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INVESTORS SERVICE

CREDIT OPINION
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Update

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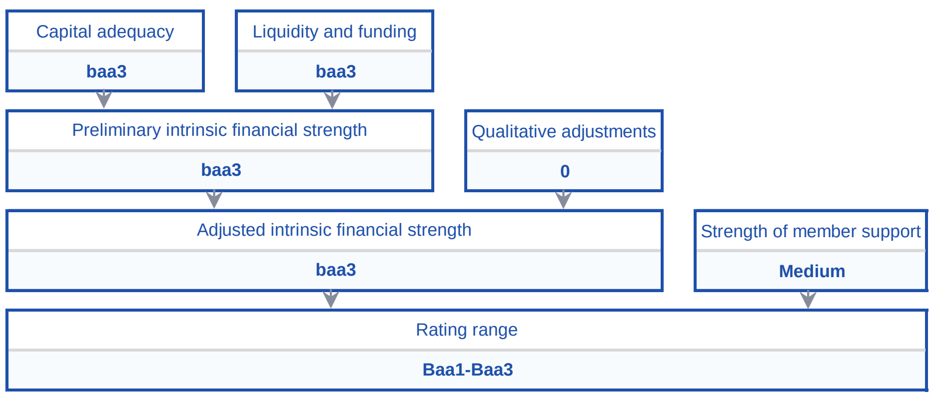
West African Development Bank (The) – Baa1 negative

Regular update

Summary

The credit profile of the West African Development Bank (BOAD) benefits from a robust liquidity assessment supported by its access to the refinancing window of the regional central bank, the BCEAO, and from strong support from its principal shareholders. BOAD's credit profile is constrained by low borrower quality and a high correlation between the credit quality of its borrowers and the capacity of some of its shareholders to provide support in case of need. The bank solely operates in the West African Economic and Monetary Union (WAEMU).

Exhibit 1
BOAD's credit profile is determined by three factors



Source: Moody's Investors Service

Credit strengths

» Robust liquidity position supported by the bank's access to central bank refinancing

» Strong willingness from members to support the bank

Credit challenges

» Relatively weak capital adequacy, driven by weak borrower quality

» Relatively weak ability of some of its shareholders to provide support if needed

Rating outlook

The outlook is negative, reflecting downside risks to BOAD's asset quality and performance stemming from the coronavirus pandemic as well as the heightened political instability in Mali (Caa1 stable), which accounts for 11% of BOAD's total loan exposures. These downside risks also weigh on support from regional shareholders BCEAO and WAEMU member states (94% of capital). Indeed, since there is a high correlation between borrowers and shareholders, with the bank only operating in the WAEMU and 72% of its loans to sovereigns, any widespread stress on borrowers that affects their capacity to reimburse loans would concurrently hamper regional shareholders capacity to inject new capital.

Factors that could lead to an upgrade

The negative outlook suggests an upgrade is unlikely in the near term but the outlook could be changed back to stable if BOAD managed to broadly maintain its capital adequacy metrics through the coronavirus shock. This could either be the result of a stabilisation of asset quality and performance close to current levels or a compensation of deteriorating metrics through a capital increase. Under such a scenario, BOAD's liquidity position would probably also stabilise, if not improve.

Factors that could lead to a downgrade

BOAD's rating would likely be downgraded if asset performance were to deteriorate significantly and shareholders proved unable to provide capital support sufficiently large and timely enough to compensate for that deterioration. Signs that BOAD's liquidity will further tighten would also exert downward pressure on the rating, as would any other signs that the strength of the regional shareholders support has weakened. These developments could for instance result from a widespread deterioration in the WAEMU's fiscal, external or economic prospects beyond what we currently expect.

Key indicators

West African Development Bank - (BOAD)	2016	2017	2018	2019	2020	2021(H1)
Total Assets (USD million)	3,496.4	4,705.2	4,482.9	5,327.0	5,999.8	5,768.7
Development-related Assets (DRA) / Usable Equity [1]	262.4	307.2	304.9	269.0	265.0	267.2
Non-Performing Assets / DRA	2.1	2.1	2.0	2.6	2.5	2.4
Return on Average Assets	0.5	0.6	0.7	4.1	1.0	0.6
Liquid Assets / ST Debt + CMLTD	202.0	348.2	328.1	469.3	125.5	507.6
Liquid Assets / Total Assets	21.0	22.0	20.7	27.8	25.3	21.3
Callable Capital / Gross Debt	55.2	44.8	46.6	37.1	37.6	38.8

[1] Usable equity is total shareholder's equity and excludes callable capital

Source: BOAD, Moody's Investors Service

Detailed credit considerations

BOAD is a traditional regional multilateral bank that serves the WAEMU. It provides loans to sovereigns of the WAEMU (72% of loans), as well as to its broader public and private sectors (29%). On top of loans, the bank also invests in equity, which accounts for 5% of total assets. Originally created in conjunction with the WAEMU's central bank, the BCEAO, it promotes balanced development and economic integration in the region.

We assign a score of "baa3" to **capital adequacy** due to weak asset quality and a limited degree of diversification. BOAD's healthy balance sheet structure and improving risk management temper the risks. Leverage (total assets/usable equity) has historically hovered around 3x.

Moody's highest-rated WAEMU sovereigns are Côte d'Ivoire (Ba3 stable) and Senegal (Ba3 negative), then followed by Benin (B1 stable), Niger (B3 stable) and Togo (B3 stable), and Mali (Burkina Faso and Guinea-Bissau are unrated). The region has had periods of economic and political turmoil. However, while borrowers are of weak creditworthiness, they have a strong track record of servicing debt owed to BOAD, resulting in relatively low NPLs, which stood at 2.4% as of June 2021, of which 85% were provisioned. We apply a

"-1" adjustment to BOAD's asset-performance score to account for our expectation that NPLs will pick up as a result of the economic and financial shock caused by the coronavirus outbreak.

We assess BOAD's **liquidity and funding** score at "baa3"supported by the bank's access to the BCEAO's refinancing window, which we reflect under a "+2" adjustment for Access of Extraordinary Liquidity, and modest availability of liquid resources. BOAD's liquidity ratios are indeed weaker than Baa peers. However, the bank finances part of its loan disbursements through drawdown on credit lines, which is neutral from a liquidity perspective. In addition, the bank can afford a slightly weaker liquidity rule – coverage of nine months of outflows – than peers because of its access to the central bank's window even though it has established a track record of comfortably exceeding 12 months of liquidity coverage.

Our assessment also takes into account BOAD's low diversification in its borrowing sources, resulting in our "ba" assessment of the bank's quality of funding. BOAD has historically principally relied on domestic bond issuances and loans from development finance institutions but international capital markets have become its main source of funding since its inaugural bond in May 2016. BOAD has never used the emergency liquidity central bank facility, considering it as exceptional, but this provides a credible backstop in the event of adverse market conditions.

High willingness of members to support BOAD in case of need but a limited capacity to do so drive our "Medium" assessment of the **strength of member support**. WAEMU countries together with the BCEAO have a track record of providing financial support to BOAD through capital support, in addition to the presence of callable capital. However, the predominance of WAEMU sovereigns weighs on the average shareholder rating, assessed at "ba2". There is also high correlation between the financial strength of borrowers and shareholders. This ultimately means that any widespread stress on borrowers that would require BOAD's recapitalisation will concurrently hamper the capacity of principal shareholders to inject additional capital.

ESG considerations

How environmental, social and governance risks inform our credit analysis of the BOAD

Moody's takes account of the impact of environmental (E), social (S) and governance (G) factors when assessing supranational issuers' credit profile. In the case of the BOAD, the materiality of ESG to the credit profile is as follows:

Many of the BOAD's borrowers are exposed to **environmental risks**, mostly because of their reliance on large agricultural sectors and thus exposure to extreme weather conditions and natural disasters. This exposure is assessed within the individual credit profiles of each sovereign issuer and is thus also taken into account in BOAD's credit profile.

Social risk also informs the BOAD's credit profile via the credit assessments of both borrower and shareholder sovereigns – some of which are affected by unrest, low wealth levels, income disparity and low voice and accountability scores, captured by our institutional and governance factor and political risk assessments.

In terms of **governance**, BOAD's sound management, including its prudent risk management framework, is taken into account in the assessment of its credit profile. BOAD's governance is fostered by its strategic shareholder, the BCEAO, and by its non-regional shareholders.

All of these considerations are further discussed in the "Detailed credit considerations" section above. Our approach to ESG is explained in our cross-sector methodology General Principles for Assessing ESG Risks. Additional information about our rating approach is provided in our Supranational Rating Methodology.

Recent developments

Stable asset quality so far, downside risks remain in most affected sectors

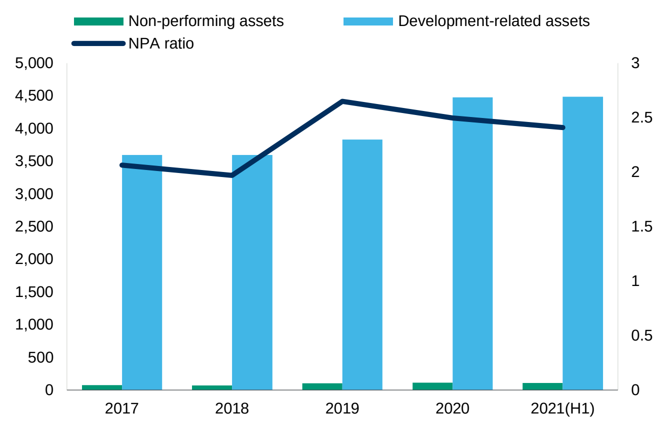
The impact of the coronavirus outbreak has not led so far to an increase in the level of nonperforming assets, which stood at 2.4% of development-related assets as of mid-year 2021, down from 2.5% at year-end 2020. During the first half of 2021, the loan portfolio has grown by 0.3% while nonperforming assets remained unchanged and concentrated in the portfolio of loans to non-sovereign.

The sectors with the greatest exposure to the pandemic's effects (hospitality and transport) represented 2% and 4% respectively of all outstanding loans at the end of June 2021. Loans in “Bucket 2”continue to represent a non-negligible share of the loan portfolio, at 15% as of mid-year, even though that share has gone down from its 2020 level of 20%. The bank has granted short-term postponement of principal repayments to loans in the hospitality and transport sectors classified in this bucket.

Provisioning for NPLs remained high at 85% as of June 2021 but did not reduce BOAD's return on average assets which stood at 0.6%, in line with the first half of 2020. Profitability remained resilient: the bank posted a profit in line with the first half of 2020 of $25 million.

Exhibit 3

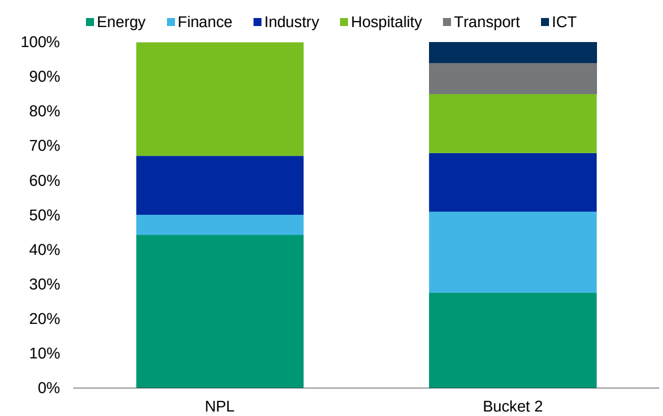
NPAs have not increased since the start of the crisis
US$ million



Source: BOAD and Moody's Investors Service

Exhibit 4

Downside risks remain in the most affected sectors
End-June 2021



Source: BOAD and Moody's Investors Service

Liquidity remains comfortable after first bond refinancing

In May 2021, BOAD repaid its US$750 billion inaugural eurobond issued in 2016 after issuing in January 2021 its first euro-denominated bond with a sustainable development objective. The 2021 issuance was oversubscribed six times and had a record low coupon of 2.75%. International markets have become BOAD's main source of funding and the bank has demonstrated its improving ability to access international markets, broadening its funding base by geography, product and currency.

BOAD holds a comfortable share of liquid assets at around 20% of total assets at the end of June 2021 and is well in excess of its internal rules. We estimate that after the eurobond repayment, liquidity covered 25 months of net outflows.

Rating methodology and scorecard factors

Rating factor grid - West African Development Bank	Initial score	Adjusted score	Assigned score
Factor 1: Capital adequacy (50%)		baa3	baa3
Capital position (20%)		baa3	
Leverage ratio	baa3		
Trend	0		
Impact of profit and loss on leverage	0		
Development asset credit quality (10%)		b	
DACQ assessment	b		
Trend	0		
Asset performance (20%)		baa1	
Non-performing assets	a3		
Trend	-1		
Excessive development asset growth	0		
Factor 2: Liquidity and funding (50%)		baa3	baa3
Liquid resources (20%)		a3	
Availability of liquid resources	baa2		
Trend in coverage outflow	0		
Access to extraordinary liquidity	+2		
Quality of funding (30%)		ba	
Preliminary intrinsic financial strength			baa3
Other adjustments			0
Operating environment	0		
Quality of management	0		
Adjusted intrinsic financial strength			baa3
Factor 3: Strength of member support (+3,+2,+1,0)		Medium	Medium
Ability to support - weighted average shareholder rating (50%)		ba2	
Willingness to support (50%)			
Contractual support (25%)	baa3	baa3	
Strong enforcement mechanism	0		
Payment enhancements	0		
Non-contractual support (25%)		High	
Scorecard-Indicated Outcome Range			Baa1-Baa3
Rating Assigned			Baa1

Note: Our ratings are forward-looking and reflect our expectations for future financial and operating performance. However, historical results are helpful in understanding patterns and trends of an issuer's performance as well as for peer comparisons. Additional considerations that may not be captured when historical metrics are used in the scorecard may be reflected in differences between the adjusted and assigned factor scores. Furthermore, in our ratings we often incorporate directional views of risks and mitigants in a qualitative way. For more information please see our Multilateral Development Banks and Other Supranational Entities rating methodology.

Source: Moody's Investors Service

Moody's related publications

- **Credit Analysis**: West African Development Bank — Baa3 negative, 11 May 2021
- **Rating Methodology**: Multilateral Development Banks and Other Supranational Entities, 28 October 2020

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

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