

# Analysis

# Moody's Global Sovereign

September 2008

## African Development Bank

### Rating Rationale and Outlook

Moody's rates the African Development Bank Aaa/Prime-1, with a stable outlook. The Bank's top-notch ratings are a reflection of strong capitalization and prudent risk management, further enhanced by proven support from its member governments. These strengths fully offset the relatively high credit risk faced by the Bank, resulting from the challenging regional environment in which it operates.

The main rating weakness of the African Development Bank (AfDB) is the credit quality of its loan portfolio. The percentage of impaired loans (11%) is unusually high for a multilateral development bank or for any financial institution. However, payment arrears are falling rapidly at present, partly as a consequence of debt relief initiatives funded by donor countries. More importantly, such arrears have never threatened the ability of the Bank to pay its own obligations thanks in part to ample liquidity buffers and sound risk management strategies.

Furthermore, the overall size of the development-related assets – and associated credit risk – is moderate relative to the high level of capital of the Bank. Usable equity (paid-in capital and reserves) exceeds total exposure in sub-investment grade countries. The Bank's strong equity base is further buttressed by callable capital from shareholders, in particular highly-rated non-regional governments.

Shareholder support is a key rating factor for the African Development Bank. The record high replenishment of the resources of the African Development Fund (the AfDB's sister institution providing concessional loans to the 38 poorer African countries, which are ineligible to AfDB loans) in 2007 testifies to its donor countries' commitment to promoting economic development in Africa and to their support to the African Development Bank Group as a channel of finance for that purpose.

In April 2008, the Board of Directors of the African Development Bank agreed on the broad contours of an ambitious medium-term strategy that foresees annual loan commitments rising by more than 50% over a five-year period. A substantial part of the planned increase in lending will be targeted at the private sector. Moody's considers that the current level of capitalization of the Bank, its high liquidity and the strong commitment of its shareholder governments to its objectives all create ample room for an expansion of its balance sheet without exceeding its risk-bearing capacity.

#### Table of Contents:

|                                  |    |
|----------------------------------|----|
| Rating Rationale and Outlook     | 1  |
| Organizational Structure         | 2  |
| Strategy and recent developments | 3  |
| Profitability                    | 4  |
| Asset Composition and Quality    | 4  |
| Asset/Liability Management       | 5  |
| Liquidity                        | 5  |
| Capital Adequacy                 | 6  |
| Member Support                   | 7  |
| Rating History                   | 8  |
| Annual Statistics                | 9  |
| Related Websites                 | 12 |
| Moody's Related Research         | 12 |

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This Analysis provides an in-depth discussion of credit rating(s) for African Development Bank and should be read in conjunction with Moody's most recent Credit Opinion and rating information available on Moody's website. [Click here to link.](#)



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## African Development Bank

### Organizational Structure

The African Development Bank is a multilateral financial institution created in 1964. Its statutory objective is to promote sustainable economic growth and reduce poverty in Africa.

The African Development Bank is one constituent of the African Development Bank Group, which includes also the African Development Fund (established in 1972) and the Nigeria Trust Fund (established in 1976). The three entities of the group complement each other as follows:

- The African Development Bank ('the Bank') is the non-concessional window of the Group that finances projects through loans (to sovereign or private sector counterparties) and equity investments. It also provides technical assistance. Currently only 15 countries are eligible for sovereign loans from the African Development Bank<sup>1</sup>.
- The African Development Fund is the concessional window of the Group that finances projects in low-income African countries in the form of non-interest bearing loans and grants, for the benefit of poorer African countries. The Fund's resources come from contributions and periodic replenishment by donor countries (all but one – South Africa – being non-African countries). Countries that are eligible for sovereign loans from the African Development Fund are normally not eligible for loans from the Bank<sup>2</sup>.
- The Nigeria Trust Fund is a comparatively very small fund that also extends concessional loans, and is funded by contributions from the Government of Nigeria.

Moody's ratings apply solely to the African Development Bank and not to other entities within the Group.

The membership structure of the African Development Bank, which initially included only African countries, was extended in 1982 to allow participation of non-regional governments. These newer members contribute to the capital of the Bank but are not eligible for loans. The current membership of the Bank includes 53 African countries and 24 non-African countries<sup>3</sup>, most of which are highly-rated countries from the OECD and the Middle-East. Regional countries account for 60% of the capital of the Bank, non-regional countries for the remaining 40%.

The balance of participation between regional and donor countries is reflected in the governance structure. The highest decision-making body of the Bank is the Board of Governors, which includes one representative per member country. Decisions in the Board of Governors require a two-thirds majority (or a 70% majority should any member require so). As each member's number of votes is based on the share of that member in the capital stock of the Bank, this provision ensures that any important decision requires support by both regional and non-regional members.

The Board of Governors elects a Board of Directors, which is responsible for overseeing the Bank's operations. The Board of Directors is composed of 12 representatives elected by regional countries, and 6 representatives elected by non-regional countries. Decisions in the Board of Directors equally require a two-thirds majority (or 70% if expressly required by a member) of votes, weighed by the share of capital of the members represented by each Director.

The Bank has been led since September 2005 by Donald Kaberuka, previously minister of finance and economic planning in Rwanda.

<sup>1</sup> At present, only 15 of the 53 African member countries of the AfDB are eligible to borrow from the Bank. They are Algeria, Botswana, Egypt, Equatorial Guinea, Gabon, Libya, Mauritius, Morocco, Namibia, Nigeria, the Seychelles, South Africa, Swaziland, Tunisia and Zimbabwe. Two of these countries, Nigeria and Zimbabwe, are eligible to receive resources from both the AfDB and the African Development Fund.

<sup>2</sup> With the exception of Nigeria and Zimbabwe, eligible for both windows (see footnote 1).

<sup>3</sup> Argentina, Austria, Belgium, Brazil, Canada, China, Denmark, Finland, France, Germany, India, Italy, Japan, Korea, Kuwait, the Netherlands, Norway, Portugal, Saudi Arabia, Spain, Sweden, Switzerland, the United Kingdom and the United States. Turkey, whose application for membership was approved by the Board of Governors in May 2008, will become the 78<sup>th</sup> member country (25<sup>th</sup> non-regional member country) as soon as the required formalities are completed.

## African Development Bank

### Strategy and recent developments

In 2006, Donald Kaberuka established a high-level panel and tasked it with the mission of providing advice on the strategic vision of the African Development Bank over the medium-term and devising the operational strategies required to achieve it. The panel was jointly chaired by Joachim Chissano (former President of Mozambique) and Paul Martin (former Prime Minister of Canada). The conclusions of the panel's review underlined in particular the importance of the private sector as a driver of growth in Africa, the need for greater economic and trade integration both within the region and outside, the critical role of infrastructure to facilitate trade, and an emphasis on the role of institutions and good governance to underpin regional integration.

In April 2008, the Board of Directors of the African Development Bank agreed on the broad contours of a medium-term strategy that incorporated the recommendations of the high-level panel. The strategy foresees a substantial increase in non-concessional lending operations (at a compounded rate of 14% per annum over the next five years), driven by lending to private sector borrowers domiciled in all member countries, not just the 15 countries where governments are currently eligible for such loans. This implies a reversal of the multi-year decline in the stock of loans outstanding (from SDR 6.8 bn in 1999 to SDR 5.3 bn in 2006), following a small increase in the loan portfolio in 2007 (to SDR 5.5 billion).

Another component of the new strategy that has potential to revitalize the Bank's lending and equity investment activity is the continuing decentralization effort. At end-2007, the AfDB had established 23 field offices across the continent. These offices improve the Bank's ability to identify potentially worthy borrowers and to more closely monitor the performance of its existing asset portfolio.

The African Development Bank Group is party to ongoing debt relief initiatives, in particular the Heavily Indebted Poor Countries (HIPC) initiative and the Multilateral Debt Relief Initiative (MDRI).

The HIPC initiative entails coordinated action by the international financial community, including governments and multilateral financial institutions, to reduce the debt of heavily indebted poor countries to a sustainable level, under the condition that they demonstrate commitment to reform and sound policies targeted at poverty reduction. At end-2007, 26 out of 33 African countries classified as heavily indebted poor countries were benefiting from debt relief either from the African Development Bank or the African Development Fund.

The Multilateral Debt Relief Initiative entails further debt relief in the form of 100% cancellation of claims by the IMF, the International Development Agency (IDA) and the African Development Fund on countries that have fully met the conditions specified in the HIPC initiative, reaching the so-called completion point of the initiative. 19 African countries had reached this point at end-2007. The MDRI only affects the African Development Fund and has no direct impact on the Bank itself.

The cost of both of these debt relief initiatives is met almost entirely by contributions from donor countries. The total committed contribution to be financed by the African Development Bank's own resources was estimated, in net present value terms, at US\$ 363 mn at end-2007.

## African Development Bank

### Profitability

In 2007, the African Development Bank generated a net income, before transfers approved by the Board of Governors, of SDR 324 mn, compared with SDR 194 mn in 2006 and SDR 221 mn in 2005. Moody's does not consider financial profitability *per se* to be a major rating factor for multilateral development banks, as the ability of these institutions to service their financial obligations relies ultimately on the degree of support provided by their shareholders, which is not determined by their return on equity. The AfDB, like other multilateral development banks, has a social development mandate and is not a profit-driven institution. Indirectly, however, positive financial performance is taken into account in the rating analysis to the extent that it can contribute to strengthening the capital base of the Bank and expand its risk-bearing capacity.

The African Development Bank does not distribute dividends to its shareholders. It does, however, distribute part of its operating profits in the form of transfers to various entities for development purposes, including for debt relief initiatives. Up until 2006, the Bank treated these transfers from net income similar to dividends, as a reduction in equity. From 2006, distributions approved by the Board of Governors are reported as expenses. This change in accounting treatment has no impact on Moody's assessment of the effect that retained earnings, net of transfers, has on the AfDB's capital structure.

After adjusting for transfers approved by the Board of Governors, the AfDB's net income was SDR 204 mn in 2007, compared with SDR 55 mn in 2006 and SDR 77 mn in 2005. The increase in net income is in part explained by reversals of earlier loan-loss provisions, including a SDR 84 mn reversal relating to clearance of arrears for Liberia and the Comoros. Further reversals are expected as other countries benefit in turn from arrear clearance mechanisms.

### Asset Composition and Quality

Asset quality is the main, and arguably the only significant, credit challenge for the African Development Bank, given the weak financial environment in much of the region in which the bank operates. Of the 53 African countries in which the Bank can operate and of the 15 countries to which it can extend sovereign loans, only four have achieved investment grade status (Botswana, Mauritius, South Africa and Tunisia).

The outstanding balance of impaired loans amounted to SDR 603 mn at end-2007. On the one hand, this is equivalent to 11.3% of the Bank's loans and 10.7% of all its development-related assets, a very high level in comparison to other multilateral development banks (the Inter-American Development Bank for instance had no impaired loans at end-2007) or to financial institutions generally. On the other hand, the value of impaired loans has fallen steadily, down from 13.2% of the Bank's loans and 12.9% of all its development-related assets in 2006. Even higher levels of arrears in previous years did not threaten the bank's creditworthiness. The number of countries with loan arrears has also been reduced to four by end-2007 (Côte d'Ivoire, Somalia, Sudan and Zimbabwe). Following the Central African Republic's arrears clearance in 2006, Liberia and the Comoros followed suit in 2007.

Debt relief initiatives such as the HIPC initiative also contribute to an improvement of the risk profile of the AfDB's loan portfolio, as the countries that benefit from this initiative are at the riskier end of the credit spectrum.

The African Development Bank has its own rating system, with a scale of 1 to 10, with 1 being the highest quality, to assess the credit risk of its counterparties. On this scale, the weighted average risk rating of its entire loan portfolio improved marginally in 2007 to 2.8 from 3.1 in 2006. This is roughly equivalent to a B1 rating on Moody's global scale.

## African Development Bank

Going forward, the decision by the AfDB to increase its focus on private sector lending is likely to be a major determinant of the composition and credit quality of its asset portfolio. Sovereign exposure accounted for more than 90% of the Bank's portfolio at end-2007, but the new strategic orientation implies increased non-sovereign exposure over the next five years. In 2007 already, loan approvals to non-sovereign counterparties (SDR 1 bn) experienced a four-fold increase relative to 2006 and exceeded loan approvals to sovereign counterparties (SDR 0.7 bn).

The Bank expects that increased exposure to private sector counterparties would contribute to improving the geographical diversification of its loan book (as private loans are not restricted to the 15 countries eligible for sovereign loans) but it can also result in an increase in credit risk. Moody's generally considers private sector lending riskier than sovereign loans, in particular as the former does not benefit from the protections granted by the Bank's preferred creditor status to its sovereign exposures. The risk profile of the AfDB's non-sovereign loan and equity portfolio has in fact deteriorated in 2007, with the percentage of assets classified by the AfDB as 'very low risk' or 'low risk' (roughly equivalent to ratings above Ba3 on Moody's global scale) falling from 31% in 2006 to 18%. This reflects both repayment of loans at the higher end of the credit risk spectrum and, consistent with the bank's strategy to focus on projects with high development impact, the addition to the portfolio of new assets carrying higher levels of risk.

It is important however to note that Moody's does not consider an increase in the level of risk borne by the Bank as a rating concern *per se*. This assessment holds to the extent that (i) the AfDB continues to assess and select projects carefully on the basis of their credit risk and (ii) the current level of the Bank's capitalization and its member support leave room for additional risk-taking.

## Asset/Liability Management

The African Development Bank follows sound and conservative principles in the management of its asset/liability position, as do most of its peer multilateral development institutions. The Bank's approach to risk management is underpinned by the principle that its risk-bearing capacity should be geared towards supporting its development-related operations, which implies that other financial risks it faces (market risk, counterparty risk and operational risk) should be minimized. Counterparty risk in its treasury operations is mitigated by counterparty selection and by collateralization of exposure arising from derivative contracts. Currency risk is mitigated by the Bank's policy of matching the currency composition of its lending and borrowing, and of matching the currency composition of its net assets to that of the Special Drawing Right. The Bank also requires borrowers to service their loans in the currencies in which they are disbursed. Interest rate risk is mitigated by matching the interest rate characteristics of each class of assets with those of the corresponding liabilities.

## Liquidity

The African Development Bank operates under a self-imposed prudential liquidity framework that requires it to hold liquid assets in sufficient amount to meet its cash flow requirement over a 12-month period without recourse to external financing from the capital markets. Liquid assets include cash and bank deposits, as well as available-for-sale liquid securities and hold-to-maturity investments with a residual maturity not exceeding one year. Projected cash flow requirements include debt service payments over a one year horizon, net loan disbursements (disbursements minus repayments), plus committed guarantees and undisbursed equity investments.

Moody's considers liquidity to be an important rating factor for multilateral development banks as supranational financial institutions do not have access to contingent sources of liquidity such as central bank operations.

## African Development Bank

At end-2007, the AfDB's liquidity was equal to 1.7 times the prudential limit. This is lower than in previous years but is still extremely robust. The AfDB's high liquidity is also illustrated by other ratios, such as liquid assets to total assets, which stood at 45% at end 2007, a lower level than at end-2006 (51%) but still a very high level both in absolute terms and relative to other multilateral banks. The equivalent ratio at end-2007 was for instance 44% for the European Investment Bank, 23% for the Inter-American Development Bank and 11% for the World Bank. The AfDB's liquid assets also amounted to 87% of all the Bank borrowings at end-2007, again slightly lower than at end-2006 (106%) but very high both in absolute terms in relative to other multilateral banks.

The AfDB's liquidity ratios are likely to decrease if the expansion in loan commitments envisaged under the Bank's medium-term strategy materialises. In Moody's view, however, the currently high level of liquidity of the Bank provides ample space for the increase in loan and equity investment commitments envisaged under the strategy.

## Capital Adequacy

The African Development Bank's strong capitalization is a key rating strength. Capital adequacy features strongly in Moody's rating assessment for multilateral development banks, consistent with the view that the financial strength of these institutions relies less on their ability to generate earnings in the context of their operations than on the capital endowment provided by shareholders, both paid-in and contingent, in the form of callable capital.

The Bank's subscribed capital amounted to SDR 21.7 bn at end-2007, of which only 10.8% is actually paid-in. Retained earnings and other reserves amounted to SDR 2.5 bn at end-2007, slightly more than the amount of paid-in capital, so that the Bank's total usable equity (Moody's definition<sup>4</sup>) stood at SDR 4.6 bn at end-2007.

In 2005 and 2006 the AfDB's independent auditors indicated that member countries' capital subscriptions ought to be classified in the Bank's financial statements as financial liabilities rather than equity under International Financial Reporting Standard IAS 32, on the ground that a member could terminate its membership of the Bank and reclaim its contribution. In February 2008, however, the International Accounting Standards Board issued amendments to IAS 32 that allow for the classification of members' contributions as equity. This change has no impact on the financial statements of the Bank (which has always recorded these subscriptions as equity) nor on Moody's credit analysis, which prioritizes economic substance over accounting form.

To assess a multilateral bank's capital adequacy, Moody's compares different capital aggregates to risk assets, defined as the total of loans in non-investment grade countries and equity investments. The AfDB's ratio of usable capital to risk assets stood at 109% at end-2007, only marginally below the peak of 111% reached in 2006. This implies that the Bank's own resources more than cover all exposure to sub-investment grade countries.

A wider definition of risk asset coverage includes the callable capital of member countries rated Aa3 or above in the capital base, as Moody's considers that these commitments at the very least would be honored if called upon in any foreseeable circumstance. Under this wider definition, the coverage of risk assets climbs to 280%, a very high level, similar to that of the Asian Development Bank (274%) and higher than that of the Inter-American Development Bank (162%).

<sup>4</sup> Moody's definition of usable equity includes all capital payments received in freely convertible currencies (minus any amounts required to maintain the level of currency holdings), plus reserves and allocated net income. The AfDB's definition also includes callable capital owed by countries with a rating of Aa2 or above.

## African Development Bank

The African Development Bank operates under its own capital adequacy framework, which combines prudential limits on the amount of loans (weighted by risk class according to the African Development Bank's internal rating scale) in relation to usable capital and limits on the amount of borrowings in relation to different aggregates of capital. The limits on borrowing are expressed as follows:

- Total debt cannot exceed 80% of callable capital owed by all its member countries;
- Total senior debt cannot exceed 80% of capital owed by non-borrowing (non-regional) members;
- Total debt cannot exceed 100% of usable capital (AfDB definition, i.e. equity and reserves plus callable capital owed by countries with ratings of Aa2 and above);

As of 31 December 2007, the first ratio stood at 65%, the second at 32% and the latter at 55%, well within the Bank's limits. Going forward, the implementation of the Bank's medium-term strategy and the combined increase in lending and borrowing that it entails is likely to result in a deterioration of capital adequacy and indebtedness ratios. However, in Moody's opinion, the AfDB's high capitalization creates ample room to accommodate the planned expansion of its balance sheet.

## Member Support

The strong support that the African Development Bank receives from its members, both regional and non-regional, is a key rating factor. This support expresses itself in several forms.

First, the African Development Bank, like other multilateral development banks, benefits from 'preferred creditor status.' This is codified in the Agreement Establishing the AfDB, in which member countries commit to exempting the assets of the Bank from restrictions, regulations, controls and moratoria of any nature.

Despite its preferred creditor status, the African Development Bank is not entirely immune from either payments arrears nor debt cancellation, as history and the participation of the African Development Bank Group in the HIPC and MDR initiatives have evidenced. In the debt cancellation cases, however, the bulk of the cost of the initiatives is assumed by donor countries, whose support is a major rating strength. Donor country support is also reflected in the large amount of callable capital from highly-rated countries, as discussed previously.

Support from donor countries (mostly non-regional shareholders of the Bank) and their commitment to the whole African Development Bank Group was further evidenced by the record high replenishment of the resources of the African Development Fund in 2007. Total resources for the 2008-2010 cycle amount to SDR 5.76 bn, a 52% increase over the previous replenishment for the period 2005-2007.

Member support (from all regions) has been demonstrated in the past in the form of successive general capital increases, the most recent approved in 1998. Considering the importance of the African Development Bank group as a source of financing for the African economy, and the demonstrated support from non-regional shareholders, Moody's believes that the Bank's shareholders' willingness to make resources available to the Bank, should it need them again, is very high.

## African Development Bank

## Rating History

| African Development Bank |               |            |                  |         |        |
|--------------------------|---------------|------------|------------------|---------|--------|
|                          | Issuer Rating |            | Senior Unsecured | Outlook | Date   |
|                          | Long-Term     | Short-Term |                  |         |        |
| Outlook Assigned         | --            | --         | --               | Stable  | Nov-03 |
| Rating Assigned          | --            | P-1        | --               | --      | Mar-00 |
| Rating Assigned          | Aaa           | --         | --               | --      | Dec-94 |
| Rating Assigned          | --            | --         | Aaa              | --      | Mar-84 |

## African Development Bank

## Annual Statistics

## African Development Bank

## Key Financial Statement Statistics (US\$ Mils.) [1]

|   | 2001          | 2002          | 2003          | 2004          | 2005          | 2006          | 2007          |
|---|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| <b>Balance Sheet Summary</b>                        |               |               |               |               |               |               |               |
| <b>Assets</b>                                       | <b>11,796</b> | <b>11,837</b> | <b>15,635</b> | <b>16,760</b> | <b>16,581</b> | <b>18,552</b> | <b>19,093</b> |
| Liquid Assets                                       | 2,720         | 2,803         | 6,245         | 6,956         | 7,468         | 9,361         | 8,532         |
| Gross Loans   | 8,126         | 8,113         | 8,340         | 8,760         | 7,879         | 7,960         | 8,755         |
| Gross Equity Investments                            | 224           | 247           | 271           | 249           | 241           | 179           | 299           |
| Net Loans   | 7,505         | 7,445         | 7,643         | 8,137         | 7,318         | 7,303         | 8,178         |
| Other   | 727           | 673           | 780           | 1,419         | 1,553         | 1,709         | 2,084         |
| <b>Liabilities</b>                                  | <b>7,112</b>  | <b>6,457</b>  | <b>9,634</b>  | <b>10,156</b> | <b>10,323</b> | <b>11,853</b> | <b>11,653</b> |
| Borrowings  | 6,549         | 6,057         | 8,587         | 8,757         | 8,490         | 8,832         | 9,796         |
| Other   | 563           | 400           | 1,047         | 1,398         | 1,833         | 3,022         | 1,857         |
| <b>Capital and Reserves</b>                         | <b>4,685</b>  | <b>5,380</b>  | <b>6,001</b>  | <b>6,605</b>  | <b>6,257</b>  | <b>6,699</b>  | <b>7,440</b>  |
| Paid-in Capital                                     | 2,611         | 2,889         | 3,222         | 3,438         | 3,235         | 3,465         | 3,692         |
| Cumulative Exchange and Currency Adjustments        | -727          | -811          | -887          | -955          | -217          | -234          | -253          |
| Total Reserve (of which)                            | --            | --            | --            | 3,396         | 3,239         | 3,468         | 4,001         |
| Reserves  | 1,903         | 2,302         | 2,768         | 3,272         | 2,350         | 2,519         | 2,860         |
| Net Income  | 253           | 307           | 174           | 223           | 316           | 292           | 511           |
| Loan and Equity Loss Provisions                     | 645           | 693           | 724           | 624           | 561           | 657           | 576           |
| <b>Capital Structure Summary</b>                    |               |               |               |               |               |               |               |
| <b>Total Subscribed Capital</b>                     | <b>27,008</b> | <b>29,243</b> | <b>32,043</b> | <b>33,542</b> | <b>31,040</b> | <b>32,788</b> | <b>34,281</b> |
| <b>Less Total Callable Capital (CC)</b>             | <b>24,375</b> | <b>26,341</b> | <b>28,802</b> | <b>30,089</b> | <b>27,681</b> | <b>29,241</b> | <b>30,565</b> |
| (CC of Aaa/Aa Countries)                            | 9,061         | 9,802         | 10,713        | 11,197        | 10,293        | 10,980        | 11,485        |
| (CC of Investment Grade Countries)                  | 11,647        | 12,599        | 13,836        | 14,461        | 12,732        | 14,131        | 14,813        |
| +/- Net Overdue or Prepaid Subscriptions            | -23           | -13           | -18           | -15           | -8            | -4            | -3            |
| <b>Equals Paid-in Capital</b>                       | <b>2,611</b>  | <b>2,889</b>  | <b>3,222</b>  | <b>3,438</b>  | <b>3,352</b>  | <b>3,543</b>  | <b>3,713</b>  |
| Less Non Negotiable Instruments Rcvd Not Yet Due    | 79            | 79            | 62            | 48            | 37            | 31            | 24            |
| Plus/minus Cum. Exchange Adjust. on Subscription    | -163          | -193          | -216          | -229          | -217          | -234          | -253          |
| Less Paid-in Capital in Non-convertible Currency[2] | 145           | 157           | 171           | 179           | 165           | 173           | 182           |
| Plus reserves and Net Income                        | 2,236         | 2,684         | 2,995         | 3,396         | 3,239         | 3,468         | 4,001         |
| <b>Equals Usable Equity</b>                         | <b>4,461</b>  | <b>5,145</b>  | <b>5,768</b>  | <b>6,378</b>  | <b>6,172</b>  | <b>6,573</b>  | <b>7,254</b>  |
| <b>Loan Portfolio Summary</b>                       |               |               |               |               |               |               |               |
| Approved Loans                                      | 17,794        | 20,269        | 23,211        | 24,833        | 24,869        | 27,215        | 29,756        |
| Less Undisbursed Balance                            | 2,288         | 2,283         | 2,678         | 2,361         | 2,658         | 3,054         | 2,560         |
| Equals Disbursed Loans                              | 15,506        | 17,986        | 20,532        | 22,472        | 22,211        | 24,161        | 27,196        |
| <b>Less Repayments</b>                              | <b>7,381</b>  | <b>9,873</b>  | <b>12,193</b> | <b>13,712</b> | <b>14,332</b> | <b>16,201</b> | <b>18,441</b> |
| <b>Equals Loans Outstanding</b>                     | <b>8,126</b>  | <b>8,113</b>  | <b>8,340</b>  | <b>8,760</b>  | <b>7,879</b>  | <b>7,960</b>  | <b>8,755</b>  |

[1] From 2004, all figures are restated for compliance with IFRS.

[2] Prior to the IVth Capital Increase, members could pay in capital in non-convertible currencies. To date, these have not been changed into convertible currencies.

## African Development Bank

## African Development Bank

## Key Financial Statement Statistics (US\$ Mils.) [1]

|  | 2001  | 2002  | 2003   | 2004   | 2005   | 2006   | 2007   |
|--|-------|-------|--------|--------|--------|--------|--------|
| <b>Income Statement Summary</b>  |       |       |        |        |        |        |        |
| <i>Gross Income</i>  | 717   | 666   | 636    | 705    | 710    | 859    | 922    |
| Income on Loans  | 555   | 556   | 480    | 497    | 460    | 492    | 538    |
| Income on Investments  | 152   | 101   | 148    | 192    | 222    | 322    | 377    |
| Other  | 9     | 9     | 8      | 16     | 28     | 44     | 7      |
| <i>Gross Expenses</i>  | 559   | 410   | 371    | 481    | 394    | 567    | 411    |
| Interest and Financial Expenses  | 439   | 352   | 326    | 306    | 310    | 422    | 523    |
| Unrealized net gains on non-trading derivatives                          | --    | --    | --     | --     | 34     | -48    | -89    |
| Provisioning for Loan and Equity Investment Losses                       | 75    | 5     | -29    | 79     | -21    | 130    | -99    |
| Administrative Expenses  | 38    | 44    | 67     | 58     | 60     | 55     | 67     |
| Other  | 7     | 9     | 7      | 11     | 11     | 7      | 9      |
| <i>Net Income</i>  | 158   | 257   | 265    | 224    | 111    | 82     | 322    |
| <b>Key Financial Ratios [1]</b>  |       |       |        |        |        |        |        |
| <b>Performance Statistics (%)</b>  |       |       |        |        |        |        |        |
| Return on Total Assets   | 1.4   | 2.1   | 1.9    | 1.4    | 0.7    | 0.5    | 1.7    |
| Return on Earning Assets   | 1.5   | 2.3   | 2.0    | 1.4    | 0.7    | 0.5    | 1.8    |
| Return on Equity [1]   | 3.5   | 4.9   | 4.5    | 3.5    | 1.8    | 1.2    | 4.4    |
| Interest on Loans/Loans Outstanding                                      | 6.8   | 6.6   | 5.7    | 5.6    | 5.8    | 6.1    | 6.1    |
| Interest Coverage Ratio (x)  | 1.4   | 1.7   | 1.8    | 1.7    | 1.4    | 1.2    | 1.6    |
| Loans in Non-accrual as % of Paid-in Capital                             | 61.9  | 40.1  | 54.8   | 31.6   | 30.0   | 28.5   | 25.7   |
| <b>Capital Adequacy Ratios (%)</b>                                       |       |       |        |        |        |        |        |
| Usable Equity as % Risk Assets   | 68.0  | 80.0  | 90.6   | 96.8   | 104.9  | 111.2  | 108.5  |
| Usable Equity + CC of Aaa/Aa Members as % Total Loans Outstanding        | 166.4 | 184.2 | 197.6  | 200.6  | 209.0  | 220.5  | 214.1  |
| Usable Equity + CC of Aaa/Aa Members as % Risk Assets                    | 206.2 | 232.5 | 259.0  | 266.8  | 279.8  | 296.9  | 280.3  |
| Usable Equity + CC of IG Members/Risk Assets                             | 245.7 | 276.0 | 308.0  | 316.3  | 321.3  | 350.1  | 330.0  |
| <b>Liquidity Ratios (%)</b>  |       |       |        |        |        |        |        |
| Liquid Assets (incl. Special Reserve)/Total Assets                       | 23.1  | 23.7  | 39.9   | 41.5   | 45.0   | 50.5   | 44.7   |
| Liquid Assets (incl. Special Reserve)/Total Borrowings                   | 41.5  | 46.3  | 72.7   | 79.4   | 88.0   | 106.0  | 87.1   |
| Liquid Assets (excl. Special Reserve)/Undisbursed Loans                  | 102.4 | 122.8 | 233.1  | 294.7  | 280.9  | 306.5  | 333.3  |
| <b>Coverage of Debt Service (%)</b>                                      |       |       |        |        |        |        |        |
| Liquid Assets as % CMLTD plus Interest Paid                              | 116.0 | 273.0 | 424.7  | 500.0  | 569.5  | 635.9  | 301.7  |
| Liquid Assets + Net Income + Interest Paid<br>as % CMLTD + Interest Paid | 141.5 | 332.3 | 464.9  | 538.1  | 601.6  | 670.2  | 331.6  |
| Liquid Assets + Net Income + Interest Paid<br>as % Interest Paid         | 755.2 | 970.0 | 2094.9 | 2445.9 | 2542.3 | 2337.6 | 1794.1 |
| <b>Maturity Distribution of Outstanding Borrowings (% of Total)</b>      |       |       |        |        |        |        |        |
| CMLTD  | 29.1  | 11.1  | 13.3   | 12.4   | 11.8   | 11.9   | 23.5   |
| One Year to Two  | 5.3   | 13.7  | 7.4    | 7.3    | 5.9    | 18.5   | 15.2   |
| Two to Four  | 11.4  | 16.6  | 11.6   | 24.5   | 25.3   | 30.9   | 20.2   |
| More than Four Years   | 54.2  | 59.1  | 69.2   | 63.0   | 57.1   | 38.8   | 41.1   |

[1] From 2004, all figures are restated for compliance with IFRS

## African Development Bank

## African Development Bank

Capital Subscriptions and Voting Power (as of December 31, 2007)

|   | Subscribed Capital |                  |                  |                     | Voting Power<br>% of Total |
|---|--------------------|------------------|------------------|---------------------|----------------------------|
|   | % of Total         | (UA millions)    |                  |                     |                            |
|   |                    | Total            | Callable         | Paid-In             |                            |
| <b>Regional Member Countries</b>                  |                    |                  |                  |                     |                            |
| Nigeria   | 8.91               | 1,931.32         | 1,709.93         | 221.38              | 8.76                       |
| Egypt   | 5.16               | 1,118.29         | 991.37           | 126.92              | 5.08                       |
| Côte d'Ivoire                                     | 3.74               | 810.08           | 708.82           | 101.26              | 3.69                       |
| Algeria   | 3.84               | 831.69           | 737.60           | 94.09               | 3.79                       |
| Libya   | 3.68               | 798.62           | 707.98           | 90.64               | 3.64                       |
| Morocco   | 3.33               | 722.68           | 640.66           | 82.02               | 3.29                       |
| Zimbabwe  | 2.08               | 450.28           | 396.19           | 54.09               | 2.06                       |
| Ghana   | 2.29               | 495.94           | 441.75           | 54.19               | 2.27                       |
| Ethiopia  | 1.60               | 347.78           | 308.31           | 39.47               | 1.60                       |
| Others  | 25.41              | 5,509.26         | 4,903.83         | 605.43              | 26.01                      |
|   |                    |                  |                  | <i>arrears 2.23</i> |                            |
| <b>Total Regional Developing Member Countries</b> | <b>60.04</b>       | <b>13,015.93</b> | <b>11,546.44</b> | <b>1,469.50</b>     | <b>60.18</b>               |
| <b>Non-Regional Member Countries</b>              |                    |                  |                  |                     |                            |
| United States                                     | 6.47               | 1,401.54         | 1,259.30         | 142.25              | 6.36                       |
| Japan   | 5.51               | 1,194.00         | 1,074.45         | 119.55              | 5.42                       |
| Germany   | 4.13               | 896.31           | 806.57           | 89.74               | 4.08                       |
| Canada  | 3.77               | 816.48           | 734.73           | 81.75               | 3.72                       |
| France  | 3.77               | 816.48           | 734.73           | 81.75               | 3.72                       |
| Others  | 16.32              | 3,537.34         | 3,185.41         | 351.93              | 16.52                      |
| <b>Total Non-Regional Member Countries</b>        | <b>39.96</b>       | <b>8,662.15</b>  | <b>7,795.19</b>  | <b>866.96</b>       | <b>39.82</b>               |
| <b>Grand Total</b>                                | <b>100.00</b>      | <b>21,678.08</b> | <b>19,341.63</b> | <b>2,336.46</b>     | <b>100.00</b>              |

## African Development Bank

### Related Websites

- The company's website: [www.afdb.org](http://www.afdb.org)

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- A Guide to Moody's Sovereign Ratings, July 2006 (98177)
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- Revised Foreign Currency Ceilings to Better Reflect Reduced Risk of a Payments Moratorium in Wake of Government Default, May 2006 (97555)

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## African Development Bank

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