FitchRatings

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Fitch Upgrades Afreximbank to 'BBB'; Outlook Stable

Fitch Ratings - London - 23 Jun 2022: Fitch Ratings has upgraded African Export-Import Bank's (Afreximbank) Long-Term Issuer Default Rating (IDR) to 'BBB' from 'BBB-'. The Outlook is Stable.

Fitch has also upgraded Afreximbank's Short-Term IDR to 'F2' from 'F3', and the long-term ratings on the bank's Global Medium-Term Note Programme and debt issuances to 'BBB' from 'BBB-'.

Key Rating Drivers

Rating Upgrade: The upgrade of Afreximbank's ratings reflects a strengthening in the bank's Standalone Credit Profile (SCP) to 'bbb' from 'bbb-'. The improvement in the SCP follows Fitch's revision of its assessment of the bank's business profile to 'moderate' from 'high' risk. Afreximbank has strengthened its institutional role and raised its profile as the main multilateral development bank focused in supporting the public and private sectors in the African continent.

Increased Policy Importance: The improvement in the bank's business profile follows Fitch's revised assessment of Afreximbank's policy importance. This is primarily underpinned by the recent large capital increase, which in Fitch's view, highlights the increased importance of the bank for its shareholders. The increasing number of key mandates given to the bank by the African Union (e.g. to implement the health response to the Covid-19 crisis, or more recently to support access to grains and fertilisers in the context of the Russia-Ukraine conflict) is further evidence of the bank's rising profile.

SCP Drives Ratings: Afreximbank's ratings are driven by its SCP, reflecting the lower of the solvency and liquidity assessments, and the 'high risk' business environment in which the bank operates. The solvency assessment of 'a-' balances the bank's 'strong' capitalisation and 'moderate' risk. The 'high risk' business environment now leads to a two-notch negative adjustment to the lower of solvency (a-) and liquidity (a) assessments versus a three-notch adjustment previously.

Strong Capitalisation: Fitch's capitalisation assessment takes into account the bank's 'strong' equity to assets and guarantees ratio (E/A; 17% at end-2021), the 'moderate' usable capital to risk-weighted assets (FRA; 18%) ratio and the 'excellent' internal capital generation (ICG). Fitch expects the E/A and FRA ratios to remain broadly unchanged over the forecast period to 2024. Fitch's projections assume a 12% yoy growth in the banking operations and capital injections under the general capital increase approved by Afreximbank's board of directors in June 2021 (totalling USD2.6 billion in paid-in capital, of which USD1,053 million has been already paid).

Credit Risk Mitigated: The average rating of loans and guarantees before accounting for credit risk

mitigants remained stable at 'B-' as of end-2021. The low credit quality of the portfolio reflects Afreximbank's exposure to non-sovereign entities (83% of total loans), whose credit quality are deemed very weak as per Fitch's assessment, and sovereign borrowers with an average rating of 'B-'. Fitch's credit risk assessment also takes into account a high degree of loan collateralisation (87% of total loans at end-2021), including cash collaterals (covering 28% of the loans) and credit insurance (9%) from 'A-'-'AA' rated insurers, which provide an uplift of three notches above the average rating of loans to 'BB-'.

Other Risks 'Low': Concentration risk is 'low', with the bank's five largest exposures accounting for 26% of banking portfolio at end-2021. However, geographical concentration is high. More than half of exposures were to entities based in Egypt (B+/Stable) and Nigeria (B/Stable), the bank's two largest shareholders, as of end-2021. Afreximbank uses derivative instruments to manage FX and interest rate risks. Equity participation is expected to remain below 2% of banking operations. The 'moderate' risk management policies primarily reflects the use of credit risk mitigants that have helped maintain a relatively low non-performing loan (NPL) ratio (3.3% at end-2021), despite the high-risk environment that the bank operates in.

Strengthening Liquidity Profile: Fitch has revised its assessment of Afreximbank's liquidity profile to 'a' from 'a-' previously. The revision results from the ongoing improvement in the quality of liquid assets. The share of treasury assets rated 'AA'-'AAA' increased to 44% (above the 'strong' threshold), from 39% at end-2020 and 21% at end-2018. The liquidity assessment also accounts for the 'moderate' size of liquidity buffer (defined as liquid assets-to-short-term debt at 1.0x at end-2021). The bank's liquidity profile is enhanced by its access to capital markets and other alternative liquidity sources, reflecting diversified funding sources, which include credit lines (USD3.4 billion of which USD1.8 billion was committed at end-2021), deposits, and short duration of the loan portfolio.

Moderate Shareholder Support: Fitch assesses shareholders' capacity to support Afreximbank at 'bb', based on the average rating of key shareholders (BB-) accounting for more than 50% of the bank capital. Credit risk mitigants on callable capital (covering 63% of USD1.8 billion) enhance the support capacity by one notch, to 'bb'. The support assessment also reflects the 'strong' propensity of the shareholders to support the bank, which has been consistently demonstrated by ongoing capital injections and dividend reinvestments.

Liquidity Supports Short-Term Rating: Fitch has upgraded Afreximbank's Short-Term IDR to 'F2' from 'F3'. 'F2' is the higher option at the 'BBB' cusp point on Fitch's Long-Term IDR correspondence table. The choice of the higher option results from Afreximbank's liquidity assessment of 'a', which is higher than the minimum 'bbb+' liquidity assessment at which the higher option would apply at the 'BBB' cusp point.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

Solvency (Capitalisation): Material improvement in the capitalisation assessment. This would be the case if the bank was operating with lower leverage and stronger asset quality leading to an E/A ratio

above 25% or a FRA ratio above 25% over the medium term.

Solvency (Risks): Strengthening of the bank's risk profile as a result of improvement in the credit quality of the loans and guarantees and sustainable decline in NPLs/Stage 3 loans below 3% of gross loans over the medium term. Reduction in geographical concentration, supported by the introduction of more conservative country limits, could also support our assessment of risk.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

Solvency: Weakening in our assessment of solvency as the result of a lower-than-expected capital increase, higher-than-expected loan growth and/or deterioration in asset quality and loan performance, for example if the NPL ratio increased above 6%.

Liquidity: Significant deterioration in the liquidity assessment, which could result from a combination of weaker coverage of short-term debt by liquid assets and weakening in the credit quality of treasury assets (e.g. if the share of treasury assets rated 'AAA'-'AA' was falling below 40% of the total). Deterioration in access to capital markets and other sources of liquidity could also lead to a downward revision of the bank's liquidity assessment.

Best/Worst Case Rating Scenario

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG Considerations

Afreximbank has an ESG Relevance Score of '4' for 'Governance Structure'. High share of capital ownership by borrowing countries with weak credit fundamentals and limited access to external funding has led to pressure to increase lending operations, at the expense of prudent growth objectives. This risk has been partly mitigated by the voting structure at the board of directors, where each member has the same voting rights. High share of capital ownership by borrowing countries has had a negative impact on the credit profile, and is relevant to the ratings in conjunction with other factors.

Afreximbank has an ESG Relevance Score of '4' for 'Rule of law, institutional and regulatory quality'. All

supranationals attract a score of '4'. Supranationals are neither subject to bank regulation nor supervised by an external authority. Instead, supranationals comply with their own set of rules. Fitch pays particular attention to internal prudential policies, including compliance with these policies. This has a negative impact on the credit profile, and is relevant to the ratings in conjunction with other factors.

The ESG Relevance Score assigned to 'Labour Relations and Practices' (SLB) has been changed to '2' from '3', given that restrictions on recruitment based on nationality or quotas is no longer considered to be relevant to multilateral development banks' ratings.

Except for the matters discussed above, the highest level of ESG credit relevance, if present, is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or to the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

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Rating Actions

ENTITY/DEBT	RATING			RECOVERY	PRIOR
African Export-Import Bank	LT IDR	BBB ⊟	Upgrade		BBB- ⊕
	ST IDR	F2	Upgrade		F3
• senior unsecured	LT	BBB	Upgrade		BBB-

RATINGS KEY	OUTLOOK	WATCH
POSITIVE	⊕	⬘
NEGATIVE	⊖	⬙
EVOLVING	⊙	◆
STABLE	⊟	

Applicable Criteria

Supranationals Rating Criteria (pub.11 Apr 2022) (including rating assumption sensitivity)

Additional Disclosures

Solicitation Status

Endorsement Status

African Export-Import Bank	UK Issued, EU Endorsed

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understandingcreditratings. In addition, the following https://www.fitchratings.com/rating-definitions-document details Fitch's rating definitions for each rating scale and rating categories, including definitions relating to default. ESMA and the FCA are required to publish historical default rates in a central repository in accordance with Articles 11(2) of Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 and The Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019 respectively.

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