

Moody's confirms BOAD's Baa1 ratings; outlook stable

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New York, July 07, 2022 -- Moody's Investors Service ("Moody's") has today confirmed the long-term foreign currency issuer and senior unsecured debt ratings of The West African Development Bank (BOAD) at Baa1 and changed the outlook to stable. This concludes the review for downgrade initiated on 18 March 2022.

The review for downgrade was initiated to monitor and assess the extent to which asset quality has weakened as a result of protracted sanctions on Mali and an increasingly challenging operating environment in parts of BOAD's region of operation, but also the effectiveness of a potential policy response from the West African Economic and Monetary Union (WAEMU) in supporting BOAD's capital position.

While Moody's continues to believe that the political situation in Mali and more broadly in the Sahel remains highly risky, the decision to confirm BOAD's rating at Baa1 reflects Moody's view that the risk of a severe deterioration in asset quality has been significantly reduced. Mali's government has recovered access to its treasury account, paving the way to regain access to regional capital markets, resume debt repayments and clear arrears. This follows the decision on the 3rd of July 2022 by the head of states of the Economic Community of West African States (ECOWAS) to lift the financial and economic sanctions they had imposed on Mali since the beginning of the year as well as on Burkina Faso since end of March. Additionally, the set of initiatives launched by the bank aimed at fortifying its credit profile, once achieved, attenuates downside risks.

The stable outlook reflects balanced risks over the next 12 to 18 months. The potential crystallization of new shocks emanating from the Sahel region with, in particular, the ongoing political transitions in Mali and Burkina Faso or from the consequences of elevated exposures to rising energy and food prices in some WAEMU member countries could affect BOAD's asset performance and lead to losses. Against these risks, the bank is implementing several initiatives to fortify its credit profile including a capital increase from BOAD's current shareholders and the arrival of new shareholders.

RATINGS RATIONALE

RATIONALE FOR THE CONFIRMATION AT Baa1

THE RISK OF A SEVERE DETERIORATION OF ASSET PERFORMANCE IS SIGNIFICANTLY REDUCED WITH THE ECOWAS DECISION TO LIFT SANCTIONS ON MALI



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and to perform any cross-border payment, led the government to default its debt instruments issued on the regional capital market and to accumulate arrears towards all the Multilateral Development Banks (MDBs) including BOAD. During the first semester, the stock of arrears to BOAD reached almost CFA26.5 billion (\$42 million) between the direct loans to the government and the Malian debt held by the bank. Moody's expects that Mali will be able to start clearing those arrears relatively quickly as soon as it recovers its access to the regional capital market. Consequently, the main reason for placing BOAD under review for possible downgrade, which was to assess the risk of a very significant deterioration of BOAD asset performance, has significantly reduced. Moody's now expects Mali to meet its payment obligations to BOAD for the foreseeable future. Nevertheless, the situation in the Sahel region remains a source of potentially large shocks for the bank as well as the effects of rising energy and food prices on WAEMU member countries.

INITIATIVES AIMED AT FORTIFYING BOAD'S CREDIT PROFILE ATTENUATE DOWNSIDE RISKS

The second driver that underpins Moody's decision to confirm BOAD's rating at Baa1 is the set of initiatives launched by the bank to fortify its credit profile, especially its capital adequacy in order to better mitigate future large shocks. BOAD's capital position will benefit from a \$897 million increase of which \$651 million will be paid-in over the next five years under the general capital increase expected to be officially passed by BOAD's board of shareholders in September 2022. BOAD expects the first disbursements of paid-in capital to start in the fourth quarter of 2022 with potentially some shareholders agreeing to accelerate their disbursements. The anticipated arrival of new non-regional shareholders with very high credit quality will also support the quality of callable capital, consistent with Moody's assessment of member support at Moderate.

BOAD's capital position will also benefit from two cash injections with the partial transfer to its reserves of the interest subsidy fund for around \$150 million and another \$50 million from the 2021 net income allocation. The bank has also stated its intention to issue a hybrid capital instrument to support its capitalisation, when market conditions allow. Meanwhile, Moody's expects the bank's increasing use of credit enhancement tools such as credit insurance to support its portfolio credit quality in the future. A first insurance policy has been implemented by the Bank in November 2021 to cover the credit risk of several loans.

RATIONALE FOR THE STABLE OUTLOOK

The stable outlook reflects Moody's view of balanced risks. Moody's expects BOAD to avoid an erosion of its intrinsic financial strength in the wake of recurrent shocks, and to successfully implement its Djoliba strategic plan 2021-2025. It also expects the bank will significantly expand its portfolio in support of members without compromising asset quality. Moody's also expects that BOAD will implement some of the initiatives to fortify its credit profile, including the general capital



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remains exposed to the global implications of rising food and fuel prices in the wake of Russia's invasion of Ukraine.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE CONSIDERATIONS

BOAD's ESG credit impact score is neutral to low (CIS-2), reflecting sound governance and strong shareholder support, including from the central bank of the WAEMU, notwithstanding moderate exposure to environmental risks.

BOAD's environmental issuer profile score is moderately negative (E-3), driven by its exposure to physical climate risks. Many of BOAD's borrowers in Sub-Saharan Africa are exposed to environmental risks, mostly because of their reliance on large agricultural sectors and thus exposure to extreme weather conditions and natural disasters.

BOAD's social issuer profile score is neutral to low (S-2). Customer relationships are strong given the bank's role and importance as the strategic promoter of economic development and second largest financier in the WAEMU region.

The governance issuer profile score is neutral-to-low (G-2), supported by a prudent risk management framework in line with sector best practices. BOAD also benefits from the technical support of its strategic shareholder, the central bank of the WAEMU, and by its non-regional shareholders.

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

Positive pressure would likely develop on BOAD's Baa1 credit rating if the bank managed to significantly strengthen its capital adequacy metrics while maintaining strong levels of asset performance, liquidity and funding.

Moody's would consider downgrading BOAD's rating if 1) the bank's asset performance were to deteriorate significantly, in particular, should the ongoing political crises in the Sahel region deteriorate further pointing to material losses; 2) the bank failed to implement its strategy aimed at strengthening its capital base, which would point to growing susceptibility to asset performance challenges.

The principal methodology used in these ratings was Multilateral Development Banks and Other Supranational Entities Methodology published in October 2020 and available at <https://ratings.moody's.com/api/rmc-documents/69182>. Alternatively, please see the Rating Methodologies page on <https://ratings.moody's.com> for a copy of this methodology.

The local market analyst for this rating is Aurelien Mali, +971 (423) 795-37.

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