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African Export-Import Bank – Baa1 stable

Annual credit analysis

RATINGS

African Export-Import Bank

	Rating	Outlook
Long-term Issuer	Baa1	STA
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OVERVIEW AND OUTLOOK

The credit profile of African Export-Import Bank (Afreximbank, Baa1 stable) is supported by the general capital increase of $500 million completed in 2016 and the launch of freely tradeable Class D shares for an amount of over $160 million in October 2017 amid an expanding shareholder base. The issuance of Class D shares is a credit-positive innovation among African multilateral development banks (MDBs). The mid-term, credit-risk-mitigating instrument introduced in December 2016 supports its callable capital base which is otherwise constrained by the very low average shareholder rating. The introduction of new central bank lending and deposit facilities (COTRALF = Counter-Cyclical Trade Liquidity Facility, and CENDEP = Central Bank Deposit/Investment Programme) to support trade finance in countries with scarce foreign exchange reserves further attests to the bank's adaptation capacity without undermining its asset quality track record.

However, the size and concentrated nature of the recently introduced central bank lending and deposit facilities constrain Afreximbank's core capitalization, leverage, concentration, debt-service coverage and contractual member support metrics if measured on the basis of rapidly expanding gross loan exposures (albeit not in risk-weighted terms). Moreover, Afreximbank has a comparatively tight liquidity profile compared with regional and rating peers, mitigated by the short average maturity of the loan portfolio and the self-liquidating nature of lending from receivables. While operating on a broadly collateralized basis, the bank remains exposed to a challenging operating environment.

Upward rating pressure could arise from higher capital and liquidity buffers which remain among the lowest in the peer group, in addition to the consistent maintenance of asset quality standards. Negative rating pressure could arise from an unexpected deterioration of the capital adequacy ratio toward or below Afreximbank's 20% minimum threshold, and/or a sustained weakening of asset quality indicators, in addition to increased liquidity pressures.

This credit analysis elaborates upon African Export-Import Bank's credit profile in terms of capital adequacy, liquidity and strength of member support, which are the three main analytical factors in Moody's Multilateral Development Banks and Other Supranational Entities.

Organizational structure and strategy

Afreximbank is one of a few multilateral development banks (MDBs) that operates as a multilateral public-private partnership. It is governed by (1) the Establishing Agreement, signed by 47 states and multilateral institutions; and (2) the Bank Charter, annexed to it and signed by all public and private shareholders (Exhibit 1). The bank pursues its development goal by operating as a commercial, profit-oriented (not maximizing) organization.

Afreximbank was established under the auspice of the African Development Bank (AfDB, Aaa stable) against the background of the economic crises of the 1980s. The AfDB is accordingly among the major shareholders and nominates one of the 12 directors on its board.

Afreximbank's shareholder base continues to expand, with 38 African participating states (out of 54 on the continent) as of November 2017, and over 90 mostly African and non-African financial institutions. South Africa (Baa3 RUR-) joined as the most recent shareholder. Eritrea (47th), the Island of Comoros (46th) and Madagascar (45th) have recently signed the Bank Agreement and become participating states but are still to take up shareholding in the Bank.

On September 2017, the bank has successfully launched Class D shares backed by depositary receipts issued through the Stock Exchange of Mauritius. The $100-300 million private placement closed successfully with subscriptions in excess of the $100 million minimum target set to launch the program (with $166 million raised).

Exhibit 1
Afreximbank's shareholder base as of November 2017

As of November 2017	Class A	Class B	Class C	Class D	Total
Shareholder Definition	African governments, central banks, African regional and sub-regional institutions	African private investors and financial institutions	non-African financial institutions, export credit agencies and private investors	new category created in December 2012, under which any person or entity can be allotted shares	
Number of Members	45	86	13	1	145
Share of paid-in capital	60.1%	26.6%	9.5%	3.80%	100%
Amount of paid-in capital (million USD)	246.1	109.0	39.1	38.6	432.8
Callable Capital (million USD)	388.4	209.9	58.6	no callable capital participation	657
Nominal Subscribed Capital (million USD)	615.3	272.6	97.7	38.6	1,024.2
Total Capital Funds (=paid-in capital + share premium + retained earnings + reserves) (million USD)					1,894.0
Approved changes to the Charter on December 2012	-Increase in authorized capital to US$5 billion from US$750 million; -Creation of fully paid up Class D shares open to any investor and which can be listed on a stock exchange; -Voting rights attached to the shares, with Class A shareholders appointing a minimum of 4 out of 12 directors; -The callable capital structure is to be maintained for existing Classes A, B and C . Classes B and C have the option to convert to the new Class D shares which will be fully paid up (no callable capital participation). -If the Bank's shares are fully subscribed, Class B,C,D shareholders shall in aggregate not represent more than 65% of the issued capital of the Bank.				

Sources: Afreximbank, Moody's Investors Service

Afreximbank's mandate, business objectives, governance and strategy

Afreximbank's primary objective is to stimulate a consistent expansion, diversification and development of African trade, while operating as a profit-oriented, socially responsible financial institution. The Establishment Agreement aims to achieve this objective by maintaining strong capitalization.

Its second objective -- according to its charter -- is to focus on growing African private sector participation in trade (private sector loans account for around 38.4% of Afreximbank's total loans). Similarly, the bank works toward expanding private sector participation among its shareholder base. The objective would be to reduce Class A shareholdings to 35%, from 60% at present by expanding Class B, C, or D holdings.

Afreximbank's third objective is to remain a bank controlled by Africans that serves the continent's goals. These guidelines are reflected in the composition of Afreximbank's board of directors, which consists of a maximum of 12 members, with a minimum of four representing Class A shareholders (one of which is reserved for the AfDB). There are also four representing Class B shareholders; two representing Class C shareholders; and two other independent directors.

In a scenario where all shares are fully subscribed (i.e., Class B and C shareholders have migrated to Class D) and the new Class D shareholders hold a maximum of 65% of the shares, the latter can only appoint up to six directors.

Under the bank's fourth strategic plan for 2012-16, it made significant progress toward meeting its key corporate and trade development objectives: (1) it grew its total assets to about $11.7 billion by end-2016 from about $7.1 billion in end-2015; (2) ensured that 80% of its total assets are accounted for by loans and advances; (3) ensure sound asset quality, with the ratio of nonperforming to performing loans falling below 3.0%; (4) maintain its Basel II Capital Adequacy Ratio CAR within 20-30% range; (5) operationalize regional offices in Cote d'Ivoire, Nigeria, East Africa and Zimbabwe in addition to headquarters in Egypt.

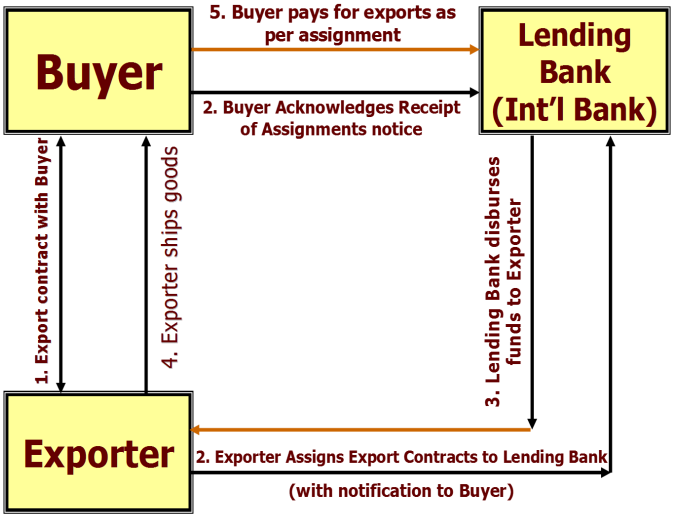
The bank's fifth strategic plan for 2017-21 ("Impact 2021") seeks to promote several objectives, including (1) achieving $3.5 billion capitalization by 2021; (2) growing the intra-African trade portfolio to $4 billion by 2021; (3) and increase financing of manufactured exports and services by 10% annually. This strategy builds on four key pillars: (1) promote intra-African trade; (2) strengthen trade finance leadership; (3) facilitate industrialization/export development; (4) improve financial soundness and performance.

Development operations

Afreximbank's business operations include (1) extending credit to eligible African exporters by providing pre- and post-shipment finance; (2) extending indirect credit to African exporters and importers of African goods through the intermediaries of banks and other African financial institutions; (3) promoting and financing trade between African states and other developing states; (4) acting as intermediary between African exporters and African and non-African importers through the issuance of letters of credit, guarantees and other trade documents in support of export-import transactions; (5) promoting and providing insurance and guarantee services covering commercial and non-commercial risks associated with African exports; and (6) carrying out market research and providing auxiliary services aimed at expanding the international trade of African countries and boosting African exports.

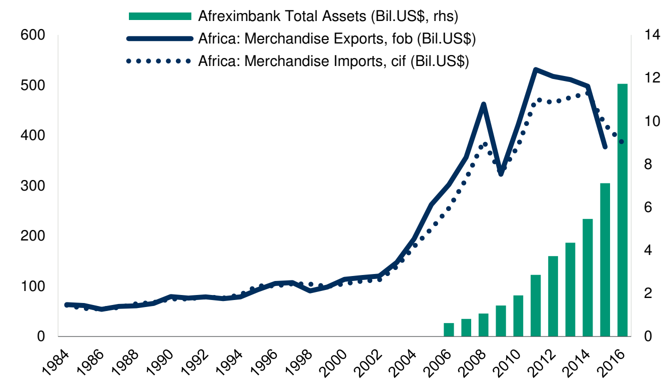
Afreximbank thus fills a gap in the African market where institutional arrangements supporting export credit are usually limited. Exhibits 2 and 3 depict the bank's operating model and the rapid expansion of development operations in line with trade trends in Africa before the adverse terms of trade shock in 2015. This shock led to a plunge in the value and volumes of African trade which remains largely commodities centered.

Exhibit 2
Afreximbank's trade finance operating model



Source: Afreximbank

Exhibit 3
Balance sheet expansion in relation to nominal African imports and exports
(billion $)



Source: Afreximbank, IMF, Moody's Investors Service

CENDEP and COTRALF central bank deposit and lending facilities are geared toward alleviating systemic trade finance liquidity shortages

In response to the adverse commodity terms of trade shock that hit the continent and a large number of Afreximbank shareholders in 2015, the bank introduced in December 2015 a temporary trade finance facility geared specifically toward central banks and banking systems faced with a systemic shortage in foreign exchange reserves that can be disruptive to banking systems' access to trade finance which is primarily performed in US dollars. The program has been approved for an initial period of two years.

Specifically, the Central Bank Deposit/Investment Program (CENDEP) on the liabilities side, and the Counter-Cyclical Trade Liquidity Facility (COTRALF) on the asset side are respectively aimed at attracting cash deposits from central banks of the Bank's Participating States, and facilitating lending to such central banks against such deposits to cover short term funding needs. The uncollateralized net exposure is designed to be minimal and in any event should not exceed 20% of the size of the relevant deposit.

The COTRALF facility is part of the "Line of Credit" program in the overview of Afreximbank's development operations in Exhibit 5 and highlights the sheer size of the program which, at $4.7 billion, accounted for about 44% of the bank's net loans and advances as of June 2017.

The bank's facilities are also available for private sector non-shareholders in non-member states to the extent that such financing will be used to pay for imports from a member state.

Afreximbank also seeks to be a preferred partner for major syndicated trade finance deals in Africa. With Afreximbank as a lender of record, private partner banks in the syndicate can benefit from Afreximbank's preferred creditor status and help Afreximbank in achieving its role of attracting funds to Africa. Syndications accordingly represent the second-largest business line at 28.2% of total operations after lines of credit at 53.9%.

Exhibit 4

Lines of Credit and Syndications Continue to Dominate the Bank's Lending Program

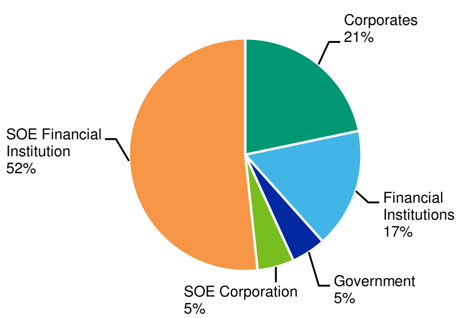
Type of Program (USD Millions)	2010	2011	2012	2013	2014	2015	2016	H1 2017	%
Line of Credit	459	959	710	503	995	2806	5809	5750	54%
Note Purchase	206	128	273	255	100	100	160	249	2%
Receivables Purch./Discounting	0	0	171	172	184	167	127	101	1%
Direct Financing	357	258	399	539	690	393	570	662	6%
Project Related Financing	55	70	147	189	157	147	122	200	2%
Syndications	483	799	992	1405	1865	1905	3073	3006	28%
Future Flow / Pre-Financing	104	108	220	208	236	345	304	517	5%
Asset-Backed Lending	15	28	103	92	77	154	41	39	0%
Special Risk	0	15	120	125	131	151	110	110	1%
CONTOUR	0	0	0	0	0	0	0	33	0%
Country Program Factoring	0	0	0	0	0	0	0	8	0%
Total	1679	2365	3134	3487	4435	6168	10316	10674	100%

Source: Afreximbank

The relative size of the new central bank lending facility is also reflected in the loan distribution by beneficiary, where exposures to central banks account for almost half of outstanding loans. This represents a major change from the loan distribution in H1 2015 where 86% of outstanding loans were directed to the private sector and only 14% to governments (Exhibits 6 and 7).

Exhibit 5

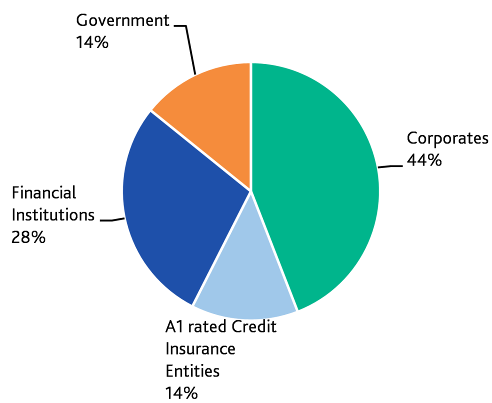
The type of beneficiary institutions has changed significantly following the introduction of CENDEP/COTRALF in H1 2017...



SOE = State-owned enterprise
Source: Afreximbank

Exhibit 6

...as compared to H1 2015 before CENDEP/COTRALF



Source: Afreximbank

CENDEP/COTRALF Facilities: Balance sheet impact under Moody's Supranational Rating Methodology

Afreximbank introduced two new programs during 2015:

- the Afreximbank Central Bank Deposit/Investment program (CENDEP)

- the Counter-Cyclical Trade Liquidity Facility (COTRALF)

CENDEP and COTRALF are aimed at attracting deposits from the central banks of participating states and facilitating lending to such central banks against such deposits to cover short- term trade related funding needs.

The uncollateralized net exposure is designed to be minimal and in any event should not exceed 20% of the size of the relevant deposit. By their nature, deposits and loans under these two programs may be short term and/or significant in size, which can lead to fluctuations in the Bank's reported total assets and total liabilities at any given point in time.

Importantly, under the bank's Basel II reporting rules, exposures collateralized by cash deposits attract a risk weight of zero, thereby reducing risk-weighted assets and improving the risk-weighted capital adequacy ratio (CAR).

The risk-weighted CAR ratio differs from Moody's asset coverage ratio which measures the bank's usable equity against gross exposures rather than on a risk-adjusted basis. A significant increase in the loan book – whether cash collateralized or not – will therefore result in a commensurate decline in the asset coverage ratio.

Other ratios impacted by the introduction of CENDEP/COTRALF are the debt/equity and debt service ratios once CENDEP deposits are added to borrowings. Similarly, asset quality is impacted depending on whether impaired loans are measured against gross loans (including COTRALF) or against risk-weighted assets after the netting out of cash collateralized loans on both sides of the balance sheet. The use of gross vs. net exposures also impacts the loan distribution and concentration levels in terms of top 10 concentrations, as well as regional and sectoral exposures.

Importantly, the contractual documents make the CENDEP cash deposit valid security for the loan, enforceable under English law, confirming that this cash deposit cannot be withdrawn until all liabilities under the loan have been discharged in full. In addition, the CENDEP deposits are segregated by country and cannot be used for cross-securitization of other countries' COTRALF exposures. Given the above, and based on the temporary and short-term nature of the facility, Moody's considers the practice of netting against cash collateral as acceptable for analytical purposes in this instance.

While continuing to report the scorecard ratios in gross terms, Moody's also takes into account the indications of net metrics for the determination of Afreximbank's factor scores and credit profile under Moodys methodology for Multilateral Development Banks and Other Supranational Entities.

Staffing and management

The bank runs a lean organizational structure with a cost to income ratio of 15% as of June 2017, down from 20.5% in June 2016 and 18.7% in June 2015, as total staff rose to 178 in June 2017, up from 136 in June 2015.

The president of the bank, Dr. Benedict Oramah, is a pioneer employee of the bank, joining in 1994 as chief analyst, and served in different roles before taking on the positions of senior director and then executive vice president of the planning and business development department in 2007 and 2008, respectively. President Oramah succeeded Jean-Louis Ekra on September 2015 upon the recommendation of the board of directors after Mr. Ekra's completion of two five-year terms as president.

The board of directors is comprised of 12 members. Each of the bank's four classes of shares (A, B, C, D) consult on the nominees for their class. Class 'A' and Class 'B' shareholders are represented by four directors each while Class 'C' Shareholders are represented by two directors. Class D currently has no Board representative. The African Development Bank has a permanent seat on the board within Class A. Two independent directors are also appointed by the general meeting based on the nomination by the board of directors.

The general meeting meets once every year or may meet to transact special business through an extraordinary general meeting. The general meeting appoints directors and External Auditors and considers all matters relating to the capital of the bank, approves financial statements and exercises all such powers as are reserved to the general meeting in the bank charter. The general meeting is chaired by a chairman elected from one of the member states. The term of office is one year. To ensure continuity a vice chair is elected at each annual meeting who usually becomes the chair of the subsequent year.

CREDIT PROFILE

Our determination of a supranational's rating is based upon the consideration of three rating factors: capital adequacy, liquidity, and strength of member support. For multilateral development banks (MDBs), the first two factors combine to form the assessment of intrinsic financial strength, which provides a preliminary rating range. The strength of member support can provide uplift to the preliminary rating range. For more information please see our Multilateral Development Banks and Other Supranational Entities.

Capital adequacy: Medium

New central bank deposit and lending facility have a significant balance sheet impact

Factor 1

Scale	Very High	High	Medium	Low	Very Low	
+						-

Capital adequacy assesses the solvency of an institution. The capital adequacy assessment considers the availability of capital to cover assets in light of their inherent credit risks, the degree to which the institution is leveraged and the risk that these assets could result in capital losses.

The resources that an MDB has available to absorb credit or market losses stemming from its operations, and preserve its ability to repay debt holders, are an important element of its financial fundamentals and overall creditworthiness. MDBs hold capital because they face potential credit losses as a consequence of their lending and investment operations in sectors or regions that are relatively risky, in line with their mandates.

Other MDBs with “Medium” capital adequacy include the Black Sea Trade and Developtment Bank (BSTDB, A2 stable), Central American Bank for Economic Integration (CABEI, A1 stable), Eurasian Development Bank (EDB, Baa1 stable).

Capitalization is supported by retained earnings, general capital increase, expanding membership and introduction of Class D shares…

Afreximbank completed a targeted $500 million general capital increase from existing shareholders by July 2016, a few months ahead of the end-year deadline set out at the beginning of the exercise in September 2014. This was the main contributing factor for the 18% increase in the bank's usable equity to $1.75 billion in June 2017 from $1.48 billion one year before, in addition to retained earnings from improved profitability. The bank has also expanded its Class A, B and C membership base to 145 shareholders as of November 2017 from 131 one year before. This trend continued in the second half of 2017 with South Africa joining as new Class B member, while Eritrea, the Island of Comoros and Central African Republic have recently signed the Bank's agreement.

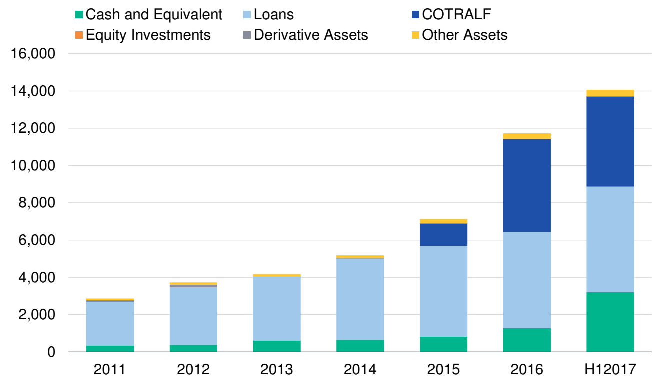
Aiming to further strengthen its capital base in order to support its trade finance mandate, the bank’s shareholders approved the raising of an additional $1 billion in capital in the medium term at the Bank’s 23rd AGM in June 2016. In addition to acquiring new Class A, B, C and D shareholders, the bank is also lining up African corporations and financial institutions as new members which are expected to join by the end of 2017, in addition to the over $160 million raised through the successful launch of the Class D asset class in October 2017 backed by Depositary Receipts (“DR”) issuance through the Stock Exchange of Mauritius.

The bank also employs equity optimization strategies including assets distribution programs with loan sell down to other financial investors and insurers in order to free up lending capacity. As of June 2017, the bank had insured an amount of approximately $1.15 billion including $27 million related to off-balance sheet liabilities.

…but is impacted by the introduction of new COTRALF/CENDEP facilities if measured on a gross loan basis

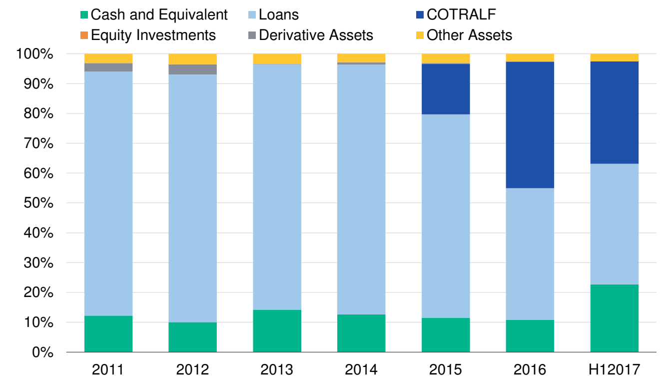
Exhibits 8-11 highlight the developments on both the asset and the liabilities side that impact the calculation of Moody's scorecard ratios under the capital adequacy factor. As discussed in Box 1, the new CENDEP and COTRALF facilities introduced in December 2015 are having a significant impact on several scorecard ratios, including on Moody's asset coverage ratio (defined as usable equity/gross loans), and on the leverage ratio (debt/equity ratio).

Exhibit 7
Total assets including COTRALF loans to central banks (million $)



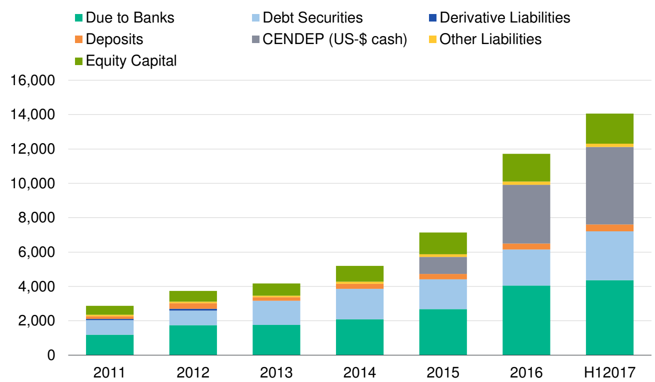
Source: Afreximbank, Moody's Investors Service

Exhibit 8
Total asset shares (%)



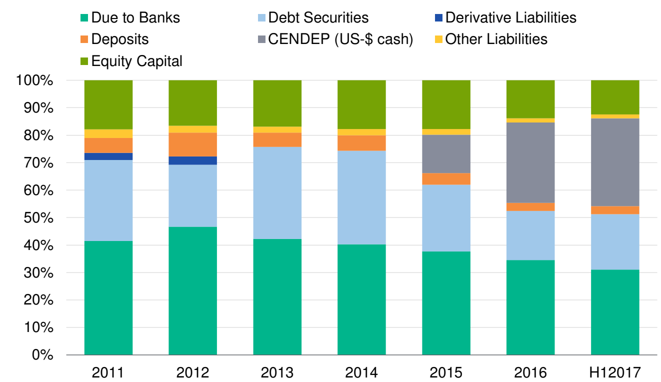
Source: Afreximbank, Moody's Investors Service

Exhibit 9
Total liabilities including CENDEP cash deposit/collateral facility (million $)



Source: Afreximbank, Moody's Investors Service

Exhibit 10
Total liabilities and equity shares (%)



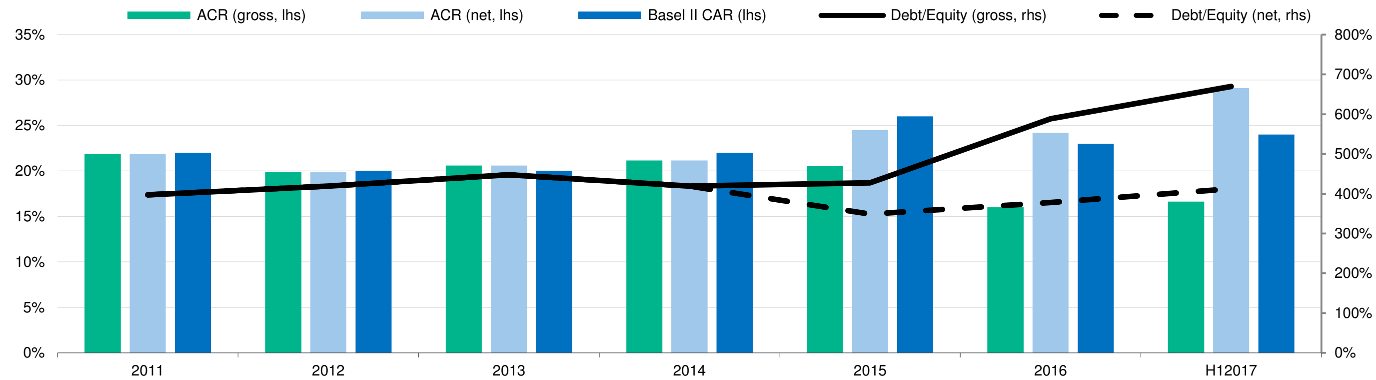
Source: Afreximbank, Moody's Investors Service

As mentioned in Box 1, given Afreximbank's legal claim on the pledged CENDEP deposits as collateral for COTRALF exposures, and the short tenor of the facilities that allows a quick wind down in case of unexpected challenges, Moody's considers the practice of netting against US-dollar cash collateral in CENDEP as acceptable for analytical purposes. While continuing to record both the gross and the net loan and borrowing exposures, Moody's will follow the indications of net metrics for the determination of Afreximbank's credit profile under the Methodology for MDBs and Other Supranational Entities (OSEs).

Practice of netting against cash collateral in US dollars is acceptable taking into account the legal claim on CENDEP cash deposits held with Afreximbank

For instance, Exhibit 12 highlights the different equity ratios resulting from different definitions, including the Basel II capital adequacy ratio (CAR) Afreximbank reports under. In risk-weighted terms, the bank's CAR has experienced a slight improvement since the end of 2016, rising to 24% in June 2017, from 23% at the end of 2016. The bank expects its CAR to remain at 23% through 2019 thanks to internal capital generation and due to capital raised under the $1 billion equity mobilization initiative. A similar assessment of improved capitalization derives from the net asset coverage ratio (net ACR calculated as equity/(gross loans minus US-dollar cash deposits under CENDEP) which Moody's uses as base case for analytical purposes while continuing to report the scorecard ratios in gross terms.

Exhibit 11
Balance sheet impact of CENDEP/COTRALF facilities on scorecard ratios (%)

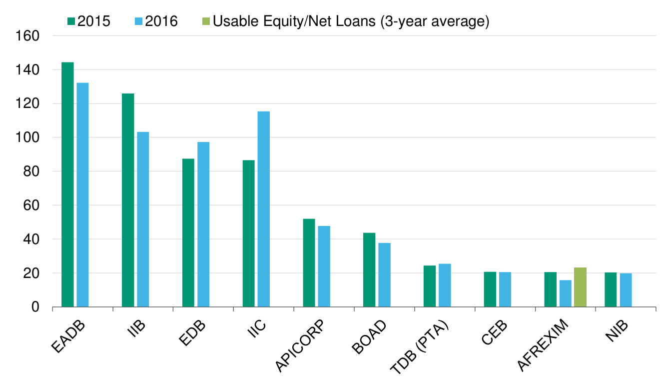


ACR: asset coverage ratio = usable equity/gross or net loans
Source: Afreximbank, Moody's Investors Service

A different picture emerges under the gross ACR calculated as usable equity/gross loans, including the full COTRALF exposure not mitigated by any cash collateral. This ratio has experienced a sharp decline to 16.6% as of June 2017, up from 16% at end-2016, but down from 20.5% at end-2015 due to the balance sheet expansion, indicating increasing downside pressures on capital adequacy as measured by Moody's standard metrics within its methodology scorecard.

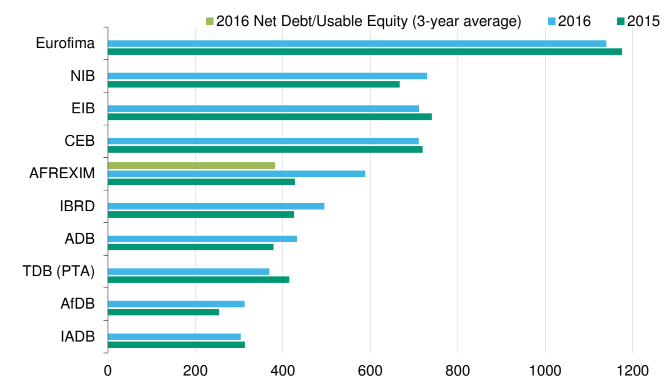
Similarly, the gross debt/equity ratio conveys a different picture if the US-dollar cash deposit in CENDEP as of June 2017 is included under borrowings or not to calculate the leverage ratio. Under the gross scenario, the leverage ratio increases sharply to over 669% from 427.7% at end-2015, whereas under the net scenario the debt/equity ratio improves somewhat to 412.3%.

Exhibit 12
Capitalization is amongst the lowest in Moody's rated MDB universe...
(usable equity/gross loans, %)



Net loans are gross loans net of US-$ cash collateral in CENDEP
Sources: Afreximbank, Moody's Investors Service

Exhibit 13
... but leverage improves if measured In risk-weighted terms
(debt/equity, %)



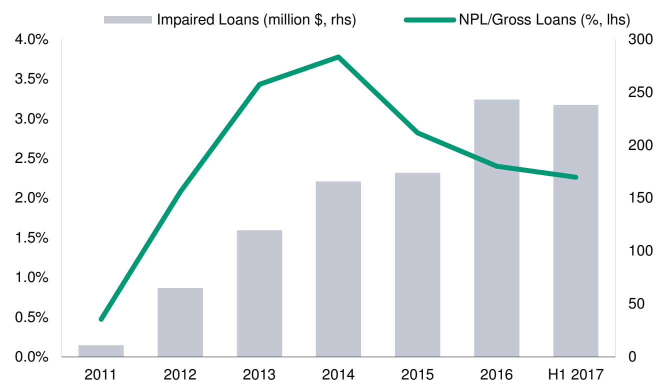
Net debt refers to gross debt net of US-$ cash collateral in CENDEP
Source: Afreximbank, Moody's Investors Service

In reflection of Afreximbank's trade finance business model, the bank operates with one of the lowest capitalization levels among Moody's rated MDBs (Exhibit 13) and is among those with the highest leverage ratios if measured in gross terms (Exhibit 14) which is captured with the bank's Baa1 rating and stable outlook. A deterioration of Afreximbank's credit metrics including in risk-weighted terms, or indications of a broad-based deterioration in the bank's credit profile, would lead to a reassessment of Afreximbank's credit quality.

Asset quality remains under control in line with peers

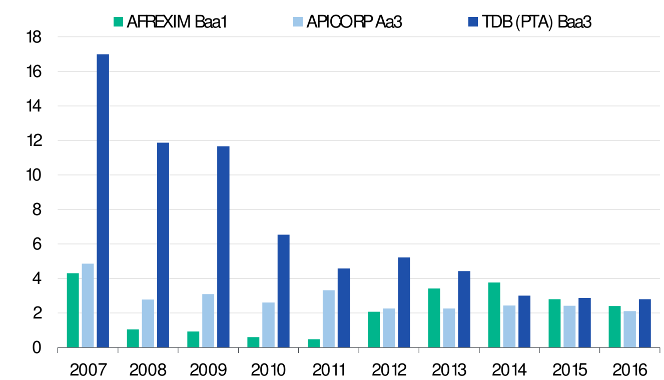
Afreximbank's asset quality performance remains adequate with the ratio of nonperforming loans (NPLs) to gross loans declining to 2.26% on June 2017 from 2.38% at end-2016 (Exhibit 15). This is broadly in line with peer MDBs with exposures in the collateralized trade finance business and compares to a median NPL ratio of below 1.0% within the universe of Moody's rated MDBs (Exhibit 16). However, the ratio is somewhat flattered by the distorting effect of the large COTRALF facility inflating the denominator. For comparison purposes, if measured on a net loan basis (i.e., by netting out the cash collateralized loans from gross loans), the NPL ratio would have increased to around 4% in H1 2017. That said, the Basel II and IFRS accounting rules which the bank adheres to indicate gross loans as the basis for the NPL ratio calculation.

Exhibit 14
NPL ratio remains in check



Source: Afreximbank, Moody's Investors Service

Exhibit 15
Asset quality performance aligned with peers in trade finance business
(NPL in % of gross loans)



Source: Moody's Investors Service

On a nominal basis, the volume of NPLs decreased marginally to $241 million in June 2017, from $245 million at the end of 2016 due to write-offs of $46.8 million over the first half of 2017 as compared to $20.2 million in write-offs over the course of 2016, reflecting the challenging operating environment. The write-offs in the first half of 2017 concern two facilities while another one was fully recovered.

The impaired loans are covered by loan loss allowances amounting to 70% of impaired loans in addition to collateral fair value at 60% of impaired loans, resulting in provision coverage of 130% as of June 2017, in line with the 133% as of June 2016.

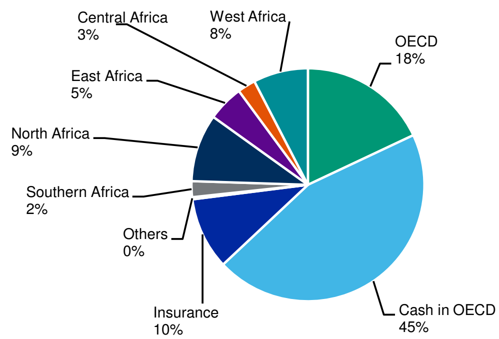
Under Afreximbank's trade finance model gross loans and advances are secured by collateral with a fair value covering over 94% of gross loans outstanding and with the remainder representing clean risk. As of H1 2017, about 45% of outstanding loans are cash covered (including via the CENDEP facility), followed by 21.1% of outstanding loans covered by the assignment of receivables. A further 19% are covered by dual recourse loan features and backed by guarantees from governments, and 10% are covered by trade credit insurance from entities in the single-A equivalent rating range. Moody's takes the value of collateral into account to the extent that it contributes to improving overall asset quality performance.

Concentration risk is mitigated by geographic distribution of ultimate payment counterparty

The large size of a single loan to a central bank in December 2015 under the COTRALF facility is the key driver for the significant increase in the sectoral and in the loan concentration metric by counterparty on a gross basis. On a net basis, after reducing the central banks' exposure by the amount that is collateralized by US-dollar cash deposits, concentration levels return to levels more in line with peers. Moreover, under the trade finance business model a significant share of Afreximbank's repayment risk originates from outside of the obligor's country, as indicated in Exhibit 17.

Exhibit 16

Counterparty risk of ultimate repayment sources is geographically broadly distributed
(loan portfolio breakdown by geography of actual payment risk as of June 2017)



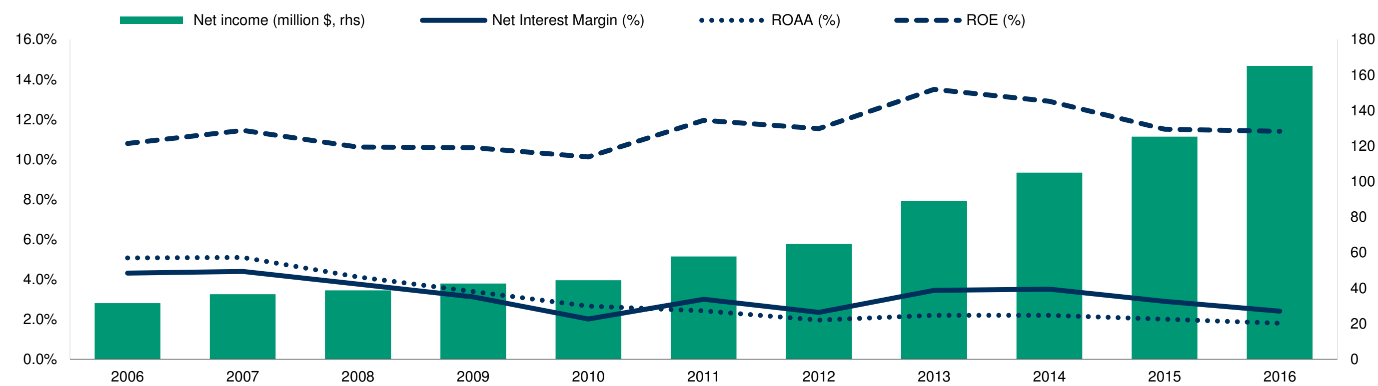
Source: Afreximbank

Profitability remains sound and reflects the lean cost and risk management structure

Afreximbank is a profit-oriented (not maximizing), dividend paying institution. The net income generated by the bank continued to increase to $165 million as of end-2016, from $125 million in end-2015 driven largely by net interest income and boosted by the low cost of funding via CENDEP deposits (Exhibit 18). As of June 2017, net income reached $117 million as compared to $90.2 million one year before, with return on equity increasing to 13.9% from 11.4% at the end of 2016, and return on average assets unchanged at 1.8% reflecting high asset growth, especially in the bank's cash position.

Exhibit 17

Profitability ratios remain strong



Source: Afreximbank, Moody's Investors Service

The bank's overall profitability performance remains supported by its very low cost-to-income ratio at 15% in H1 2017 driven mainly by the relatively high operating income in comparison to the contained growth in operating expenses which are mainly driven by personnel expenses with staff numbering 178 as of June 2017.

Bank aims for continued expansion of the balance sheet within the current prudential framework

Under the latest bank forecasts, Afreximbank aims for a Basel II Tier 1 capital ratio of 23-24% over the next three years. The current forecasts for 2017 and 2018 imply a relative scale-down of the COTRALF and CENDEP facilities once the mostly short-term loans mature, unless the board renews the facilities beyond the current two-year horizon. Similarly, the bank's projections for profitability and net interest income are within the parameters realized in 2016.

Afreximbank expects the main business growth drivers over the medium to long term to stem from countries that are at the core of the expanding intra-African trade, including South Africa (Baa3 RUR-), Nigeria (B2 stable), Kenya (B1 RUR-), Côte d'Ivoire (Ba3 stable), Egypt (B3 stable), in addition to programs in Zimbabwe, Zambia (B3 negative) and Senegal (Ba3 stable).

Liquidity: Medium

Large cash assets increase Afreximbank's comparatively lean liquidity buffer

Factor 2

Scale		Very High	High	Medium	Low	Very Low	
	+						-

A financial institution's liquidity is important in determining its shock absorption capacity. We evaluate the extent to which liquid assets cover debt service requirements and the stability of the institution's access to funding.

Illiquidity is most often the proximate cause of a financial institution's failure. Liquidity assumes particular importance for MDBs because these entities rely on their own resources in the face of shocks, before shareholder support materializes. Moreover, most MDBs do not have access to the liquidity facilities that central banks provide to commercial banks. The primary aim of holding liquid assets is to meet financial obligations, in particular debt service, by investing in assets that can be quickly converted to cash. In this respect, we look at the extent to which liquid assets cover debt-service requirements. We also evaluate the stability of access to funding, which is an essential element of maintaining liquidity.

Other MDBs with a "Medium" liquidity score include the Eurasian Development Bank (Baa1 stable), and the Gulf Investment Corporation (A2 stable).

Lean liquidity position mirrors short-term orientation of the bank

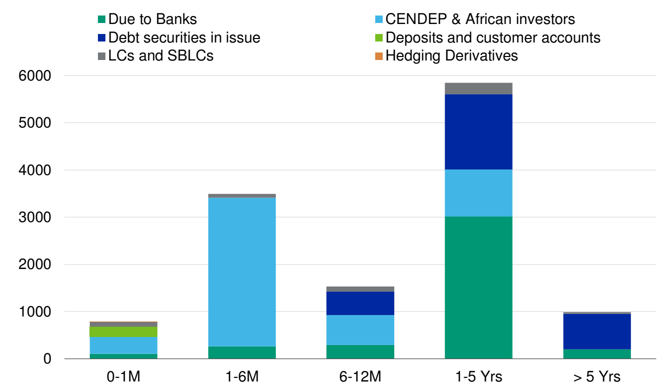
Consistent with its focus on trade finance with comparatively short maturities, Afreximbank holds a relatively lean liquidity position when compared with other MDBs' treasury asset holdings. Exhibit 20 highlights the debt service coverage ratio with and without maturing central bank deposit facilities in comparison with other MDBs (Exhibit 19).

The relatively tight liquidity position is partially mitigated by the comparatively short average loan portfolio maturity of 16 months as of June 2017, up from 15 months in June 2016, and 22 months in June 2015, on the back of the mostly short-term nature of the COTRALF facility introduced in December 2015. The self-liquidating nature of the majority of trade finance facilities support Afreximbank's "Medium" liquidity position sub-factor. Moreover, assets' portfolio duration is shorter than the maturity of liabilities in order to allow the bank to accumulate asset cash flows which in turn are used to fund maturing obligations in case of difficulties accessing external funding sources.

Exhibit 18

Maturity profile of borrowings and CENDEP deposits as of June 2017

(million $)

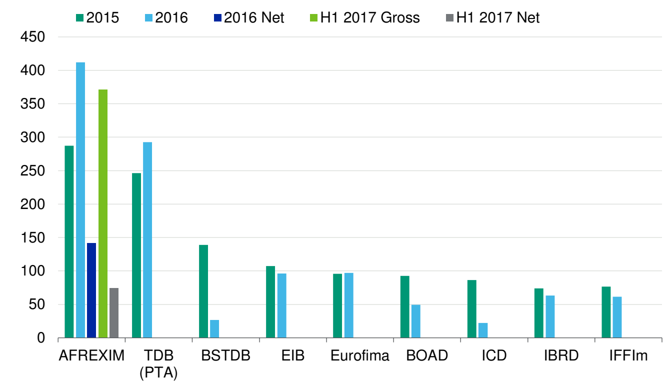


Source: Afreximbank

Exhibit 19

Debt-service coverage ratio remains among the weakest in Moody's-rated universe (lower=better)

(short-term debt + currently maturing long-term debt / liquid assets, %)



Gross debt includes US-dollar cash deposits in CENDEP as borrowings, net debt excludes it

Source: Moody's Investors Service

Its low average portfolio duration is also a mitigating factor with respect to interest rate risk, alongside the re-pricing of most of Afreximbank's loans and assets within three months. FX risk is similarly contained as approximately 93% of assets and 92% of liabilities are denominated in US-dollar and euro representing the only other major currency exposure. Both remaining interest and FX risk exposures are hedged in the derivatives markets with sound counterparties.

Related to the bank's short-term orientation, the bank's Risk Management Policy and Procedures (RMPP) require the bank to hold minimum liquid funds that also cover repayments of debt obligations due within the next three months in addition to loan commitments with disbursement schedule less than one week and other budgeted expenses. As of June 2017, the actual cash balance of $3.2 billion exceeded the required $2.2 billion according to policy by a significant margin.

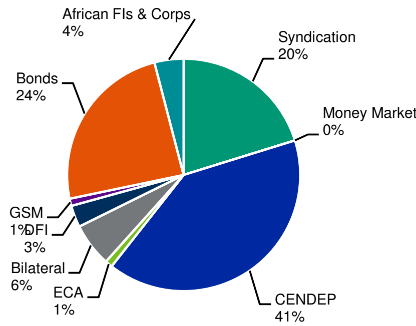
In addition, the bank observes the Liquidity Coverage Ratio (LCR) requirement of at least 105% in the definition of the Basel Accords which compares liquid cash holdings with total cash outflows over the next one month. Afreximbank's LCR according to this measure amounted to 255% in June 2017 as compared to the minimum required 105%.

The bank's practice is also to ensure that it maintains a positive cumulative liquidity gap across all maturity buckets, which remains the case. In terms of counterparties, the bank diversifies its liquid cash base with various investment grade counterparties approved by the Board of Directors and with different limits for shareholder and non-shareholder banks.

Strong and diversified funding position is reflected in declining funding costs

The bank has diversified its funding sources, most recently with the inclusion of the central bank deposit programme CENDEP. Exhibit 21 highlights funding breakdown by sources. In addition, the bank now issues Depositary Receipts (Class D shares) listed in a stock exchange as a new funding mechanism.

Exhibit 20
Funding breakdown by source (excluding equity capital)



ECA = Export Credit Agency; DFI = Development Finance Institution
Source: Afreximbank

» As of June 2017, the bank has sourced almost $4.7 billion under CENDEP as compared to $1.1 billion in December 2015. Since most of these deposits are linked to COTRALF facilities, the maturity is matched with the tenor of those loan facilities. A further $447 million in funding stem from non-central bank African institutions. These wholesale deposits have an average tenor of about 12 months. The remainder of Afreximbank's deposits are mainly transaction-led and used to retire outstanding loans until they are fully paid.

» The bank has four fixed-rate securities outstanding under its EMTN program: (1) $500 million 3.875% bond maturing in June 2018; (2) $700 million 4.75% bond maturing in July 2019; (3) $900 million 4.0% bond maturing in May 2021, and (4) $750 million 4.125% bond maturing in June 2024.

» As of June 2017, the weighted average maturity of funding at inception was 2.72 years and with a residual maturity is 1.85 years.

» The bank's liquidity policy requires asset portfolio duration to either be shorter or match iabilities duration. This enables the bank to accumulate asset cash flows which in turn are used to fund maturing obligations.

» In terms of contingency planning, the bank had about $1.6 billion of undrawn credit lines available as of June 2017, consisting of $1.3 billion in committed and $366 million in uncommitted lines. These are made available by banks, export credit agencies (ECAs) and development finance institutions (DFI). Most of the relationship banks have joined with Afreximbank in previous syndications and are considered regular funding sources by the bank. This compares to contingent liabilities amounting to $760 million consisting of $310 million in guarantees, $168 million in stand-by letters of credit and $295 million in letters of credit.

» The maturity of more than 50% of the contingent liabilities is less than one year.

Strength of member support: Low

Very low average shareholder rating and high debt relative to discounted callable capital limit strength of member support

Factor 3

Scale	Very High	High	Medium	Low	Very Low
+				■	-

Contractual support primarily manifests itself in the callable capital pledge, which is a form of emergency support. Extraordinary support is a function of shareholders' ability and willingness to support the institution in ways other than callable capital. Strength of member support can increase the preliminary rating range determined by combining factors 1 and 2 by as many as three scores.

Contractual support mechanisms, which for MDBs often involve callable capital pledges, support the institutions' ability to service their debt in times of particular financial stress. Presence of a substantial callable capital buffer is often among the key strengths supporting MDB credit ratings at the top end of the rating spectrum.

Afreximbank's "Low" factor score balances the bank's constrained contractual shareholder support with high willingness to support in reflection of members' demonstrated ability to raise equity capital from new and existing shareholders despite the banks' low average shareholder rating. The bank shares the "Low" factor score with Corporacion Andina de Fomento (CAF, Aa3 stable), East African Development Bank (EADB, Baa3 stable), and the Eurasian Development Bank (Baa1 stable).

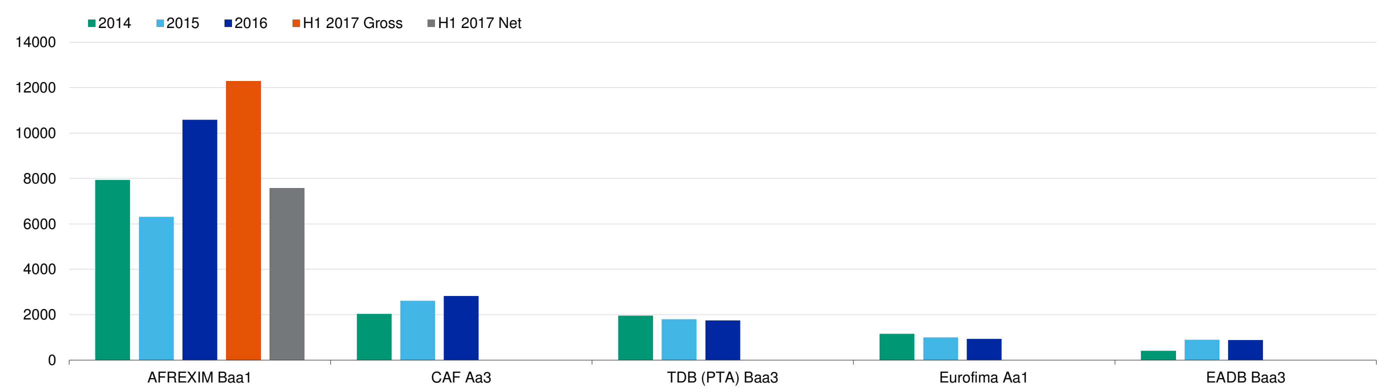
Mid-term credit mitigation instrument on callable capital mitigates very low average shareholder rating

Within the universe of Moody's-rated MDBs, Afreximbank qualifies within the most highly leveraged institutions and as one with the lowest weighted median shareholder rating at B2. This combination constrains the degree of credit uplift that Afreximbank can derive from contractual or from extraordinary member support in Moody's methodology. Exhibit 22 confirms Afreximbank's underperformance relative to other MDBs on the contractual support metric, both on a gross or net debt basis.

In particular, the discounted callable capital includes only the callable capital contribution from investment-grade rated shareholders, discounted by rating, which in the case of Afreximbank represent only about 16% of the total callable capital base even after the recently completed general capital increase which boosted the volume of total callable capital to $569 million in June 2017. Comparing the constrained callable capital base with the relatively high outstanding debt metric informs the unfavorable contractual support metric, both under a gross and a net debt scenario (i.e., including CENDEP US-dollar cash deposits in total borrowings or not).

Exhibit 21

Top 5 MDBs by debt/discounted callable capital from investment-grade shareholders
(%, lower = better)



Gross debt includes US-dollar cash deposits in CENDEP as borrowings, net debt excludes US-$ cash collateral in CENDEP
Source: Afreximbank, Moody's Investors Service

In this context, the bank has put in place a mid-term credit risk mitigation instrument for its callable capital on behalf of the bank's Class A and B shareholders. With this instrument, Afreximbank aims to address a scenario in which a call on capital would not be followed by all of the bank's shareholders. The review of the instrument terms against Moody's credit substitution methodology confirms that the instrument serves as valid base for a credit uplift to Afreximbank's covered shareholder base to investment grade in case of a valid call on callable capital, although not to the extent of full credit substitution.

Strong participation in the general capital increase and continued expansion of the shareholder base underpin shareholders' high willingness to support

Afreximbank's demonstrated ability to raise equity capital from new and existing shareholders attests to the strong shareholder support despite the bank's low average shareholder rating. The $500 million approved capital increase starting September 2014 was equivalent to about 70% of Afreximbank's existing shareholder equity as of September 2014, and the completion of the exercise ahead of the end-December 2016 deadline reflects the high level of willingness to support the institution. The size and speed of the capital increase also reflects favorably with general capital increase exercises at other MDBs.

The recent introduction of the new central bank deposit and lending facilities further attests to the bank's flexibility in adapting its strategy to emerging challenges in the operating environment of its member countries. The expanding number of shareholders, including 38 African participating states (out of 54 on the continent) as of November 2017, and over 90 mostly African and non-African financial institutions, underscores the bank's relevance. There are also ten other African participating stats which have signed the bank Agreement but are still to become shareholders. The most recently joined shareholder is South Africa in addition to private shareholders such as the Dangote Group among other institutions. Central African Republic, Eritrea, the Island of Comoros and Madagascare have recently signed the Bank Agreement and become participating states but are still to take up shareholding in the bank.

At the annual general meeting of 2016, shareholders approved the raising of an additional $1 billion in equity to support the bank's loan book expansion strategy in the medium term. Among others, the bank successfully raised an over $160 million equity offering using depositary receipts issued through the Stock Exchange of Mauritius and backed by new Class D shares.

Broadly diversified shareholder base reduces linkages among members

Other considerations with respect to extraordinary shareholder support relate to linkages among members, which are assessed as "Medium" given their broad geographic diversification. However, the linkages are still exposed to common shocks to the entire region, such as for example a broad-based terms of trade shock or a hard landing of China's economy as one of Africa's main trading partners and as an important source of investment.

Correlation of members and assets is assessed as "Low" when taking into account that most borrowers are from the private sector and thus more broadly diversified in their activities than governments borrowing and lending from each other. The same reasoning applies to member concentration, which benefits from a more diversified shareholder base. There is no joint and several support among Afreximbanks' members.

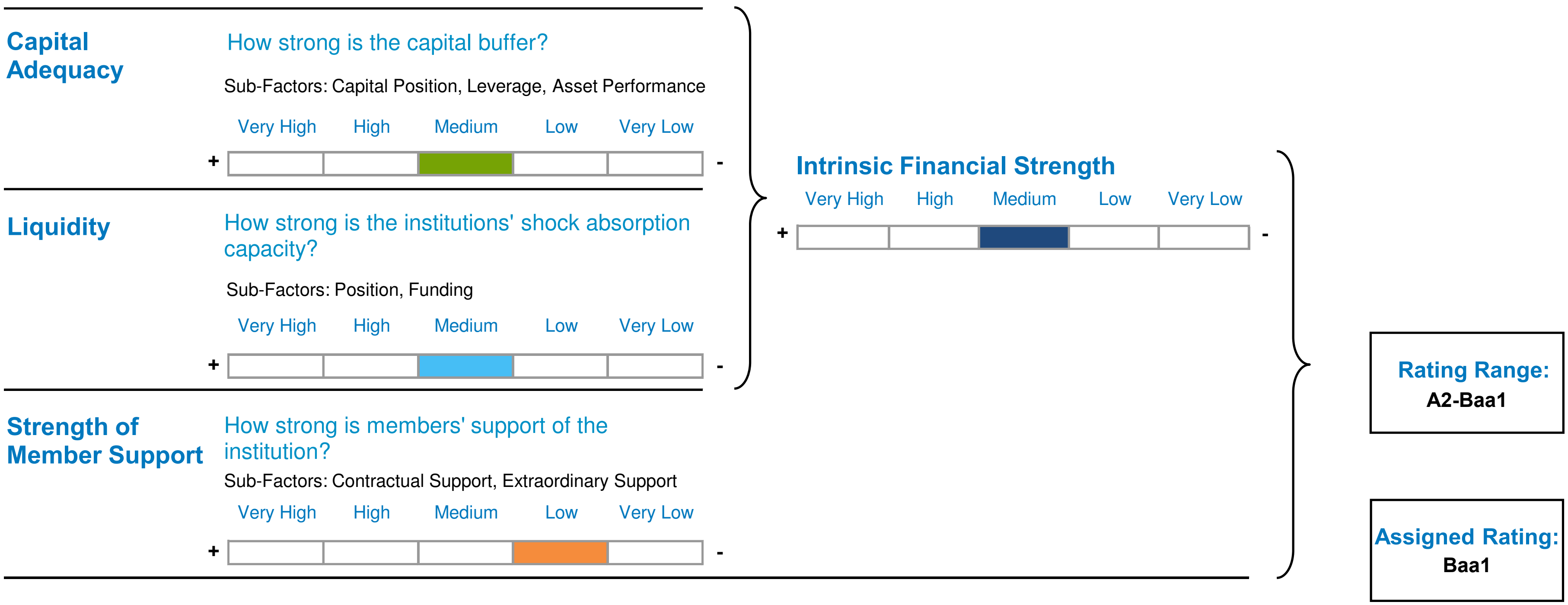
Rating range

Combining the scores for individual factors provides an indicative rating range. Whilst the information used to determine grid mapping is predominantly historical, our ratings incorporate expectations around future metrics and risk developments that may differ from those implied by the rating range.

Therefore, the rating process is deliberative and not mechanical, meaning that it depends upon peer comparisons and should leave room for exceptional risk factors to be taken into account that may result in an assigned rating outside the indicative rating range. For more information please see our [Multilateral Development Banks and Other Supranational Entities.]

Exhibit 22

Supranational rating metrics: African Export-Import Bank



Source: Moody's Investors Service

Comparatives

This section compares the credit profile of the Afreximbank with other MDBs rated by Moody's with similar credit profiles and shows selected credit metrics and factor scores.

Afreximbank's capital adequacy score meets or exceeds key peers, at "Medium", with NPLs remaining well managed at 2.4% at the end of 2016 and outperforming peers EDB, IIB, and EADB. Regarding Factor 2, liquidity, while debt service coverage risk is elevated in nominal terms, the trade finance focussed nature of the bank's operations alleviates some of this risk. The Factor 2 score is also buttressed by the relatively low weighted average cost of loan debt. On Factor 3, strength of member support, Afreximbank scores "Low", in line with key peers EDB and EADB, but weaker than BOAD and IIB. Afreximbank's score is weighed down by the low average shareholder rating and the comparatively high debt relative to discounted callable capital.

Exhibit 23
African Export-Import Bank's key peers

	Year	AFREXIM	BOAD	EDB	IIB	EADB	AFC	Baa Median
Rating/Outlook		Baa1/STA	Baa1/STA	Baa1/STA	Baa1/POS	Baa3/STA	A3/STA	--
Total Assets (US$ million)	2016	11,726	3,637	3,255	930	394	3,430	3,446
Factor 1		**Medium**	**Low**	**Medium**	**Low**	**Low**	**Medium**	**--**
Usable Equity/Gross Loans Outstanding + Equity Operations (%)[1]	2016	15.8	37.7	97.2	103.2	132.1	86.8	67.5
Debt/Usable Equity (%)[1]	2016	588.6	237.2	93.8	105.6	49.2	132.0	171.4
Gross NPLs/Gross Loans Outstanding (%)[2]	2016	2.4	2.2	4.7	3.9	7.0	0.0	3.4
Factor 2		**Medium**	**High**	**Medium**	**Medium**	**High**	**High**	**--**
ST Debt + CMLTD/Liquid Assets (%)[3]	2016	412.0	49.5	7.0	40.9	16.8	16.9	45.2
Bond-Implied Ratings (Long-Term Average)	2010-2016	Ba2	Ba2	Ba2	--	--	Ba1	Ba2
Intrinsic Financial Strength (F1+F2)		**Medium**	**Medium**	**Medium**	**Low**	**Medium**	**High**	**--**
Factor 3		**Low**	**Medium**	**Low**	**High**	**Low**	**Very Low**	**--**
Total Debt/Discounted Callable Capital (%)[4]	2016	10592.9	225.4	0.0	124.9	883.8	--	883.8
Weighted Median Shareholder Rating (Year-End)	2016	B2	--	Ba1	Ba1	B2	B2	Ba3
Rating Range (F1+F2+F3)		**A2-Baa1**	**A1-A3**	**A2-Baa1**	**A3-Baa2**	**A2-Baa1**	**Aa2-A1**	**--**

[1] Usable equity is total shareholder's equity and excludes callable capital
[2] Non performing loans
[3] Short-term debt and currently-maturing long-term debt
[4] Callable capital pledge by members rated Baa3 or higher, discounted by Moody's 30-year expected loss rates associated with ratings.

Sources: African Export-Import Bank; Moody's Investors Service

DATA AND REFERENCES

Rating history

Exhibit 24
African Export-Import Bank

	Issur Rating				
	Long-term	Short-term	Senior Unsecured	Outlook	Date
Rating Upgraded	Baa1		Baa1		Jan-17
Ratings affirmed, Outlook Changed	Baa2	P-2	Baa2	STA	Jul-15
Changed to definitive from prospective			Baa2		Sep-14
Outlook Changed				NEG	Mar-14
Rating Affirmation	Baa2	P-2	Baa2		Mar-14
Rating Assigned			Baa2		Jul-11
Outlook Assigned				STA	May-10
Rating Assigned	Baa2				May-10

Source: Moody's Investors Service

Annual statistics

Exhibit 25

African Export-Import Bank

	2010	2011	2012	2013	2014	2015	2016
Balance Sheet, USD Millions							
Assets							
Cash & Equivalents	181	352	377	593	654	824	1,269
Securities	0	0	0	0	0	0	0
Derivative Assets	0	80	123	3	42	23	9
Net Loans	1,661	2,345	3,101	3,432	4,346	6,061	10,148
Net Equity Investments	0	0	0	0	0	0	0
Other Assets	63	90	130	146	147	224	300
Total Assets	**1,905**	**2,868**	**3,731**	**4,175**	**5,189**	**7,133**	**11,726**
Liabilities							
Borrowings	1,320	2,034	2,587	3,163	3,855	5,418	9,573
Derivative Liabilities	0	75	114	0	0	0	22
Other Liabilities	128	247	417	305	415	448	505
Total Liabilities	**1,449**	**2,355**	**3,118**	**3,468**	**4,270**	**5,866**	**10,100**
Equity							
Subscribed Capital	416	423	426	439	464	768	946
Less: Callable Capital	250	254	256	263	278	461	568
Less: Other Adjustments	(18)	(23)	(25)	(39)	(57)	(204)	(355)
Equals: Paid-In Capital	184	192	195	214	242	511	734
Retained Earnings (Accumulated Loss)	141	165	194	235	301	355	429
Accumulated Other Comprehensive Income (Loss)	0	0	0	0	0	0	0
Total Equity	**457**	**512**	**612**	**707**	**919**	**1,267**	**1,626**

Exhibit 26

	2010	2011	2012	2013	2014	2015	2016
Income Statement, USD Millions							
Net Interest Income	**33**	**70**	**75**	**125**	**173**	**199**	**273**
Interest Income	74	146	178	243	318	372	484
Interest Expense	41	77	102	118	144	173	211
Net Non-Interest Income	**40**	**20**	**30**	**27**	**29**	**44**	**34**
Net Commissions/Fees Income	37	17	28	23	28	30	30
Income from Equity Investments	0	0	0	0	0	0	0
Other Income	3	2	3	3	1	15	4
Other Operating Expenses	**20**	**23**	**27**	**33**	**41**	**48**	**56**
Administrative, General, Staff	19	21	25	30	37	44	51
Grants & Programs	0	0	0	0	0	0	0
Other Expenses	2	2	2	4	4	4	4
Pre-Provision Income	**52**	**67**	**79**	**118**	**162**	**195**	**252**
Loan Loss Provisions (Release)	8	9	13	29	57	70	87
Net Income (Loss)	**44**	**58**	**66**	**89**	**105**	**125**	**165**
Other Accounting Adjustments and Comprehensive Income	0	0	0	0	2	9	-52
Comprehensive Income (Loss)	**44**	**58**	**66**	**89**	**107**	**134**	**113**

Source: African Export-Import Bank; Moody's Investors Service

Exhibit 27

	2010	2011	2012	2013	2014	2015	2016
Financial Ratios							
Capital Adequacy, %							
Usable Equity / (Loans + Equity)	27.2	21.6	19.6	20.3	20.9	20.5	15.8
Debt/Usable Equity	289.2	397.2	422.9	447.6	419.5	427.7	588.6
Allowance For Loan Losses / Gross NPLs	174.7	176.0	40.1	45.4	26.2	61.3	68.3
NPL Ratio: Non-Performing Loans / Net Loans	0.6	0.5	2.1	3.4	3.8	2.8	2.4
Return On Average Assets	2.6	2.4	2.0	2.3	2.2	2.0	1.8
Interest Coverage Ratio (X)	2.1	1.8	1.6	1.5	1.7	2.1	2.1
Liquidity, %							
St Debt + CMLTD / Liquid Assets	414.9	131.5	204.0	213.0	209.2	287.4	412.0
Bond-Implied Rating	0.0	Ba3	Ba2	Ba2	Ba3	Ba1	Ba2
Liquid Assets / Total Debt	13.7	17.3	14.6	18.8	17.0	15.2	13.3
Liquid Assets / Total Assets	9.5	12.3	10.1	14.2	12.6	11.6	10.8
Strength of Member Support, %							
Callable Capital (CC) of Baa3-Aaa Members/Total CC	-	-	-	-	16.4	19.1	16.8
Total Debt/Discounted Callable Capital	-	-	5,979.9	7,298.8	8,700.7	6,308.4	10,592.9
Weighted Median Shareholder Rating (Year-End)			B2	B2	B2	B2	B2

Source: African Export-Import Bank; Moody's Investors Service

Moody's related research

» **Issuer Comment:** Afreximbank Announces Launch of Freely Tradable Shares, a Credit Positive, 17 Aug 2017

» **Credit Opinion:** African Export-Import Bank --- Baa1 Stable: Regular Update, 29 Jun 2017

» **Rating Action:** Moody's upgrades the African Export-Import Bank's ratings to Baa1 from Baa2, outlook stable, 23 Jan 2017

» **Rating Methodology**: Supranational Bond Rating Methodology, 29 March 2017

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.

Related websites and information sources

» African Export-Import Bank's webpage

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