



## **RATING ACTION COMMENTARY**

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

Mon 29 Jan, 2024 - 11:53 ET

Fitch Ratings - Paris - 29 Jan 2024: 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, as reflected in 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 its pan-African presence, which brings diversification benefits to the business model but also exposes it to less developed markets and more volatile operating conditions. BOA's stronger performance and fairly strong funding and liquidity are balanced by weak capital and asset quality.

BOA's National Ratings are two notches below Attijariwafa Bank and three notches below the subsidiaries of large French banking groups; the latter benefit from potential support from their foreign shareholders.

**Government Support Rating:** BOA's GSR of 'bb' 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 14% market share of loans and deposits.

**Stable Operating Environment Outlook:** We forecast Morocco's real GDP to grow 3.2% in 2024 and 3.3% in 2025. However, growth remains vulnerable to a slowdown in the euro zone, Morocco's main trading partner, and to adverse weather conditions and high inflation.

**Solid Franchise in Morocco:** BOA has a solid franchise and D-SIB status in its home market (which accounted for 70% of total assets at end-1H23), with a 14% market share. BOA operates across 32 countries, mostly in Africa, with net income from operations outside Morocco representing 50% of consolidated net income in 1H23, well above D-SIB domestic peers'.

**Moderate Risk Profile:** The risk profile has improved with a 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 increases, including rights issues. The bank's loan book is less concentrated than the peer average; the largest 20 exposures were 14.5% of total gross loans end-1H23.

**Asset-Quality Weaknesses:** BOA's Stage 3 loans ratio (end-1H23: 9.9%) 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 8.1% of gross loans, although roughly in line with the peer average of 9%. Reserve coverage of Stage 3 loans by total allowances (85%) is reasonable.

**Healthy Profitability:** BOA's operating profit improved to 2.0% of risk-weighted assets (RWAs) in 1H23 (2022: 1.6%) owing to strong fees and commissions income as well as net interest income, and is broadly in line with the sector average. BOA's cost efficiency has improved but remains weaker than peers' primarily due to its foreign operations. In 9M23, net

income was up 17% yoy, primarily due to a solid 18% growth in net fees and commissions and 10% growth in net interest income.

**Weak Capitalisation:** BOA's common equity Tier 1 (CET1) ratio of 8.7% at end-1H23 was lower than the sector average (10%) and is managed tightly against its 8% minimum regulatory requirement. Its total capital adequacy ratio (CAR) of 12% at end-1H23 was just in line with its minimum regulatory requirement.

**Good Funding and Liquidity:** BOA is primarily funded by stable customer deposits (end-3Q23: 68% of non-equity funding) and deposit concentration is low by African standards. Liquidity is adequate, with a 92% loans/deposits ratio at end-3Q23 and a 135% liquidity coverage ratio at end-1H23.

## **RATING SENSITIVITIES**

### **Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade**

BOA's IDRs would be downgraded should the state's ability or propensity to support the bank diminish. A downgrade of the Moroccan sovereign rating would trigger a downgrade of the GSR and IDR.

BOA's VR could be downgraded if BOA's asset quality deteriorates markedly resulting in a significant weakening of the bank's profitability and capital position. In particular, the VR could be downgraded if the CET1 buffers over their minimum regulatory requirement fall below 50bp on a sustained basis or if capital encumbrance through unreserved Stage 3 loans increases materially.

The National Rating could be downgraded if 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 primarily be driven by an upgrade of the GSR; the latter would require an upgrade of the sovereign's Long-Term IDRs.

An upgrade of the VR is unlikely without a sustained improvement in the operating environment in Morocco and sub-Sahara Africa or from a sustained strengthening of the bank's earnings generation capacity and capital position.

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

#### **OTHER DEBT AND ISSUER RATINGS: KEY RATING DRIVERS**

BOA's Long-Term Foreign-Currency IDR (xgs) is at the level of the VR. Its Long-Term Local-Currency IDR (xgs) is in line with its Long-Term Foreign-Currency IDR (xgs).

Its Short-Term Foreign-Currency IDR (xgs) is in accordance with its Long-Term Foreign-Currency IDR (xgs) and Fitch's short-term rating mapping. Its Short-Term Local-Currency IDR (xgs) is in accordance with its Long-Term Local-Currency IDR (xgs) and Fitch's short-term rating mapping.

#### **OTHER DEBT AND ISSUER RATINGS: RATING SENSITIVITIES**

BOA's Long-Term IDRs (xgs) could be downgraded if the VR is downgraded. Its Short-Term Foreign-Currency IDR (xgs) is primarily sensitive to changes in its Long-Term Foreign-Currency IDR (xgs) and could be downgraded if the latter is downgraded and the new Long-Term rating maps to a lower Short-Term rating in accordance with Fitch's criteria. Its Short-Term, Local-Currency IDR (xgs) is primarily sensitive to changes in its Long-Term Local-Currency IDR (xgs) and could be downgraded if the latter is downgraded and the new Long-Term rating maps to a lower Short-Term rating in accordance with Fitch's criteria.

An upgrade of BOA's Long-Term IDRs (xgs) would require a VR upgrade. Its Short-Term Foreign-Currency IDR (xgs) is primarily sensitive to changes in its Long-Term Foreign-Currency IDR (xgs) and could be upgraded if the latter is upgraded and the new Long-Term rating maps to a higher Short-Term rating in accordance with Fitch's criteria. Its Short-Term Local-Currency IDR (xgs) is primarily sensitive to changes in its Long-Term Local-Currency IDR (xgs) and could be upgraded if the latter is upgraded and the new Long-Term rating maps to a higher Short-Term rating in accordance with Fitch's criteria.

## **VR ADJUSTMENTS**

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

## **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 IDRs are linked to the Moroccan sovereign ratings.

## **ESG CONSIDERATIONS**

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' 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. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores see [www.fitchratings.com/esg](http://www.fitchratings.com/esg).

RATING ACTIONS

ENTITY / DEBT ⚡	RATING ⚡			PRIOR ⚡
Bank of Africa	LT IDR			BB Rating
	BB Rating Outlook Stable			Outlook
	Affirmed			Stable
	ST IDR	B	Affirmed	B
	LC LT IDR			BB Rating
	BB Rating Outlook Stable			Outlook
	Affirmed			Stable
	LC ST IDR	B	Affirmed	B
	Natl LT			AA-
	AA-(mar) Rating Outlook Stable			(mar) Rating
	Affirmed			Outlook
	Natl ST	F1+(mar)	Affirmed	F1+(mar)

	Viability	bb-	Affirmed	bb-
	Government Support	bb		bb
	Affirmed			
	LT IDR (xgs)	BB-(xgs)		BB-(xgs)
	Affirmed			
	ST IDR (xgs)	B(xgs)	Affirmed	B(xgs)

[VIEW ADDITIONAL RATING DETAILS](#)

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## **APPLICABLE CRITERIA**

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

[Bank Rating Criteria \(pub. 01 Sep 2023\) \(including rating assumption sensitivity\)](#)

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Bank of Africa

EU Issued, UK Endorsed



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