

Côte D'Ivoire  
Credit Analysis

**African Development Bank**

**Ratings**

	Current Ratings
Foreign Currency	
Long-Term IDR	AAA
Short-Term IDR	F1+

**Outlook**

Foreign-Currency Long-Term IDR Stable

**Financial Data**

African Development Bank	31 Dec 08	31 Dec 07
Total assets (XDRm)	12,559.1	12,067.0
Equity (XDRm)	4,648.4	4,692.8
Net income (XDRm)	47.4	203.8
ROA (%)	0.38	1.67
ROE (%)	1.01	4.47
Equity/assets (%)	37.01	38.89
Usable capital/required capital (x)	13.0	16.7

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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), exposure to credit risk is significant – below - investment grade counterparties accounted for 52.9% of the bank's loan portfolio at end-2008, and the loan book is highly concentrated, with the five largest borrowers accounting for 90.9% of equity at end-2008. AfDB's policies regarding risk management, gearing and liquidity are conservative and capitalisation is very strong: its ratio of usable capital to required capital stood at 13.3x at end-2008, one of the highest among MDBs.
- The impact of the 2008-2009 crisis on AfDB has been limited so far. As it holds only small amounts of asset- and mortgage-backed securities in its liquid assets portfolio and had no exposure to distressed financial institutions, the bank recorded limited credit losses on treasury operations. As its largest borrowers have resisted the crisis well so far, no increase in arrears was recorded in 2008. In fact, impaired loans, which have been on a decreasing trend due to the debt relief many countries obtained, fell in 2008 (to 4.7% of outstanding loans from 10.9% at end-2007), as Côte d'Ivoire benefited from an arrears clearance plan.
- However, loan disbursements will rise dramatically in 2009 and 2010, as many sovereign borrowers have difficulties accessing the debt markets, and have increasingly recourse to AfDB's financing. At the same time, the rapid growth in private-sector lending will continue, as commercial banks are pulling out of financing a number of large projects. Over the medium term, despite the bank's resources and capabilities, its ambitious development plan could weaken asset quality, given the risks associated with private-sector lending in Africa and the growing economic difficulties of some borrowing countries.
- In order to adjust the bank's lending capacity to the expected increase in the loan portfolio in the coming years and abide by the bank's prudential rules, AfDB's management has started discussions with its shareholders to substantially increase its capital.

**Key Rating Drivers**

- The rating Outlook is Stable. Downward pressure on the rating could arise from unexpected weakening in shareholders' support, decrease in the bank's capital adequacy or marked deterioration in asset quality. 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 1,491 employees at end-2008, it is headquartered in Abidjan (Côte d'Ivoire), but has been temporarily relocated in Tunis (Tunisia) since 2003.

- Lending focused on public sector, but fast growth in private-sector financing
- Substantial increase in lending expected in the next two years

## Background

AfDB is a supranational development institution established in 1964 to provide financing to African countries. It raises funds on the financial market at highly favourable conditions and provides financing to African states and, increasingly, to private institutions at the lowest possible cost. Its lending has been limited to 15 eligible countries (income per capita being the main eligibility criterion); financing to other countries takes the form of concessional loans (ie loans priced below market rates) funded by two development funds managed by AfDB and regularly replenished by donor countries: the African Development Fund, and the Nigeria Trust Fund (NTF).

## Organisation

The bank is organised as a group – the ADB Group – comprising AfDB, the ADF and the NTF. While managed by AfDB, both the ADF and NTF are financially and legally independent. AfDB accounted for about half (55.4%) of the group's total loan approvals in 2008. 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 1,491 staff at end-2008.

The bank has 77 member countries, but its financing is restricted to its 53 African States, so-called regional member countries (RMCs).

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 on issues deemed important.

## Operations

### AfDB's Loan Approvals by Product Type

(XDRm)	2008	2007	2006	2005	2004
<b>Public-sector lending</b>	<b>763.8</b>	<b>666.1</b>	<b>656.5</b>	<b>606.9</b>	<b>644.5</b>
Of which project	627.4	646.2	245.3	459.2	255.8
Of which budget financing	136.4	19.9	411.2	147.7	388.7
<b>Private-sector financing</b>	<b>901.2</b>	<b>1,001.5</b>	<b>278.5</b>	<b>180.1</b>	<b>164.4</b>
Of which loans	730.8	816.1	269.7	138.1	161.2
Of which equity participations	145.5	185.4	0	35.1	3.2
Of which guarantees	24.9	0	8.8	6.9	0.0
<b>Grants</b>	<b>13.6</b>	<b>2.5</b>	<b>8.2</b>	<b>0</b>	<b>2.8</b>
<b>Total direct financing</b>	<b>1,678.6</b>	<b>1,670.1</b>	<b>943.2</b>	<b>787.0</b>	<b>811.7</b>
Debt service reductions	113.8	0	102.2	76.0	707.8

Source: AfDB annual report

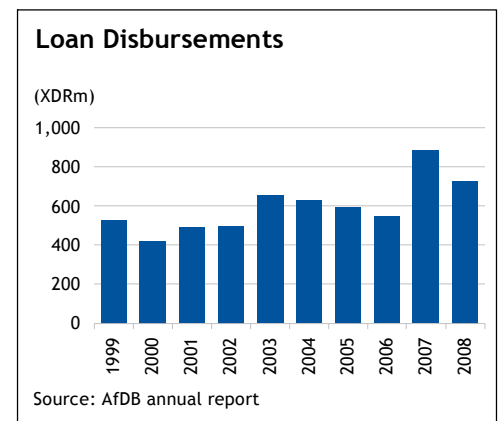
AfDB's main financing instruments include loans, equity participations and guarantees<sup>1</sup>; grants for technical assistance represent a marginal share of

<sup>1</sup> Fitch distinguishes direct financing (loans, equity and guarantees) from debt relief instruments, which are not reported as assets or off-balance-sheet commitments

operations. The bank also grants structural adjustment loans supported by IMF programmes. Furthermore, the bank is granting substantial debt relief to eligible African countries through under the Highly Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI). They are financed by donors through the HIPC Trust Fund, managed by the World Bank, and by contributions of AfDB. Allocations from the bank's net income and from ADF, with additional funds from donors, have also been used to fund arrears clearance schemes for countries which were confronted with particularly difficult situations, such as the Democratic Republic of Congo (DRC), Liberia and Togo through the newly created Fragile States Facility (previously Post-Conflict Country Facility - PCCF). They have enabled countries not eligible for the HIPC Initiative because of political instability to clear their arrears and qualify to HIPC debt relief.

Project loans, AfDB's principal instrument, accounted for 80.9% of approved operations in 2008; their share has been growing regularly since the late 1990s, as the bank's financing is becoming more focused on projects. Financing of state budgets – so-called policy-based lending – in contrast, has significantly declined: it accounted for only 8.1% of total approvals in 2008, compared with 47.9% 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.

Historically, AfDB financing has been directed towards sovereign-guaranteed projects and public-sector entities: at end-2008 AfDB's public-sector lending represented 88.3% of the bank's total banking portfolio (loans and equity participations). However, the share of private-sector operations is growing rapidly: they increased from 20.2% of total approvals in 2004 to 53.7% in 2008, to account for 12.2% of the bank's outstanding commitments (including guarantees). This shift in strategy took place in the mid-2000s, when it appeared that the demand for public-sector financing was drying due to the excellent conditions that sovereign borrowers could obtain on the debt market, leading to a marked decline in the bank's approvals and disbursements. Ambitious goals were set for private-sector financing, and substantial resources were allocated to this activity over the last three years. In 2007, one large private-sector-sponsored infrastructure project was approved, leading AfDB to record an exceptional level of loan disbursements.



The bank expects private-sector financing to grow at a fast rate in the coming years (though disbursements should remain below the exceptional level of 2007): their outstanding amount should reach some XDR4bn by 2012, from XDR0.5bn in 2008. Financing instruments such as equity participations and guarantees are increasingly used; in addition, private-sector loans are not restricted to the 15 eligible countries and, hence, have more growth potential than public-sector loans. Also, AfDB expects the demand from the banking sector, which accounted for 50% of the private-sector loans portfolio at end-2008, to rise sharply in 2009 and 2010.

The financial crisis of 2008-2009 has led AfDB to review its lending projections and assume the role of a counter-cyclical lender. African countries face huge financing needs, in particular the large commodities exporters, whose balance of payments and budgetary surpluses have suddenly shrunk. At the same time, private sources of capital are becoming scarce, as risk aversion has rapidly increased; a large number of sovereign borrowers are now relying on AfDB's financing, and the demand for

loans is rising rapidly. To respond to the most urgent needs, the bank created two new financing instruments in 2009: the Emergency Liquidity Facility, aimed at providing fast disbursing revolving loans to private and public borrowers, clearly targeted towards corporates and banks experiencing liquidity difficulties; and the Trade Finance Initiative, aimed at providing liquidity to African financial institutions.

AfDB thus expects a substantial increase in lending in the next two years: the medium-term strategy was based on annual financing approvals of XDR2.2bn in 2009 and in 2010. Under the new scenario envisaged by the bank, approvals should reach XDR3.6bn in 2009 and 2010, and would then return below XDR3bn in 2011, which is the original strategy forecast. However, in the event that the crisis is more severe and lasts longer than expected, financing approvals could reach XDR5bn in 2010, and remain close to this amount in 2011 and 2012.

### Capital, Funding and Liquidity

To support the rapid increase in lending expected in the next two to three years, the AfDB will need a substantial increase in capital. This will not only allow the bank to abide by its capital requirement rules but also provide clear evidence of shareholders' support.

#### Capital Adequacy and the 2009 Capital Increase

The level of capital of AfDB is set according to its own rules: the bank determines its capital requirement by computing its potential loss on assets and off-balance-sheet commitments; it has to be covered by its risk capital, defined as paid-in capital plus accumulated reserves. At end-2008, only 47% of AfDB's risk capital (40% for sovereign exposure and 7% for private sector) was used by the bank's commitments, compared with 45% in 2007. Although the risk-bearing capacity of the bank remains comfortable, its headroom will shrink as a result of the rapid rise in lending expected in the next two years, making it necessary for shareholders to increase the bank's capital. The management of the bank, in 2009, has started discussions with shareholders to substantially increase the capital of the bank.

The capital increase will reinforce the bank's capitalisation ratio as computed by Fitch. In Fitch's methodology, the bank's potential losses associated with credit risk – or required capital – has to be covered by “usable capital”, which includes the bank's shareholders' and callable capital from countries rated ‘AA-’ to ‘AAA’ . While remaining at a very comfortable level and well above the MDB average, this ratio has declined in the last two years, reflecting the marked increase in disbursed loans: at end-2008, it stood at 13.0 times, compared with 16.6x at end-2007 and 18.3x at end-2006. The strong capitalisation ratio of the bank is attributable to its large equity base, but also to the share of highly rated non regional shareholders in its callable capital.

#### Support from Shareholders

At end-2008, 37.7% of AfDB's callable capital was owned by member countries rated between ‘AAA’ and ‘AA-’, which are all non-African. This largely offset the generally weak rating of RMCs. The 53 African countries held some 60% of subscribed capital at end-2008. Nigeria (Long-Term IDR ‘BB-’/Short-Term IDR ‘B’), Egypt (‘BB+’/‘B’), South Africa (‘BBB+’/Negative Outlook/‘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-RMCs, most of which are highly rated OECD countries. At end-2008, 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

- Possible increase in the bank's capital
- Strong shareholder support, 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

capital only accounts for a fraction (10.6% at end-2008) 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 on the share of callable capital owned by highly rated countries. The average credit quality of RMCs is generally weak. However, highly rated non-RMCs' participation in the capital of the bank means 37.7% of AfDB's capital at end-2008 was owned by countries rated between 'AAA' and 'AA-'.

### Funding and Liquidity

The projected increase in lending in 2009 and 2010 will lead the bank to raise substantial amounts of debt on the bond market, as its operations are funded by equity and by borrowing on the capital markets. In 2009, the bank's funding requirements should reach approximately XDR2.5m, compared with XDR1.2m in 2008. Most of this funding is medium term: in 2008, financial liabilities with maturities of more than one year accounted for 78.3%, and those of more than five years accounted for 29.6%. The cost of AfDB's resources is low, as it does not pay dividends to shareholders and its 'AAA' rating allows it to raise debt at a low cost (3.85% on average in 2008); however, since the last quarter of 2008, the cost of debt has markedly increased, due to the increasing risk aversion of investors and the large issuances of 'AAA'-rated sovereign debt.

### Regional and Global MDBs' Capital, Liquidity and Leverage Ratios, end-2008

	AfDB (AAA/F1+)	AsDB (AAA/F1+)	IADB (AAA/F1+)	IBRD (AAA/F1+)
Usable capital to required capital (x)	13.9	10.1	8.8	21.3
Liquid assets/total assets (%)	41.7	20.8	22.9	11.8
Debt/callable capital (%)	34.6	69.8	51.1	50.9

AsDB: Asian Development Bank; IADB: InterAmerican Development Bank; IBRD: International Bank for Reconstruction and Development  
Source: MDBs, Fitch's methodology and calculations

Due to the bank's large equity base, its leverage, as measured by its ratio of debt to callable capital, is lower than for other MDBs. Leverage is strictly controlled: according to the bank's internal guidelines, total debt is limited to 100% of the bank's usable capital (capital + reserves + callable capital from shareholders rated AA- and higher); at end-2008, this ratio stood at 60%.

AfDB enjoys a high level of liquidity, despite the high maturity of its loan book (at end-2008, 51.8% of loans had a maturity of more than five years). It holds a large portfolio of liquid assets, which represented 41.7% 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. According to the bank's self-imposed prudential rules, liquid assets must be sufficient to cover cash requirements, loan and guarantee commitments for one year; at end-2008, this ratio stood at 2.7 times.

## Risks

### Credit Risk

So far, the financial crisis had no direct impact of AfDB's asset quality: no increase in arrears was recorded, and no provision had to be taken against credit losses on securities held by the bank, although unrealised losses on securities had to be recognised in application of IFRS fair valuation rules. However, in the near future, the bank's risk profile will be affected by the deterioration of the economic situation in many African countries and its growing exposure to the private sector.

### Loan Portfolio

The asset quality of AfDB is one of the lowest among regional MDBs, with an average rating of BB- at end-2008. This is due to the generally low credit quality of

- Improving asset quality due debt relief initiatives for African sovereigns
- Limited impact of the financial crisis in 2008

African countries: at end-2008, only three of the 10 largest borrowers were rated investment grade: Morocco ('BBB-'/'F3'), Tunisia ('BBB'/'F2') and South Africa ('BBB+'/'Negative Outlook/'F2'). Overall, financing extended to speculative-grade counterparties accounted for 52.9% of the bank's loan portfolio at end-2008. This is also attributable to the significant amount of loans granted before 1995 and still outstanding in the bank's portfolio. Before 1995, lending was not restricted to the 15 eligible countries; hence, substantial amount of loans had been extended to countries with high risk profiles, such as DRC, which still represented 13.0% of the bank's exposure at end-2008.

However, AfDB's asset quality has been improving since the early 2000s, despite the default of two large borrowers, Côte d'Ivoire (5.3% of total loan portfolio at end-2008) and Zimbabwe (3.4%), which together accounted for 83.8% of arrears at end-2008. The donors funded debt relief initiatives (HIPC and MDRI) and the special arrears clearance mechanisms put in place by AfDB, and partly funded by donors, have allowed the bank to clear a significant part of chronic arrears on the loans granted before 1995, in particular those of DRC, Central African Republic, Republic of Congo and Burundi. As a result, impaired loans have declined since 2002, and represented 4.7% of gross loans at end-2008 (10.9% in 2007). However, the impaired loans ratio remains significantly higher than that of other MDBs. The provisioning of impaired loans has improved since the early 2000s: the ratio of loan loss reserves to impaired loans reached 79.3% at end-2008, compared with 55.9% at end-2005; it remains, however, relatively low compared with other regional MDBs. Impaired loans have been significantly reduced, as arrears were cleared for Comoros, Liberia and Côte d'Ivoire.

**Regional and Global MDBs' NPL and Concentration, end-2008**

(%)	AfDB (AAA/F1+)	AsDB (AAA/F1+)	IADB (AAA/F1+)	IBRD (AAA/F1+)
NPL/loans	4.7	0.00	0.56	0.47
Five largest exposure/equity	90.9	215.9	186.4	108.4

Source: MDBs, Fitch's methodology and calculations

AfDB applies conservative lending policies: 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). The relatively good asset quality of the bank compared with financial institutions operating in Africa is in great part due to its preferred creditor status, which is a feature of most MDBs. As illustrated in the above table, MDBs enjoy extremely low level of impaired loans in general. Preferred creditor status confers AfDB priority over other creditors in the event of a sovereign default; it also means that the bank does not participate in the restructuring of sovereign debt. However, 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 and MDRI Initiatives and of the arrears clearance schemes set up by the bank. Although AfDB did not have to write off loans - and hence rules were not breached -, it had to make allocations to the ad-hoc funds created to fund debt cancellation, which affected net income.

For private sector financing, preferred creditor status only applies in the event that a government declares a moratorium on currency convertibility, as the bank is exempted from the application of such moratorium. Loan impairment is higher for private sector than for sovereign exposures: at end-2008, impairment provisions represented 2.5% of outstanding amount for private-sector exposure, compared with 1.7% for sovereign exposure. Hence, the rapid growth in private-sector lending in the future should increase total loan impairment.

One of the major sources of risk for AfDB, as for other supranational institutions, lies in the high degree of concentration of the loan portfolio: the bank's largest exposure, the Kingdom of Morocco, represented 31.1% of shareholders' equity at end-2008 (2007: 26.2%), which is well above the limits imposed by regulators for commercial banks. With the five largest exposures together accounting for 90.9% of equity at end-2008 (2007: 83.7%), the level of concentration in AfDB's portfolio is comparable with that of other regional MDBs. To address the issue of risk concentration, the bank's guidelines limit any borrowing country's loan exposure to 20% 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 and Treasury Portfolio*

Equity participations account for a relatively modest share (3.5% at end-2008; 4.2% at end-2007) of the banking portfolio. They are limited by the bank's articles of agreement to 15% of the aggregate amount of its paid-up capital, reserves and surplus included in its ordinary capital resources. Provisions for impairment, representing 9.7% of the value of these participations, had to be taken in 2008; they were concentrated in the participations in United Bank of Africa and in AIG Africa Infrastructure Fund. The value of the other participations has not been significantly affected by the financial crisis yet, as a number of them consist of investments in development institutions or in companies which are not listed on the stock markets. Fitch does not expect significant negative adjustments on these assets.

AfDB credit exposure on its portfolio of liquid assets and derivative instruments is not significant: the impairment losses recorded by the bank as a result of the widening of spreads on credit market has been lower than for most MDBs and the bank had no exposure to distressed financial institutions such as Lehman Brothers. In 2008, losses (including those recognised in equity) on the treasury portfolio amounted to XDR56.3m (1.2% of equity) and those on derivatives amounted to XDR 16.7m (0.3%) of equity. This is the outcome of the conservative rules applied by the bank regarding the management of the treasury portfolio: counterparties have to be rated at least 'A' for short-term investments and 'AA-' for medium- and long-term investments; asset-backed securities are restricted to 'AAA'-rated bonds. Besides, since 2007, the bank has substantially cut its exposure to asset-backed securities (11.1% of total portfolio at end-2008). However, as a result of a sharp decline in financial institutions' ratings in late 2008, the share of lower-rated counterparties has increased: counterparties rated 'A+' and lower accounted for 20% of total at end-2008, compared with 3% at end-2007.

### **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 100bp would have generated a reduction of only XDR6.0m in the bank's interest margin in 2008. 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 impact of prepayment risk – borrowers' prepayments of fixed-rate loans issued before 1997 – has been considerably reduced in the last two years. After reaching a record in 2004 (XDR542m), prepayments only amounted to XDR17m in 2008, as access to debt markets is becoming difficult for emerging sovereigns. Besides, the bank now applies prepayment penalties on fixed-rate loan prepayment.

## **Performance and Prospects**

### **Performance**

As with other MDBs, AfDB does not distribute dividends to its shareholders and does not seek profit maximisation. This translates in a structurally low return on equity

- The bank has no profit maximisation objective
- Net income has been affected by increased contributions to special funds

(2.1% on average over the last four years), a feature common to most MDBs. Profitability measures declined markedly in 2008, with an ROE of 1.0% and ROA of 0.4%, compared with 4.5% and 1.7% respectively in 2007. The main reason for this was the unusually high level of contributions of the bank to special funds in 2008 – recorded as other income and expenses in Fitch’s spreadsheet : they reached XDR257.3m in 2008, compared with XDR119.9m in 2007. As discussed under *Credit Risk AfDB* uses part of these funds to restructure debt of countries that have accumulated arrears to the bank; this is the case for the HIPC, PCA and DRC arrears clearance schemes, for which allocations reached XDR77.0m in 2008 (2007: XDR86.7m), or 1.6 times net income. Hence, these expenses can be analysed as a form of cost of risk, as provisions and loan write-offs. This analysis can also be extended to the increase in allocations to ADF (+XDR95.3m in 2008), which has been called to fund the arrears clearance plan of Côte d’Ivoire. The allocations to ADF accounted for the bulk of the increase in the bank’s allocations to special funds.

The reduction in net income is also attributable to a weaker operating performance, as shown by the lower net interest revenue in 2008 (-2.9% yoy); this is due to a reduction in the yield on treasury investments in 2008, resulting from the difficult market conditions. The bank also had to record impairment losses on unrealised losses on securities and equity investments (see *Equity and Treasury Portfolio* above). The regular increase in the cost/income ratio also put pressure on operating performance; at 77.5% in 2008 (73.1% in 2007), it is one of the highest among MDBs.

However, these factors were largely offset by a large reversal on impairment provisions for loans (XDR163.2m), associated with the exposure to Côte d’Ivoire. Although the arrears clearance plan was not fully settled at end-2008, the bank decided to reverse the impairment provisions. The arrears have been effectively cleared in early 2009, which justifies the provision write-back.

### Prospects

The capital increase will not be effective before 2010. Hence, in 2009, the bank’s lending headroom will shrink considerably, as loan disbursement will increase substantially; this will translate in a lower usable capital/required capital ratio in 2010. In addition, due to the increasing exposure of the bank to the private sector, impairment losses should start to rise in the coming years. However, once the capital increase is completed, capital adequacy will be restored, allowing the bank to respond to the region’s financing needs.

**Balance Sheet Analysis**

**AFRICAN DEVELOPMENT BANK**

	31 Dec 2008				31 Dec 2007		31 Dec 2006		31 Dec 2005	
	Year End	Year End	As % of	Average	Year End	As % of	Year End	As % of	Year End	As % of
	USDm	XDRm	Assets	XDRm	XDRm	Assets	XDRm	Assets	XDRm	Assets
	Original	Original	Original	Original	Original	Original	Original	Original	Original	Original
<b>A. LOANS</b>										
1. To / Guaranteed by Sovereigns	7,871.2	5,331.5	42.45	5,261.0	5,190.4	43.01	4,974.8	40.41	5,150.3	44.50
2. To other public institutions	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-
3. To Private Sector	742.8	503.1	4.01	426.4	349.7	2.90	316.2	2.57	362.1	3.13
4. Of which Trade Financing Loans (memo)	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)	322.3	218.3	1.74	291.5	364.7	3.02	436.8	3.55	392.4	3.39
<b>TOTAL A</b>	<b>8,291.7</b>	<b>5,616.3</b>	<b>44.72</b>	<b>5,395.9</b>	<b>5,175.4</b>	<b>42.89</b>	<b>4,854.2</b>	<b>39.43</b>	<b>5,120.0</b>	<b>44.23</b>
<b>B. OTHER EARNING ASSETS</b>										
1. Deposits with Banks	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-
2. Securities held for Sale & Trading	2,796.4	1,894.1	15.08	2,279.0	2,663.8	22.08	3,455.7	28.07	2,957.9	25.55
3. Investment Debt Securities - (incl. other invest.)	4,066.5	2,754.4	21.93	2,746.3	2,738.1	22.69	2,641.5	21.46	2,201.0	19.02
4. Equity Investments	278.7	188.8	1.50	189.1	189.3	1.57	119.1	0.97	168.7	1.46
5. Derivatives (incl. Fair-value of guarantees)	1,086.8	736.1	5.86	580.7	425.3	3.52	273.3	2.22	285.9	2.47
<b>TOTAL B</b>	<b>8,228.4</b>	<b>5,573.4</b>	<b>44.38</b>	<b>5,795.0</b>	<b>6,016.5</b>	<b>49.86</b>	<b>6,489.6</b>	<b>52.71</b>	<b>5,613.5</b>	<b>48.50</b>
<b>C. TOTAL EARNING ASSETS (A+B)</b>	<b>16,520.1</b>	<b>11,189.7</b>	<b>89.10</b>	<b>11,190.8</b>	<b>11,191.9</b>	<b>92.75</b>	<b>11,343.8</b>	<b>92.14</b>	<b>10,733.5</b>	<b>92.73</b>
<b>D. FIXED ASSETS</b>	<b>17.3</b>	<b>11.7</b>	<b>0.09</b>	<b>13.1</b>	<b>14.4</b>	<b>0.12</b>	<b>14.3</b>	<b>0.12</b>	<b>16.4</b>	<b>0.14</b>
<b>E. NON-EARNING ASSETS</b>										
1. Cash and Due from Banks	874.9	592.6	4.72	344.1	95.5	0.79	129.3	1.05	70.3	0.61
2. Other	1,129.6	765.1	6.09	765.2	765.2	6.34	824.2	6.69	754.8	6.52
<b>F. TOTAL ASSETS</b>	<b>18,541.8</b>	<b>12,559.1</b>	<b>100.00</b>	<b>12,313.1</b>	<b>12,067.0</b>	<b>100.00</b>	<b>12,311.6</b>	<b>100.00</b>	<b>11,575.0</b>	<b>100.00</b>
<b>G. SHORT-TERM FUNDING</b>										
1. Bank Borrowings (< 1 Year)	n.a.	n.a.	-	n.a.	0.0	0.00	877.8	7.13	467.0	4.03
2. Securities Issues (< 1 Year)	2,966.3	2,009.2	16.00	2,068.2	2,127.1	17.63	698.0	5.67	700.4	6.05
3. Other (incl. Deposits)	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-
<b>TOTAL G</b>	<b>2,966.3</b>	<b>2,009.2</b>	<b>16.00</b>	<b>2,068.2</b>	<b>2,127.1</b>	<b>17.63</b>	<b>1,575.8</b>	<b>12.80</b>	<b>1,167.4</b>	<b>10.09</b>
<b>H. OTHER FUNDING</b>										
1. Bank Borrowings (> 1 Year)	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-
2. Other Borrowings (incl. Securities Issues)	6,936.1	4,698.1	37.41	4,385.0	4,071.8	33.74	4,480.7	36.39	4,510.3	38.97
3. Subordinated Debt	n.a.	n.a.	-	n.a.	n.a.	-	691.7	5.62	729.7	6.30
4. Hybrid Capital	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-
<b>TOTAL H</b>	<b>6,936.1</b>	<b>4,698.1</b>	<b>37.41</b>	<b>4,385.0</b>	<b>4,071.8</b>	<b>33.74</b>	<b>5,172.4</b>	<b>42.01</b>	<b>5,240.0</b>	<b>45.27</b>
<b>I. OTHER (Non-Int Bearing)</b>										
1. Derivatives (incl. Fair value of guarantees)	531.9	360.3	2.87	475.7	591.0	4.90	481.9	3.91	317.2	2.74
2. Fair value portion of debt	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-
3. Other (Non-Int Bearing)	1,244.7	843.1	6.71	713.7	584.3	4.84	648.9	5.27	498.2	4.30
<b>J. GENERAL PROVISIONS &amp; RESERVES</b>	<b>n.a.</b>	<b>n.a.</b>	<b>-</b>	<b>n.a.</b>	<b>n.a.</b>	<b>-</b>	<b>n.a.</b>	<b>-</b>	<b>n.a.</b>	<b>-</b>
<b>L. EQUITY</b>										
1. Preference Shares	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-
2. Subscribed Capital	32,120.8	21,756.7	173.23	21,718.5	21,680.2	179.67	21,742.7	176.60	21,636.0	186.92
3. Callable Capital	-28,654.9	-19,409.1	-154.54	-19,375.4	-19,341.6	-160.29	-19,436.7	-157.87	-19,367.0	-167.32
4. Arrears/Advances on Capital	-257.9	-174.7	-1.39	-176.1	-177.6	-1.47	-179.0	-1.45	-183.2	-1.58
5. Paid in Capital (memo)	3,465.9	2,347.6	18.69	2,343.1	2,338.6	19.38	2,305.9	18.73	2,269.1	19.60
6. Reserves (incl. Net Income for the year)	3,632.1	2,460.2	19.59	2,479.3	2,498.3	20.70	2,305.5	18.73	2,725.7	23.55
7. Fair-value revaluation reserve	22.6	15.3	0.12	24.4	33.5	0.28	0.1	0.00	-459.3	-3.97
<b>TOTAL L</b>	<b>6,862.7</b>	<b>4,648.4</b>	<b>37.01</b>	<b>4,670.6</b>	<b>4,692.8</b>	<b>38.89</b>	<b>4,432.6</b>	<b>36.00</b>	<b>4,352.2</b>	<b>37.60</b>
<b>M. TOTAL LIABILITIES &amp; EQUITY</b>	<b>18,541.8</b>	<b>12,559.1</b>	<b>100.00</b>	<b>12,313.1</b>	<b>12,067.0</b>	<b>100.00</b>	<b>12,311.6</b>	<b>100.00</b>	<b>11,575.0</b>	<b>100.00</b>
Exchange Rate		USD1 = XDR 0.6773			USD1 = XDR 0.6328		USD1 = XDR 0.6647		USD1 = XDR 0.6997	

**Income Statement Analysis**  
**AFRICAN DEVELOPMENT BANK**

	31 Dec 2008		31 Dec 2007		31 Dec 2006		31 Dec 2005	
	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	Earning Assts	XDRm	Earning Assts	XDRm	Earning Assts	XDRm	Earning Assts
	Original	Original	Original	Original	Original	Original	Original	Original
1. Interest Received	560.8	5.01	580.6	5.15	537.3	4.87	472.3	4.53
2. Interest Paid	314.9	2.81	327.4	2.91	277.6	2.51	219.8	2.11
<b>3. NET INTEREST REVENUE</b>	<b>245.9</b>	<b>2.20</b>	<b>253.2</b>	<b>2.25</b>	<b>259.7</b>	<b>2.35</b>	<b>252.5</b>	<b>2.42</b>
4. Other Operating Income	1.4	0.01	1.4	0.01	2.6	0.02	10.0	0.10
5. Other Income	146.9	1.31	136.4	1.21	146.9	1.33	130.6	1.25
6. Personnel Expenses	141.2	1.26	141.1	1.25	123.2	1.12	124.5	1.19
7. Other Non-Interest Expenses	50.5	0.45	45.0	0.40	37.3	0.34	38.3	0.37
8. Impairment charge	-163.2	-1.46	-70.0	-0.62	51.7	0.47	-13.8	-0.13
9. Other Provisions	56.7	0.51	7.2	0.06	34.7	0.31	-0.8	-0.01
<b>10. PRE-DERIVATIVE OPERATING PROFIT</b>	<b>309.0</b>	<b>2.76</b>	<b>267.7</b>	<b>2.38</b>	<b>162.3</b>	<b>1.47</b>	<b>244.9</b>	<b>2.35</b>
11. Net gains / (losses) on non-trading derivative instruments	-4.3	-0.04	56.0	0.50	31.7	0.29	-23.6	-0.23
<b>12. POST-DERIVATIVE OPERATING PROFIT</b>	<b>304.7</b>	<b>2.72</b>	<b>323.7</b>	<b>2.87</b>	<b>194.0</b>	<b>1.76</b>	<b>221.3</b>	<b>2.12</b>
13. Other income and expenses	-257.3	-2.30	-119.9	-1.06	-139.2	-1.26	-144.0	-1.38
<b>14. NET INCOME</b>	<b>47.4</b>	<b>0.42</b>	<b>203.8</b>	<b>1.81</b>	<b>54.8</b>	<b>0.50</b>	<b>77.3</b>	<b>0.74</b>
15. Fair value revaluations recognised in equity	-18.2	-0.16	29.0	0.26	-12.6	-0.11	1.7	0.02
<b>16. FITCH'S COMPREHENSIVE NET INCOME</b>	<b>29.2</b>	<b>0.26</b>	<b>232.8</b>	<b>2.07</b>	<b>42.2</b>	<b>0.38</b>	<b>79.0</b>	<b>0.76</b>

## Ratio Analysis

### AFRICAN DEVELOPMENT BANK

		31 Dec 2008	31 Dec 2007	31 Dec 2006	31 Dec 2005
		Original	Original	Original	Original
<b>I. PROFITABILITY LEVEL</b>					
1. Net Income/Equity (av.)	%	1.01	4.47	1.25	1.80
2. Net Income/Total Assets (av.)	%	0.38	1.67	0.46	0.69
3. Net Interest Revenue + Commitment					
Fees/Gross Loans (av.) + Liquid Assets (av.) + Average Guarantees (av.)	%	2.26	2.27	2.37	2.47
4. Non-int. Exp./Net Interest Rev. + Other Operating Income					
	%	77.52	73.10	61.19	62.02
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.)					
	%	-1.80	-1.12	1.55	-0.25
<b>II. CAPITAL ADEQUACY</b>					
1. Internal Capital Generation	%	1.01	4.47	1.25	1.80
2. Outstanding Loans + Net Equity Invest. + Net Guarantees /Subscribed Capital + Reserves					
	%	23.98	22.19	20.71	21.71
3. Equity/Total Assets	%	37.01	38.89	36.00	37.60
4. Equity ex. fair-value revaluations/Assets	%	36.89	38.61	36.00	41.57
5. AAA-AA- Callable Capital/Callable Capital	%	37.67	37.58	37.55	37.64
7. Usable Capital/Required Capital	%	1,299.14	1,667.83	1,832.88	1,443.98
<b>III. LIQUIDITY</b>					
1. Liquid Assets & Marketable Debt Securities/Debt < 1 Year					
	%	260.86	258.45	395.13	447.94
2. Liquid Assets & Marketable Debt Securities/Total Assets					
	%	41.73	45.56	50.57	45.18
3. Liquid Assets + Marketable Debt Securities/Undisbursed Loans and Equity					
	%	205.30	339.09	306.71	281.59
<b>IV. ASSET QUALITY</b>					
1. Impaired Loans /Gross Loans	%	4.72	10.89	12.66	12.74
2. Loan Loss Reserves / Gross Loans	%	3.74	6.58	8.26	7.12
3. Equity Loss Reserves /Equity Investment	%	9.92	21.13	30.63	9.69
4. Total reserves / Gross Loans, Equity Investment & Guarantees	%	3.96	7.19	8.95	7.20
5. Loan Loss Reserves/Non Accrual Loans	%	79.30	60.44	65.18	55.86
6. Loans to Investment Grade Borrowers/Gross Loans Loans					
	%	47.13	47.17	26.96	25.31
<b>V. LEVERAGE</b>					
1. Debt/Equity	%	144.29	132.09	152.24	147.22
2. Debt/Subscribed Capital + Reserves	%	27.70	25.64	28.06	26.30
3. Debt/Callable Capital	%	34.56	32.05	34.72	33.08
4. Net Income + Interest Paid/Interest Paid	%	115.05	162.25	119.74	135.17

**Spread Sheet Annex**  
**AFRICAN DEVELOPMENT BANK**

XDRm	31 Dec 2008	31 Dec 2007	31 Dec 2006	31 Dec 2005
	Original	Original	Original	Original
<b>1. LENDING OPERATIONS</b>				
1. Loans outstanding	5,834.6	5,540.1	5,291.0	5,512.4
2. Growth in loans outstanding (%)	6.3	6.0	-3.1	5.6
3. Undisbursed Loans	2,552.9	1,621.2	2,030.1	1,857.0
4. Approved Loans	1,509.3	1,482.2	956.2	745.0
5. Disbursed Loans	727.5	884.7	584.4	595.4
6. Loan Repayments	496.7	704.1	706.4	714.0
7. Net disbursements	230.8	180.6	-122.0	-118.6
<b>2. OTHER BANKING OPERATIONS</b>				
1. Equity participations	209.6	240.0	171.7	186.8
2. Guarantees	24.9	0.0	8.8	6.9
3. LCs and other off BS credit commitments	n.a.	n.a.	n.a.	n.a.
4. Total banking exposure (BS & off BS)	6,069.1	5,780.1	5,471.5	5,706.1
<b>3. CAPITAL</b>				
1. Usable Capital	12,435.4	12,348.6	12,075.0	11,985.0
2. Required Capital	957.2	740.4	658.8	830.0
3. Usable Capital / Required Capital	13.0	16.7	18.3	14.4
4. Share of AAA / AA in callable capital	37.7	37.6	37.6	37.6
5. Share of A / BBB in callable capital	18.6	14.5	11.1	10.2
6. Share of Speculative Grade in callable capital	43.8	47.9	51.3	52.2
7. Average Rating of callable capital	BBB+	BBB	BBB	BBB
<b>4. BREAKDOWN OF BANKING PORTFOLIO</b>				
1. Loans to Sovereigns / Total Loans & Equity participations	88.2	89.8	91.1	90.4
2. Loans to Private Sector / Total Loans & Equity Participation	8.3	6.1	5.8	6.4
3. Equity participation / Total Loans & Equity Participation	3.5	4.2	3.1	3.3
4. Private Sector Exposure/Total Loans & Equity (exc. guarantees)	11.8	10.2	8.9	9.6
5. Private Exposure (inc. guarantees)/Loans, equity & guarantees	12.2	10.2	9.1	9.7
6. Average Rating of loans	BB-	BB-	B+	B+
<b>5. CONCENTRATION MEASURES</b>				
1. Largest exposure	1,444.8	1,229.1	1,147.0	1,189.0
2. Five largest exposures	4,224.9	3,925.7	3,596.0	3,496.4
3. Largest exposure / Equity (%)	31.1	26.2	25.9	27.3
4. Five largest exposures / Equity (%)	90.9	83.7	81.1	80.3
5. Five largest exposures / Total Loans (%)	72.4	70.9	68.0	63.4

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