

RATING ACTION COMMENTARY

Fitch Revises BOAD's Outlook to Negative; Affirms at 'BBB'

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Fitch Ratings - Paris - 22 May 2020: Fitch Ratings has revised the Outlook on Banque Ouest Africaine de Developpement's (BOAD) Long-Term Issuer Default Rating (IDR) to Negative from Stable and affirmed the rating at 'BBB'.

KEY RATING DRIVERS

The revision of the Outlook on BOAD's rating to Negative from Stable is driven by the increased risk of a weakening in Fitch's assessment of the bank's support from its shareholders following the revision of the Outlook on France's sovereign rating (AA) to Negative from Stable on 15 May. In turn, this reflects the role played by France in the CFA franc monetary arrangement as the provider of a guarantee of the convertibility of the currency against the euro.

A downgrade of France's Long-Term IDR to 'AA-' from 'AA' would affect Fitch's assessment of the credit quality of the bank's largest shareholder and regional central bank, the Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO, owning 47% of BOAD's capital). This would lead to a revision of the agency's overall assessment of support from the bank's shareholders to 'bbb-' from 'bbb' and a downgrade of BOAD's rating to 'BBB-'.

BOAD's 'BBB' rating is primarily driven by extraordinary support from its key shareholders, the BCEAO and Cote d'Ivoire (B+/Positive, 6% of BOAD's capital). Fitch assesses the capacity of the key shareholders to provide support at 'bbb-', taking into

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The convertibility guarantee of the West African franc (XOF)/ECO to the euro provided to BCEAO by the French Treasury enables continued foreign-exchange access in case of a depletion of the regional pool of international reserves. However, we believe the guarantee is intended to be used only as a liquidity buffer for short periods of acute stress. In Fitch's view, France is unlikely to provide euros at the fixed parity rate indefinitely, even though legal documents refer to the guarantee as being unlimited, as this could lead to moral hazard and be politically controversial in France.

Fitch's intrinsic assessment of BOAD is 'bb', reflecting its solvency assessment of 'bbb' and a three-notch negative adjustment resulting from the high-risk business environment in which the bank operates. BOAD's solvency reflects its 'strong' capitalisation and 'moderate' risk profile. Fitch assesses the bank's liquidity at 'a'.

The Short-Term rating of 'F2' is the higher option at the 'BBB' cusp point on Fitch's long-term rating correspondence table. The choice of the higher option results from the bank's liquidity assessment of 'a', which is higher than the level equivalent to the minimum Long-Term rating (BBB+) at which the higher Short-Term rating (F2) would always apply.

RATING SENSITIVITIES

The main factors that could, individually or collectively, lead to negative rating action/downgrade are:

- Weakening in the support assessment, which would stem from deterioration in the credit quality of BOAD's main shareholders;
- Deterioration in BOAD's solvency assessment, potentially stemming from worsening in the bank's credit risk profile due to a greater than expected impact of the COVID-19 crisis on the bank's NPL ratio and/or the credit quality of its loan portfolio;

The main factors that could, individually or collectively, lead to positive rating action/upgrade are:

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International scale credit ratings of Public Finance 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 three 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>.

KEY ASSUMPTIONS

We assume that the global economy develops in line with our Global Economic Outlook published on 22 April, including a deep recession in 2020 due to the pandemic. There is an unusually high level of uncertainty around these forecasts and risks are firmly to the downside.

Fitch assumes that key features of the West African Economic and Monetary Union and the monetary arrangement with France, including the peg to the euro, the pooled regional reserves and the convertibility guarantee from CFA franc to the euro, will remain unchanged in the medium term. We also assume the fixed parity of the West African CFA franc (ECO) with the euro will remain unchanged.

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.

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ENTITY / DEBT ↕	RATING ↕			PRIOR ↕
Banque Ouest Africaine de Developpement	LT IDR	BBB Rating Outlook Negative		BBB Rating Outlook Stable
	Affirmed			
	ST IDR	F2	Affirmed	F2
senior unsecured	LT	BBB	Affirmed	BBB

[VIEW ADDITIONAL RATING DETAILS](#)

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APPLICABLE CRITERIA

[Supranationals Rating Criteria - Effective from 30 April 2020 to 20 May 2021 \(pub. 30 Apr 2020\) \(including rating assumption sensitivity\)](#)

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Banque Ouest Africaine de Developpement

EU Issued

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