

SOVEREIGN RATINGS SERVICE

CREDIT RATINGS AA+/Stable/A-1+

RATING HISTORY

Short-term rating of 'A-1+' assigned 1998
Senior debt rating lowered to 'AA+' and subordinated rating lowered to 'AA-' 1995
Senior debt rating raised to 'AAA' and subordinated rating raised to 'AA' 1990

BASIC DATA (1998)

Total assets (incl. undisbursed loans) US\$16.4 billion
Capital (callable plus paid-in capital adjusted) US\$21.8 billion
Number of shareholders 77
(of which 53 are African countries)

PURPOSE

The African Development Bank's mandate is to contribute to the economic development and social progress and reduce the poverty level of its 53 regional members. The bank primarily lends to the public sector for long-term projects and to subregional and national development banks to finance investment programs.

GENERAL CAPITAL

Capital has risen substantially since the bank's founding in 1963. The fifth general capital increase (GCI-V), approved in May 1998, will increase authorized capital by Unit of Account (UA) 5.67 billion over 1999 to 2007. Following the capital increase, nonregional members' share of the bank will be raised to 40%.

ANALYSTS

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AFRICAN DEVELOPMENT BANK

RATIONALE

The ratings on the African Development Bank (AfDB) are based on:

- Its strong shareholder base.

A fifth capital increase, which was concluded in 1998, is a clear sign of renewed membership support. In addition, the capital increase will result in a strengthening of the AfDB's ownership structure. At the end of the eighth installment, the AfDB will be owned 60% (down from 66%) by 53 African states and 40% by 24 nonregional states. Most of the nonregional shareholders have 'AAA' or 'AA' category foreign currency ratings from Standard & Poor's.

- Its conservative leverage policies.

Management policies limit senior debt to 80% of callable capital of nonborrowing members, and cap total debt at 100% of usable capital (defined as paid-in capital, reserves, and callable capital of 'AA' and 'AAA' rated shareholders), and at 80% of callable capital of all shareholders. The bank is operating comfortably within its leverage limits. At Dec. 31, 1998, the ratio of senior debt to nonborrowing members' callable capital was 75%, up from 63% a year earlier, and that of outstanding borrowings to callable capital was 39%, stable compared with a year earlier. With the fifth capital increase becoming effective this year, the AfDB's leverage ratios will improve mechanically.

Standard & Poor's rates the subordinated debt of the AfDB two notches below the senior debt, given that the senior debt is backed fully by callable capital of nonborrowing-member countries, whereas total debt is backed by callable capital from all member countries.

Nevertheless, the AfDB's senior debt rating is one notch below 'AAA'. The AfDB's board has a

recent history of politicization. This, in particular, impaired the bank's management in the late 1980s and early 1990s. In addition, recurrent arrears on paid-in capital and the lengthy negotiations on the fifth capital increase are indicators that member governments' willingness to support the bank is still lower than in many 'AAA' rated Multilateral Lending Institutions (MLIs).

The bank registers a high level of nonperforming loans (NPLs), which indicates previously inadequate lending standards, and reflects the difficult environment in which it operates. In 1998, after two-years of substantial decrease, nonperforming loans rose to 14.1% of total loans outstanding, the highest level since 1995. Although increasing, the loan-loss provision covers only 37% of NPLs. 'AAA' rated MLIs cover NPLs fully with loan-loss provisions.

The bank has strong franchise value, but this is still lower than in 'AAA' rated MLIs. Currently, there are only 13 regional members that are eligible for AfDB loans, and only six are borrowing new funds in meaningful quantities. Over recent years, AfDB borrowing members have been net payers to the bank. Nevertheless, 29 countries benefit from AfDB's soft loan window, the African Development Fund (ADF).

Profitability, not a primary goal of any multilateral institution, remained almost stable in 1998 at 1.3%, when measured by the ratio of net income to average assets.

OUTLOOK

The outlook on the AfDB anticipates further progress in improving the bank's credit policies, internal controls, and financial profile. AfDB's credit standing would benefit from more regional

African Development Bank Financial Statistics

(Mil. US\$)	1998	1997	1996	1995	1994
Balance sheet assets	13476.7	12621.8	13589.8	14711.2	13508.2
Disbursed loans	9026.0	8830.1	9493.7	9863.3	9445.6
Liquid assets	2059.6	1822.0	2095.9	2420.6	2258.1
Subscribed capital	22374.9	21529.7	22835.3	23411.9	22172.9
Paid-in capital + reserves	3706.0	3418.0	3370.6	3235.0	2967.6
Net operating income (%)	152.3	160.9	150.4	104.7	78.6
Disbursed loans/paid-in capital + reserves	243.6	258.3	281.7	304.9	318.3
Disbursed loans/subscribed capital + reserves	37.7	38.6	39.3	40.1	40.7
Loans to resch. countries/'AAA' call. cap + paid-in cap + reserves	N.A.	29.9	39.7	41.6	47.2
Nonaccrual loans outstanding/disbursed loans outstanding	14.1	9.4	10.1	13.9	8.6
Nonaccrual loans outstanding-loan loss prov./'AAA' callable capital + paid-in capital + reserves	10.7	6.0	7.8	13.7	7.4
Net operating income/avg. total assets	1.2	1.3	1.1	0.8	0.6
Adjusted net income/avg. total assets	1.1	1.1	0.9	0.6	0.3
Debt/paid-in capital + reserves	204.6	216.1	249.5	284.3	300.2
Debt/'AAA' callable cap. + reserves + paid-in capital	95.6	98.9	109.4	119.5	121.2
Net debt/'AAA' callable cap. + reserves + paid-in capital	69.6	74.5	82.1	88.1	90.5
Liquid assets/undisbursed loans + 1 year debt service	52.1	37.9	42.0	36.8	30.9

N.A.—Not available.

countries settling their loan and capital subscription arrears, thereby regaining eligibility to borrow from the AfDB window. Standard & Poor's also believes that, in the foreseeable future, Africa's real economic growth will continue to be constrained by both domestic and external factors. As a result, the embedded risk of AfDB's portfolio is likely to remain high. AfDB's ratings could come under pressures if the bank's portfolio deteriorates further, if a country defaults on AfDB, despite its preferred creditor status (as was the case with Gabon in 1998) or if another major country enters into non-accrual status. ■