	Return on Average Equity (ROAE)	6.2	10.5	3.6	9.6	12.2
D	**FUNDING AND LIQUIDITY**					
29	Customer Deposits to Total Liabilities	86.0	87.2	85.3	81.7	81.6
30	Loan-to-Deposit Ratio (LDR)	99.8	99.7	98.6	100.9	99.1
31	Net Loans to Stable Funds	83.8	84.5	82.1	82.9	80.0
32	Wholesale Funding Ratio	9.3	8.5	9.4	12.7	13.6
33	Short-term Wholesale Funding Ratio	-	-	3.2	4.8	5.4
34	Net Stable Funding Ratio (NSFR)	-	-	-	-	-
35	Liquidity Coverage Ratio (LCR)	134.5	160.8	206.3	138.3	205.0
36	Liquid Asset Ratio	9.1	10.0	8.2	8.1	9.6
37	Net Broad Liquid Asset Ratio	12.8	10.5	13.1	10.6	12.6
38	Interbank Ratio	181.6	107.8	227.6	142.5	156.3
39	FX Assets to FX Liabilities	-	-	-	-	-
E	**CAPITALISATION AND LEVERAGE**					
40	Common Equity Tier 1 (CET 1) Ratio	12.1	12.7	11.9	11.5	11.3
41	Tier 1 Ratio	12.1	12.7	11.9	11.5	11.3
42	Total Capital Adequacy Ratio (CAR)	14.5	15.5	15.0	14.7	15.0
43	Basel III Leverage Ratio	-	-	-	-	-
44	Balance Sheet Leverage	10.1	10.6	9.9	9.4	9.3
45	RWA Density	73.1	73.9	75.4	74.7	75.0
46	Internal Capital Generation	1.9	10.1	-0.2	8.1	10.7
47	Dividend Payout Ratio	73.8	44.6	25.3	39.7	14.7

Note: Ratios annualised where appropriate.

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

SUMMARY FINANCIALS

BALANCE SHEET - ASSETS (MAD 000)	2022Y	2021Y	2020Y	Growth (%)		% of Total Assets	
End of Period Date	**31/12/2022**	**31/12/2021**	**31/12/2020**	**31/12/2022**	**31/12/2021**	**31/12/2022**	**31/12/2021**
Cash and Balances with Central Banks	1,867,309	1,924,697	2,558,975	-3.0%	-24.8%	3.0%	3.2%
Due from Banks	5,231,232	3,334,880	5,068,324	56.9%	-34.2%	8.3%	5.6%
Gross Loans to Customers	52,018,448	49,665,029	47,948,631	4.7%	3.6%	82.7%	83.7%
o/w Non-performing Loans	4,098,335	4,017,116	4,501,355	2.0%	-10.8%	6.5%	6.8%
Loan Loss Reserves (-)	3,521,793	3,585,865	4,051,207	-1.8%	-11.5%	5.6%	6.0%
Net Loans to Customers	48,496,655	46,079,164	43,897,424	5.2%	5.0%	77.1%	77.6%
Total Securities	4,523,352	5,563,756	3,728,776	-18.7%	49.2%	7.2%	9.4%
o/w Debt issued / gdt. By Natl. Gov.	3,845,484	4,036,936	2,210,447	-4.7%	82.6%	6.1%	6.8%
Total Financial Assets	**60,118,548**	**56,902,497**	**55,253,499**	**5.7%**	**3.0%**	**95.6%**	**95.9%**
Total Intangible Assets	600,903	464,321	330,807	29.4%	40.4%	1.0%	0.8%
Fixed Assets	1,477,688	1,410,030	1,352,088	4.8%	4.3%	2.4%	2.4%
Deferred Tax Assets	151,513	154,189	408,041	-1.7%	-62.2%	0.2%	0.3%
Total Other Assets	513,869	414,939	569,014	23.8%	-27.1%	0.8%	0.7%
Total Assets	**62,862,521**	**59,345,976**	**57,913,449**	**5.9%**	**2.5%**	**100.0%**	**100.0%**

BALANCE SHEET - LIABILITIES (MAD 000)	2022Y	2021Y	2020Y	Growth (%)		% of Total Assets	
Total Deposits from Banks	2,880,878	3,092,346	2,226,796	-6.8%	38.9%	4.6%	5.2%
Total Deposits from Customers	48,581,532	46,239,136	44,524,580	5.1%	3.9%	77.3%	77.9%
Senior Debt	1,703,207	720,150	1,431,864	136.5%	-49.7%	2.7%	1.2%
Total Subordinated Debt	1,251,076	1,251,665	1,767,792	0.0%	-29.2%	2.0%	2.1%
Derivative Liabilities	13,885	5,190	14,345	167.5%	-63.8%	0.0%	0.0%
Total Financial Liabilities	**54,430,578**	**51,308,487**	**49,965,377**	**6.1%**	**2.7%**	**86.6%**	**86.5%**
Total Other Liabilities	2,072,480	1,733,501	2,226,754	19.6%	-22.2%	3.3%	2.9%
Total Liabilities	**56,503,058**	**53,041,988**	**52,192,131**	**6.5%**	**1.6%**	**89.9%**	**89.4%**
Equity Attributable to Parent Company	6,308,888	6,245,535	5,665,291	1.0%	10.2%	10.0%	10.5%
Non-controlling Interests	50,575	58,453	56,027	-13.5%	4.3%	0.1%	0.1%
Total Equity	**6,359,463**	**6,303,988**	**5,721,318**	**0.9%**	**10.2%**	**10.1%**	**10.6%**

INCOME STATEMENT (MAD 000)	2022Y	2021Y	2020Y	Growth (%)		% of Avg Total Assets	
Interest Income	2,336,344	2,243,235	2,283,114	4.2%	-1.7%	3.8%	3.8%
Interest Expense	339,952	288,134	423,533	18.0%	-32.0%	0.6%	0.5%
Net Interest Income	**1,996,392**	**1,955,101**	**1,859,581**	**2.1%**	**5.1%**	**3.3%**	**3.3%**
Net Fee & Commission Income	**403,228**	**393,273**	**385,519**	**2.5%**	**2.0%**	**0.7%**	**0.7%**
Gains on Securities & Other Trading	261,443	203,907	221,515	28.2%	-7.9%	0.4%	0.3%
Operating Income	**2,553,261**	**2,456,081**	**2,381,234**	**4.0%**	**3.1%**	**4.2%**	**4.2%**
Operating Expense	**1,586,664**	**1,184,838**	**1,352,888**	**33.9%**	**-12.4%**	**2.6%**	**2.0%**
Operating Profit (Pre-Impairment)	**966,597**	**1,271,243**	**1,028,346**	**-24.0%**	**23.6%**	**1.6%**	**2.2%**
Customer Loans Impairment Exp	214,684	656,860	135,222	-67.3%	385.8%	0.4%	1.1%
Impairment on Financial Assets	**178,649**	**165,551**	**658,448**	**7.9%**	**-74.9%**	**0.3%**	**0.3%**
Non-Financial Inv Impairment	44,640	48,053	30,335	-7.1%	58.4%	0.1%	0.1%
Asset Writedowns	**223,289**	**213,604**	**688,783**	**4.5%**	**-69.0%**	**0.4%**	**0.4%**
Pre-tax Profit	**743,209**	**1,057,622**	**339,563**	**-29.7%**	**211.5%**	**1.2%**	**1.8%**
Provision for Taxes	345,109	426,259	144,032	-19.0%	195.9%	0.6%	0.7%
Net Profit	**398,100**	**631,363**	**195,531**	**-36.9%**	**222.9%**	**0.6%**	**1.1%**
Net Profit Attri. to Non-controlling Int	-6,191	3,971	5,216	-255.9%	-23.9%	0.0%	0.0%
Net Profit Attributable to Parent	404,291	627,392	190,315	-35.6%	229.7%	0.7%	1.1%

Ratios annualised where appropriate.
Abbreviated versions of Balance Sheet and Income Statement. Individual 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 2022	Sep 2021	Sep 2020
LT Foreign Currency	BB+	BBB-	BBB-	BBB-
ST Foreign Currency	B	A3	A3	A3
Outlook Foreign Currency	Stable	Negative	Stable	Stable
Bank Standalone	bb	bb+	bb+	bb+
Outlook Bank Standalone	Stable	Negative	Stable	Stable
Core Financial Strength	bb	bb+	bb+	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 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 FY2018-22. 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 August 2022. 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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Report Code: MA00322BNK00-01