FitchRatings

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Fitch Ratings Revises EBID's Outlook to Stable; Affirms at 'B'

Fitch Ratings - Paris - 20 Apr 2022: Fitch Ratings has revised the Outlook on Banque d'investissement et de developpement de la CEDEAO's (EBID) Long-Term Issuer Default Rating (IDR) to Stable from Negative and affirmed the IDR at 'B'.

Key Rating Drivers

Reduced Pressure on Solvency: The Outlook revision primarily reflects the reduction in our solvency risk assessment due to an improvement in non-performing loans (NPLs). The clearance of a significant portion of capital arrears by shareholders also supports our assessment of EBID's solvency.

Strong Capitalisation, High Credit Risk: EBID's 'B' rating balances its 'Strong' capitalisation against its 'High' credit risk. The bank's Standalone Credit Profile of 'b' results from 'bb' solvency and liquidity assessments, and a negative three-notch adjustment to reflect the bank's 'High Risk' business environment.

Clearance of Arrears Supports Capital: In 2021, EBID's shareholders' equity was supported by the payment of sizeable capital arrears (U.A.44 million) which enhanced the bank's capitalisation despite the marked 25% increase in the loan book. The equity/assets ratio declined to 40% at end-2021 from 42% at end-2020 and Fitch's risk-weighted capital (FRA) ratio was 36% as of end-2021, from 39% as of end 2020. Fitch expects the ratios to decline in line with the growth in the loan book to a level commensurate with a 'Strong' assessment.

Decline in NPLs: Bank-reported NPLs fell to 5.8% in 2021 from 7.1% in 2020 driven by the increase in the loan book and the absence of new NPLs. Fitch's own NPL ratio fell to 9.8% at end-2021 from 15.6% at end-2020. Fitch's ratio accounts for the exposures that were granted payment suspension during the Covid-19 crisis and had not resumed payments at end-2021 (4% of loans). Fitch expects the NPL ratio to decline further, driven by the growth in the loan book, but to remain 'High' (above 6%).

High Credit risk: The average rating of the loan book was 'B-' at end-2021. About half of the loans are extended to sovereigns. EBID's Preferred Creditor Status on its sovereign exposure leads to a one-notch uplift over the average rating of the loan book, to 'B'. NPLs are concentrated in the non-sovereign portfolio with no sovereign NPL at end-2021.

Mali Poses Downside Risk: The sanctions imposed to the Malian sovereign (5% of loans at end-2021) by the ECOWAS prevent the Malian sovereign from servicing its debt to foreign creditors, including EBID. If sanctions are not lifted in the short term, this could lead to significant increase in the NPL ratio. The bank's non-sovereign portfolio in Mali (a further 6% of loans) has remained performing. However, the economic impact of sanctions in Mali poses downside risks to the performance of these exposures.

Improvement in Risk Management Framework: Risk management is considered a weakness relative to peers, primarily due to the record of operations with a much higher NPL ratio. In Fitch's view, the bank's new strategy to lend to non-sovereign borrowers using commercial banks as intermediaries (a third of non-sovereign loans as of end-2021) should improve loan performance. The bank has maintained a diversified portfolio with the top five borrowers accounting for 35% of loans.

Weak Treasury Asset Quality: The size and credit quality of liquidity buffers are a weakness relative to peers. To calculate its liquidity ratio, Fitch only retains 70% of treasury assets (as it excludes part of the deposits in regional commercial banks) leading to a liquid assets/short-term debt ratio of less than 100% at end-2021. Despite an increase in deposits in OECD banks in recent years, only 40% of liquid assets were considered investment grade, the lowest across peers.

The remaining 60% are short-term deposits with local banks rated in the 'B' category. The bank has diversified its funding sources but remains highly reliant on the India Exim bank, which accounted for 42% of liabilities at end-2021.

High-Risk Business Environment: EBID's countries of operations are low and lower-middle income countries and are exposed to a high degree of political instability, as illustrated by three recent military coups (in Burkina Faso, Guinea and Mali). EBID's policy importance is affected by its limited size relative to peers and remaining sizeable paid-in capital arrears.

Limited Shareholders' Support: The average rating of key shareholders was unchanged at 'B' at end-2021. Fitch has raised its assessment of shareholders' propensity to support, leading to two-notch negative adjustment to the capacity to support (from three notches) to 'CCC'. The revision reflects the sizeable arrear capital payments in 2021. Capital arrears was U.A.47 million at end-2021.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

Solvency (Risk): An improvement in the bank's risk profile supported by continued decline in the NPL ratio as defined by Fitch, for example in case of resumption of payments of the loans that were granted moratoria during the Covid-19 crisis.

Liquidity: An improvement in the size and credit quality of the bank's liquidity buffer. This would be the case if the share of investment-grade treasury assets was increasing substantially.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

Solvency (Capital): A material deterioration in capitalisation metrics, that could stem from high lending growth or the materialisation of large loan losses.

Solvency (Risk): Increase in the NPL ratio, for example in case one large sovereign exposure, such as

Mali, was becoming non-performing.

Liquidity: Deterioration in the credit quality and/or size of the bank's treasury assets, and/or increase in the projected levels of short-term debt.

Best/Worst Case Rating Scenario

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG Considerations

EBID has an ESG Relevance Score of '4' for 'Management Strategy' to reflect execution risks related to the bank's strategy. This has a negative impact on the credit profile, and is relevant to the ratings in conjunction with other factors.

EBID has an ESG Relevance Score of '4' for 'Governance Structure'. The high share of borrowing member countries in the capital structure influences the bank's lending strategy towards shareholders with weak credit fundamentals at the expense of prudent lending growth. This has a negative impact on the credit profile, and is relevant to the ratings in conjunction with other factors.

EBID has an ESG Relevance Score of '4' for 'Rule of Law, Institutional and Regulatory Quality'. All supranationals attract a score of '4'. Supranationals are neither subject to bank regulation nor supervised by an external authority. Instead, supranationals comply with their own set of rules. Fitch pays particular attention to internal prudential policies, including compliance with these policies. This has a negative impact on the credit profile, and is relevant to the ratings in conjunction with other factors.

The ESG Relevance Score assigned to 'Labour Relations and Practices' (SLB) has changed to '2' from '3' given that restrictions on recruitment based on nationality or quotas is no longer considered to be relevant to multilateral development banks' ratings'

Except for the matters discussed above, the highest level of ESG credit relevance, if present, is a score of '3'. This means ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or to the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

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Rating Actions

ENTITY/DEBT	RATING			RECOVERY	PRIOR
Banque d'investissement et de developpement de la CEDEAO (BIDC)	LT IDR	B (Rating Outlook Stable)	Affirmed		B (Rating Outlook Negative)
	ST IDR	B	Affirmed		B

RATINGS KEY **OUTLOOK** **WATCH**

POSITIVE

RATINGS KEY	OUTLOOK	WATCH
NEGATIVE	⊖	⬙
EVOLVING	⊙	◆
STABLE	⊙	

Applicable Criteria

Supranationals Rating Criteria (pub.11 Apr 2022) (including rating assumption sensitivity)

Additional Disclosures

Solicitation Status

Endorsement Status

Banque d'investissement et de developpement de la CEDEAO (BIDC)	EU Issued, UK Endorsed

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