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CREDIT OPINION
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Update

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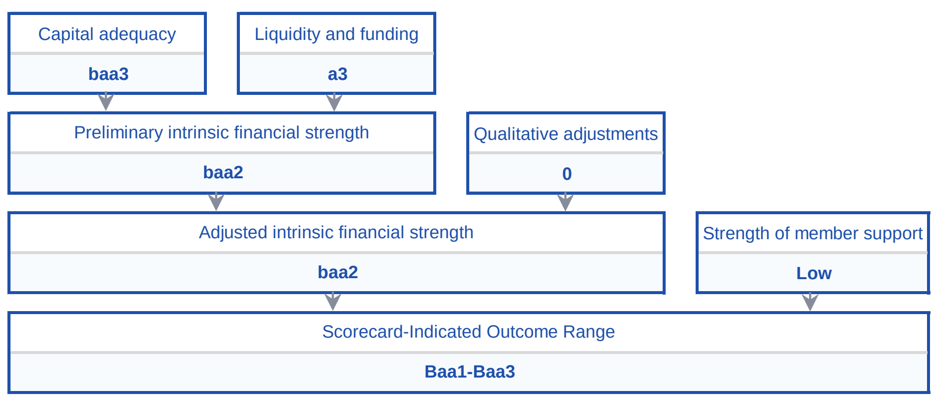
African Export-Import Bank – Baa1 stable

Update following rating affirmation, outlook unchanged

Summary

The credit profile of African Export-Import Bank (Afreximbank) is supported by an enhanced regional profile under the African Union umbrella backed by a general capital increase to support the bank's growth strategy in light of the comparatively narrow capital and liquidity buffers relative to rated peers. The bank benefits from a track record of broad shareholder support notwithstanding the low weighted average shareholder rating, mitigated by the adoption of a mid-term credit risk mitigation instrument to enhance the credit quality of callable capital.

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

» Sound profitability and market access at favorable rates

Credit challenges

» Comparatively elevated leverage ratio among rated supranationals

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

Rating outlook

The stable outlook is supported by the prospect of a significant capital contribution by member states starting later this year endorsed by the Bureau of African Union Heads of States and Governments, which underscores the bank's growing regional role in the areas of pooled vaccine procurement and implementation of the African Continental Free Trade Agreement. A higher capital buffer would support the bank's growth strategy while preserving its capital position in terms of leverage and asset quality parameters, particularly amid the ongoing negative economic and financial pressures on the continent associated with the coronavirus pandemic.

Factors that could lead to an upgrade

Upward rating pressure could arise from higher capital and/or liquidity buffers, both of which remain among the lowest in comparison with rating peers, although commensurate with the bank's trade finance business. 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: (1) evidence of a deterioration in the capital adequacy ratio toward or below Afreximbank's 20% minimum threshold, (2) a sustained weakening of asset quality indicators or of provisioning levels that could prove damaging to the bank's credit profile, and/or (3) increased liquidity pressures which impact 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 before, or a failure to perform as expected when triggered, would also likely result in a downgrade.

Key indicators

Afreximbank	2015	2016	2017	2018	2019	2020
Total Assets (USD million)	7,133.5	11,726.2	11,913.5	13,419.4	14,439.6	19,306.9
Development-related Assets (DRA) / Usable Equity [1]	527.5	680.1	443.6	479.1	496.3	568.0
Non-Performing Assets / DRA	2.6	2.2	3.8	2.7	2.5	2.8
Return on Average Assets	2.0	1.8	1.9	2.2	2.3	2.1
Liquid Assets / ST Debt + CMLTD	34.8	24.3	90.4	40.3	47.5	32.3
Liquid Assets / Total Assets	11.6	10.8	27.0	14.3	15.4	14.1
Callable Capital / Gross Debt	8.1	5.7	7.1	8.3	10.3	9.0

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

Source: Moody's Investors Service

Detailed credit considerations

Our assessment of **capital adequacy** at “baa3” reflects a relatively elevated average leverage ratio as measured by development-related assets/usable equity in comparison with peers. While the leverage ratio is among the highest, Afreximbank's capital position remains supported by high profitability and by the prospect of new equity injections in 2021-26 approved by the board of directors in June 2021 which will buttress the targeted capital adequacy ratio in the 20-30% range.

Afreximbank's Development Assets Credit Quality assessment is among the strongest of rated African Multilateral Development Banks (MDBs) and reflects not only the use of structured trade finance in order to transfer payment risk to less risky counterparties in the OECD, but also benefits from the high degree of collateralization at over 77% of total exposures. Among these, almost 8% of exposures are credit insured, contributing to the portfolio's shock resistance.

The asset performance subfactor at “a3” reflects a loan book performance that has remained in line with historical trends as highlighted by non-performing assets (NPAs) at 2.8% of development-related assets at the end of 2020 (compared to 2.5% at the end of 2019). Our assessment factors in a possible moderate increase in NPAs, reflecting credit risk stemming from the swift expansion of the on-and off-balance sheet exposures and from recurring delays beyond the 90-day period by a subset of borrowers to convert repaid loans into US-dollars.

We assess **liquidity and funding** at “a3” reflecting the bank's relatively lean liquidity position assessed at “baa3”, consistent with its focus on trade finance with comparatively short maturities that allow for a rapid adjustment to shocks, and the mostly self liquidating nature of loans from trade receivables. The mandatory shorter or equal average maturity of the loan book as compared to liabilities also provides an additional liquidity resources safeguard.

Funding quality at “a” is supported by deposits from central banks that represent a low-cost funding source, and established access to bilateral loans and international capital markets at favorable costs. As was the case in previous crises, the bank was able to quickly expand its loan book by expanding its deposit base. While the contractual maturity of deposits is short term, their asset-backed nature reduces rollover risks in practice.

Despite the challenging **operating environment** on the African continent, we do not include a downward adjustment given the diversification of Afreximbank’s lending activities by geography and by sector, the collateralization of receivables, and the structured diversification of ultimate counterparty risk to entities outside of the continent.

In general, the bank’s demonstrated ability to pursue its mandate during crisis situations without jeopardizing its credit quality is indicative of its **risk management capacity**, and supports its relevance on the continent. Afreximbank is also developing risk management tools in support of its new strategic orientation toward expanding the non-funded side of the business by supporting the provision of services on behalf of clients and driving non-interest income, which is indicative of management's adaptation capacity and supportive of the entity’s credit profile.

Afreximbank's 'Low' **strength of member support** reflects a low weighted average shareholder rating at B2, in combination with “Very High” non-contractual support by members as reflected in the ample participation in two general capital increases launched over the past five years which have been met with broad commitments from existing and new shareholders, and with subscriptions ahead of schedule. At about 10%, the ratio of total callable capital/total debt is among the lowest among rated MDBs, resulting in a “caa1” initial assessment of contractual support. However, the adjusted score at “b3” takes into account the credit support provided by the mid-term credit risk mitigation instrument that was introduced in December 2016 to support its callable capital base.

ESG considerations

How environmental, social and governance risks inform our credit analysis of Afreximbank

Moody's takes account of the impact of environmental (E), social (S) and governance (G) factors when assessing supranational issuers’ credit profile. In the case of Afreximbank, the materiality of ESG to the credit profile is as follows:

Notwithstanding environmental issues being material for many of Afreximbank's borrowers and shareholders, environmental considerations do not have a material impact on the bank’s credit profile given the bank’s portfolio diversification and its capacity to mitigate the indirect effects of adverse environmental events on its balance sheet.

Similarly, social risk informs Afreximbank’s credit profile in so far that it affects the credit profile of countries in which it lends, some of which are affected by social and political unrest, low wealth levels, income disparity and low voice and accountability scores.

Governance considerations are material to Afreximbank’s credit profile. The bank adheres to sound governance principles and robust risk management practices, which Moody’s believes limit operational risks.

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

Accreditation by the African Union raises Afreximbank's regional profile and shareholder support

With the accreditation by the African Union (AU) in 2019, the bank has gained increased relevance by adopting a regional trade gateway role and facilitating digital services platforms to reduce non-tariff barriers. In addition, Afreximbank has put in place a $2 billion guarantee to support the procurement of up to 400 million single-shot Covid-19 vaccine doses based on a pooled regional procurement approach in order to boost the continent's bargaining position. On 21 June, the World Bank and the AU announced that they are partnering to support the African Union Vaccine Acquisition Task Team (AVATT) initiative with resources toward the goal to vaccinate 60% of the continent's population by 2022.

In support of the bank's leading regional role, African Union member countries (55 countries, 51 of which are also members of Afreximbank) have agreed to support Afreximbank with a $1.5 billion equity injection (equivalent to almost 45% of usable equity at the end of 2020) starting later this year through the IMF's Special Drawing Right increase, until 2023. The bank's board of directors endorsed the general capital increase this month with a view to raising 2.6 billion (over 77% of usable equity in 2020) in paid-in capital starting this year and until 2026.

Bank's new strategy complements trade finance lending with non-funded guarantee business and fee-collecting digital services provision

Examples for the bank's new initiatives to reduce non-tariff barriers and promote the AfCFTA implementation under the umbrella of the African Union include the implementation of the Pan African Payment and Settlement System (PAPSS) as the first centralized payment market infrastructure for processing, clearing and settling of intra-African trade and commerce payments; the $1 billion Africa Collaborative Transit Guarantee Scheme (ACTGS) which facilitates movement of goods across borders using a single technology enabled transit bond to a trader/transporter (instead of a separate one for each country), or the development of the African Trade Gateway (ATG), a digital ecosystem that provides Trade Information Portal, Digital Payment System, Trade Regulations Portal, Customer Due Diligence Platform and other services in support of the AfCFTA.

Pro-active crisis response supports asset performance and mitigates build-up of NPA

Afreximbank's swift crisis response consisted in the approval and deployment of the $3 billion (net of mitigation) Pandemic Trade Impact Mitigation Facility (PATIMFA) which was approved for tenors of 3 years under which over $6 billion were disbursed (taking into account repayments during the year) during 2020, in accordance with the bank's mandate to minimize trade disruptions on the continent during crises.

The bank has performed a stress test in April 2020 in order to identify facilities at risk of payment delays owing to the pandemic. Asset performance indicators for 2020 show that the bank's early intervention to stem credit losses among exposures deemed at risk limited Stage 3 assets at below 4% of gross loans and NPA at 2.8% of development-related assets.

Rating methodology and scorecard factors

Rating factor grid - African Export-Import Bank	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%)		baa3	
Availability of liquid resources	baa3		
Trend in coverage outflow	0		
Access to extraordinary liquidity	0		
Quality of funding (35%)		a	
Preliminary intrinsic financial strength			baa2
Other adjustments			0
Operating environment	0		
Quality of management	0		
Adjusted intrinsic financial strength			baa2
Factor 3: Strength of member support (+3,+2,+1,0)		Low	Low
Ability to support - weighted average shareholder rating (50%)		b2	
Willingness to support (50%)			
Contractual support (25%)	caa1	b3	
Strong enforcement mechanism	0		
Payment enhancements	+1		
Non-contractual support (25%)		Very High	
Scorecard-Indicated Outcome Range			Baa1-Baa3
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

Moody's related publications

» **Credit Analysis**: African Export-Import Bank, 14 July 2020

» **Rating Methodology**: Multilateral Development Banks and Other Supranational Entities, 25 June 2019

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.

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