

RATING ACTION COMMENTARY

Fitch Affirms Bank of Africa at 'BB'; Outlook Stable

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Fitch Ratings - London - 06 Feb 2023: Fitch Ratings has affirmed Bank of Africa's (BOA) Long-Term Foreign- and Local-Currency Issuer Default Ratings (IDRs) at 'BB' with Stable Outlooks. Fitch has also affirmed BOA's Viability Rating (VR) at 'bb-' and National Long-Term Rating at 'AA-(mar)' with a Stable Outlook.

KEY RATING DRIVERS

BOA's IDRs are driven by potential support from the Moroccan authorities, if required, as reflected by the bank's Government Support Rating (GSR) of 'bb'. The Stable Outlook mirrors that on the sovereign rating.

BOA's VR considers its solid franchise in Morocco and pan-African presence, which brings diversification benefits to the business model, but also its exposure to less-developed markets and more volatile operating conditions. BOA's stable performance and fairly strong funding and liquidity are balanced by a weak capital position and asset quality pressures.

BOA's National Ratings are in line with its direct local peers but below the subsidiaries of large French banking groups as these benefit from potential support from their foreign shareholders.

'bb' GSR: BOA's 'bb' GSR considers the bank's systemic importance as the third-largest Moroccan bank, but also the limitations of the sovereign's financial flexibility. Fitch views BOA as a domestic systemically important bank (D-SIB) in Morocco based on its 13% market share of loans and deposits.

Stable Outlook for Operating Environment: Morocco's real GDP is forecast to grow 2.8% in 2023 and 3.2% in 2024. Recession in the eurozone, Morocco's main trading partner, drought and high inflation will weigh on business activity. Banks are likely to remain resilient having come out of the pandemic in reasonable shape. BOA's operating environment score of 'bb-' is one notch lower than the standard score for domestic Moroccan banks due to its exposure to weaker and more volatile regional markets.

Adequate Franchise in Morocco: BOA has a strong franchise and D-SIB status in its home market (which accounted for 70% of total assets at end-1H22), but its 13% market share is below that of the other two D-SIBs, Attijariwafa Bank (BB/Stable) and Groupe Banque Centrale Populaire (unrated). BOA operates across 32 countries, with net income from operations outside Morocco representing 51% of net income in 1H22, well above D-SIB domestic peers.

Strengthening Risk Profile: Evidence of an improved risk profile include greater harmonisation in risk controls across the group, a cautious approach to growth in recent years in a drive to preserve capital, as well as several rounds of capital enhancement, including issuance of eligible securities and rights issues.

Asset Quality Pressures: BOA's Stage 3 loans ratio (end-1H22: 10.2%) is higher than at other major Moroccan banks, which is partially driven by higher impairments at its African subsidiaries. Stage 2 loans are high at 8.7% of gross loans, although in line with the peer average of 9%. The reserve coverage of Stage 3 loans by total allowances (85%) is reasonable.

Acceptable Profitability: BOA's operating profit/risk-weighted assets ratio further improved to 1.8% in 1H22 (annualised) from 1.5% in 2021 (primarily owing to lower loan impairment charges) and is broadly in line with the sector. BOA's cost controls have been strengthened but remain weaker than peers, primarily due to the foreign operations.

Low Core Capitalisation: BOA's common equity Tier 1 (CET1) ratio of 8.4% at end-1H22 was lower than the sector average (10%) and is managed tightly against the minimum regulatory requirement (8% at end-2022). BOA carried out core capital-strengthening measures in 2020 and 2022 and has issued MAD1.5 billion of additional Tier 1 securities since 2021.

Good Funding and Liquidity: BOA is primarily funded by granular deposits. Liquidity is adequate with a sound 91% loans/deposits ratio and a 154% liquidity coverage ratio at end-1H22. BOA has continued shedding expensive deposits and replacing them with current accounts in order to preserve its cost of funding.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to negative rating action/downgrade:

BOA's IDRs and GSR would be downgraded if the Moroccan state's ability or propensity to support the bank weakened.

BOA's VR could be downgraded if asset quality deteriorates markedly, particularly if the stage 3 loans ratio exceeds 14% on a sustained basis, resulting in a significant weakening of the bank's profitability and capital position. A decrease in the CET1 buffers over the minimum regulatory requirements would also be rating-negative.

The National Rating could be downgraded if the bank's Long-Term Local-Currency IDR was downgraded and Fitch believes BOA's creditworthiness has weakened relative to other Moroccan issuers.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

An upgrade of BOA's Long-Term IDRs could be primarily driven by an upgrade of the GSR. However, the latter would require an upgrade of the sovereign's Long-Term IDRs, and this is not our base case given the Stable Outlook on Morocco's sovereign rating.

An upgrade of the VR is unlikely in the near term, although it could result from a sustained improvement in the operating environment in the medium term or from a sustained strengthening of the bank's earnings capacity and capital position.

The National Rating could be upgraded if Fitch believes BOA's creditworthiness has improved relative to other rated Moroccan issuers.

VR ADJUSTMENTS

The operating environment score of 'bb-' has been assigned above the 'b' category implied score, due the following adjustment reasons: 'macroeconomic stability' (positive), 'sovereign rating' (positive) and international operations (negative).

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating

categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

BOA's IDR are driven by sovereign support and its IDR is linked to Morocco's sovereign rating

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

RATING ACTIONS

ENTITY / DEBT ⚡	RATING ⚡			PRIOR ⚡
Bank of Africa	LT IDR	BB Rating Outlook Stable		BB Rating Outlook Stable
	Affirmed			
	ST IDR	B	Affirmed	B
	LC LT IDR	BB Rating Outlook Stable		BB Rating Outlook Stable
	Affirmed			
	LC ST IDR	B	Affirmed	B

Natl LT				AA-(mar) Rating Outlook Stable
AA-(mar) Rating Outlook Stable				
Affirmed				
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Natl ST	F1+(mar)	Affirmed		F1+(mar)
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Viability	bb-	Affirmed		bb-
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Government Support	bb	Affirmed		bb
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[VIEW ADDITIONAL RATING DETAILS](#)

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APPLICABLE CRITERIA

[National Scale Rating Criteria \(pub. 22 Dec 2020\)](#)

[Bank Rating Criteria \(pub. 07 Sep 2022\) \(including rating assumption sensitivity\)](#)

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Bank of Africa

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Banks Africa Europe Morocco
