MOODY'S RATING 2017

Global ratings agency Moody's has affirmed the East African Development Bank (EADB) Baa3 long-term issuer rating in a move likely to boost the lender's chances of attracting funds from local and international lenders.

Moody's cited "high capital position and strong liquidity," balanced against a challenging operating environment, low asset quality and concentration risks that led to a recent rise in non-performing loans.

"The debt service coverage ratio (short-term debt and currently maturing long-term debt to discounted liquid assets) is one of the strongest ratios among our MDB rated universe, improving to 18.9 per cent in 2016 from 20.2 per cent in 2014," it said.

The agency added that EADB's long-term deposit ratings carry a stable outlook.

The purpose of Moody's ratings is to provide investors with a simple system of grading by which to assess future relative creditworthiness of securities or an entity.

Moody's rating scale runs from a high of Aaa to a low of C, comprising 21 notches that are divided into investment and speculative grades.

Securities or entities that are rated Aaa are judged to be of the highest quality, subject to the lowest level of credit risk while those rated C are the lowest rated and are typically in default, with little prospect for recovery of principal or interest.

The EADB was restructured in 2011 following a litany of managerial and operational problems.

2015 is the latest year in which the bank was assessed, and Moody's gave the EADB a Baa3 long-term rating with a stable outlook. Moody's said the rating was based on the bank's possession of adequate capital buffers, modest gearing ratios, and the very low levels of non-performing loans.

The EADB's paid-up capital stood at $185.78 million in December 2015, a near double growth compared to $99.87 million in 2009.

In the eight years to December 2015, the mountain of toxic loans at the regional development finance institution dropped to 0.75 per cent from a high of 32 per cent in 2010, according to official data.

Moody's commented in its ratings report that "the bank's key strengths are its strong capital buffers which remain among the highest in the multilateral development bank universe."

"The low level of non-performing loans and the high level of provision coverage means the bank remains well-positioned to absorb losses," the New York-based ratings agency said in its latest research note dated July 2016.

“Although rising loan growth will lead to a modest deterioration of capital and leverage ratios, this is in line with our expectations, and will be partly offset by additional equity injections from new shareholders.”

The bank’s financial statements and reports produced by independent assessors, however, tell a progressive positive story. The 2015 audited financial statements, for instance, show that the EADB’s loan book had surged to $162 million by December 2015, a 52 per cent growth from $106.7 million a year earlier.

Loans and advances, which stood at $104.3 million in 2009 had by end of 2015 risen to $582 million in December 2015, offering a view that is diametrically opposed to claims by the faceless complainants.

The EADB is jointly controlled 87 per cent by four East African Community member-states. Kenya and Uganda are the largest shareholders with a 28 per cent stake each while Tanzania and Rwanda own 24 per cent and seven per cent respectively.

The remaining 13 per cent is held by three institutional investors who are mostly multilateral development financiers.

The list includes the African Development Bank (AfDB) with nine per cent, Dutch development bank FMO (three per cent), and German investment firm DEG (one per cent).

The lender returned to profitability in 2009. The EADB made a profit of $1.85 million in 2009 compared to a loss of $8.78 million the previous year.

Financial position

The bank’s financial position has remained strong despite profits falling by a third to $6.67 million in 2015 from $9.82 million a year earlier, hit by forex losses and losses on equities portfolio.

Analysts at Moody’s reckon that even though development finance institutions such as the EADB do not purely pursue profitability, growth in profitability is critical because it helps support capital adequacy as earnings can be ploughed back as equity.

The EADB only pays dividends to institutional investors and not the member-states who hold class A shares.

“To date, all profits due to member-states have been allocated to equity in order to strengthen its capital base, which we view as credit-positive,” said the Moody’s research note.

The EADB provides loans to private-sector institutions and projects in its four member-states.

It mostly offers lines of credit to financial intermediaries to support the financing of micro, small and medium enterprises.

The loan book distribution of EADB at at December 2015 is 32 per cent in Kenya, followed by Uganda 31 per cent, Tanzania 19 per cent, and Rwanda with 18 per cent.

The bank’s liquidity ratio stood at 1.67, higher than the self-imposed minimum threshold of 1.33 times the designated liabilities and budgeted commitments that are due in 12 months.

The EADB’s loan portfolio is largely foreign currency-denominated, with the dollar accounting for 79 of loans and advances, Kenya shillings (nine per cent), Uganda shillings (six per cent), and euro (four per cent). “The high level of US dollar lending means that asset quality will remain linked to exchange rate stability,” the report says.

The regional bank draws its funding from other multilateral lenders such as European Investment Bank, OPEC Fund for International Development, German Reconstruction Bank (KfW), and Arab Bank for Economic Development in Africa.

The EADB has shifted away from funding via bonds and borrowing from commercial banks in a bid to cut finance costs and be able to lend at cheaper rates. Sourcing credit from multilateral development banks and other financial institutions provides a stable and cheap source of financing, says Moody’s.

Created in 1967, the bank enjoys diplomatic status hence its property, income, operations and transactions are exempt from all taxation and custom duties within member-states.

A case study to gauge the EADB’s socio-economic impact showed that projects financed by the lender employed about 15,700 people in 2012, and generated $20 million in taxes to member-states. It has about 100 employees.