

Rating Action: Moody's changes outlook on West African Development Bank (BOAD)'s rating to negative from stable, affirms Baa1 ratings

16 Oct 2020

Paris, October 16, 2020 -- Moody's Investors Service, ("Moody's") has today changed the outlook on the West African Development Bank (BOAD)'s rating to negative from stable and has affirmed BOAD's long-term foreign currency issuer and senior unsecured Baa1 ratings.

The negative outlook reflects downside pressure on BOAD's asset quality and performance stemming from the coronavirus pandemic and heightened political instability in Mali (Caa1 negative), which accounts for 11% of BOAD's total loan exposures. Moreover, since BOAD's borrowers are also its main shareholders, any widespread stress on borrowers as a result of the pandemic that affects their capacity to reimburse loans would concurrently hamper their capacity to inject new capital. Ultimately, a deterioration in BOAD's asset quality and performance that is not compensated for by additional capital would likely lead to a lower rating level in future.

The rating affirmation reflects Moody's assessment that BOAD's degree of preferred creditor status, strong willingness of regional shareholders to support the bank, robust risk management and liquidity access in both local and foreign currency support its Baa1 rating.

BOAD is the development finance institution of the West African Economic and Monetary Union (WAEMU) promoting the development of its eight member states: Benin (B2 positive), Burkina Faso, Côte d'Ivoire (Ba3 stable), Guinea-Bissau, Mali (Caa1 negative), Niger (B3 stable), Senegal (Ba3 negative) and Togo (B3 stable). BOAD's shareholders comprise WAEMU member countries (47%), the central bank of the WAEMU (BCEAO) (47%) and eight non-regional members (6%).

RATINGS RATIONALE

RATIONALE FOR THE NEGATIVE OUTLOOK

PRESSURE ON ASSET QUALITY AND PERFORMANCE DUE TO THE IMPACT OF THE PANDEMIC

BOAD's capital adequacy risks deteriorating in the next 18 months in the absence of new capital injections as the quality of its loan portfolio deteriorates and provisioning weighs on profitability. Non-sovereign exposures are most at risk and represent about 30% of BOAD's loan portfolio, with the sectors most exposed to the pandemic - hospitality and transport - accounting for 8% of total loans. The credit quality of BOAD's sovereign loan portfolio also faces negative pressures as highlighted by Moody's recent downgrade of Mali's ratings to Caa1 from B3 and the change in the outlook on Senegal's Ba3 ratings to negative from stable. BOAD's leverage ratio as measured by total assets/usable equity stood at 324% as of June 2020 and 373% at end of 2019, higher than its Baa-rated peers' median of 283%, and up from 258% at end of 2015.

BOAD's asset performance is expected to deteriorate, as reflected in the strong increase in loans on its "watch list", a category that rose by 12% over the first half of 2020 and now represents 16% of total loans. Some of the loans classified in this bucket have already been restructured, mainly in the hospitality and transport sectors, indicating significant financial stress. So far, non-performing loans have remained stable in terms of vintage and size relative to BOAD's outstanding loans, at 2.5% as of end of June 2020, but Moody's expects the ratio to increase in the coming 18 months.

Provisioning will weigh on profitability at a time when BOAD is under pressure to provide concessional loans to member states. BOAD will likely continue to provision for impaired loans, which will affect profitability and capital levels through retained earnings. Provision coverage for non-performing loans rose to 77% of the exposures (93% after guarantees) in the first half of 2020 from 64% at the end of 2019 (79% after guarantees). Meanwhile, in order to help its member states to cope with the effects of the coronavirus pandemic, BOAD approved emergency measures in March 2020, including concessional loans to member states worth FCFA 200 billion, equivalent to 10% of the bank's loan book.

CAPACITY OF REGIONAL SHAREHOLDERS TO SUPPORT RISKS WEAKENING TOO

While BOAD may receive additional capital support from shareholders in response to weakening asset quality, shareholders have not yet formally approved a capital increase which would be sufficiently large and timely enough to offset the deterioration in its asset-related credit metrics.

BOAD's shareholding structure, skewed towards regional shareholders BCEAO and WAEMU member states, means that there is a high correlation between the capacity of borrowers to repay their loans and their capacity as shareholders to provide additional capital. The negative impact of the pandemic crisis in the WAEMU risks simultaneously weakening the ability of shareholders to support BOAD through new capital injections.

The central bank, BCEAO, as the largest single shareholder plays an important role, to some extent mitigating this risk. Currently, its capacity to support BOAD, both in foreign and local currency is relatively strong due to its own equity, covering more than six times its callable capital commitment to BOAD. Additional strong features include the BCEAO's high level of net foreign exchange reserves, equivalent to 5-6 months of the union's imports, and the long-standing guarantee of currency convertibility provided by France (Aa2 stable). However, the coronavirus crisis is affecting the external and fiscal positions as well as economic prospects of WAEMU member states.

RATIONALE FOR AFFIRMING THE Baa1 RATING

Moody's expectation that sovereign borrowers -- which account for 71% of the loan portfolio -- will continue to treat BOAD as a preferred creditor will mitigate the negative impact of the pandemic shock on asset quality. BOAD's non-performing loans have all been concentrated on non-sovereign exposures and there has been no debt restructuring offered to sovereigns. Only the capital contributions due by Guinea-Bissau were re-scheduled once.

Moreover, BOAD has access to a refinancing window at the BCEAO, which means BOAD can afford somewhat lower liquidity requirements and ratios in the first place. While the institutions have never tested the window, BOAD has a large pool of assets on its balance sheet that are eligible to be posted as collateral, which could effectively double the liquid assets Moody's takes into account in its liquidity assessment.

Moreover, Moody's believes that the willingness of shareholders to support BOAD remains solid, even in the face of potentially waning capacity to provide it. BOAD holds a key economic role in the region because of its mandate to finance the integration and economic development of WAEMU member states including important infrastructure, water and energy related projects. This role reinforces the strong incentive for shareholders to provide support in the event of need. WAEMU countries, together with the BCEAO, have a track record of providing financial support to BOAD through capital contributions, in addition to the presence of callable capital.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE CONSIDERATIONS

Many of BOAD's borrowers in Sub-Saharan Africa are exposed to environmental risks, mostly because of their reliance on agriculture, which is exposed 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 risks also inform BOAD's credit profile via the credit assessments of both borrower and shareholder sovereigns. Some 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. Moreover, Moody's regards the coronavirus outbreak as a social risk under its ESG framework, given the substantial implications for public health and safety.

In terms of governance, BOAD's relatively solid 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.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

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

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 sign that the strength of 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 Moody's currently expects.

The principal methodology used in these ratings was Multilateral Development Banks and Other Supranational Entities published in June 2019 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1147813 . Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

These ratings are solicited. Please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website www.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1133569 .

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

Lucie Villa
VP - Senior Credit Officer
Sovereign Risk Group
Moody's France SAS
96 Boulevard Haussmann
Paris 75008
France

JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Marie Diron
MD - Sovereign Risk
Sovereign Risk Group
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Releasing Office:
Moody's France SAS
96 Boulevard Haussmann
Paris 75008
France
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454



© 2020 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND/OR ITS CREDIT RATINGS AFFILIATES ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MATERIALS, PRODUCTS, SERVICES AND INFORMATION PUBLISHED BY MOODY'S (COLLECTIVELY, "PUBLICATIONS") MAY INCLUDE SUCH CURRENT OPINIONS. MOODY'S INVESTORS SERVICE DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT OR IMPAIRMENT. SEE MOODY'S RATING SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY MOODY'S INVESTORS SERVICE CREDIT RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS, NON-CREDIT ASSESSMENTS ("ASSESSMENTS"), AND OTHER OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. AND/OR ITS AFFILIATES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS, ASSESSMENTS AND OTHER OPINIONS AND PUBLISHES ITS PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS, AND PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS OR PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE

REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing its Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING, ASSESSMENT, OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any credit rating, agreed to pay to Moody's Investors Service, Inc. for credit ratings opinions and services rendered by it fees ranging from \$1,000 to approximately \$2,700,000. MCO and Moody's investors Service also maintain policies and procedures to address the independence of Moody's Investors Service credit ratings and credit rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold credit ratings from Moody's Investors Service and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or

any form of security that is available to retail investors.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any credit rating, agreed to pay to MJKK or MSFJ (as applicable) for credit ratings opinions and services rendered by it fees ranging from JPY125,000 to approximately JPY250,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.