

ISSUER IN-DEPTH

14 July 2020



RATINGS

African Export-Import Bank

	Rating	Outlook
Long-term Issuer	Baa1	STA
Short-term Issuer	—	—

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African Export-Import Bank — Baa1 stable

Annual credit analysis

OVERVIEW AND OUTLOOK

The credit profile of [African Export-Import Bank](#) (Afreximbank, Baa1 stable) is supported by its collateralized trade finance business model, with a short average asset maturity of 20 months and a relatively well-diversified loan portfolio that allows it to respond flexibly to the coronavirus crisis. Moreover, its shareholder base has increased to 156 members at the end of 2019 from 150 in 2018. Paid-in capital also includes freely tradeable depositary receipts linked to Class D shares, which provide an additional source of equity capital. The bank's credit profile also benefits from its established access to a varied range of funding sources at competitive terms, which mitigate the risks arising from the bank's relatively tight liquidity profile compared to other rated multilateral development banks (MDBs) that lend on a longer-term and unsecured basis.

In line with its profit-oriented business model, the bank operates with a lean capital ratio in the 20%-30% range in risk-weighted terms. This leads to a comparatively high leverage ratio, with loans and guarantees at over five times equity as compared to a median range of about 2-3 times across all the MDBs we rate. While the mid-term credit-risk mitigation instrument on callable capital supports our assessment of the bank's contractual support, the low weighted average shareholder rating and the low amount of total callable capital compared to outstanding debt constrain the overall strength of member support. The bank also operates in a difficult operating environment that exposes asset quality and its liquidity profile to potential shocks.

The stable outlook is supported by the bank's successful equity-raising performance and its track record of adapting its strategy to challenges in the operating environment of member countries without undermining its asset-quality performance. The stable outlook also reflects our expectation that the risks associated with the bank's Pandemic Trade Impact Mitigation Facility (PATIMFA) will be managed without persistent detriment to leverage and asset quality metrics.

Upward credit pressure could arise from higher capital and liquidity buffers which remain among the lowest among rating peers. Conversely, a sustained weakening of asset quality, increased liquidity pressures or a continued expansion in the leverage ratio could lead to a downgrade.

This credit analysis elaborates on Afreximbank's credit profile in terms of capital adequacy, liquidity and funding and strength of member support, which are the three main analytical factors in Moody's [Supranational Rating Methodology](#).

Special topic

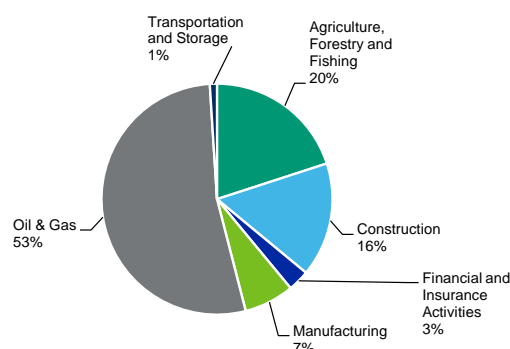
Stress tests indicate a manageable impact from coronavirus on Afreximbank's balance sheet in light of continued client engagement

After the coronavirus crisis escalated in March 2020, the bank undertook stress tests on its existing portfolio to estimate the potential impact on its asset quality. It took measures to support identified "at risk" facilities, such as additional collateral, sources of repayment, guarantees among others. As a result of continued client engagement, the bank does not anticipate the emergence of major arrears this year. This assessment is supported by the inherent risk mitigation provided by Structured Trade Finance facilities, especially for commodity trade finance exposures that lock in demand from off-takers and afford price protection through hedging derivatives held as collateral. Under forward-looking IFRS9 accounting rules, the bank has added almost \$75 million as impairment overlays in response to the pandemic.

Exhibits 1 and 2 outline the composition and collateralization of "at risk" exposures by sector and by type of collateral, capturing the disruption caused by the plunge in commodity prices on trade activity on the continent, as well as the comparatively low share of financial services exposures deemed at risk given that they represented 45% of the loan book at the end of 2019.

Exhibit 1

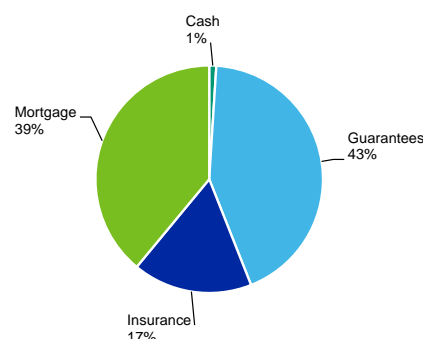
Over half of "at risk" exposures are in the energy sector (Shares of total exposures deemed "at risk" by sector)



Source: Afreximbank

Exhibit 2

The collateral backing "at risk" exposures is mostly in form of guarantees and mortgages



Source: Afreximbank

New Pandemic Trade Impact Mitigation Facility answers the bank's crisis response mandate

On 20 March, the bank's board approved the \$3 billion Pandemic Trade Impact Mitigation Facility (PATIMFA) with the objective to avert trade-payment defaults; provide bridge financing to sovereigns with access to other official funding sources; extend trade receivable-backed fiscal support for member countries exposed to the commodity-price shock; extend emergency trade-finance facilities for import of urgent supplies, including medical supplies; and support eligible corporations to avoid key export, investment and supply chain disruptions.

The rapid design and approval of PATIMFA is in line with the bank's crisis-response mandate, which compels the bank to support trade on the continent in a countercyclical fashion without undermining its own financial standing. PATIMFA follows in the footsteps of the Countercyclical Trade Liquidity Facility (COTRALF) program that was deployed in 2015-17 in support of central banks facing temporary foreign exchange reserves shortages in the wake of the commodity price shock. COTRALF was repaid in full and fostered the bank's standing on the continent.

PATIMFA makes use of the full range of the bank's products – including direct funding, lines of credit, guarantees, swaps, Letters of Credit – and was approved for a period of two years until March 2022. Each facility signed will have a final maturity of three years, unless extended. The facility will mostly be funded via a planned increase in central bank deposits to \$5 billion from \$2.1 billion at the end of 2019, with \$4 billion recorded in early May, in addition to a mix of various funding instruments and sources. The bank does not envision a significant rise in the leverage ratio as a result of PATIMFA because the strategy entails a reallocation of up to \$4.3 billion of regular business to PATIMFA.

Organizational structure and strategy

Afreximbank is one of only a few MDBs that operate as multilateral public-private partnerships. It is governed by (1) an establishment agreement, which 51 African countries had signed or acceded to by December 2019; and (2) a bank charter, which has been signed by all public and private shareholders (see Exhibit 3). The bank pursues its development goals by operating as a commercial, profit-oriented (not maximizing) organization.

Afreximbank was established under the auspices of the [African Development Bank](#) (AfDB, Aaa stable) against the backdrop of the economic crises of the 1980s. The AfDB is thus one of Afreximbank's major shareholders and nominates one of the 12 directors on its board.

Afreximbank's shareholder base continues to expand. At the end of December 2019, it had a total of 156 shareholders from 150 one year ago, including 51 African states (of 55 on the continent) and a number of African central banks and African regional and subregional institutions that constitute Class A shareholders. Exhibit 3 provides a breakdown of the shareholder base by Class A, B, C and D shares. During 2019, six new shareholders joined the bank, two in the Class A category (the Government of Madagascar and Reserve Bank of Malawi) and four in Class B (Opaia SA from Angola, Caisse National De Prevoyance Sociale SA from Cameroon, Instituto Nacional Previdencia Social from Cape Verde, Aeroportos E Seguranca Aeriea from Cape Verde).

One recent innovation among MDBs is the bank's successful launch of Class D shares backed by depositary receipts issued through the Stock Exchange of Mauritius. The first program to raise \$300 million from October 2017 to October 2018 was successfully achieved by January 2018. The bank is contemplating listing additional depositary receipts, supported by class D shares, on a well-known stock exchange as part of the current \$1 billion capital increase until 2021 under the bank's fifth strategic plan, of which \$765 million was already raised by the end of 2019.

Exhibit 3

Shareholder base as of December 2019

As of December 2019	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/public investors	new category created in December 2012, under which any person or entity can be allotted shares	
Number of Shareholders	51	90	14	1	156
Paid-in Capital (million USD)	301.3	127.7	52.4	69.1	550.5
Callable Capital (million USD)	736.8	289.4	146.3		1,172.5
Subscribed Capital (million USD) [Paid-in + Callable Capital]	1,038.1	417.1	198.7	69.1	1,723.1
Share Premium (million USD)	444.9	183.5	80.9	189.8	899.1
Usable Equity (million USD) [Paid-in Capital + Share Premium + Reserves + Retained Earnings]					2,802.1

Sources: Afreximbank, Moody's Investors Service

Afreximbank's mandate, business objectives, governance and strategy

Afreximbank's primary objective is to stimulate the consistent expansion, diversification and development of African trade, while operating as a profit-oriented, socially responsible financial institution. The bank 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. Similarly, the bank works toward expanding private sector participation among its shareholder base, including the expansion of the tradable depositary receipts that are linked to Class D shareholder base as a scalable source of access to equity capital.

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). Four directors represent Class B shareholders, two represent Class C shareholders and two are independent.

The bank's fifth strategic plan, for 2017-21 ("Impact 2021"), seeks to promote several objectives, including (1) achieving capitalization of \$3.5 billion by December 2021 from \$2.8 billion at the end of 2019; (2) growing the intra-African trade portfolio to \$3 billion by 2021; and (3) increasing the financing of manufactured exports and services by 10% annually. This strategy builds on four key pillars: (1) promoting intra-African trade; (2) strengthening trade finance leadership; (3) facilitating industrialization/export development; and (4) improving financial soundness and performance.

As part of this strategic orientation, the bank last year secured African Union Accreditation (similar to the AfDB and the United National Economic Commission for Africa UNECA), and was selected by the African Union to support implementation efforts for the African Continental Free Trade Area (AfCFTA). This agenda includes the launch of the Pan-African Payment and Settlement System (PAPSS) for which activation is expected later this year subject to the easing of the pandemic, and participation in the eventual negotiation of the AfCFTA Service Protocols.

These initiatives build on earlier efforts by the bank geared toward the digital transformation of Africa's trade infrastructure such as the African Customer Due Diligence Repository Platform (MANSA). MANSA was launched in July 2018 to facilitate connecting with customers in trade relationships. In addition to expanding its trade finance leadership on the continent, the bank also established the Fund for Export Development in Africa (FEDA) in February 2019 as a separate entity. FEDA is tasked with channeling the bank's equity investment function and to catalyze foreign direct investment (FDI) inflows into Africa's export sector.

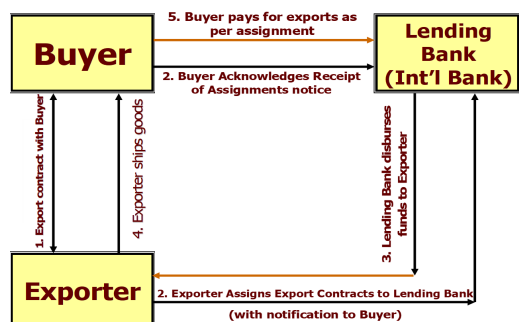
Development operations underscore the bank's adaptability to the changing operating environment

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 noncommercial 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 4 and 5 depict the bank's operating model and the rapid expansion of development operations in line with trade trends in Africa. A shock in 2015 led to a plunge in the value and volumes of African trade, which remains largely centered on commodities.

Exhibit 4

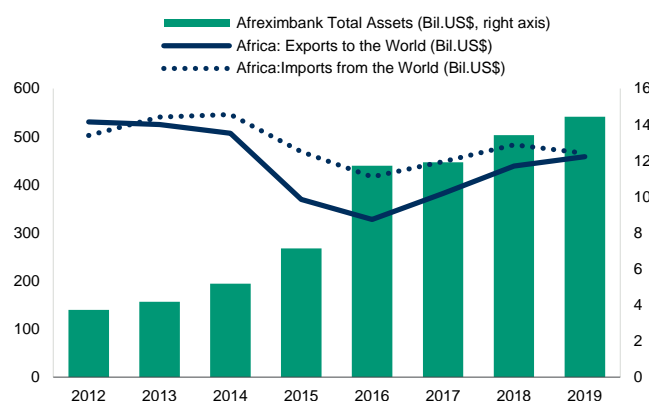
Afreximbank's trade finance operating model



Source: Afreximbank

Exhibit 5

Balance sheet expansion in relation to African trade with the world (billion \$)



Source: Afreximbank, IMF, Moody's Investors Service

CREDIT PROFILE

Our determination of a supranational's rating is based on three rating factors: capital adequacy, liquidity and funding and strength of member support. For Multilateral Development Banks, the first two factors combine to form the assessment of intrinsic financial strength. Additional factors that can impact the intrinsic financial strength, including risks stemming from the operating environment or the quality of management, are also considered. The strength of member support is then incorporated to yield a rating range. For more information please see our [Supranational Rating Methodology](#).

Capital adequacy score: baa3

Factor 1: Capital adequacy

Scale	aaa	aa1	aa2	aa3	a1	a2	a3	baa1	baa2	baa3	ba1	ba2	ba3	b1	b2	b3	caa1	caa2	caa3	ca	c
+										Assigned											-

Sub-factor scores

Capital position

Development asset credit quality

Asset performance

ba2
baa
baa2

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 credit quality of the institution's development assets and the risk that these assets could result in capital losses.

Note: In case the Adjusted and Assigned scores are the same, only the Assigned score will appear in the table above.

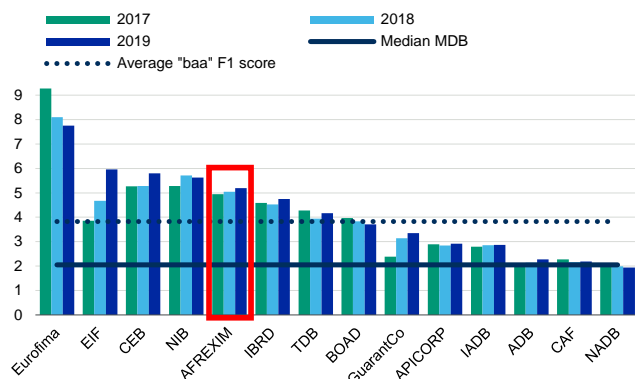
The resources that an MDB has available to absorb credit or market losses stemming from its operations and preserve its ability to repay debtholders are an important element of its financial fundamentals and overall creditworthiness. Other MDBs with "baa3" capital adequacy include the [West African Development Bank](#) (BOAD, Baa1 stable), [Africa Finance Corporation](#) (AFC, A3 negative) and [International Bank for Economic Cooperation](#) (IBEC, Baa3 stable).

Leverage is relatively high, but remains within the bank's target range in risk-weighted terms

Looking through the temporary 2015-17 balance sheet deviations caused by the introduction of the large-scale COTRALF central bank lending facility, the leverage ratio (development-related assets / equity ratio) has returned to the previous average of around 520% at the end of 2019 (see Exhibit 6). This ratio is one of the highest among the MDBs we rate and reflects the comparatively leaner capital base underlying Afreximbank's trade finance business model compared with traditional MDBs' focus on long-term lending on an unsecured basis. In risk-weighted terms, the bank's capital adequacy ratio continues to perform within the bank's 20-30% target range (see Exhibit 7).

Exhibit 6

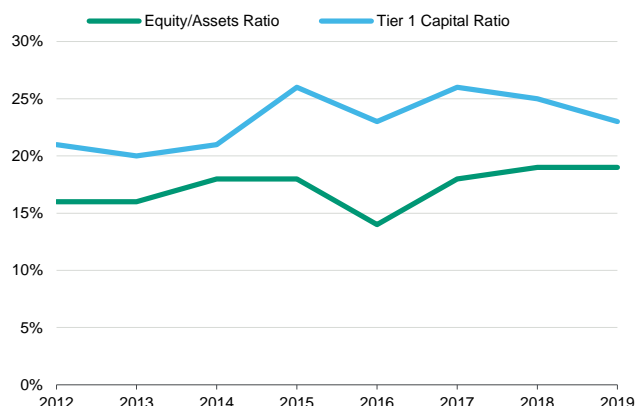
Afreximbank's leverage ratio exceeds the average "baa" F1 score (leverage = development-related assets / usable equity, x times)



Development-related assets = gross loans + guarantees + outstanding letters of credit;
Usable equity = capital + reserves. Numerator includes liquid assets rated A3 and lower.
Source: Afreximbank, Moody's Investors Service

Exhibit 7

Risk-weighted capital ratio performs within the bank's 20%-30% target range



Tier 1 Capital Ratio compares equity capital to risk-weighted assets
Source: Afreximbank, Moody's Investors Service

Two general capital increases launched over the past five years support capitalization

To fund its expanding operations, the bank has launched two general capital increases over the past five years. Between October 2014 and July 2016, it raised \$500 million, ahead of the targeted two-year period. In July 2016, shareholders approved a second \$1 billion capital increase to be implemented over a five-year period until 2021. At the end of 2019, the bank has raised \$765 million out of the full amount.

The bank aims to mobilize further equity through a combination of tapping existing shareholders, new shareholders, the equity capital market (via depositary receipts) and internal capital generation, all of which have driven growth in equity funds to date. In addition to existing shareholders' contributions that have regularly been met, the capital base benefits from reinvested dividends (about 40% of the total over time). After the first Class D equity issuance of \$300 million via depositary receipts, the bank aims to tap this capital source on a regular basis to establish it as a stable source of capital. The bank aims to raise an additional \$250 million through the depositary receipts channel in the second half of this year or in 2021.

Looking forward, the pace at which the bank can access new equity to comply with its adopted leverage and capital adequacy limits will guide the pace of its expansion. Based on the bank's strategic plan, it does not envision a structural shift in its current financial ratios, except for a strategic expansion in the guarantee book which in our definition is part of development-related assets that contribute to an increase in the leverage ratio unless matched by equity increases.

Profitability remains sound and contributes to capital build up, while ensuring dividend payments

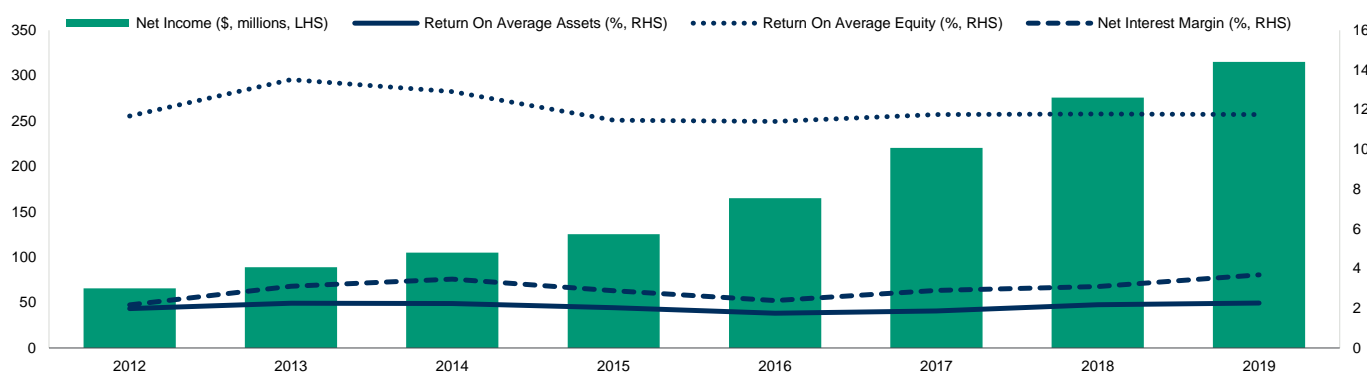
Net income continued to grow in 2019, rising 14% to \$315 million from \$276 million in 2018 (see Exhibit 8). Strong growth in loans and advances, increased income on treasury holdings as well as robust growth in fees and commissions drove the rise in profitability.

Return on equity remained at 11.8% in 2019, unchanged from 2018 and 2017 and return on average assets increased to 2.3% in 2019 from 2.2% in 2018. Similarly, the net interest margin improved to 3.7% in 2019 from 3.1% in 2018. These profitability measures perform in the "medium" range compared with peers. However, Afreximbank's comparatively low cost-to-income ratio in the 18%-20% range over the past few years is indicative of its lean cost and risk management structure compared to other MDBs.

In contrast to most MDBs, Afreximbank pays dividends, with a payout ratio of about 25%. A significant share of paid-out dividends are reinvested in the bank by shareholders, thereby supporting retained earnings and the capital base. Since 2009, shareholders reinvested an average of 40% of their dividends in the bank.

Exhibit 8

Profitability ratios remain strong



Source: Afreximbank, Moody's Investors Service

Borrower quality constrains development asset credit quality, but is mitigated by diversified portfolio, broad collateralization and credit-support measures

The loan portfolio's concentration levels in terms of Top 10 exposures, by geography and sector are in the medium range compared with other rated MDBs. For example, single-name concentration levels are below 10% and Top 10 exposures are below 50% of total

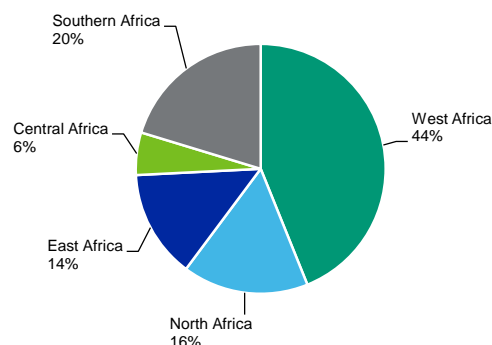
exposure. While West Africa accounts for 40% of gross exposures (followed by 20% in Southern Africa and 16% in North Africa), the bank shifts part of the ultimate payment risk to counterparties in higher-rated jurisdictions in the OECD via its structured trade finance business model and through the coverage of trade credit insurance (see Exhibits 9 and 10).

By sector, exposures to financial institutions (including central banks) comprise the largest share of loans and advances at 45% of the total book, followed by the oil and gas sector at 23% of the total. The bank provides financial institutions with credit lines to support their trade finance business with local counterparties who cannot access financing from the bank directly.

Exhibit 9

Focus on West and South Africa broadly follows the trade pattern

...
(% of portfolio by development related assets, 2019)

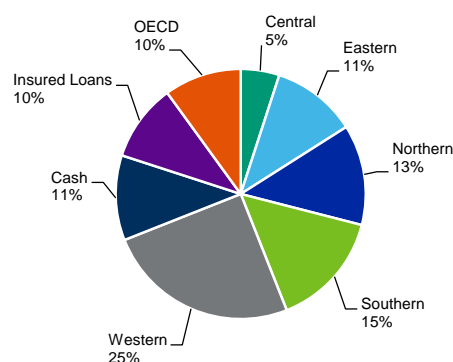


Source: Afreximbank, Moody's Investors Service

Exhibit 10

... while ultimate repayment risk is partially distributed to lower risk counterparties

(% of portfolio by geography of actual repayment risk, 2019)



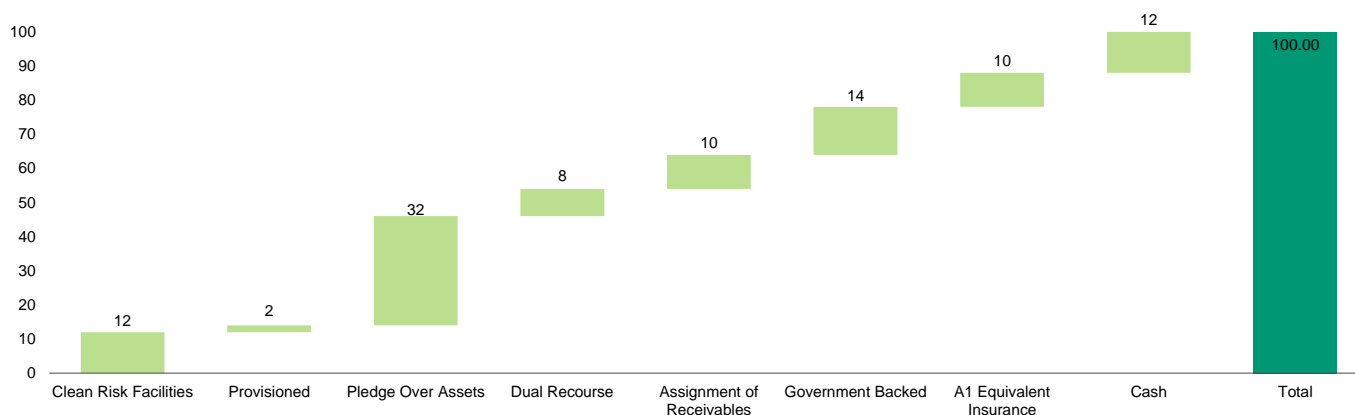
Source: Afreximbank, Moody's Investors Service

Almost 90% of gross loans are collateralized, with most exposures being short term and self-liquidating. This arrangement lowers repayment risk and is taken into account in the weighted average borrower rating at "ba2." The largest share of the portfolio is collateralized with pledge over assets (31.8%), cash (11%), and assignment of receivables (10.4%). Some 14.1% of exposures are government-backed, 10.3% are backed by A1-equivalent credit insurance and a further 7.6% are arranged as dual recourse facilities. Only 12.4% of exposures are clean risk facilities (see Exhibit 11).

Exhibit 11

Collateral coverage shows that only 12% of the loan book is not collateralized

(% of total gross exposure, 2019)



Source: Afreximbank

Asset quality remains adequate and in line with peers but takes a hit under International Financial Reporting Standard IFRS 9

With a reported NPL ratio of 2.8% of gross loans (or 2.5% of development-related assets DRA, including gross loans plus off balance sheet guarantees and letters of credit) from 3% in 2018 (or 2.7% of DRA) Afreximbank's asset quality has remained broadly in line with historical performance. However, the switch to the IFRS 9 accounting standard – primarily the switch to loss provisioning for financial assets on a forward-looking basis as opposed to provisioning on the occurrence of default – has led to a restating of the NPL ratio to 4.1% of gross loans in 2017 from 2.4% previously and to a significant increase in loan loss allowances. As of 2019, 95% of NPLs were provisioned.

While the one-off balance sheet adjustment was triggered by the switch to IFRS 9 starting 2018, we expect the broader provisioning scope and the bank's exposure to collateral valuation changes under the new accounting rules to significantly drive provisioning requirements in the future.

Impact of transition to IFRS 9 on loan loss allowances and on the scope of impairments

Afreximbank adopted IFRS 9 effective 1 January 2018 to replace the IAS 39 accounting standard for financial instruments. The new accounting standard introduces loss provisioning for financial assets on a forward-looking basis as opposed to provisioning on the occurrence of default. Additionally, further provisions arise from the impact of provisioning on financial assets that were previously not included in the scope of IAS 39, such as off-balance sheet exposures and commitments to lend.

Facilities between 0 and 30 days past due are categorized under Stage 1 under IFRS 9 requirements. Once a default is established in relation to any loan, the loan is categorized either under a Stage 2 (if 31 to 89 days past due) or Stage 3 (if 90 days past due). The bank has a dedicated loan remediation unit within the risk-management department that coordinates remediation and recovery efforts.

Under IFRS 9, the bank will consider a financial asset to be in default when (1) the borrower is unlikely to pay its credit obligations to the bank in full, without recourse by the bank to actions such as realizing security (if any is held); or (2) the borrower is more than 90 days past due on any material credit obligation to the bank.

The asset performance subfactor at “baa2” includes a -1 trend adjustment to take into account the asset-quality risks associated with the rapid expansion in the loan book after the winding down of the large and mostly US-dollar cash collateralized Countercyclical Trade Liquidity Facility (COTRALF). The adjusted asset performance assessment also captures the significant exposure to technical delays beyond the 90-day period by a subset of borrowers to convert repaid loans into US-dollars. That said, Afreximbank's asset performance benefits from a track record of preferred creditor treatment, as demonstrated by the prioritization of repayments from countries operating under difficult conditions.

Facilities totaling \$149 million (or 1.2% of gross loans) were written off in 2019 from \$139 million in 2018. These facilities had been fully provided for at the time of write-off. The bank continues to pursue the recovery of these facilities.

Liquidity and funding score: a3

Factor 2: Liquidity and funding

Scale	aaa	aa1	aa2	aa3	a1	a2	a3	baa1	baa2	baa3	ba1	ba2	ba3	b1	b2	b3	caa1	caa2	caa3	ca	c
+							Assigned														-

Sub-factor scores

Liquid resources

Quality of funding

baa2
a

An entity's liquidity is important in determining its ability to meet its financial obligations. We evaluate the extent to which liquid assets cover net cash flows over the coming 18 months and the stability and diversification of the institution's access to funding.

Note: In case the Adjusted and Assigned scores are the same, only the Assigned score will appear in the table above.

Illiquidity is most often the 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 "a3" liquidity score include [Islamic Corporation for the Development of the Private Sector](#) (A2 stable).

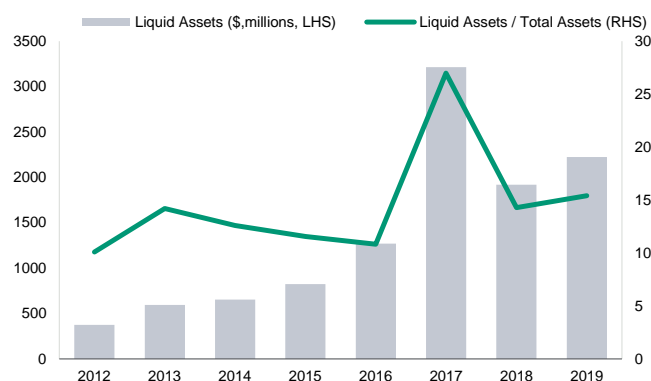
Comparatively lean liquid resources mirror short-term orientation of the bank

Consistent with its focus on trade finance with comparatively short maturities, and in full compliance with its liquidity risk guidelines which are in line with international Basel standards, Afreximbank has a relatively lean liquidity position compared with other rated MDBs. However, the self-liquidating nature of a large proportion of its trade finance business and the fact that 39% of the portfolio matures within one year generates cash inflows and supports the bank's liquid resources. The bank's liquidity policy requires asset portfolio duration to be either shorter or match liabilities duration. This enables the bank to accumulate asset cash flows, which in turn are used to fund maturing obligations. As of December 2019, the average maturity of the loan portfolio was 20 months compared with the average maturity of liabilities of 40 months.

The bank's liquid assets at \$2.2 billion amounted to 15.4% of total assets in 2019 from 14.3% in 2018 and an exceptional 27% in 2017, reflecting the winding down of the mainly US-dollar cash-collateralized COTRALF facility and the start of the capital raising exercise (see Exhibit 12).

Exhibit 12

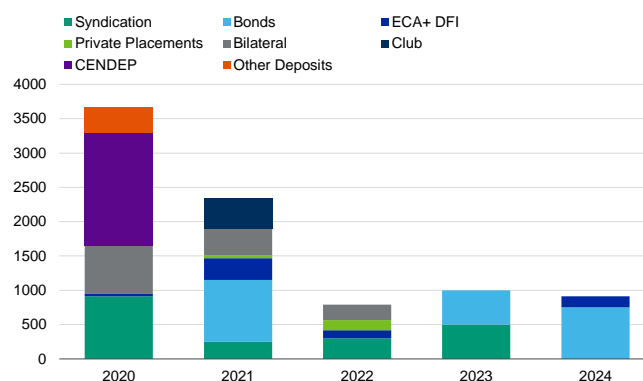
Lean liquidity buffer is in line with bank's business model but below MDB median...



Source: Afreximbank, Moody's Investors Service

Exhibit 13

...and funding maturity profile is diverse in 2020 (million \$)



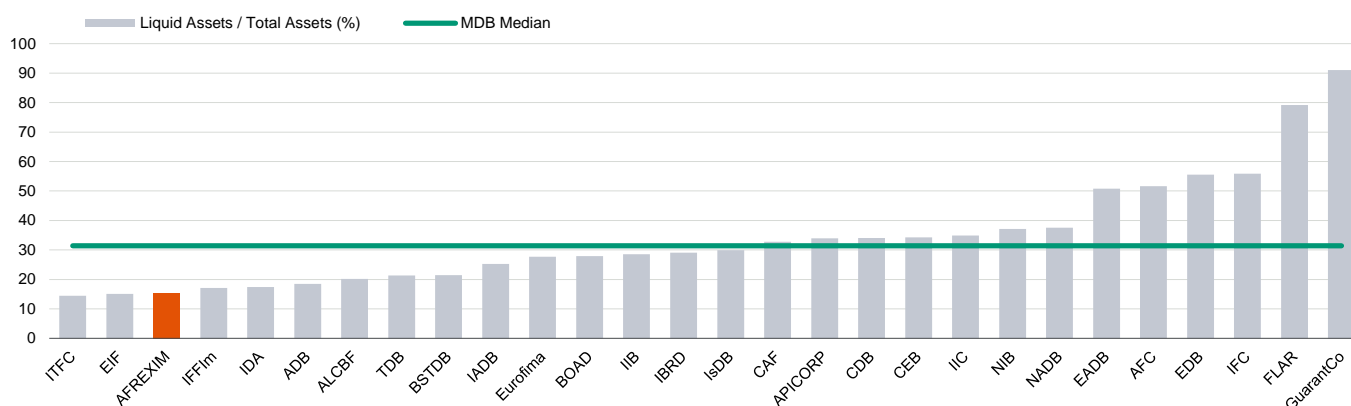
Source: Afreximbank, Moody's Investors Service

Afreximbank's Risk Management Policies and Procedures (RMPP) requires the bank to hold minimum liquid funds that also cover repayment of debt obligations due within the next three months. Its short-term liquidity to short-term liabilities ratio of almost 150% compares maturing trade loans over the next 12 months at \$4.8 billion plus liquid assets at \$2.2 billion, with liabilities due over the next 12 months at \$4.7 billion (see Exhibit 13). According to the Basel III liquidity coverage ratio (LCR), whereby banks are required to hold an amount of high-quality liquid assets sufficient to fund cash outflows for 30 days, the bank recorded a ratio of 222% at the end of 2019.

That said, in comparison with other MDBs that lend on a longer-term and/or on an unsecured basis, Afreximbank's liquidity buffers are constrained. The liquid assets / total assets ratio at about 15% compares with a median value of over 30% (see Exhibit 14). Similarly, the ratio of Afreximbank's liquid assets (excluding loan repayments) / maturing liabilities over the next 12 months at below 50% compares with an overall median across all MDBs in the 250%-300% range.

Exhibit 14

Afreximbank's liquid assets/total assets ratio is relatively weak but also reflects its business model
(Liquid Assets/Total Assets, %, 2019)



Source: Moody's Investors Service

We accordingly assess Afreximbank's Liquid Resources sub-factor score at "baa2", 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.

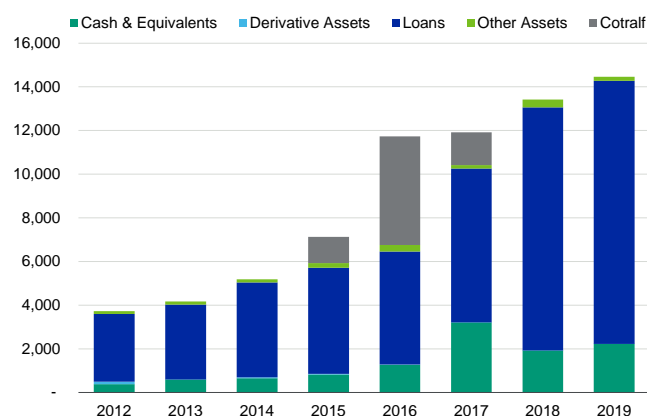
Funding quality assessment benefits from central bank deposits as funding source and established access to bilateral loan and international capital markets

We assign an "a" score to the quality and structure of the funding sub-factor score. The bank's funding plan for 2020 includes additional funds in 2020 under the Africa Resource Mobilisation Programme amounting to \$5 billion. Since January 2020, a total of about \$4 billion was raised under CENDEP, the bank's central bank deposit facility which was expanded to cover non-central bank institutions on the continent. This deposit facility is designed to mobilize part of foreign reserves of African Central Banks to fund viable trade programs and projects in Africa while providing favorable returns on the deposits (see Exhibits 15 and 16).

Exhibit 15

Gross loan expansion has resumed after the winding down of COTRALF...

(Total asset composition, million \$)



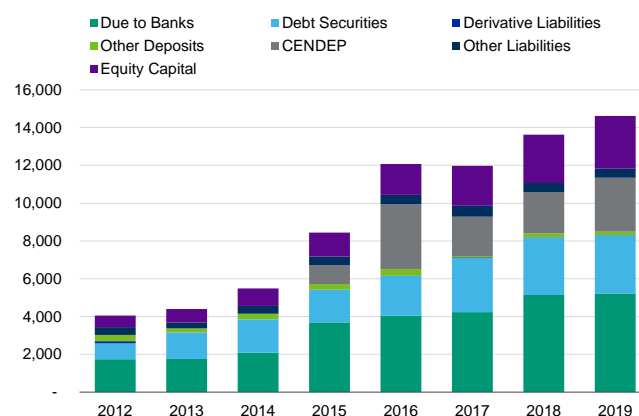
COTRALF = Countercyclical Trade Liquidity Facility program in 2015-17 to support central banks facing temporary foreign exchange reserves shortages

Sources: Afreximbank, Moody's Investors Service

Exhibit 16

...while the expanded central bank deposit facility remains a permanent funding source

(Total liability and equity composition, million \$)



CENDEP = Central Bank Deposit Programme, now expanded to other qualifying institutions on the continent

Sources: Afreximbank, Moody's Investors Service

The maturity profile shown in Exhibit 13 shows CENDEP deposits with a maturity of up to 12 months as the largest position with \$1.6 billion being subject to withdrawal during 2020, especially during the first half of the year. As of May, in line with past trends a majority of deposits had been rolled over, while new deposits have been accepted as a source of stable and low cost funding, especially during times of global risk aversion.

The bank was able to successfully refinance the \$913 million syndication that matured in May 2020 via a new \$907.5 million, up to 15-month tenor Dual Currency Syndicated Bridge Loan Facility consisting of a \$485 million and a €390.4 million tranche from a group of syndication partners during challenging market conditions. The new facility was more than 50% oversubscribed allowing for the facility to be increased to \$1.1 billion equivalent with an accordion feature. The tenor of this facility will add to a challenging maturity profile in 2021, when a \$900 million eurobond matures in addition to other liabilities to banks for a total of \$2.4 billion (without taking into account maturing CENDEP deposits).

The bank currently has three bonds outstanding in international capital markets: (1) 4% five-year \$900 million bond maturing in May 2021; (2) 5.25% five-year \$500 million bond maturing in October 2023; (3) 4.13% seven-year \$750 million bond maturing in June 2024. The largest refinancing needs stem from exposures to other financial institutions with which Afreximbank has established long-standing relationships and with which the bank participates in syndicates.

Overall, we expect the bank to broadly maintain the current funding structure shown in Exhibit 16 and to roll over maturing bonds with new issues, depending on international liquidity conditions. The establishment of central bank deposits as a permanent funding base contributes to the bank's funding cost efficiency, contributing to a funding subfactor assessment at "a" in comparison with peers.

Access to contingent funding sources cover contingent liabilities

The bank's contingency liquidity planning takes into account the contingent liabilities arising from letters of credit, guarantees and standby letters of credit engaged in by the bank. To this effect, the bank ensures that there are lines in place to draw down from when the contingent liabilities crystallize. As of 31 December 2019, the bank had \$1.8 billion undrawn lines in place. This compares to \$1.5 billion in outstanding guarantees and letters of credit. Of the \$1.8 billion in undrawn lines, approximately \$605 million was committed, while \$1.2 billion was uncommitted. These are made available by banks, export credit agencies and development financial institutions at favorable rates. Most of the relationship banks join in the bank syndication as mandated lead arrangers and can be considered regular funding sources. As part of Afreximbank's strategy of leveraging international funding to Africa, syndication and asset sales have become part of its regular business operations.

Qualitative adjustments

Qualitative adjustments to intrinsic financial strength

Adjustments

Operating environment

0

Quality of management

0

The capital adequacy and liquidity and funding factors represent the key drivers of our assessment of an institution's intrinsic financial strength (IFS). However, assessments of the operating environment and the quality of management are also important components of our analysis. To capture these considerations, we may adjust the preliminary IFS outcome that results from the capital adequacy factor and the liquidity and funding factor. The result of this analysis is the adjusted IFS outcome.

Although the bank remains exposed to a difficult operating environment on the African continent, we do not assign a negative adjustment for operating environment (unlike many other African MDBs where we make a negative adjustment to reflect the challenging operating environment on the continent) 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.

Its track record of stepping in during crisis situations without jeopardizing its credit quality when other banks cut back their activities on the continent is indicative of the bank's ability to navigate a challenging environment. In addition, the bank continues to strengthen its risk-management capacities and its prudential framework as it expands its activities.

The bank's governance structure safeguards against overriding influence of leading countries in the decision-making process through directors' technical independence from their nominating institutions, in addition to the inclusion of independent directors. The bank also maintains a lean organizational structure with a cost to income ratio of 17% at the end of 2019, even as total staff numbers have continued to increase.

Looking forward, we expect the bank's accreditation to the African Union (AU) in July 2019 as part of the AU's institutional framework involved in the implementation of the African Continental Free Trade Area (AfCFTA) to increase the bank's standing on the continent. Among other initiatives, Afreximbank has been tasked by the AU in July 2019 to devise and implement the Pan-African payment and settlement system this year (after completion of a pilot phase scheduled for earlier this year and that has been postponed to the fall because of the pandemic) as a central component of the AfCFTA once it becomes effective in 2021. The bank will also participate in negotiations for a continental services free trade protocol under the AU umbrella.

Strength of member support score: Low

Factor 3: Strength of member support

Scale Very High High Medium Low Very Low

+ [] [] [] **Assigned** [] -

Sub-factor scores

Ability to support

Willingness to support: Contractual

Willingness to support: Non-contractual

b2
b2
Very High

Shareholders' support for an institution is a function of their ability and willingness. Ability to support is reflected by the shareholders' credit quality. Willingness to support takes into consideration (1) the members' contractual obligations that primarily manifest in the callable capital pledge, a form of emergency support, and (2) other non-contractual manifestations of support to the institution's financial standing and mission. Strength of member support can increase the preliminary rating range determined by combining factors 1 and 2 by as many as three scores.

Note: In case the Adjusted and Assigned scores are the same, only the Assigned score will appear in the table above.

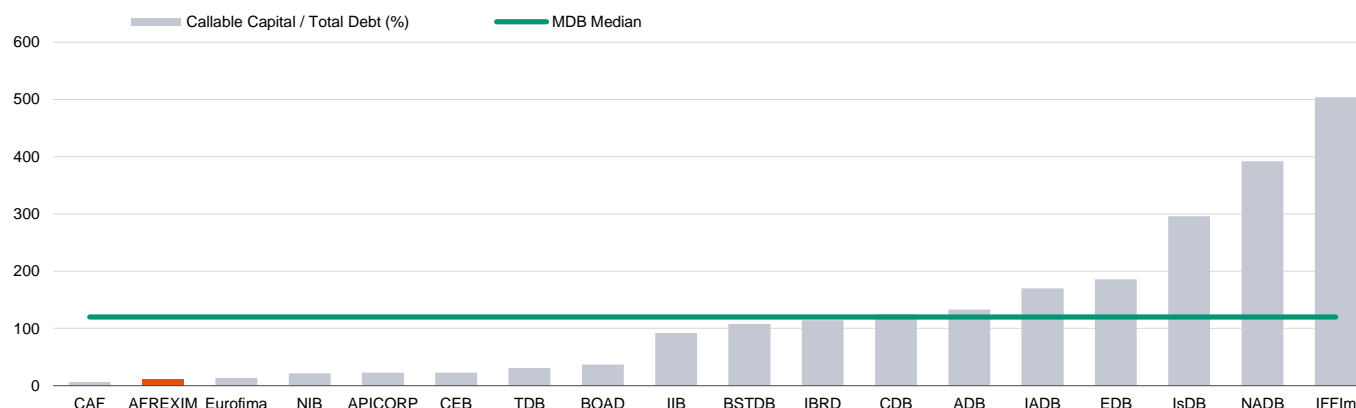
We assess the strength of Afreximbank's member support at "Low", affording no uplift from the intrinsic financial strength score at "baa2". Despite the low weighted average shareholder rating at "b2", the continuously expanding membership and the timely contribution to capital increases reflect shareholders strong willingness to support the institution. The score also reflects the credit support gained from the medium-term credit risk mitigation instrument. Other MDBs with a "Low" strength of member support assessment are [Corporacion Andina de Fomento](#) (CAF, Aa3 stable), [ECOWAS Bank for Investment and Development](#) (EBID, B2 negative) and [Gulf Investment Corporation](#) (GIC, A2 stable).

Low weighted average shareholder rating weighs on strength of member support assessment, mitigated by callable capital support instrument

The bank's ability to support is measured by the weighted average shareholder rating at "b2". This assessment reflects the large shareholder base with 156 members from 150 in 2018, many of which are local financial institutions which are not rated, and less than 20% of all shareholders are rated investment grade. Under the bank's rules, 2/5ths of subscribed capital by Class A, B and C shareholders is paid in and 3/5ths is committed in form of callable capital (Class D shares are fully paid in with no callable capital). The combination of relatively high debt and low callable capital buffer results in a weak contractual support assessment, as measured by total callable capital/debt. This ratio is among the lowest among all MDBs (see Exhibit 17). However, the mid-term credit risk mitigation instrument on callable capital that the bank has contracted starting 2017 supports the contractual support assessment with a +1 adjustment.

Exhibit 17

Afreximbank's total callable capital / debt ratio is among the lowest among rated MDBs 2019



Source: Moody's Investors Service

Strong participation in the general capital increase and continued expansion of the shareholder base underpin shareholders' very high non-contractual support

Exhibit 18

Afreximbank's membership has increased significantly since inception...

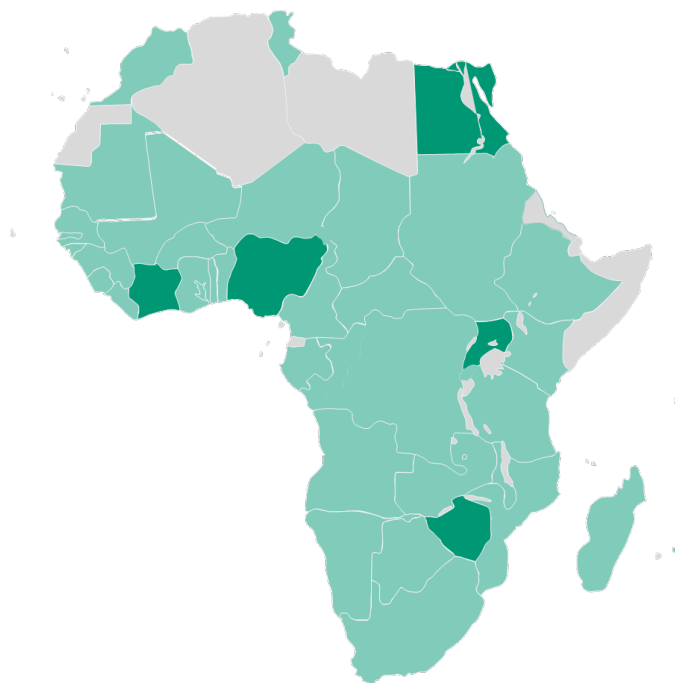
Member countries in 1994



Dark green = member country with office; light green = member country
Source: Afreximbank

Exhibit 19

... and now encompasses almost the entire continent
Member countries in 2019



Dark green = member country with office; light green = member country
Source: Afreximbank

Afreximbank's demonstrated ability to raise equity capital from new and existing shareholders attests to strong shareholder support despite the bank's low average shareholder rating. At the annual general meeting in 2016, shareholders approved raising an additional \$1 billion in equity by 2021 to support expansion of the bank's loan book. As of December 2019, the bank has raised \$765 million out of the targeted \$1 billion over five years. The bank's equity-raising plan this year and next includes new and existing shareholders and the issuance of additional Class D shares in international capital markets.

In the past, shareholders have consistently responded to capital raises on time and in full despite the low average shareholder rating, including in response to the bank's policy articulated in the charter according to which any shareholder who defaults on any capital calls risks the loss of their already paid-up capital. Specifically, the charter states that the bank has a lien over the shares of any shareholder who defaults under any payment obligation to the bank, including meeting capital calls.

The demand for the CENDEP and COTRALF programs in 2015-17 in response to the commodities price shock 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 underscores the bank's relevance. Shareholders totaled 156 at the end of December 2019 up from 121 in December 2009.

The bank's "Very High" non-contractual member support assessment also benefits from the track record of priority of support instances in a difficult operating environment. This is particularly relevant in instances where the bank has put in place a country program to deal with a broad range of challenges in a tailored manner. Qualifying countries include Zimbabwe and Sudan where the bank is operating in difficult conditions but without having incurred larger than average losses on its exposures in the past.

ESG considerations

How environmental, social and governance risks inform our credit analysis of African Export-Import Bank

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 African Export-Import Bank, 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.

We regard the coronavirus outbreak as a social risk under its ESG framework, given the substantial implications for public health and safety. For Afreximbank, the coronavirus outbreak heightens the risks posed by the bank's mandate and lending operations geared toward vulnerable borrowers.

Governance considerations are material. Afreximbank adheres to very robust risk management practices, which we believe limit the operational risks.

All of these considerations are further discussed in the "Credit profile" 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](#).

Rating range

Combining the scores for individual factors provides an indicative rating range. While the information used to determine the grid mapping is mainly historical, our ratings incorporate expectations around future metrics and risk developments that may differ from the ones implied by the rating range. Thus, the rating process is deliberative and not mechanical, meaning that it depends on 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 [Supranational Rating Methodology](#).

Exhibit 20

Supranational rating metrics: African Export-Import Bank

Capital adequacy

How strong is the capital buffer?

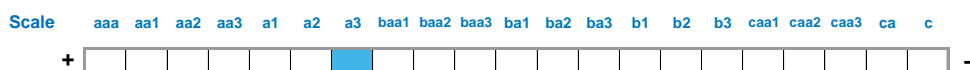
Sub-Factors: Capital position, development asset credit quality, asset performance



Liquidity and funding

How strong are the institution's liquidity buffers?

Sub-factors: Liquid resources, quality of funding



Qualitative adjustments

What other elements can affect the intrinsic financial strength?

Adjustment factors: Operating environment, quality of management

Operating environment
Quality of management



Strength of member support

How strong is members' support of the institution?

Sub-factors: Ability to support, willingness to support (contractual and non-contractual)



**Preliminary intrinsic
financial strength**
baa2

**Adjusted intrinsic
financial strength**
baa2

**Scorecard-
indicated
outcome range:**
Baa1-Baa3

Assigned rating:
Baa1

Source: Moody's Investors Service

Comparatives

This section compares credit relevant information regarding Afreximbank with other supranational entities that we rate. It focuses on a comparison with supranationals within the same rating range and shows the relevant credit metrics and factor scores.

Afreximbank's credit profile benefits from the collateralized funding model and from its established access to a range of funding sources in comparison with peers.

Exhibit 21

Afreximbank: Key peers

2019

	Year	AFREXIM	EDB	BOAD	AFC	ALCBF	TDB	Baa Median
Rating/Outlook		Baa1/STA	Baa1/STA	Baa1/STA	A3/NEG	Baa2/STA	Baa3/RuR-	
Total assets (US\$ million)	2019	14,440	5,161	5,308	6,119	174	6,691	5,235
Factor 1: Capital adequacy		baa3	a3	baa3	baa3	ba2	ba1	
DRA / Usable equity ^{[1] [2] [4]}	2019	496.3	124.2	267.5	176.2	10,329.4	373.0	320.2
Development assets credit quality score (year-end)	2019	baa	ba	b	b	b	b	b
Non-performing assets / DRA ^[1]	2019	2.5	1.3	2.7	1.3	0.6	2.3	2.4
Return on average assets ^[4]	2019	2.3	1.6	4.1	3.5	0.2	2.5	2.3
Net interest margin (X) ^[4]	2019	3.7	1.9	1.7	3.1	4.8	2.8	3.2
Factor 2: Liquidity and funding		a3	baa2	baa3	a2	baa3	baa2	
Quality of funding score (year-end)	2019	a	ba	ba	a	ba	baa	ba
Liquid assets / ST debt + CMLTD ^{[3][4]}	2019	47.5	206.7	398.3	389.2	337.5	115.3	206.7
Liquid assets / Total assets ^[4]	2019	15.4	55.5	27.9	51.6	20.2	21.3	24.6
Preliminary intrinsic financial strength (F1+F2)		baa2	baa1	baa3	baa1	ba1	baa3	
Adjusted intrinsic financial strength		baa2	baa1	baa3	baa2	ba2	ba1	
Factor 3: Strength of member support		L	M	M	L	H	L	
Weighted average shareholder rating (year-end)	2019	B2	Baa3	Ba2	B2	Aa1	B2	ba3
Callable capital / Total debt	2019	10.3	185.9	37.1	--	0.0	30.7	37.1
Callable capital (CC) of Baa3-Aaa members/Total CC ^[4]	2019	19.4	99.0	53.0	--	-	14.0	19.4
Scorecard-indicated outcome range (F1+F2+F3)		Baa1-Baa3	A2-Baa1	Baa1-Baa3	Baa1-Baa3	Baa2-Ba1	Baa3-Ba2	

Source: Moody's Investors Service

DATA AND REFERENCES

Rating history

Exhibit 22

African Export-Import Bank ^[1]

	Issuer Rating		Senior Unsecured	Outlook	Date
	Long-term	Short-term			
African Export-Import Bank				STA	08/09/2019
African Export-Import Bank	Baa1		Baa1	STA	01/23/2017
African Export-Import Bank				STA	07/22/2015
African Export-Import Bank			Baa2		09/11/2014
African Export-Import Bank				NEG	03/05/2014
African Export-Import Bank			Baa2		07/25/2011
African Export-Import Bank	Baa2			STA	05/28/2010

Notes: [1] Table excludes rating affirmations. Please visit the issuer page for African Export-Import Bank for the full rating history.

Source: Moody's Investors Service

Annual statistics

Exhibit 23

African Export-Import Bank

Balance Sheet

Balance Sheet, USD Millions	2014	2015	2016	2017	2018	2019
Assets						
Cash & Equivalents	654	824	1,269	3,215	1,918	2,225
Securities	0	0	0	0	0	0
Derivative Assets	42	24	9	4	4	1
Net Loans	4,346	6,061	10,148	8,432	11,134	12,030
Net Equity Investments	0	0	0	0	0	0
Other Assets	147	224	300	263	363	184
Total Assets	5,189	7,134	11,726	11,913	13,419	14,440
Liabilities						
Borrowings	3,855	5,664	9,886	9,196	10,541	11,341
Derivative Liabilities	0	1	22	21	25	5
Other Liabilities	415	203	192	572	294	292
Total Liabilities	4,270	5,867	10,100	9,789	10,860	11,637
Equity						
Subscribed Capital	464	768	946	1,125	1,379	1,723
Less: Callable Capital	278	461	568	655	873	1,173
Equals: Paid-In Capital	186	307	378	471	506	551
Share Premium	57	204	355	562	765	899
Retained Earnings (Accumulated Loss)	301	355	429	524	503	631
Accumulated Other Comprehensive Income (Loss)	0	0	0	0	0	0
Reserves	299	354	364	475	595	721
Other Equity	77	46	99	92	192	0
Total Equity	919	1,267	1,626	2,124	2,560	2,802

Source: Afreximbank, Moody's Investors Service

Exhibit 24

African Export-Import Bank
Income Statement

Income Statement, USD Millions	2014	2015	2016	2017	2018	2019
Net Interest Income	173	199	273	338	404	525
Interest Income	318	372	484	606	720	948
Interest Expense	144	173	211	268	316	424
Net Non-Interest Income	29	44	34	14	79	115
Net Commissions/Fees Income	28	30	30	30	84	92
Income from Equity Investments	0	0	0	0	0	0
Other Income	1	15	4	-16	-5	23
Other Operating Expenses	41	48	56	67	88	108
Administrative, General, Staff	37	44	51	63	83	102
Grants & Programs	0	0	0	0	0	0
Other Expenses	4	4	4	3	4	7
Pre-Provision Income	162	195	252	286	395	531
Loan Loss Provisions (Release)	57	70	87	65	119	216
Net Income (Loss)	105	125	165	220	276	315
Other Accounting Adjustments and Comprehensive Income	2	9	-52	9	9	9
Comprehensive Income (Loss)	107	134	113	230	285	324

Source: Afreximbank, Moody's Investors Service

Exhibit 25

African Export-Import Bank
Financial Ratios

Financial Ratios	2014	2015	2016	2017	2018	2019
Capital Adequacy, %						
DRA / Usable Equity	505.1	527.5	680.1	443.6	479.1	496.3
Development Assets Credit Quality (Year-End)	--	--	--	--	baa	baa
Non-Performing Assets / DRA	3.6	2.6	2.2	3.8	2.7	2.5
Return On Average Assets	2.2	2.0	1.8	1.9	2.2	2.3
Net Interest Margin	3.5	2.9	2.4	2.9	3.1	3.7
Liquidity, %						
Quality of Funding Score (Year-End)	--	--	--	--	a	a
Liquid Assets / ST Debt + CMLTD	47.8	34.8	24.3	90.4	40.3	47.5
Liquid Assets / Total Debt	17.0	14.6	12.8	35.0	18.2	19.6
Liquid Assets / Total Assets	12.6	11.6	10.8	27.0	14.3	15.4
Strength of Member Support, %						
Weighted Average Shareholder Rating (Year-End)	B2	B2	B2	B2	B2	B2
Callable Capital / Gross Debt	7.2	8.1	5.7	7.1	8.3	10.3
Callable Capital (CC) of Baa3-Aaa Members/Total CC	16.8	19.7	16.1	17.9	20.5	19.4

Source: Afreximbank, Moody's Investors Service

Moody's related publications

- » **Credit Opinion:** [African Export-Import Bank – Baa1 stable: Update following rating affirmation, outlook unchanged](#), 12 August 2019
- » **Sector Comment:** [Support to trade finance by large MDBs will benefit their smaller regional peers](#), 6 July 2020
- » **Sector In-Depth:** [FAQ on MDB credit quality in the context of the coronavirus outbreak](#), 13 May 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.

Related websites and information sources

- » [Sovereign and supranational risk group web page](#)
- » [Sovereign and supranational rating list](#)

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