

Rating Action: Moody's assigns first-time Baa1 issuer rating to BOAD; stable outlook

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New York, May 15, 2015 -- Moody's Investors Service has today assigned a first-time foreign and local currency issuer rating of Baa1 to the West African Development Bank (BOAD). The outlook on the rating is stable.

The key factors of BOAD's Baa1 rating are the following:

- (1) Moody's low assessment of BOAD's capital adequacy, which is driven by weak borrower quality, and moderate levels of non-performing loans (NPLs), weighing on asset coverage and leverage levels that have been boosted thanks to a large infusion of equity from the bank's Energy Development Fund. The assessment also reflects risks associated with the bank's plan to expand non-concessional lending in the coming years.
- (2) Moody's very high assessment of BOAD's liquidity which is primarily supported by BOAD's access to refinancing from the Central Bank of West African Countries (Banque Centrale des Etats d'Afrique de l'Ouest (BCEAO)).
- (3) Moody's assessment of medium strength of member support balances the strong willingness of members to support the bank against their limited overall ability to do so. Shareholder ability to support is tempered by the shared exposure to systemic risks among BOAD's West Africa shareholders, and the correlation between shareholders and borrowers.

RATINGS RATIONALE

The first key factor underpinning BOAD's Baa1 rating is Moody's assessment of its weak capital adequacy. Past efforts to bolster the bank's balance sheet resulted in the conversion of the bank's Energy Development Fund (EDF) into equity, boosting many of the bank's asset coverage and leverage ratios. However, the bank suffers from weak borrower quality, due largely to the bank's mandate to promote economic development in the West Africa Economic and Monetary Union (WAEMU) countries -- its regional focus means assets are necessarily concentrated, operating conditions difficult, and its activities expose it to significant credit risk in a region that has had numerous periods of economic and political turmoil. The bank's NPL levels are moderate, averaging 4.3% over the last seven years, and though NPL's coverage by guarantees and provisions have increased, it nevertheless remained below 100% in 2014 at 91%.

In particular, the Baa1 rating incorporates risks derived from BOAD's planned expansion over the coming 2015-2019 strategic period, particularly in the non-concessional segment of its lending portfolio, primarily through borrowing on international and regional capital markets which means that BOAD will increase its overall leverage, and that NPL levels risk increasing since most NPLs are derived from the private sector lending that is being targeted for expansion in the bank's strategic plan.

The second key factor underpinning BOAD's Baa1 rating is Moody's very high assessment of its liquidity. BOAD can access BCEAO's funding facility, which supports its intrinsic liquidity position. BOAD views this as an emergency liquidity backstop, and as such has never used it. Within Moody's rated universe, only the European Investment Bank (Aaa stable) benefits from a similar liquidity arrangement with a central bank, in this case the European Central Bank.

BOAD's conditions of access to this refinancing are the same as for commercial banks, e.g. posting eligible collateral. Acceptable collateral includes not only all short-term debt instruments called 'bons' issued by the private and public sectors, but also other longer debt instruments ('obligations') which are selected on a case-by-case basis by the Monetary Policy Committee of the central bank every trimester.

Moody's believes that this mechanism not only ensures the liquidity of BOAD's treasury assets, which include debt instruments issued by the sovereigns of the West African Economic and Monetary Union (WAEMU), but that it also provides access to flexible emergency liquidity. At year-end 2014, BOAD's treasury assets represented 18% of its total assets and more than covered debt repayment -- Moody's estimates that Short-

Term Debt + Currently Maturing Long Term Debt as % of Discounted Liquid Assets was 45% in 2014.

Moody's further notes that the eligibility of BOAD's own debt instruments for rediscounting with the central bank supports its funding capacity on the regional capital market which is relatively liquid. BOAD has not yet accessed international capital markets.

The third key factor in BOAD's Baa1 rating is Moody's medium assessment of the strength of member support. Moody's considers the willingness of shareholders to support BOAD as being high. Countries of the WAEMU together with the BCEAO have a track record of providing financial support to BOAD, though not always via capital injection. In addition, the institutional set-up of the WAEMU makes the BCEAO and the BOAD the two key inter-related financial institutions of the union.

Moody's assesses the capacity of shareholders to provide capital that can be called (callable capital) or to support the bank beyond this contractual commitment as moderate. The main factor weighing on Moody's capacity assessment is the shared exposure to systemic risks among WAEMU shareholders and between regional shareholders and borrowers. In particular, there is a relatively strong correlation between on the one hand the quality of BOAD's loan portfolio, with two thirds of lending to WAEMU sovereigns, and on the other hand, its shareholders, with 49% of BOAD's capital being owned by WAEMU sovereigns and 45% owned directly by the BCEAO.

ISSUER PROFILE

The West African Development Bank (BOAD) was created in 1973 as a development finance institution that would operate in conjunction with the Central Bank of the West African States (Banque Centrale des États de l'Afrique de l'Ouest (BCEAO)). As such the bank's activities are dedicated solely to the WAEMU.

The bank was established with the high-level authority of the member countries in the region with a mandate to be a fundamental promoter of balanced development and economic integration of the member countries of WAEMU. BOAD members include 8 countries, Benin (non-rated), Burkina Faso (non-rated), Ivory Coast (B1, positive), Guinea-Bissau (non-rated), Mali (non-rated), Niger (non-rated), Senegal (B1, positive) and Togo (non-rated), in a region with more than 103 million inhabitants and a GDP of \$90.7 billion in 2013. Beyond its primary role of providing funding, BOAD promotes the development of capital markets in the WAEMU.

In terms of capital structure, BOAD has both regional, i.e. WAEMU member countries and the BCEAO, and non-regional members. Its main shareholder is the BCEAO, holding 45% of the capital, while member states together hold another 49%. Non-regional shareholders only hold 6% of the capital but they are given a more than capital-proportionate representation at the Board (one third). This provides checks-and-balances and broadens the technical knowledge and experiences on the basis of which the Board makes decisions.

BOAD engages with both the public and private sector, utilizing both commercial and concessional financing windows. The commercial window is available for both public and private entities. The concessional window offers lending at below market rates for sovereigns. As a rule, the bank finances no more than 50% of a given project, as its role is to catalyze other funding sources, e.g. from other supranationals, in order to get large infrastructure projects financed in the region.

Since BOAD started its activities in 1976, its total net commitments to the WAEMU region stand at approximately \$4.6 billion, and including the new Energy Development Fund exceed \$5.1 billion, a sum equivalent to more than 5% of the WAEMU region's GDP in 2013. As of the end of 2014, approximately 63% of BOAD's \$2.2 billion outstanding development portfolio was to sovereigns, and 37% to non-sovereigns, and equity investments accounting for 3%. Disbursements have been relatively evenly balanced amongst member states.

RATING OUTLOOK

The outlook is stable. The expectation that BOAD's capital adequacy will deteriorate as the bank pursues its expansion agenda is already embedded into the rating. Supporting the stable outlook, Moody's also expects that in parallel with increased leverage, the bank's risk management framework will continue being upgraded.

WHAT COULD CHANGE THE RATING UP/DOWN

Negative pressure on the rating could arise if the bank expands its lending activity faster than expected and registers NPLs well beyond what Moody's currently anticipates, or if the bank's risk management framework does not keep pace with the expansion in the bank's balance sheet.

Positive rating pressure could be exerted if BOAD manages a safe expansion of its lending activities and balance sheet, e.g. the maintenance of NPLs at low levels, a rapid upgrade of its risk management framework, and a proven track-record of international capital market debt issuance management.

The principal methodology used in this ratings was Multilateral Development Banks and Other Supranational Entities published in December 2013. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

The weighting of all rating factors is described in the methodology used in this rating action, if applicable.

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