FitchRatings

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 restructuring 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 https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

RATING ACTIONS

ENTITY / DEBT ⬍	RATING ⬍	PRIOR ⬍

Banque Ouest Africaine de Developpement	LT IDR BBB Rating Outlook Stable Affirmed	BBB Rating Outlook Negative
	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

PARTICIPATION STATUS

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

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

DISCLAIMER & DISCLOSURES

All Fitch Ratings (Fitch) credit ratings are subject to certain limitations and disclaimers. Please read these limitations and disclaimers by following this link: https://www.fitchratings.com/understandingcreditratings. In addition, the following https://www.fitchratings.com/rating-definitions-document details Fitch's rating definitions for each rating scale and rating categories, including definitions relating to default. ESMA and the FCA are required to publish historical default rates in a central repository in accordance with Articles 11(2) of Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 and The Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019 respectively.

Published ratings, criteria, and methodologies are available from this site at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance, and other relevant policies and procedures are also available from the Code of Conduct section of this site. Directors and shareholders' relevant interests are available at https://www.fitchratings.com/site/regulatory. Fitch may have provided another permissible or ancillary service to the rated entity or its related third parties. Details of permissible or ancillary service(s) for which the lead analyst is based in an ESMA- or FCA-registered Fitch Ratings company (or branch of such a company) can be found on the entity summary page for this issuer on the Fitch Ratings website.

In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third- party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed. Fitch Ratings makes routine, commonly-accepted adjustments to reported financial data in accordance with the relevant criteria and/or industry standards to provide financial metric consistency for entities in the same sector or asset class.

The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Fitch also provides information on best-case rating upgrade scenarios and worst-case rating downgrade scenarios (defined as the 99th percentile of rating transitions, measured in each direction) for international credit ratings, based on historical performance. A simple average across asset classes presents best-case upgrades of 4 notches and worst-case downgrades of 8 notches at the 99th percentile. For more details on sector-specific best- and worst-case scenario credit ratings, please see Best- and Worst-Case Measures under the Rating Performance page on Fitch's website.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US$1,000 to US$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US$10,000 to US$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty

Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001.Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see https://www.fitchratings.com/site/regulatory), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

dv01, a Fitch Solutions company, and an affiliate of Fitch Ratings, may from time to time serve as loan data agent on certain structured finance transactions rated by Fitch Ratings.

READ LESS

SOLICITATION STATUS

The ratings above were solicited and assigned or maintained by Fitch at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

ENDORSEMENT POLICY

Fitch's international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU

CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be. Fitch's approach to endorsement in the EU and the UK can be found on Fitch's Regulatory Affairs page on Fitch's website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.