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Banks – Morocco

Full-year 2020 profit down on higher loan-loss provisioning

Moroccan banks' profitability came under pressure in 2020, largely as a result of increased provisioning costs in anticipation of higher credit losses, lower transaction volumes amid stringent lockdown measures and one-off charges related to donations to Morocco's COVID-19 national special fund.

Attijariwafa bank (AWB, Ba1 negative, ba3[1]), Groupe Banque Centrale Populaire (GBCP, Ba1 negative, b1), Bank of Africa – BMCE Group (BOA, Ba1 negative, b1) and Credit du Maroc (CDM, Ba1 stable, ba3) accounted for 65% of Moroccan loans as of year-end 2020 and operate predominantly in Morocco, with AWB, GBCP and BOA holding an average 22% of their loan book across Sub-Saharan Africa. Together, they reported an aggregate net profit of MAD6.5 billion ($0.7 billion) in 2020, down 53% from MAD13.9 billion ($1.4 billion) in 2019.

Net interest income rose despite lower interest rates and slower credit growth. The four rated banks recorded a combined 5.6% year-on-year increase in net interest income. The relative resilience of the banks' margins largely reflected a decrease in asset yields in Morocco that was mitigated by growth in high-yielding Sub-Saharan Africa and a lower cost of funds in a lower interest rate environment.

Noninterest income dropped in aggregate. Fees and commission income was flat over the year, reflecting lower business activity amid the coronavirus pandemic, particularly in the first half of the year. Trading activities performed well in a lower interest rate environment that drove marked-to-market gains on government securities holdings.

Operating efficiency improved slightly when excluding one-off charges. The banks exhibited a slight improvement in efficiency when excluding one-off donations to Morocco's COVID-19 special fund to help combat the pandemic-induced shock. Combined operating expenses rose by 11.9%.

Increased provisioning amid a challenging operating environment. The combined cost of risk of the four rated banks, as measured by total impairment charge divided by gross loans, rose to 175 basis points (bp) in 2020 from 76 bp in 2019 on the back of expected problem loans formation as a result of pandemic-related economic challenges.

Bottom-line profitability will remain under pressure in the medium term. We expect net interest income to increase by 3%-5% during 2021 from 2020 levels and noninterest income to continue its slow recovery but remain constrained. Banks are expected to continue to rationalise costs in a still challenging context, while an elevated cost of risk, albeit lower than 2020, will continue to exert bottom-line pressures. However, the diverse dynamics between geographies and lines of business are likely to attenuate volatility in bottom-line earnings of the three Pan-African banks.

Bottom-line profitability declined materially as pandemic-related provisioning increased

The four rated banks' combined reported net earnings for the year 2020 amounted to MAD6.5 billion ($0.7 billion), down 53%from MAD13.9 billion (USD 1.4 billion) in 2019 on the back of increased provisioning in anticipation of higher credit losses amid the pandemic.

We expect net interest income and noninterest income to gradually recover as lockdown measures ease, notably in Morocco, which exhibited the sharpest drop in business volumes. Exceptional donations to Morocco's COVID-19 special fund by rated banks (5.4% of operating income in December 2020) put further pressure on their bottom-line earnings in 2020, and their non-recurrence will relieve the burden on their results going forward. Cost of risk, is likely to remain elevated in 2021 but lower than in 2020 as banks continue to take a relatively cautious approach, before gradually returning to pre-pandemic levels in 2023.

Rated banks' return on assets halved to an aggregate 0.5% as of the end of 2020, down from 1.0% in 2019, and are expected to gradually pick up over the coming three years before stabilising at normal levels.

GBCP reported the largest drop in net earnings (down 67% from 2019), leaving its ROA at 0.3% for 2020.

CDM recorded a 62% drop in net profits during the year and its ROA stood at 0.3%.

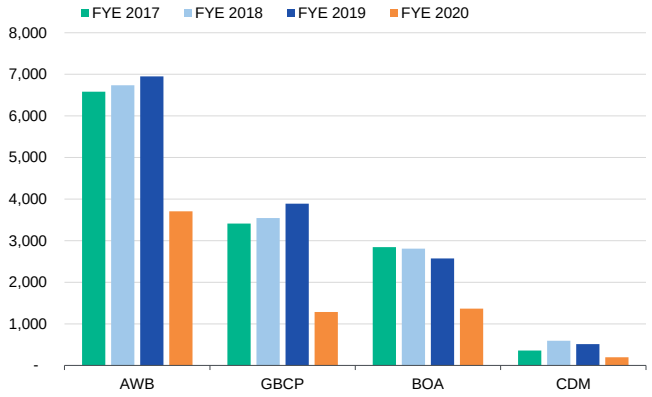
AWB's net income declined by 47% during 2020; however, it still reported the highest ROA of 0.7% amongst the four banks we rate.

BOA's ROA stood at 0.4% as of year-end 2020, reflecting a 47% decline in its bottom-line profitability.

Exhibit 1

Reported net earnings dropped for all rated banks

Net profits (MAD million), FYE 2017-2020

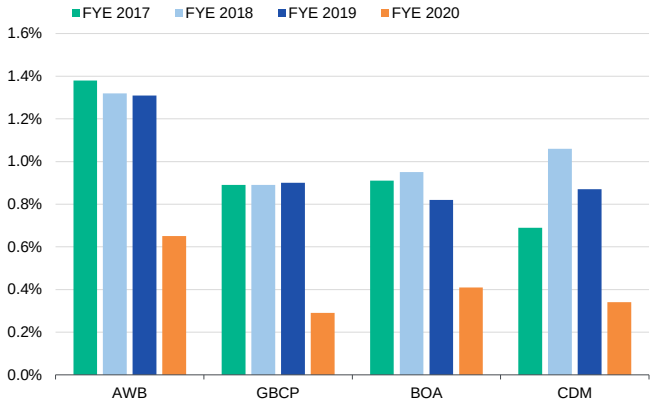


Source: Rated banks' financials

Exhibit 2

Return on assets was the highest at AWB

Reported net profits to total assets, FYE 2017-2020



Source: Rated banks' financials

Net interest income rose despite lower interest rates and slower credit growth.

The banking system has seen a fair level of loan growth during the year (3.9% in 2020 compared to 5.3% in 2019) despite difficult operating conditions. Loans extended through support scheme programs such as "Daman Oxygene" and "Daman Relance" launched by the Moroccan government to support small and medium-sized enterprises (SMEs), as well as corporates, helped sustain credit activity in Morocco. Together with a slightly lower cost of funds amid higher precautionary savings, this helped stabilise net interest income, partially outweighing lower asset yields. The four banks' combined operating income rose by 5.3%, supported by an increase in their combined net interest income of 3.6% year-on-year.

The three Pan-African banks benefited from their diversified geographical footprint and large suite of domestic product offerings, which have supported interest income. Relatively more lenient lockdown measures in Sub-Saharan Africa attenuated the shock from the

coronavirus outbreak and resulted in a higher credit volumes compared with Morocco. In aggregate, rated banks reported a 3.0% net interest margin in 2020 on a consolidated basis, unchanged from 2019, on the back of marginally reduced asset yields (4.2% in 2020 compared with 4.4% in 2019) outweighed by a lower cost of funds (1.5% in 2020 versus 1.6% in 2019).

GBCP's exhibited a 6.6% rise in net interest income during 2020, largely as a result of a scope effect (67% of the growth) linked to the full year integration in 2020 of three Sub-Saharan African subsidiaries acquired in 2019. The increase also reflected an improvement in net interest margins due to la lower cost of funding. The increase also reflected a strong performance of its West African operations and acquired banks in Sub-Saharan Africa in 2019 compared to Mauritius and Madagascar, which have both suffered from lower tourist volumes, as well as extended lockdown periods (in Madagascar) and lower levels of trade and FDIs (in Mauritius).

AWB's net interest income increased by 5.7% during 2020, supported by its high-yielding International Retail Banking business (up 7.6% year-over-year) and insurance subsidiary (up 5.6% year-on-year). Relatively high gross credit growth of 4% during the year was largely driven by loans extended through the Daman Oxygene and Daman Relance schemes, outweighing muted demand for retail loans.

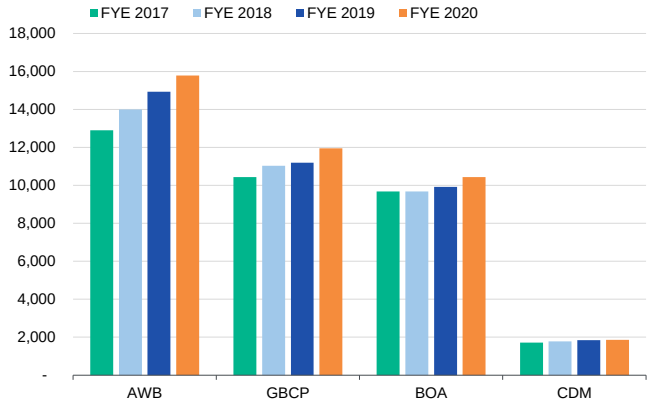
Similarly, BOA's net interest income rose by 5.2% in 2020 from Pan-African operations benefiting from more lenient lockdown measures relative to Morocco, and a healthy credit growth of around 5% over the year.

CDM reported flat net interest income in 2020 as a result of muted loan growth in Morocco, notably in the retail space in which the bank predominantly operates, reflecting wage reductions and higher unemployment. More specifically, consumer lending activities were more affected when compared to mortgages. In this context, saving accounts maintained traction, supporting the bank's funding profile and by extension its net interest income during the year.

Exhibit 3

Net interest income increased for all, the most at GBCP

Net interest income (MAD million), FYE 2017-2020

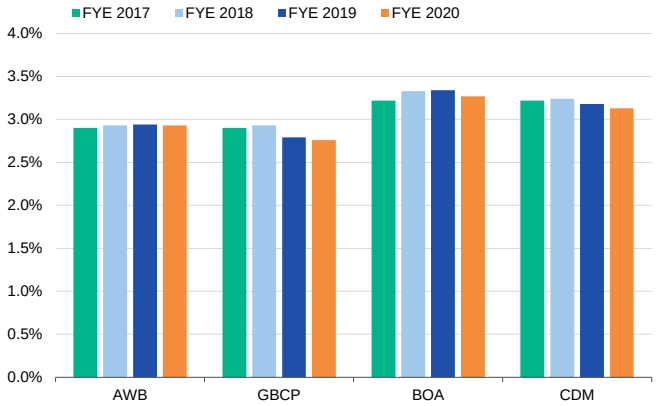


Source: Rated banks' financials

Exhibit 4

Net interest margins remained stable across the four banks

Net interest margins, FYE 2017-2020



Source: Rated banks' financials

Noninterest income dropped in aggregate

Fees and commission income accounted for 33% of total income for the four Moroccan banks we rate during 2020. Aggregate noninterest income dropped year-on-year because of lower economic activity amid strict lockdown measures and lower trading volumes, except for GBCP due to the performance of its recently acquired African banks. This negative trend in fee-generating transactions was partially offset by a favorable performance of the investment portfolios across all four banks as interest rates decreased.

BOA recorded the largest drop in noninterest income in 2020 (7.4% from 2019) as lower transaction volumes led to lower fees and commissions.

AWB's fees and commission income fell by 5.4% on a consolidated basis, mainly driven by a double-digit decline in both card sales in Morocco and international payment transactions, particularly in the second quarter of the year; however, transactions picked up later in the year as lockdown measures gradually relaxed.

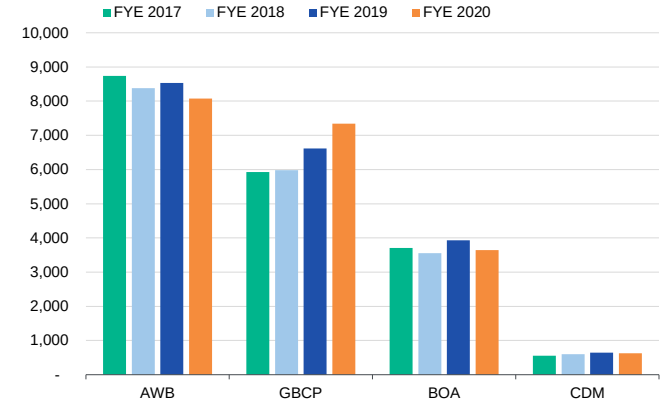
CDM's noninterest income decreased by 2.8% year-on-year, reflecting muted demand for fee-generating products, specifically from the bank's retail-heavy client base, which was hampered by salary cuts and temporary unemployment.

GBCP's positive performance of its reported investments, driven by fixed income marked-to-market gains, largely outweighed lower transaction volumes, resulting in a 11.0% increase in noninterest income in 2020. The large increase also captures inclusion of the full-year noninterest income from the three acquired African banks for the first time. With the highest proportion of operating income (38% as of end 2020), the rise in the bank's noninterest income, as well as its interest income, significantly supported its bottom-line earnings during the year.

Exhibit 5

GBCP was the only bank with higher non-interest income

Non-interest income (MAD million), FYE 2017-2020

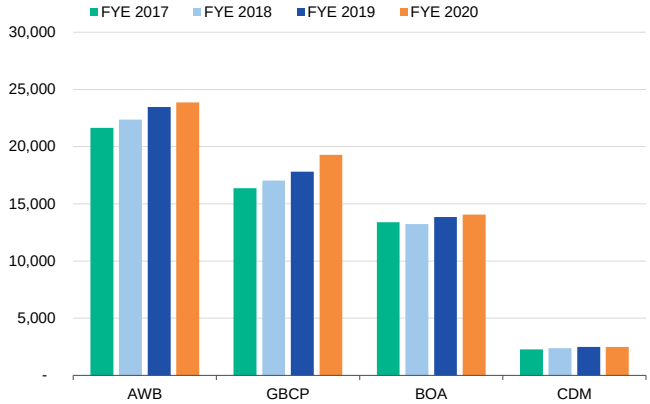


Source: Rated banks' financials

Exhibit 6

Operating income rose for all rated banks in 2020

Total operating income (MAD million), FYE 2017-2020



Source: Rated banks' financials

Operating efficiency improved slightly when excluding one-off charges

All four banks have undertaken cost-cutting initiatives since the coronavirus outbreak and have managed to keep their respective cost base relatively stable despite their investments in digital transformation and automation projects as well as additional costs related to COVID-19 confinement guidelines (mainly IT equipment). Although the banks' all-inclusive cost-to-income ratio rose to 56% in 2020 from 52% in 2019, when excluding their exceptional contributions to the COVID-19 special fund (a total of MAD3.2 billion, or $0.33 billion), their combined cost-to-income ratio was at 50.7% for the same period.

AWB remained the most cost-efficient amongst its Moroccan peers in 2020, with a 46% reported cost-to-income ratio when excluding its donation. This reflected a 1.2% decline in its operating costs on a consolidated basis, mainly driven by domestic operations, which have recorded a 5% drop in costs over the year 2020.

BOA and CDM both reported a 3.3% decrease in expenses in 2020 because of cost-cutting and a natural reduction in operating costs such as staff, marketing and travel expenses as a result of the pandemic-related lockdown. BOA and CdM' cost-to-income ratios, adjusted for the one-off contributions, stood at 55% and 54% respectively as of the end of 2020, only slightly lower than 2019. Also, CDM had rolled out a cost optimisation plan prior to the pandemic that had already started to show cost-reduction benefits.

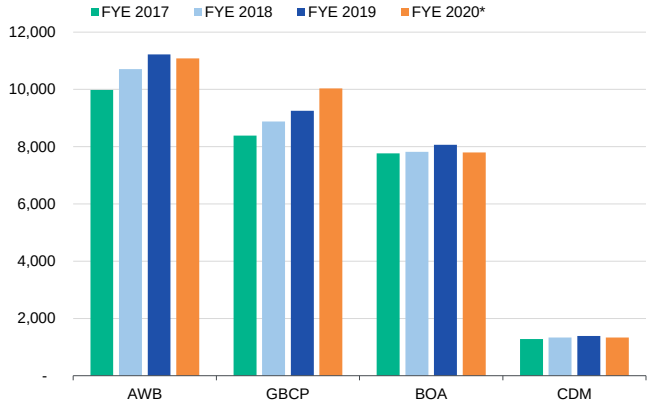
GBCP was the exception amongst the Moroccan banks we rate, recording an 8.4% increase in operating expenses when excluding its contribution to the COVID-19 special fund (19.2% when including the contribution). The rise reflected further charges relating to the three acquired African banks in 2019, specifically continued integration charges and expenses related to the acquired banks that were

included in its full-year 2020 results against one quarter in 2019. As a result, the bank's cost-to-income ratio was stable at 52% as of the end of 2020, while the other rated banks' reported efficiency ratios inched lower.

Exhibit 7

GBCP's expenses excluding the donation rose

Operating costs excluding COVID fund donations (MAD million), FYE 2017-2020

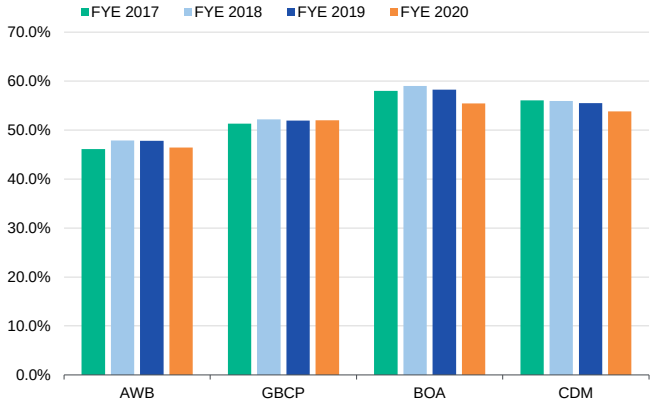


Source: Rated banks' financials

Exhibit 8

AWB remained the most cost-efficient amongst the four banks

Cost to income ratio excluding COVID fund donations, FYE 2017-2020



Source: Rated banks' financials

Increased provisioning amid a challenging operating environment

All four banks had an elevated cost of risk during the year, mostly due to anticipatory provisioning buildup given the uncertainty around the effect of the pandemic on credit performance. As of the end of 2020, loan-loss provisions consumed 53% of pre-provision income for the four banks on a consolidated basis, up from 22% at the end of 2019.

Morocco was the largest contributor to the increase in cost of risk for the Pan-African banks, given the high impact on individuals, SMEs and, to a lesser extent, large corporates because of the strict confinement measures in the country compared with Sub-Saharan African countries. On a combined basis, the four rated banks exhibited a 136% increase in impairment charges during 2020.

The significant increase in AWB's consolidated cost of risk in 2020 (151 bp versus 46 bp in 2019) was mainly driven by domestic activities (cost of risk rose to 110 bp from 32 bp in 2020). This reflected the more significant economic deterioration in Morocco than in other parts of Africa and the bank's historically selective and cautious approach in riskier markets, namely Africa.

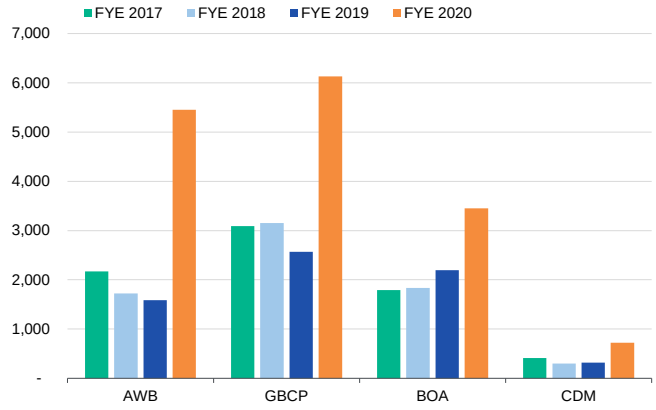
GBCP's cost of risk surged the most of the four rated banks (216 bp in 2020, up from 90 bp in 2019), while cost of risk for BOA was higher in 2020 (164 bp) compared to 2019 (109 bp), mainly in anticipation of pandemic-related impairments. Similarly to AWB, domestic activities of both banks contributed the most to cost of risk compared to the other countries of presence (mainly Sub-Saharan Africa).

CDM's cost of risk increased to 151 bp in 2020 from 67 bp in 2019, on the back of non-performing loan recognition and forward-looking loan-loss provisions under IFRS 9 accounting standards that were booked in expectation of distress in sectors such as tourism, hotels and trade, in line with the conservative reclassification guidelines of the bank's parent (Credit Agricole S.A., Aa3 stable, a3), which is regulated by the European Central Bank.

Exhibit 9

Impairment charges surged for all banks mainly driven by Morocco

Reported impairment charges (MAD million), FYE 2017-2020

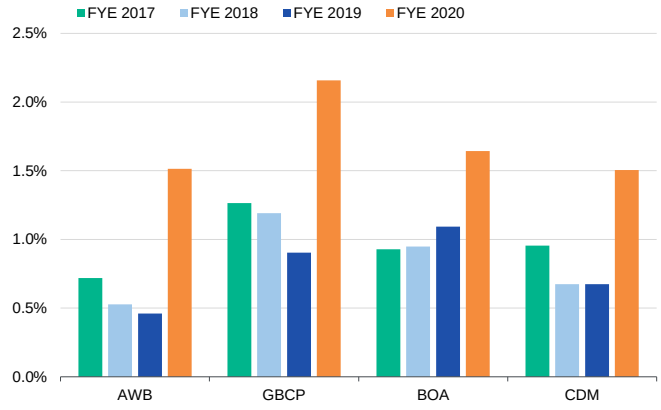


Source: Rated banks' financials

Exhibit 10

Cost of risk was the highest for GBCP during the year

Reported loan-loss provisions to gross loans, FYE 2017-2020



Source: Rated banks' financials

Continued modest capitalisation levels across the system

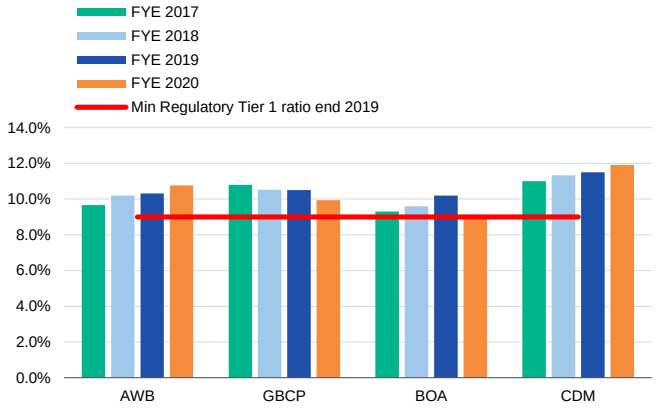
Moroccan banks continue to have relatively modest capitalisation. Together, the banks reported a Tier 1 ratio and a total capital ratio of 10.1% and 13.1% respectively during 2020, compared with 10.4% and 13.3% in 2019, still above regulatory minima.

Conversion of dividends into shares and credit growth predominantly focused on state-guaranteed loans helped preserve broadly stable capital ratios during the year. However, as we expect a gradual return to normal levels of growth (around 6% year-on-year) and only a slow and steady recovery in bottom-line profitability, we expect capital levels to remain modest over the medium term.

Exhibit 11

AWB and CDM saw an increase in their capital buffers

Reported Tier 1 capital ratio, FYE 2017-2020

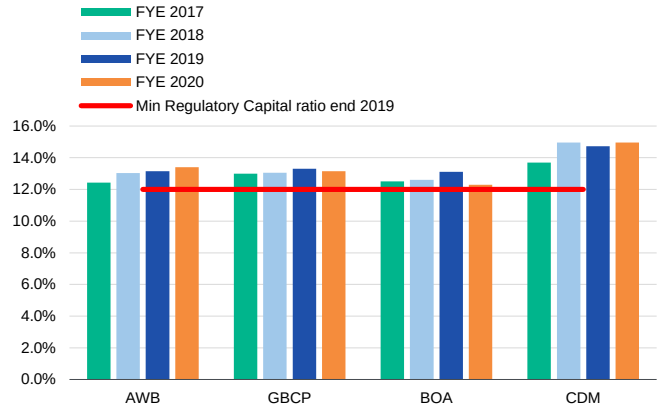


Source: Rated banks' financials

Exhibit 12

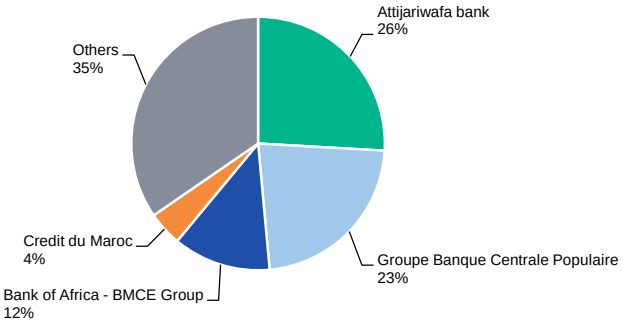
Capital buffers remained modest, but above regulatory minima

Reported total capital ratio, FYE 2017-2020



Source: Rated banks' financials

Exhibit 13
Rated Moroccan banks' market shares by loans
as of FYE 2020



Source: Rated banks' financials and data

Appendix

Attijariwafa Bank

Attijariwafa bank (Attijariwafa) is a Casablanca-based bank established in 2004 through the merger of Banque Commerciale du Maroc (founded in 1911) and Wafabank (founded in 1904). Attijariwafa is the largest bank in Morocco and the sixth largest in Africa, with assets of $64 billion as of December 2020. Attijariwafa has a market share of around 25.9% in terms of loans and 24.5% in terms of deposits in Morocco. Al Mada, an investment group, is Attijariwafa's largest shareholder, with a 46.4% stake.

Groupe Banque Centrale Populaire

Group Banque Centrale Populaire (GBCP) is a Casablanca-based cooperative bank established in 1926. GBCP is the second largest bank in Morocco and the sixth largest in the continent, with total assets of $50 billion as of December 2020. GBCP has market share of around 22.6% in terms of loans and around 26.3% in terms of deposits in Morocco. GBCP is a mutualist banking group comprising (a) Credit Populaire du Maroc (CPM), which contains the various banking activities in Morocco; and (b) other subsidiaries, which include non-banking subsidiaries as well as international banking subsidiaries. CPM, which comprises entities conducting banking activities in Morocco, is made of: (a) Banque Centrale Populaire (BCP), a central body; and (b) Banques Regionales Populaires (BPRs), which are regional banks. BCP owns the aforementioned "other subsidiaries".

Bank of Africa - BMCE Group

Bank of Africa - BMCE Group (BOA-BMCE, previously named BANQUE MAROCAINE DU COMMERCE EXTERIEUR and/or BMCE Bank of Africa) is a Casablanca-based bank established in 1959 and privatised in 1995. BOA-BMCE is the third-largest bank in Morocco, with total assets of $37 billion as of December 2020. As of year-end 2020, the group had a market share of around 12.5% in terms of loans and around 13.0% in terms of deposits in Morocco.

Credit du Maroc

Credit du Maroc (CDM) is a Casablanca-based bank established in 1929 as the Moroccan branch of Credit Lyonnais. Credit Lyonnais was renamed Credit Lyonnais Maroc in 1963, then Credit du Maroc in 1966. CDM is the fifth-largest bank in Morocco, with total assets of $6.5 billion as of December 2020. As of year-end 2020, CDM had market shares of around 4.0% in terms of loans and around 4.4% in terms of deposits in Morocco.

Moody's related publications

Credit Opinions:

» Attijariwafa bank

» Groupe Banque Centrale Populaire

» Bank of Africa - BMCE Group

» Credit du Maroc

Banking System Outlook:

» Banking System Outlook – Morocco: Downside risks from coronavirus pandemic tips outlook to negative

Macro Profile:

» Banks – Morocco: Macro profile – Moderate -

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» Banks – Morocco: Moroccan central bank's measures will soften coronavirus' negative effects on banks

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Endnotes

1 The bank ratings shown in this report are the bank's long-term deposit rating and Baseline Credit Assessment.

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