



Credit Rating Announcement

GCR affirms African Export-Import Bank's international scale rating on A-, balancing operating environment stress with strong mandate and robust financial profile

Rating Action

Johannesburg, 31 July 2020 - 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 accorded as Stable. GCR has also affirmed the international scale long term issue rating on the Bank's USD5bn EMTN programme of A-, with a Stable 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-	Stable Outlook
	Short Term issuer	International	A2	
USD5bn EMTN Programme	Long term issue	International	A-	Stable Outlook

Rating Rationale

The ratings on African Export-Import Bank ('Afreximbank', 'the Bank') are supported by its strong status as one of the largest Multilateral Development Banks within the African region, diverse regional membership, strong mandate and track record, demonstrated preferential creditor treatment, beyond adequate capitalisation, strong risk position, diverse funding and robust liquidity. The ratings also factor in the growing track record of the Bank carrying out its countercyclical role, especially in light of the current global COVID-19 pandemic. The ratings are however constrained by the significant exposure to high risk operating environments and the relative weak overall creditworthiness of its member states.

With development related exposures of about US\$14bn at 31 Dec. 2019, Afreximbank is one of the largest multilateral development banks 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. Furthermore, these same exogenous risks have lowered shareholder creditworthiness. Positively, the sovereign membership base is diverse (on a regional basis) and growing. However, 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 one of largest regional MDBs, supported by its size, franchise and impact. Benefiting its status is the extended track record in carrying out its countercyclical and mandated lending role. We view positively the Bank's COVID-19 response through the Pandemic Trade Impact Mitigation Facility 'PATIMFA', from a proof of mandate perspective. This facility (with approved limit of \$3bln net) is aimed at supporting member countries and corporates affected by the pandemic to sustain operations and not default on obligations. Broadly, Afreximbank's trade promotion role has been good over the last 5 years. And given its broad geographical reach and an increasingly growing membership, the relevance and importance of this institution to its shareholders remains high, in our opinion.

Capitalisation is a positive ratings factor. The GCR leverage ratio was c.19% at 31 Dec. 2019 which we consider to be moderately strong. We expect the ratio to range between 17.5-20% over the next 24 months, balancing the anticipated growth of the loan book (with the implementation of PATIMFA), capital injection in 2021, and good earnings. We also provide some uplift to the score for the protection facility insuring \$1bln of the bank's capital. The loan loss reserve coverage is over 90% while c.70% of the loan book is secured with high quality collateral comprising cash, insurance with A rated international insurers, and sovereign backed securities.

The strong risk position of the Bank remains intact for now, despite the COVID-19 shock weighing on asset quality metrics (albeit slightly) in the short term. Credit losses were higher at 1.2% as of 31 Dec. 2019 (although they still compare favourably to rated peers), up from 0.8% the prior year. This is mainly attributable to increase in general provisions for COVID-19. The recovery fundamentals of the loan book are strong however, and we expect 18-24 months forward looking losses to revert close to historical levels. As of 31st Dec. 2019, NPLs were well contained within the 2-3% range, and facilities are ring-fenced to protect cash flows due to the Bank. Loan concentrations are relatively better in comparison to rated Multilateral Institutions peers, with top 20 exposures accounting for c.64% of the total loan book. The loan book is adequately protected with good collateral including cash, insurance by A rated international insurers, and sovereign backed receivables amongst others.

Funding and liquidity assessment factors in the Bank's well diversified funding sources and strong liquidity. Funding sources include debt capital and loans market, and central and non-central bank deposits. Deposits from banks provide a growing source of funds, contributing c.50% of total funding at 31 Dec. 2019. Although fairly short term (6-12 months), these deposits are considered to be stable funding sources due to their behavioural stickiness. Liquidity is strong, with a liquidity coverage ratio of over 149% as of March 2020. Liquidity is also supported by low risk cash flows from the ring-fenced trade finance structure and fairly good amount of liquid placements with OECD banks. Due to the fairly short duration of the loan portfolio and significant long-term funding, a positive asset/liability gap is maintained.

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 FY19 it was c.15%).

Outlook Statement

The outlook is stable reflecting our opinion that the Bank has capacity to carry out its mandate in light of the pandemic, supported by a strong balance sheet. We also factor in the relevance and importance of the Bank to its shareholders which we think remains high. Sustained low credit losses, coupled with capital and liquidity managed within adequate to strong levels also supports a stable outlook.

Rating Triggers

There is limited upside movement to the rating over the outlook horizon outside sustained higher capital levels. However, we may lower the ratings should we see significant reduction 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.

Analytical Contacts

Primary analyst Johannesburg, ZA	Simbarake Chimutanda SimbarakeC@GCRratings.com	Financial Institutions Analyst +27 11 784 1771
Committee chair Johannesburg, ZA	Matthew Pirmie MatthewP@GCRratings.com	Group Head of Ratings +27 11 784 1771

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, May 2020
 GCR Financial Institutions Sector Risk Score, July 2020

Ratings History

African Export Import Bank

Rating class	Review	Rating scale	Rating class	Outlook	Date
	Initial	International	BBB+/A2	Stable	February 2017
	Last	International	A-/A2	Stable	December 2019
	Initial	National	AAA _(EG) /A1 _(EG)	Stable	February 2017
	Last	National	AAA _(EG) /A1 _(EG)	Stable	December 2019
	Initial	National	AAA _(BW) /A1 _(BW)	Stable	February 2017
	Last	National	AAA _(BW) /A1 _(BW)	Stable	December 2019
	Initial	National	AAA _(CI) /A1 _(CI)	Stable	February 2017
	Last	National	AAA _(CI) /A1 _(CI)	Stable	December 2019
	Initial	National	AAA _(GH) /A1 _(GH)	Stable	February 2017
Long and Short-Term Issuer	Last	National	AAA _(GH) /A1 _(GH)	Stable	December 2019
	Initial	National	AAA _(KE) /A1 _(KE)	Stable	February 2017
	Last	National	AAA _(KE) /A1 _(KE)	Stable	December 2019
	Initial	National	AAA _(MU) /A1 _(MU)	Stable	February 2017
	Last	National	AAA _(MU) /A1 _(MU)	Stable	December 2019
	Initial	National	AAA _(NA) /A1 _(NA)	Stable	February 2017
	Last	National	AAA _(NA) /A1 _(NA)	Stable	December 2019
	Initial	National	AAA _(TZ) /A1 _(TZ)	Stable	February 2017
	Last	National	AAA _(TZ) /A1 _(TZ)	Stable	December 2019
	Initial	National	AAA _(UG) /A1 _(UG)	Stable	February 2017
	Last	National	AAA _(UG) /A1 _(UG)	Stable	December 2019
Long Term Issue	Initial	International	BBB+	Stable	June 2017
	Last	International	A-	Stable	December 2019

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	7.00
Status and diversity	3.00
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	1.00
Callable capital	0.00
Peer analysis	0.00
Total Score	26.50

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 African Export Import Bank. 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.

Afrexim participated in the rating process via face-to-face 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 Afrexim and other reliable third parties to accord the credit rating included:

- Audited financial results as at 31 December 2019;
- Breakdown of loan book and funding as at December 2019;
- Latest internal and/or external audit report to management;
- Industry comparative data.

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