

Rating Action: Moody's assigns first-time Ba2 corporate family rating and Ba3 long-term foreign currency issuer rating to CRRH-UEMOA

04 Feb 2021

London, 04 February 2021 -- Moody's Investors Service ("Moody's") has assigned the following first-time ratings to Caisse Regionale de Refinancement Hypothecaire de l'UEMOA (CRRH-UEMOA): Ba2 long-term corporate family rating (CFR), Ba2/Not Prime long and short-term local currency (LC) issuer ratings, as well as Ba3/Not Prime long and short-term foreign currency (FC) issuer ratings. The outlook is stable for the entity.

CRRH-UEMOA is a regional financial institution established in 2010 and based in Togo, with operations across the West African Economic and Monetary Union (WAEMU). CRRH-UEMOA had total assets of \$338 million at end-2019. CRRH-UEMOA operates as a residential mortgage refinancing vehicle. CRRH-UEMOA raises long-term funding from both debt capital markets and Development Finance Institutions (DFIs) to the benefit of its shareholder banks, then provides that funding to WAEMU-based banks (who are shareholders of CRRH-UEMOA) in order to refinance their residential mortgage lending.

A list of assigned ratings is provided at the end of this press release.

RATINGS RATIONALE

CRRH-UEMOA's Ba2 long-term CFR incorporates its b1 standalone assessment along with a two-notch uplift for parental support, reflecting Moody's expectation of a high probability of affiliate support from The West African Development Bank (BOAD, Baa1 negative), the sponsor and largest shareholder of CRRH-UEMOA, in case of need. Moody's expectation reflects the close alignment of the objectives of the two institutions. BOAD has a 16% ownership stake in CRRH-UEMOA, making it the largest shareholder.

CRRH-UEMOA's b1 standalone assessment reflects the firm's (i) strong asset quality underpinned by conservative structuring of its lending, (ii) solid capitalisation and (iii) solid liquidity with matched asset-liability maturity. These strengths are moderated by (i) the CRRH-UEMOA's monoline activity that significantly constrains its franchise value and profitability, (ii) the operating environment of West Africa and (iii) the high counterparty risk of the banks whose mortgage loans it refinances.

The asset quality of CRRH-UEMOA is strong, with no loan losses reported since inception. This reflects the conservative structuring of its lending, both in terms of mutual support of the client banks and substitution rule in their mortgage portfolios. However, Moody's estimates that the counterparty risk of the client banks is relatively high and CRRH-UEMOA is exposed to a high borrower concentration risk, with the firm's top 20 customers representing around 90% of its gross loans and interbank deposits and 10x its tangible common equity.

As regards capitalisation, Moody's expects CRRH-UEMOA's core capital to remain sound but decline modestly over the next 12 to 18 months as the firm continues to grow its operations. As of December 2019, CRRH-UEMOA's reported Basel II/III Common Equity Tier 1 (CET1) to risk-weighted assets ratio was 14.5%. CRRH-UEMOA's TCE (tangible common equity) to tangible managed assets ratio (excluding subordinated debt) stood at 7.6% as of December 2019 (7.0% as of December 2018). This TCE to managed assets ratio increases to 25.4% as of December 2019 when including quasi-equity subordinated debt.

Moody's expects CRRH-UEMOA's liquid resources to remain solid. As of December 2019, the firm's liquid assets over total assets stood at 28.7% (27.6% as of year-end 2018). The firm's liquidity ratio was 132% at end-2019 (127% at end-2018). Furthermore the matched nature of the firm's asset and liability maturity profile moderates the refinancing risk. CRRH-UEMOA only initiates bond issuances based on specific refinancing requests from its borrowing banks. The firm ensures that the tenor, currency and coupon of each bond issuance is identical to that of the corresponding refinancing operation. As of December 2019, CRRH-UEMOA's market funds (interbank, senior and subordinated debt) were 90% of tangible assets (unchanged from year-end 2018).

However, Moody's expects CRRH-UEMOA's profitability to remain modest as the entity does not seek as a first priority to generate profit, but to help its customers in their mortgage refinancing. CRRH-UEMOA has low and

stable interest margins and collects a limited fee for its refinancing service. Consequently, CRRH-UEMOA has limited expenses and no cost of risk given the very limited loan risk.

The exposure to regional operating environment and to counterparty banks in the region together constrain CRRH-UEMOA's credit profile, due to the relatively modest credit profile of those banks. CRRH-UEMOA has regional WAEMU exposure, with refinanced mortgages sourced from the eight countries of the Union.

-- SUPPORT AND STRUCTURAL CONSIDERATIONS

- PARENTAL SUPPORT

CRRH-UEMOA's Ba2 long-term CFR incorporates two notches of affiliate support uplift from the firm's standalone assessment, reflecting Moody's assessment of a high probability of affiliate support from BOAD, its sponsor and largest shareholder, in case of need.

The high probability of support assumption reflects BOAD's ownership stake in CRRH-UEMOA (16% ownership stake), as well as the strategic importance of CRRH-UEMOA given its policy role in the promotion and development of residential mortgage lending in the WAEMU region. The high probability of support also reflects the strong operational and financial interlinkages between CRRH-UEMOA and BOAD.

-- ISSUER RATINGS

CRRH-UEMOA's Ba2 long-term LC issuer rating is aligned with its Ba2 long-term CFR.

CRRH-UEMOA's long-term FC issuer rating is capped by the FC country ceiling at Ba3. For assessing the FC country ceiling applicable to CRRH-UEMOA, Moody's uses the weighted average ceiling of the countries in which CRRH-UEMOA operates. The FC country ceiling applied to CRRH-UEMOA reflects the currency convertibility and transferability risk in the region, along with the non-resident status of CRRH-UEMOA in Togo.

RATINGS OUTLOOK

The stable outlook reflects the balance of the strengths and challenges of CRRH-UEMOA's financial profile, along with the negative outlook on the ratings of BOAD and the various outlooks on the sovereign ratings of the countries in which the group operates.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Upwards pressure on the ratings could develop from (i) a material strengthening of the firm's regional operating environment in the WAEMU region, as would be indicated by an upgrade in the ratings of the sovereigns in the region, and/or (ii) a significant increase in the CRRH-UEMOA's capitalisation and profitability.

Downwards pressure on the ratings could develop from (i) a weakening in BOAD's ability or willingness to provide support in case of need, or (ii) a material deterioration in the firm's regional operating environment in the WAEMU region, as would be indicated by a downgrade in the ratings of the sovereigns in the region, or (iii) a material change in the operations or business model of CRRH-UEMOA, or (iv) a weakening in the company's asset quality or capitalisation.

LIST OF AFFECTED RATINGS

..Issuer: CRRH-UEMOA

Assignments:

....Short-term Issuer Ratings, Assigned NP

....Long-term Issuer Rating (Foreign Currency), Assigned Ba3

....Long-term Issuer Rating (Local Currency), Assigned Ba2

....Corporate Family Rating, Assigned Ba2

..Outlook Action:

....Outlook, Assigned Stable

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Finance Companies Methodology published in November 2019 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1187099 . Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

The local market analyst for this rating is Mik Kabeya, +971 (423) 795-90.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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Peter Mushangwe
Analyst
Financial Institutions Group
Moody's Investors Service Ltd.
One Canada Square

Canary Wharf
London E14 5FA
United Kingdom
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Carola Schuler
MD - Banking
Financial Institutions Group
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Releasing Office:
Moody's Investors Service Ltd.
One Canada Square
Canary Wharf
London E14 5FA
United Kingdom
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454



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