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RATINGS

African Export-Import Bank

	Rating	Outlook
Long-term Issuer	Baa1	STA
Short-term Issuer	--	--

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Contacts

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

Michael S. Higgins +1.212.553.1619
Associate Analyst
michael.higgins@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

Alastair Wilson +44.20.7772.1372
MD-Global Sovereign Risk
alastair.wilson@moodys.com

African Export-Import Bank — Baa1 stable

Annual credit analysis

OVERVIEW AND OUTLOOK

The credit profile of African Export-Import Bank (Afreximbank, Baa1 stable) is supported by continuing capital contributions and an expanding shareholder base, evidenced by the general capital increase of $500 million completed in 2016 and another $500 million raised under the 2017-2021 plan to raise $1 billion in equity, which includes the launch of freely tradable depositary receipts (DRs) linked to Class D shares for an amount of about $287 million by the end of 2017. The issuance of Class D shares and the DRs is a credit-positive innovation among African multilateral development banks (MDBs) and provides an additional source of equity capital.

Afreximbank's strength of member support also benefits from a 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. The introduction of the new lending program (known as the Counter Cyclical Trade Liquidity Facility - COTRALF) backed by hard currency deposits under the deposit mobilization program (known as the Central Bank Deposit Programme - CENDEP) to support trade finance in countries with scarce foreign exchange reserves further attests to the bank's capability to adapt without undermining its asset quality track record.

While reflective of its trade finance business model, Afreximbank's capitalization, with a Basel capital adequacy ratio of 26% (broadly in line with the asset coverage ratio of 25.5% at the end of 2017), remains constrained in comparison with other rated supranationals. Similarly, the bank has a comparatively tight liquidity profile compared with regional and rating peers, albeit mitigated by the short average maturity of the loan portfolio and the self-liquidating nature of lending backed by receivables. While operating on a broadly collateralized basis, the bank remains exposed to a difficult operating environment.

Upward rating pressure could arise from higher capital and liquidity buffers which remain among the lowest in the peer group, in addition to the consistent maintenance of asset quality standards. Negative rating pressure could arise from an unexpected deterioration of the capital adequacy ratio toward or below Afreximbank's 20% minimum threshold, and/or a sustained weakening of asset quality indicators, in addition to increased liquidity pressures.

This credit analysis elaborates upon African Export-Import Bank's credit profile in terms of capital adequacy, liquidity and strength of member support, which are the three main analytical factors in Moody's Multilateral Development Banks and Other Supranational Entities methodology.

Organizational structure and strategy

Afreximbank is one of a few multilateral development banks (MDBs) that operates as a multilateral public-private partnership. It is governed by (1) the establishing agreement, where 49 African countries are shareholders and/or have signed or acceded the agreement; and (2) the bank charter, annexed to it and signed by all public and private shareholders (see Exhibit 1). The bank pursues its development goal by operating as a commercial, profit-oriented (not maximizing) organization.

Afreximbank was established under the auspice of the African Development Bank (AfDB, Aaa stable) against the backdrop of the economic crises of the 1980s. The AfDB is accordingly among the major shareholders and nominates one of the 12 directors on its board.

Afreximbank's shareholder base continues to expand with a total of 147 shareholders at the end of December 2017, including 39 African states (out of 54 on the continent) and a number of African central banks and African regional and subregional institutions that constitute Class A shareholders. Exhibit 1 provides the breakdown of the entire shareholder base across Classes A, B, C, and D. In November 2017, South Africa (Baa3 stable) joined as a shareholder through the Export Credit Insurance Corporation (ECIC, unrated). Other countries have continued to join the bank as participating states, not all of which are shareholders. Most recently, on June 9, Equatorial Guinea has joined Afreximbank as its 50th member state with the country's signing of the Instrument of Accession to the bank's establishment agreement.

In September 2017, the bank successfully launched Class D shares backed by depositary receipts issued through the Stock Exchange of Mauritius. The $100 million-$300 million private placement closed successfully with subscriptions in excess of the $100 million minimum target set to launch the program (with $166 million raised as of the end of October 2017). As of December 2017, $287 million had successfully been raised through DRs under the Class D shares.

Exhibit 1

Afreximbank's shareholder base as of December 2017

As of December 2017	Class A	Class B	Class C	Class D	Total
Shareholder Definition	African governments, central banks, African regional and sub-regional institutions	African private investors and financial institutions	non-African financial institutions, export credit agencies and private/public investors	new category created in December 2012, under which any person or entity can be allotted shares	
Number of Shareholders	45	87	14	1	147
Total Capital per class / Total Capital (Paid in capital and Callable Capital)	56%	24%	14%	6%	100%
Amount of paid-in capital (million USD)	248.9	109.1	46.1	66.8	470.8
Callable Capital (million USD)	386.9	164.0	103.6		654.5
Total Capital (million USD) [Paid-in + Callable]	635.8	273.0	149.7	66.8	1125.3
Total Capital Funds (=paid-in capital + share premium + equity warrants + retained earnings + reserves) (million USD) (excl. callable capital)					2124.0
Approved changes to the Charter on December 2012	-Increase in authorized capital to US$5 billion from US$750 million; -Creation of fully paid up Class D shares open to any investor and which can be listed on a stock exchange; -Voting rights attached to the shares, with Class A shareholders appointing a minimum of 4 out of 12 directors; -The callable capital structure is to be maintained for existing Classes A, B and C . Classes B and C have the option to convert to the new Class D shares which are fully paid up (no callable capital participation). -If the Bank's shares are fully subscribed, Class B,C,D shareholders shall in aggregate not represent more than 65% of the issued capital of the Bank.				

Sources: Afreximbank, Moody's Investors Service

Afreximbank's mandate, business objectives, governance and strategy

Afreximbank's primary objective is to stimulate a consistent expansion, diversification and development of African trade, while operating as a profit-oriented, socially responsible financial institution. The establishment agreement aims to achieve this objective by maintaining strong capitalization.

Its second objective, according to its charter, is to focus on growing African private sector participation in trade (private sector loans account for around one third of Afreximbank's total loans). Similarly, the bank works toward expanding private sector participation among its shareholder base, most recently seen in the joining (in February 2018) of Aenergy, an energy conglomerate headquartered in Angola (B3 stable), as a Class B shareholder. The bank's objective is to reduce Class A shareholdings to 35%, from 58% at present by expanding Class B, C or D holdings.

Afreximbank's third objective is to remain a bank controlled by Africans that serves the continent's goals. These guidelines are reflected in the composition of Afreximbank's board of directors, which consists of a maximum of 12 members, with a minimum of four representing Class A shareholders (one of which is reserved for the AfDB). There are also four representing Class B shareholders; two representing Class C shareholders; and two other independent directors.

In a scenario where all shares are fully subscribed (in other words, Class B and C shareholders have migrated to Class D) and the new Class D shareholders hold a maximum of 65% of the shares, the latter can only appoint up to six directors.

Under the bank's fourth strategic plan for 2012-16, it made significant progress toward meeting its key corporate and trade development objectives by (1) growing total assets to about $11.7 billion by year-end 2016 from about $7.1 billion at year-end 2015; (2) ensuring that loans and advances accounted for 80% of its total assets; (3) conserving sound asset quality, with the ratio of nonperforming loans falling below 3.0%; (4) maintaining its Basel II Capital Adequacy Ratio (CAR) within a range of 20%-30%; (5) opening regional offices in Côte d'Ivoire and East Africa in addition to Nigeria and Zimbabwe, as well as its headquarters in Egypt.

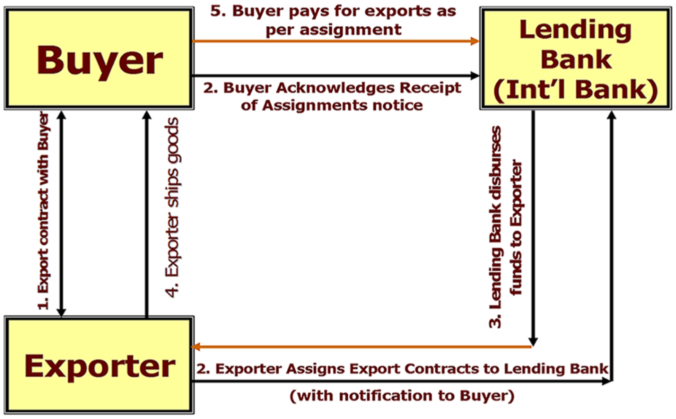
The bank's fifth strategic plan for 2017-21 ("Impact 2021") seeks to promote several objectives, including (1) achieving capitalization of $3.5 billion by 2021; (2) growing the intra-African trade portfolio to $4 billion by 2021; and (3) increasing financing of manufactured exports and services by 10% annually. This strategy builds on four key pillars: (1) promoting intra-African trade; (2) strengthening trade finance leadership; (3) facilitating industrialization/export development; and (4) improving financial soundness and performance.

Development operations

Afreximbank's business operations include (1) extending credit to eligible African exporters by providing pre and post-shipment finance; (2) extending indirect credit to African exporters and importers of African goods through the intermediaries of banks and other African financial institutions; (3) promoting and financing trade between African states and other developing states; (4) acting as intermediary between African exporters and African and non-African importers through the issuance of letters of credit, guarantees and other trade documents in support of export-import transactions; (5) promoting and providing insurance and guarantee services covering commercial and noncommercial risks associated with African exports; and (6) carrying out market research and providing auxiliary services aimed at expanding the international trade of African countries and boosting African exports.

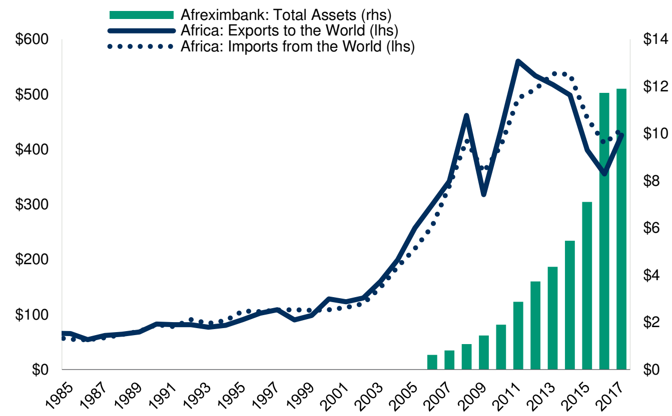
Afreximbank thus fills a gap in the African market where institutional arrangements supporting export credit are usually limited. Exhibits 2 and 3 depict the bank's operating model and the rapid expansion of development operations in line with trade trends in Africa before the adverse terms of trade shock in 2015. This shock led to a plunge in the value and volumes of African trade which remains largely centered on commodities.

Exhibit 2
Afreximbank's trade finance operating model



Source: Afreximbank

Exhibit 3
Balance sheet expansion in relation to African trade with the world (billion $)



Source: Afreximbank, IMF, Moody's Investors Service

Central bank deposit and lending facilities aim to alleviate systemic trade finance liquidity shortages

In response to the adverse commodity terms of trade shock that hit the continent and a large number of Afreximbank shareholders during 2015, the bank introduced a temporary trade finance facility in December 2015. The facility was specifically geared toward central banks and banking systems faced with a systemic shortage of foreign exchange reserves (the latter that can be disruptive to banking systems' access to trade finance, which is primarily denominated in US dollars). The program was approved for an initial period of two years and was closed to new subscriptions at the end of 2017.

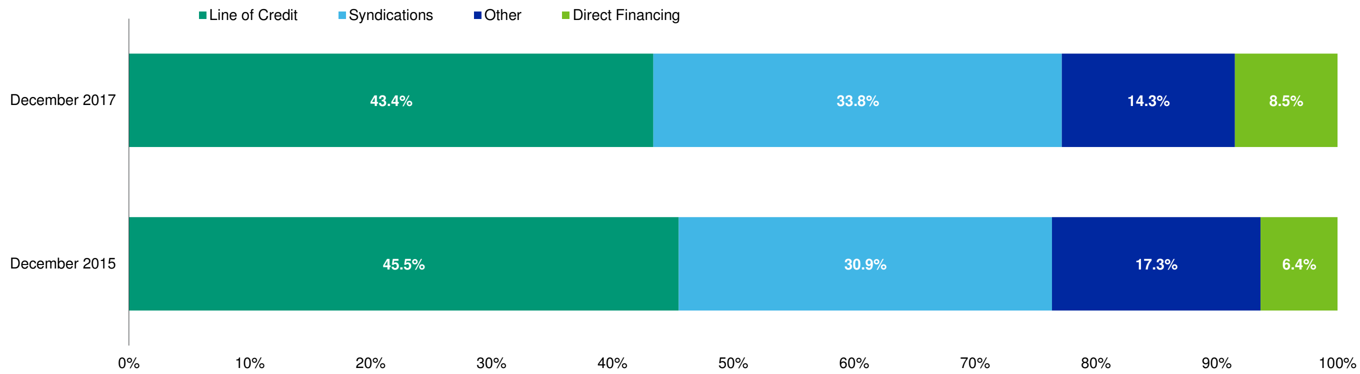
The bank's facilities were also available for private sector shareholders in member states to the extent that such financing will be used to pay for imports from a member state.

The COTRALF facility is part of the "Line of Credit" program in the overview of Afreximbank's development operations and accounted for about 43% of the bank's net loans and advances at its peak between 2015 and 2017. The final remaining two facilities, totaling $1.5 billion as of December 2017, have matured as of the end of June 2018. Overall, 12 additional new member countries joined the bank in the two years of its existence, more than the total additions during a similar period since the bank's creation.

Afreximbank also seeks to be a preferred partner for major syndicated trade finance deals in Africa. With Afreximbank as a lender of record, private partner banks in the syndicate can benefit from Afreximbank's preferred creditor status and help Afreximbank in achieving its role of attracting funds to Africa. Syndications accordingly represent the second-largest business line at 33.8% of total operations after lines of credit at 43.4% as of December 2017 (see Exhibit 4).

In 2014, on the liabilities side, the bank introduced the Central Bank Deposit/Investment Program (CENDEP), aimed at harnessing Africa's external reserves and supporting the continent's trade and economic development efforts. Some of the deposits under CENDEP have been used to collateralize loans extended under the COLTRALF program. The uncollateralized net exposure was designed to be minimal and in any event not exceed 20% of the size of the relevant deposit.

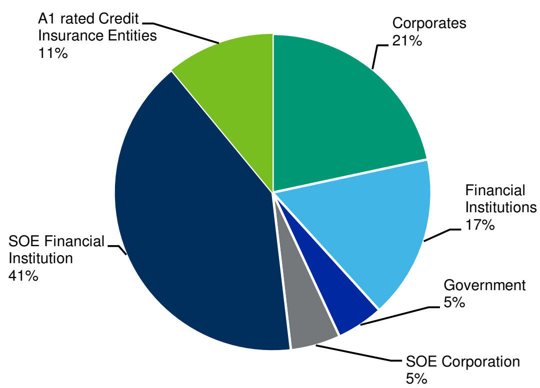
Exhibit 4
Lines of credit and syndications continue to dominate the bank's lending program



Source: Afreximbank, Moody's Investors Service

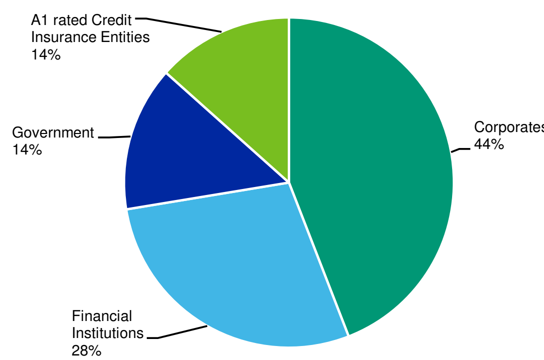
The relative size of the 2015-17 COTRALF lending facility was also reflected in the loan distribution by beneficiary, whereby exposures to central banks accounted for almost half of outstanding loans by mid 2017. This represented a major change from the loan distribution two years earlier, where 86% of outstanding loans were directed to the private sector and only 14% to governments (see Exhibits 5 and 6).

Exhibit 5
Exposures to central banks amounted to over half of all loans...
(Loans by beneficiary as of H1 2017)



Source: Afreximbank, Moody's Investors Service

Exhibit 6
...following the introduction of COTRALF
(Loans by beneficiary as of H1 2015)



Source: Afreximbank, Moody's Investors Service

CENDEP/COTRALF Facilities: Balance sheet impact under Moody's Supranational Rating Methodology

Afreximbank introduced two new programs during 2014 and 2015:

— the Afreximbank Central Bank Deposit/Investment program (CENDEP), introduced in 2014; and

— the Counter-Cyclical Trade Liquidity Facility (COTRALF), introduced in 2015

CENDEP is designed to attract deposits from the central banks of participating states, while COTRALF is designed to assist participating states by providing liquidity, in order to manage the adverse effects of economic shocks that have led to, or may lead to, a significant decline in foreign exchange earnings over a very short period. Among other security types, some of the COTRALF facilities are backed by deposits under CENDEP.

The uncollateralized net exposure is designed to be minimal and, in any event, should not exceed 20% of the size of the relevant deposit. By their nature, deposits and loans under these two programs may be short term and/or significant in size, which can lead to fluctuations in the bank's reported total assets and total liabilities at any given time.

Importantly, under the bank's Basel II reporting rules, exposures collateralized by cash deposits attract a risk weight of zero, thereby reducing risk-weighted assets and improving the risk-weighted CAR.

The risk-weighted CAR differs from Moody's asset coverage ratio which measures the bank's usable equity against gross exposures rather than on a risk-adjusted basis. A significant increase in the loan book — whether cash collateralized or not — will therefore result in a commensurate decline in the asset coverage ratio.

Other ratios impacted by the introduction of CENDEP are the debt/equity and debt service ratios once CENDEP deposits are added to borrowings. Similarly, asset quality is impacted depending on whether impaired loans are measured against gross loans (including COTRALF) or against risk-weighted assets after the netting out of cash collateralized loans on both sides of the balance sheet. The use of gross vs. net exposures also impacts the loan distribution and concentration levels in terms of top 10 concentrations, as well as regional and sectoral exposures.

Importantly, the contractual documents make the CENDEP cash deposit valid security for the loan, enforceable under English law, confirming that this cash deposit cannot be withdrawn until all liabilities under the loan have been discharged in full. In addition, the CENDEP deposits are segregated by country and cannot be used for cross-securitization of other countries' COTRALF exposures. Given the above, and based on the temporary and short-term nature of the facility, Moody's considers the practice of netting against cash collateral as acceptable for analytical purposes in this instance.

While continuing to report the scorecard ratios in gross terms, Moody's also takes into account the indications of net metrics for the determination of Afreximbank's factor scores and credit profile under Moodys methodology for Multilateral Development Banks and Other Supranational Entities.

Staffing and management

The bank runs a lean organizational structure with a cost to income ratio of 18% during 2017, in line with 2016 and down from 21% in 2015, even as total staff numbers has continued to increase.

The president of the bank, Dr. Benedict Oramah, is a long serving employee of the bank, joining in 1994 as chief analyst and served in different roles before taking on the positions of senior director and then executive vice president of the planning and business development department in 2007 and 2008, respectively. President Oramah succeeded Jean-Louis Ekra in September 2015 upon the recommendation of the board of directors after Mr. Ekra's completion of two five-year terms as president.

The board of directors is comprised of 12 members. Each of the bank's four classes of shares (A, B, C, D) consult on the nominees for their class. Class 'A' and Class 'B' shareholders are represented by four directors each while Class 'C' shareholders are represented by two directors. Class D currently has no board representative. The African Development Bank has a permanent seat on the board within Class A. Two independent directors are also appointed by the general meeting based on the nomination by the board of directors.

The general meeting convenes once every year or may meet to transact special business through an extraordinary general meeting. The general meeting appoints directors and external auditors and considers all matters relating to the capital of the bank, approves financial statements and exercises all such powers as are reserved to the general meeting in the bank charter. The general meeting is chaired by a chairman elected from one of the member states. The term of office is one year. To ensure continuity a vice chair is elected at each annual meeting who usually becomes the chair in the subsequent year.

CREDIT PROFILE

Our determination of a supranational's rating is based upon the consideration of three rating factors: capital adequacy, liquidity and strength of member support. For multilateral development banks (MDBs), the first two factors combine to form the assessment of intrinsic financial strength, which provides a preliminary rating range. The strength of member support can provide uplift to the preliminary rating range. For more information please see our Multilateral Development Banks and Other Supranational Entities methodology.

Capital adequacy: Medium

New CENDEP and COTRALF programs have a significant balance sheet impact

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.

The resources that an MDB has available to absorb credit or market losses stemming from its operations, and preserve its ability to repay debt holders, are an important element of its financial fundamentals and overall creditworthiness. MDBs hold capital because they face potential credit losses as a consequence of their lending and investment operations in sectors or regions that are relatively risky, in line with their mandates.

Other MDBs with "Medium" capital adequacy include the Black Sea Trade and Developtment Bank (BSTDB, A2 stable), Central American Bank for Economic Integration (CABEI, A1 positive), Eurasian Development Bank (EDB, Baa1 stable).

Capitalization is supported by retained earnings, general capital increase, expanding membership and introduction of Class D shares…

Afreximbank completed a targeted $500 million general capital increase from existing shareholders by the end of July 2016, a few months ahead of the end-year deadline set out at the beginning of the exercise in September 2014. Aiming to further strengthen its capital base to support its trade finance mandate, the bank's shareholders approved the raising of an additional $1 billion in capital in the medium term at the Bank's 23rd AGM in June 2016. For the year 2017, the bank raised approximately $489 million or 49% of its target. This was the main contributing factor for the 30.6% improvement in Afreximbank's usable equity to $2.1 billion at the end of 2017 from $1.6 billion a year earlier, in addition to retained earnings from improved profitability. The bank has also expanded its Class A, B and C membership base to 147 shareholders as of December 2017.

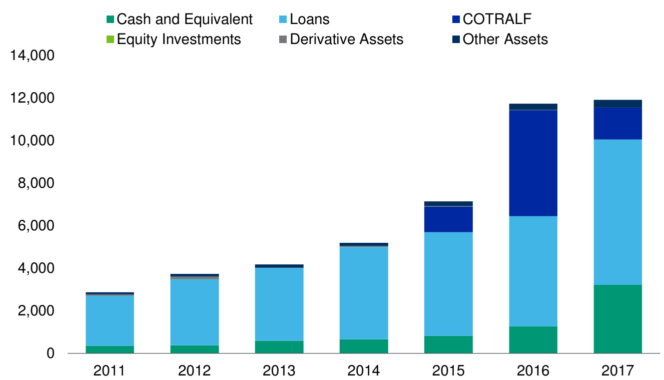
Among its new Class A, B, C and D shareholders, the bank has welcomed African corporations and financial institutions as new members, some of which joined during 2017 as previously discussed, and more than $287 million was raised through the successful launch of the Class D share class in late 2017 backed by Depositary Receipts ("DR") issuance, which were listed on the Stock Exchange of Mauritius. Future plans include raising an additional $200 million from existing and new shareholders.

The bank also employs equity optimization strategies including asset distribution programs with loan sell down to other financial investors and insurers to free up lending capacity. As of December 2017, the bank had 25% of loans cash-backed and 14% payment risk transferred to higher rated jurisdictions. Additionally, shareholder support and preferred creditor treatment remains strong, as discussed under the Strength of Member Support section.

…but was impacted by the introduction of new COTRALF facilities if measured on a gross loan basis

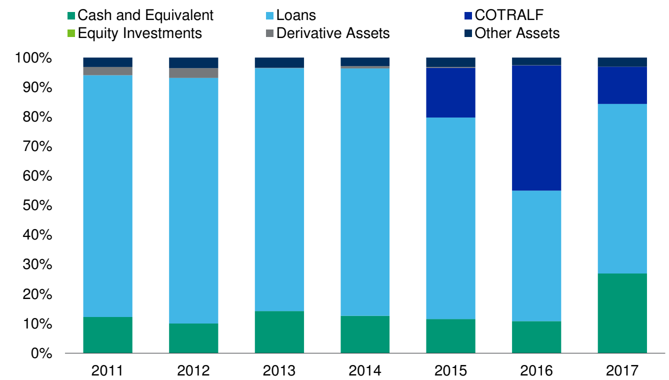
Exhibits 7-10 highlight the developments on both the asset and the liabilities side that impact the calculation of Moody's scorecard ratios under the capital adequacy factor. As discussed in Box 1, the new COTRALF facility introduced in December 2015 has had a significant impact on several scorecard ratios, including on Moody's asset coverage ratio (defined as usable equity/gross loans), and on the leverage ratio (debt/equity ratio).

Exhibit 7
Total assets including COTRALF loans to central banks
(million $)



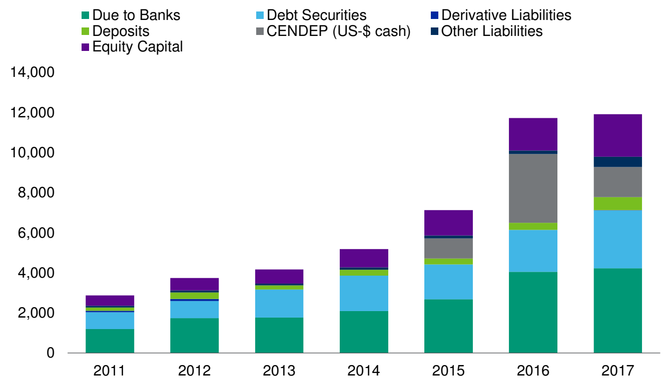
Source: Afreximbank, Moody's Investors Service

Exhibit 8
Total asset shares
(%)



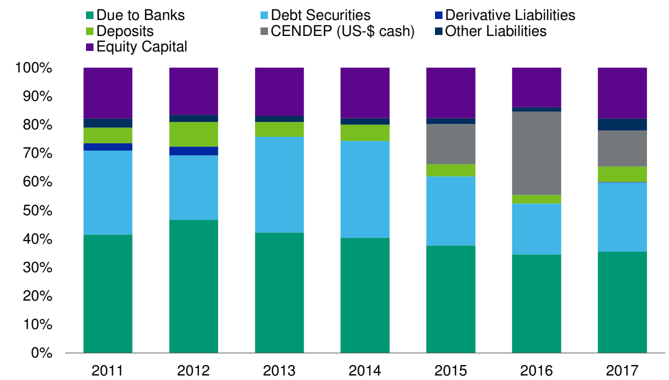
Source: Afreximbank, Moody's Investors Service

Exhibit 9
Total liabilities including CENDEP cash deposit/collateral facility
(million $)



Source: Afreximbank, Moody's Investors Service

Exhibit 10
Total liabilities and equity shares
(%)



Source: Afreximbank, Moody's Investors Service

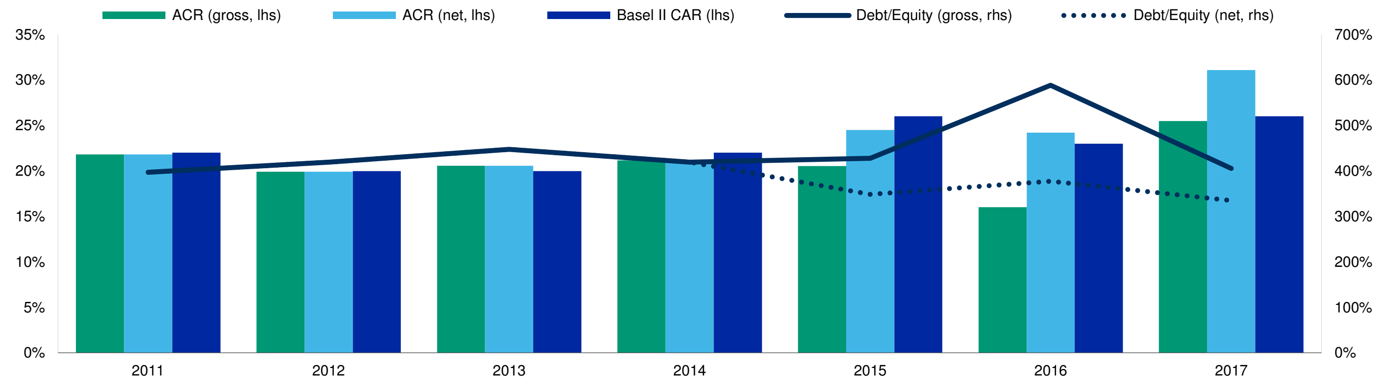
As mentioned in Box 1, given Afreximbank's legal claim on the pledged CENDEP deposits as collateral for COTRALF exposures and the short tenor of the facilities that allows a quick wind down in case of unexpected challenges, we consider the practice of netting against US dollar cash collateral in CENDEP as acceptable for analytical purposes. While continuing to record both the gross and the net loan and borrowing exposures, we will follow the indications of net metrics for the determination of Afreximbank's credit profile under the methodology for MDBs and Other Supranational Entities (OSEs).

Practice of netting against cash collateral in US dollars is acceptable taking into account the legal claim on CENDEP cash deposits held with Afreximbank

For example, Exhibit 11 explains the different equity ratios resulting from different definitions, including the Basel II CAR Afreximbank reports. In risk-weighted terms, the bank's CAR has improved since the end of 2016, rising to 26% by the end of 2017, from 23% at the end of 2016. The bank expects its CAR to be at a range of 20 - 30% through 2020 under its strategic plan. A similar assessment of capitalization derives from the net asset coverage ratio (net ACR calculated as equity/(gross loans minus US dollar cash deposits under CENDEP) which we use as base case for analytical purposes while continuing to report the scorecard ratios in gross terms.

Exhibit 11

Balance sheet impact of CENDEP/COTRALF facilities on scorecard ratios is diminishing given winding down of facilities (%)



ACR: asset coverage ratio = usable equity/gross or net loans

Source: Afreximbank, Moody's Investors Service

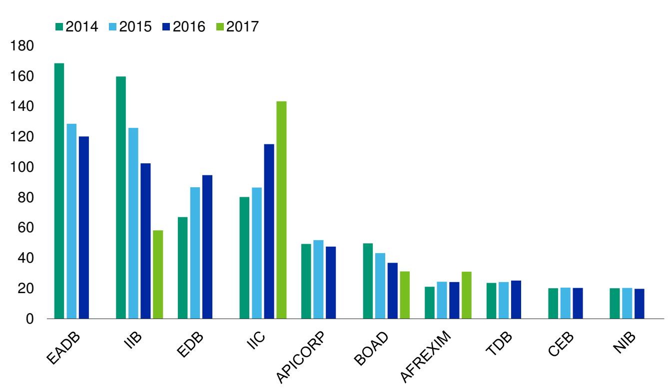
A different picture emerges under the gross ACR calculated as usable equity/gross loans, including the full COTRALF exposure not mitigated by any cash collateral. This ratio has risen to 25.5% in 2017 from 16.0% at the end of 2016, notwithstanding a one-year decline in 2016 due to the balance sheet expansion in that year.

Similarly, the gross debt/equity ratio conveys a different picture if the US dollar cash deposits in CENDEP over the last two years is included under borrowings or not to calculate the leverage ratio. Under the gross scenario, the leverage ratio decreased sharply to 406% in 2017 from 589% at the end in 2016, whereas under the net scenario the debt/equity ratio improved more modestly to 335% by the end of 2017 from 378% in 2016.

Because of Afreximbank's trade finance business model, the bank operates with one of the lowest capitalization levels among the MDBs we rate (see Exhibit 12) and is among those with one of the highest leverage ratios even when measured in net terms (see Exhibit 13) which is reflected in the bank's Baa1 rating and stable outlook. A deterioration of Afreximbank's credit metrics including in risk-weighted terms, or indications of a broad-based deterioration in the bank's credit profile, would lead to a reassessment of Afreximbank's credit quality.

Exhibit 12

Capitalization is among the lowest in Moody's rated MDB universe...
(usable equity/gross loans*, %)

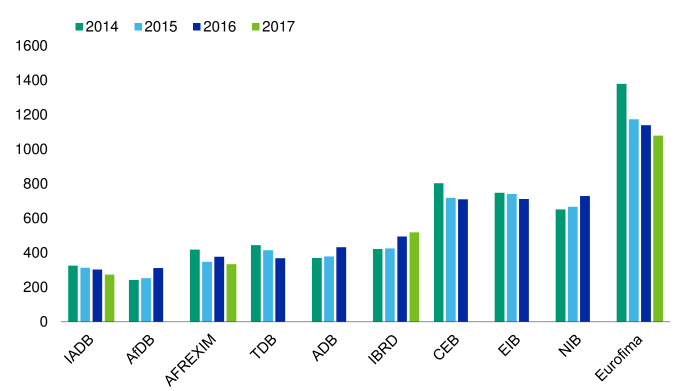


*Note: for Afreximbank, net loans instead of gross loans are depicted; net of US dollar cash collateral in CENDEP

Sources: Afreximbank, Moody's Investors Service

Exhibit 13

... but leverage improves if measured In risk-weighted terms
(debt/equity*, %)



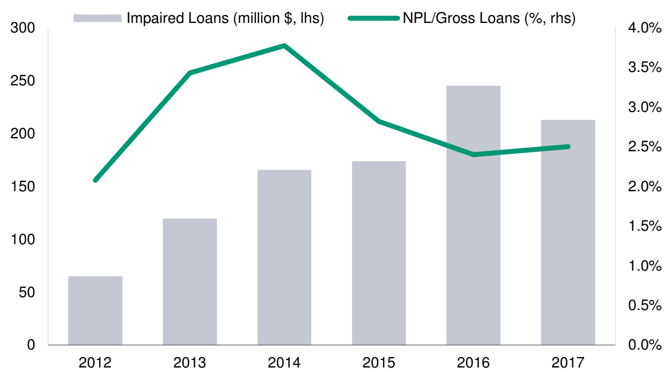
*Note: for Afreximbank, net debt instead of gross debt is depicted; Net debt refers to gross debt net of US dollar cash collateral in CENDEP

Source: Afreximbank, Moody's Investors Service

Asset quality remains adequate and in line with peers

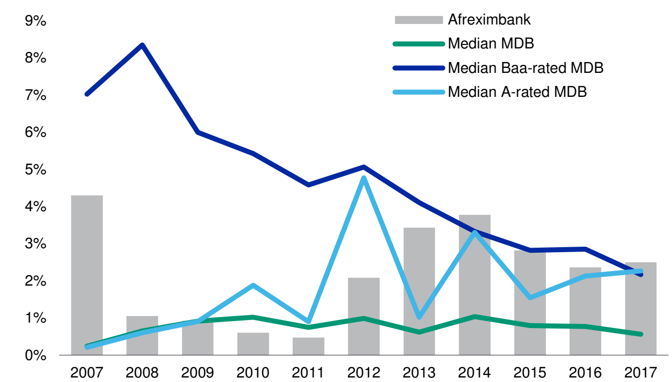
Afreximbank's asset quality performance remains adequate with the ratio of nonperforming loans (NPLs) to gross loans at 2.5% by the end of 2017 compared to 2.4% a year earlier (see Exhibit 14). This is broadly in line with peer MDBs with exposures in the collateralized trade finance business and compares to a median NPL ratio of below 1.0% within the universe of the MDBs we rate (see Exhibit 15). However, the ratio is somewhat enhanced by the distorting effect of the large COTRALF facility inflating the denominator.

Exhibit 14
NPL ratio has steadily declined since 2014...



Source: Afreximbank, Moody's Investors Service

Exhibit 15
...and is in line with peers
(NPL ratio, %)



Source: Afreximbank, MDB Audited Financial Statements, Moody's Investors Service

On a nominal basis, the volume of NPLs decreased to $213 million at the end of 2017, from $245 million at the end of 2016. This was because of write-offs of $52 million during 2017, compared with write-offs of $20 million during 2016, reflecting the difficult operating environment. The write-offs concern two facilities while another one was fully recovered.

The impaired loans are covered by loan loss allowances amounting to 85% of impaired loans in addition to collateral fair value at 56% of impaired loans, resulting in provision coverage of 141% as of December 2017, up modestly from 133% in December 2016.

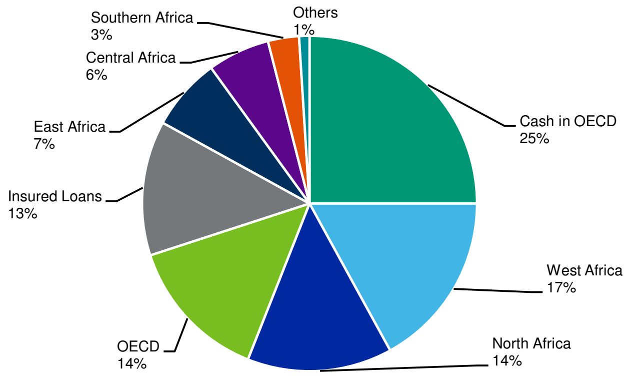
Under Afreximbank's trade finance model gross loans and advances are secured by collateral with a fair value covering between 80% to 95% of gross loans outstanding and with the remainder representing clean risk. As of the end of 2017, about 25.4% of outstanding loans are cash covered (including via the CENDEP facility), followed by 24.2% of outstanding loans covered by the assignment of receivables. A further 12.7% are covered by trade credit insurance from entities in the single-A equivalent rating range and 11.7% are covered by dual recourse loan features and backed by guarantees from governments. Clean risk facilities amounted to 16.7% of the loan portfolio. In the case of Afreximbank's trade finance focus, we take the value of collateral into account when assessing the weighted average borrower rating and to the extent it supports asset quality.

Concentration risk is mitigated by geographic distribution of ultimate payment counterparty

The large size of loans to central banks under the COTRALF facility has been a key driver for the significant increase in the sectoral and in the loan concentration metric by counterparty on a gross basis. On a net basis, after reducing the central banks' exposure by the amount that is collateralized by US dollar cash deposits, concentration levels return to levels more in line with peers. Moreover, under the trade finance business model a significant share of Afreximbank's repayment risk originates from outside of the obligor's country (see Exhibit 16).

Exhibit 16

Counterparty risk of ultimate repayment sources is geographically broadly distributed
(loan portfolio breakdown by geography of actual payment risk as of December 2017)



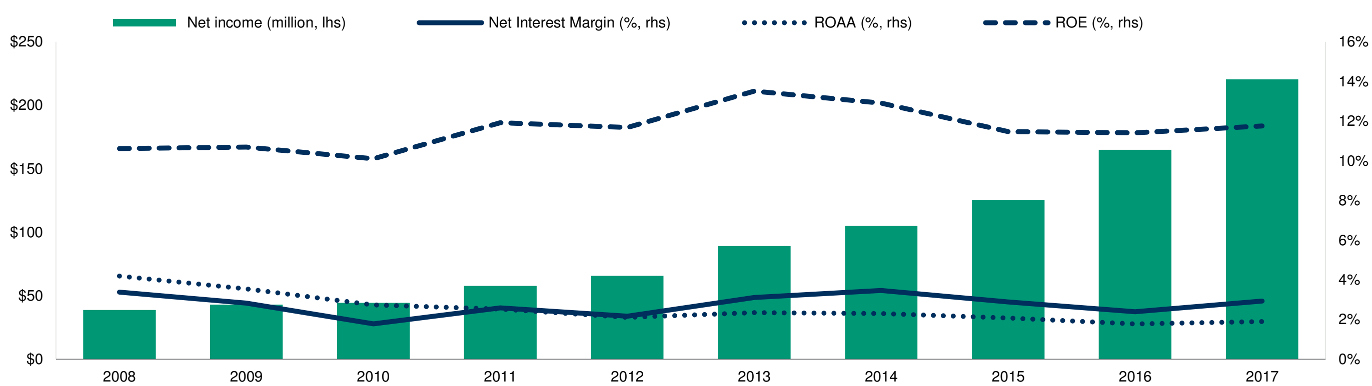
Source: Afreximbank

Profitability remains sound and reflects the lean cost and risk management structure

As previously mentioned, Afreximbank is not a profit-maximizing institutions, but does pay dividends to shareholders. It generated net income of $220 million in 2017, an increase of 33% from the $165 million in 2016. The 25.2% increase in net interest income supported the rise, enhanced by the continued low cost of funding via the remaining CENDEP deposits (see Exhibit 17). The bank expects continued net income growth because of ongoing expenditure controls. Return on equity increased modestly in 2017 to 11.8%, up from 11.4% at the end of 2016, and return on average assets was broadly unchanged at 1.9% reflecting high asset growth, especially in the bank's cash position.

Exhibit 17

Profitability ratios remain strong



ROAA = Return on Average Assets, ROE = Return on Average Equity
Source: Afreximbank, Moody's Investors Service

The bank's overall profitability performance remains supported by its very low cost-to-income ratio at 18% during 2017 — down from a peak of 21% in 2015 — driven mainly by the relatively high operating income in comparison to the contained growth in operating expenses which are mainly driven by personnel costs.

Bank aims for continued expansion of the balance sheet within the current prudential framework

Under the latest bank forecasts, Afreximbank aims for a Basel II Tier 1 capital ratio to be at a range of 20-30% over the next two years. The current forecasts for 2018 reflect the recent scale-down of the COTRALF and CENDEP facilities. Overall, the bank's projections for profitability and net interest income are within the parameters realized in 2017.

Afreximbank expects the main business growth drivers over the next five to ten years to stem from countries that are at the core of the expanding intra-African trade, including South Africa, Nigeria (B2 stable), Kenya (B2 stable), Côte d'Ivoire (Ba3 stable), Egypt (B3 stable), in addition to programs in Zimbabwe, Zambia (B3 stable) and Senegal (Ba3 stable). For instance, in late June 2018, Afreximbank and the Export Credit Insurance Corporation of South Africa SOC Limited (ECIC) launched the South African-Africa Trade and Investment Promotion Programme (SATIPP), a $1 billion financing programme to promote and expand trade and investments between South Africa and the rest of Africa. In May 2018, the bank announced the arrangement of up to $2 billion in financing support to Angola in form of various trade financing facilities for essential imports.

Liquidity: Medium

Large cash assets increase Afreximbank's comparatively lean liquidity buffer

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.

Illiquidity is most often the most likely cause of a financial institution's failure. Liquidity assumes particular importance for MDBs because these entities rely on their own resources in the face of shocks, before shareholder support materializes. Moreover, most MDBs do not have access to the liquidity facilities that central banks provide to commercial banks. The primary aim of holding liquid assets is to meet financial obligations, in particular debt service, by investing in assets that can be quickly converted to cash. In this respect, we look at the extent to which liquid assets cover debt-service requirements. We also evaluate the stability of access to funding, which is an essential element of maintaining liquidity.

Other MDBs with a "Medium" liquidity score include the Eurasian Development Bank and the [Gulf Investment Corporation (A2 stable)].

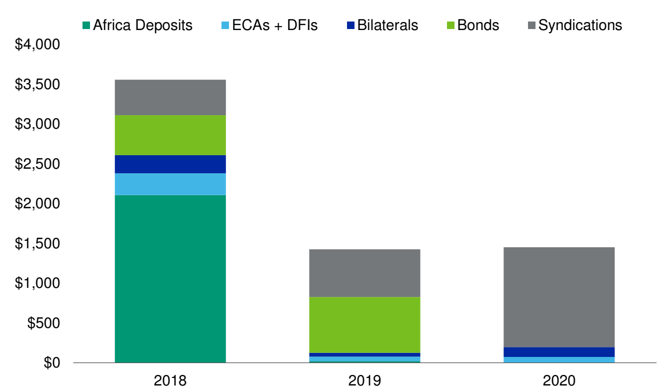
Comparatively lean liquidity position mirrors short-term orientation of the bank

Consistent with its focus on trade finance with comparatively short maturities, Afreximbank holds a relatively lean liquidity position when compared with other MDBs' treasury asset holdings. Exhibit 18 highlights Afreximbank's maturity profile by instrument through 2020, and Exhibit 19 highlights the debt service coverage ratio with and without maturing central bank deposit facilities in comparison with other MDBs.

The relatively tight liquidity position is partially mitigated by the comparatively short average loan portfolio maturity with 84% of the loan book maturing within one year at the end of 2017. The self-liquidating nature of most trade finance facilities supports Afreximbank's "Medium" liquidity position subfactor. Moreover, asset portfolio duration is shorter than the maturity of liabilities to allow the bank to accumulate asset cash flow which can be used to fund maturing obligations if it faces market access difficulties.

Exhibit 18

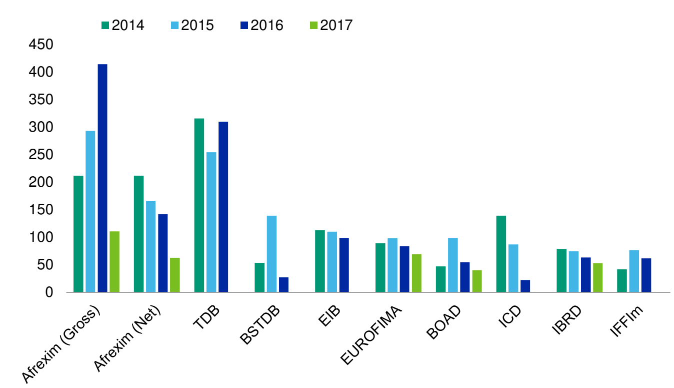
Maturity profile by instrument (excluding equity capital)
(million $)



ECA = Export Credity Agency; DFI = Development Finance Institution
Source: Afreximbank

Exhibit 19

Debt-service coverage ratio improves upon temporary boost in cash holdings (lower=better)
(short-term debt + currently maturing long-term debt / liquid assets, %)



Gross debt includes US dollar cash deposits in CENDEP as borrowings, net debt excludes it
Source: Moody's Investors Service

The bank's low average portfolio duration is also a mitigating factor with respect to interest rate risk, alongside the repricing of most of Afreximbank's loans and assets within three months. Foreign exchange risk is similarly contained as approximately all financial assets and 85% of liabilities are denominated in US dollars. The euro represents the only other major currency that the bank is exposed to. Both remaining interest and foreign exchange risk exposures are hedged in the derivatives markets with sound counterparties.

Related to the bank's short-term orientation, the bank's risk management policy and procedures (RMPP) require it to hold minimum liquid funds that also cover repayments of debt obligations due within the next three months in addition to loan commitments with a disbursement schedule of less than one week and other budgeted expenses. As of December 2017, the actual cash balance of $3.2 billion plus a 40% haircut on trade loans with maturity of less than one year (totaling $1.6 billion) exceeded the required $4 billion, according to the policy, by a significant margin.

In addition, the bank observes the liquidity coverage ratio (LCR) requirement of at least 105% in the definition of the Basel Accords which compares liquid cash holdings with total cash outflows over the next month. Afreximbank's LCR according to this measure amounted to 185% as of December 2017, significantly higher than the minimum requirement.

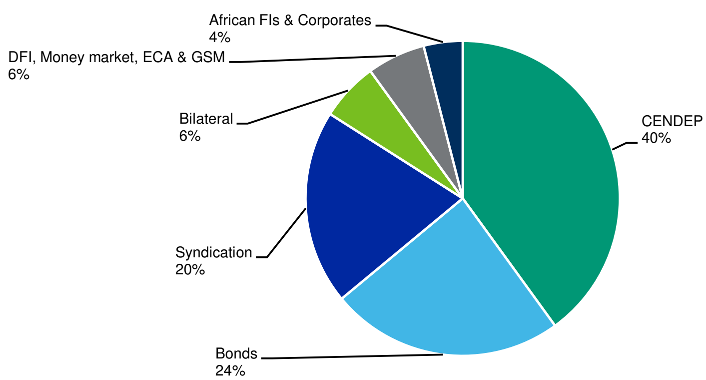
The bank's practice is also to ensure that it maintains a positive cumulative liquidity gap across all maturity buckets, which remains the case. In terms of counterparties, the bank diversifies its liquid cash base with various investment grade counterparties approved by the board of directors and with different limits for shareholder and nonshareholder banks.

Diversified funding position benefits from international capital market access

The bank has diversified its funding sources, most recently with the inclusion of the central bank deposit program CENDEP. Exhibits 20 highlights the funding breakdown by sources. In addition, the bank now issues Depositary Receipts (Class D shares) listed on a stock exchange as a new equity raise mechanism.

Exhibit 20

Funding breakdown by source (excluding equity capital)
(as of December 2017)



ECA = Export Credity Agency; DFI = Development Finance Institution
Source: Afreximbank

- As of December 2017, the bank has sourced 40% of its funding under CENDEP, compared with 50% in 2016. Since most of these deposits are linked to COTRALF facilities, the maturity is matched with the tenor of those loan facilities. A further 4% in funding stems from African institutions that are not central banks. These wholesale deposits have an average tenor of about 12 months. The remainder of Afreximbank's deposits are mainly transaction-led and used to retire outstanding loans until they are fully paid.
- Bonds accounted for 24% of funding sources at the end of 2017. The bank currently has three fixed-rate securities outstanding under its EMTN program: (1) $700 million 4.75% bond maturing in July 2019; (2) $900 million 4.0% bond maturing in May 2021, and (3) $750 million 4.125% bond maturing in June 2024.

» In terms of contingency planning, the bank had about $2.4 billion of undrawn credit lines available as of December 2017, consisting of $623 million in committed and $1.7 billion in uncommitted lines. These are made available by banks, export credit agencies (ECAs) and development finance institutions (DFI). Most of the relationship banks have joined with Afreximbank in previous syndications and are considered regular funding sources by the bank. This compares to contingent liabilities amounting to $697 million consisting of $377 million in guarantees and $320 million in letters of credit.

» The maturity of 55% of the contingent liabilities is less than one year.

Strength of member support: Low

Very low average shareholder rating and high debt relative to discounted callable capital limit strength of member support

Factor 3

Scale	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.

Contractual support mechanisms, which for MDBs often involve callable capital pledges, support the institutions' ability to service their debt in times of particular financial stress. Presence of a substantial callable capital buffer is often among the key strengths supporting MDB credit ratings at the top end of the rating spectrum.

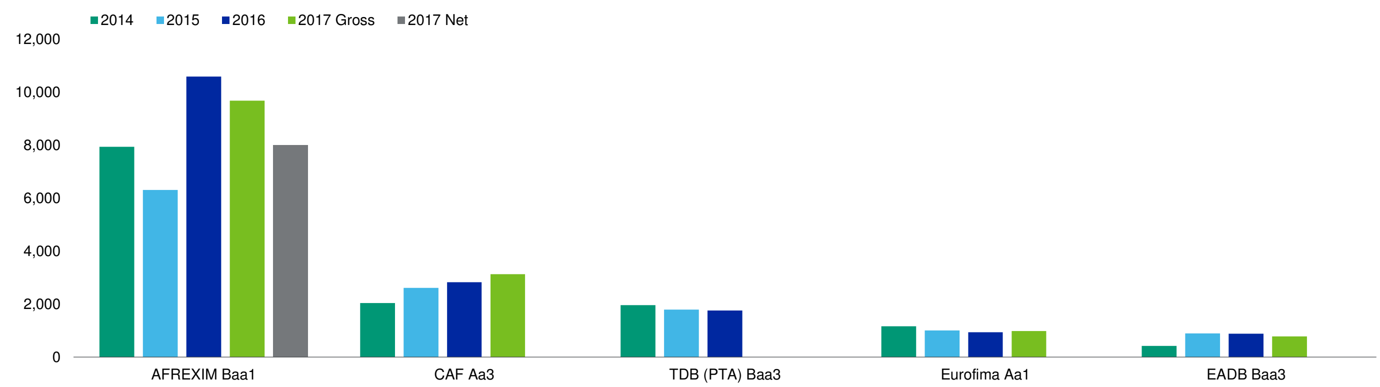
Afreximbank's "Low" factor score reflects the bank's constrained contractual shareholder support because of the very low weighted median shareholder rating, while also taking into account shareholders' track record of timely contributions to capital increases. The bank shares the "Low" factor score with Corporacion Andina de Fomento (CAF, Aa3 stable), East African Development Bank (EADB, Baa3 stable), and the Eurasian Development Bank.

Mid-term credit mitigation instrument on callable capital mitigates very low average shareholder rating

Among the MDBs we rate, Afreximbank qualifies within the most highly leveraged institutions and as one with the lowest weighted median shareholder rating at B2. This combination constrains the degree of credit uplift that Afreximbank can derive from contractual or from extraordinary member support in our methodology. Exhibit 21 shows Afreximbank's underperformance relative to other MDBs on the contractual support metric, both on a gross or net debt basis.

In particular, the discounted callable capital includes only the callable capital contribution from investment-grade rated shareholders, discounted by rating, which in the case of Afreximbank represents only about 16% of the total callable capital base even after the recently completed general capital increase which boosted the volume of total callable capital to $655 million as of December 2017. Comparing the constrained callable capital base with the relatively high outstanding debt metric informs the unfavorable contractual support metric.

Exhibit 21
Top five MDBs by debt/discounted callable capital from investment-grade shareholders
(%, lower = better)



Note: Gross debt includes US-dollar cash deposits in CENDEP as borrowings, net debt excludes US dollar cash collateral in CENDEP
Source: Afreximbank, Moody's Investors Service

In this context, the bank has put in place a mid-term credit risk mitigation instrument for its callable capital on behalf of the bank's Class A and B shareholders. With this instrument, Afreximbank aims to address a scenario in which a call on capital would not be honored by all of the bank's shareholders. The review of the instrument terms against our credit substitution methodology confirms that the instrument serves as valid base for a credit uplift to Afreximbank's covered shareholder base to investment grade in case of a valid call on callable capital, although not to the extent of full credit substitution.

Strong participation in the general capital increase and continued expansion of the shareholder base underpin shareholders' high willingness to support

Afreximbank's demonstrated ability to raise equity capital from new and existing shareholders attests to the strong shareholder support despite the bank's low average shareholder rating. The $500 million approved capital increase starting in September 2014 was equivalent to about 70% of Afreximbank's existing shareholder equity as of September 2014, and the completion of the exercise before the deadline (at the end of December 2016) reflects the high level of willingness to support the institution. The size and speed of the capital increase also reflects favorably with general capital increase exercises at other MDBs.

The recent introduction of the CENDEP and COTRALF programs further 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 numbering 147 at the end of December 2017--including 45 African governments/central banks/African regional and subregional institutions (Class A), 87 African private and financial institutions (Class B), 14 non-African financial institutions/export credit agencies/private or public investors (Class C), one Class D shareholder-- underscores the bank's relevance. In November 2017, South Africa has joined the bank via the Export Credit Insurance Corporation of South Africa (ECIC), as have other private shareholders such as the Dangote Group, among other institutions. Other countries have continued to join the bank as participating states, not all of which are shareholders. Most recently, on June 9, Equatorial Guinea has joined Afreximbank as its 50th member state with the country's signing of the Instrument of Accession to the bank's establishment agreement.

At the annual general meeting of 2016, shareholders approved raising an additional $1 billion in equity by 2021 to support the expansion of the bank's loan book. Among others, the bank successfully raised about $287 million of equity using depositary receipts issued and listed on the Stock Exchange of Mauritius and backed by new Class D shares.

The bank's extraordinary member support assessment also benefits from the track record of preferred creditor instances in a challenging operating environment.

Broadly diversified shareholder base reduces linkages among members

Other considerations with respect to extraordinary shareholder support relate to linkages among members, which are assessed as "Medium" given their broad geographic diversification. However, the linkages are still exposed to common shocks to the entire region, such as for example a broad-based terms of trade shock or a hard landing of China's economy as one of Africa's main trading partners and as an important source of investment.

Correlation of members and assets is assessed as "Low" when taking into account that most borrowers are from the private sector and thus more broadly diversified in their activities than governments borrowing and lending from each other. The same reasoning applies to member concentration, which benefits from a more diversified shareholder base.

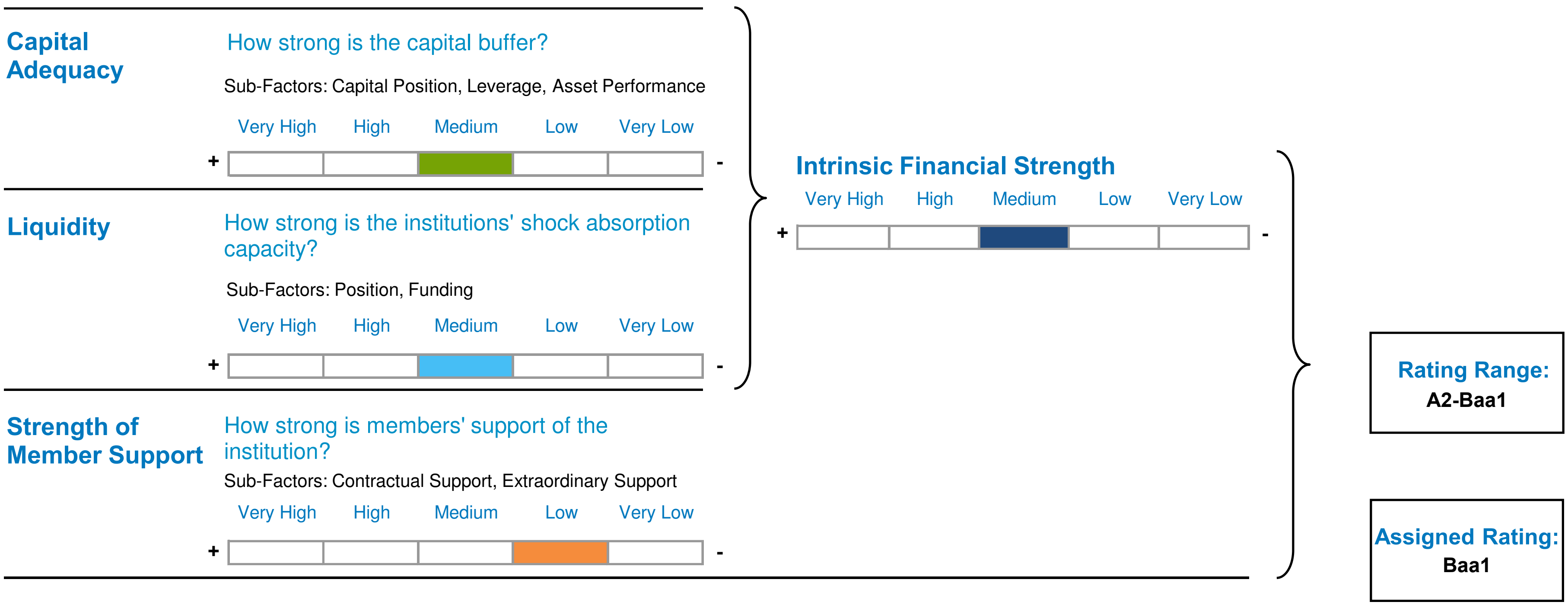
Rating range

Combining the scores for individual factors provides an indicative rating range. While the information used to determine grid mapping is predominantly historical, our ratings incorporate expectations around future metrics and risk developments that may differ from those implied by the rating range.

Therefore, the rating process is deliberative and not mechanical, meaning that it depends upon 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 methodology.

Exhibit 22

Supranational rating metrics: African Export-Import Bank



Source: Moody's Investors Service

Comparatives

This section compares the credit profile of Afreximbank with other MDBs that we rate with similar credit profiles and shows selected credit metrics and factor scores.

Afreximbank's capital adequacy score meets or exceeds key peers, at "Medium," with NPLs remaining well managed at 2.5% at the end of 2017 and outperforming peers EDB, IIB and EADB. Regarding Factor 2, liquidity, while debt service coverage risk is elevated in nominal terms, the trade finance focused nature of the bank's operations alleviates some of this risk. The Factor 2 score is also supported by the relatively low weighted average cost of loan debt. On Factor 3, strength of member support, Afreximbank scores "Low," in line with key peers EDB and EADB, but weaker than BOAD and IIB. Afreximbank's score is weighed down by the low average shareholder rating and the comparatively high debt relative to discounted callable capital.

Exhibit 23

African Export-Import Bank's key peers

	Year	AFREXIM	BOAD	EDB [5]	IIB	EADB	AFC	Baa Median
Rating/Outlook		Baa1/STA	Baa1/STA	Baa1/STA	A3/STA	Baa3/STA	A3/STA	--
Total Assets (US$ million)	2017	11,913	4,851	3,255	1,318	390	4,162	390
Factor 1		**Medium**	**Low**	**Medium**	**Medium**	**Low**	**Medium**	**--**
Usable Equity/Gross Loans Outstanding + Equity Operations (%)[1]	2017	25.0	32.0	97.2	58.3	131.9	75.5	25.0
Debt/Usable Equity (%)[1]	2017	405.5	293.0	93.8	168.5	41.9	164.8	293.0
Gross NPLs/Gross Loans Outstanding (%)[2]	2017	2.5	2.2	4.7	4.5	9.1	0.0	2.5
Factor 2		**Medium**	**High**	**Medium**	**Medium**	**High**	**High**	**--**
ST Debt + CMLTD/Liquid Assets (%)[3]	2017	109.5	34.0	7.0	27.6	8.0	12.9	8.0
Bond-Implied Ratings (Long-Term Average)	2011-2017	Ba2	Ba2	Ba2	--	--	Ba1	Ba2
Intrinsic Financial Strength (F1+F2)		**Medium**	**Medium**	**Medium**	**Medium**	**Medium**	**High**	**--**
Factor 3		**Low**	**Medium**	**Low**	**High**	**Low**	**Very Low**	**--**
Total Debt/Discounted Callable Capital (%)[4]	2017	9677.5	450.6	-	292.3	782.6	--	782.6
Weighted Median Shareholder Rating (Year-End)	2017	B2	-	Ba1	Ba1	B2	B2	B2
Rating Range (F1+F2+F3)		**A2-Baa1**	**A1-A3**	**A2-Baa1**	**Aa3-A2**	**A2-Baa1**	**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
[5] EDB data presented is as of fiscal year 2016

Source: African Export-Import Bank; Moody's Investors Service

DATA AND REFERENCES

Rating history

Exhibit 24

African Export-Import Bank[1]

	Issuer Rating		Senior Unsecured	Outlook	
	Long-term	Short-term			Date
Rating Raised	Baa1	--	Baa1	--	Jan-17
Outlook Changed	--	--	--	STA	Jul-15
Changed to definitive from prospective	--	--	Baa2	--	Sep-14
Outlook Changed	--	--	--	NEG	Mar-14
Rating Assigned	--	--	Baa2	--	Jul-11
Outlook Assigned	--	--	--	STA	May-10
Rating Assigned	Baa2	--	--	--	May-10

Notes: [1] Table excludes rating affirmations. Please visit the issuer page for African Export-Import Bank for the full rating history.
Source: Moody's Investors Service

Annual statistics

Exhibit 25

African Export-Import Bank

	2011	2012	2013	2014	2015	2016	2017
Balance Sheet, USD Millions							
Assets							
Cash & Equivalents	352	377	593	654	824	1,269	3,215
Securities	0	0	0	0	0	0	0
Derivative Assets	80	123	3	42	23	9	4
Net Loans	2,345	3,101	3,432	4,346	6,061	10,148	8,330
Net Equity Investments	0	0	0	0	0	0	0
Other Assets	90	130	146	147	224	300	365
Total Assets	**2,868**	**3,731**	**4,175**	**5,189**	**7,133**	**11,726**	**11,913**
Liabilities							
Borrowings	2,034	2,587	3,163	3,855	5,418	9,573	8,613
Derivative Liabilities	75	114	0	0	0	22	21
Other Liabilities	247	417	305	415	448	505	1,155
Total Liabilities	**2,355**	**3,118**	**3,468**	**4,270**	**5,866**	**10,100**	**9,789**
Equity							
Subscribed Capital	423	426	439	464	768	946	1,125
Less: Callable Capital	254	256	263	278	461	568	655
Less: Other Adjustments	(23)	(25)	(39)	(57)	(204)	(355)	(562)
Equals: Paid-In Capital	192	195	214	242	511	734	1,033
Retained Earnings (Accumulated Loss)	165	194	235	301	355	429	524
Accumulated Other Comprehensive Income (Loss)	0	0	0	0	0	0	0
Total Equity	**512**	**612**	**707**	**919**	**1,267**	**1,626**	**2,124**

Exhibit 26

	2011	2012	2013	2014	2015	2016	2017
Income Statement, USD Millions							
Net Interest Income	**70**	**75**	**125**	**173**	**199**	**273**	**338**
Interest Income	146	178	243	318	372	484	606
Interest Expense	77	102	118	144	173	211	268
Net Non-Interest Income	**20**	**30**	**27**	**29**	**44**	**34**	**14**
Net Commissions/Fees Income	17	28	23	28	30	30	30
Income from Equity Investments	0	0	0	0	0	0	0
Other Income	2	3	3	1	15	4	-16
Other Operating Expenses	**23**	**27**	**33**	**41**	**48**	**56**	**67**
Administrative, General, Staff	21	25	30	37	44	51	63
Grants & Programs	0	0	0	0	0	0	0
Other Expenses	2	2	4	4	4	4	3
Pre-Provision Income	**67**	**79**	**118**	**162**	**195**	**252**	**286**
Loan Loss Provisions (Release)	9	13	29	57	70	87	65
Net Income (Loss)	**58**	**66**	**89**	**105**	**125**	**165**	**220**
Other Accounting Adjustments and Comprehensive Income	0	0	0	2	9	-52	9
Comprehensive Income (Loss)	**58**	**66**	**89**	**107**	**134**	**113**	**230**

Source: African Export-Import Bank; Moody's Investors Service

Exhibit 27

	2011	2012	2013	2014	2015	2016	2017
Financial Ratios							
Capital Adequacy, %							
Usable Equity / (Loans + Equity)	21.6	19.6	20.3	20.9	20.5	15.8	25.0
Debt/Usable Equity	397.2	422.9	447.6	419.5	427.7	588.6	405.5
Allowance For Loan Losses / Gross NPLs	176.0	40.1	45.4	26.2	61.3	68.3	84.8
NPL Ratio: Non-Performing Loans / Net Loans	0.5	2.1	3.4	3.8	2.8	2.4	2.5
Return On Average Assets	2.4	2.0	2.3	2.2	2.0	1.8	1.9
Interest Coverage Ratio (X)	1.8	1.6	1.5	1.7	2.1	2.1	2.3
Liquidity, %							
St Debt + CMLTD / Liquid Assets	131.5	204.0	213.0	209.2	287.4	412.0	109.5
Bond-Implied Rating	Ba3	Ba2	Ba2	Ba3	Ba1	Ba2	Ba2
Liquid Assets / Total Debt	17.3	14.6	18.8	17.0	15.2	13.3	37.3
Liquid Assets / Total Assets	12.3	10.1	14.2	12.6	11.6	10.8	27.0
Strength of Member Support, %							
Callable Capital (CC) of Baa3-Aaa Members/Total CC	-	-	-	16.4	19.1	16.8	16.2
Total Debt/Discounted Callable Capital	-	5,979.9	7,298.8	8,700.7	6,308.4	10,592.9	9,677.5
Weighted Median Shareholder Rating (Year-End)		B2	B2	B2	B2	B2	B2

Source: African Export-Import Bank; Moody's Investors Service

Moody's related research

- **Issuer Comment:** Afreximbank Announces Launch of Freely Tradable Shares, a Credit Positive, August 2017
- **Credit Opinion:** African Export-Import Bank --- Baa1 Stable: Regular Update, June 2017
- **Rating Action:** Moody's upgrades the African Export-Import Bank's ratings to Baa1 from Baa2, outlook stable, January 2017
- **Rating Methodology**: Supranational Bond Rating Methodology, March 2017

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

- Sovereign risk group web page
- Sovereign ratings list
- African Export-Import Bank's webpage

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moodys.com for the most updated credit rating action information and rating history.

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