



## RATING ACTION COMMENTARY

# Fitch Revises BOAD's Outlook to Stable; Affirms at 'BBB'

Wed 17 Nov, 2021 - 09:10 ET

Fitch Ratings - Paris - 17 Nov 2021: Fitch Ratings has revised the Outlook on Banque Ouest Africaine de Developpement's (BOAD) Long-Term Issuer Default Rating (LT IDR) to Stable from Negative and affirmed the rating at 'BBB'.

## KEY RATING DRIVERS

The revision of the Outlook is driven by a strengthening in our assessment of the bank's shareholders' capacity to support following the recent upgrades of the LT IDRs of two of the bank's member states: Cote d'Ivoire to 'BB-' from 'B+' in July, and Benin to 'B+' from 'B' in October. BOAD's support-driven rating would now be unchanged even if the French sovereign LT IDR (AA/Negative) was downgraded by one notch, all else unchanged.

The risk of a weakening in shareholder support for BOAD following a downgrade of France was the main reason for the revision of the Outlook on BOAD's LT IDR to Negative in May 2020 (we affirmed France's rating in November). Given the role played by France in the CFA franc monetary arrangement as the guarantor of the convertibility of the currency against the euro, a downgrade of France's rating to 'AA-' would affect our assessment of the credit quality of the bank's largest shareholder, the Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO, not rated, which owns 47% of BOAD's capital).

BOAD's 'BBB' rating is primarily driven by extraordinary support from its key shareholders, BCEAO and Cote d'Ivoire (6% of capital). Fitch assesses the capacity of the key shareholders to provide support at 'bbb-', taking into account their average credit quality. BCEAO's ability to tap the fiscal resources that it manages on behalf of its

member states to secure payment of capital increases translates into an 'exceptional' propensity of shareholders to support, and a one-notch uplift over the capacity to support, leading to a support assessment of 'bbb'.

Fitch's assessment of BOAD's Standalone Credit Profile (SCP) is 'bb+', unchanged from the previous review in May, 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 balances its 'strong' capitalisation, with an equity-to-assets and usable capital to risk-weighted assets ratios, both at 29% as of end-2020, against a 'moderate' risk profile. The average rating of loans was 'B' as of end-2020. The loan performance is enhanced by BOAD's preferred creditor status. Non-performing loans accounted for 2.7% of total loans as of end-2020.

Fitch assesses the bank's liquidity at 'a'. The assessment reflects the 'strong' coverage of short-term debt by liquid assets and the bank's proven access to capital markets. BOAD's access to the regional central bank's refinancing window is a rare feature for a multilateral development bank and enhances Fitch's overall liquidity assessment.

We expect the key features of the monetary arrangement with France, including the peg to the euro, the pooled regional reserves and the convertibility guarantee from the West African CFA franc to the euro, will remain unchanged in the medium term. We also expect the parity of the West African CFA franc with the euro will remain unchanged.

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**

### **Factors that could, individually or collectively, lead to positive rating action/upgrade:**

Support (capacity): A strengthening in Fitch's assessment of BOAD's key shareholders capacity to provide support. This could stem from an improvement in the credit quality of BOAD's current key shareholders or a change in the structure of the bank's capital that leads to a marked increase in the share of capital owned by one or several non-regional highly-rated shareholders.

SCP (solvency/business environment): Material improvement in the bank's solvency assessment. This could result from a combination of a significant strengthening in the capitalisation and risk profile or an improvement in Fitch's assessment of the bank's business environment.

**Factors that could, individually or collectively, lead to negative rating action/downgrade:**

Support (capacity): A weakening in the support assessment, which would stem from a deterioration in the credit quality of BOAD's main shareholders or a change in the structure of the bank's capital that dilutes the share ownership of the BCEAO.

SCP (solvency): Deterioration in BOAD's solvency assessment, potentially stemming from a worsening of the bank's credit risk profile and/or weaker-than-expected capitalisation in the medium term.

SCP (liquidity): A material deterioration in Fitch's liquidity assessment, which could result from a weakening in the coverage of short-term debt by liquid assets and/or a weakening in the quality of treasury assets.

**BEST/WORST CASE RATING SCENARIO**

International scale credit ratings of Sovereigns, Public Finance and Infrastructure 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>.

**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**

BOAD's 'BBB' rating is primarily driven by extraordinary support from its key shareholders, BCEAO and Cote d'Ivoire.

## ESG CONSIDERATIONS

BOAD has an ESG Relevance Score of '4[+]' for Human Rights, Community Relations, Access and Affordability. BOAD provides concessional loans to its member states funded by concessional resources provided by its shareholders. This supports BOAD's policy importance and shareholders' propensity to support the bank. This has a positive impact on the credit profile, and is relevant to the ratings in conjunction with other factors.

BOAD has an ESG Relevance Score of '4[+]' for Policy Status and Mandate Effectiveness. It has access to the BCEAO's refinancing window, which is a rare feature for supnationals and supports the bank's liquidity profile. This has a positive impact on the credit profile, and is relevant to the ratings in conjunction with other factors.

BOAD has an ESG Relevance Score of '4' for Governance Structure. High capital ownership by borrowing countries with weak credit fundamentals and limited access to external funding have led to pressure to increase lending. This risk has been partly mitigated by a fairly high share of voting rights held by non-regional members at the board. This has a negative impact on the credit profile, and is relevant to the ratings in conjunction with other factors.

BOAD has an ESG Relevance Score of '4' for Rule of Law, Institutional and Regulatory Quality. All supnationals attract a score of '4'. Supnationals are neither subject to bank regulation nor supervised by an external authority. Instead, supnationals comply with their own set of rules. Fitch pays particular attention to internal prudential policies, including compliance with these policies. This has a negative impact on the credit profile, and is relevant to the ratings in conjunction with other factors.

Unless otherwise disclosed in this section, the highest level of ESG credit relevance, if present, is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or to the way in which they are being managed by the entity. 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 ◆

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Banque Ouest Africaine de Developpement	LT IDR	BBB Rating Outlook Stable		BBB Rating Outlook Negative
	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 \(pub. 20 May 2021\) \(including rating assumption sensitivity\)](#)

## **ADDITIONAL DISCLOSURES**

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Banque Ouest Africaine de Developpement

EU Issued, UK Endorsed

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