

CREDIT OPINION

18 July 2023

Update



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RATINGS

African Export-Import Bank

	Rating	Outlook
Long-term Issuer	Baa1	Stable
Short-term Bank Deposit - FC	P-2	--

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Americas	1-212-553-1653
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Japan	81-3-5408-4100
EMEA	44-20-7772-5454

African Export-Import Bank – Baa1 stable

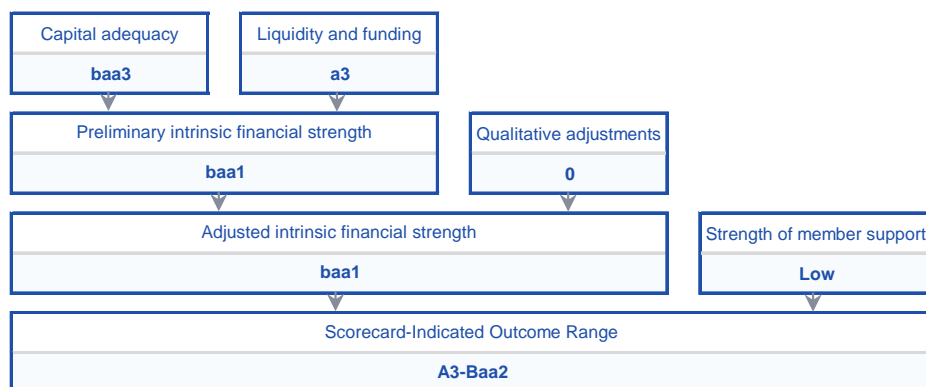
Regular update

Summary

The credit profile of [African Export-Import Bank](#) (Afreximbank) is supported by its critical role under the African Union umbrella that garners it recurrent capital infusions. The bank strives to provide solutions to the varying challenges affecting trade in Africa while actively managing inherent risks. The provision of trade-related lending on relatively short-term tenure is a key factor supporting asset performance and enabling Afreximbank to overcome otherwise challenging operating environments. Its liquidity buffers are weaker than peers, although its requirements are also lower because of the short maturity of its lending, and it maintains easy access to varying funding sources, a key credit support. The capacity of member states to provide capital on an extraordinary basis remains limited by their weak creditworthiness.

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, supporting asset performance and quality
- » Sound profitability and market access at favorable rates

Credit challenges

- » Comparatively high leverage ratio among rated supranationals

» Low average shareholder rating, although enhanced by a mid-term credit risk mitigation instrument

Rating outlook

The stable outlook is supported by the ongoing provision by member states of new capital to allow Afreximbank to continue its expansion alongside the implementation of the African Continental Free Trade Agreement while maintaining stable leverage at around 5.5x. It also gives Afreximbank increased flexibility over its balance sheet to navigate the challenging operating environment amid the economic and financial repercussions of higher inflation and tighter monetary conditions globally.

Factors that could lead to an upgrade

Upward rating pressure could arise from higher risk-weighted capital buffer or a strengthened liquidity profile because of stronger liquidity profile. A consistent improvement in asset quality toward levels closer to higher-rated peers could also support a higher rating level.

Factors that could lead to a downgrade

The following factors would likely result in a downgrade: evidence of a deterioration in the capital adequacy ratio toward or below Afreximbank's 20% minimum threshold; a sustained weakening of asset quality; and liquidity pressures affecting 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 (see our discussion of strength of member support), or a failure to perform as expected when triggered, would also likely result in a downgrade.

Key indicators

Exhibit 2

Afreximbank	2017	2018	2019	2020	2021	2022
Total Assets (USD million)	11,913.5	13,419.4	14,439.6	19,306.9	21,833.8	27,863.0
Development-related Assets (DRA) / Usable Equity [1]	443.6	479.1	496.3	568.0	551.1	522.7
Non-Performing Assets / DRA	3.8	2.7	2.5	2.8	2.9	3.0
Return on Average Assets	1.9	2.2	2.3	2.1	1.8	1.8
Liquid Assets / ST Debt + CMLTD	90.4	40.3	47.5	32.2	32.7	32.6
Liquid Assets / Total Assets	27.0	14.3	15.4	14.1	14.0	14.7
Callable Capital / Gross Debt	7.1	8.3	10.3	9.1	10.3	14.1

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

Source: Moody's Investors Service

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody's.com> for the most updated credit rating action information and rating history.

Profile

Afreximbank is one of only a few multilateral development banks (MDBs) that operate as multilateral public-private partnerships. The bank focuses on trade finance and was established under the auspices of the [African Development Bank \(AfDB, Aaa stable\)](#) against the backdrop of the economic crises of the 1980s. Starting 2021, a new group structure includes two subsidiaries: the Fund for Export Development in Africa (FEDA) to leverage FDI into the continent and perform equity investments on behalf of the bank; and Afreximbank Insurance Management Company (AfrexInsure) supporting Africa's specialty insurance market and generating premium income for the bank.

The group pursues three objectives: stimulate the consistent expansion, diversification and development of African trade; expand private sector participation in trade; and remain a bank controlled by Africans that serves the continent's goals.

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: baa3

We assess Afrexim's capital adequacy at 'baa3', a score shared with [West African Development Bank](#) (BOAD, Baa1 stable) and [The Currency Exchange Fund NV](#) (TCX, A1 stable). Afreximbank's responsiveness to successive crises over the past decade has enhanced its standing among members, supporting capital increases in parallel with the bank's expanding loan book. Consequently, the bank has been able to maintain a relatively stable, yet high, leverage ratio over the period. Asset quality is stable and in line with regional peers, benefitting from active risk management and a high degree of collateralization.

Consistently robust crisis response fosters access to equity capital to fund growth and maintain stable leverage

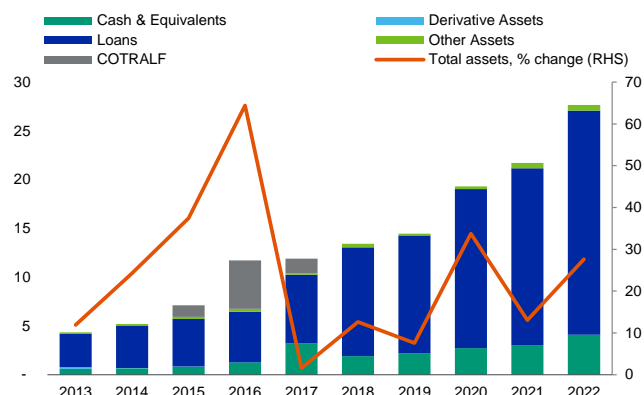
Afreximbank's crisis intervention credentials on the continent have enhanced its regional standing and its members' commitment to its success, supporting successive capital increases by member states. This has ultimately enabled the bank to maintain a stable but comparatively high leverage ratio as its balance sheet has expanded. Moreover, the bank's sound profitability performance in comparison with other MDBs has contributed to strengthening the bank's equity buffer via retained earnings and shareholders' reinvested dividends. Over the last 10 years, development assets have grown at an average annual pace of 25% and usable equity grew in tandem (at 24%), primarily driven by capital injection (for 60% of the increase over the period), while organic growth contributed to 40% of the capital base growth.

We expect the growth in Afreximbank's balance sheet to moderate somewhat as the bank plans to grow its portfolio of development asset by 12% annually under the 2022-26 strategic plan, in part financed by the recent capital increase, thereby maintaining stable leverage. Afreximbank's leverage ratio is comparatively high among rated MDBs, hovering between 5x and 6x. The bank's own determination of capital adequacy is based on a risk-weighted capital adequacy ratio within 20%-30%.

Exhibit 3

Rapid loan expansion during crisis periods such as in 2016 and 2020...

Assets, \$ billion (LHS); % (RHS)

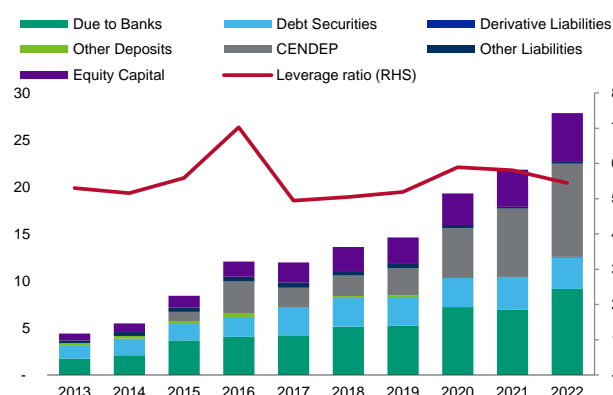


Sources: Afreximbank and Moody's Investors Service

Exhibit 4

... has been funded by the expansion of central bank/other bank deposits under CENDEP

Borrowings and equity, \$ billion (LHS); Leverage, x times (RHS)



Leverage: Development-related assets/usable equity, x times.

Sources: Afreximbank and Moody's Investors Service

Recently, the bank played a leading role in facilitating Africa's response to the coronavirus pandemic, highlighted through the rapid introduction of the \$3 billion (net, after mitigation) Pandemic Trade Impact Mitigation Facility (PATIMFA) disbursed in 2020 and 2021. In 2022, in response to the military conflict in [Ukraine](#) (Ca stable), the bank introduced a new emergency \$4 billion (net, after mitigation) response program, the Ukraine Crisis Adjustment Trade Financing Programme for Africa (UKAFPA), which will help member countries address the adverse trade effects of the crisis. The rapid intervention on the asset side during crisis periods is being funded mainly via deposits from central banks or other financial institutions (CENDEP), followed by reversal to trend loan growth after the crisis eases.

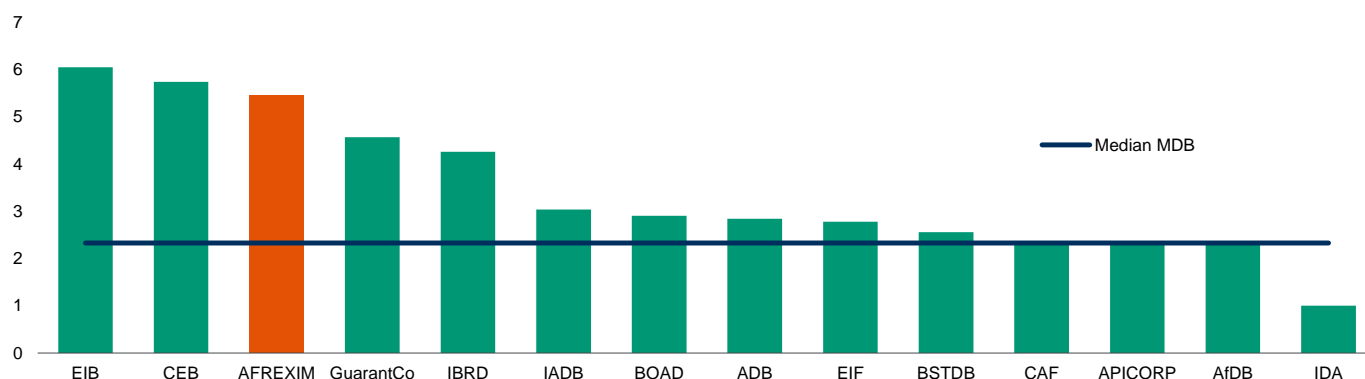
Since 2019, the bank is accredited by the African Union to support the implementation of the African Continental Free Trade Agreement (AfCFTA). Then, in 2020, African Union member countries (55 countries, 52 of which are also members of Afreximbank) agreed to a \$1.5 billion capitalization of Afreximbank in support of its efforts towards COVID-19 vaccine procurement in Africa, reinforcing the bank's role in implementing the AU's mandate. This allowed Afreximbank to expand development-related assets by 25% in response to the pandemic, boosting its crisis intervention credentials and therefore importance to shareholders.

The bank's board of directors endorsed the African Union-backed general capital increase in July 2021 with a view to raising a further \$1.1 billion until 2026, taking the total planned paid-in capital increase to \$2.6 billion. An amount of \$1.7 billion had already been raised toward this target by the end of 2022.

Exhibit 5

Afreximbank's leverage is high among peer MDBs

Leverage, x times (2022)



Leverage: Development-related assets/usable equity, x times.

Sources: Afreximbank and Moody's Investors Service

Asset quality benefits from active risk management and collateralization

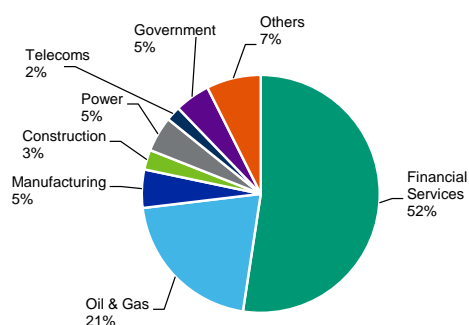
The share of nonperforming loans has historically been stable, hovering within a narrow range of around 3%. This is high relative to other MDBs we rate (around the 10th worst ratio out of more than 40 MDBs we rate). Despite the rapid loan book expansion, mainly in the form of onlending to financial institutions, asset performance has remained at that level (mapped with a score of "a3"). Similarly, Afreximbank's multilateral development bank status, but more importantly, the nature of its lending operations geared towards funding trade supports stronger asset performance than what county exposures would otherwise suggest.

Several risk mitigation measures support the bank's development asset credit quality at "ba". These include a high degree of collateralization with about 91% of loan facilities secured, including with cash (25% of collateral), and transfer of repayment risk to OECD counterparties via assignment of receivables (21%), in addition to A-equivalent credit insurance coverage (8%). The significant recourse to credit mitigation tools is key in explaining why asset quality is much stronger than what Afreximbank's county exposure would otherwise suggest ([Nigeria](#) [Caa1 stable], [Egypt](#) [B3 RUR] and [Ghana](#) [Ca stable] together account for two-thirds).

Exhibit 6

Onlending to financial institutions comprises largest exposure

Share of gross loans, 2022

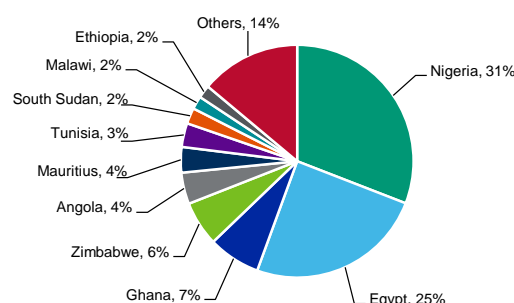


Sources: Afreximbank and Moody's Investors Service

Exhibit 7

Afreximbank is highly exposed to several lowly rated sovereigns

Country exposure, % of portfolio (December 2022)



Country risk is mitigated through collateral held with OECD banks, A-equivalent insurance coverage, and assignment of receivables. As of December 2021, 41% of repayment risk was transferred to OECD countries.

Sources: Afreximbank and Moody's Investors Service

FACTOR 2: Liquidity and funding score: a3

Because of its focus on trade finance, Afreximbank's assets have relatively short maturities on average, enabling it to operate with relatively narrow liquid asset resources. The bank has access to well-diversified and low-cost funding, including deposits from African central banks, bonds issued on international debt markets, and significant undrawn credit lines.

Comparatively lean liquid resources at "baa1" mirror short-term orientation of the bank

Afreximbank's liquidity position is leaner than that of other rated MDBs, a reflection of its emphasis on trade finance, which typically has shorter maturities. This is in line with the bank's liquidity risk guidelines that adhere to Basel standards. In addition, its policy requires the duration of its asset portfolio to be either shorter than or equal to its liabilities duration. This approach allows the bank to build up cash flow from assets, which is then used to meet maturing obligations. As of December 2022, the average remaining maturity of the loan portfolio was 30 months, compared to the average maturity of liabilities, which was 42 months.

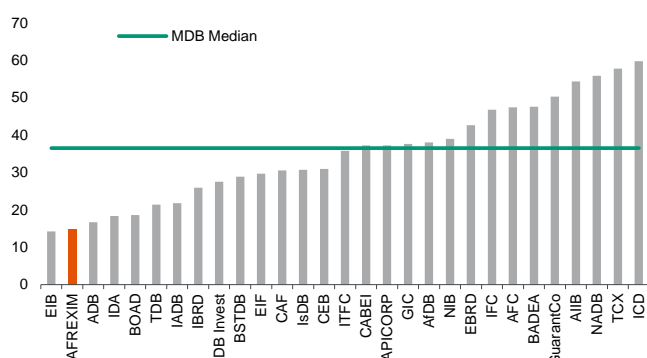
Liquid assets at \$4.1 billion amounted to 14.7% of total assets in 2022 compared with a global median of more than 30%, reflecting the larger cash holdings of MDBs that usually lend on a longer term and on an unsecured basis. Liquid assets are projected to cover only 68% of maturing liabilities (excluding maturing deposits) in the six quarters from March 2023.

The self-liquidating nature of a large proportion of Afreximbank's trade finance business, as 48% of the portfolio matures within one year and generates cash inflows, provides the bank flexibility to increase its cash buffer in case of need by reigning in lending. However, while curbing loan disbursements would reduce cash outflows, the inflows of asset-backed deposits would also fall while existing deposits continue to mature, limiting the boost to the cash buffer. To illustrate, subtracting planned loan disbursements from the projected outflows for 2023 gives a net cash inflow of \$8.2 billion for the year. However, over this period, the bank faces deposit maturities totaling \$6.5 billion, which would not be replaced by (asset backed) deposit inflows in a scenario in which lending is paused, resulting in an actual net cash inflow of just \$1.7 billion (still significant, representing 31% of liquid assets as of December 2022).

Afreximbank's sizable deposits, mostly CENDEP, have short contractual maturities, potentially exposing the bank to rollover risk. Deposits maturing in 2023 represent more than 100% of Moody's-eligible liquid assets. In practice, however, these deposits are mostly asset backed and represent a source of outstanding loan repayments to the bank. A reduction in deposit rollovers is therefore linked with the simultaneous extinction of the outstanding loan.

Exhibit 8

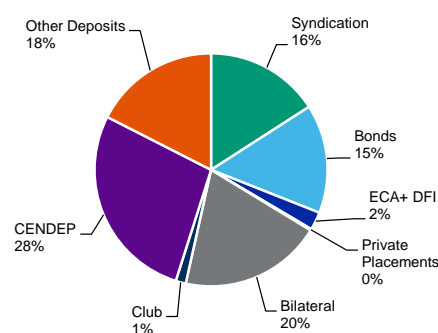
Afreximbank has one of the narrowest liquid assets ratios...
Liquid assets/total assets, % (2022)



Sources: Afreximbank and Moody's Investors Service

Exhibit 9

... but its effective deposit rollover risk is mitigated by asset-backed structure
Funding sources (2022)



Sources: Afreximbank and Moody's Investors Service

Funding quality assessment at "a" benefits from access to diverse funding sources

Afreximbank's funding sources are well diversified and come at very manageable cost, underpinning our "a" quality of funding score. The funding base includes deposit funding via CENDEP accounts (28%), which is rather unusual for MDBs. Borrowing from market sources, including syndications (16%), and international bonds (15%), is a key source of funding. Bilateral sources (20%) of borrowing and funding from export credit agencies and development finance institutions (ECA and DFI) form the bulk of the funding.

The bank raises deposits through CENDEP from African central banks and other African financial institutions directly out of African central banks' foreign reserves. These deposits are then used to fund trade programs and projects in Africa while providing favorable returns on the deposits.

In 2022, the bank raised its market borrowing from syndications only amid challenging international market. It raised \$1.6 billion from syndications in the loan market during full-year 2022; \$1.7 billion in bilateral lines with banks with which it has close and long-term business relationships, representing stable sources of funding; and \$1.2 billion from ECAs/DFIs. In 2021, the bank refinanced its \$942 million eurobond with a \$1.3 billion dual tenor bond issuance, the bank's largest-ever transaction in the international debt capital markets, including a \$600 million five-year note at 2.63% and a \$700 million 10-year note at 3.80%, after achieving a final order book of \$4.5 billion. In addition to the bond issued in 2021, the bank currently has three bonds outstanding in the international capital markets: 5.25% five-year \$500 million bond maturing in October 2023; 4.13% seven-year \$750 million bond maturing in June 2024; and 3.99% 10-year \$750 million bond maturing in September 2029.

Importantly, as of year-end 2022, the bank had around \$2.7 billion in undrawn credit lines available, of which about \$1.2 billion were committed (and included in our liquid assets) and \$1.6 billion uncommitted. These credit lines represent a liquidity backstop for unfunded guarantees and letters of credit amounting to about \$3.2 billion, which represent a contingent liability for the bank.

Qualitative adjustments to intrinsic financial strength: No adjustments

Operating environment

Although the bank remains exposed to a difficult operating environment in the African continent, we do not assign a negative adjustment for the operating environment (unlike several other African MDBs where we make a negative adjustment) given that the bank's lending is less sensitive to the operating environment than other MDBs, whose primary focus is long-term term for projects whose cashflows are more closely tied to the operating environment. Its track record of stepping in during crisis situations without jeopardizing its credit quality when other banks cut back their activities in the continent is indicative of the bank's ability to navigate a difficult environment.

Quality of management

The bank's governance structure safeguards against the overriding influence of its largest shareholders 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 22% as of year-end 2022.

In addition, the bank continues to strengthen its risk-management capacities and its prudential framework as it expands its activities. Its risk management framework comprises a board of directors responsible for oversight and approval of risk policies, an executive committee responsible for credit approval above management's authority levels, a committee responsible for reviewing and implementing risk policies, and a risk management department responsible for the development and monitoring of risk policies.

FACTOR 3: Strength of member support score: Low

We assess the strength of Afreximbank's member support at "Low," affording no uplift from the adjusted intrinsic financial strength score at "baa2." This assessment reflects the low weighted average shareholder rating at "b2", indicating constrained capacity of shareholders to support Afreximbank on an extraordinary basis. However, shareholders have a strong track record of capital contribution on an ongoing basis, which we reflect in a strong score for shareholders' willingness to support the institution. The score also reflects the credit support gained from the medium-term credit risk mitigation instrument. Other MDBs with a "Low" strength of member support assessment are [East African Development Bank](#) (EADB, Baa3 stable) and [Gulf Investment Corporation](#) (GIC, A2 stable).

Low weighted average shareholder rating weighs on strength of member support assessment, mitigated by callable capital support instrument

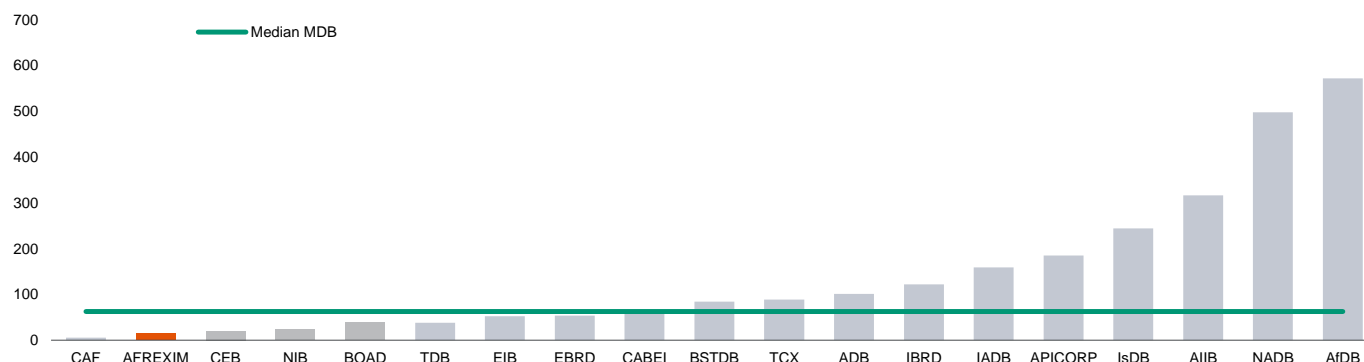
The bank's ability to support is measured by the weighted average shareholder rating at "b2." This assessment reflects the large shareholder base with 162 members in 2022 from 150 in 2018, many of which are local financial institutions that are not rated, and less than 10% of all shareholders are rated investment grade. Under the bank's rules, 40% of subscribed capital by Class A, B and C shareholders is paid in, and 60% is committed in the form of callable capital (Class D shares are fully paid in with no callable capital).

The combination of relatively high debt and low callable capital buffer results in a weak contractual support assessment at “b1”, as measured by total callable capital/total debt. This ratio is among the lowest of all MDBs.

However, the midterm credit risk mitigation instrument on callable capital that the bank contracted starting in 2017 supports the contractual support assessment with a +1 adjustment.¹

Exhibit 10

Afreximbank's total callable capital/debt is the lowest among rated MDBs
%, 2022



Sources: Afreximbank and Moody's Investors Service

Willingness to support is very high, exemplified by ongoing capital support

Afreximbank's demonstrated ability to raise equity capital from new and existing shareholders attests to strong shareholder support despite the bank's low average shareholder rating. For the period 2022-26, African Heads of State have already committed to channeling \$1.5 billion in equity to the bank for it to fulfill its regional mandate (\$2.6 billion in paid-in capital target agreed among all shareholders).

In the past, shareholders have consistently responded to capital raises on time and in full, including in response to the bank's policy articulated in the charter according to which any shareholder that defaults on any capital calls risks the loss of their already paid-up capital. Specifically, the charter states that the bank has a lien over the shares of any shareholder that defaults on any payment obligation to the bank, including meeting capital calls.

The bank's "Very High" non-contractual member support assessment also benefits from the track record of priority of support instances in a difficult operating environment. This is particularly relevant in instances where the bank has put in place a country program to deal with a broad range of challenges in a tailored manner. Qualifying countries include Zimbabwe and Sudan where the bank is operating in difficult conditions but without having incurred larger-than-average losses on its exposures in the past.

ESG considerations

African Export-Import Bank's ESG Credit Impact Score is Neutral-to-Low CIS-2

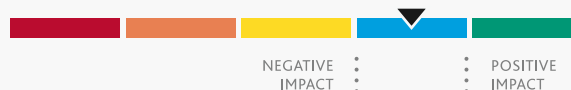
Exhibit 11

ESG Credit Impact Score

CIS-2

Neutral-to-Low

For an issuer scored CIS-2 (Neutral-to-Low), its ESG attributes are overall considered as having a neutral-to-low impact on the current rating; i.e., the overall influence of these attributes on the rating is non-material.



Source: Moody's Investors Service

Afreximbank's neutral-to-low credit impact score (**CIS-2**) reflects its solid governance profile that affords resilience to environmental and social risks. Its strong client relationships and flexible and targeted crisis response track record underpins the bank's sound risk management principles that have enhanced its profile and relevance on the African continent over time.

Exhibit 12

ESG Issuer Profile Scores

ENVIRONMENTAL

E-2

Neutral-to-Low



SOCIAL

S-2

Neutral-to-Low



GOVERNANCE

G-2

Neutral-to-Low



Source: Moody's Investors Service

Environmental

Afreximbank's neutral-to-low environmental issuer profile score (**E-2**) reflects the diversification of the bank's exposures across countries and sectors, its focus on trade finance with comparatively short maturities that allow for a rapid adjustment to shocks, as well as the collateralization of receivables and the structured diversification of ultimate counterparty risk to entities outside of the continent.

Social

Afreximbank's neutral-to-low social issuer profile score (**S-2**) reflects strong customer relationships underpinning the bank's growing relevance on the continent and its accreditation to African Union institutions to support the implementation of the regional free trade agenda.

Governance

Afreximbank's neutral-to-low governance issuer profile score (**G-2**) reflects the bank's solid governance principles and robust risk management practices that help mitigate operational risks. The bank's demonstrated ability to pursue its mandate during crisis situations without jeopardizing its credit quality is indicative of management's adaptation capacity and supports its relevance on the continent.

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

Afreximbank opens an office in Barbados following approval of \$1.5 billion funding for Caribbean states

On 4 April 2023, Afreximbank's board approved the establishment of a new office in [Barbados](#) (Caa1 stable) to support its operations in Caribbean Community (CARICOM) states. This follows Afreximbank's announcement of \$1.5 billion in funding (5.4% of 2022 assets) to support CARICOM states in sectors including tourism, healthcare, renewable energy, shipping and mining, as well as to promote trade between Africa and the Caribbean. The board has committed to eventually expanding the funding by a further \$1.5 billion. The bank hopes that the expansion in geographic coverage will help develop new sources of capital, expand market coverage and diversify risk.

Financial results for 2022 show limited changes in key metrics

On the whole, Afreximbank's financial results for 2022 show limited changes in the metrics used for our rating scorecard. Despite a 28% increase in total assets in 2022, the bank's leverage ratio fell moderately to 5.4x from 5.8x in 2021 because of a 32% increase in equity capital. Nonperforming assets remained at 3% of development-related assets in 2022. Availability of liquid resources, defined as liquid assets as a share of net cash outflows, improved to 68% in 2022 from 58% in 2021.

Rating methodology and scorecard factors: African Export-Import Bank - Baa1 stable

Factor / Subfactor	Metric	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%)			ba	
	DACQ assessment	ba		
	Trend	0		
Asset performance (20%)			a3	
	Non-performing assets	a3		
	Trend	0		
	Excessive development asset growth	0		
Factor 2: Liquidity and funding (50%)			a3	a3
Liquid resources (15%)			baa1	
	Availability of liquid resources	baa1		
	Trend in coverage outflow	0		
	Access to extraordinary liquidity	0		
Quality of funding (35%)			a	
Preliminary intrinsic financial strength				baa1
Other adjustments				0
Operating environment		0		
Quality of management		0		
Adjusted intrinsic financial strength				baa1
Factor 3: Strength of member support (+3,+2,+1,0)			Low	Low
Ability to support (50%)			b3	
	Weighted average shareholder rating	b3		
Willingness to support (50%)				
	Contractual support (25%)	b2	b1	
	Strong enforcement mechanism	0		
	Payment enhancements	+1		
	Non-contractual support (25%)		Very High	
Scorecard-Indicated Outcome Range				A3-Baa2
Rating Assigned				Baa1

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 Investors Service

Related websites and information sources

- » [Moody's Supranational web page](#)
- » [Moody's Sovereign and supranational rating list](#)
- » [Afreximbank's web page](#)

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Endnotes

- 1 [Moody's upgrades the African Export-Import Bank's ratings to Baa1 from Baa2, outlook stable](#), 23 January 2017

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