Credit Rating Announcement

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Crédit du Maroc – Ratings Affirmed with a Stable Outlook

Capital Intelligence Ratings (CI Ratings or CI) today announced that it has affirmed the Long-Term Foreign Currency Rating (LT FCR) and Short-Term Foreign Currency Rating (ST FCR) of Crédit du Maroc (CM) at 'BBB-' and 'A3', respectively. At the same time, CI Ratings has affirmed both CM's Bank Standalone Rating (BSR) and Core Financial Strength (CFS) rating at 'bb+'. The Outlook for the LT FCR and BSR is Stable.

The Bank's LT FCR is set one notch above the BSR and is constrained by CI's internal assessment of sovereign credit risk for Morocco. The uplift reflects our assessment of the high likelihood of extraordinary support, if needed, from the Bank's strong majority shareholder, France's Crédit Agricole (CA). We believe that CA has sufficient resources and capacity to support CM and would be willing to assist its subsidiary (although the Bank is very small in the context of CA's overall size and resources).

The principal credit challenge at present for the Bank is the weak operating environment on account of the impact of Covid-19, which has raised credit risks across all sectors in Morocco. Key sectors in Morocco have been negatively impacted, including tourism and manufacturing, and the important agriculture sector has been hit by drought. The deterioration is likely to place some pressure on the Bank's financials. We expect that CM's earnings and profitability will be weaker this year due to higher impairment charges as NPLs are expected to rise, narrower margins and possibly lower fee income.

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 adequate profitability, solid capital ratios (including CET1), improved and relatively satisfactory loan asset quality with a good 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 high) and the moderate level of Stage 2 classified loans (the latter is low compared to most peer banks in Morocco). Although CM's level of liquid assets is low, the net broad liquid assets ratio is reasonable. The loan to deposits ratio is slightly elevated – but against stable funds, the position is comfortable.

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 CA personnel, and risk management is governed by parent-bank principles and is considered sound.

The Bank's profitability at the operating level has been quite stable and satisfactory for some time. This reflects a good net interest margin, supported by a low-cost funding base. Net returns improved y-o-y for some time up to 2019. Although falling slightly in 2019 due to flat revenue and slightly higher impairments, ROAA was at a satisfactory level. The stock of NPLs has fallen in each of the past few years up to 2018 and increased only marginally last year. The level of NPLs against gross loans is moderate compared to peer banks, although elevated against international standards. Loan loss reserve coverage is close to full coverage. However, as with all peer banks, the quality of the loan book is likely to experience significant pressure this year due to Covid-19 related factors.

The net profit results for Q1 20 were weaker. Although this was largely the result of a contribution to the country's Covid-19 support fund, the cost of risk also increased. We expect the cost of risk to rise further in 2020. Capital ratios, including core capital, are at a solid level. The Bank has an adequate buffer in place. It has good internal capital generation supported by a low dividend payout ratio.

Rating Outlook

The Outlook for all the ratings is Stable. CI expects CM to maintain its financial profile at a satisfactory level this year relative to its current ratings. Credit risk will remain a challenge, and we expect loan classification to weaken this year but to remain manageable. The operating environment and economy have deteriorated this year in Morocco, and we expect a higher level of NPLs, an increased cost of risk, and lower profitability. However, capital ratios are likely to remain around the current level. Overall funding and liquidity are expected to remain satisfactory.

Rating Dynamics: Upside Scenario

The likelihood of an upward revision in the BSR and/or CFS rating is currently low. An upward rating action in the future would require a significant improvement in the Bank's loan asset quality, strengthened liquidity metrics, and enhanced capital buffers. An upgrade in CI's internal assessment of sovereign risk and/or OPERA for Morocco, which is considered very remote at present, would also exert upward pressure on the ratings.

Rating Dynamics: Downside Scenario

A significant weakening of loan asset quality, liquidity or capital ratios that the Bank may not be able to correct in a reasonable period of time could lead to a lowering of the ratings. A downgrade in CI's internal assessment of sovereign risk for Morocco and/or OPERA would also exert downward pressure on the ratings.

Ratings

Foreign Currency		Outlook	BSR	Outlook	CFS	ESL	OPERA
LT	ST	LT FC		BSR			
BBB-	A3	Stable	bb+	Stable	bb+	High	bb+

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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 FY2015-19 and Q1 2020. 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 2019. 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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