Ref: MA00323CRA00-01

30 August 2024

Credit du Maroc's 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 Credit du Maroc (CM) at 'BB+' and 'B', respectively. At the same time, CI Ratings has affirmed both the Bank's Bank Standalone Rating (BSR) and Core Financial Strength (CFS) rating at 'bb'. The Outlook for the LT FCR and BSR remains Stable. The Extraordinary Support Level (ESL) has been maintained at Moderate.

The previous majority shareholder, France's Credit Agricole S.A. (CA), sold its stake in CM to the Moroccan Holmarcom Group (HG) in December 2022. HG is a Moroccan-based conglomerate with core businesses in the finance (mainly insurance), agro-industry, logistics and real estate sectors. The transaction took 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% to conclude eighteen months following the December 2022 63.7% sale. CA continued to support CM during this transition phase, to ensure the continuity of its services and contribute to its full integration with HG. Holmarcom finalised the acquisition of the remaining 15% stake in CM in June 2024, taking its total holding to 78.7%. The 78.7% stake acquired from Crédit Agricole is now held by Holmarcom Finance Company (65.9%) and AtlantaSanad (12.8%). Due to the close collaboration of Credit du Maroc's teams under the supervision of the HG and the support of Credit Agricole S.A., the transition process was completed in accordance with the commitments made by both parties, leading to the full autonomy of Crédit du Maroc in terms of operations, activities and information systems.

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 eighth 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. 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 moderate to uncertain.

CM's BSR is derived from a 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, good margins with a low cost of risk, together with a stable and defendable franchise. The rating also reflects the modest level of core liquid assets (although the liquidity coverage ratio is sound), and ongoing credit risk in a challenging environment. In addition, the majority shareholder is still relatively new with associated transition challenges.

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, and the sector overall. Stage 2 classified loans are moderate compared to the market, but the Bank recorded a rise in Stage 2 loans in 2023, although CI notes a small decline in H1 24. The NPL ratio also fell in H1 24. CM has satisfactory buffers in place, with loan loss reserve coverage adequate..

CM's earnings strength is satisfactory, and returns improved in 2023, reflecting higher net interest income. Also, operating expenses normalised after a large increase in the prior year which was mainly due to the change in ownership with increased expenses and charges. Operating profit increased by a good level in 2023 in both percentage terms and against average total assets. Returns are currently slightly below the peer group average, however, due mainly to a higher cost base. The Bank's net interest margin (NIM) is good – the Bank records the highest NIM in the peer group – and CM has the lowest cost of funds in the peer group. Earnings are generated principally from core and stable banking operations.

H1 24 net profit was 36% higher than H1 23 net profit. Operating income in H1 24 was 13% above that of H1 23. Both were led by stronger net interest income. The cost of risk was lower and expenses quite steady. We expect higher returns for full year 2024.

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. CM's loans to customer deposits ratio is satisfactory but the level of liquid assets is low, although the LCR is good. Medium and longer-term funding is provided by debt securities issued on the local market, including subordinated facilities. In 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. In H1 24, IFC provided a further line of credit to CM amounting to MAD1bn. Overall, CM's funding profile is stable and diversified.

Capital ratios and metrics are solid, and ratios are slightly better than peer banks. The Bank's capital position provides a satisfactory buffer against unforeseen events, with both the CET1 and CAR ratios at satisfactory levels.

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.

Ratings

Foreign Currency		Outlook	BSR	Outlook	CFS	ESL	OPERA
LT	ST	LT FC		BSR			
BB+	B	Stable	bb	Stable	bb	Moderate	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 FY2020-23 and H1 2024. 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 2023. 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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