MOODY'S
INVESTORS SERVICE

CREDIT OPINION
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Update

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Contacts

Elisa Parisi-Capone +1.212.553.4133
VP-Senior Analyst
elisa.parisi-capone@moodys.com

Giovanni Pagan Velez +1.212.553.4515
Associate Analyst
giovanni.paganvelez@moodys.com

Matt Robinson +44.20.7772.5635
Associate Managing Director
matt.robinson@moodys.com

Marie Diron +65.6398.8310
MD-Sovereign Risk
marie.diron@moodys.com

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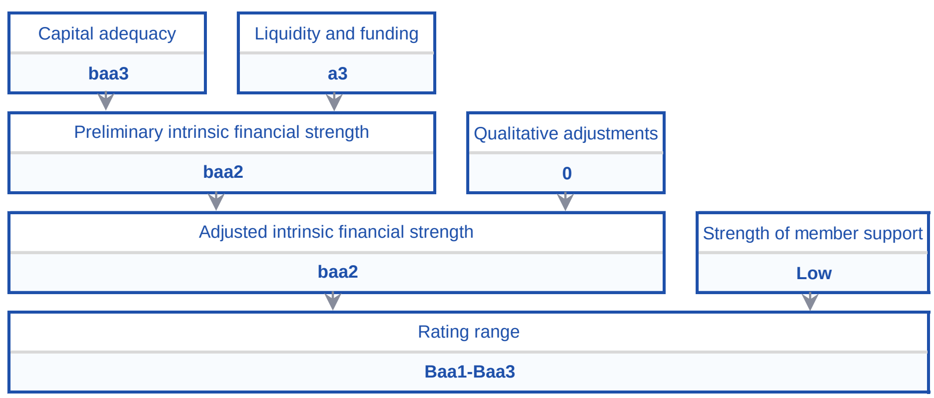
African Export-Import Bank – Baa1 stable

Update following rating affirmation, outlook unchanged

Summary

Afreximbank's credit profile reflects a robust capital position, relatively elevated leverage, demonstrated access to diversified funding sources and the self-liquidating nature of the portfolio supporting the liquidity position, and a track record of broad shareholder support notwithstanding constraints on shareholders' capacity to provide support shown by a low weighted average shareholder rating among members.

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



Source: Moody's Investors Service

Credit strengths

» Specialized African trade finance institution with a niche

» Relatively low non-performing loans compared to regional peers

» Sound profitability and market access at favorable rates

Credit challenges

» Comparatively elevated leverage ratio among rated supranationals

» Relatively tight liquidity profile, mitigated by self-liquidating receivables

» Very low average shareholder rating, albeit enhanced by a mid-term credit risk mitigation instrument

Rating outlook

The stable outlook is supported by the bank's successful equity raising performance and its track record of adapting its strategy to challenges in the operating environment of member countries without undermining the bank's asset quality performance. The stable outlook also reflects Moody's expectation that the risks associated with the bank's planned expansion of the loan book in 2019-2021 will be managed without detriment to leverage and asset quality parameters.

Factors that could lead to an upgrade

Upward rating pressure could arise from higher capital and liquidity buffers which remain among the lowest among rating peers, in addition to a consistent improvement in asset quality toward levels closer to higher rated peers.

Factors that could lead to a downgrade

The following factors would likely result in a downgrade: (1) an unexpected deterioration of the capital adequacy ratio toward or below Afreximbanks 20% minimum threshold, (2) a sustained weakening of asset quality indicators or of provisioning levels that could prove damaging to the banks credit profile, and/or (3) increased liquidity pressures which impact the bank's access to funding sources. Any development that leads to an early termination of the mid-term credit risk mitigation instrument for callable capital before, or a failure to perform as expected when triggered, would also likely result in a downgrade.

Key indicators

Afreximbank	2013	2014	2015	2016	2017	2018
Total Assets (USD million)	4,175.1	5,189.1	7,132.8	11,726.1	11,913.5	13,419.4
Development-related Assets (DRA) / Usable Equity [1]	493.4	505.1	527.5	680.1	443.6	479.1
Non-Performing Assets / DRA	3.4	3.6	2.6	2.2	3.8	2.7
Return on Average Assets	2.3	2.2	2.0	1.8	1.9	2.2
Liquid Assets / ST Debt + CMLTD	46.9	47.8	34.8	24.3	90.4	40.3
Liquid Assets / Total Assets	14.2	12.6	11.6	10.8	27.0	14.3
Callable Capital / Gross Debt	8.3	7.2	8.5	5.9	7.1	8.4

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

Source: Moody's Investors Service

Detailed credit considerations

Our assessment of **capital adequacy** at "baa3" reflects a relatively elevated average leverage ratio as measured by total assets to usable equity averaging 500% over the past three years, consistent with the bank's profit oriented and mostly collateralized trade finance business model that aims for a risk-weighted Basel Capital Adequacy ratio in the 20-30% range. Solid profitability also contributes to the continued organic expansion of the equity base to fund operations. The bank's development asset quality assessment at "baa" reflects a weighted average borrower rating at Ba2 and a portfolio that is fairly diversified in terms of geography and sectors.

Afreximbank's adjusted asset performance score at "baa1" includes a "-1" trend adjustment to take into account the asset quality risks associated with the rapid expansion in the loan book after the winding down of the large and mostly US-dollar cash collateralized Countercyclical Trade Liquidity Facility (COTRALF), in conjunction with the broader provisioning scope and the bank's exposure to collateral valuation changes under the more forward-looking loss recognition rules under the IFRS 9 accounting standard. That said, Afreximbank's asset performance benefits from its preferred creditor status, as demonstrated by the prioritization of repayments from countries operating under challenging conditions.

We assess **liquidity and funding** at "a3" in reflection of the bank's relatively lean liquidity position assessed at "baa3", consistent with its focus on trade finance with comparatively short maturities that allow for a rapid adjustment to shocks, and the mostly self-liquidating nature of loans from trade receivables. The mandatory shorter or equal average maturity of the loan book as compared to liabilities also provides an additional liquidity resources safeguard.

The quality of funding assessment at “a” benefits from established access to the syndicated loan and international capital markets, in addition to a limited share of central bank deposits under the Central Bank Deposit Programme (CENDEP), contributing to funding diversification and cost efficiency. The bank has committed credit lines in place to cover the contingent exposures in form of guarantees and letters of credit.

Despite the challenging **operating environment** on the African continent, we do not include a downward adjustment given the diversification of Afreximbank’s lending activities by geography and by sector, the collateralization of receivables, and the structured diversification of ultimate counterparty risk to entities outside of the continent. Moreover, the bank’s track record of pursuing its mandate during crisis situations without jeopardizing its credit quality is indicative of the bank’s **risk management** capacities and its ability to navigate a challenging environment.

The bank’s governance structure safeguards against overriding influence of leading countries in the decision making process through directors’ technical independence from their nominating institutions, in addition to the inclusion of independent directors. The bank also maintains a lean organizational structure with a cost to income ratio of 18% at the end of 2018, even as total staff numbers have continued to increase.

Afreximbank's 'Low' **strength of member support** reflects a very low weighted average shareholder rating at B2, in combination with “Very High” non-contractual support by members as reflected in the ample participation in two general capital increases launched over the past five years which have been met with broad commitments from existing and new shareholders, and with subscriptions ahead of schedule. At 8.4%, the ratio of total callable capital/total debt is among the lowest among rated MDBs, resulting in a “caa1” initial assessment of contractual support. However, the adjusted score at b3 takes into account the credit support provided by the mid-term credit risk mitigation instrument that was introduced in December 2016 to support its callable capital base which is otherwise constrained by the very low average shareholder rating.

Recent developments

First quarter 2019 results benefit from significant loan book expansion in line with targets

According to unaudited results for the first quarter 2019, and in line with targets, the bank recorded a strong expansion in loans and advances to about $12 billion from about $8 billion one year ago after the repayment of the last exposure under the Countercyclical Trade Liquidity Facility (COTRALF) programme that was operational in 2015-17 as an emergency trade finance facility and which absorbed almost half of Afreximbank's balance sheet. This expansion was primarily fueled by growing shareholder funds which were partially driven by higher profits, but also by capital injections in line with the strategic plan to sustain planned business growth. The risk-weighted capital adequacy ratio remained adequate at 23% (2018: 26%) and the leverage ratio as defined by total assets / usable equity declined to below 500%. Meanwhile, non-performing loans at 2.7% were unchanged from one year ago.

Membership continues to expand

The bank's response to the commodities price shock attests to the bank's flexibility in adapting its strategy to emerging challenges in the operating environment of its member countries. The expanding number of shareholders underscores the bank's relevance. Shareholders totaled 151 at the end of December 2018, including 50 African governments/central banks/African regional and subregional institutions (Class A), 86 African private and financial institutions (Class B), 14 non-African financial institutions/export credit agencies/private or public investors (Class C) and one Class D shareholder. By June 2019, two additional Class A shareholders have joined.

Impacts of Transition to IFRS 9

Afreximbank adopted IFRS 9 effective 1 January 2018 to replace the IAS 39 accounting standard for financial instruments. The new accounting standard introduces loss provisioning for financial assets on a forward-looking basis as opposed to provisioning on the occurrence of default. Additionally, further provisions arise from the impact of provisioning on financial assets that were previously not included in the scope of IAS 39, such as off-balance sheet exposures and commitments to lend.

On Afreximbank's balance sheet, the switch to IFRS 9 resulted in an increase in the allowance for impairment on loans and advances by 82.4% to $118.9 million in 2018 from $65.2 million in 2017. In addition, the switch led to a restatement of the 2017 NPL ratio to 4.08% from 2.5% previously. For 2018, the NPL ratio under the new standard was 3.0%.

Overall, the impact of adopting IFRS 9 resulted in a transitional adjustment amounting to $129.9 million, reducing the previously reported prior year retained earnings to $394.51 million from $524.4 million on 1 January 2018. Under IFRS 9, the bank will consider a financial asset to be in default when (1) the borrower is unlikely to pay its credit obligations to the bank in full, without recourse by the bank to actions such as realising security (if any is held); or (2) the borrower is more than 90 days past due on any material credit obligation to the bank.

Rating methodology and scorecard factors

Rating factor grid - African Export-Import Bank	Initial score	Adjusted score	Assigned score
Factor 1: Capital adequacy (50%)		baa3	baa3
Capital position (20%)		ba3	
Leverage ratio	ba3		
Trend	0		
Impact of profit and loss on leverage	0		
Development asset credit quality (10%)		baa	
DACQ assessment	baa		
Trend	0		
Asset performance (20%)		baa1	
Non-performing assets	a3		
Trend	-1		
Excessive development asset growth	0		
Factor 2: Liquidity and funding (50%)		a3	a3
Liquid resources (15%)		baa3	
Availability of liquid resources	baa3		
Trend in coverage outflow	0		
Access to extraordinary liquidity	0		
Quality of funding (35%)		a	
Preliminary intrinsic financial strength			baa2
Other adjustments			0
Operating environment	0		
Quality of management	0		
Adjusted intrinsic financial strength			baa2
Factor 3: Strength of member support (+3,+2,+1,0)		Low	Low
Ability to support - weighted average shareholder rating (50%)		b2	
Willingness to support (50%)			
Contractual support (25%)	caa1	b3	
Strong enforcement mechanism	0		
Payment enhancements	+1		
Non-contractual support (25%)		Very High	
Rating range			Baa1-Baa3
Rating			Baa1

Note: 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. Additional considerations that may not be currently captured by the metrics used in the scorecard can be reflected in differences between the adjusted and assigned factor scores. 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 Multilateral Development Banks and Other Supranational Entities rating methodology.

Source: Moody's Investors Service

Moody's related publications

- **Rating Action:** Moody's affirms the African Export-Import Bank's Baa1 ratings and stable outlook, 9 August 2019
- **Issuer in-Depth**: African Export-Import Bank - Baa1 stable, 18 June 2019
- **Rating Methodology**: Multilateral Development Banks and Other Supranational Entities, 25 June 2019

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