## **RATING ACTION COMMENTARY**

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

Thu 17 Apr, 2025 - 10:40 ET

Fitch Ratings - London - 17 Apr 2025: Fitch Ratings has revised the Outlook on Banque Ouest Africaine de Developpement (BOAD)'s Long-Term Issuer Default Rating (LT IDR) to Stable from Negative and affirmed the IDR at 'BBB'.

A full list of rating actions is at the end of this rating action commentary.

## **KEY RATING DRIVERS**

**SCP Drives Rating**: BOAD's 'BBB' rating is driven by its Standalone Credit Profile (SCP) of 'bbb', which reflects the lower of its solvency (a-) and liquidity (a) assessment and a two-notch negative adjustment to reflect the 'high' risk business environment in which the bank operates.

Outlook Revised to Stable: The revision of the Outlook reflects renewed performance of sovereign exposures relative to the previous rating review. Niger (accounting for 9.3% of loans) has fully repaid its outstanding arrears to the bank, following the lifting of ECOWAS sanctions in February 2024 and Guinea-Bissau (5.4% of loans) has resumed payment to the bank on revised terms after its restructuring. In its baseline scenario, and despite rising risk in some of the countries where the bank operates, Fitch assumes that all sovereign borrowers will remain current with BOAD on existing terms.

Credit Risk Assessment Improves: Fitch has revised its assessment of

BOAD's credit risk to 'moderate' from 'high', principally reflecting its revised expectation that the bank will operate with a 'low' level (between 1-3%) of non-performing loans (NPL) over the forecast period through to end-2027, reflecting the baseline assumption that all sovereigns will remain performing The bank's NPL rate fell to 2.5% (end-2024) from 2.6% (end-2023) and only reflects non-sovereign borrowers in the bank's loan portfolio. The bank's weighted average rating of loans is unchanged at 'B-'.

Balance Sheet Optimisation Continues: BOAD's management continues to explore the optimisation of its balance sheet and has proactively engaged in a number of mechanisms over the past two to three years to achieve this. In 2025, BOAD issued a 30-year, USD500 million hybrid sustainable bond, to which Fitch assigned 50% equity content. BOAD had previously issued two private hybrid bonds. The bank introduced credit insurance protection on a portion of its non-sovereign portfolio in 2024 (previous credit insurance was only to sovereign borrowers) as well as finalising a second pilot securitisation on a small portion of its loan portfolio. These operations support the bank's capital position under Fitch's criteria.

Moderate Preferred Creditor Status: Fitch treats the re-profiling of Guinea Bissau's exposure as a breach of preferred creditor status (PCS) and has revised its assessment of PCS for BOAD to 'moderate' from 'strong'. We acknowledge that BOAD has a long history of sovereign loan performance (last sovereign default was Niger in 2000) while operating in a challenging operating environment. However, the PCS revision reflects Fitch's expectation that as per their PCS, multilateral development banks do not allow debt re-profiling on their sovereign exposures.

Fitch treats Guinea-Bissau's loan as performing given the resumption of loan payments under new terms in March 2025. Guinea-Bissau has been granted a five-year grace period, with interest-only payments to be made in that time and is performing under IFRS accounting. After accounting for BOAD's PCS, the average rating of loans is 'B'.

Strong Capitalisation: Our assessment of BOAD's capitalisation, anchored on

Fitch's usable-to-risk weighted assets (FRA) and equity-to-assets remained 'strong' overall in 2024, at 30.7% and 31.9%, respectively (from 32.1% and 33.4% in 2023). Despite the on-going paid in capital payment under the new capital increase, the capital ratios declined slightly due to the 12% growth in the bank's total assets from 2023 to 2024.

Another driver specific of the FRA ratio decline, which considers the risk-weighting of assets post-PCS adjustment, is the one-notch revision in our assessment of PCS. Fitch expects the two capital ratios will be broadly stable over the medium term, reflecting paid-in capital payments spread over five years that started in 2023, the issuance of the USD500 million hybrid in February 2025 and the continued expansion of the bank operations.

Liquidity Assessment Unchanged: Fitch assesses the bank's liquidity at 'a'. This reflects the 'strong' coverage of short-term debt by liquid assets and the bank's proven access to capital markets. Fitch only considers as liquid the deposits held at the regional central bank and regional sovereign debt securities that the bank can refinance with the central bank (after applying a 10% haircut). The liquidity assessment is enhanced by BOAD's access to the regional central bank's refinancing window. Upcoming Eurobond repayments are in 2027 (USD850 million), 2031 (USD830 million) and 2033 (EUR750 million) and the bank continues to grow a sinking fund for the 2027 Eurobond repayment.

High Risk Operating Environment: The overall business environment is 'high risk' leading to a negative notching adjustment to the solvency assessment by two notches, which is driven by the 'high risk' operating environment. Political and economic uncertainty in the region continues to increase in-light of Mali, Niger and Burkina Faso's pending withdrawal from ECOWAS and tensions between Niger and Benin. The withdrawal of the three Member States from ECOWAS is not expected to have a direct impact on BOAD, with senior Ministers from these three countries recently re-affirming their commitment to the WAEMU region.

Medium Risk Business Profile: The Business Environment assessment also

factors in BOAD's rising policy importance, as evidenced by the growing size of its balance sheet and the new capital increase approved by shareholders. Non-borrowing highly-rated shareholders are expected to play a growing role in the bank's governance.

**Support Assessment 'bb+':** Fitch assesses BOAD's shareholders' capacity to support at 'bb', unchanged from last year. This reflects the average rating of the bank's key shareholders, with the Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO, owning 36% of BOAD's capital) the largest shareholder. Cote d'Ivoire (BB-/Stable), Benin (B+/Stable) and Senegal, which each own 6% of the bank's capital, are also treated as key shareholders.

BCEAO's ability to tap the fiscal resources that it manages on behalf of the regional member states to secure payment of capital increases for BOAD translates into an 'exceptional' propensity of shareholders to support, and a one-notch uplift over the capacity to support, leading to an overall support assessment of 'bb+'.

**Short-Term Rating:** 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 negative rating action/downgrade:

**SCP (Credit Risk):** Deterioration in BOAD's credit risk profile, potentially stemming from NPLs growing close to or above the criteria-defined 'high risk' category on a sustained basis or the deterioration of adjusted average rating of loans below the 'B' category.

**SCP (PCS)**: Re-assessment of 'moderate' preferred creditor status (PCS) to 'weak', potentially stemming from either a default and/or further re-

structuring of a large sovereign borrower.

**SCP (Business Environment):** A downward revision of our assessment of the bank's business environment, based on increased risk associated with the withdrawal of member states from ECOWAS having significant spillover impact on BOAD's operations.

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

**SCP (Credit Risk):** Improvement in the credit quality of the adjusted average rating of loans to the 'BB' category and/or a track record of operations with NPLs towards the 1% threshold for 'very low' risk.

**SCP (PCS)**: Revision of our assessment of PCS to 'strong' from 'moderate', reflecting a track record of full sovereign loan performance and no further debt re-structuring, particularly in the context of member states' pending departure from ECOWAS.

**SCP (Capitalisation):** A record of operations with a higher level of capitalisation, including an FRA ratio above 35%, consistent with an 'excellent' assessment under Fitch's criteria.

# 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.

### **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 'Governance Structure'. A high share of capital ownership by borrowing countries with weak credit fundamentals and limited access to external funding has led to pressure to increase lending. This risk has been somewhat mitigated by a relatively 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 supranationals attract a score of '4'. Supranationals are neither subject to bank regulation nor supervised by an external authority. Instead, supranationals 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.

BOAD has an ESG Relevance Score of '4[+]' for 'Policy Status and Mandate Effectiveness'. BOAD has access to the BCEAO refinancing window. This is a rare feature for supranationals 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.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit

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### **RATING ACTIONS**

ENTITY / DEBT ♦ RATING ♦ PRIOR ♦

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**

# **FITCH RATINGS ANALYSTS**

# **Nick Perry**

Director
Primary Rating Analyst
+44 20 3530 2727
nick.perry@fitchratings.com
Fitch Ratings Ltd
30 North Colonnade, Canary Wharf London E14 5GN

# Raquel Da Silva Souza

Associate Director
Secondary Rating Analyst
+49 69 768076 280
raquel.dasilvasouza@fitchratings.com

# **James Longsdon**

Managing Director - Head of Sovereigns Committee Chairperson +44 20 3530 1076 james.longsdon@fitchratings.com

## **MEDIA CONTACTS**

# **Peter Fitzpatrick**

London +44 20 3530 1103 peter.fitzpatrick@thefitchgroup.com

Additional information is available on www.fitchratings.com

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# **APPLICABLE CRITERIA**

Supranationals Rating Criteria (pub. 03 Oct 2024) (including rating assumption sensitivity)

### ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form Solicitation Status
Endorsement Policy

# **ENDORSEMENT STATUS**

Banque Ouest Africaine de Developpement UK Issued, EU Endorsed

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