CREDIT OPINION
7 October 2024

Update

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RATINGS

East African Development Bank

	Rating	Outlook
Long-term Issuer	Baa3	STA
Short-term Issuer	--	--

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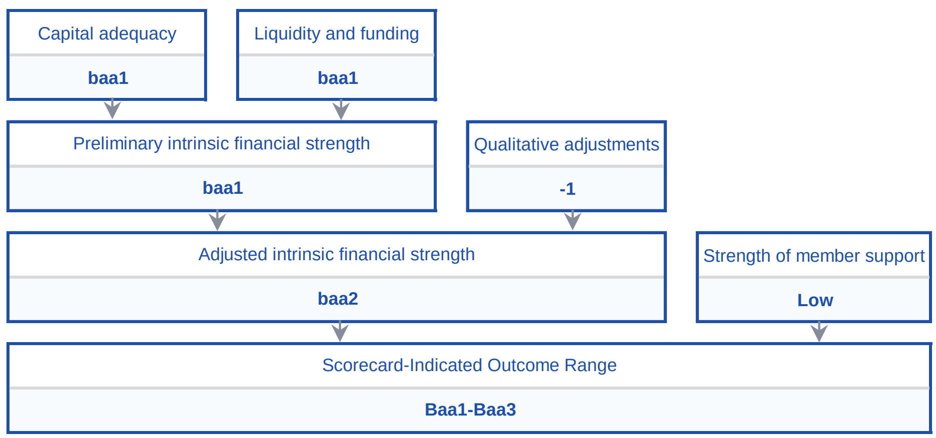
East African Development Bank – Baa3 stable

Regular update

Summary

The credit profile of the East African Development Bank (EADB, Baa3 stable) reflects a strong capital position and an improved level of non-performing assets (NPAs), offset by low development asset credit quality owing to a challenging operating environment and the elevated concentration of the Bank's portfolio in its four member states. Liquidity and funding benefits from relatively robust liquidity levels but is marked by a less diverse funding structure than many rating peers.

Exhibit 1
EADB's credit profile is determined by three factors



Source: Moody's Ratings

Credit strengths

» A strong capital position acts as a mitigant for low development asset credit quality;

» Robust liquidity levels, with lines of credit from MDBs providing a stable and cheap source of financing.

Credit challenges

» A relatively concentrated portfolio and challenging operating environment;

» Funding remains drawn from a small investor base, while shareholders' ability to support is constrained by their low average credit quality.

Rating outlook

The stable outlook reflects a balance of upside and downside risks. We expect that a return to lending growth – anchored by a new medium-term strategy – will be managed with a contained impact on capital adequacy and liquidity levels. Notwithstanding the risks associated with a challenging operating environment and the elevated concentration of the EADB's portfolio, the potential for capital erosion is mitigated by the Bank's low leverage ratio and cautious approach to new lending. However, the Bank's capacity to expand at the pace targeted in its strategy, after a period of contraction in the lending portfolio, remains unproven at this early stage.

Factors that could lead to an upgrade

Positive pressure on the rating would develop if the Bank is able to expand its development-related assets portfolio, reducing concentration risk, while at the same time preserving a high capital buffer and a moderate level of nonperforming assets. This would also demonstrate the effectiveness of the gradual strengthening of risk-management practices adopted in recent years. A diversification of the EADB's investor base, accompanied by the maintenance of a strong liquidity position, could also exert upward pressure on the rating.

Factors that could lead to a downgrade

A renewed and sustained deterioration in asset quality would exert negative pressure on the rating. This could happen if the growth in EADB's assets leads to a marked increase in credit risk, without a commensurate strengthening in governance and risk management. The rating would also likely come under downward pressure if the size of the Bank's loan portfolio were to continue to decline in the coming years, despite its strategic ambitions to grow its lending. Such a contraction could point to difficulties in fulfilling the Bank's mandate and could over time lead to reduced shareholder support.

Key indicators

Exhibit 2

EADB	2018	2019	2020	2021	2022	2023
Total Assets, $Mln.	366.8	375.0	375.9	390.2	415.5	454.4
DRA / Usable Equity [1]	65.3	58.1	49.3	60.0	44.8	37.9
Non-Performing Assets / DRA	8.7	4.7	5.8	3.2	3.8	0.8
Return on Average Assets	1.7	2.4	1.7	2.1	1.6	3.0
Liquid Assets / ST Debt + CMLTD	667.6	1,026.6	1,293.3	1,725.3	685.7	1,945.8
Liquid Assets / Total Assets	48.1	50.8	56.7	50.6	61.9	66.6
Callable Capital / Gross Debt	921.6	979.2	1,159.8	1,032.4	985.2	863.5

[1] Usable equity is total shareholder's equity and excludes callable capital

Source: Moody's Ratings

Profile

EADB is a regional development finance institution that aims to promote sustainable socioeconomic development and the economic integration of its shareholder member states: Kenya (Caa1 negative), Rwanda (B2 stable), Tanzania (B1 stable), and Uganda (B3 stable). These countries, along with Burundi, South Sudan, and the Democratic Republic of the Congo (B3 stable), make up the East African Community (EAC), an intergovernmental organization whose charter describes the EADB as an organ of the community. The Board of Directors and the EADB Governing Council have admitted the Republic of Burundi's entry to the Bank, but payment of the initial capital subscription and membership remain pending.

The Bank supports both public and private sector projects that are professionally run, technically feasible and financially viable in all the productive sectors of member states' economies. Its products and services include projects and infrastructure finance loans, asset leasing, equity investment, loan guarantees and technical assistance. These activities inherently carry credit risk exposure, especially in a region that has been susceptible to economic turmoil and regional crises.

Officially headquartered in Kampala, Uganda, EADB has offices in each of its four member states, which are also its main, or Class A, shareholders. Its other shareholders, classified as Class B, include development finance institutions and several commercial banks. African Development Bank (Aaa stable) accounts for 8% of its capital. In 2023 two development institutions, the Netherlands Development Finance Company (FMO) and the German Investment and Development Company (DEG) divested and are no longer Class B shareholders. Commercial banks account for less than 1% of the Bank's total paid-up capital and include SBIC-Africa Holdings in Johannesburg, NCBA Bank of Kenya in Nairobi, London-based Standard Chartered Bank (A1 positive, baa2) and Barclays Bank PLC (A1 stable, baa2), Stockholm-based Nordea Bank AB (Aa3 positive) and a consortium of former Yugoslav institutions.

Detailed credit considerations

Our determination of a supranational's rating is based on three rating factors: capital adequacy, liquidity and funding and strength of member support. For Multilateral Development Banks, the first two factors combine to form the assessment of intrinsic financial strength, as shown on the cover page graphic. Additional factors can affect the intrinsic financial strength, such as risks stemming from the operating environment or the quality of management. The strength of member support is then incorporated to yield a rating range. For more information please see our Supranational Rating Methodology.

FACTOR 1: Capital adequacy score: baa1

We score EADB's capital adequacy at "baa1", which balances a strong capital position and the low level of non-performing assets (NPA) against relatively weak asset credit quality. Very low leverage supports the Bank's capital position, but also reflects the contraction of development assets in recent years. Since 2017, the resolution of past nonperforming exposures has led to an improvement in EADB's asset performance, but a challenging operating environment raises the risk of renewed pressure on the NPA ratio. The final score for capital adequacy is one notch lower than the initial score of "a3" to reflect the likely increase in leverage - albeit from very low levels - and in the NPA ratio (at its lowest since 2015), under the impulse of the new medium-term strategy.

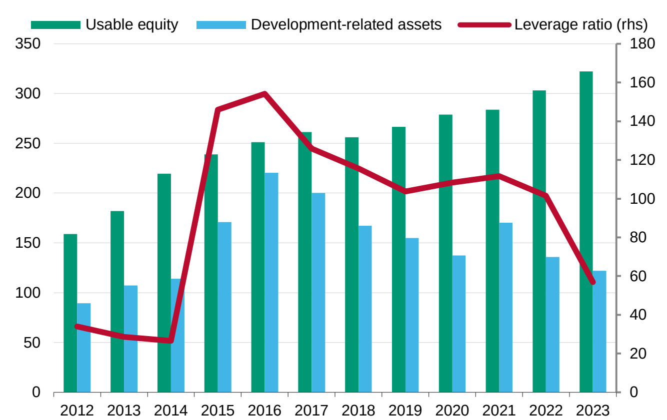
Low leverage supports EADB's capital position

EADB's leverage, which is our key measure for capital position, stood at 57% at the end of 2023, having fallen from 101% in 2022 and 126% in 2017. This results in a leverage score of "aaa". The ratio assesses the available capital buffers relative to EADB's development-related assets (DRAs), as well as treasury assets rated A3 or lower. The Bank's ratio is one of the lowest among the MDBs that we rate and remains significantly below several rating peers, including Trade and Development Bank (TDB, Baa3 negative) and the West African Development Bank (BOAD, Baa1 stable). EADB's strong capital position acts as a key mitigant for its low development asset credit quality.

Exhibit 3

Deleveraging in recent years was achieved at the expense of loan portfolio growth

Development-related assets and usable equity ($ million) and leverage ratio (%)

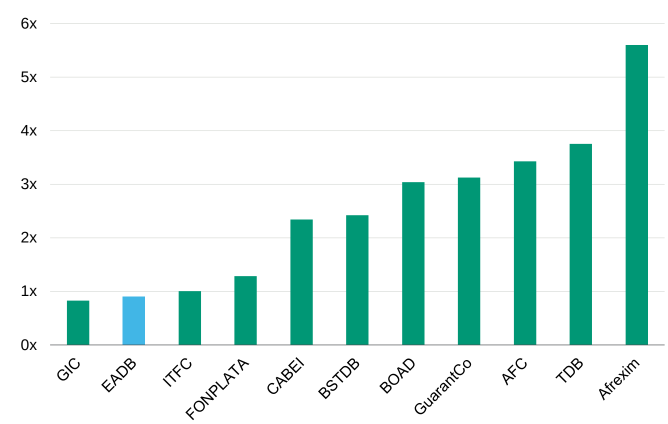


Note: In 2023 a large share of treasury assets were shifted to highly-rated international counterparties, discounting them from the leverage ratio under our definition.
Sources: EADB, Moody's Ratings

Exhibit 4

Leverage is low compared to peers

Leverage ratio, three-year average (latest available)



Sources: MDBs, Moody's Ratings

Over the last few years, contraction in development assets, the ongoing completion of Rwanda's capital subscription, a modest but consistent contribution from retained earnings to the capital base and, more recently, the transfer of treasury assets to highly-rated international counterparties have driven the steady decline in the leverage ratio. Before the pandemic, EADB's loan portfolio contracted despite relatively strong credit demand across the region. New loan disbursements further slowed in 2020 as the pandemic triggered an economic slowdown in the East Africa region. A renewed expansion of the lending portfolio in 2021 was mainly driven by a single large loan disbursement to the Government of Tanzania, and deleveraging resumed in 2022 and 2023. Although we expect loan portfolio growth to gradually accelerate under the impulse of the new medium-term strategic plan, leverage will remain relatively low as the Bank continues to proceed prudently toward new loan disbursements.

Low development asset credit quality is a key credit constraint

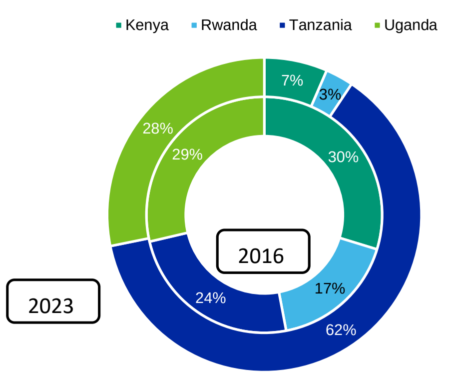
We assess development asset credit quality at "b," in line with BOAD and TDB. EADB has a mandate to build its portfolio within its four member states, which leads to unavoidable geographic concentration of the loan portfolio. Assets are of low credit quality (rated B2 or lower) and consist of loans to the public sector (64%), and the private sector (36%). Moreover, the concentration of the Bank's portfolio has sharply increased in recent years towards Tanzania, while exposure to Rwanda and Kenya has diminished. At the end of 2023, Tanzania accounted for 62% of all loans while Rwanda comprised 3% of the portfolio. The Bank adopted credit insurance cover by the African Trade Insurance Agency (A2 stable) worth $15 million to reduce concentration risk in Tanzania in 2023 and targets further insurance cover in 2024.

Concentration risk is manifest in other ways, with the 10 largest exposures accounting for 88% of the DRA portfolio on a gross basis at the end of 2023. The Bank's single largest exposure, consisting of a total of $63.3 million in lending to the Government of Tanzania, accounts for more than half of the portfolio. However, concentration risk is partly mitigated by the fact that some of EADB's loans are on-lent by financial institutions (accounting for 20% of the lending portfolio in 2023). Partnerships with financial institutions support a larger number of loans to small and medium enterprises (SMEs). In keeping with its mandate, the Bank also lends larger amounts to a smaller number of entities than a commercial bank would; some degree of sectoral concentration is therefore difficult to avoid.

To manage concentration risk, EADB maintains internal limits on sector and individual exposure. Exposures to a single sector can now be as high as 40% of shareholder's equity for financial institutions and 30% for infrastructure and the energy sector. All other sectors remain capped at 20% of total exposure. The single obligor limit is 25% of the Bank's net worth for sovereign exposures and 15% for any single group other than a sovereign entity. Separately, the Bank makes use of collateral - EADB holds collateral against loans and advances to customers in the form of mortgage interest over property - to assist asset recovery prospects.

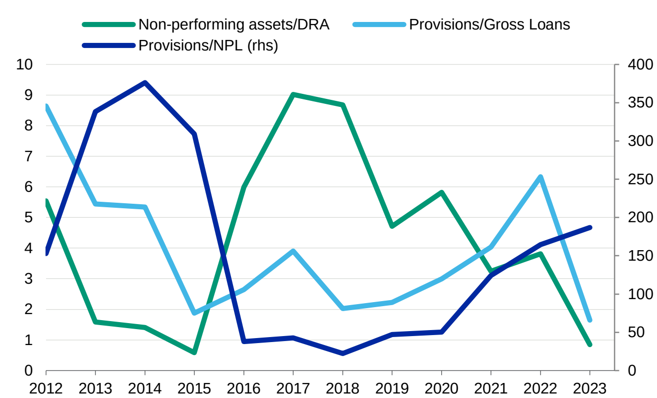
Most of EADB's loan portfolio is denominated in US dollars, which means that borrowers shoulder the exchange-rate risk in most cases, although the Bank extends foreign-currency loans only to projects with cash flows in the same currency. The Bank's high level of US dollar lending means that asset quality will remain somewhat linked to exchange rate stability. To mitigate the risk that borrowers will not be able to meet their foreign-currency obligations to the Bank, EADB matches its lending exposure to the sources of funds in the same currency. Around 10% of the lending portfolio as of end-2023 was extended in Ugandan shillings and 4% in Kenyan currency, with the remainder mainly in dollar.

Exhibit 5
Geographic concentration has become more acute
Loan portfolio by country, %



Sources: EADB, Moody's Ratings

Exhibit 6
Non-performing loans decreased substantially in 2023, but a challenging operating environment could lead to a trend reversal



Sources: EADB, Moody's Ratings

Track record of asset performance volatility, although NPA ratio was significantly reduced in 2023

EADB's asset performance score of “baa1” reflects the Bank's legacy of NPAs, which were very significantly reduced in 2023. Previously, the stock of NPAs had been higher, peaking at 9% in 2018 due in part to the exposure to Kenya's tourism sector, which suffered from regional tensions exacerbated by terrorist attacks. The resolution of most of the nonperforming exposures has since led to a substantial improvement in the NPA ratio.

The NPA ratio stood at 0.8% at end-2023, consisting of a single exposure. That said, we apply a “-1” adjustment to EADB's asset performance score to reflect our expectation that a challenging operating environment, amid an expected acceleration in lending and concentration risks, presents challenges to sustaining the improving trend in NPAs seen in recent years. Moreover, given EADB's track record of sudden spikes in NPAs and fluctuations in the nonperforming portfolio, we expect asset performance to remain a constraint on EADB's credit profile.

FACTOR 2: Liquidity and funding score: baa1

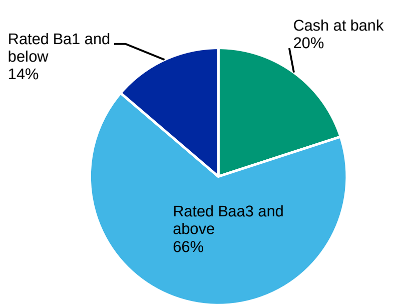
We attribute a score of “baa1” to **liquidity and funding**, reflecting robust liquidity levels but a less diverse funding structure than many peers. Available liquid assets relative to cash outflows in a stressed scenario over the next 18 months, in which EADB has no access to markets but continues its normal business operations, are very high at present and increased in 2023 as a result of shifting cash and term deposits from unrated to highly-rated institutions (and as a consequence becoming eligible as liquid assets under our definition). On the other hand, EADB's quality of funding is modest, with its main sources of financing concentrated in credit lines from MDBs and other financial institutions.

Prudent liquid asset levels and long-dated borrowings support liquidity

The Bank reported $302 million for total cash and placements with commercial banks in end-2023 (see Exhibit 7).[1] In recent years, the Bank had maintained much of its available liquid resources in unrated regional banks – albeit generally subsidiaries of large international or regional banks – in line with its mandate to foster regional development. However, in 2023 part of these liquid resources were shifted to highly-rated international counterparties. As a consequence, the liquidity ratio has increased to 350% and the Availability of Liquid Resources now scores at “aaa”.

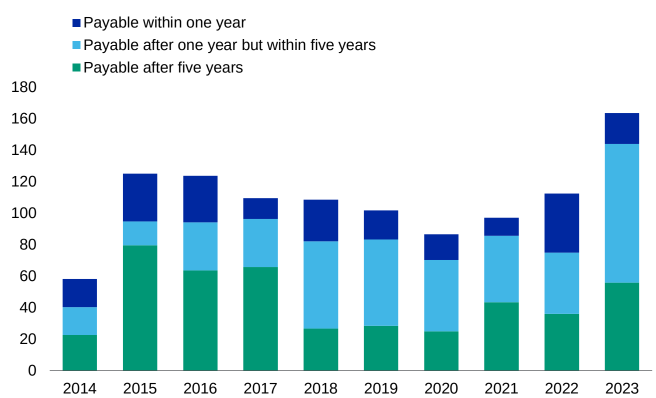
Like most of the MDBs that we rate, EADB has a liquidity policy that sets a minimum liquidity coverage ratio, currently 1.33x total liabilities (covering liabilities for the next 16 months). It includes all liabilities and budgeted commitments, such as repayments of principal and interest, expected disbursements, and budgeted administrative and staff expenses for the year. The policy also requires 100% coverage of all loan commitments. The funds for the 16 months of coverage are invested in short-term deposits.

Exhibit 7
The credit quality of liquid assets has improved, with a shift into highly-rated counterparties
Cash and cash equivalent by rating (2023)



Sources: EADB, Moody's Ratings

Exhibit 8
Debt is weighted towards long maturities
Total debt (US$ million)



Sources: EADB, Moody's Ratings

EADB's operational and strategic liquidity pool comprises cash and cash equivalents. At the end of 2023, the Bank's operating level of liquidity was well above its minimum requirement at 7.9x, up from 5.8x in 2021, although a normalisation is likely as loan disbursements and other designated liabilities gain pace over the coming years under a new medium-term strategic plan. The operating level of liquidity 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 within an appropriate time frame. The Bank maintains a high level of liquidity to ensure its continuous ability to fund its operations, even if unforeseen circumstances make market conditions temporarily unfavourable for borrowing.

Moreover, a set of liquidity policies guarantees the availability of the investment portfolio. For example, the Bank cannot place funds in fixed deposits or similar products with maturities longer than three years. In addition, EADB cannot place more than 20% of its total liquid assets in current deposits or deposit accounts in a single financial institution, and most of the deposits are in dollars.[2] EADB also closely monitors its net liquidity gap. It manages its liquidity by: (1) grouping maturing assets and liabilities into seven periods (namely 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 cash inflows and outflows, with the cumulative gap between the cash flows as a percentage of total liabilities the most relevant ratio.

Small investor base constrains quality of funding

We attribute a score of "ba" to EADB's quality of funding. The Bank's main sources of financing are concentrated in lines of credit from MDBs, which provide a stable and cheap source of financing, and regional financial institutions. Concessional funding is also, by nature, associated with long maturities. As noted above the Bank also maintains large unused lines of credit from international development institutions, supporting its liquidity.

The main lending institutions for long-term financing as of end-2023 include the OPEC Fund for International Development (OFID), BADEA (Aa1 stable), KfW (Aaa stable), NCBA Bank Kenya Plc, Development Bank of Southern Africa (DBSA, Ba3 stable) and Nordic Development Fund (NDF). EADB also has lines of credit with regional commercial banks.

However, we assess EADB's funding position as relatively weak, reflecting a difference between the Bank and some of its peers that can rely on a much larger and more diversified investor base. The Bank is yet to issue eurobonds to further diversify its investor base, and has remained largely inactive in the local bond markets in recent years.

Qualitative adjustments to intrinsic financial strength

Operating environment

In our credit assessment of MDBs, we also take into account several other factors such as an MDB's operating environment and the quality of its management, including risk management. Among these factors, we apply a "-1" adjustment for the operating environment, reflecting EADB's exposure to macroeconomic or fiscal shocks in the East Africa region, where its loan portfolio is concentrated.

EADB's loan portfolio is exclusively concentrated in Kenya, Rwanda, Tanzania and Uganda, with loans to both private and public sector entities. This exposes it to the macroeconomic and fiscal difficulties that these countries face. Fiscal and external vulnerabilities remain, as illustrated by sizeable fiscal and current-account deficits across the region. In addition, the Bank's exposure to private-sector transactions predisposes it to higher NPAs, which tend to fluctuate with economic conditions of its member countries. The region is also exposed to adverse weather conditions hitting the agricultural sector and to political risk, especially in Kenya, which have been a driver of NPAs in the past.

Quality of management

We make no adjustment for the quality of management. EADB has been developing its risk-management framework as part of the Bank's strategic plan, with the overall responsibility for risk management sitting with the Board of Directors. Overall, we expect the enhancement of the risk-management framework and policies to remain a focus of the current management, although challenges remain, for example through concentration risk.

EADB has a dedicated risk-management function – the Risk Management Unit – and all projects are reviewed before submission to the Projects Committee. Potential investments are then reviewed by the Management Committee and approved by the Director General (for investments up to $1 million), or by the Board of Directors for investments above $1 million. The Risk Management Unit is also involved in compliance-related matters, and advises the Asset and Liability Committee, which is in charge of monitoring liquidity risk and reviewing liquidity policies and procedures. Meanwhile, an independent risk assessment report is also submitted to the Board of Directors, covering all projects.

The Bank has developed rules to prevent liquidity risk, for example through the minimum liquidity ratio of 1.33x total liabilities. The treasury portfolio is managed in line with the Bank's treasury policies and procedures, to keep a large part invested in international banks and local banks in the region that meet the EADB's approved credit criteria. The Bank has also developed policies to limit interest rate, foreign exchange and maturity risk.

FACTOR 3: Strength of member support score: Low

We assess the **strength of member support** as "Low". Members' ability to support is heavily constrained by the low average credit quality of its shareholders. EADB's weighted average shareholder rating at B2 is among the lowest of all the MDBs we rate. Commensurate with such a rating, our assessment of EADB's main shareholders' ability to quickly transfer callable capital to the Bank in case of emergency is low.

Shared exposure to systemic risks between shareholders and borrowers constrains ability to support

As 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 and financial stress, like the pandemic, that would simultaneously reduce member states' ability to transfer capital in a timely manner. In addition, our assessment of the strength of member support is also informed by the high correlation between assets as well as the increasing connectedness between the economies of EADB's shareholders within the East African Community.

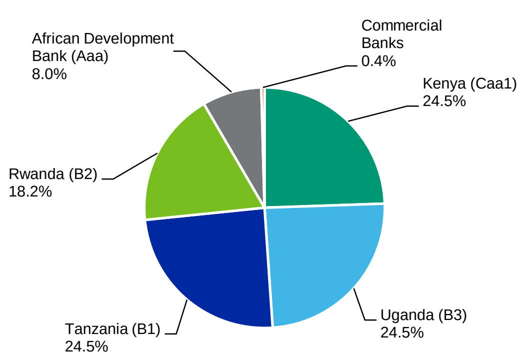
Out of all of EADB's shareholders, AfDB has the greatest ability to honour a call on the callable capital. AfDB has provided EADB with recurrent and sustained support since its inception, including lines of credit as well as technical assistance, such as risk management, operational enhancement and capacity building. It also acts as cofinancier on a number of EADB projects in member states.

In 2008, Rwanda became the latest country to join the Bank's shareholder member states, a year after it joined the East African Community. Its shares amounted to 18.2% of paid-in capital in end-2023 and the country contributed 19.6% of EADB's total pool of callable capital. The Board of Directors and the EADB Governing Council have approved the Republic of Burundi's membership, although this remains pending and no capital subscription payments or lending have yet taken place. In addition, potential contributions to callable capital are now available from Class B shareholders, which mainly consist of development and commercial banks, following EADB's charter amendment in 2012.

Exhibit 9

Non-investment grade members make up most shareholders...

Paid-in capital, % (shares as of end-2023)

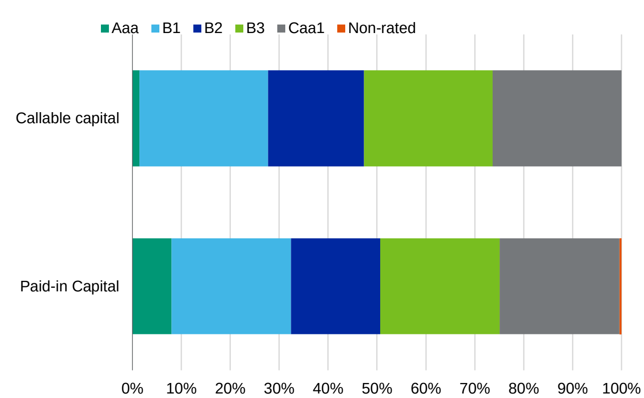


Sources: EADB, Moody's Ratings

Exhibit 10

... and little callable capital comes from investment-grade shareholders

Paid-in and callable capital by shareholder rating (end-2023)



Sources: EADB, Moody's Ratings

Willingness to support is underpinned by elevated callable capital, but payment delays suggest low non-contractual support from shareholders

We assess EADB's contractual strength of shareholder support at "aaa". Only 17.7% of subscribed capital has been paid in by the shareholders as of end-2023, leaving $960 million in callable capital.[3] The ratio of callable capital to total debt, which is our key indicator for contractual support, stood at 864% in 2023. However, only taking into account the share of callable capital from investment-grade shareholders, for which we have confidence a capital call would be paid on time, the coverage ratio decreases to 1.4%.

We assess non-contractual support from shareholders as "Low". Past delays in payments of capital contributions suggest limitations to shareholders' capacity and willingness to support. Kenya, Tanzania and Uganda were initially due to pay the full amount of the capital increase launched in 2009 by 2016 and Rwanda by 2019. However, whilst Kenya and Uganda completed their payments in 2016, Tanzania and Rwanda delayed their payment deadlines. Tanzania settled the $6.1 million payment in October 2020 to complete its capital subscription while Rwanda proposed a payment schedule to clear the outstanding capital subscription of $38 million between 2021 and 2024. As of end-2023, Rwanda has paid $38.2 million of its $58.5 million subscription, with further payments made over 2024.

EADB's main shareholders' ability to quickly respond to capital calls in a hypothetical emergency is low. In addition, the high correlation between assets and the small number of increasingly integrated economies of the EAC weakens our assessment of the strength of member support. However, the Bank did survive the former EAC's break-up in 1977 and tensions within member states. In addition to its mandate, EADB was designated as the host of the East African Community Development Fund (EACDF) and has been chosen to host the EAC resource centre for public-private partnerships.[4] EADB also has direct access to the decision-makers of its member countries. The EADB's governing council is made up of the ministers of finance from its member states, while its Board of Directors includes the permanent secretaries of the ministries of finance.

Since its inception, EADB has benefited from six general capital increases. In 1986, the Bank's authorised capital was doubled to SDR80 million (or $98 million). In 2004, the authorized capital was increased from $270 million to $1,080 million. In 2015, the authorized capital was increased from $1,080 million to $2,160 million. In 2007, member states committed to a $90 million capital increase in paid-in capital, with installments starting from 2009.

ESG considerations

East African Development Bank's ESG credit impact score is CIS-3

Exhibit 11
ESG credit impact score

ESG considerations have a limited impact on the current rating, with potential for greater negative impact over time.

Source: Moody's Ratings

EADB's **CIS-3** credit impact score reflects moderate exposure to environmental risks and a governance profile marked by a comparatively weaker but developing risk-management framework.

Exhibit 12
ESG issuer profile scores

Source: Moody's Ratings

Environmental

EADB's environmental issuer profile score at **E-3** reflects its area of operations, characterised by borrowers across East Africa particularly exposed to physical climate risks, mostly because of their reliance on large agricultural sectors and thus exposure to extreme weather conditions and natural disasters.

Social

EADB's social issuer profile score is neutral-to-low (**S-2**). Customer relations are strong given the Bank's role and importance as a promoter of socio-economic development and regional integration, in fields including agriculture and increasing access to finance for small and medium enterprises SMEs through partnerships with financial institutions, in turn supporting job creation in the borrowing countries. The Bank works in close cooperation with its shareholders, deriving support from its mandate.

Governance

EADB's governance issuer profile score of **G-3** reflects a track record of comparatively weaker risk management standards that have resulted in asset quality deterioration in past periods of stress. That said, EADB has been continuously developing its risk management framework as part of the Bank's strategic plan. The gradual strengthening of risk-management practices will be key in helping to manage the challenges presented by a weak operating environment across borrower countries.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

All of these considerations are further discussed in the "Detailed credit considerations" section above. Our approach to ESG is explained in our cross-sector methodology General Principles for Assessing ESG Risks. Additional information about our rating approach is provided in our Supranational Rating Methodology.

Recent developments

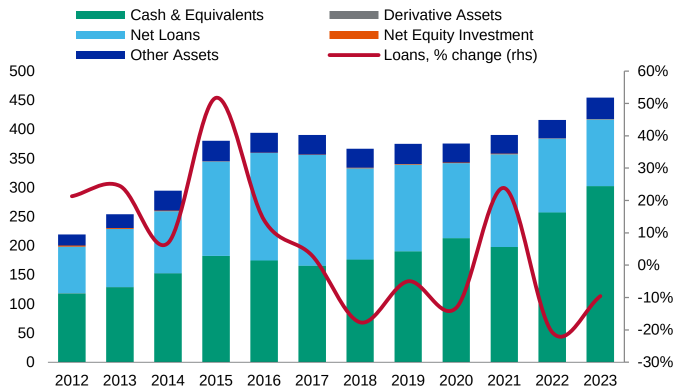
2023 results show continued profitability, supporting the expansion of the capital base

EADB's balance sheet continued to expand in 2023, with total assets growing by 9.4% to $454 million despite the fall in loans and advances to customers (by around 9%) to $114.5 million. The gradual contraction in lending dates back to 2018 with a hiatus in 2021 (Exhibit 13) against a backdrop of prudent lending amid the absorption of successive shocks: turmoil in the tourist industry in Kenya 2014/2015; the pandemic; and the regional effects of the Russian invasion of Ukraine. In 2023 the Bank posted profits of $13 million with a return on assets of 3%, up from 1.6% in 2022. Net interest margins also increased to 540 bps from 440 bps in 2022. No dividend is distributed to shareholders. As such, profits have been transferred to equity, and retained earnings have increasingly contributed to the capital base: total shareholders' equity stood at $322 million at the end of 2023, up by around $19 million from a year earlier (Exhibit 14).

Exhibit 13

Lending has evolved cautiously in recent years...

Assets ($ million)

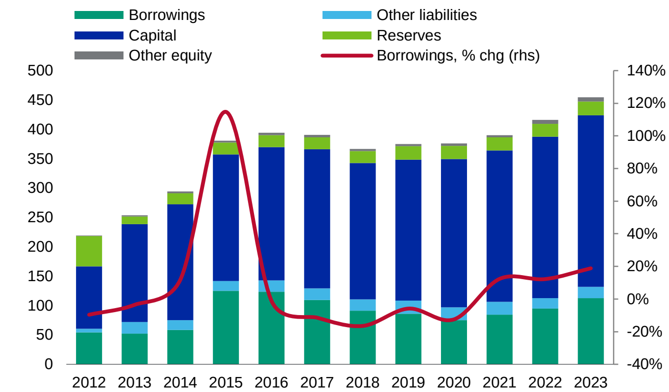


Sources: EADB, Moody's Ratings

Exhibit 14

... with the Bank retaining a solid capital buffer

Liabilities and equity ($ million)



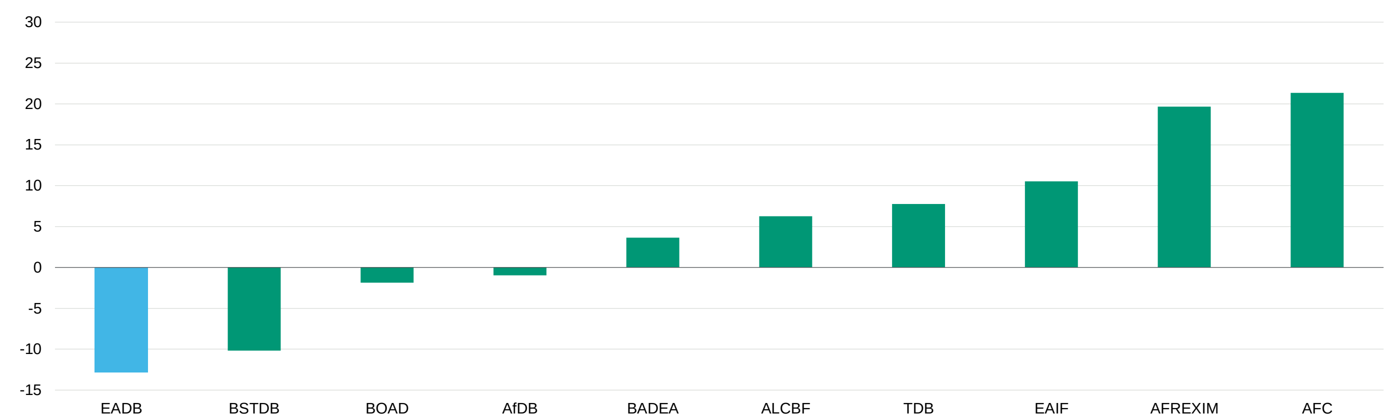
Sources: EADB, Moody's Ratings

In 2023 EADB posted an increase in cash at banks (up by $38 million to $60.5 million), while placements with commercial banks remain predominant in the asset structure ($242 million). The move of part of this cash and deposits from non-rated to highly-rated international counterparties has raised the liquidity ratio to 350% and has also reduced the leverage ratio, which now stands as the lowest among peers.

Exhibit 15

EADB's lending has been cautious, resulting in a contracting portfolio

Development-related assets growth, average of 2021-2023



Source: Moody's Ratings

New strategic plan 2024-2028 marks the beginning of a new period of expansion

After 2020, the Bank suspended the adoption of a medium-term strategy due to the uncertainties presented by the pandemic and a challenging operating environment, operating instead on the basis of one-year business plans. However, a strategic plan for 2024-2028 has been approved and initiated, and focuses on significantly stepping up lending. After the preceding period of consolidation, the strategy marks the return to a period of expansion. The Bank enters this with low leverage, high levels of liquidity, an improved NPA ratio, and an enhanced risk governance framework.

Over five years, development-related loans as per the bank's definition are now planned to almost triple, albeit from low levels relative to total assets and capital. The plan will focus both on the public sector - through infrastructure and loans to SOEs - and the private sector, in particular through on-lending to SMEs, a key part of its value proposition. The plan also envisages some rebalancing of the geographical distribution of loans. Although it is likely that over the next five years Tanzania will remain the main beneficiary of EADB's activity (62% of total lending as of YE23), the Bank expects Rwanda's take will gradually rise with Uganda and Kenya in line with their share of equity.

The increase in loans will mostly be funded by treasury assets and drawing cash, in addition to some contribution from an increase in borrowings and retained profits. All in all, this expansion in lending will likely impact current liquidity and leverage ratios, but from strong levels.

Rating methodology and scorecard factors: EADB - Baa3 stable

Factor / Subfactor	Metric	Initial score	Adjusted score	Assigned score
Factor 1: Capital adequacy (50%)			a3	baa1
Capital position (20%)			aaa	
	Leverage ratio	aaa		
	Trend	0		
	Impact of profit and loss on leverage	0		
Development asset credit quality (10%)			b	
	DACQ assessment	b		
	Trend	0		
Asset performance (20%)			baa1	
	Non-performing assets	a3		
	Trend	-1		
	Excessive development asset growth	0		
Factor 2: Liquidity and funding (50%)			baa1	baa1
Liquid resources (20%)			aaa	
	Availability of liquid resources	aaa		
	Trend in coverage outflow	0		
	Access to extraordinary liquidity	0		
Quality of funding (30%)			ba	
Preliminary intrinsic financial strength				baa1
Other adjustments				-1
Operating environment		-1		
Quality of management		0		
Adjusted intrinsic financial strength				baa2
Factor 3: Strength of member support (+3,+2,+1,0)			Low	Low
Ability to support (50%)			b2	
	Weighted average shareholder rating	b2		
Willingness to support (50%)				
	Contractual support (25%)	aaa	aaa	
	Strong enforcement mechanism	0		
	Payment enhancements	0		
	Non-contractual support (25%)		Low	
Scorecard-Indicated Outcome Range				Baa1-Baa3
Rating Assigned				Baa3

Note: Our ratings are forward-looking and reflect our expectations for future financial and operating performance. However, historical results are helpful in understanding patterns and trends of an issuer's performance as well as for peer comparisons. Additional considerations that may not be captured when historical metrics are used in the scorecard may be reflected in differences between the adjusted and assigned factor scores. Furthermore, in our ratings we often incorporate directional views of risks and mitigants in a qualitative way. For more information please see our Multilateral Development Banks and Other Supranational Entities rating methodology.

Source: Moody's Ratings

Related websites and information sources

» Moody's Supranational web page

» Moody's Sovereign and supranational rating list

» East African Development Bank

Endnotes

1 For the purpose of calculating our liquid resources ratio, we consider only liquid assets including cash and cash equivalents, deposits with a term of less than one year held by financial institutions rated Baa3 or higher, treasury assets rated A2 or higher, and committed, unrestricted and undrawn credit lines with Prime-1 counterparties with a maturity greater than two years. This is because we believe only those would be available in a stress scenario at short notice and with minimal loss. In cases where securities are unrated, we do not include them in the numerator.

2 In some exceptional circumstances, the Bank has exceeded this limit on a temporary basis mainly caused by funds that are earmarked for imminent transactions falling due in a few days.

3 Subscribed capital refers to both paid-in and callable capital.

4 The EACDF is a sister institution in charge of financing multinational infrastructure projects in the region through grants and concessional loans. EADB will help the institution by providing expertise and technical assistance.

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