

**Rating Action: Moody's Affirms BOAD's Baa1 Rating; Maintains Stable Outlook**

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New York, June 02, 2017 -- Moody's Investors Service has today affirmed the West African Development Bank's (BOAD) Baa1 long-term issuer and senior unsecured ratings and maintained the stable outlook.

BOAD is a traditional regional multilateral bank that serves the West African Economic and Monetary Union (WAEMU). It provides loans to sovereigns of the WAEMU primarily, as well as to its broader public sector and private sector.

Moody's decision to affirm the rating reflects the following factors:

1. Strong liquidity position, including high levels of liquid assets and the bank's access to the refinancing window of the BCEAO (the central bank of the WAEMU)
2. A strategic mandate in the region that garners the bank a strong willingness for support from its principal shareholders.
3. A challenging operating environment and low borrower quality that weigh on asset quality and constrain creditworthiness.

The maintenance of the stable outlook reflects the expectation that the balance of credit strengths and challenges is unlikely to shift over the outlook horizon.

**RATINGS RATIONALE**

**STRONG LIQUIDITY POSITION**

BOAD's Baa1 ratings are supported by its strong liquidity. At year-end 2016, BOAD's liquid assets (on a discounted basis) covered 2 times the 2017 debt maturity and were mostly composed of deposits at the BCEAO and in commercial banks of the union as well as, to a lesser extent, of CFA franc securities.

Moreover, unlike most of the multilateral development banks rated by Moody's, BOAD is eligible for access to the refinancing window at the central bank of the WAEMU, under the same conditions as commercial banks. This provides a credible liquidity backstop in the event of adverse market conditions constraining BOAD's financing access. While conditions for accessing the BCEAO's financing window include a limit on the overall financing the bank can obtain (35% of the bank's liabilities), eligible collateral the institution can post includes short-term debt of private and public sector entities as well as longer term instruments at the discretion of the Monetary Policy Committee of the BCEAO.

The key limiting factor from a liquidity perspective is BOAD's relatively undiversified financing sources. The bank relies predominantly on regional capital markets as well as credit lines, and has only once accessed international markets in May 2016.

**HIGH WILLINGNESS FOR SUPPORT FROM PRINCIPAL SHAREHOLDERS**

Principal shareholders' support for BOAD's strategic mandate also underpins BOAD's Baa1 ratings. With 47% of BOAD's capital, the BCEAO is the principal shareholder, followed by the WAEMU member states (collectively 47%), and non-regional shareholders (6%). The BCEAO and member states have a firm propensity to support BOAD in case of need given its economic importance in the region and the fulfilment of its mandate to direct 100% of loans to the governments, public sector, or private sector of its member states. BOAD fulfils a key role in financing important infrastructure, water, and energy related projects in the region.

Should BCEAO be called to urgently inject capital, the central bank would finance the capital injection thanks to its own equity, which covered 5 times its callable capital in BOAD or 2 times BOAD's total callable capital at the end of 2016.

One key factor, though, that weighs on Moody's assessment of BOAD's strength of member support stems

from the predominance of WAEMU sovereigns as both borrowers and shareholders as well as the WAEMU's central bank role as principal shareholder. This results in a high correlation between the financial strength of borrowers and shareholders and means that any wide-spread stress on borrowers that would require BOAD's recapitalisation will concurrently hamper the capacity of shareholders to inject additional capital.

#### A CHALLENGING OPERATING ENVIRONMENT AND LOW ASSET QUALITY

BOAD's creditworthiness is constrained by its challenging operating environment and low average borrower quality, both of which weigh on asset quality. All BOAD's development assets are in the WAEMU region, composed primarily of loans to sovereigns (64%). Of the eight member countries of the WAEMU, Moody's rates Côte d'Ivoire (Ba3 stable) and Senegal (Ba3 stable) which together represented at the end of 2016 21% of BOAD's loans disbursed to sovereigns and 30% of all loans granted by BOAD to the private and public sectors of member countries as well as sovereigns. The remainder of BOAD's loan portfolio (70%) is composed of non-rated entities in Benin, Burkina Faso, Guinea-Bissau, Mali, Niger, and Togo. The region has had periods of economic and political turmoil which makes BOAD's operating environment challenging. Moreover, BOAD's non-performing loans rate has historically been relatively high at 4% on average over the last seven years, but has been trending down to 2% in 2016, from 6% in 2011.

Weakness in asset quality is in part mitigated by BOAD's sound balance sheet structure. Leverage has been deteriorating because of the bank's expansion in its loan portfolio and increased recourse to debt, however it remains relatively modest at 2.4 times at year-end 2016. Coverage of development assets by usable equity (i.e. the asset coverage ratio) has historically hovered around 40%, a relatively strong level. BOAD's capital adequacy ratio calculated under the Basel II definition reached 25% in 2016.

#### RATIONAL FOR MAINTAINING THE STABLE OUTLOOK

The stable outlook reflects Moody's expectation that the balance of credit strengths and challenges is unlikely to shift over the outlook horizon. BOAD has managed to expand its loan portfolio while decreasing the rate of nonperforming loans as well as improving risk management policies. The latter include various initiatives such as a reform of the loans pricing policy, a review of the internal credit rating approach, the institutionalization of the liquidity policy with the creation of a formal treasury Committee, and hedging against foreign exchange risk.

#### WHAT COULD CHANGE THE RATING DOWN

BOAD's rating would come under downward pressure if the expansion in lending activity were to result in diminished asset quality or a deterioration of the bank's leverage and asset coverage ratio beyond what Moody's currently anticipates.

#### WHAT COULD CHANGE THE RATING UP

BOAD's creditworthiness would be supported by a safe expansion in its activities with demonstrated track record of low NPLs and international capital market debt issuance management.

The principal methodology used in these ratings was Multilateral Development Banks and Other Supranational Entities published in March 2017. Please see the Rating Methodologies page on [www.moody.com](http://www.moody.com) for a copy of this methodology.

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