

Fitch Affirms African Development Bank at 'AAA'/'F1+'

Fitch Ratings-Paris/London- 4 August 2010: Fitch Ratings has today affirmed the African Development Bank's (AfDB) ratings at Long-term Issuer Default (IDR) 'AAA' with Stable Outlook and Short-term IDR 'F1+'. The ratings of African Development Bank (AfDB) primarily reflect the support from its member countries, its strong capitalisation and its conservative risk management policies.

AfDB's capital is held by 53 African countries - representing 60.2% of voting rights - and by 44 non regional countries, most of which are highly rated OECD countries (the largest of which are the US and Japan, with 6.5% and 5.4% of voting rights respectively). Support from member countries takes the form of callable capital, amounting to 89.2% of subscribed capital, that can be called in the event of the bank being unable to honour its debt obligations. Fitch believes member countries would provide additional support to AfDB if necessary, though the deterioration of the credit quality of certain EU countries raises some doubts on their readiness to respond to a capital call.

In May 2010, shareholders agreed to increase the capital of the bank by 200%, demonstrating their willingness to support the bank. However, only 6.3% of fresh capital will be paid-in, the rest being callable. This will reduce the share of paid-in capital to 7.4% of subscribed. Besides, the payments of capital will be spread over 8 and 12 years. The capital increase was prompted by the strong growth in lending in 2009 and 2010, as the bank had to respond to the rapid increase in financing needs of African countries generated by the global crisis. Loans disbursements have tripled in 2009, and should be at the same level in 2010. The bank's capitalisation, which is among the highest of multilateral development banks (MDBs) markedly declined in the last three years, as reflected by the drop in the ratio of usable capital to required capital to 11.8x in 2009 (17.4x in 2007). "The 2010 capital increase will considerably improve the bank's lending headroom and allow it to maintain a sustained growth in loan disbursement in the coming years without affecting capitalization" said Eric Paget-Blanc, Senior Director at Fitch Ratings. However, Fitch is concerned by the rapid rise in private sector lending: private sector exposure reached 21.0% of total at end-09, vs 12.2% at end-08; it is expected to reach 25.0% of total portfolio in 2012, which will, in Fitch's view, require higher levels of capital. The bank's preferred creditor status only applies to sovereign lending; hence, loans to private sector present more risk than public sector exposures.

As with other regional MDBs, AfDB's exposure to credit risk is significant. However, following the arrears clearance of Côte d'Ivoire and Liberia, impaired loans have substantially declined in the last two years, to 3.6% of gross loans in 2009 from 10.9% in 2007. Loan concentration is high, with the five largest counterparties accounting for 107.8% of equity at end-2009 (90.9% at end-08); this should improve in 2010, due to the growth in lending in Southern Africa and the increase in capital of the bank. AfDB's policies regarding management of credit risk, gearing and liquidity are conservative. The 2008 financial crisis had only a limited impact on the bank.

AfDB is an MDB created to assist the economic and social development of African countries. Staffed with 1,654 employees at end-2009, it is headquartered in Abidjan (Côte d'Ivoire), but has been temporarily relocated in Tunis (Tunisia) since 2003.

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