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East African Development Bank - Baa3 Stable

Annual Credit Analysis

RATINGS

East African Development Bank

	Rating	Outlook
Long-term Issuer	Baa3	Stable
Short-term issuer	--	--

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OVERVIEW AND OUTLOOK

The East African Development Bank (EADB)'s credit profile continued to strengthen in 2015, driven by (1) a sustained improvement in asset quality; (2) improvements in its liquidity position; (3) additional increases in paid-in capital from the bank's shareholders; and (4) notable progress in strengthening governance and risk-management policies.

The bank's key strengths are its strong capital buffers which remain among the highest in our multilateral development bank (MDB) universe, the low level of non-performing loans and the high level of provision coverage, meaning the bank remains well-positioned to absorb losses. 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 EADB's liquidity position, supported by modest gearing ratios, remains another key credit strength.

EADB's main credit weaknesses include the low credit quality of its borrowers and the high level of geographic concentration among its assets due to the bank's operations in a small number of member states. Another rating constraint is the low average shareholder credit quality, with only 9.0% of paid-in capital and 1.7% of callable capital held by investment-grade shareholders. This significantly limits the amount of credit uplift that EADB receives from member support in our credit assessment.

If recent improvements in asset quality can be sustained as the bank aggressively expands its balance sheet as part of its 2016-2020 strategic plan, this could exert upwards pressure on the rating, as could the addition of more callable capital from investment-grade shareholders. In contrast, the rating could face downwards pressure if asset quality deteriorated sharply, if the bank's rapid balance sheet growth disproportionately increases its exposure to credit risks.

This Credit Analysis provides an in-depth discussion of credit rating(s) for the East African Development Bank and should be read in conjunction with Moody's most recent Credit Opinion and rating information available on Moody's website.

Organisational structure

The EADB is a regional development finance institution with the aim of promoting sustainable socio-economic development as well as the regional integration of its shareholder member states (Uganda (B1 negative), Kenya (B1 stable), Tanzania (unrated) and Rwanda (unrated)). These four countries, together with Burundi (unrated) and South Sudan (unrated), additionally comprise the member states of the East African Community (EAC), an intergovernmental organization whose charter describes the EADB as an organ of the community.

The EADB was first established in 1967 under the treaty of the East Africa Cooperation. Following the breakup of the EAC in 1977, the EADB was subsequently re-established under its own charter in 1980 as a development finance institution. Officially headquartered in Kampala, Uganda, the EADB has country offices in each of its four member states, who are also its main shareholders. Other shareholders include development finance institutions, which, at the end of 2015, accounted for 12.4% of paid-up capital, namely the African Development Bank (AfDB, Aaa stable), the Netherlands Development Finance Company (FMO), and the German Investment and Development Company (DEG, Aaa stable). In addition, several commercial banks accounted for less than 1% of EADB's total paid-up capital: SBIC-Africa Holdings in Johannesburg, Commercial Bank of Africa in Nairobi, the London-based Standard Chartered Bank (Aa3 negative)and Barclays Bank Plc (A2 negative), Nordea Bank of Sweden as well as a consortium of former Yugoslav institutions.

The EADB has established itself as a major contributor to development financing in East Africa. It enjoys a high level of commitment from its member states which view it as an important vehicle for delivering key development objectives across the East African region. The EADB supports both public and private-sector projects that are professionally run, technically feasible and financially viable in all the productive sectors of its member states' economies. Its product range includes short to long-term loans, asset leasing, equity investment, loan guarantees and technical assistance. In common with most other MDBs, the bank is not a profit-maximizing institution. As a supranational institution, it is self-regulated and carries out its operations in accordance with its statutes on a commercial basis, with the intention of "earning a reasonable return on its capital" (as stipulated in its Charter, Article 13 –c).

The Governing Council, which is the supreme governing body of the bank, includes one representative of each member country. It selects a Chairman from among its members, appoints a Director-General, as well as the Board of Directors. The latter oversees the bank's operations and decides the bank's dividend distribution policy on an annual basis. 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. In 2011, the Governing Council reappointed Mrs. Vivienne Yeda as Director-General of the bank. She has played a key part in restructuring the bank since her initial appointment as the bank's Director-General in 2009. In addition to the Governing Council and Board of Directors, the bank receives strategic guidance from the Advisory Panel, which comprises eminent persons in international finance, on topics as wide-ranging as the bank's resource mobilization, its international positioning amongst its strategic partners, and the optimization of its mandate using its existing product range.

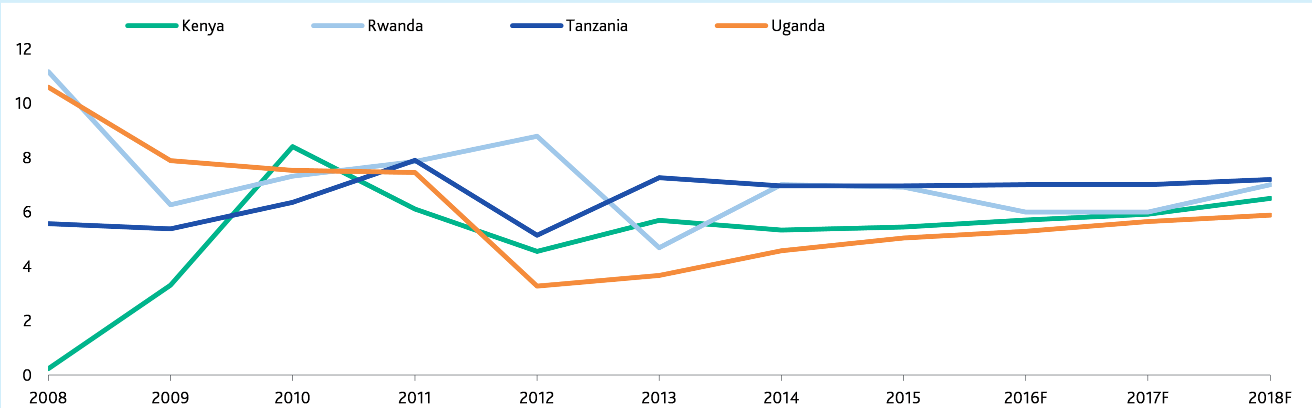
The Charter explicitly grants privileges to the EADB throughout its member states. In particular, articles 24 & 42-49 of the bank's Charter confer the following privileges: (1) the bank's personnel have the right to enter, sojourn and exit as necessary from any member state; (2) the property and assets of the bank are immune from search, requisition, confiscation, expropriation and any other interference whether by legislative, executive, judicial or administrative action; (3) the bank's property, assets, income, operations and transactions are exempt from all taxation, including all customs duties and restrictions on imports and exports; the same is valid for any obligations or securities issued by the bank; and (4) the bank is free to transfer its assets from one country to another and to convert any currency held by it into another currency without being restricted by controls, regulations, restrictions or moratoria of any kind. Following its amendment in 2012, the Charter de jure grants the bank a Preferred Creditor Status (PCS), explicitly providing that the bank should be treated in the same way as the IMF, the World Bank or AfDB.

Box 1. Macroeconomic Outlook

The EADB's loan portfolio is exclusively concentrated across a range of sectors in Kenya, Uganda, Tanzania and Rwanda, to both private sector and public sector entities. This exposes the portfolio to macroeconomic headwinds and fiscal challenges experienced in these countries (see exhibit 10 for geographic allocation and exhibit 11 for portfolio sector allocation).

Exhibit 1

Real GDP Growth, %

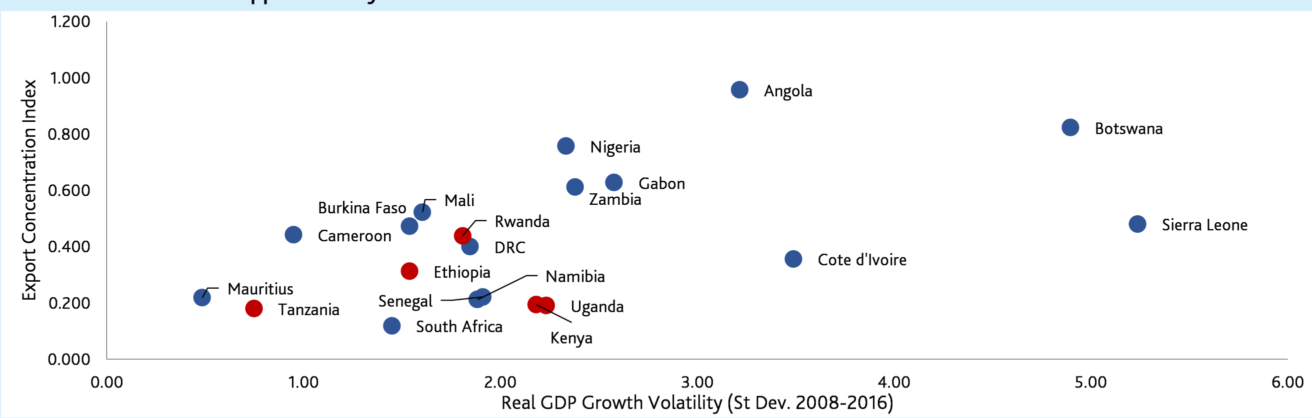


Source: Moody's Investors Services

The macroeconomic outlook for East Africa as a whole remains relatively positive. Although we anticipate a modest deceleration in growth in Uganda in 2016, overall we expect growth will remain close to recent averages over the coming years. Unlike many of the hydrocarbons and commodity exporters across the region, which have been adversely affected by slowing Chinese growth and 2015's oil price collapse, the economies of East Africa export mainly soft commodities. Their export bases are also significantly less concentrated, reflecting the relative diversification of their economies, which in turn has reduced growth volatility compared to regional commodity exporters.

Exhibit 2

Diversified Economies Support Steady Growth Outlook



Source: Moody's Investors Services

From a fiscal perspective, the recent announcement of national budgets for FY2016/17 from Kenya, Tanzania, Rwanda and Uganda also suggests that conditions will remain supportive of asset quality. All three governments maintained a strong, expansionary fiscal stance, postponing fiscal consolidation in favour of increased infrastructure spending in energy, railways and roads.

The bout of exchange rate weakness experienced in the first half of 2015 poses some modest downside risks to asset quality, as the majority of EADB's loan book is denominated in US dollars. Accordingly, debt servicing costs will have risen for many borrowers in the portfolio. Nonetheless, the size of the depreciation was quite modest (~10-25%), and loan-loss provisions currently exceed non-performing loans by around 3.5x, so barring a further bout of depreciation, near-term downside risks to the EADB's credit profile are small.

RATING RATIONALE

Our determination of a sovereign's government bond rating is based on the consideration of four rating factors: Economic Strength, Institutional Strength, Fiscal Strength and Susceptibility to Event Risk. When a direct and imminent threat becomes a constraint, that can only lower the preliminary rating range. For more information please see our Sovereign Bond Rating Methodology.

Capital Adequacy: Low

Factor 1

Scale	Very High	High	Medium	Low	Very Low	
+				■		-

Capital adequacy assesses the solvency of an institution. The capital adequacy assessment considers the availability of capital to cover assets in light of their inherent credit risks, the degree to which the institution is leveraged and the risk that these assets could result in capital losses.

Balance sheet expansion continues apace as EADB enter first phase of the 2016-2020 plan

The EADB is embarking on the early stages of its 2016-2020 strategic plan. The first two year phase will see the bank gearing up for higher growth. The expansion of the capital base and the opening of several major new lines of credit in 2015 have begun to lay the groundwork for this expansion. In the second phase (2018-2020), the bank will undergo a significant re-positioning that will see its product offering diversified across SOE and public sector lending, project finance and participation in larger projects through syndications.

In keeping with the plan, the EADB continued to increase its share capital, receiving an additional $76 million in equity subscriptions in 2015, including a $12.7 million increase in paid-in capital. In Q1 2016, this increased further after Rwanda increased its shareholding by $19.4 million, including $3.1 million in paid-in capital, bringing total subscribed capital to $1.03 billion. We expect further strengthening in the capital base. The addition of Burundi (unrated) to the EADB's membership should raise an additional $65 million due as an initial capital contribution over the coming years, while Tanzania still has a $6 million dollar payment due in 2016 from the General Capital Increase approved in 2007.

Exhibit 4
Borrowing increased sharply in 2015...
US$mn

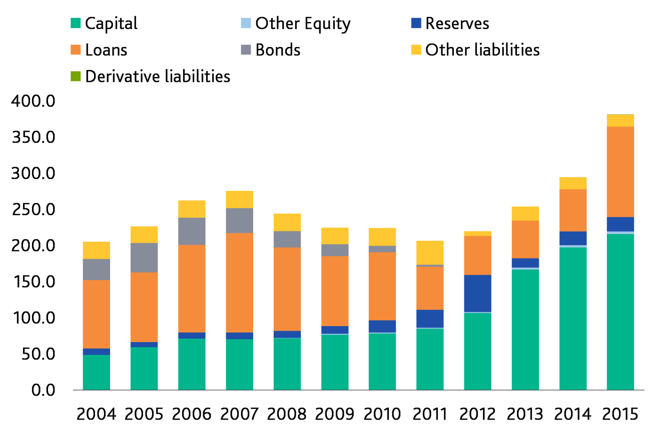
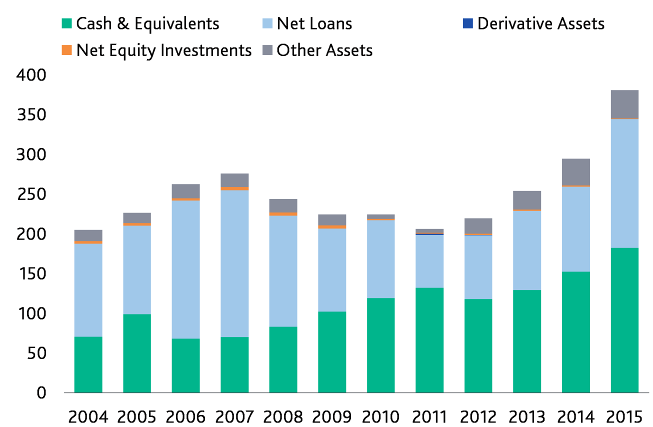


Exhibit 5
...helping to fund large increase in loan portfolio
US$mn



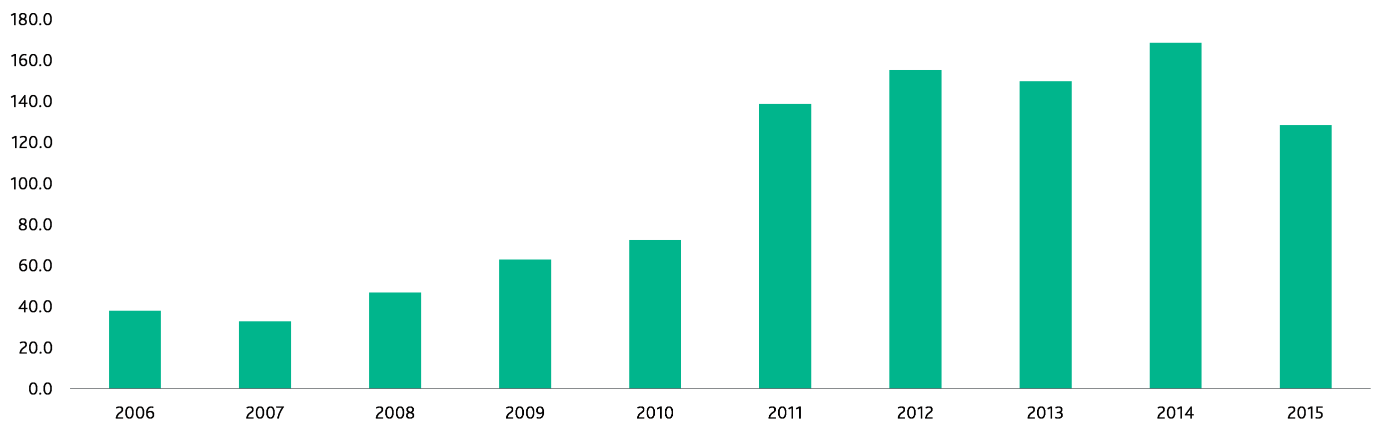
The expansion in the balance sheet was not solely driven by capital increases: borrowings also rose sharply in 2015, increasing by $66.9 million (+114%). However, we emphasize that the vast majority of this increase ($53 million) relates to new lines of credit from multilateral development banks –including $30 million from the AfDB – at concessional rates. Furthermore, around $57 million of new borrowing is long-term (greater than five years) in maturity, reducing pressures on liquidity.

Despite increased gearing in 2015, EADB's leverage position remains favourable, receiving a very high rating in the leverage subfactor of our supranational scorecard. Although debt/usable equity increased to 52% in 2015, from 27% in 2014, this remains low both on an absolute basis, and relative to other peers within our rated MDB universe. For example, AfDB's debt equity ratio stood at 253% in 2015, and the West African Development Bank (BOAD)'s (Baa1 stable) at 164%.

EADB constrained by low quality of shareholders creditworthiness

Although the EADB continued to accrue increases in callable capital across 2015, the low credit quality of its shareholders remains a rating constraint. EADB's callable capital is mainly derived from non-investment grade and non-rated member countries: the only investment grade callable capital that EADB has a claim to is from the African Development Bank (Aaa stable), which accounted for just 1.7% of total callable capital, which results in a low coverage ratio relative to the bank's debt stock (this is discussed in more detail in Factor 3).

Exhibit 6
Capital adequacy remains highly robust
Asset coverage ratio, %



ACR: Usable Equity / (Gross Loans + Equity + Expected Loss on Liquid Assets)
Source: EADB, Moody's Investors Services

Despite the capital increases, capital adequacy weakened slightly in 2015. EADB's asset coverage ratio (ACR: usable equity/gross loans + equity + expected loss on liquid assets) dropped to 128.3% in 2015, down from 168.5% in 2014. The main driver behind this erosion in capital adequacy was rapid growth in the loan book: gross loans increased by 46% in 2015. However, EADB's ACR ratio remains one of the strongest in our regional universe of MDB's, with only the Africa Finance Corporation (A3) reporting stronger capital adequacy.

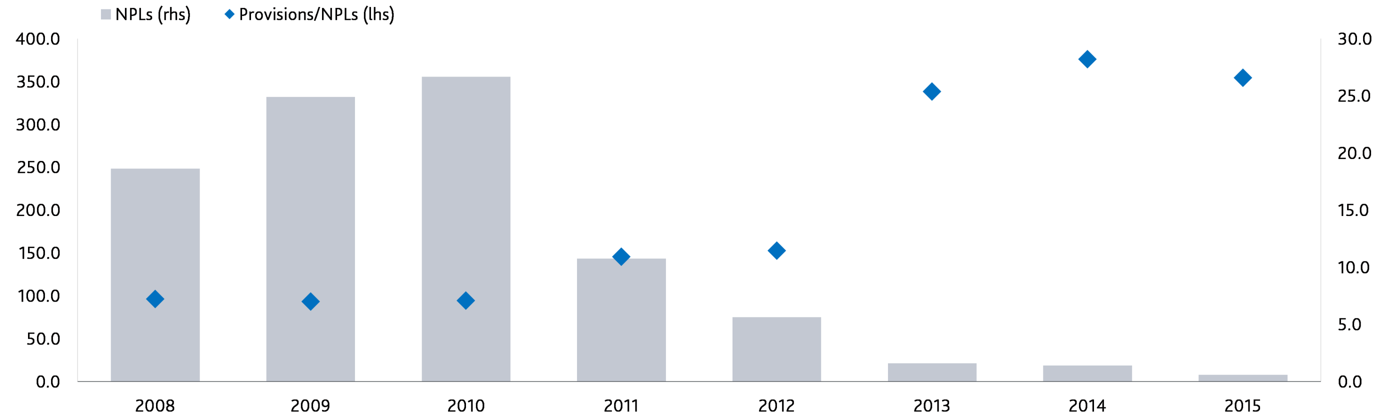
Asset quality continues to improve

The rapid expansion in the loan book does not appear to have come at the expense of risk management: non-performing loans remain exceptionally low and fell further in 2015 to just 0.6% of gross loans, from 1.4% in 2015. In light of NPL ratios as high as 26.7% as recently as 2010, this marks a significant improvement in asset quality and underscores the improved risk management practices that the bank has implemented in addition to the restructuring of the balance sheet undertaken since 2012 (see Box 2).

Exhibit 7

Non-performing loans continued to decline

Non-performing loans (% gross loans) & provisions/NPLs, %



Source: EADB, Moody's Investors Services

Provisioning for non-performing loans remains high. As of end-2015, total loan loss provisions amounted to $3.5 million. Although this is a decline from the $6.0 million maintained in 2014, provisions relative to non-performing loans remained exceptionally well-covered at 354%. Although this may appear excessive given that provisioning of 70-80% would normally be deemed adequate depending on expected recovery rates, in this instance we regard over-provisioning as prudent given the concentrated portfolio, the modest level of provisions relative to total loans (2.1%) and the increase in loans on the watch list in Q415.

The bank maintains policies to support its own capital adequacy. Most significantly, Article 11 of the Charter places a cap on total outstanding loans to three times the aggregate of its unimpaired subscribed capital. The bank is well under this limit, with a current ratio of 0.73 in 2015. However, we note that as Moody's definition of useable equity excludes callable capital, in theory our assessment of the bank's capital adequacy could weaken significantly despite the bank remaining under the cap imposed by the charter, which includes callable capital.

Box 2. Improvements in the risk-management process have supported asset quality

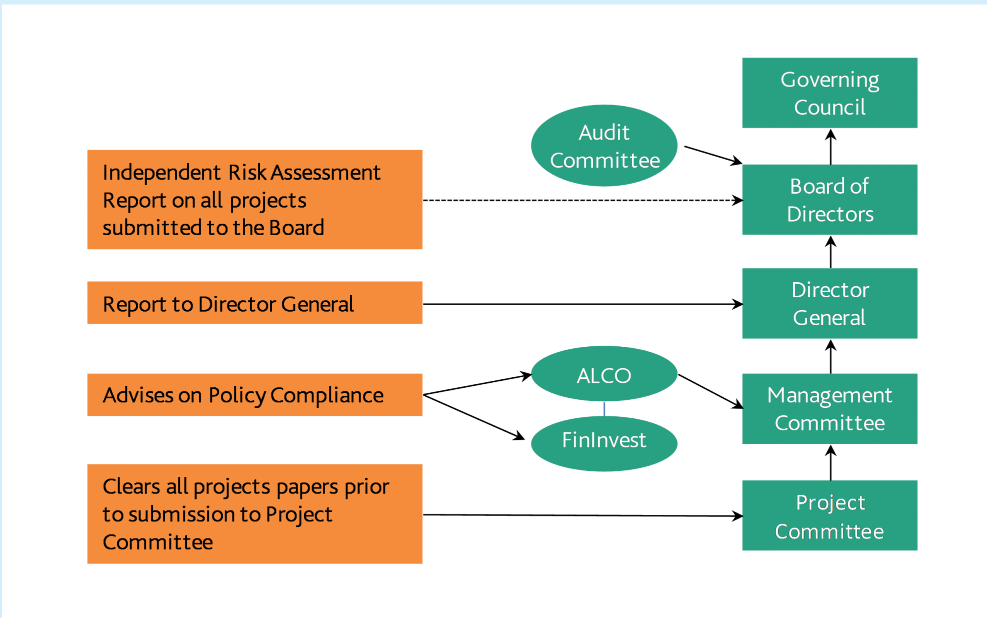
EADB's risk-management apparatus has improved considerably over the past 13 years following the extension of the bank's activities in the early 2000s, though reforms have been accelerated over the last seven years. The bank has focused on governance and risk management in order to improve asset quality. In 2003, the bank created a dedicated risk-management and control unit, accompanied by the implementation of a credit rating system to grade the risks in its portfolio. In 2005, it also strengthened its internal audit policy and formally established an audit committee in the board of directors. However, the reforms were not able to cope with the fast-paced expansion of the bank's loan portfolio, leading to a rapid build-up of NPLs.

An acceleration of credit and risk-management reforms ensued, affecting both the organizational structure and credit processes within the bank. In 2007, the risk-management function was strengthened with the appointment of a risk manager, who reports directly to the Director-General independent of the operating lines. Concurrently, the bank adopted a risk-based audit framework.

The board of directors has overall responsibility for the establishment and oversight of the bank's risk-management framework. The board has established an asset and liability committee (ALCO), a project committee as well as a risk-management units which are responsible for developing and monitoring the bank's risk-management policies in their specified areas. PROCO reviews projects before presentation to the Director General and Board of Directors. The bank's audit and governance committee is responsible for monitoring compliance with risk-management policies and procedures, and for reviewing the adequacy of the risk-management framework. Different groups ensure the proper evaluation and monitoring of the risks the EADB potentially faces. The day-to-day operational responsibilities for implementing risk-management policies and guidelines are delegated to the relevant business units, with the Risk Management and Control Unit (RMCU) having an oversight role for all risk-management functions.

Exhibit 8

Risk Management Structure in EADB



Source: EADB

To strengthen the appraisal process, a mandatory risk-grading has been in place since 2010. Moreover, all projects now require pre-clearance by the risk-management unit prior to consideration by the project committee. Portfolio managers are responsible for monitoring the credit quality of loans and ensuring that appropriate corrective actions are taken. They prepare regular reports for management and the board's consideration on the performance of the loan portfolio. The credit administration also provides advice, guidance and specialist skills to the operations department in order to promote best practice in the management of credit risk. In addition, the internal audit unit undertakes regular audits of the operations department and the bank's credit processes, thereby fostering a strong credit risk culture.

The bank's risk-management policies aim to identify and analyze the risks faced by the bank, set appropriate risk limits and controls, and monitor risks and adherence to limits. Risk-management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. With regard to lending authority, any transaction is approved either by a credit committee if it is below $1 million or by the Board of Directors if it exceeds $1 million. The bank works with other MDBs, particularly the AfDB, to co-finance projects and to share risks. The management committee is responsible for oversight of the bank's credit risk, including the formulation of credit policies, coverage of collateral requirements and credit assessments, and the grading and reporting of risks.

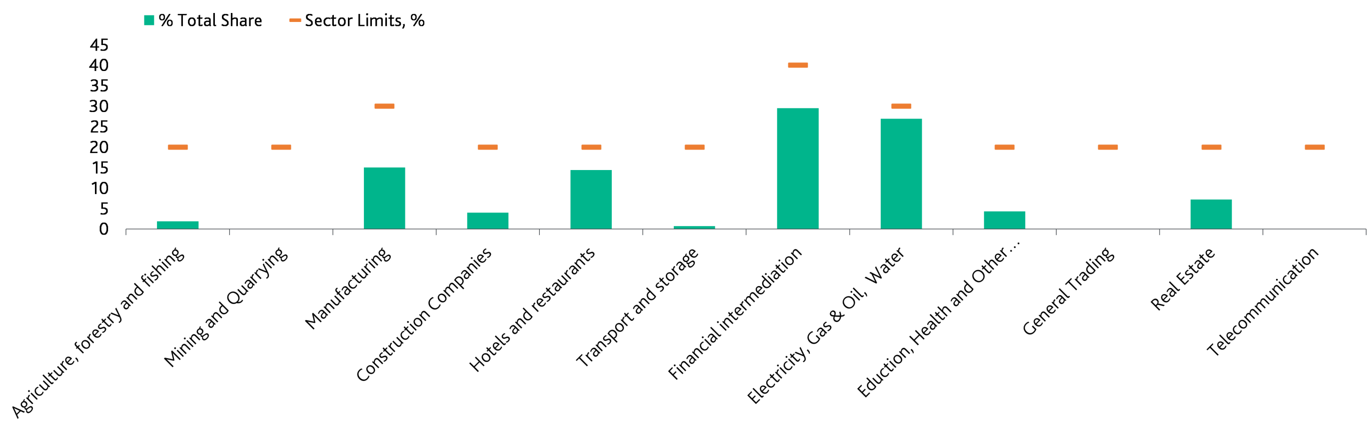
Portfolio concentration remains a risk

To manage concentration risk, the bank also maintains internal limits on sector and country exposure, although these were reviewed and adjusted in 2015. Previously, sector exposure was capped at 20% of total exposure, and single project limited to 50% of the project's total cost and 15% of EADB's total assets. However, following the revision of the sector limits last year, these can now be as high as 40% for financial intermediation, and 30% for sectors such as manufacturing, electricity, gas and oil and water. All other sectors remain capped at 20% of total exposure. The revisions mean that potential concentration risk is now higher than in previous years.

Exhibit 9

Concentration risk has increased following limits review in 2015

Loans by sector & sector limits (% total exposure)



Source: EADB, Moody's Investors Services

Although none of the sectors are in breach of their limits, the portfolio remains quite concentrated, which is a vulnerability from a credit perspective. Exposure to financial intermediation (29.5%) is quite high, as is exposure to electricity companies (26.9%) and manufacturing (15.0%). However, we note that in keeping with the bank's mandate, it lends larger amounts to a smaller number of entities compared to a commercial bank, and therefore some degree of sector concentration is hard to avoid.

Exhibit 10
Mandate results in inevitable geographic concentration...
% of total exposure, 2015.

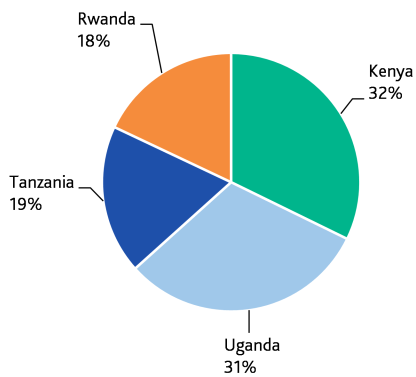
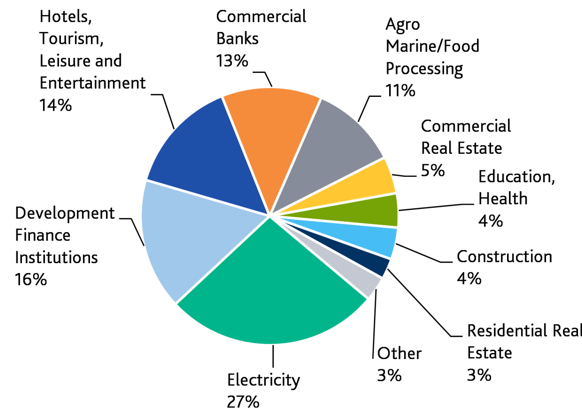


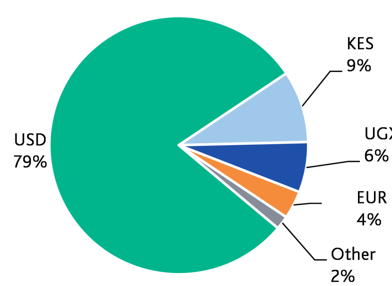
Exhibit 11
...while exposure to certain sectors remains high



Source: EADB, Moody's Investors Services

Geographic concentration is also high but relatively unavoidable given the bank's mandate to build the portfolio within its four member states. In 2015, Kenya overtook Uganda as the largest recipient of EADB's loans, accounting for 32.2% of the total portfolio, while Uganda accounted for 31.1%. This was followed by Tanzania at 18.7% and Rwanda at 18.0%. The addition of Burundi to the bank's membership could eventually lead to additional geographic diversification, although we do not expect this to have a significant near-term impact.

Exhibit 12
Portfolio Is Predominantly USD Denominated
Portfolio, by currency



Source: EADB

The majority (79%) of the EADB's loan portfolio is denominated in USD, meaning that borrowers shoulder the exchange rate risk in most cases. Nonetheless, the high level of USD lending means that asset quality will remain linked to exchange rate stability. The East African economies in which EADB operates all utilise floating exchange rate regimes, which have been susceptible to bouts of weaker risk appetite, as evidence in the 10-25% depreciations experienced in the first half of 2015. However, there are no signs of direct credit stress developing in the portfolio yet as a result of last year's exchange rate weakness.

Profitability dipped but remains positive

Despite weakening slightly in 2015, the EADB remains profitable which further helps to support capital adequacy. Although profitability is not the main objective of most MDBs, persistent profitability may help to increase capital levels and allow for the expansion of operations independently of additional equity injections from shareholders. Conversely, repeated losses weaken the capital base, and may erode support from key shareholders. The EADB posted a return on average assets (ROA) of 2.0% in 2015, down from 3.6% in 2014, while return on average equity (ROE) was 2.9% in 2015, compared to 4.9% in 2014.

Exhibit 13

Despite slight decline in 2015...

ROE & ROA, %

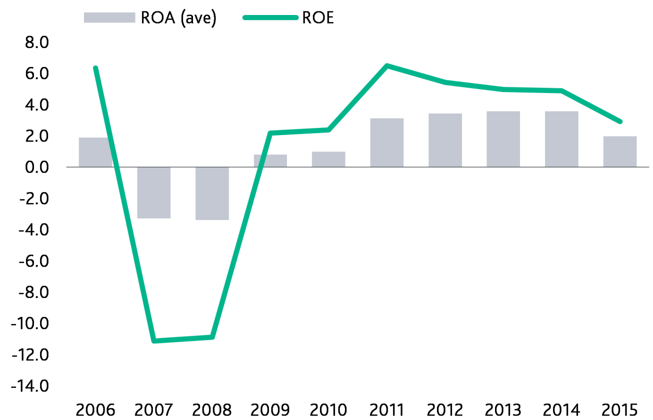
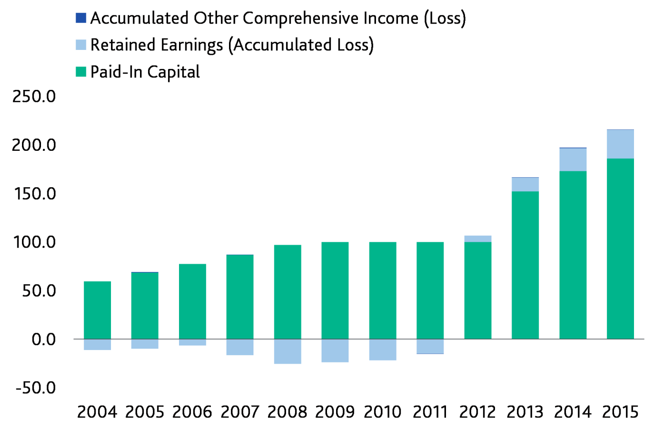


Exhibit 14

...persistent profitability has allowed EADB to bolster capital base

Capital, US$mn



Source: EADB

Although ROE/ROA dipped in 2015, we believe this is mainly due to denominator effects from capital-raising and additional borrowing undertaken during this year. The large expansion in the loan book should translate into higher net interest income from 2016 onwards, and accordingly we do not regard the decline in profitability to mark a sustained trend. In nominal terms, net revenue fell very slightly to $15.1 million in 2015, from $17.9 million in 2014, mainly as a result of higher interest expense related to the large amount of new borrowing undertaken. Nonetheless, net interest income increased to $13.8 million in 2015, from $12.4 million in 2014.

Persistent profitability has allowed the EADB to increase bolster its capital base. The EADB's board of directors has continued to allocate profits to the bank's capital base, and no dividend has ever been distributed to Class A shareholders, with profits always transferred to equity. As a result, retained earnings have contributed increasingly to the capital base since 2011 (see exhibit 6), providing a source of capital independent from shareholder equity injections.

Liquidity: High

Factor 2

Scale	Very High	High	Medium	Low	Very Low
+		■			-

A financial institution's liquidity is important in determining its shock absorption capacity. We evaluate the extent to which liquid assets cover debt service requirements and the stability of the institution's access to funding.

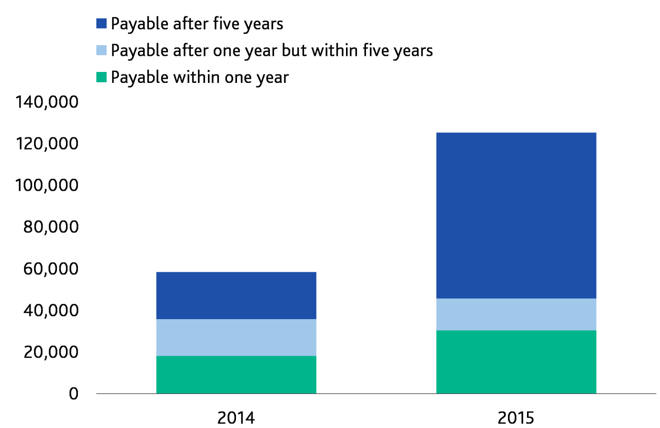
The EADB has a strong liquidity position, reinforced by low levels of borrowing relative to liquid assets, moderate funding costs, and a relatively long-dated debt maturity structure. The bank has access to a diverse range of funding sources, although the majority of its funding is drawn from multilateral institutions which offer concessional or highly competitive lending rates. Although the bank has very few existing borrowings from commercial institutions, the bank has previously been active in local bond markets and as an investment grade entity we expect that EADB would be easily able to access capital markets for financing. However, the concessional rates offered by multilateral lenders help to support EADB's liquidity position, with the weighed cost of loan debt standing at just 5.4%, which is exceptionally low taking into account some borrowings are denominated in regional currencies including the Ugandan and Kenyan shilling.

Funding sources are stable and well diversified

In recent years, although its credit profile has improved, the EADB has shifted away from funding via bonds and commercial banks. The bank's main sources of financing are instead concentrated in lines of credit from MDBs and other financial institutions, providing a stable and cheap source of financing. EADB also maintains large unused lines of credit from international development institutions, which supports its liquidity profile. The main lending institutions for long-term financing including the AfDB, Development Bank of Southern Africa (Baa2 negative), the European Investment Bank (Aaa stable), OPEC Fund for International Development (OFID), KfW Development Bank and Nordic Investment Fund.

Exhibit 15

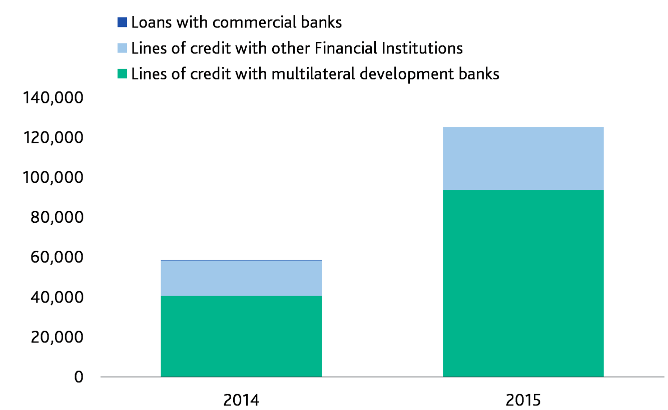
Debt profile is heavily weighted towards longer-term borrowing...
Maturity profile of borrowings, $ thds



Source: EADB

Exhibit 16

...predominantly from other MDBs at favourable rates
Sources of borrowings, $ thds



Source: EADB

Funding also remains heavily weighted towards long-term lines of credit, with 64% of total borrowings due over five years, which helps to mitigate near-term pressures on liquidity arising from refinancing short-term debt and also allows the bank to extend longer maturity loans without adding to the liquidity gap. Indeed, the trend towards long-term borrowing is an explicit part of the bank's medium-term strategic focus as the bank gears up towards offering more medium-term lending towards projects with more regional impact.

EADB has reinforced its liquidity position in recent years

The EADB continued to improve its liquidity position. The ratio of short-term debt and currently maturing long-term debt to discounted liquid assets improved to 18.7% in 2015, from 20.2% in 2014, driven mainly by an increase in liquid assets. This represents one of the strongest ratios among our MDB universe. Additionally, as most of the additional borrowing undertaken in 2015 was on medium-term and long-term maturities, the ratio of short-term debt to liquid assets also improved, rising to 600% - an exceptionally strong level.

Exhibit 17

Long-term borrowing in 2015 lowered liquid assets to total debt...

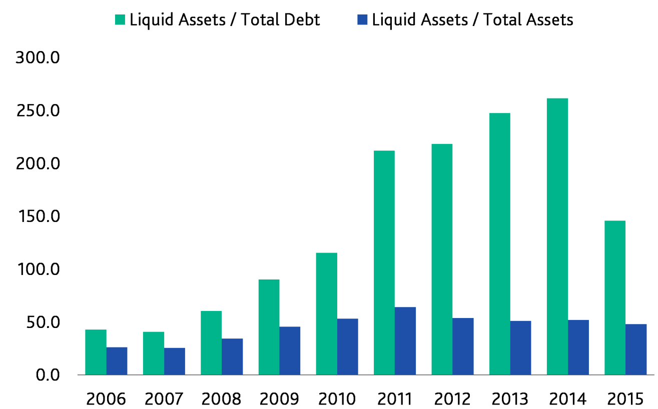
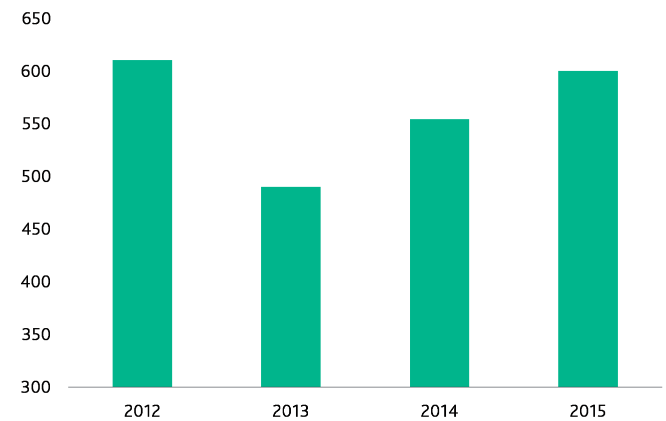


Exhibit 18

...but short-term liquidity metrics improved

Liquid Assets/ Short-Term Debt



In common with most Moody's-rated MDBs, EADB has a liquidity policy that sets a minimum liquidity coverage ratio: currently a minimum of 1.33 times the designated liabilities for the next 12 months. Designated liabilities consist of liabilities and budgeted commitments that are due in the next 12 months. The bank's operational and strategic liquidity pool comprises cash and cash equivalents. The operating level of liquidity was well above its minimum requirement in 2015 (1.7x). It includes coverage for both the risk of being unable to fund assets at appropriate maturities and rates, and the risk of being unable to liquidate an asset at a reasonable price and within an appropriate timeframe. The bank maintains a high level of liquidity to ensure the continuous ability to fund its operations, even if unforeseen circumstances were to render market conditions for borrowing temporarily unfavorable.

In addition, the treasury portfolio is managed in line with the bank's Treasury Policies and Procedures so as to keep a large part invested in international banks and strong local banks in the region that meet EADB's approved credit criteria. In this respect, the increase in EADB's liquid assets in the last few years has been accompanied by a rising reliance on local banks for its deposits, with all deposits being held in local banks in 2015 compared to 58% in 2009. Nevertheless, these local banks have a relatively strong credit quality, since they are generally subsidiaries of large international or regional banks with high ratings. Moreover, a set of liquidity policies guarantees the availability of the investment portfolio. For instance, the bank cannot place funds on deposits or similar obligations with maturities above three years. As of end-2015, 99% of deposits due from banks were due within six months. On top of that, the bank cannot place more than 20% of its total liquid assets in current deposits or deposit accounts in a single financial institution.

The bank also closely monitors its net liquidity gap. It manages its liquidity by: (1) grouping maturing assets and liabilities into six time periods (i.e., matured, up to six months, six months to one year, one to three years, three to five years, five to seven years, and over seven years); and (2) matching the cash inflows and outflows, with the cumulative gap between the cash flows as a percentage of total liabilities being the most relevant ratio. At the end of 2015, the cumulative gap remained positive within each of the time periods except for maturities between 6 months and one year, and those exceeding seven years, pointing to the fact that cash flows exceeded liabilities for almost all maturities.

Strength of Member Support: Low

Factor 3

Scale Very High | High | Medium | Low | Very Low

\+ [Very High] [High] [Medium] [**Low**] [Very Low] -

Contractual support primarily manifests itself in the callable capital pledge, which is a form of emergency support. Extraordinary support is a function of shareholders' ability and willingness to support the institution in ways other than callable capital. Strength of member support can increase the preliminary rating range determined by combining factors 1 and 2 by as many as three scores.

Assessment of shareholder support is restrained by their poor credit quality

The weighted median shareholder rating for the EADB remains at B1, which is among the lowest of all the MDB's in Moody's rated universe, along with B1 for Shelter Afrique (Ba1 stable), B2 for PTA Bank (Ba1 stable), B2 for Afreximbank (Baa2 stable) and B2 for Africa Finance Corporation (AFC, A3 stable). In addition, in the case of EADB, some of the bank's shareholders are unrated and would likely be rated in the single-B range if they were. Commensurate with such a rating, our assessment of the ability of these governments to quickly transfer callable capital to the bank in the hypothetical event of an emergency is very low.

As the EADB's loan portfolio is located entirely within the same geographic region as its member states, the probability of the bank needing to call capital – for example, if a large number of its loans became impaired – would be highly likely to coincide with a period of macroeconomic weakness that would simultaneously reduce the ability of the member states to transfer capital in a timely manner. Accordingly, the high correlation between assets and member states limits credit uplift from member support.

Exhibit 19

AfDB remains EADB's highest rated shareholder

Paid-in capital, % total (end-2015)

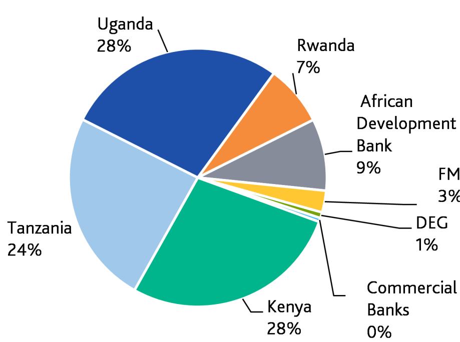
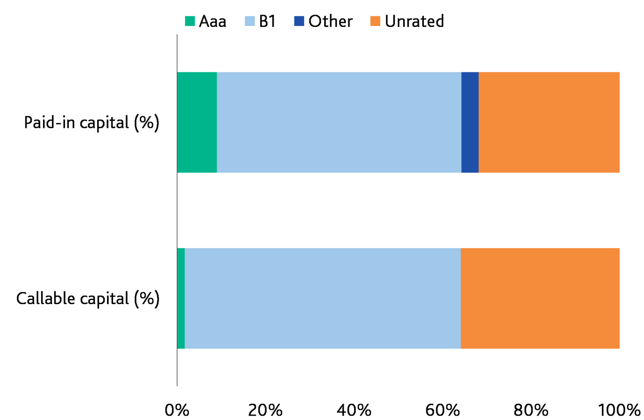


Exhibit 20

Lack of investment grade callable capital limits uplift from member support

Subscribed capital by rating, % (end-2015)



Source: EADB, Moody's Investors Services

The AfDB is the EADB's largest investment-grade shareholder, with 9.0% of paid-in capital and 1.7% of callable capital as of December 2015. In 2013, AfDB increased its participation in the bank by committing $24 million in equity investment, of which $10 million has been paid in with the balance in the form of callable capital. Of all of EADB's shareholders, AfDB has the highest ability to honor a call on the callable capital. Moreover, AfDB has provided EADB with recurrent and sustained support since inception, including lines of credit (including a new $30 million 10 year facility opened in 2015), as well as technical assistance, including risk management, operational enhancement and capacity building. It also acts a co-financier on a number of EADB projects within member states.

In 2008, Rwanda became the latest member to join the bank's shareholder member states, a year after it became a member of the EAC. Its shares amounted to 7.7% of subscribed capital and Rwanda contributed to 8.8% of the EADB's total pool of callable capital. It should also be noted that Burundi, the most recent joiner to the EAC, also intends to become a shareholder of the bank. South Sudan was also accepted into the EAC in April 2016, and will likely become a new EADB shareholder once accepted. However, the outbreak of another spate of civil unrest within South Sudan in July 2016 suggests that this outcome may be delayed indefinitely. The EAC's widened membership would potentially increase the level of Class A shareholders within EADB, which is usually reserved for sovereigns. In addition, potential contributions to callable capital are now available from Class B shareholders – which are mainly comprised of development banks and commercial banks – following the bank's charter amendment in 2012. The bank is also in discussion with other international and regional development financial institutions which have complementary roles and mandates.

Willingness to support

EADB remains the predominant development financier in the EAC - the community's forming treaty describes EADB as an institution of the EAC with the task of helping to fund the socio-economic development of the region, as well as its economic integration. The EADB even survived the break-up of the EAC in 1977 and tensions within members states. In addition, its economic importance is linked to its shareholders' willingness to provide support. Over the past 10 years, loan approvals amounted to $582 million. To also gauge its importance to shareholders, projects financed by EADB employed an estimated 15,700 persons in 2012, and contributed $20 million in taxes to its member states.

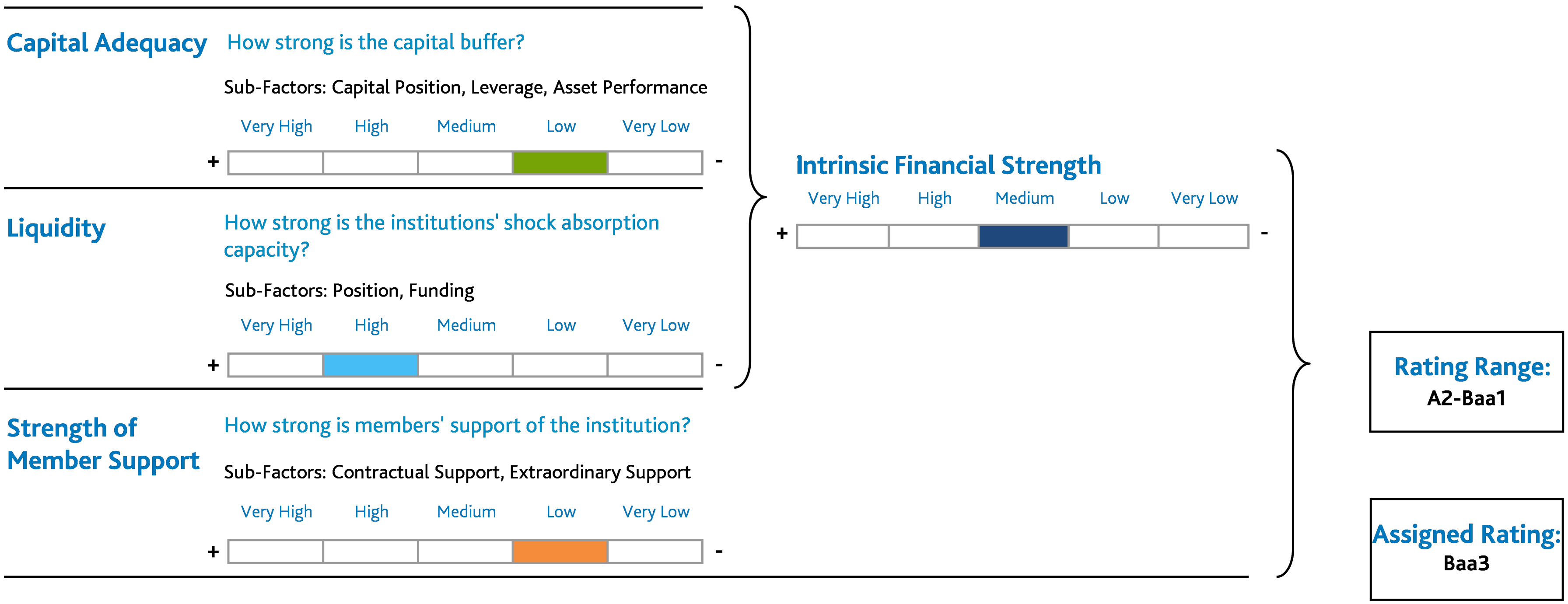
Over the years, the bank has developed a unique expertise of the region, enhancing its relevance and importance to it. In addition to its main mandate, EADB was designated as the host of the East African Community Development Fund (EACDF) and has also been chosen to host the EAC resource centre for Public Private Partnerships. The EACDF is a sister institution in charge of financing multinational infrastructure projects in the region through grants and concessional loans. EADB is to help the institution by providing expertise and technical skills.

Shareholders' willingness to support EADB is therefore very strong, as illustrated by a track record of consecutive capital increases. Since its inception, EADB has benefited from six general capital increases. In 1986, the bank's authorized capital was doubled to SDR80 million. More recently, subscribed capital increased from $270 million to $1,080 million in 2003-04. In 2007, member states committed to a $90 million capital increase, with instalments to start from 2009. As Rwanda joined the bank's capital a year later, it agreed to contribute equally to this increase, with instalments to be spread over 10 years. As of December 2015, $64 million has been paid in. The full amount is to be paid in by 2016 for historical shareholders, and by 2019 in the case of Rwanda. However, disbursement delays are unlikely to undermine the central role the bank plays in promoting East African regional integration, unless the ability of some its shareholders (bar the AfDB) to provide timely support were to start affecting their disbursements to the bank in a potential period of stress.

Rating Range

Combining the scores for individual factors provides an indicative rating range. While the information used to determine the grid mapping is mainly historical, our ratings incorporate expectations around future metrics and risk developments that may differ from the ones implied by the rating range. Thus, the rating process is deliberative and not mechanical, meaning that it depends on peer comparisons and should leave room for exceptional risk factors to be taken into account that may result in an assigned rating outside the indicative rating range. For more information please see our Supranational Rating Methodology.

Exhibit 21
Sovereign Rating Metrics: East African Development Bank



Source: Moody's Investors Services

Comparatives

This section compares credit relevant information regarding the East African Development Bank with other sovereigns rated by Moody's Investors Service. It focuses on a comparison with sovereigns within the same rating range and shows the relevant credit metrics and factor scores.

Exhibit 22
EADB's Key Peers

	Year	EADB	Shelter Afrique	PTA	AFREXIM	BOAD	AFC	Baa Median
Rating/Outlook		Baa3/STA	Ba1/STA	Ba1/STA	Baa2/STA	Baa1/STA	A3/STA	--
Total Assets (US$ million)	2014	294	289	3,544	5,453	3,059	2,439	3,059
Factor 1		Low	Very Low	Low	Medium	Low	Medium	--
Usable Equity/Gross Loans Outstanding +Equity Operations (%)[1]	2014	192.2	46.3	24.0	20.9	50.6	99.5	67.3
Debt/Usable Equity (%)[1]	2014	26.6	167.9	445.2	419.5	149.3	78.5	137.3
Gross NPLs/Gross Loans Outstanding (%)[2]	2014	1.4	11.9	3.0	3.8	3.0	0.0	3.3
Factor 2		High	High	Low	Medium	High	High	--
ST Debt + CMLTD/Liquid Assets (%)[3]	2014	11.8	17.3	303.5	209.2	45.4	48.1	31.6
Bond-Implied Ratings (Long-Term Average)	2014	--	--	B2	Ba2	--	--	Ba1
Intrinsic Financial Strength (F1+F2)		Medium	Low	Low	Medium	Medium	High	--
Factor 3		Low	Low	Low	Low	Medium	Very Low	--
Total Debt/Discounted Callable Capital (%)[4]	2014	416.5	--	1962.1	8130.0	244.1	--	244.1
Weighted Median Shareholder Rating (Year-End)	2014	B1	B1	B2	B2	Baa1	B2	Ba1
Rating Range (F1+F2+F3)		A2-Baa1	Baa2-Ba1	Baa2-Ba1	A2-Baa1	A1-A3	Aa2-A1	--

[1] Usable equity is total shareholder's equity and excludes callable capital
[2] Non performing loans
[3] Short-term debt and currently-maturing long-term debt
[4] Callable capital pledge by members rated Baa3 or higher, discounted by Moody's 30-year expected loss rates associated with ratings.

Notes: 2014 data used as 2015 data was not available for all peers.
Source: Moody's

Rating History

Exhibit 23

East African Development Bank

	Issuer Rating		Senior Unsecured	Outlook	
	Long-term	Short-term			Date
Rating Raised	Baa3	--	--	Stable	Jun-15
Rating Assigned	Ba1	--	--	Stable	Jun-13

Source: Moody's Investors Service

Annual Statistics

	2009	2010	2011	2012	2013	2014	2015
Balance Sheet, USD Thousands							
Assets							
Cash & Equivalents	102,117	119,167	132,216	117,928	129,000	152,401	182,413
Securities	0	0	0	0	0	0	0
Derivative Assets	0	0	1,535	398	72	108	0
Net Loans	104,344	97,710	66,169	80,267	99,910	106,750	161,985
Net Equity Investments	4,261	1,933	1,546	1,674	1,620	1,357	483
Other Assets	13,724	5,402	4,791	19,212	23,298	33,809	35,831
Total Assets	**224,446**	**224,212**	**206,257**	**219,479**	**253,900**	**294,425**	**380,712**
Liabilities							
Borrowings	113,379	103,252	62,367	54,031	52,120	58,282	125,141
Derivative Liabilities	0	0	0	0	0	0	32
Other Liabilities	22,711	24,906	32,929	6,558	19,773	16,752	16,553
Total Liabilities	**136,090**	**128,158**	**95,296**	**60,589**	**71,893**	**75,034**	**141,726**
Equity							
Subscribed Capital	528,971	528,997	529,133	529,133	806,734	932,365	1,008,504
Less: Callable Capital	429,098	429,098	429,233	429,233	654,575	759,268	822,717
Less: Other Adjustments	0	0	0	0	0	0	0
Equals: Paid-In Capital	99,873	99,900	99,900	99,900	152,159	173,097	185,787
Retained Earnings (Accumulated Loss)	-23,665	-21,649	-14,965	6,625	14,136	23,460	29,504
Accumulated Other Comprehensive Income (Loss)	-	-	-71	-180	475	566	496
Total Equity	**88,356**	**96,054**	**110,961**	**158,890**	**182,007**	**219,391**	**238,986**

	2009	2010	2011	2012	2013	2014	2015
Income Statement, USD Thousands							
Net Interest Income	**11,183**	**7,809**	**8,813**	**10,109**	**9,268**	**12,389**	**13,755**
Interest Income	17,247	12,457	12,523	14,517	11,549	15,142	17,572
Interest Expense	6,064	4,648	3,710	4,408	2,281	2,753	3,817
Net Non-Interest Income	**2,971**	**388**	**806**	**5,065**	**7,362**	**5,504**	**1,365**
Net Commissions/Fees Income	124	413	429	780	472	772	544
Income from Equity Investments	0	0	0	0	0	0	0
Other Income	2,847	-25	377	4,285	6,890	4,732	821
Other Operating Expenses	**7,992**	**7,694**	**7,071**	**8,557**	**7,330**	**7,741**	**7,405**
Administrative, General, Staff	7,596	6,706	6,581	8,016	6,780	7,128	6,734
Grants & Programs	0	0	0	0	0	0	0
Other Expenses	396	988	490	541	550	613	671
Pre-Provision Income	**6,162**	**503**	**2,548**	**6,617**	**9,300**	**10,152**	**7,715**
Loan Loss Provisions (Release)	4,311	-1,702	-4,160	-698	823	332	1,038
Net Income (Loss)	**1,851**	**2,205**	**6,708**	**7,315**	**8,477**	**9,820**	**6,677**
Other Accounting Adjustments and Comprehensive Income	0	0	0	0	0	8,052	0
Comprehensive Income (Loss)	**1,851**	**2,205**	**6,708**	**7,315**	**8,477**	**17,872**	**6,677**

	2009	2010	2011	2012	2013	2014	2015
Financial Ratios							
Capital Adequacy, %							
Usable Equity / (Loans + Equity)	62.9	72.4	138.6	177.5	169.6	192.2	144.0
Debt/Usable Equity	128.3	107.5	56.2	34.0	28.6	26.6	52.4
Allowance For Loan Losses / Gross NPLs	93.7	94.6	145.8	153.1	338.5	376.3	354.5
NPL Ratio: Non-Performing Loans / Net Loans	24.9	26.7	10.8	5.6	1.6	1.4	0.6
Return On Average Assets	0.8	1.0	3.1	3.4	3.6	3.6	2.0
Interest Coverage Ratio (X)	1.3	1.5	2.8	2.7	4.7	4.6	2.7
Liquidity, %							
St Debt + CMLTD / Liquid Assets	22.4	16.4	2.5	16.4	20.4	18.0	16.7
Bond-Implied Rating	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Liquid Assets / Total Debt	90.1	115.4	212.0	218.3	247.5	261.5	145.8
Liquid Assets / Total Assets	45.5	53.1	64.1	53.7	50.8	51.8	47.9
Strength of Member Support, %							
Callable Capital (CC) of Baa3-Aaa Members/Total CC	-	-	-	-	-	-	-
Total Debt/Discounted Callable Capital	-	-	-	-	372.4	416.5	894.2
Weighted Median Shareholder Rating (Year-End)							

Moody's Related Research

- **Credit Opinion**: East African Development Bank - Baa3 Stable: Annual Update, 20 June 2016
- **Rating Action**: Moody's upgrades East African Development Bank to Baa3 with a stable outlook, 19 June 2015
- **Rating Methodology**: Multilateral Development Banks and Other Supranational Entities, 16 December 2015

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

Related Websites and Information Sources

- The EADB's website
- Moody's Research Portal

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