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.

Fitch Ratings Analysts

**Arnaud Louis**
Senior Director
Primary Rating Analyst
+33 1 44 29 91 42
Fitch Ratings Ireland Ltd 28 avenue Victor Hugo Paris 75116

**Khamro Ruziev, CFA**
Associate Director
Secondary Rating Analyst
+44 20 3530 1813

**James McCormack**
Managing Director - Head of Sovereigns
Committee Chairperson
+852 2263 9625

Media Contacts

**Peter Fitzpatrick**
London
+44 20 3530 1103
peter.fitzpatrick@thefitchgroup.com

Rating Actions

<table>
<thead>
<tr>
<th>ENTITY/DEBT</th>
<th>RATING</th>
<th>RECOVERY</th>
<th>PRIOR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banque d'investissement et de developpement de la CEDEAO (BIDC)</td>
<td>LT IDR</td>
<td>B 🟢</td>
<td>Affirmed</td>
</tr>
<tr>
<td>ST IDR</td>
<td>B</td>
<td>Affirmed</td>
<td>B</td>
</tr>
</tbody>
</table>

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

DISCLAIMER & DISCLOSURES

All Fitch Ratings (Fitch) credit ratings are subject to certain limitations and disclaimers. Please read these limitations and disclaimers by following this link: https://www.fitchratings.com/understandingcreditratings. In addition, the following https://www.fitchratings.com/rating-definitions-document details Fitch's rating definitions for each rating scale and rating categories, including definitions relating to default. Published ratings, criteria, and methodologies are available from this site at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance, and other relevant policies and procedures are also available from the Code of Conduct section of this site. Directors and shareholders’™ relevant interests are available at https://www.fitchratings.com/site/regulatory. Fitch may have provided another permissible or ancillary service to the rated entity or its related third parties. Details of permissible or ancillary service(s) for which the lead analyst is based in an ESMA- or FCA-registered Fitch Ratings company (or branch of such a company) can be found on the entity summary page for this issuer on the Fitch Ratings website.

In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or
in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party 
verification it obtains will vary depending on the nature of the rated security and its issuer, the 
requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the 
iissuer is located, the availability and nature of relevant public information, access to the management 
of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit 
reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal 
opinions and other reports provided by third parties, the availability of independent and competent 
third-party verification sources with respect to the particular security or in the particular jurisdiction of 
the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that 
neither an enhanced factual investigation nor any third-party verification can ensure that all of the 
information Fitch relies on in connection with a rating or a report will be accurate and complete. 
Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide 
to Fitch and to the market in offering documents and other reports. In issuing its ratings and its 
reports, Fitch must rely on the work of experts, including independent auditors with respect to 
financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts 
of financial and other information are inherently forward-looking and embody assumptions and 
predictions about future events that by their nature cannot be verified as facts. As a result, despite any 
verification of current facts, ratings and forecasts can be affected by future events or conditions that 
were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided “as is” without any representation or warranty of any kind, 
and Fitch does not represent or warrant that the report or any of its contents will meet any of the 
requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a 
security. This opinion and reports made by Fitch are based on established criteria and methodologies 
that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective 
work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a 
report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk 
is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have 
shared authorship. Individuals identified in a Fitch report were involved in, but are not solely 
responsible for, the opinions stated therein. The individuals are named for contact purposes only. A 
report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, 
verified and presented to investors by the issuer and its agents in connection with the sale of the 
securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of 
Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, 
sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of 
any security for a particular investor, or the tax-exempt nature or taxability of payments made in 
respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and 
underwriters for rating securities. Such fees generally vary from US$1,000 to US$750,000 (or the 
applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues 
issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single 
annual fee. Such fees are expected to vary from US$10,000 to US$1,500,000 (or the applicable currency 
equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a 
consent by Fitch to use its name as an expert in connection with any registration statement filed under
the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001. Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the “NRSRO”). While certain of the NRSRO’s credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see https://www.fitchratings.com/site/regulatory), other credit rating subsidiaries are not listed on Form NRSRO (the “non-NRSROs”) and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

Copyright © 2022 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved.

**Endorsement policy**

Fitch’s international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be. Fitch’s approach to endorsement in the EU and the UK can be found on Fitch’s Regulatory Affairs page on Fitch’s website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.