GCR RATINGS

Credit Rating Announcement

GCR upgrades African Export-Import Bank's international scale long term rating to A, as it continues to solidify status and successfully achieve against mandate. Outlook Stable.

Rating Action

Johannesburg, 15 July 2022 - GCR Ratings ('GCR') has upgraded African Export-Import Bank's international scale long term issuer rating from A- to A, while the short term issuer rating has been affirmed at A2, with the outlook placed on Stable. Consequently, GCR has upgraded the international scale long term issue rating on the Bank's USD5bn GMTN programme to A in line with the issuer rating, with outlook accorded as Stable. At the same time, the following national scale long term and short-term issuer ratings have been affirmed: Botswanan National Scale at $AAA_{(BW)}$/$A1+_{(BW)}$; Cote' D'Ivoire National Scale at $AAA_{(CI)}$/$A1+_{(CI)}$; Egyptian National Scale at $AAA_{(EG)}$/$A1+_{(EG)}$; Ghanaian National Scale at $AAA_{(GH)}$/$A1+_{(GH)}$; Kenyan National Scale at $AAA_{(KE)}$/$A1+_{(KE)}$; Mauritian National Scale at $AAA_{(MU)}$/$A1+_{(MU)}$; Namibian National Scale at $AAA_{(NA)}$/$A1+_{(NA)}$; Tanzanian National Scale at $AAA_{(TZ)}$/$A1+_{(TZ)}$; and Ugandan National Scale at $AAA_{(UG)}$/$A1+_{(UG)}$. The outlook on all national scale ratings is Stable.

Rated Entity / Issue	Rating class	Rating scale	Rating	Outlook / Watch
African Export-Import Bank	Long Term issuer	International	A	Stable Outlook
	Short Term issuer	International	A2	
USD5bn GMTN Programme	Long term issue	International	A	Stable Outlook

Rating Rationale

The international scale long term rating on African Export-Import Bank ('Afreximbank' 'the Bank') has been upgraded to reflect the positive consequences of the elevated status and importance of the institution, including its accreditation by the AU and the subsequent capital increases. That said, the status of the institution has benefited from significant membership penetration especially in the African region, significant capital flows from shareholders and track record for preferential creditor treatment. The ratings also factor in strong capitalisation, strong risk position, diverse funding sources, and robust liquidity. The outlook is stable, supported by a strong balance sheet and strong shareholder support that is expected to carry the Bank through the cycle especially considering the current geopolitical instability and the vulnerable global economy.

With development related exposures of about USD19bn at 31 Dec. 2021, Afreximbank is one of the largest and influential MDBs operating in the African region. It's franchise as a trade finance focused MDB has strengthened over the last decade and so has its strategic position elevated. The Bank was accredited by the AU for its countercyclical role, and subsequently given a broad range of mandates to tackle socio-economic challenges on the African continent. Having said that, the Bank has recently introduced the Ukraine Crisis Adjustment Trade Financing programme worth USD4bn net, in response to the ramifications of the Russia-Ukraine invasion on African trade. 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.

We view the diverse membership base (on a regional basis) as a relative strength. The Bank now has 52 member countries and aims to admit the remaining three African states to complete all 55 African sovereigns on the continent. The Bank's private sector shareholding is significant, but we do not see immediate risk to mandate or shareholders' willingness to support as sovereigns have always followed capital calls. The proven track-record of preferred creditor treatment is a ratings positive, reflecting the relevance and importance of this institution to its shareholders.

Capitalisation is ratings positive. The GCR leverage ratio bounced back to 18% at FYE21 in line with expectations, driven by significant capital increases and moderate asset growth. We expect the ratio to edge close to 25% over the next 12-18 months, balancing the moderating growth of the loan book and the piecemeal capital increases summing USD1.5bn by end of 2023. However, the leverage ratio could close at softer than expected level should asset growth exceed target, although we think it will hold above 20% over the forecast horizon. Good growth in earnings will also remain supportive of a stronger equity base. We provide uplift for the capital protection facility of USD1bn which mitigates the adverse risks fuelling loan book impairments beyond threshold deemed unsustainable. The loan loss reserve coverage of c.67% at Dec. 2021 is considered appropriate given over 85%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 lower at 1.3% as at FYE21, from 1.6% the prior year. The reduction in impairments was due to limited deterioration of borrowers into non-performing status and bad debts write offs. 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.68% of the total loan book and c. 3x equity as at Dec. 2021. 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 11%.

Funding and liquidity assessment 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 raised from African financial institutions and corporates provide a growing source of funds, contributing c.37% of total funding at 31 Dec. 2021. Although 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 134% as of Dec 2021. Further liquidity support is derived from the low-risk cash flows from self-liquidating trade finance facilities that have a 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) which 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 FYE21 it was c.16%).

Outlook Statement

The outlook is stable, supported by a strong balance sheet and strong shareholder support that is expected to carry the Bank through the cycle especially considering the current geopolitical instability and the vulnerable global economy. We also consider anticipated capital flows from shareholders over the strategic horizon to be a ratings stabiliser. Alongside the above, we expect credit losses to be sustained at low levels, coupled with capital and liquidity managed within adequate to strong levels.

Rating Triggers

The upside is limited barring transformational changes including stronger membership profile, size and diversity of the institution. 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 18%, and or deteriorating funding and liquidity position.

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Related Criteria and Research

Criteria for the GCR Ratings Framework, January 2022
Criteria for Rating Supranational Institutions, May 2019
GCR Ratings Scale, Symbols & Definitions, May 2022
GCR Country Risk Scores, June 2022
GCR Financial Institutions Sector Risk Score, June 2022

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 2021
	Initial	National	AAA(EG)/A1+(EG)	Stable	February 2017
	Last	National	AAA(EG)/A1+(EG)	Stable	July 2021
	Initial	National	AAA(BW)/A1+(BW)	Stable	February 2017
	Last	National	AAA(BW)/A1+(BW)	Stable	July 2021
	Initial	National	AAA(CI)/A1+(CI)	Stable	February 2017
	Last	National	AAA(CI)/A1+(CI)	Stable	July 2021
	Initial	National	AAA(GH)/A1+(GH)	Stable	February 2017
	Last	National	AAA(GH)/A1+(GH)	Stable	July 2021
	Initial	National	AAA(KE)/A1+(KE)	Stable	February 2017
	Last	National	AAA(KE)/A1+(KE)	Stable	July 2021
	Initial	National	AAA(MU)/A1+(MU)	Stable	February 2017
	Last	National	AAA(MU)/A1+(MU)	Stable	July 2021
	Initial	National	AAA(NA)/A1+(NA)	Stable	February 2017
	Last	National	AAA(NA)/A1+(NA)	Stable	July 2021
	Initial	National	AAA(TZ)/A1+(TZ)	Stable	February 2017
	Last	National	AAA(TZ)/A1+(TZ)	Stable	July 2021
	Initial	National	AAA(UG)/A1+(UG)	Stable	February 2017
	Last	National	AAA(UG)/A1+(UG)	Stable	July 2021
Long Term Issue	Initial	International	BBB+	Stable	June 2017
	Last	International	A-	Stable	July 2021

Risk Score Summary

Rating Components and Factors	Risk score
Operating environment	**13.50**
Country risk score	3.00
Sector risk score	3.00
Membership Strength and Diversity	3.50
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	**7.00**
Capital and leverage	3.50
Risk	1.50
Funding structure and liquidity	2.00
Comparative profile	**0.00**
Callable capital	0.00
Peer analysis	0.00
Total Score	**28.00**

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 2021;
- Breakdown of loan book and funding as at December 2021;
- Latest internal and/or external audit report to management;
- Industry comparative data.