Credit Rating Announcement

GCR places African Export-Import Bank's international scale rating of A- on Positive Outlook

Rating Action

Johannesburg, 7 July 2021 - GCR Ratings ('GCR') has affirmed African Export-Import Bank's international scale long term and short term issuer ratings of A- and A2, respectively, with the outlook placed on Positive. GCR has also affirmed the international scale long term issue rating on the Bank's USD5bln GMTN programme of A-, with a Positive Outlook. At the same time, the following national scale long term and short-term issuer ratings have been affirmed:

- Botswanan National Scale at $AAA_{(BW)}$/$A1+_{(BW)}$, with outlook accorded as Stable.
- Cote' D'Ivoire National Scale at $AAA_{(CI)}$/$A1+_{(CI)}$, with outlook accorded as Stable.
- Egyptian National Scale at $AAA_{(EG)}$/$A1+_{(EG)}$, with outlook accorded as Stable.
- Ghanaian National Scale at $AAA_{(GH)}$/$A1+_{(GH)}$, with outlook accorded as Stable.
- Kenyan National Scale at $AAA_{(KE)}$/$A1+_{(KE)}$, with outlook accorded as Stable.
- Mauritian National Scale at $AAA_{(MU)}$/$A1+_{(MU)}$, with outlook accorded as Stable.
- Namibian National Scale at $AAA_{(NA)}$/$A1+_{(NA)}$, with outlook accorded as Stable.
- Tanzanian National Scale at $AAA_{(TZ)}$/$A1+_{(TZ)}$, with outlook accorded as Stable.
- Ugandan National Scale at $AAA_{(UG)}$/$A1+_{(UG)}$, with outlook accorded as Stable.

Rated Entity / Issue	Rating class	Rating scale	Rating	Outlook / Watch
African Export-Import Bank	Long Term issuer	International	A-	Positive Outlook
	Short Term issuer	International	A2	
USD5bln GMTN Programme	Long term issue	International	A-	Positive Outlook

Rating Rationale

The ratings on African Export-Import Bank ('Afreximbank' 'the Bank') reflects the diverse regional membership, strong mandate and track record, demonstrated preferential creditor treatment, beyond adequate capitalisation, strong risk position, diverse funding and robust liquidity. The positive outlook factors in our expectation for the status of the Bank as one of the most influential Africa focused Multilateral Development Bank ('MDBs') to strengthen, cemented by its development impact on the African continent (measured by the loan book) now closing in on the USD20bln mark. The outlook also considers the anticipated capital increase of USD1.5bln by shareholders over the next 2 years. The ratings are however constrained by the exposure to high risk operating environments and the relatively weak creditworthiness of its member states.

With development related exposures of about USD16bln at 31 Dec. 2020, Afreximbank is one of the largest MDBs operating in the African region. The Bank's geographical mandate exposes the balance sheet to the high and rising operating environment risks of the African continent. We believe these risks continue to rise, reflecting the direct and indirect impact of the COVID-19 pandemic and other exogenous risks. Furthermore, these same exogenous risks have lowered shareholder creditworthiness. Positively, the sovereign membership base is diverse (on a regional basis) and growing. Our assessment of membership strength is moderated by the Bank's private sector shareholding. The proven track-record of preferred creditor treatment is a ratings positive, reflecting the relevance and importance of this institution to its shareholders.

Afreximbank has a very strong status as a trade finance focused MDB, supported by its size, franchise and impact. Benefiting its status is the track record of countercyclical lending and more recently being the key implementation partner of the African Continental Free Trade Agreement ('AfCTA'). With the implementation of AfCTA, Afreximbank is mandated by the African Union ('AU') to rollout an Adjustment Facility (USD8bln in value) that is meant to help member countries adjust to loss of revenue from tariffs. We believe this, alongside the many other initiatives the Bank has undertaken over the last couple of years, will continue to be a strong underpin of relevance and importance of this institution to its shareholders.

Capitalisation is ratings positive. The GCR leverage ratio was c.16% at Dec. 2020, down from 19% the prior year driven by the rapid growth of assets. We expect the ratio to bounce back close to 20% over the next 12-18 months, balancing the moderating growth of the loan book and the piecemeal capital increases summing USD1.5bln expected over the next 2 years. Firm growth in earnings in the region of 24% will also remain supportive of a stronger equity base. We provide uplift for the credit enhancement of the Bank's capital of USD1bln which mitigates the adverse risks fuelling loan book impairments beyond threshold deemed unsustainable. The loan loss reserve coverage was down to c.55%% at Dec. 2020 although over 70% of the loan book is secured with high quality collateral comprising cash, insurance with at least "A" rated international insurers, and sovereign backed securities.

Asset quality is strong despite strained operating environments. Credit losses were slightly lower at 1% as of Dec. 2020 and compare favourably to rated peers. The pandemic continues to have marginal impact on loan book performance with recent stress test reflecting less than 6% of total facilities as vulnerable. Asset quality benefits from the strong recovery fundamentals of the loan book. Trade finance facilities are ring-fenced to protect cash flows due to the Bank and the repayment risk profile is low given the transfer of risk to counterparties that have better credit quality and usually are domiciled in developed countries such as the OECD. Loan concentrations are relatively better in comparison to rated MDBs, with top 20 exposures accounting for c.66% of the total loan book and c. 3x equity as at Dec 2020. Interest rate risk is adequately managed and any downside risk will likely have contained market impact on the Bank's profitability as it is hedged. FX lending is moderately low at 12%.

Funding and liquidity factors in a stronger funding structure in comparison to rated peers and strong liquidity profile. Funding sources are well diversified to include regional and global bond issuances, syndicated loans, and central and non-central bank deposits. Deposits from banks provide a growing source of funds, contributing c.37% of total funding at 31 Dec. 2020. Although fairly short term (6-12 months), these deposits are considered to be stable funding sources due to their behavioural stickiness and majority of them are asset backed limiting refinancing risks. Liquidity is strong, reflected by coverage ratio of 122% as of Dec 2020. Further liquidity support is derived from the low risk cash flows from self-liquidating trade finance facilities that have a fairly good amount of cash cover sitting in offshore banks. Due to the shorter weighted average term to maturity of the loan portfolio vs long-term debt profile, a positive asset/liability gap is maintained which is liquidity positive. We expect the funding and liquidity profile of the Bank to benefit from regular issuance of competitively priced global benchmark bonds in large sizes and longer maturities (as the recently issued) we believe will improve access and stability of funding sources.

We have not factored in callable capital into the ratings because the coverage of debt by A- rated members and insurers was below the required benchmark of 25% (at FY20 it was c.12%).

Outlook Statement

The outlook is positive reflecting our expectation for the status of the Bank to strengthen, cemented by its development impact on the African continent (measured by the loan book) now closing in on the USD20bln mark. The outlook also considers the anticipated capital increase of USD1.5bln by shareholders over the next 2 years. Alongside the above, our opinion is that the Bank has capacity to carry out its mandate in light of the pandemic, assisted by a strong balance sheet and support from shareholders which we think remains high. Furthermore, we expect credit losses to be sustained at low levels, coupled with capital and liquidity managed within adequate to strong levels.

Rating Triggers

A positive rating migration could result from strengthening status and diversity through successful implementation of various mandates from the AU as an example amongst other initiatives, substantial capital increase and subsequent management of GCR leverage above 18%. However, we may lower the ratings should we see significant deterioration in the operating environment, a reduced countercyclical role, credit losses above our expectations, GCR capital ratio managed below 15%, and or deteriorating funding and liquidity position.

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Related Criteria and Research

Criteria for the GCR Ratings Framework, May 2019
Criteria for Rating Supranational Institutions, May 2019
GCR Ratings Scale, Symbols & Definitions, May 2019
GCR Country Risk Scores, June 2021
GCR Financial Institutions Sector Risk Score, June 2021

Ratings History

African Export-Import Bank

Rating class	Review	Rating scale	Rating class	Outlook	Date
Long and Short-Term Issuer	Initial	International	BBB+/A2	Stable	February 2017
	Last	International	A-/A2	Stable	July 2020
	Initial	National	AAA(EG)/A1+(EG)	Stable	February 2017
	Last	National	AAA(EG)/A1+(EG)	Stable	July 2020
	Initial	National	AAA(BW)/A1+(BW)	Stable	February 2017
	Last	National	AAA(BW)/A1+(BW)	Stable	July 2020
	Initial	National	AAA(CI)/A1+(CI)	Stable	February 2017
	Last	National	AAA(CI)/A1+(CI)	Stable	July 2020
	Initial	National	AAA(GH)/A1+(GH)	Stable	February 2017
	Last	National	AAA(GH)/A1+(GH)	Stable	July 2020
	Initial	National	AAA(KE)/A1+(KE)	Stable	February 2017
	Last	National	AAA(KE)/A1+(KE)	Stable	July 2020
	Initial	National	AAA(MU)/A1+(MU)	Stable	February 2017
	Last	National	AAA(MU)/A1+(MU)	Stable	July 2020
	Initial	National	AAA(NA)/A1+(NA)	Stable	February 2017
	Last	National	AAA(NA)/A1+(NA)	Stable	July 2020
	Initial	National	AAA(TZ)/A1+(TZ)	Stable	February 2017
	Last	National	AAA(TZ)/A1+(TZ)	Stable	July 2020
	Initial	National	AAA(UG)/A1+(UG)	Stable	February 2017
	Last	National	AAA(UG)/A1+(UG)	Stable	July 2020
Long Term Issue	Initial	International	BBB+	Stable	June 2017
	Last	International	A-	Stable	May 2021

Risk Score Summary

Rating Components and Factors	Risk score
Operating environment	**13.00**
Country risk score	3.00
Sector risk score	3.00
Membership Strength and Diversity	3.00
Preferential Creditor Treatment	4.00
Business profile	**7.50**
Status and diversity	3.50
Mandate and track record	4.00
Management and governance	0.00
Financial profile	**6.50**
Capital ad leverage	3.00
Risk	1.50
Funding structure and liquidity	2.00
Comparative profile	**0.00**
Callable capital	0.00
Peer analysis	0.00
Total Score	**27.00**

Glossary

Capital	The sum of money that is invested to generate proceeds.
Cash	Funds that can be readily spent or used to meet current obligations.
Cash Flow	The inflow and outflow of cash and cash equivalents. Such flows arise from operating, investing and financing activities.
Credit Rating	An opinion regarding the creditworthiness of an entity, a security or financial instrument, or an issuer of securities or financial instruments, using an established and defined ranking system of rating categories.
Debt	An obligation to repay a sum of money. More specifically, it is funds passed from a creditor to a debtor in exchange for interest and a commitment to repay the principal in full on a specified date or over a specified period.
Liquidity	The speed at which assets can be converted to cash. It can also refer to the ability of a company to service its debt obligations due to the presence of liquid assets such as cash and its equivalents. Market liquidity refers to the ease with which a security can be bought or sold quickly and in large volumes without substantially affecting the market price.

Salient Points of Accorded Ratings

GCR affirms that a.) no part of the ratings were influenced by any other business activities of the credit rating agency; b.) the ratings were based solely on the merits of the rated entity, security or financial instrument being rated; c.) such rating was an independent evaluation of the risks and merits of the rated entity, security or financial instrument.

The credit rating has been disclosed to Afreximbank. The ratings above were solicited by, or on behalf of, the rated entity, and therefore, GCR has been compensated for the provision of the rating.

Afreximbank participated in the rating process via virtual management meetings, and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible. The information received from Afreximbank and other reliable third parties to accord the credit rating included:

- Audited financial results as at 31 December 2020;
- Breakdown of loan book and funding as at December 2020;
- Latest internal and/or external audit report to management;
- Industry comparative data.