

## CREDIT ANALYSIS

# African Development Bank

Supranational

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### Ratings Rationale and Outlook

Moody's rates the African Development Bank (the AfDB or the Bank) Aaa/Prime-1, with a stable outlook. The Bank's ratings, the highest possible on Moody's global rating scale, reflect the combination of its intrinsic financial strength, its prudent financial management and policies and its very strong shareholder support. These strengths offset the low average credit quality of its loan portfolio, which results from its challenging regional operating environment.

According to the AfDB's own rating scale, the weighted-average quality of its development-related assets is lower than those of most of its Aaa-rated peer multilateral development banks (MDBs). The AfDB's percentage of impaired assets – 3.7% at the end of 2010 – is still relatively high for an MDB. These mainly relate to arrears from countries no longer eligible to borrow from the AfDB. However, in recent years, the AfDB's arrears-clearance mechanisms and the Heavily Indebted Poor Countries (HIPC) debt-relief programme have helped to substantially reduce the level of outstanding arrears.

Over the last few years in particular, the AfDB has been deploying its balance sheet more extensively, substantially increasing its lending to both sovereign and private-sector counterparties. This results partly from the implementation of a strategy of more actively supporting private-sector projects across Africa. However, the recent expansion was also due to the AfDB's response to the global economic and financial crisis, via the development of new instruments to provide emergency liquidity and countercyclical measures.

Although these policies have increased the riskiness of the Bank's loan portfolio, in Moody's view, the changes do not threaten its ability to service its own debt. The situation in north Africa, where more than 50% of the Bank's portfolio is concentrated, will require strong monitoring while these countries experience difficult political transitions. However, the AfDB's very robust capitalisation, ample liquidity buffers, and a sound risk-management framework help to offset the existing risks that the AfDB carries on its balance sheet and create substantial headroom in risk-bearing capacity to further expand its lending.

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](#).

Crucially, the AfDB's own resources are reinforced by its shareholder support, particularly in highly-rated, non-regional governments. Shareholder support takes the form of callable capital, but can also materialize in the form of general capital increases. Since its creation in 1964, the AfDB has experienced six capital increases, which illustrates the degree of shareholder commitment. The last increase, approved in May 2010 by shareholders, included a record-high 200% capital increase that tripled the AfDB's capital base to nearly US\$100 billion. The capital increases allow the AfDB to fully implement its expansion strategy, even under the most severe scenarios, without over-stretching its risk-bearing capacity beyond a level consistent with a Aaa rating. The role assumed by the AfDB during the crisis highlighted in particular the value it represents to all its members. It acts primarily as a financing vehicle that supports its shareholders' development objectives in Africa.

## Organisational Structure

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

It is formally located in Abidjan, Côte d'Ivoire, but, because of political instability there, it has since 2003 operated from its Temporary Relocation Agency site in Tunisia, pending more settled conditions in Côte d'Ivoire. The Bank has 25 operating field offices with five serving as regional offices.

The AfDB is one constituent of the African Development Bank Group, which also includes 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 AfDB is the non-concessional window of the Group. It finances projects through loans (to sovereign or private-sector counterparties) and equity investments. It also provides technical assistance. The AfDB can extend loans to only 16<sup>1</sup> of the 53 sovereign governments of Africa, but can extend loans to private-sector counterparties across the continent. As a result, it had effective exposures to 29 countries at the end of 2010.
- » The African Development Fund is the concessional window of the Group. It finances projects in low-income African countries in the form of non-interest bearing loans and grants. Countries eligible for sovereign loans from the Fund are normally not eligible to borrow from the AfDB.<sup>2</sup> The Fund's resources come from periodic contributions by donor governments (all but one – South Africa – being non-African).
- » The Nigeria Trust Fund is a comparatively very small fund that extends grants and loans at concessional rates and is funded by contributions from the Government of Nigeria.

Moody's ratings apply solely to the AfDB and not to other entities of the Group.

The membership structure of the AfDB, which initially included only African governments, was opened up in 1982 to allow participation of non-regional governments. These newer members contribute to the AfDB's capital, but are not eligible to borrow from it. The AfDB currently has 77 shareholders, 53 of which are African governments, while the other 24 are mostly highly-rated

<sup>1</sup> Algeria, Botswana, Cap Vert, Egypt, Equatorial Guinea, Gabon, Libya, Mauritius, Morocco, Namibia, Nigeria, the Seychelles, South Africa, Swaziland, Tunisia and Zimbabwe.

<sup>2</sup> With the exception of Nigeria and Zimbabwe, eligible to borrow from both windows.

governments from the OECD and the Middle-East.<sup>3</sup> This number will soon rise to 79, as Turkey and Luxembourg are in the process of becoming shareholders. African members account for 60.5% of the AfDB's capital and non-regional shareholders for the remaining 39.5%.

The balance of participation between regional and non-regional countries is reflected in its governance structure. The highest decision-making body of the AfDB is the Board of Governors, which includes one representative and an alternate per member country. Decisions in the Board of Governors require a two-third majority (or 70%, 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, the voting rule ensures that any significant decisions require support by both regional and non-regional members.

The Board of Governors elects a Board of Directors, which is responsible for overseeing the AfDB's operations. The Board of Directors comprises 13 representatives elected by regional countries, and seven representatives elected by non-regional countries. Decisions in the Board of Directors equally require a two-third 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 AfDB has been chaired since September 2005 by Donald Kaberuka, formerly minister of finance and economic planning in Rwanda. He was re-elected for a second term in May 2010 and on 1 September 2010 was sworn in for another new five years.

## Strategy and Objectives

The AfDB is expected to continue to expand its operations across the continent despite challenging conditions associated with the Arab Spring in North Africa and the negative effects of the global crisis since 2009. The effect of the financial crisis on the AfDB has been twofold. Firstly, it has forced the AfDB to absorb more risk on its balance sheet and has caused a relative deterioration in its credit metrics. The latter is less of a concern to Moody's, as the general capital increase (GCI) in 2010 will significantly strengthen its capital base through a steady increase of the AfDB's own resources over the next few years. Secondly, the financial crisis has supported an increase in new lending, reflecting the value of the AfDB as a contingent source of liquidity and as a supplementary source of finance, which underpins the support provided to it and which we consider a key rating factor.

The AfDB's medium-term strategy foresees annual project approvals of approximately SDR3.6 billion over the next decade, including crisis-related lending. The GCI in 2010 will allow this goal to be reached and has made this likely without breaching any prudential limits of the AfDB's risk-management framework. The Bank's strategy of committing more resources towards loans and equity investment for private-sector projects has not been modified because of member states' financing needs during the recent global crisis. Over the next three years, the Bank foresees roughly two-thirds of the anticipated SDR3.6 billion yearly approvals directed to sovereigns and one third to the private sector.

The Bank's priorities developed in its medium-term strategy have remained consistent. The Bank will continue to promote (i) the development of the private sector; (ii) key infrastructure projects; (iii) higher education science and technology; (iv) stronger strategic partnerships; and (v) stronger governance across the continent. To better fulfil its mandate, the Bank continues its process of decentralisation, with 25 out of 27 offices already operational and the upcoming deployment of 25%

<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.

of its operational staff on the field in the next three years. The decentralization strategy, while driven by the need to be closer the member countries served by the Bank, is expected to have the added benefit of making the Bank more resilient to possible business continuity events, noting the events over the past year in Cote d'Ivoire and Tunisia”

## Financial Strength

### Governance and Risk Management

The AfDB follows sound and conservative principles in the management of its asset/liability position, in line with its MDB peers. Its 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 the other financial risks it faces should be minimised (such as market risk, counterparty risk and operational risk). Liquid assets are invested conservatively.

Counterparty risk in its treasury operations is mitigated by counterparty selection and by the collateralisation of exposures arising from derivative contracts. Currency risk is mitigated by its 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 AfDB also requires borrowers to service their loans in the currencies that 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.

The AfDB operates under a self-imposed capital adequacy framework, liquidity policy and capital ratios (see Liquidity and Funding) that are conservative. The Bank revised completely its capital adequacy framework earlier this year to better reflect the Bank's strategy. It developed a more granular scale of 22 grades, replacing the current 10 grades to assess credit risk internally. It also revised the sovereign and non-sovereign probability of default rates and increased the exposure limits toward the private sector.

With the sixth GCI, the AfDB also embarked on a wider reform agenda which included areas such as human resources, IT management and operations, business processes and policies. These reforms will aim to improve co-ordination, delivery and corporate performance. In addition, as part of its constant efforts to reform and improve its risk management and operational efficiency, a GCI-matrix was developed. 14 of 34 key actions committed have already been completed at the end of April, with the rest expected to be by the end of 2012.

### Liquidity and Funding

Moody's attaches particular importance to liquidity in the credit assessment of MDBs, because these institutions (with the exception of the European Investment Bank) are not eligible for the emergency liquidity facilities that central banks offer commercial banks. In a hypothetical scenario where its access to the market would be entirely shut down, the AfDB could rely only on its own liquid resources to meet its obligations, at least until contractual shareholder support materialised<sup>4</sup> (i.e. until callable capital is called and paid-in).

<sup>4</sup> The procedures involved in releasing the capital called by any multilateral development bank may take up to several months to fulfill. In the United States, for example, Congressional approval is required before most of the payment of called capital may take place.

The bank operates under a self-imposed liquidity policy, the objective of which is to ensure that it can meet all probable cash-flow needs for a rolling one-year period, without financing from the capital markets. To do so, the AfDB maintains two types of treasury assets, which consist of two broad categories: trading assets and investments held at amortized cost. In early 2010, the AfDB revised the definition of eligible liquidity to include a larger portion of highly liquid assets in the held at amortized cost portfolio and to exclude non-liquid investments from the trading portfolio. Projected cash-flow requirements of the policy include debt-service payments, net loan disbursements (disbursements minus repayments), the notional value of committed guarantees and the value of undisbursed equity investments. At the end of May 2011, the AfDB's liquid portfolios totalled SDR6.5 billion, equivalent to 1.35x the prudential minimum required under its policy. Although the AfDB's ratio of available liquidity to required liquidity has fluctuated, it has remained consistently above 1x. At the end of March 2011, cash and deposits generally used to finance the Bank's short-term needs accounted for 37% of the trading portfolio and amounted to SDR1.44 billion. The AfDB's exceptionally robust liquidity position has allowed it to respond to the demands of its clients without over-stretching its own liquid resources.

Moody's also notes that the likelihood of the AfDB not being able to access the markets is extremely remote, mainly because of its conservative risk-management policy. This was evidenced in the autumn and winter of 2008, when the AfDB and other multilateral institutions maintained their unimpaired access to capital markets, unlike many of their commercial counterparts.

The AfDB funds itself through opportunistic issuance in the capital markets. It accesses various markets including African capital markets to support their development and uses a variety of instruments to meet its funding objectives. Although the AfDB's funding programme was SDR3.6 billion in 2010, it borrowed SDR2.8 billion. This was much lower than its funding operations in 2009 of SDR4.8 billion, resulting from a surge in lending activity associated with its response to the financial crisis. In 2011, the limit approved by the board was SDR4.1 billion, 29% of which was already financed at the end of May. Moody's does not expect the AfDB to face particular impediments to the execution of its issuance programme. Indeed in 2011, the bank successfully issued two 5-year global bond in February and August. The overall maturity of the debt was 4.1 years at the end of 2010.

## Capital Adequacy and Asset Composition and Quality

Moody's assesses the AfDB's capital adequacy based on very strong contractual member support, robust levels of profitability and a strong level of risk-weighted capital adequacy despite a challenging environment for its operations.

### Contractual Support

In common with most MDBs, the AfDB does have a share of its capital that is callable – an unconditional and full-faith obligation of each member country to provide additional capital for the sole purpose of servicing debt, the fulfilment of which is independent of the action of other shareholders. This characteristic, unique to MDBs, is a powerful line of protection to creditors, especially when some of the shareholders are highly rated Aaa or Aa. The AfDB's contractual support is very strong since Aaa-rated member countries accounted for 26.6% its capital structure, whilst Aa-rated members accounted for 11.2% at the end of September 2011.

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## Profitability

In 2010, the AfDB generated income before distribution of SDR213 million, slightly lower than the SDR231 million recorded in 2009. Although the AfDB does not distribute dividends to shareholders in line with most MDBs, its profits are allocated either to the reserves or to fund various development initiatives. The latter should be viewed as a form of 'social dividend', but is reported as expenses in the Bank's income statement. After income distributions approved by the Board of Governors, the AfDB's net income was SDR67 million in 2010, which similar to that reported in 2009.

Over the years, this high level of profit distribution has slowed the growth of the Bank's capital base, which would normally be assessed negatively from a credit perspective. However, Moody's notes that the AfDB's increased distribution of income is in response to its members' demands to further their development objectives. This policy strengthens the support from which the Bank benefits from its shareholders, which Moody's holds as ultimately more critical to the Bank's rating than profitability. However, in the coming years, it is likely that the Bank will want to increase the share of its income directed towards its reserves given its ambitious lending objectives. To this goal, the Bank modified its income model in April 2011 to both improve internal-reserves generation and mitigate risk to income.

The Bank's interest strategy has been successful in limiting the impact of sharp interest-rate fluctuations on its net interest margin. Despite the low interest-rate environment, this impact on profitability is not expected to be substantial. Any volatility has less an impact on the revenue from development loans (whose interest rates are linked to the AfDB's borrowing costs), and similarly on the revenue of treasury assets funded by debt. Both portfolios target the same benchmark. It should be noted that assets funded by equity remain the main income generator of the Bank.

Another factor that may negatively affect the AfDB's profitability is a deterioration of its asset performance, in a scenario where (i) it expands the size of its loan portfolio (which will itself support income); and simultaneously (ii) the economic environment of Africa deteriorates. The current economic recovery witnessed on the continent has made this scenario less likely, although external risks are still present. Average real growth is expected at just below 4% in 2011 (2010: 4.9%).

More importantly, the AfDB, like most other MDBs, is not a profit-maximising institution. As a consequence, its financial strength relies less on its ability to generate earnings over time and more on the capital endowment provided by shareholders. Therefore, Moody's does not expect that the Bank's lower profitability would meaningfully endanger its rating. Net income is estimated to end up close to SDR180 million in 2011 and around SDR 200 million in 2012, which is conservative.

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## Capital Adequacy

Capital adequacy features strongly in Moody's assessment of the credit quality of MDBs. AfDB's solid capitalisation is a key factor underpinning its Aaa rating, especially in view of the relative riskiness of its loan portfolio.

The AfDB exhibits robust capitalisation on two levels. Its own resources (paid-in capital and reserves) are sizeable in relation to its risky assets (defined by Moody's as the bank's exposure to non-investment grade countries). These own resources are supported by contingent resources in the form of callable capital, a substantial part of which is owed by highly-rated, non-regional countries. The recent general capital increase agreed in May 2010 strengthened the Bank's capital adequacy ratios even further.

### The sixth general capital increase

Shareholders' commitment to the AfDB was once again demonstrated when they agreed to a record-high 200% general capital increase (GCI) in 2010, which will triple the Bank's capital to nearly US\$100 billion. There should be no significant changes to the current ownership and voting powers as a result. 6% of the this GCI should add SDR2.6 billion to the current usable equity amount, which is an increase of 56%. The sum of usable capital and callable capital from highly-rated members (Aa3 and above) will increase by 150% to SDR30 billion. This amount is likely to be higher taking into account the AfDB's capital generation capacity.

The GCI will be paid-in over 12 years for regional member countries that are only eligible to borrow from the African Development Fund and eight years for the others members. All the shares have been allocated and the subscription period will end on 17 February 2012. Subscriptions become effective after the full payment of the first instalment. They were already sixteen countries that had paid their first instalment at the end of September 2011. There is also an advance-payment scheme which offers a small discount to countries but neutral to the Bank. Spain paid its contribution in a single payment. Mauritius, Canada and Denmark have also started paying under the accelerated scheme.

At the end of 2010, the AfDB's usable capital (the sum of paid-in capital, general reserves and net income of the year) was SDR4.71 billion, compared with SDR4.63 billion in 2009. The AfDB's subscribed capital was also SDR23.9 billion, of which only 10% was actually paid-in. This was significantly higher than SDR21.9 billion recorded at the end of 2009, mainly due to the temporary non-voting callable capital from Canada and Korea. Over the next few years, subscribed capital could potentially reach SDR67.6 billion as more subscriptions to the GCI become effective. The AfDB's general reserves, which have been built up over time through retained earnings, amounted to SDR2.6 billion in 2010. The Bank's ability to add an extra SDR1.1 billion over the last decade to strengthen its capital base is supportive of its rating. Overall at the end of 2010, the AfDB's own resources (which totalled SDR4.7 billion) was equivalent to (i) 56% of all its outstanding loans, compared with 61% in 2009; and (ii) 77% of its risky assets, compared with 80% in 2009. The latter ratio was 68% for the World Bank and 119% for the Islamic Development Bank (both rated Aaa by Moody's).

When assessing the level of capitalisation of MDBs, Moody's includes callable capital. Callable capital is a full-faith credit obligation of member states to the Bank, although the likelihood that this obligation is honoured varies depending on the credit quality of each government. Moody's calculates enhanced capital ratios incorporating only callable capital owed by governments rated Aa3 and above. For the AfDB, this includes 18 governments, all non-regional, which together account for 37.8% of the AfDB's subscribed capital.

The sum of the AfDB's usable capital and callable capital owed by governments rated Aa3 and above is SDR12.2 billion. This is equivalent to slightly more than twice the total amount of its risky assets, (200%) defined as the total of loans in non-investment grade countries and all equity investments. According to this measure, the AfDB's capitalisation level is similar or slightly lower to that of other major MDBs such as the Islamic Development Bank (196%) and the World Bank (269%). In absolute terms, the coverage of risky assets by sound capital is very high, and provides considerable protection to bondholders against even the most severe scenarios.

The AfDB operates under a self-imposed capital adequacy framework, which combines (i) prudential limits on the amount of outstanding loans (weighted by risk class according to the AfDB's internal rating scale) in relation to usable capital; and (ii) limits on the amount of its own borrowings in

relation to different aggregates of capital. The internally prescribed limit on borrowing is expressed as follows: total debt cannot exceed 100% of usable capital (the AfDB's definition: equity and reserves plus callable capital owed by countries rated A3 and above). At year-end 2010, the ratio was 84%, compared with 60% at the end of 2008. It decreased to 67% at the end of June 2011. One measure of leverage used by Moody's is the ratio of total borrowings to subscribed capital plus general reserves. This ratio has increased substantially over the last two years for the AfDB, specifically from 0.3x in 2008 to 0.45x at the end of 2010, reflecting the Bank's medium-term strategy and crisis-related lending. However, the AfDB continues to compare well relative to its peers. For example, the World Bank had a ratio at 0.6x, while the European Bank for Reconstruction and Development and the European Investment Bank had more leveraged ratios at 1.5x. In Moody's opinion, subject to the AfDB maintaining adequate liquidity, the size of its borrowing is not in itself a rating constraint.

The AfDB's risk capital utilisation rate (58% in 2010), which was expected to breach the 100% limit in the coming years, should not breach the limit before 2019, as the GCI will provide adequate capital headroom to sustain the growth in the Bank's portfolio over the medium term. The Bank's goal is to sustain level of lending of SDR3.5 billion per year over the next decade. Overall, Moody's believes that the Bank is capable of fully accommodating its currently ambitious expansion plans whilst maintaining robust capital adequacy consistent with a Aaa rating.

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## Asset Composition and Quality

### Treasury assets

A large portion of treasury assets (59%) were invested in government, government-guaranteed, supranational and agency securities. As of end of March 2011, 67% of the AfDB's treasury investments were invested in Aaa counterparties and 25% in Aa counterparties. The bank has no exposure to Portugal or to Greece, rated Ba2 and Ca by Moody's, respectively.

### Development-related assets

Growth in the sovereign portfolio reached 9% in 2010, compared with 16% in 2009, while the private-sector portfolio grew by 15%, compared with 124% in 2009. The total loans outstanding on the public sector and charges receivables was SDR6.7 billion at the end of 2010, compared with SDR1.6 billion for the private sector. The Bank's baseline scenario foresees its future lending reaching SDR3.6 billion annually, with an average credit quality in line with the current portfolio quality.

Asset quality is the main – and arguably the only significant – credit challenge that the AfDB faces on its loan portfolio. This results from the weak economic and financial operating environment and the political instability in some member countries. Of the 53 African countries in which the AfDB can operate and of the 16 governments to which it can extend sovereign loans, only four (Botswana A2, Mauritius Baa2, South Africa A3 and Tunisia Baa3) have achieved investment-grade status. The AfDB's portfolio is therefore relatively concentrated, since the top-five borrowers accounted for 63% of the outstanding loans at the end of 2010. More importantly, the regional concentration in the portfolio is high as north Africa still dominates the portfolio. With the political uncertainty associated with the Arab Spring in this region, the AfDB is more vulnerable than it has been historically. Exhibit 1 shows the exposure per country in this region, excluding Libya where the Bank has no operations. Although almost 50% of the Bank's portfolio is in countries currently undergoing political transitions, this exposure is small compared to the size of the Bank's balance sheet, especially after the GCI in 2010. We will monitor the situation closely, as further political turmoil could lead to losses, although these would be manageable by the Bank.

## EXHIBIT 1

**AfDB's sovereign exposure on North African countries at 31/03/2011 (SDR million)**

Countries in North Africa	Loans Outstanding	Of Total Sovereign Loans Outstanding
Morocco (Ba1)	1895	27.1%
Tunisia (Baa3, Neg. outlook)	1217	17.4%
Egypt (Ba3, Neg. outlook)	815	11.7%
<b>Total</b>	<b>3928</b>	<b>56.2%</b>

Source: AfDB

The AfDB has developed its own rating scale, in which credit quality is assessed on a 22-grade scale ranging from “1+”, “1”, “1-“ to 10 where “1+” is the highest quality corresponding to at least an A1 and above rating on Moody’s scale. On this internal scale, the weighted-average risk rating of its development-related loans is 2.64 at the end of June 2011. This is approximately equivalent to a rating of Ba1 on Moody’s global scale. The recent deterioration of the AfDB’s overall portfolio quality is mainly due to the downgrades of sovereign borrowers and the revision of the Bank’s adequacy framework, including its scale. First-time borrowings of highly rated sovereigns, such as Botswana and South Africa might improve the overall quality of the portfolio, although they do not reduce the actual amount of risk that the AfDB carries on its books. Instead, this risk is likely to increase as a consequence of an accelerated increase in lending to private-sector counterparties that exhibit, on average, substantially inferior creditworthiness than the AfDB’s sovereign borrowers. At year-end of June 2011, private-sector borrowers were rated 3.4 by the AfDB, compared with 2.4 for sovereign borrowers.

MDBs usually benefit from an enhancement of the credit of their loan books deriving from their preferred-creditor status (PCS). This refers to the accepted practice whereby sovereign governments generally rank their obligations vis-à-vis supranational institutions senior to other debt obligations. For the AfDB, this enhancement is comparatively limited, for two reasons. Firstly, PCS does not apply to private-sector exposure and therefore its value to the AfDB could be more limited as private-sector loans increase. Secondly, PCS does not by itself represent credit insurance. The AfDB has experienced several incidences of sovereign borrowers defaulting and/or remaining in arrears on their loans for extended periods. These defaults and arrears were mostly related to lack of financial capacity from the borrowers than a lack of willingness to repay the Bank.

Fortunately for the Bank, as a consequence of different debt-relief initiatives funded by donor countries and the arrears-clearance mechanisms, the AfDB’s assets have improved considerably over the years. At the end of 2010, cumulated total arrears of principal and charges, including impaired loans, decreased to SDR314 million, which represented 3.7% of total loans, down from 14% at year-end 2008, and 20% in 2004. The remaining stock of arrears essentially consists of 96% of sovereign operations that failed before 1995 and includes countries such as Somalia, Sudan and Zimbabwe. Private-sector impaired loans were again stable in 2010 at SDR15 million, while private-sector exposure more than tripled to SDR1.6 billion from SDR503 million in 2008. It should be noted that this low number may not reflect the true quality of private-sector loans, as they were generally granted with a three-year grace period. As borrowers will have to reimburse their loans in the coming years, we will be better able to judge the quality of the Bank’s private-sector portfolio.

It is important to note that Moody's does not consider the high level of risk borne by the AfDB – and the still relatively high, albeit decreasing ratio of non-performing loans relative to other multilateral banks – as a rating constraint. This assessment is valid to the extent that the AfDB's capitalisation level and its risk-management policies continue to generate sufficient buffers to absorb these risks.

## Strength of Member Support

### Ability to support

The weighted-median rating of the AfDB's shareholders is Ba1. This is one of the lowest weighted median of all MDBs rated by Moody's, but equivalent to that of the Central American Bank for Integration (CABEI) rated A2, and just below the Baa3 median of the Latin American Reserve Fund (Fondo Latinoamericano de Reservas – FLAR), rated Aa2. Concerning other Aaa-rated peers, the Asian Development Bank has a weighted median of Aa2 while the median of the World Bank is Aaa. The AfDB's median is only slightly higher than the Ba2 median of the Islamic Development Bank (IsDB), which is also rated Aaa. The AfDB's position reflects the lack of ratings for many of its shareholders and their likely position in the single-B range or even lower.

It should be stressed that this does not accurately reflect the true ability of shareholders to support the AfDB. As many of its shareholders are still heavily reliant on foreign aid for a large proportion of their foreign-currency needs, their ability to quickly transfer the callable capital to the bank in the hypothetical event of an emergency is very low. However, in this remote scenario of a call on the callable capital by the AfDB, the likelihood the contractual support will materialise is very high taking into account the credit quality of the AfDB's non-regional shareholders. Aaa-rated shareholders accounted for 26.6% of the AfDB's capital as of September 2011 and 37.8% when including the share of member countries rated at least Aa3 by Moody's.

In addition, the bank has been able to strengthen its capital structure by attracting new non-regional members over the years. Although they still need to contribute the paid-in required to fully finalise their membership, the inclusion of Luxembourg (Aaa) and Turkey (Ba2, positive outlook) will add SDR250 million in extra capital.

### Willingness to support

The AfDB benefits from very strong support from its shareholders, which was again illustrated by the unanimous decision to approve the sixth general capital increase. Not only is the amount substantial (tripling of the Bank's capital base to US\$100 billion), but shareholders are committed to sending new resources to the Bank by agreeing to effectively pay 6% of the amount (the rest being callable). This reflects a stronger willingness from its shareholders to support the AfDB than that enjoyed by many other MDBs. With the negative effects of the global financial crisis, many other MDBs (which share many of the same shareholders) found themselves in need of additional capital in order to boost their lending within their prudential frameworks. However, when these capital increase were often granted, the MDBs concerned were forced to finance the paid-in for its shareholders from their own general reserves in lieu of their shareholders and did not receive additional resources from their shareholders beyond the increase in callable capital.

Member support can be expressed as a function of the value that the banks brings to its members, in addition to the value provided by other, larger MDBs active in the same general geographical area, or with whom it shares broadly similar membership. The AfDB has strengthened its co-operation with

many these institutions over time. The most active MDBs in Africa are the World Bank, a number of national agencies such as the Agence Française de Développement, the European Investment Bank and some other regional financial institutions. The particular nature of the AfDB as one of the main vector of development in Africa and the significance of its actions across Africa guarantee very strong willingness from the shareholders (both regional and non-regional) to support the bank. The AfDB also enjoys extraordinary support from its shareholders, which was illustrated when both Canada and Korea awarded temporary capital increases to the AfDB in order to support the initiatives taken by the bank following the start of the financial crisis; these capital increases amounted to SDR1.63 billion and SDR190 million, respectively.

## Rating History

	Issuer Rating		Senior Unsecured	Outlook	Date
	Long-Term	Short-Term			
	Outlook Assigned	--			
Rating Assigned	--	P-1	--	--	Mar-00
Rating Assigned	Aaa	--	--	--	Dec-94
Rating Assigned	--	--	Aaa	--	Mar-84

## Annual Statistics

## African Development Bank

Key Financial Statement Statistics (US\$ Mil.) <sup>[1]</sup>

	2002	2003	2004	2005	2006	2007	2008	2009	2010
<b>Balance Sheet Summary</b>									
<b>Assets</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>	<b>19,363</b>	<b>26,940</b>	<b>29,483</b>
Liquid Assets	2,803	6,245	6,956	7,468	9,361	8,571	7,961	12,120	12,057
Gross Loans	8,113	8,340	8,760	7,879	7,960	8,755	8,987	11,818	12,771
Gross Equity Investments	247	271	249	241	179	299	291	368	419
Net Loans	7,445	7,643	8,137	7,318	7,303	8,178	8,651	11,461	12,335
Other	673	780	1,419	1,553	1,709	2,044	2,461	2,992	4,671
<b>Liabilities</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>	<b>12,185</b>	<b>19,507</b>	<b>22,059</b>
Borrowings	6,057	8,587	8,757	8,490	8,832	9,796	10,331	16,587	18,450
Other	400	1,047	1,398	1,833	3,022	1,857	1,854	2,920	3,609
<b>Capital and Reserves</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>	<b>7,178</b>	<b>7,433</b>	<b>7,424</b>
Paid-in Capital	2,889	3,222	3,438	3,235	3,465	3,692	3,613	3,684	3,628
Cumulative Exchange and Currency Adjustments	-811	-887	-955	-217	-234	-253	-248	-254	-250
Total Reserve (of which)	--	--	3,396	3,239	3,468	4,001	3,813	4,002	4,046
Reserves	2,302	2,768	3,272	2,350	2,519	2,860	2,984	3,289	3,274
Net Income	307	174	223	316	292	511	469	362	329
Loan and Equity Loss Provisions	693	724	624	561	657	576	336	356	436
<b>Capital Structure Summary</b>									
<b>Total Subscribed Capital</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>33,525</b>	<b>34,203</b>	<b>36,845</b>
<b>Less Total Callable Capital (CC)</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>	<b>29,896</b>	<b>30,505</b>	<b>33,186</b>
(CC of Aaa/Aa Countries)	9,802	10,713	11,197	10,293	10,980	11,485	11,205	11,521	11,582
(CC of Investment Grade Countries)	12,599	13,836	14,461	12,732	14,131	14,813	14,448	14,907	14,980
+/- Net Overdue or Prepaid Subscriptions	-13	-18	-15	-8	-4	-3	-3	-4	-1
<b>Equals Paid-in Capital</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>	<b>3,626</b>	<b>3,695</b>	<b>3,657</b>
Less Non Negotiable Instruments Rcvd Not Yet Due	79	62	48	37	31	24	0	13	7
Plus/minus Cum. Exchange Adjust. on Subscription	-193	-216	-229	-217	-234	-253	-248	-254	-250
Less Paid-in Capital in Non-convertible Currency	157	171	179	165	173	182	177	181	177
Plus reserves and Net Income	2,684	2,995	3,396	3,239	3,468	4,001	3,813	4,002	4,046
<b>Equals Usable Equity</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>7,014</b>	<b>7,250</b>	<b>7,269</b>
<b>Loan Portfolio Summary</b>									
Approved Loans	20,269	23,211	24,833	24,869	27,215	29,756	31,206	39,396	40,457
Less Undisbursed Balance	2,283	2,678	2,361	2,658	3,054	2,560	3,928	7,838	7,485
Equals Disbursed Loans	17,986	20,532	22,472	22,211	24,161	27,196	27,279	31,558	32,972
Less Repayments	9,873	12,193	13,712	14,332	16,201	18,441	18,292	19,740	20,201
Equals Loans Outstanding	8,113	8,340	8,760	7,879	7,960	8,755	8,987	11,818	12,771

## African Development Bank

Key Financial Statement Statistics (US\$ Mils.) <sup>[1]</sup>

	2002	2003	2004	2005	2006	2007	2008	2009	2010
<b>Income Statement Summary</b>									
<b>Gross Income</b>	<b>666</b>	<b>636</b>	<b>705</b>	<b>710</b>	<b>859</b>	<b>912</b>	<b>884</b>	<b>856</b>	<b>805</b>
Income on Loans	556	480	497	460	492	538	542	451	451
Income on Investments	101	148	192	222	322	366	313	350	338
Other	9	8	16	28	44	7	30	55	16
Gross Expenses	410	371	481	394	567	400	415	493	476
Interest and Financial Expenses	352	326	306	310	422	523	489	365	272
Unrealized net gains on non-trading derivatives	--	--	--	34	-48	-89	7	5	63
Provisioning for Loan and Equity Investment Losses	5	-29	79	-21	130	-110	-164	16	14
Administrative Expenses	44	67	58	60	55	67	72	99	115
Other	9	7	11	11	7	9	11	9	11
<b>Net Income</b>	<b>257</b>	<b>265</b>	<b>224</b>	<b>111</b>	<b>82</b>	<b>322</b>	<b>73</b>	<b>107</b>	<b>104</b>
<b>Performance Statistics (%)</b>									
Return on Total Assets	2.1	1.9	1.4	0.7	0.5	1.7	0.4	0.5	0.4
Return on Earning Assets	2.3	2.0	1.4	0.7	0.5	1.8	0.4	0.5	0.4
Return on Equity <sup>[1]</sup>	4.9	4.5	3.5	1.8	1.2	4.4	1.0	1.5	1.4
Interest on Loans/Loans Outstanding	6.6	5.7	5.6	5.8	6.1	6.1	6.0	3.8	3.4
Interest Coverage Ratio (x)	1.7	1.8	1.7	1.4	1.2	1.6	1.1	1.3	1.4
Loans in Non-accrual as % of Paid-in Capital	40.1	54.8	31.6	30.0	28.5	25.7	11.7	11.5	13.2
<b>Capital Adequacy Ratios (%)</b>									
Usable Equity as % Risk Assets	77.1	86.9	93.3	100.8	107.9	103.9	95.3	79.8	77.3
Usable Equity + CC of Aaa/Aa Members as % Total Loans Outstanding	184.2	197.6	200.6	209.0	220.5	214.1	202.7	158.8	147.6
Usable Equity + CC of Aaa/Aa Members as % Risk Assets	223.9	248.4	257.1	268.8	288.1	268.3	247.5	206.7	200.4
Usable Equity + CC of IG Members/Risk Assets	265.8	295.5	304.8	308.6	339.9	315.9	291.6	243.9	236.5
<b>Liquidity Ratios (%)</b>									
Liquid Assets (incl. Special Reserve)/Total Assets	23.7	39.9	41.5	45.0	50.5	44.9	41.1	45.0	40.9
Liquid Assets (incl. Special Reserve)/Total Borrowings	46.3	72.7	79.4	88.0	106.0	87.5	77.1	73.1	65.3
Liquid Assets (excl. Special Reserve)/Undisbursed Loans	122.8	233.1	294.7	280.9	306.5	334.8	202.7	154.6	161.1
<b>Coverage of Debt Service (%)</b>									
Liquid Assets as % CMLTD plus Interest Paid	273.0	424.7	500.0	569.5	635.9	303.1	326.3	428.3	364.9
Liquid Assets + Net Income + Interest Paid as % CMLTD + Interest Paid	332.3	464.9	538.1	601.6	670.2	333.0	349.3	445.1	376.3
Liquid Assets + Net Income + Interest Paid as % Interest Paid	970.0	2094.9	2445.9	2542.3	2337.6	1801.6	1742.2	3446.9	4567.0

**African Development Bank**Key Financial Statement Statistics (US\$ Mil.)<sup>[1]</sup>

	2002	2003	2004	2005	2006	2007	2008	2009	2010
<b>Maturity Distribution of Outstanding Borrowings (% of Total)</b>									
CMLTD	11.1	13.3	12.4	11.8	11.9	23.5	18.9	14.9	16.4
One Year to Two	13.7	7.4	7.3	5.9	18.5	15.2	17.7	14.7	21.5
Two to Four	16.6	11.6	24.5	25.3	30.9	20.2	11.0	34.8	38.0
More than Four Years	59.1	69.2	63.0	57.1	38.8	41.1	52.5	35.7	24.1

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

## African Development Bank

Capital Subscriptions and Voting Power (as of December 31, 2010)

	Percent of Total	Subscribed Capital <sup>[1]</sup> (UA millions)			Voting Power
		Total	Callable	Paid-In	Percent of Total
<b>Regional Member Countries</b>					
Nigeria	8.08	1,932.26	1,709.93	222.33	8.60
Egypt	4.68	1,118.29	991.37	126.92	4.99
South Africa	4.17	999.84	914.31	85.53	0.41
Côte d'Ivoire	3.39	810.08	708.82	101.26	3.62
Algeria	3.65	873.57	778.21	95.36	3.90
Libya	3.51	839.36	746.12	93.24	3.75
Morocco	3.02	722.68	640.66	82.02	3.23
Zimbabwe	1.88	450.28	396.19	54.09	2.02
Ghana	2.08	496.74	441.75	54.99	2.23
Botswana	1.95	466.33	413.41	52.93	2.10
Others	19.49	4,659.28	4,143.00	516.28	21.82
				<i>arrears 0.923</i>	
<b>Total Regional Developing Member Countries</b>	<b>55.93</b>	<b>13,368.72</b>	<b>11,883.77</b>	<b>1,484.96</b>	<b>60.72</b>
<b>Non-Regional Member Countries</b>					
United States	6.03	1,440.53	1,295.95	144.59	6.42
Japan	4.99	1,194.00	1,074.45	119.55	5.32
Germany	3.75	896.31	806.57	89.74	4.00
Canada	3.42	816.48	734.73	81.75	3.65
France	3.42	816.48	734.73	81.75	3.65
Others	22.47	5,372.15	5,018.80	353.35	16.25
<b>Total Non-Regional Member Countries</b>	<b>44.07</b>	<b>10,535.95</b>	<b>9,665.23</b>	<b>870.72</b>	<b>39.28</b>
<b>Grand Total</b>	<b>100.00</b>	<b>23,904.67</b>	<b>21,549.00</b>	<b>2,355.68</b>	<b>100.00</b>

[1] include temporary non-voting capital increase from Canada and Korea

## Related Website

- » [www.afdb.org](http://www.afdb.org)

## Moody's Related Research

### Analyses:

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- » [European Investment Fund, September 2010 \(127572\)](#)
- » [Council of Europe Development Bank, September 2011 \(135431\)](#)
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- » [South and Eastern African Trade and Development Bank \("PTA Bank"\), October 2010 \(128281\)](#)
- » [Shelter-Afrique Bank, January 2011 \(130988\)](#)
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- » [Inter-American Development Bank, March 2011 \(131868\)](#)
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