

International
Credit Analysis

African Development Bank

Ratings

	Current Rating
Foreign Currency	
Long-Term IDR ^a	AAA
Short-Term IDR ^a	F1+

^a IDR - Issuer Default Rating

Outlook

Foreign Currency	Stable
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Financial Data

African Development Bank	31 Dec 07	31 Dec 06
Total assets (XDRm)	12,067.0	12,311.6
Equity (XDRm)	4,692.8	4,432.6
Net income (XDRm)	203.8	54.8
ROA (%)	1.67	0.46
ROE (%)	4.47	1.25
Equity/assets (%)	38.89	36.00
Usable capital/required capital (x)	16.6	18.3

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Rating Rationale

- The ratings of African Development Bank (AfDB) are primarily based on the support from its member countries, its high level of capitalisation and its conservative risk management policies.
- AfDB's capital is held by 77 member countries, 53 of which are African. Some 10.6% of the capital has been paid in; the remaining shares could be called in the event of the bank being unable to honour its debt obligations. Some 40% of the bank's capital is owned by non-African countries, most of which are highly rated OECD countries. Fitch Ratings believes these countries would provide additional support to AfDB if necessary.
- As with other regional multilateral development banks (MDBs) that lend to developing countries, the bank loan book is highly concentrated, with the five largest borrowers accounting for 83.7% of equity at end-2007. Exposure to credit risk is significant: speculative-grade counterparties accounted for 52.8% of the bank's loan portfolio, and impaired loans (10.9% of the bank's loan book at end-2007) stand at a relatively high level for an MDB.
- The high level of impaired loans is in great part attributable to Côte d'Ivoire and Zimbabwe, which together accounted for 81.9% of arrears at end-2007. AfDB's asset quality is showing signs of improvement, with two countries clearing their arrears in 2007. This is mainly the result of the debt relief initiatives, such as the Heavily Indebted Poor Countries (HIPC) Initiative, and of arrears reduction schemes funded by the donor community and contributions from the AfDB. AfDB expects Côte d'Ivoire to clear its arrears to the bank in 2008, which will lead to a marked decrease in impaired loans.
- Over the long term, Fitch expects the asset quality of the bank to be affected by the growth in private-sector lending. Faced with a decline in loan demand from public borrowers, AfDB is rapidly developing its private-sector operations, which are expected to account for half of annual approvals by 2012. Despite the resources and capabilities of the bank, these objectives appear very ambitious given the risks associated with private-sector lending in Africa and the limited experience of the bank in this area.
- Fitch considers the bank's prudential framework to be suitable at the current stage of its lending shift: AfDB's policies regarding risk management, gearing and liquidity are conservative and capitalisation is very strong. At end-2007, Fitch Ratings' ratio of usable capital to required capital was 16.6x (2006: 18.3x), a level which compares very favourably with those of other regional MDBs at end-2007.

Key Rating Drivers

- The rating Outlook is Stable. Downward pressure on the rating could arise from unexpected weakening in shareholders' support, a significant decline in capitalisation or a substantial exposure to private-sector borrowers. Fitch deems those changes unlikely in the short to medium term.

Profile

AfDB is an MDB created to assist the economic and social development of African countries. Staffed with 1,142 employees at end-2007, it is headquartered in Abidjan (Côte d'Ivoire), but has been temporarily relocated in Tunis (Tunisia) since 2003.

- AfDB provides financing at the lowest possible cost in Africa
- While lending is focused on the public sector, the share of the private sector is growing fast

Background

The AfDB is a supranational financial institution established in 1964 to provide financing to African countries. It raises funds on the financial market at highly favourable conditions – thanks to its ‘AAA’ rating – and provides financing to African states and, increasingly, to private institutions at the lowest possible cost. Since 1995, AfDB’s sovereign lending has been limited to 15 eligible countries (income per capita being the main eligibility criterion). The bank also distributes concessional loans (ie loans priced below market rates) funded by two development funds, which are regularly replenished by donor countries:

- the ADF, a development fund which offers concessional loans and grants to countries that are not eligible to borrow from AfDB; and
- the Nigeria Trust Fund (NTF), a development fund which is mainly financed by the State of Nigeria. The NTF’s 30-year term ended in April 2006 but the Nigerian authorities, after granting a one-year extension of the agreement, are likely to extend the life of the NTF for 10 years.

The bank is organised as a group – the ADB Group – comprising the AfDB, the ADF and the NTF. While managed by AfDB, both the ADF and NTF are financially independent. AfDB accounted for about half (53.9%) of the group’s total loan approvals in 2007. Unless otherwise stated, all information in this report relates to AfDB’s financial operations. The bank is headquartered in Abidjan (Côte d’Ivoire), though in 2003 growing political instability in the country forced AfDB’s board of governors to relocate operations temporarily to back-up facilities in Tunis (Tunisia). It employed 1,142 staff at end-2007.

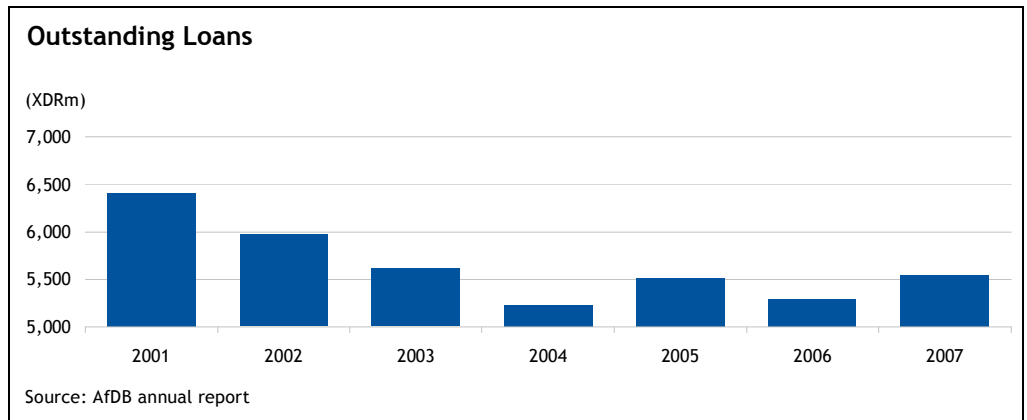
Organisation and Strategy

The bank has 77 member countries, but its financing is restricted to its 53 African States, so-called regional member countries (RMCs). Non-regional member countries hold 40% of the voting shares.

As a supranational body, AfDB is not subject to local business legislation. It must abide by the agreement establishing the bank, which designates the board of governors as the bank’s ultimate decision-making body. Among other things, it approves capital increases and the admission of new members, and defines the bank’s strategy. The bank’s president is elected by the board of governors for up to two five-year terms. Donald Kaberuka, then minister of finance and economic planning in Rwanda, was elected president of the bank in July 2005. The president of the bank also chairs the 18-member resident board of directors, which oversees operations and policy-making; in particular, it has to approve all loans. Members of the board of directors are elected by the governors; six directors represent non-African countries and 12 represent African nations. While decisions are taken by a two-thirds majority, members have the right to request a 70%-weighted majority.

The environment in which regional MDBs¹ operate has become more challenging in the 2000s. As a growing number of emerging countries have access to financial markets, an increasing number of borrowers give preference to market funding or to borrowing from non-Paris-Club bilateral lenders, because of the strict conditions regarding economic policy, governance and environment attached to MDBs’ funding. For regional MDBs, this translated into a marked decline in lending in recent year: loan disbursement at AfDB decreased to XDR548.4m in 2006 from XDR1,028.9m in 2003, leading to a marked reduction in the loan portfolio in this period.

¹ Regional MDBs, the AfDB’s peers, are MDBs making loans to emerging countries of a given region: Asian Development Bank and Inter-American Development Bank (both rated ‘AAA’). AfDB’s peers also include the International Bank for Reconstruction and Development (IBRD, ‘AAA’), which operates globally. For a more detailed analysis, see “*Multilateral Development Banks: Dealing with Accounting Changes and Declining Demand for Loans*”, published 3 May 2007 and available on www.fitchresearch.com.



This trend was reversed in 2007, however. Since 2005, the bank has adopted a more aggressive strategy, based on decentralisation of activities and rapid development of private-sector lending. At end-2007, AfDB had increased its number of field offices to 23 from 3 at end-2002, allowing the bank to be closer to clients' needs. Private-sector operations, which had long been a marginal activity within the ADB Group, have become a strategic priority. The private-sector department has been granted substantial resources; in addition, private-sector lending is not restricted to the 15 eligible countries. Approved loans to private-sector entities and equity investments in private firms reached XDR1,001m in 2007, well above 2006 level of XDR268m, and the bank expects to bring this figure to XDR1.3bn by 2012.

Operations

AfDB's direct financing takes the form of loans, equity participations and guarantees²; it also includes grants for technical assistance, but they represent a marginal share of operations. Most financing is extended to or guaranteed by governments: at end-2007, public-sector lending represented 88.3% of the bank's total outstanding loans. However, the share of public-sector operations in total approvals has decreased to 40.1% in 2007 from 79.4% in 2005 due to the strong growth in private-sector operations in the last two years, a trend which is expected to continue.

AfDB's Loan Approvals by Product Type

(XDRm)	2007	2006	2005
Public-sector lending	666.1	656.5	606.9
Of which project	646.2	245.3	459.2
Of which budget financing	19.9	411.2	147.7
Private-sector loans	1,001.5	278.5	180.1
Of which projects	816.1	269.7	138.1
Of which equity participations	185.4	0	35.1
Of which guarantees	0	8.8	6.9
Grants	2.5	8.2	0
Total direct financing	1,670.1	943.2	787.0
Debt service reductions	0	102.2	76.0

Source: AfDB

Project loans are AfDB's principal product; they accounted for 87.6% of approved operations in 2007 and this share is rapidly growing, due to the rise in private-sector projects (48.9% of total approvals in 2007 compared with 15.9% in 2005. This exceptional performance, however, is in great part due to a single loan to a South African utility company).

² Fitch distinguishes direct financing (loans, equity and guarantees) from debt relief instruments, which are not reported as assets or off-balance-sheet commitments.

Financing of state budgets – so-called policy-based lending – in contrast, has significantly declined: it accounted only for 1.2% of total approvals in 2007, compared with 17.0% in 2005. These loans are generally granted in the context of IMF programmes and bear a number of conditions related to policy reforms, making them less attractive for borrowers, despite their low cost. Besides project loans, the bank also offers other financial instruments to private entities, such as lines of credit to banks, equity stakes and guarantees. While the share of credit lines and guarantees is marginal (no such financing was approved in 2007), that of equity participations is growing rapidly: they accounted for 11.1% of total approvals in 2007, versus 4.0% in 2005.

In addition to its direct financing operations, AfDB is involved in development assistance activities, the main one being debt service reductions granted in the framework of the HIPC Initiative. They are financed by donors through the HIPC Trust Fund, managed by the World Bank, and by contributions of the AfDB; the cumulative cost for AfDB amounted to USD362.9m as at end-2007. The HIPC Initiative allowed a marked reduction in AfDB's exposure to poor countries; however, loans benefiting from debt relief are still booked on the bank's balance sheet, as debt relief applies to the service of the debt. Allocations from the bank's net income and from the ADF, with additional funds from donors, have also been used to fund a debt alleviation programme, the Post-Conflict Country Facility (PCCF), which aims to clear arrears of countries not eligible to the HIPC Initiative because of political instability, enabling those countries to benefit from HIPC debt relief. They were also used to finance the DRC Fund, created in 2002 to restructure debt of the Democratic Republic of Congo (DRC), which allowed the country to clear all its arrears to the AfDB.

The AfDB Group is also involved in the Multilateral Debt Relief Initiative (MDRI), under which three multilateral institutions – the International Development Association, the International Monetary Fund and the ADF – have agreed to cancel 100% of their debt claims on HIPC post-completion-point countries. Debt relief is entirely funded by the ADF; this had no direct impact of AfDB portfolio, but affected the value of its participation in the ADF (see *Equity Portfolio* below).

Capital, Funding and Liquidity

Support from Shareholders

The ownership of the bank is controlled by 53 African countries, which held some 60% of subscribed capital at end-2007. Nigeria (Long-Term and Short-Term IDRs 'BB-'/'B'), Egypt ('BB+'/'B'), South Africa ('BBB+'/'F2') and Algeria (NR) were AfDB's largest African shareholders, holding 22.5% of the bank's capital. The remaining shares were held by 24 non-regional member countries, most of which are highly rated OECD countries. At end-2006, the main non-regional members were the United States ('AAA'/'F1+'), Japan ('AA'/'F1+'), Germany (AAA'/'F1+'), Canada ('AAA'/'F1+') and France ('AAA'/'F1+'), which together owned close to 24% of AfDB's subscribed capital.

Like other regional MDBs, AfDB benefits from strong support from member countries. Support is provided through a mechanism common to all MDBs, where paid-in capital only accounts for a fraction (10.6% at end-2007) of subscribed capital. Capital subscribed but not paid in, or callable capital, may be called upon in the event of the bank being unable to honour its debt and guaranteed obligations. The quality of support, hence, depends upon the share of callable capital owned by highly rated countries. The average credit quality of RMCs is generally weak. However, highly rated non-regional countries' participation in the capital of the bank means 37.6% of AfDB's capital at end-2007 was owned by countries rated between 'AAA' and 'AA-'.

- Shareholder support is strong, as a result of the presence of highly rated non-African countries in AfDB's capital
- Capitalisation of AfDB is one of the highest among MDBs.

Capitalisation

Callable capital from countries rated 'AA-' to 'AAA' is a key element in Fitch's assessment of MDBs' capital adequacy. It is added to shareholders' equity to calculate usable capital; the ratio of usable capital to required capital – which is a measure of the bank's credit risk – is used by Fitch to assess the capital adequacy of MDBs. As at end-2007, this ratio stood at 16.6x, slightly lower than in 2006 (18.3x) but still well above the MDBs average; in 2007, only the IBRD had a higher ratio (18.5x at end-June 2007).

This extremely high level of capitalisation is the outcome of the reduction AfDB's lending operations since the early 2000s. It leaves the bank substantial headroom to develop its lending operations: on the basis of AfDB's own measurement of its capital adequacy – which is extremely conservative – 55% of the bank's risk-bearing capacity was left unused at end-2007. The growing share of unused capital, combined with declining lending, has put pressure on the bank to increase lending faster.

Funding and Liquidity

Despite the long maturity of loans extended by the bank (83.3% of loans have a maturity of one year or more, and 51.3% mature in five years or more), liquidity risk is well controlled. The banks hold a large portfolio of liquid assets, which represented 45.6% of total assets at end-2007, a level significantly higher than for other MDBs. It consists of highly liquid securities, invested in hard currencies, primarily US dollars, euro and pounds sterling. The bank has established conservative guidelines to manage liquidity risk: liquid assets must be sufficient to cover cash requirements, loan and guarantee commitments for one year.

AfDB's operations are funded by equity and by borrowing on the capital markets. Its cost of resources is low, as it does not pay dividends to shareholders and its AAA rating allows it to raise debt at a low cost (4.39% on average in 2007). The bank's funding is predominantly long term, with an average maturity of 4.4 years at end-2007. Leverage is strictly controlled: according to the bank's internal guidelines, total debt is limited to 100% of the bank's usable capital; at end-2007, this ratio was 55%. Limits have also been set for senior debt, which is capped at 80% of callable capital held by non-borrowing countries (this ratio reached 60.5% as at end-2007). Due to the bank's large equity base, its leverage, as measured by its ratio of debt to callable capital (32.1% at end-2007), is lower than for other MDBs.

Regional and Global MDBs' Capital, Liquidity and Leverage Ratios (FYE07)

	AfDB	AsDB	IADB	IBRD
Usable capital to required capital (x)	16.7	10.9	8.8	18.5
Liquid assets/total assets (%)	45.6	27.2	23.6	11.7
Debt/callable capital (%)	32.1	60.7	48.7	49.3

Source: MDBs, Fitch's methodology and calculations

Risks

- The bank faces high loan concentration
- Asset quality is affected by the poor credit quality of African countries

The articles of agreement prohibit AfDB from taking exposure to currency risk and from developing trading activities on financial markets. Hence, the bulk of its risk exposure arises from its credit operations.

Credit Risk

The major source of risk for the bank lies in the high degree of concentration of its loan portfolio: at end-2007, the five largest borrowers accounted for 83.7% of equity. The exposure to Morocco, AfDB's largest borrower, accounted for 26.2% of equity at end-2007. High loan concentration is a feature of regional MDBs, which focus on sovereign lending in a specific zone and thus have a limited number of potential clients.

Loan Portfolio

The generally low credit quality of African countries constitutes the other main source of credit risk. At end-2007, only three of the 10 largest borrowers were rated investment grade: Morocco ('BBB-'/'F3'), Tunisia ('BBB'/'F2') and South Africa ('BBB+'/'F2'). Overall, financing extended to speculative-grade counterparties accounted for 52.8% of the bank's loan portfolio at end-2007; the marked decrease from 2006 (73.0%) is in large part attributable to Fitch's assigning a rating of 'BBB-' to the Kingdom of Morocco in 2007. The riskier part of AfDB's credit portfolio is made up of loans granted before 1995, when the bank restricted lending to 15 countries. Before then, substantial amount of loans had been extended to countries with high risk profiles, in particular to DRC, which still represents 12.5% of the bank's exposure.

Since the late 1990s, AfDB's credit risk exposure has been improving, despite the default of two large borrowers, Côte d'Ivoire (6.1 % of total loan portfolio at end-2007) and Zimbabwe (3.5%), which together accounted for 81.9% of arrears at end-2007. The HIPC Initiative and the special arrears clearance mechanisms – PPCF and DRC Fund – have allowed the bank to clear a significant part of its chronic arrears, in particular those of DRC, Central African Republic, Republic of Congo and Burundi; Comoros and Liberia have agreed to clear their arrears in 2007. As a result, impaired loans have declined regularly since 2002, and represented 10.9% of gross loans at end-2007 (12.7% in 2006). However, the impaired loans ratio remains significantly higher than that of other MDBs. Also, the ratio of loan loss reserves to impaired loans, at 60.4% at end-2007, is relatively low, especially when compared with other MDBs.

Regional and Global MDBs' Coverage Ratios (FYE07)

(%)	AfDB	AsDB	IADB	IBRD
NPL/loans	10.9	0.06	0.00	1.09
Provisions/NPL	60.4	1,048.4	2,550	180.6

Source: MDBs, Fitch's methodology and calculations

Impaired loans should be significantly reduced in 2008, as talks between the AfDB and Côte d'Ivoire regarding the clearance of arrears are well advanced. However, Fitch expects impaired loans to rise in the medium to long term, due to the bank's increasing exposure to private-sector operations. Lending to the private sector is, in general, more risky than public-sector operations: at end-2007, the average rating of private borrowers on the bank's internal credit assessment was 3.8, which is the equivalent of a 'B' on Fitch's scale, while the average rating for the whole portfolio was 2.8, equivalent to 'BB-' on Fitch's scale. In addition, preferred creditor status does not apply to private-sector loans.

As with other MDBs, AfDB benefits from preferred creditor status, which confers priority over other creditors in the event of a sovereign default. Preferred creditor status also means that the bank does not participate in the restructuring of sovereign debt. There have been a number of exceptions to this rule in recent years, in particular with the debt relief granted in the framework of the HIPC Initiative, PCCF and the DRC arrears clearance scheme. These operations reduced the bank's income, as it made allocations to the ad-hoc funds created to fund debt cancellation: in 2007, allocations for HIPC, PCCF and the DRC arrears clearance scheme amounted to XDR86.7m (2006: XDR102.9m), or 42.5% of net income. Furthermore, the debt cancellations granted by the ADF resulted in a reduction of its net assets, and, hence, in an impairment on the AfDB's participation in ADF.

Equity Portfolio

AfDB is also exposed to the risk associated with its equity participations portfolio. The share of equity participations – excluding its share in ADF – in AfDB's total outstanding commitments increased to 2.3% at end-2007 from 1.1% at end-2005. A

large part of the portfolio is made up of investments in development institutions, for which no significant provisions have been taken. However, at end-2007, the value of AFD, which accounted for 58.3% of the equity participations portfolio, had been reduced by 43.0% as a result of the large debt relief it granted in the context of the HIPC Initiative and MDRI.

Liquid Assets Portfolio

There is also residual credit risk relating to the bank's portfolio of liquid assets and derivative instruments used to cover market risk. The portfolio is made up of securities of high credit quality; counterparties selected by the bank in derivative operations are also of high quality: at end-2007, 97% of the investment and derivative portfolio was made up of securities and counterparties rated 'AA-' and above. The bank did not suffer from significant losses following the 2007 "subprime" crisis; however, the share of securities or counterparties rated 'AAA' decreased to 43% from 56% in 2006, as the bank reduced its exposure to asset-backed securities (to 9.5% of the portfolio in 2007 from 16.9% in 2006) and increased its placements with banks.

Market Risks

AfDB has only a limited exposure to market risks. The bank employs a strategy of currency and interest rate matching across the balance sheet. A large share of AfDB's assets consist of floating- and variable-rate loans and investment securities; they are mainly funded by borrowings that, after swapping, bear either a floating rate or a variable rate; a parallel shift of 100 basis points would have generated a loss of only XDR8m in 2007. Currency mismatching is also kept to a minimum: loans are denominated in convertible currencies (USD, EUR, GBP, CHF and JPY) and are matched in the relevant currency, using currency swaps. The main source of market risk for the bank lies in borrowers' prepayments of fixed-rate loans issued before 1997. Loan prepayments reached record levels in 2004 (they accounted for 10.4% of outstanding loans), as countries seized the opportunity offered by the decline in interest rates. This risk is now reduced, as the bank applies prepayment penalties on fixed-rate loan prepayment. The bank still faced loans prepayments in 2007 (XDR199m or 3.6% of outstanding loans), but they concerned mainly market-based loans, and, hence, did not generate a loss of net interest revenue.

Risk Management

The risk exposure of the bank is mitigated by conservative internal policies regarding risk management. AfDB's by-laws limit the total amount of both undisbursed and outstanding loans, equity stakes and guarantees to 100% of subscribed capital, reserves and net income. At end-2007, this ratio was 33.8%. When principal or interest is more than 30 days overdue, the bank, the ADF and the NTF cease all disbursement as well as approvals of any new loans. Loans in arrears for more than six months (three when the loan is not guaranteed by a sovereign) are classified as non-accruals (ie interest is recognised only when effectively paid).

To address the issue of risk concentration, the bank's guidelines limit any borrowing country's loan exposure to 15% of the bank's maximum sustainable portfolio, i.e. the sum of the outstanding portfolio plus the potential new lending derived from unused risk capital. Equity investments are limited by the bank's articles of agreement to 10% of the aggregate amount of its paid-up capital, reserves and surplus included in its ordinary capital resources. Equity stakes stood at 4.0% at end-2007, well below the statutory limit. Also, the bank cannot hold more than 25% of an enterprise's capital. Investments in the liquid asset portfolio follow strict guidelines. In particular, the bank cannot invest in financial instruments rated below 'AA-'; the limit is 'A' for money market instruments, and asset-backed securities are restricted to 'AAA'-rated bonds.

- Net income was positively affected by provisions write-backs
- Declining trend in lending has mixed effect on the bank's risk profile

Performance and Prospects

The bank's financial statements are presented under International Financial Reporting Standards (IFRS). The auditors qualified the bank's 2006 accounts owing to the application of the IFRS rule IAS32, according to which capital subscriptions from member countries must be accounted as a liability rather than as equity, as member countries could terminate their membership of the bank subject to the provisions of the bank's charter. The auditors lifted the qualification after the International Accounting Standards Board amended IAS32 in February 2008 recognising the unintended effects of the application of IAS32.

Performance

Despite a marked increase in 2007, the profitability of AfDB is low (ROE was 4.47% in 2007), a feature common to most MDBs. As with other MDBs, AfDB does not distribute dividends to its shareholders and does not seek profit maximisation.

In recent years, profits have been affected by the allocations to the debt reduction and arrears clearance schemes implemented since 2000; they amounted to XDR119m in 2007, or 37.0% of the operating profit (71.8% in 2006). These schemes allowed the bank to reduce its cost of risk significantly, as the number of countries in arrears was reduced to four at end-2007 from six at end-2006. Hence, after increasing sharply its provisions for loan losses and equity investments in 2006, the bank reported a write-back of XDR70m in 2007, attributable to the clearance of arrears of Comoros and Liberia, which are in the process of reaching HIPC completion point. In addition, a significant gain on available-for-sale securities has been reported: it mainly reflected the increase in the share price of United Bank For Africa Plc, a Nigerian bank in which the bank holds a stake. These developments have offset the significant increase in personnel and administrative expenses (+14.5%), which, at 73.1% of net interest revenues and other operating income in 2007, were well above the average of MDBs.

Prospects

In the short term, AfDB's financial performance will be positively affected by the clearance of Côte d'Ivoire's arrears. Côte d'Ivoire's arrears accounted for 47.1% of total arrears on sovereign loans at end-2007, and a significant write-back should thus be reported in 2008. Revenues should also benefit from the bank's growing lending activities; the bank's forecasts an increase in annual approvals to XDR2.5bn in 2012 from XDR1.8bn in 2007, thanks to the strong increase in private-sector lending. In Fitch's view, these forecasts are optimistic: public-sector lending will continue to stagnate as a result of RMCs' easier access to capital markets and increasing competition from non-Paris-Club bilateral lenders. Hence, growth will rely mostly on private-sector operations, an area where the AfDB has less experience than the commercial banks against which it competes and which generates far more risk than public-sector operations.

Though the bank has conservative lending policies, Fitch expects the asset quality of the bank to deteriorate over the long term. In addition, its lending headroom, albeit significant at present, may not be sufficient to absorb the substantial increase in lending, and a capital increase may be needed in the future. In fact, according to the bank's projection, its statutory lending limit should be reached by 2012, and may lead to the bank requiring a capital injection from shareholders.

Balance Sheet Analysis

AFRICAN DEVELOPMENT BANK

	31 Dec 2007				31 Dec 2006			31 Dec 2005		31 Dec 2004	
	Year End USDm Original	Year End XDRm Original	As % of Assets Original	Average XDRm Original	Year End XDRm Original	As % of Assets Original	Year End XDRm Original	As % of Assets Original	Year End XDRm Original	As % of Assets Original	
A. LOANS											
1. Loans made through Banks	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-	
2. To/Guaranteed by Public Institutions	8,202.1	5,190.4	43.01	5,082.6	4,974.8	40.41	5,150.3	44.50	5,321.5	49.45	
3. To Private Sector	552.6	349.7	2.90	333.0	316.2	2.57	362.1	3.13	319.0	2.96	
4. Trade Financing Loans	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-	
5. Other Loans	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-	
6. Loan Loss Reserves (deducted)	576.3	364.7	3.02	400.8	436.8	3.55	392.4	3.39	401.7	3.73	
TOTAL A	8,178.4	5,175.4	42.89	5,014.8	4,854.2	39.43	5,120.0	44.23	5,238.8	48.68	
B. OTHER EARNING ASSETS											
1. Deposits with Banks	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-	
2. Securities held for Sale & Trading	4,209.5	2,663.8	22.08	3,059.8	3,455.7	28.07	2,957.9	25.55	2,302.9	21.40	
3. Investment Debt Securities - (incl. other invest.)	4,326.9	2,738.1	22.69	2,689.8	2,641.5	21.46	2,201.0	19.02	2,136.4	19.85	
4. Equity Investments	299.1	189.3	1.57	154.2	119.1	0.97	168.7	1.46	160.6	1.49	
5. Derivatives (incl. Fair-value of guarantees)	672.1	425.3	3.52	349.3	273.3	2.22	285.9	2.47	274.8	2.55	
TOTAL B	9,507.6	6,016.5	49.86	6,253.1	6,489.6	52.71	5,613.5	48.50	4,874.7	45.30	
C. TOTAL EARNING ASSETS (A+B)	17,686.0	11,191.9	92.75	11,267.8	11,343.8	92.14	10,733.5	92.73	10,113.5	93.98	
D. FIXED ASSETS	22.8	14.4	0.12	14.4	14.3	0.12	16.4	0.14	17.6	0.16	
E. NON-EARNING ASSETS											
1. Cash and Due from Banks	150.9	95.5	0.79	112.4	129.3	1.05	70.3	0.61	43.8	0.41	
2. Other	1,209.2	765.2	6.34	794.7	824.2	6.69	754.8	6.52	586.1	5.45	
F. TOTAL ASSETS	19,068.9	12,067.0	100.00	12,189.3	12,311.6	100.00	11,575.0	100.00	10,761.0	100.00	
G. SHORT-TERM FUNDING											
1. Bank Borrowings (< 1 Year)	0.0	0.0	0.00	438.9	877.8	7.13	467.0	4.03	9.3	0.09	
2. Securities Issues (< 1 Year)	3,361.4	2,127.1	17.63	1,412.6	698.0	5.67	700.4	6.05	606.1	5.63	
3. Other (incl. Deposits)	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-	
TOTAL G	3,361.4	2,127.1	17.63	1,851.4	1,575.8	12.80	1,167.4	10.09	615.4	5.72	
H. OTHER FUNDING											
1. Bank Borrowings (> 1 Year)	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-	
2. Other Borrowings (incl. Securities Issues)	6,434.5	4,071.8	33.74	4,276.3	4,480.7	36.39	4,510.3	38.97	5,032.8	46.77	
3. Subordinated Debt	n.a.	n.a.	-	n.a.	691.7	5.62	729.7	6.30	n.a.	-	
4. Hybrid Capital	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-	
TOTAL H	6,434.5	4,071.8	33.74	4,622.1	5,172.4	42.01	5,240.0	45.27	5,032.8	46.77	
I. OTHER (Non-Int Bearing)											
1. Derivatives (incl. Fair value of guarantees)	933.9	591.0	4.90	536.5	481.9	3.91	317.2	2.74	513.9	4.78	
2. Fair value portion of debt	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-	
3. Other (Non-Int Bearing)	923.3	584.3	4.84	616.6	648.9	5.27	498.2	4.30	377.2	3.51	
J. GENERAL PROVISIONS & RESERVES	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-	
L. EQUITY											
1. Preference Shares	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-	
2. Subscribed Capital	34,260.2	21,680.2	179.67	21,711.5	21,742.7	176.60	21,636.0	186.92	21,597.9	200.71	
3. Callable Capital	-30,564.6	-19,341.6	-160.29	-19,389.2	-19,436.7	-157.87	-19,367.0	-167.32	-19,374.6	-180.04	
4. Arrears/Advances on Capital	-280.7	-177.6	-1.47	-178.3	-179.0	-1.45	-183.2	-1.58	-188.2	-1.75	
5. Paid in Capital (memo)	3,695.6	2,338.6	19.38	2,322.3	2,305.9	18.73	2,269.1	19.60	2,223.3	20.66	
6. Reserves (incl. Net Income for the year)	3,947.9	2,498.3	20.70	2,401.9	2,305.5	18.73	2,725.7	23.55	2,652.1	24.65	
7. Fair-value revaluation reserve	52.9	33.5	0.28	16.8	0.1	0.00	-459.3	-3.97	-465.5	-4.33	
TOTAL L	7,415.8	4,692.8	38.89	4,562.7	4,432.6	36.00	4,352.2	37.60	4,221.7	39.23	
M. TOTAL LIABILITIES & EQUITY	19,068.9	12,067.0	100.00	12,189.3	12,311.6	100.00	11,575.0	100.00	10,761.0	100.00	

Exchange Rate

USD1 = XDR 0.6328

USD1 = XDR 0.6647

USD1 = XDR 0.6997

USD1 = XDR 0.6439

Income Statement Analysis
AFRICAN DEVELOPMENT BANK

	31 Dec 2007		31 Dec 2006		31 Dec 2005		31 Dec 2004	
	Income	As % of	Income	As % of	Income	As % of	Income	As % of
	Expenses	Total AV	Expenses	Total AV	Expenses	Total AV	Expenses	Total AV
	XDRm Original	Earning Assts Original	XDRm Original	Earning Assts Original	XDRm Original	Earning Assts Original	XDRm Original	Earning Assts Original
1. Interest Received	580.6	5.15	537.3	4.87	472.3	4.53	436.8	-
2. Interest Paid	327.4	2.91	277.6	2.51	219.8	2.11	195.5	-
3. NET INTEREST REVENUE	253.2	2.25	259.7	2.35	252.5	2.42	241.3	-
4. Other Operating Income	1.4	0.01	2.6	0.02	10.0	0.10	8.3	-
5. Other Income	136.4	1.21	146.9	1.33	130.6	1.25	111.1	-
6. Personnel Expenses	141.1	1.25	123.2	1.12	124.5	1.19	116.1	-
7. Other Non-Interest Expenses	45.0	0.40	37.3	0.34	38.3	0.37	32.5	-
8. Impairment charge	-70.0	-0.62	51.7	0.47	-13.8	-0.13	53.9	-
9. Other Provisions	7.2	0.06	34.7	0.31	-0.8	-0.01	-3.3	-
10. PRE-DERIVATIVE OPERATING PROFIT	267.7	2.38	162.3	1.47	244.9	2.35	161.5	-
11. Net gains / (losses) on non-trading derivative instruments	56.0	0.50	31.7	0.29	-23.6	-0.23	-18.0	-
12. POST-DERIVATIVE OPERATING PROFIT	323.7	2.87	194.0	1.76	221.3	2.12	143.5	-
13. Other income and expenses	-119.9	-1.06	-139.2	-1.26	-144.0	-1.38	n.a.	-
14. NET INCOME	203.8	1.81	54.8	0.50	77.3	0.74	143.5	-
15. Fair value revaluations recognised in equity	29.0	0.26	-12.6	-0.11	1.7	0.02	n.a.	-
16. FITCH'S COMPREHENSIVE NET INCOME	232.8	2.07	42.2	0.38	79.0	0.76	143.5	-

Ratio Analysis

AFRICAN DEVELOPMENT BANK

		31 Dec 2007 Original	31 Dec 2006 Original	31 Dec 2005 Original	31 Dec 2004 Original
I. PROFITABILITY LEVEL					
1. Net Income/Equity (av.)	%	4.47	1.25	1.80	n.a.
2. Net Income/Total Assets (av.)	%	1.67	0.46	0.69	473.60
3. Net Interest Revenue + Commitment					
Fees/Gross Loans (av.) + Liquid Assets (av.) + Average Guarantees (av.)	%	2.27	2.37	2.47	n.a.
4. Non-int. Exp./Net Interest Rev. + Other Operating Income					
	%	73.10	61.19	62.02	59.54
5. Income from Equity Investment/Equity Investment (av.)					
	%	n.a.	n.a.	n.a.	n.a.
6. Provision on Loans & Equity Part. & Guarantees/Gross Loans (av.) + Equity Investment (av.) & Guarantees (av.)					
	%	-1.12	1.55	-0.25	n.a.
II. CAPITAL ADEQUACY					
1. Internal Capital Generation	%	4.47	1.25	1.80	n.a.
2. Outstanding Loans + Net Equity Invest. + Net Guarantees /Subscribed Capital + Reserves					
	%	22.19	20.71	21.71	22.39
3. Equity/Total Assets	%	38.89	36.00	37.60	39.23
4. Equity ex. fair-value revaluations/Assets	%	38.61	36.00	41.57	43.56
5. AAA-AA- Callable Capital/Callable Capital	%	37.58	37.55	37.64	37.66
7. Usable Capital/Required Capital	%	1,667.83	1,832.88	1,443.98	1,590.31
III. LIQUIDITY					
1. Liquid Assets & Marketable Debt Securities/Debt < 1 Year					
	%	258.45	395.13	447.94	728.49
2. Liquid Assets & Marketable Debt Securities/Total Assets					
	%	45.56	50.57	45.18	41.66
3. Liquid Assets + Marketable Debt Securities/Undisbursed Loans and Equity					
	%	339.09	306.71	281.59	294.09
IV. ASSET QUALITY					
1. Impaired Loans /Gross Loans	%	10.89	12.66	12.74	19.88
2. Loan Loss Reserves / Gross Loans	%	6.58	8.26	7.12	7.12
3. Equity Loss Reserves /Equity Investment	%	21.13	30.63	9.69	10.48
4. Total reserves / Gross Loans, Equity Investment & Guarantees	%	7.19	8.95	7.20	7.19
5. Loan Loss Reserves/Non Accrual Loans	%	60.44	65.18	55.86	35.82
6. Loans to Investment Grade Borrowers/Gross Loans					
Loans	%	47.17	26.96	25.31	26.78
V. LEVERAGE					
1. Debt/Equity	%	132.09	152.24	147.22	133.79
2. Debt/Subscribed Capital + Reserves	%	25.64	28.06	26.30	23.29
3. Debt/Callable Capital	%	32.05	34.72	33.08	29.15
4. Net Income + Interest Paid/Interest Paid	%	162.25	119.74	135.17	173.40

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