

**Rating Action: Moody's affirms the ratings of Bank of Africa - BMCE Group, changes the outlook to negative from stable**

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18 Jun 2020

Paris, June 18, 2020 -- Moody's Investors Service ("Moody's") has today affirmed the foreign currency and local currency deposit ratings of Bank of Africa - BMCE Group (BOA-BMCE) at Ba2 and Ba1 respectively. Moody's has also affirmed BOA-BMCE's Baseline Credit Assessment (BCA) and Adjusted BCA of b1.

At the same time, Moody's has changed the outlook on the bank's long-term deposit ratings to negative from stable, reflecting the risk that the economic deterioration resulting from the coronavirus outbreak will pressure the already modest capitalisation and weakening asset quality over the next 12 to 18 months. Moody's regards the coronavirus outbreak as a social risk under its ESG framework, given the substantial implications for public health and safety.

BOA-BMCE, established in 1959, is a Morocco-based bank with reported total assets of \$32.5 billion and a 12.4% market share in terms of total Moroccan loans as of December 2019. The bank has international operations, with a presence in 31 countries including 20 African countries.

A full list of affected ratings is at the bottom of the press release.

**RATINGS RATIONALE**

-- AFFIRMATION OF RATINGS REFLECTS STANDALONE CREDIT PROFILE STRENGTHS AND VERY HIGH LIKELIHOOD OF GOVERNMENT SUPPORT IN CASE OF NEED

Moody's affirmation of the bank's long-term deposit ratings takes into account the bank's sound profitability, which reflects the combination of a solid franchise in Morocco - as the third-largest bank - combined with sizeable operations in Sub-Saharan Africa. BOA-BMCE's international operations generated 48% of operating income in 2019. The bank's net income over tangible banking assets was 0.8% in 2019.

In addition, the bank's problem loans coverage is healthy and improved noticeably in 2018 following the adoption of IFRS9 accounting standards, which provides some buffer to mitigate potential asset quality deterioration. BOA-BMCE's loan loss reserves over problem loans was 84% at end-2019, compared to 64% at end-2017.

The affirmation also captures the bank's stable deposit-based funding and high liquidity. The bank's deposit base primarily comprises low-cost current and saving account deposits, which accounted for 74% of deposits at end-2019. BOA-BMCE's market funds were stable and manageable at 19.9% of tangible banking assets (14.2% local average) and its liquid banking assets over tangible banking assets was 36.2% (32.3% local average).

Finally, the affirmation also takes into account our expectation of 'very high' likelihood of support from Moroccan authorities if needed, which translates into three notches of government support uplift. This reflects the bank's importance to the local financial system (13.6% market share in terms of deposits) and the bank's designation as a D-SIB by the local regulator.

-- NEGATIVE OUTLOOK REFLECTS THE RISK THAT ECONOMIC DETERIORATION WILL PRESSURE THE BANK'S CAPITALISATION AND ASSET QUALITY

The change in outlook to negative from stable on the bank's long-term deposit ratings reflects the risk that the economic deterioration resulting from the coronavirus outbreak will pressure the bank's already modest capitalisation (despite a slight improvement in 2019), as well as the bank's asset quality which was already gradually deteriorating before the pandemic.

We expect that the coronavirus pandemic will hurt economic growth in the various jurisdictions in which the bank operates, particularly in volatile and vulnerable Sub-Saharan African countries. This increases the risk that borrower delinquencies lead to a further deterioration in asset quality and to weakening in the bank's

modest capitalisation.

BOA-BMCE's capitalisation is relatively modest, despite a slight improvement following capital injections during 2019. This modest capitalisation constrains the bank's ability to absorb potential losses, which could create the need for additional capital injections amid a challenging environment. The bank's tangible common equity over risk weighted assets ratio was 7.5% at end-2019 (6.5% at end-2018 and average of around 7.1% over 2014-19). The bank's reported Tier 1 ratio (excluding Moody's adjustments for minority interest and government securities) was 10.2% at end-2019 (9.6% at end-2018), compared to 10.4% for Moroccan peers.

The economic slowdown due to the coronavirus outbreak could negatively affect the creditworthiness of borrowers in the various jurisdictions in which the bank operates, particularly in Sub-Saharan Africa. The bank's asset quality has gradually weakened over recent years, with problem loans increasing to 9.1% of gross loans at end-2019 from 8.6% at end-2018 and 8.2% at end-2017. The weakening primarily reflects high problem loan formation in the Sub-Saharan African operations (11.4% problem loans ratio in 2019 from 10.5% in 2017), with volatile and uneven loan performance across countries. The gradual deterioration also reflects subdued economic growth in Morocco over recent years, which increased the problem loans ratio in the Moroccan operations to 7.5% in 2019 from 6.7% in 2017. Technical factors also contributed to the problem loans ratio deterioration, including relatively low write-offs and slow credit growth over recent years.

#### FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Upwards pressure on the bank's ratings is limited given the negative outlook.

A stabilisation in the outlook could result from (a) resilience in the bank's core capitalisation ratios, combined with (b) broadly resilient asset quality, particularly in Sub-Saharan Africa.

Downwards pressure on the long-term and standalone ratings could develop from (a) a continued deterioration in the bank's asset quality, and/or (b) a weakening in the bank's core capitalisation.

#### LIST OF AFFECTED RATINGS

Issuer: Bank of Africa - BMCE Group

..Affirmations:

- ....Long-term Counterparty Risk Ratings (Local and Foreign Currency), affirmed Ba1
- ....NSR Long-term Counterparty Risk Ratings (Local and Foreign Currency), affirmed Aa2.ma
- ....Short-term Counterparty Risk Ratings (Local and Foreign Currency), affirmed NP
- ....NSR Short-term Counterparty Risk Ratings (Local and Foreign Currency), affirmed MA-1
- ....Long-term Bank Deposits (Foreign Currency), affirmed Ba2, outlook changed to Negative from Stable
- ....Long-term Bank Deposits (Local Currency), affirmed Ba1, outlook changed to Negative from Stable
- ....NSR Long-term Bank Deposits (Foreign Currency), affirmed Aa3.ma
- ....NSR Long-term Bank Deposits (Local Currency), affirmed Aa2.ma
- ....Short-term Bank Deposits (Local and Foreign Currency), affirmed NP
- ....NSR Short-term Bank Deposits (Local and Foreign Currency), affirmed MA-1
- ....Long-term Counterparty Risk Assessment, affirmed Ba1(cr)
- ....Short-term Counterparty Risk Assessment, affirmed NP(cr)
- ....Long-term Issuer Ratings (Local and Foreign Currency), affirmed Ba1, outlook changed to Negative from Stable
- ....NSR Long-term Issuer Ratings (Local and Foreign Currency), affirmed Aa2.ma
- ....Baseline Credit Assessment, affirmed b1

...Adjusted Baseline Credit Assessment, affirmed b1

..Outlook Actions:

...Outlook changed to Negative from Stable

#### PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in November 2019 and available at [https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC\\_1147865](https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_1147865) . Alternatively, please see the Rating Methodologies page on [www.moody.com](http://www.moody.com) for a copy of this methodology.

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The local market analyst for this rating is Mik Kabeya, +971 (423) 795-90.

#### REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: [https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC\\_79004](https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_79004).

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Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit

analysis can be found at [https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC\\_1133569](https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1133569).

At least one ESG consideration was material to the credit rating action(s) announced and described above.

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