Ref: MA00320CRA00-01 14 September 2021

Crédit du Maroc – Ratings Affirmed

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 CM's Bank Standalone Rating (BSR) at 'bb+' 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).

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 operating income and profitability, solid capital ratios (including CET1), 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.

Other credit challenges include the ongoing impact of Covid-19, which has heightened credit risks across all sectors in Morocco. Morocco's GDP growth contracted by 6.3% in 2020, reflecting the adverse impact of Covid-19 and a weak agricultural output. Nevertheless, real GDP growth in 2021 is expected to be around 4.5% but possibly lower next year. We expect that CM's earnings and profitability will be stronger this year due to a reduced cost of risk and increased banking income.

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.

As expected, CM recorded increased NPLs in 2020 due to the impact of Covid-19 on the Moroccan operating environment and economy, but the Bank's level of NPLs were below that of its peer French-owned banks in Morocco. Improvement in loan asset quality was recorded in H1 21. NPLs declined by 9% in the six months to end-June 2021 and the NPL ratio fell to 8.4%. Stage 2 classified loans also fell and comprised 9.4% of gross loans at end-June 2021. CM has satisfactory buffers in place with loan loss reserve (LLR) coverage near 100% at end-June 2021 and capital ratios are relatively good. CI anticipates CM's loan asset quality metrics to continue to improve moderately for full year 2021, although credit risk will remain heightened. The Bank's performance in H1 21 was very good, and better than peer banks in respect to loan asset quality movements.

CM's earnings strength is satisfactory and returns at the operating profit level are solid. As expected, the ROAA fell quite sharply in 2020 due to an increased cost of risk, reflecting the operating environment, and a contribution to Morocco's Covid-19 fund. 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. H1 21 results were much stronger, with profit rising 10-fold to MAD279mn. Results were driven by a much lower cost of risk. Full year results are also likely to be much stronger than 2020 and the ROAA may be in exces of 1%.

CM'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. Liquid assets are quite low. However, CM's loans to customer deposits ratio is satisfactory and much better than peer French-owned banks in Morocco. The overall position is supported by the fact that the Bank is part of the large and strong CA Group. CM's liquidity position remained stable at end-June 2021, including a liquidity coverage ratio (LCR) well in excess of regulatory requirements.

CM has adequate capital ratios and metrics improved to end-June 2021 following improvement in 2020. The Bank's capital position provides a satisfactory buffer against unforeseen events, with both the CET1 (12.6%) and CAR (15.4%) ratios at reasonable levels.

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. We expect a strong improvement in profitability this year, reflecting a reduced cost of risk. 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 FY2017-20 and H1 2021. 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 2020. 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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