

13:13 09 Aug RTRS-S&P REVISES OUTLOOK ON THE AFDB TO NEGATIVE FROM STABLE, AFFIRMS RATINGS

13:15 09 Aug RTRS-S&P revises outlook on AfDB to negative

(The following statement was released by the rating agency).

LONDON, Aug 9 - Standard & Poor's today revised the outlook on the African Development Bank (AfDB) to negative from stable. At the same time, Standard & Poor's affirmed its ratings on AfDB:

- Double-'A'-plus long-term issuer credit and senior unsecured debt ratings;
- Double-'A'-minus subordinated debt rating; and
- 'A-1'-plus short-term issuer credit and commercial paper ratings.

Standard & Poor's continues to rate the subordinated debt of AfDB two notches below the senior debt because the senior debt is backed fully by callable capital of nonborrowing member countries, whereas total debt is backed by callable capital from all members.

The negative outlook signals Standard & Poor's concerns over the continuous deterioration in the asset quality of AfDB's loan portfolio since 1998. In 1998, nonperforming assets jumped to 14.1% of disbursed loans, compared with 9.4% a year earlier, as Gabon defaulted. Nonperforming loans were also higher than in 1995 (13.9%), the year AfDB was downgraded. Despite AfDB's efforts, nonperforming loans increased slightly to 14.5% of disbursed loans in 1999.

In 2000, three new countries fell into arrears: Cote d'Ivoire (since August), the Seychelles (since February), and Zimbabwe (since May). This deterioration in the asset quality not only reflects Africa's challenging economic and political environment, but also AfDB's inability to contain nonperforming loans, despite its revised lending policies.

In addition, further compounding the high risk-profile of AfDB's loan portfolio, the bank's loan loss provision, which covers only 39% of its nonperforming loans in 1999, does not provide a sufficient protection of AfDB's balance sheets. This relatively weaker financial position also has to be viewed against the backdrop of increasing concerns over the solidity of the bank's preferred creditor status.

Finally, AfDB's 'development performance' is perceived as not entirely satisfactory, despite substantial efforts to develop its internal capacity to internationally accepted standards. In particular, a relaxed lending policy will accentuate further AfDB's loan concentration: six major countries will continue to dominate AfDB's loan portfolio; and although increasing, AfDB's loan disbursements remain moderate in comparison with other multilateral banks.

A downgrade would be triggered if the bank's portfolio deteriorates further, if another major country enters into nonaccrual status, or if another country defaults on AfDB, despite its preferred creditor status.

AfDB's ratings continue to be supported by:

- 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. With the fifth capital increase effective this year, all AfDB's leverage ratios will improve mechanically.

- Its improving shareholder base. A fifth capital increase, concluded in 1998, will result in the strengthening of

AfDB's ownership structure. At the end of the eighth capital instalment, AfDB will be owned 60% (down from 66.6%) by 53 African states and 40% by 24 nonregional states. Most of the nonregional shareholders have 'AAA' or 'AA' category foreign currency ratings.

-- Increased internal capacity. Over the past five years, AfDB's internal capacity, by cleaning the bank's loan portfolio and implementing measures aimed at improving its corporate governance, has been considerably strengthened, closer meeting international standards. As such, President Kabbaj's re-election this year is a clear indication that AfDB's shareholders support the new team's management policies, Standard & Poor's said.

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