

# Moody's affirms BOAD's Baa1 rating; maintains stable outlook

**Rating Action** | 6 min read | 26 Apr 2019 | Moody's Ratings

Paris, April 26, 2019 -- Moody's Investors Service ("Moody's") 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 regional multilateral development bank (MDB) that serves the West African Economic and Monetary Union (WAEMU). It primarily provides loans to the eight sovereigns of the WAEMU, but also to the broader public sector and the private sector in the region.

Moody's decision to affirm the rating reflects:

1. A challenging operating environment that points to the risk of a rapid deterioration in asset quality, notwithstanding BOAD's demonstrated capacity to preserve its capital position.
2. BOAD's strong liquidity position, with very high debt service coverage. Access to the refinancing window of the central bank of the WAEMU, the BCEAO, partly offsets some funding constraints stemming from relatively shallow regional markets.
3. Moderate capacity of the bank's shareholders to support the institution balanced by a strong willingness to support as BOAD continues to fulfill its mandate.

The stable outlook reflects balanced risks, with the bank's key capital adequacy ratios likely to remain broadly unchanged over the medium term as the institution continues to upgrade its risk management framework and pursues a moderate growth path, consistent with the expected payments of capital contributions by its shareholders.

## RATINGS RATIONALE

### A CHALLENGING OPERATING ENVIRONMENT, NOTWITHSTANDING BOAD'S CAPACITY TO PRESERVE ITS CAPITAL

BOAD operates in the WAEMU, a challenging, albeit high-growth, region susceptible to economic and political shocks. Moody's assesses BOAD's quality of assets, which are composed in majority of loans (94% of development assets), to be relatively weak on a global scale.

Of the eight member countries of the WAEMU, the governments of Côte d'Ivoire (Ba3 stable) and Senegal (Ba3 stable) are the most highly Moody's-rated sovereigns and together represented 24% of

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down from 6% in 2008 and are, after including financial guarantees, fully provisioned under IFRS9, such an operating environment involves a risk of a rapid deterioration in asset quality.

However, the Baa1 rating reflects the fact that bank's upgrades to its risk management framework are helping it to maneuver the difficult operating environment. Over the last five years, the bank has progressed on aligning its framework with international best practices, including with its NPLs definition and the institutionalization of its liquidity policy. More recently, in 2018, the bank has revamped its credit ratings framework and implemented IFRS9 standards. Ongoing initiatives include the adoption of an integrated asset and liability management framework and progress toward the development of a risk appetite framework.

### STRONG LIQUIDITY POSITION

BOAD's liquidity position is strong. In particular, its liquidity policy is to hold at least nine months of net funding requirements (assuming no market access). At the end of 2018, the bank's treasury assets covered 24 months of net funding requirements. As a result, its debt service coverage is very high, although the bank's treasury assets underpinning its liquidity are of relatively weak credit quality and less liquid than generally owned by MDBs.

At year-end 2018, BOAD's liquid assets (on a discounted basis) covered 3.1 times the 2018 amortizing debt. Its treasury assets are mostly (72%) composed of deposits with (unrated) commercial banks of the union and CFA franc securities (some of which are rated by Moody's). The highest quality treasury assets are made of deposits at the BCEAO (the remaining 28% of total treasury assets).

Moody's assessment of a "High" liquidity score for BOAD is also supported by BOAD's eligibility to access the refinancing window at the BCEAO, a facility that is uncommon amongst MDBs. This access provides a credible liquidity backstop in the event of adverse market conditions constraining BOAD's financing access. BOAD has to-date treated the facility as an emergency backstop and has not used it.

### MODERATE CAPACITY, STRONG WILLINGNESS TO SUPPORT BOAD BY ITS PRINCIPAL SHAREHOLDERS

The capacity of BOAD's shareholders to support the bank in case of need is moderate. WAEMU sovereign shareholders (representing 46% of paid-in capital) are lowly rated and face financial constraints to varying degrees. Moreover, there is a strong correlation between the credit quality of BOAD's borrowers -- in majority, WAEMU sovereigns -- and its shareholders -- in the vast majority, WAEMU-related. With 47% of BOAD's capital, the central bank of the WAEMU, the BCEAO, is the principal shareholder. Non-regional shareholders only account for a small proportion of the capital (7%).

Nonetheless, as BOAD's current five-year strategic plan is ending this year with a full or close-to-full implementation of the loans expansion it had planned (94% as of March 2019), its role in fostering the region's development is as critical as ever. According to the MDB's own analysis it was the

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Moody's projects that BOAD's capital adequacy ratios will remain broadly stable over the medium-term, with a leverage ratio (defined as debt/usable equity) nearing 300% and usable equity covering roughly a third of development assets. Underlying this central scenario, Moody's expects moderate growth in development assets as well as continued upgrades to its risk management framework, along with shareholders' continuing commitment to modest capital contributions as planned over coming years.

### WHAT COULD CHANGE THE RATING UP

Upward pressure on the rating would develop if BOAD's continued upgrading of its risk management framework significantly lowered the risks of a sharp rise in NPLs and capital erosion. Increasingly diversified funding sources at low and stable costs would also put positive pressure on the rating.

Larger non-regional shareholding that would improve capital adequacy would also put upward pressure on the rating.

### WHAT COULD CHANGE THE RATING DOWN

BOAD's rating would likely be downgraded if, contrary to Moody's baseline expectation, capital adequacy deteriorated as a result for instance of a sharp and lasting increase in NPLs and/or increased leverage due to strong growth in development assets financed by borrowings.

The principal methodology used in these ratings was Multilateral Development Banks and Other Supranational Entities published in September 2018. Please see the Rating Methodologies page on [www.moody's.com](http://www.moody's.com) for a copy of this methodology.

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