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## Research Update:

# African Development Bank Affirmed At 'AAA/A-1+' After Criteria Revision; Outlook Stable

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## Table Of Contents

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Overview

Rating Action

Rationale

Outlook

Related Criteria And Research

Ratings List

## Research Update:

# African Development Bank Affirmed At 'AAA/A-1+' After Criteria Revision; Outlook Stable

## Overview

- We have reviewed African Development Bank (AFDB) under our revised criteria for multilateral lending institutions. AFDB's stand-alone credit profile is 'aa+', reflecting our assessment of its business and financial profiles as "very strong."
- AFDB benefits from Special Drawing Rights (SDR)8 billion (1.7x shareholders' equity) callable capital from 'AAA' rated shareholders, which results in a ratings uplift to 'AAA'.
- We have affirmed our long-and short term issuer credit ratings on AFDB at 'AAA/A-1+'.
- The stable outlook reflects our expectation that AFDB's business and financial profiles will remain intact.

## Rating Action

On Jan. 11, 2013, Standard & Poor's Ratings Services affirmed its long- and short-term issuer credit ratings on African Development Bank (AFDB) at 'AAA/A-1+'. The outlook is stable.

## Rationale

The ratings on AFDB are based on its "very strong" business profile and "very strong" financial profile, as our criteria define these terms. Its stand-alone credit profile (SACP) is 'aa+'. The ratings also reflect our expectation of extraordinary shareholder support through callable capital. We outline these factors in our revised criteria, "Multilateral Lending Institutions And Other Supranational Institutions Ratings Methodology", published Nov. 26, 2012, on RatingsDirect on the Global Credit Portal.

AFDB was established by treaty in 1964 by 29 African countries. Nonregional members were admitted from 1982, and AFDB's membership now includes 53 African and 24 nonregional countries. AFDB is the keystone of the African Development Bank Group, which includes soft-loan windows African Development Fund (AFDF) and Nigeria Trust Fund (NTF). Its primary purpose is to contribute to sustainable economic development and social progress in Africa.

Since 1995, AFDB has restricted its sovereign lending to its more economically developed regional member countries. Sixteen African countries are eligible to borrow from the bank, while 37 have been able to borrow only from AFDF and NTF since then. Lending to the private sector, however, is not restricted to

eligible countries. AFDF and NTF offer grants and loans at concessional rates--their loans and grants help to maintain support for AFDB in countries where governments are currently not eligible to borrow from the bank. Although the AFDB holds a small 0.5% of the capital of the AFDF, we do not expect it to incur exposure to it beyond its capital contribution and its annual receipts from the AFDF for shared expenses.

AFDB's very strong business profile reflects its role and public policy mandate in lending to African governments and to public- and private- sector entities in African countries. AFDB's role was demonstrated by the strong demand for its lending during the financial crisis in 2009, which led to a nearly 30% increase in its loan portfolio. The strength and stability of AFDB's relationship with its shareholders was demonstrated by its sixth capital increase, which became effective in 2010, although four small shareholders abstained from it. A majority of votes in AFDB is held by regional shareholders. We also note that the institution allocated a proportion of its reported operating income to AFDF and other development-related initiatives in 2011 despite negative comprehensive income. While AFDB has benefited from preferred creditor treatment (PCT) from many of its borrowing members, it has also experienced arrears and defaults by both public- and private-sector borrowers, and the Highly Indebted Poor Country Initiative and the Multilateral Debt Relief Initiative have helped many of its borrowing members to remain current.

Our assessment of AFDB's financial profile as "very strong" comes in part from our view of its capital adequacy. Standard & Poor's risk-adjusted capital (RAC) ratio, our primary measure for assessing capital adequacy, was 30% before adjustments, on Dec. 31, 2011. On that date, 81% of outstanding loans were to public-sector borrowers.

At the same time, AFDB's capital ratio was 19% taking into account adjustments specific to multilateral lending institutions (MLIs) under our new criteria. These adjustments mostly pertain to concentration risks and the impact on loss given default from PCT. AFDB's five largest borrowers--Morocco, Tunisia, Botswana, South Africa, and Egypt--account for about two-thirds of its loan portfolio, a concentration which is higher than some other MLIs. In addition, our view of AFDB's capital is influenced by the recent rapid growth of its loan portfolio and the level of its long-standing non accrual loans from Zimbabwe and Sudan. Shareholders have started paying in installments under the sixth capital increase, which should lead to higher reported capital ratios in the next few years.

Our funding ratios for AFDB indicate that it has no funding gaps for one- and five-year maturities at year-end 2011. Our liquidity ratios show that the bank would be able to pay all due obligations over the next five years, without access to capital markets, albeit while reducing committed loan disbursements. AFDB's funding profile is diverse in terms of investor base, currency, and maturity. Global benchmark bonds remain the primary source of funding, with domestic markets, Uridashi bonds, private placements, and loans all alternative funding sources.

AFDB benefits from Special Drawing Rights (SDR) 8.1 billion, or 1.7x shareholders' equity, callable capital from 'AAA' rated shareholders, which results in a ratings uplift of the issuer credit profile to 'AAA'.

## Outlook

The stable outlook reflects our expectation that AFDB's business and financial profiles will remain intact.

We could consider lowering the ratings on AFDB if serious delays on its sixth capital increase occurred or if we changed our assessment of the bank's PCT. On the financial side, AFDB's ratings could be lowered if--contrary to our expectations--management pursued a more aggressive lending or leverage strategy or if one of its larger borrowers defaulted to the bank.

## Related Criteria And Research

- Multilateral Lending Institutions And Other Supranational Institutions Ratings Methodology, Nov 26, 2012
- African Development Bank, Oct. 8, 2012
- Into the Weeds Of the Revised Multilateral Lending Institutions Criteria, 19 Dec 2012
- Supranational Special Edition 2011, Sept 23, 2011

## Ratings List

Ratings Affirmed

African Development Bank

Issuer Credit Rating	
Foreign Currency	AAA/Stable/A-1+
Certificate Of Deposit	
Foreign Currency	AAA
Senior Unsecured	AAA
Subordinated	AA+
Commercial Paper	A-1+

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