

Announcement: Moody's: EADB's credit profile balances its strong capital and liquidity against shareholders' low credit quality

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London, 03 July 2018 -- The East African Development Bank's (EADB, Baa3 stable) credit profile reflects its strong capital and liquidity, balanced against its shareholders' low average credit quality and concentration risks in its loan portfolio, Moody's Investors Service said in an annual report this week.

The report, "East African Development Bank - Baa3 Stable, Annual credit analysis", is now available on www.moodys.com. Moody's subscribers can access this report via the link at the end of this press release. The research is an update to the markets and does not constitute a rating action.

"The bank's credit strengths include strong liquidity and capital buffers that are among the strongest of the multilateral development banks we rate," said Aurelien Mali, a Moody's Vice President -- Senior Credit Officer and the report's author. "EADB's main credit weaknesses are its borrowers' low credit quality and the high geographic concentration of its assets."

Although the bank's level of nonperforming loans (NPLs) decreased significantly during its restructuring period from 2009-12, the NPL ratio climbed to 7.0% in 2016 and rose further to 9.1% in 2017. This increase reflects the low average quality of the bank's loan portfolio due to East Africa's difficult operating environment, and the high concentration of its loan book.

Moody's expects EADB to remain profitable, supported by the expansion in its investment activities, even though the full provision and write-off of NPLs in 2018 could weaken profitability for the year.

EADB has strong liquidity, reinforced by low levels of borrowing relative to liquid assets, moderate funding costs and a relatively long-dated debt maturity structure.

Poor credit quality constrains the strength of shareholder support for the bank. Its weighted median shareholder rating of B2 in 2017 is among the lowest of all the multilateral development banks that Moody's rates.

Returning to a low NPL ratio as the bank continues to expand its balance sheet in the coming years would be credit positive. Additional support from higher-rated shareholders could also result in a positive reassessment of the credit rating.

In contrast, a further deterioration in asset quality would put downward pressure on the rating. It could also come under pressure if the bank's rapid asset growth were to result in a disproportionate increase in credit risk, undermining recent improvements in governance and risk management.

Subscribers can access the report at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1126105

The Local Market analyst for these ratings is Aurelien Mali, +971 (423) 795-37.

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