

## RATING ACTION COMMENTARY

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

Wed 09 Feb, 2022 - 11:16 ET

Fitch Ratings - London - 09 Feb 2022: 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.

Fitch Ratings has withdrawn BOA's Support Rating of '3' and Support Rating Floor of 'BB' as they are no longer relevant to the agency's coverage following the publication of its updated Bank Rating Criteria on 12 November 2021. In line with the updated criteria, we have assigned BOA a Government Support Rating (GSR) of 'bb'.

## KEY RATING DRIVERS

BOA's 'BB' IDRs are driven by a moderate probability of support from the Moroccan sovereign (BB+/Stable), considering BOA's systemic importance as the third-largest Moroccan bank but also the limitations of the sovereign's financial flexibility. 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 exposes it to less-developed markets and more volatile operating conditions. BOA's stable performance record and fairly strong funding and liquidity are counterbalanced by a weak capital position and asset quality pressures heightened by the fallout from the Covid-19 pandemic.

BOA's National Rating is 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.

**Sovereign Support:** Fitch considers BOA a domestic systemically important bank (D-SIB) in Morocco, based on the bank's 13% share of loans and deposits at end-1H21. BOA's GSR is therefore in line with the D-SIB GSR of 'bb'.

**Adequate Franchise in Morocco:** BOA has a strong franchise and D-SIB status in its home market (which accounted for 67% of total assets at end-1H21) but its 13% market share is below that of the other two D-SIBs. BOA operates across 32 countries (including 20 across Africa), which contributed 47% to total net income in 1H21, well above D-SIB domestic peers.

**Improvements in Risk Profile:** Evidence of improving 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 instrument issuances including core capital through right issues.

**Asset Quality Pressures:** BOA's Stage 3 loans ratio (end-1H21: 9.8%) is higher than at other major Moroccan banks due to higher impairments at its African subsidiaries. Stage 2 loans are high at 7.8% of gross loans but remain broadly in line with the peer average. Total reserve coverage of Stage 3 loans (87%) is reasonable. Our assessment also considers non-loan assets primarily government securities, both Moroccan and those held in the African subsidiaries.

**Profitability Strongly Recovering:** BOA's operating profit/risk-weighted assets ratio recovered to 1.7% in 1H21 from 0.7% in 2020, primarily owing to lower loan impairment charges, which consumed 37% of pre-impairment operating profit vs. 66% in 2020. BOA's cost to income ratio of 53% in 1H21 was above the sector average of 49%.

**Low Core Capitalisation:** BOA's common equity Tier 1 (CET1) ratio of 8.7% at end-1H21 was lower than the sector average (9.2%) and managed tightly against the minimum regulatory requirement (7.5% until June 2022). BOA carried out capital-strengthening measures in 2019 and 2020 and issued MAD1 billion of additional Tier 1 securities in 3Q21. The latter contributed about 40bp uplift to the Tier 1 ratio of 9.1% at end-1H21.

**Good Funding and Liquidity:** BOA is primarily funded by granular deposits. Liquidity is adequate with a sound 92% loans/deposits ratio and a 171% liquidity coverage ratio at end-1H21. In 1H21 deposits grew by 3.3% and supportive liquidity conditions helped BOA reduce its reliance on Central Bank funding (end-1H21: 5% of total funding; end-1H20: 9%).

**Real GDP Growth of 3.2%:** Pressures on the operating environment from the pandemic have decreased and Fitch expects real GDP growth of 3.2% in both 2022 and 2023. An easing of the disruptions from the health crisis and improved rainfall following a two-year drought will support the rebound. We expect fiscal policy to remain expansionary until at least 2023.

## **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 is sensitive to further deterioration in the operating environment and adverse developments surrounding the future of the health crisis. The VR could be downgraded if BOA's asset quality deteriorates markedly, particularly if the stage 3 loans ratio sustainably exceeds 14%, 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 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 IDRs could be primarily driven by an upgrade of the GSR. However, the latter would require an upgrade of the sovereign's IDRs. 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 a sustained material 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 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) and 'sovereign rating' (positive).

## 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 IDRs are driven by a moderate probability of support from the Moroccan sovereign.

## 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 BOA, either due to their nature or the way in which they are being managed by BOA. For more information on Fitch's ESG Relevance Scores, visit [www.fitchratings.com/esg](http://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		
Natl ST	F1+(mar) Affirmed	F1+(mar)
Viability	bb- Affirmed	bb-
Support	WD Withdrawn	3
Support Floor	WD Withdrawn	BB
Government Support	bb New Rating	

[VIEW ADDITIONAL RATING DETAILS](#)

## FITCH RATINGS ANALYSTS

### Jamal El Mellali

Associate Director

Primary Rating Analyst

+44 20 3530 1969

jamal.elmellali@fitchratings.com

Fitch Ratings Ltd

30 North Colonnade, Canary Wharf London E14 5GN

### Nicolas Charreyron

Senior Analyst

Secondary Rating Analyst  
+44 20 3530 2715  
nicolas.charreyron@fitchratings.com

**Olga Ignatieva**  
Senior Director  
Committee Chairperson  
+7 495 956 6906  
olga.ignatieva@fitchratings.com

## **MEDIA CONTACTS**

**Louisa Williams**  
London  
+44 20 3530 2452  
louisa.williams@thefitchgroup.com

Additional information is available on [www.fitchratings.com](http://www.fitchratings.com)

## **PARTICIPATION STATUS**

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

## **APPLICABLE CRITERIA**

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

[Bank Rating Criteria \(pub. 12 Nov 2021\) \(including rating assumption sensitivity\)](#)

## **ADDITIONAL DISCLOSURES**

[Dodd-Frank Rating Information Disclosure Form](#)

[Solicitation Status](#)

[Endorsement Policy](#)

## **ENDORSEMENT STATUS**

Bank of Africa

UK Issued, EU Endorsed

## **DISCLAIMER**

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK:

[HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://www.fitchratings.com/understandingcreditratings). IN ADDITION, THE FOLLOWING [HTTPS://WWW.FITCHRATINGS.COM/RATING-DEFINITIONS-DOCUMENT](https://www.fitchratings.com/rating-definitions-document) DETAILS FITCH'S RATING DEFINITIONS FOR EACH RATING SCALE AND RATING CATEGORIES, INCLUDING DEFINITIONS RELATING TO DEFAULT. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. DIRECTORS AND SHAREHOLDERS RELEVANT INTERESTS ARE AVAILABLE AT [HTTPS://WWW.FITCHRATINGS.COM/SITE/REGULATORY](https://www.fitchratings.com/site/regulatory). FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE OR ANCILLARY SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF PERMISSIBLE SERVICE(S) FOR WHICH THE LEAD ANALYST IS BASED IN AN ESMA- OR FCA-REGISTERED FITCH RATINGS COMPANY (OR BRANCH OF SUCH A COMPANY) OR ANCILLARY SERVICE(S) CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH RATINGS WEBSITE.

[READ LESS](#)

## **COPYRIGHT**

Copyright © 2022 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the

availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name



as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001

Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see <https://www.fitchratings.com/site/regulatory>), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

[READ LESS](#)

## **SOLICITATION STATUS**

The ratings above were solicited and assigned or maintained by Fitch at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

## **ENDORSEMENT POLICY**

Fitch's international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be.

Fitch's approach to endorsement in the EU and the UK can be found on Fitch's [Regulatory Affairs](#) page on Fitch's website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.

