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African Development Bank

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African Development Bank

Major Rating Factors

Counterparty Credit Rating
Foreign Currency
AAA/Stable/A-1+

Strengths:

- Strong liquidity and capital position.
- Prudent financial management and policies.
- Strong support from members, including 'AAA' rated sovereigns.

Weaknesses:

- Relatively risky loan portfolio with nonperforming loans larger than those of multilateral peers.
- The inability of the governments of most African countries to borrow from the bank.

Rationale

The ratings on African Development Bank (AFDB) are based on its strong liquidity and capital position, prudent financial management and policies, and strong support from its members, which include 'AAA' rated sovereigns, and which, following the capital increase decided in 2010, contribute Special Drawing Rights (SDR, international foreign exchange reserve assets, allocated by the International Monetary Fund) 34 billion in callable capital. These factors offset the bank's relatively risky loan portfolio and high level of nonperforming loans (NPLs), as well as the inability of the governments of most African countries to borrow from the bank.

AFDB, a regional multilateral development finance institution (MDFI), was established in 1964 by 29 African countries. Nonregional members were admitted from 1982, and AFDB's membership now includes 53 African and 24 nonregional countries. AFDB is the keystone of the African Development Bank Group (AFDB Group), which includes soft-loan windows African Development Fund (AFDF) and Nigeria Trust Fund (NTF). AFDF and NTF make grants and loans at concessional rates; their loans and grants help to maintain support for AFDB in countries not currently eligible to borrow from the bank. However, while AFDB has an equity investment in AFDF, it is not responsible for the financial obligations of either of these funds, both of which are unrated.

Historically AFDB has provided medium- and long-term loans primarily to African governments and other public-sector entities with sovereign guarantees; however, its focus on the private sector has been increasing over the past few years. The bank also makes equity investments and has provided a few small guarantees. At year-end 2011, 93% of the bank's development-related exposure (DRE) was loans, and 2% equity investments. Of outstanding loans, 81% was to governments or was government guaranteed. Financing approvals to private sector entities were about SDR0.8 billion in 2011, or 22% of total approvals, down from 40% in 2010.

Since 1995, AFDB has restricted its sovereign lending to its most creditworthy regional member countries. Sixteen African countries are eligible to borrow from the bank, while 37 have been able to borrow only from AFDF and NTF since 1995. Lending to the private sector, however, is not restricted to eligible countries. AFDB's outstanding loan exposure increased by a strong 13% during 2011 to SDR9,374 million, following a 10% growth rate in 2010.

Reflecting the weak credit-standing of many of its regional members, past-due payments of principal have been relatively high; at year-end 2011, they stood at SDR374 million or 3% of outstanding loans.

In our view, the expected losses embedded in AFDB's loan portfolio are much smaller than they might appear. Standard & Poor's expects AFDB to receive historical treatment as preferred creditor on its sovereign and sovereign-guaranteed loans compared with that received by commercial and bilateral lenders. Given the economic distress of many of its borrowing members, however, this special status may be of limited value. More important are the payments AFDB expects to receive on behalf of its borrowers through the Highly Indebted Poor Countries (HIPC) Initiative of the IMF and the World Bank. Under the HIPC framework, the HIPC Trust Fund repays a substantial portion of eligible loans.

AFDB's narrow risk-bearing capacity (provisions for losses plus adjusted shareholders' equity) dropped to 52% of DRE at year-end 2011 from 57% at year-end 2010. AFDB's financial strength is bolstered by its callable capital, which increased substantially under the bank's sixth capital increase, approved by the board of governors in 2010. Of total callable capital (as of Dec. 31, 2011) SDR10.7 billion was from sovereigns rated 'AAA' by Standard & Poor's (SDR8.1 billion after the long-term sovereign credit ratings on France and Austria were lowered to 'AA+' on Jan. 13, 2012). The bank's liquidity position continues to be one of the strongest among rated MDFIs.

AFDB's ratio of reserves for losses, adjusted shareholders' equity, and 'AAA' callable capital (its broad risk-bearing capacity) to DRE was 133% at year-end 2011 (without callable capital granted by Austria and France).

Outlook

The outlook is stable. We expect AFDB's liquidity to remain very strong and its high franchise value to increase, given the attention Africa is receiving from the international donor community. We believe that the subscription and payment of the capital increase by AFDB's shareholders supports the capital adequacy. Our view on shareholder support could change if major shareholders do not pay in the expected amounts.

Additionally, our revised multilateral lending institutions criteria, which we expect to have in place by the end of this year, could affect the ratings.

Organization, Ownership, And Management

All powers of the bank are vested in its board of governors, which, among other things, sets policy, admits new members, determines the bank's capital structure, and elects the president. Each member country appoints a governor and an alternate, who serve nominal five-year terms. However, these terms may be abbreviated or extended by the appointing member country. The board of governors delegates most of its operational responsibilities to the board of directors, although it retains the power to override the latter board's decisions.

The board of directors consists of 13 regional and seven nonregional members, none of whom may be governors or alternates. They may serve a maximum of two three-year terms. The largest single voteholder in the bank at year-end 2011 was Japan (AA-/Negative/A-1+; all ratings are foreign currency and as of Sept. 12, 2012), with 9.4% of total votes; the largest African voteholder was Nigeria (B+/Positive/B) with 5.2%. Shares are allocated such that when all are subscribed, regional member countries will own 60% and nonregional member countries 40%, although voting power does not precisely mirror share ownership.

The president of the bank may serve a maximum of two five-year terms. Donald Kaberuka, formerly a minister for finance and economic planning for Rwanda (B/Positive/B), assumed the presidency on Sept. 1, 2005, and was re-elected for a second term in May 2010.

The bank's official headquarters is in Abidjan, Côte d'Ivoire; however, political unrest in that country prompted the bank to temporarily relocate to its backup facilities in Tunis, Tunisia (BB/Stable/B) in February 2003, where it remains pending more settled conditions in Côte d'Ivoire. AFDB's staff increased by 5.1% in 2011 and the bank now has 29 field offices, four of which were opened in 2011.

Balance Sheet

The bank's financial statements are expressed in UA (Unit of Accounts). Under the agreement establishing the bank, UA1 is defined as the equivalent of SDR1. Financial statements are prepared in accordance with International Financial Reporting Standards. The 2011 statements were audited by KPMG, Paris. The financial year end is Dec. 31.

On Dec. 31, 2011, AFDB had total assets of SDR20 billion, split evenly between loans and securities. The bank's assets grew by 6.2% in 2011, representing a significant reduction in growth from 2009 levels. We understand AFDB expects to see a slow down in its lending growth in the next few years.

Table 1

African Development Bank--Summary Balance Sheet

	--Year ended Dec. 31--							
(Mil. SDR)	**2011**	**2010**	**2009**	**2008**	**2007**	**2006**	**2005**	**2004**
Assets								
Cash, due from banks, demand obligations	348	396	323	596	99	133	74	48
Treasury investments	7,590	7,433	7,412	4,576	5,329	6,093	5,155	4,435
Accrued income and charges receivable on loans	378	347	294	452	436	456	431	406
Accumulated provision for impairment on accrued income and charges receivable on loans	(185)	(169)	(125)	(116)	(169)	(223)	(198)	(188)
Loans disbursed and outstanding	9,374	8,293	7,538	5,835	5,540	5,291	5,512	5,640
Accumulated provision for impairment on disbursed and outstanding loans	(118)	(114)	(102)	(103)	(196)	(214)	(195)	(214)
Equity participation, of which:	310	272	250	210	192	123	172	161
Participation in African Development Fund	62	63	62	64	64	63	97	97
Accumulated provision for losses on equity investments	-	(19)	(16)	(21)	(2)	(4)	(3)	0
Securities issued by entities in regional member countries	80	80	71	69	95	0	0	0
Non-negotiable instruments on account of capital	3	5	8	12	15	20	26	31
Derivative assets	1,697	1,421	764	736	425	273	286	275
Other assets	13	1,176	767	325	319	383	340	198
Total assets	20,261	19,144	17,185	12,571	12,082	12,332	11,601	10,792

Table 1

African Development Bank--Summary Balance Sheet (cont.)								
Liabilities								
Borrowings, of which:	12,903	11,981	10,581	6,707	6,199	5,870	5,940	5,639
Portion of gross debt maturing during the next year	2,497	1,625	1,196	924	1,154	323	252	325
Derivative liabilities	502	328	477	360	591	482	317	514
Other liabilities	1,975	2,015	1,386	843	584	1,527	965	386
Total liabilities	15,380	14,324	12,443	7,911	7,374	7,879	7,223	6,539
Capital								
Paid-in capital	2,345	2,193	2,188	2,185	2,176	2,147	2,112	2,066
Other capital	2,536	2,627	2,553	2,475	2,532	2,305	2,266	2,187
Shareholders' equity	4,882	4,820	4,741	4,660	4,708	4,453	4,378	4,253
Off-balance-sheet items								
Guarantees	10	2	0	25	0	0	0	15
Callable capital from 'AAA' rated member countries	10,696	5,293	5,294	5,466	5,466	5,491	5,484	5,492

Solid Capital And Risk Bearing Capacity

Capital

AFDB's existing capital stock, like many MLIs, comprises callable capital and paid-in capital.

AFDB's paid-in capital was supplemented by SDR2.536 billion of reserves as at Dec. 31, 2011, bringing shareholders' equity to SDR4.88 billion. The reserves are supported by modest but stable internal capital generation. No dividends are paid but the board of governors releases profits for supporting other development purposes. In 2011, SDR113 million was released for this reason, down from about SDR146 million in 2010.

In our opinion, AFDB's on-balance sheet capital provides good coverage for risk undertaken. Capital reserves are supported by modest internal capital generation and the fact that no dividends are paid, although the board of governors releases profits for development purposes. On Dec. 31, 2011, capital covered 24.1% of total assets and, when included with loan loss reserves, was equal to 53% of gross loans. The major threat to capital is high concentrations to sovereign borrowers with non-investment-grade ratings. On Dec. 31, 2011, the bank's five leading borrowers, all of which had foreign currency ratings at or below 'A-' or were unrated, accounted for loans amounting to more than 100% of the bank's total equity. Positively, concentrations of lending to private sector borrowers are much smaller.

AFDB's SDR34.03 billion of callable capital at year-end 2011 could be called by its board of governors, but only to meet obligations created by the bank's borrowings or guarantees. A capital call would oblige all members to contribute their pro rata shares of the amount called, but one member's failure to meet a call would not release other members from their obligations to do so. If a first-round call did not raise the amount required, subsequent calls could be made, but no member would be obliged to pay more than the amount to which it has subscribed. No multilateral lending institution has ever issued a capital call to avoid default, and the willingness and ability of members to respond to such a call is undemonstrated. Accordingly, Standard & Poor's uses the callable capital from 'AAA' rated member countries as a proxy for the expected amount that would be forthcoming if there were a call on all callable capital.

Risk-bearing capacity

Risk-bearing capacity is a measure of the losses that an MDFI can sustain before its liabilities exceed its assets (narrow risk-bearing capacity [NRBC]) or its assets plus 'AAA' callable capital (broad risk-bearing capacity [BRBC]). AFDB's NRBC is calculated by adding adjusted shareholders' equity and provisions for losses on its DRE.

Under Standard & Poor's current approach we make two adjustments to shareholders' equity. One is for UA3 million, representing the potentially illiquid non-negotiable instruments on the capital account, and the other is for UA62 million for the equity participation in the African Development Fund. Accordingly, these two asset classes are assigned a value of zero, and reported shareholders' equity and total assets are reduced by the sum of the two to obtain adjusted shareholders' equity and adjusted total assets.

AFDB has three types of provisions for losses on its DRE. First, the bank's accrued income and charges receivable on loans (SDR378 million at year-end 2011) are treated as DRE. Accordingly, the provision for losses on these items, SDR185 million, is included in provisions for losses. Second, the bank had an accumulated provision for impairment of loans of SDR118 million: 1.3% of loans disbursed and outstanding. We also remove the accumulated provision for impairment of equity investments, but it was zero at year-end 2011.

- AFDB's NRBC is the sum of adjusted shareholders' equity plus provisions for losses on DRE. It totaled SDR5.250 billion at year-end 2011, up by 3.9% from the previous year.
- AFDB's BRBC is calculated by adding its 'AAA' callable capital to its NRBC. Of AFDB's callable capital of SDR34.03 billion at year-end 2011, SDR10.696 billion was from sovereigns rated 'AAA' by Standard & Poor's (including callable capital by France and Austria). Accordingly, AFDB's BRBC totaled SDR15.946 billion at year-end 2011. As a consequence of the capital increase, AFDB's BRBC has grown compared with 2010, despite the meanwhile lowered ratings on the U.S., France, and Austria.
- The ratio of NRBC to DRE fell to 52% from 57% a year earlier. At the same time, BRBC was 158% of DRE. This is still strong compared with the capacities of other 'AAA' rated MDFIs.

Table 2

African Development Bank--Capital, Risk-Bearing Capacity, And Capital Adequacy

	--Year ended Dec. 31--							
(Mil. SDR, unless otherwise indicated)	**2011**	**2010**	**2009**	**2008**	**2007**	**2006**	**2005**	**2004**
Capital								
Authorized capital	66,055	67,687	22,120	21,870	21,870	21,870	21,870	21,870
Subscribed capital	37,322	23,925	21,818	21,765	21,693	21,795	21,636	21,598
Callable capital, of which:	34,033	21,549	19,458	19,409	19,342	19,437	19,367	19,375
From 'AAA' rated member countries	10,696	5,293	5,294	5,466	5,466	5,491	5,484	5,492
Paid-in capital*	2,345	2,193	2,188	2,185	2,176	2,147	2,112	2,066
Reserves	2,536	2,627	2,553	2,475	2,532	2,305	2,266	2,187
Shareholders' equity	4,882	4,820	4,741	4,660	4,708	4,453	4,378	4,253
Risk-bearing capacity								
Non-negotiable instruments on account of capital	(3)	(5)	(8)	(12)	(15)	(20)	(26)	(31)
Participation in African Development Fund	(62)	(63)	(62)	(64)	(64)	(63)	(97)	(97)

Table 2

African Development Bank--Capital, Risk-Bearing Capacity, And Capital Adequacy (cont.)								
Adjusted shareholders' equity	4,947	4,753	4,671	4,585	4,629	4,369	4,255	4,125
Accumulated provision for impairment on accrued income and charges receivable on loans	118	114	102	103	169	223	198	188
Accumulated provision for impairment on loans disbursed and outstanding	185	169	125	116	196	214	195	214
Accumulated provision for losses on equity investments	0	19	16	21	2	4	3	0
Narrow risk-bearing capacity	5,250	5,055	4,915	4,824	4,996	4,810	4,651	4,526
Callable capital from 'AAA' rated member countries	10,696	5,293	5,294	5,466	5,466	5,491	5,484	5,492
Broad risk-bearing capacity	15,946	10,349	10,209	10,290	10,462	10,301	10,135	10,018
Development-related exposure								
Accrued income and charges receivable on loans	378	347	294	452	436	456	431	406
Loans disbursed and outstanding	9,374	8,293	7,538	5,835	5,540	5,291	5,512	5,640
Securities issued by entities in regional member countries	80	80	71	69	95			
Equity investments excluding participation in African Development Fund	247	172	189	146	128	60	75	63
Guarantees	10	2	0	25	0	0	0	15
Total development-related exposure	10,089	8,892	8,092	6,526	6,198	5,806	6,019	6,125
S&P capital adequacy calculations								
Narrow risk-bearing capacity/adjusted total assets¶ (%)	25.9	26.5	28.7	38.6	41.6	39.3	40.5	42.4
Broad risk-bearing capacity/adjusted total assets¶ (%)	78.7	54.2	59.6	82.4	87.2	84.1	88.3	93.9
Narrow risk-bearing capacity/development-related exposure (%)	52.0	56.9	60.7	73.9	80.6	82.8	77.3	73.9
Broad risk-bearing capacity/development-related exposure (%)	158.0	116.4	126.2	157.7	168.8	177.4	168.4	163.5

*After cumulative gains and losses arising from exchange rate movements affecting NRMC's capital contributions ¶Total assets less non negotiable instruments on account of capital less participation in the African Development Fund.

Credit Risk

AFDB's DRE consists of its outstanding loans, including the accrued income and charges receivable on its loans; securities issued by entities based in its regional country members; its equity investments, excluding its investment in AFDF (since we in effect value that at zero); and guarantees outstanding. As of year-end 2011, the bank's DRE totaled SDR10 billion, up by 13.5% from a year earlier.

AFDB lends only to African countries and to public- and private-sector entities domiciled in African countries. At year-end 2011, 81% of outstanding loans was to public sector borrowers. As of Dec. 31, 2011, AFDB's five largest sovereign borrowers (Morocco, Tunisia, Botswana, South Africa, and Egypt) accounted for 67% of DRE. The largest sovereign borrower, Morocco, alone accounts for 20%. The loan concentration on the five largest borrowers is stable from 2010 levels. Positively, the bank's geographic concentration in North Africa has not caused a spike in asset quality problems. While we understand credit demand from North Africa has increased since the Arab Spring, the weight of

North Africa as a proportion of DRE has remained stable.

The bank is focusing increasingly on lending to private sector borrowers, which accounted for 19% of the total loan book on Dec. 31, 2011. In terms of distribution by sector, in 2011 this was concentrated in power, transport, financial services, and mining.

The bank invests in certain debt instruments issued by entities in its regional member countries for the purpose of financing development projects and programs. The fair value of investments in debt instruments issued in regional member countries as at Dec. 31, 2011, was UA79.9 million or 1.6% of shareholders' equity.

Asset Quality: A Key Challenge For The Bank

The quality of AFDB's DRE compares relatively poor compared to other 'AAA' rated MLIs, reflecting its focus on private and public sector borrowing in geographic areas that carry intrinsically higher operating and credit risks. As a consequence, the historical performance of AFDB's loan portfolio has been worse than other rated MDFIs'. Past-due payments of principal have been relatively high; at year-end 2011, they stood at SDR374 million or 3% of outstanding loans. In addition, past-due interest and other charges were SDR262 million. Past due loans are roughly stable from 2010 levels, which is positive given the loan concentrations and operating turbulence in the North of Africa. However, due to the grace period on AFDB loans (averaging around 1,950 days at Dec. 31. 2011), we may see some spike in asset quality if conditions do not improve.

In our opinion, loan-loss reserves cover a moderate amount of AFDB's current NPL book. While 43.1% would seem low for a financial institution operating in Africa, we view the bank's preferred creditor treatment as a key benefit in the recovery of bad debts. This means only that AFDB's loans are likely to be repaid before those of commercial or official bilateral lenders; it does not ensure that they will be repaid in full or on time. Given the economic distress of many of the bank's borrowing members, they have occasionally fallen behind on payments. However, the bank has never had to write-off any sovereign debt, as defaulted debt exposure has been restructured and repaid. Consequently, the bank's loss experience is very strong with loss provisions accounting for an average 0.24% of total loans over the past three years.

Table 3

African Development Bank--Financing By Purpose								
	--Year ended Dec. 31--							
(SDR Mil., unless otherwise indicated)	**2011**	**2010**	**2009**	**2008**	**2007**	**2006**	**2005**	**2004**
Approvals								
Project lending	1,874	2,107	3,791	1,373	1,462	515	597	417
Public and publicly guaranteed	1,058	1,092	2,780	642	646	245	459	256
Private and non-publicly guaranteed	816	1,016	1,010	731	816	270	138	161
Policy-based lending	573	129	1,522	136	20	411	148	389
Equity investments	53	190	142	146	185	-	35	3
Other inc Debt Relief	1,189	155	149	152	3	119	89	711
Total	3,689	2,581	5,604	1,807	1,670	1,045	869	1,520

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Table 3

African Development Bank--Financing By Purpose (cont.)

Outstanding loans, development-related securities, and equity investments								
Private sector loans*	1,815	1,599	1,372	503	350	316	362	319
Public sector project loans*		2,960	2,577	2,432	2,459	2,587	2,849	3,193
Policy-based loans*		2,972	2,866	2,139	2,042	1,679	1,559	1,367
Other public sector loans*		762	724	760	690	1,025	1,104	1,080
Total outstanding loans	9,374	8,293	7,538	5,835	5,540	5,291	5,512	5,640
Securities issued by entities in regional member countries	80	80	71	69	95	0	0	0
Equity investments	310	234	250	210	192	123	172	161
Memo items								
Public sector as a % of total loans	1	81	82	91	94	94	93	94
Policy-based loan approvals as a % of total financing approvals	0	5	27	8	1	39	17	26
Policy-based loans as a % of total outstanding public sector loans	NA	44	46	40	39	32	28	24

*Does not include accrued income and charges receivable on loans

Market Risk Is Minimal

AFDB's investment portfolio is very diverse. As at Dec. 31, 2011, the treasury portfolio consisted of government and agency bonds (39%), supranational bonds (11%), financial institutions and corporate bonds (28%), and cash and time deposits (19%). The portfolio is of good quality, with 58% rated 'AAA', 33% 'AA', and 9% 'A' or lower as of year-end 2011. In addition, the bank has a small asset-backed security portfolio.

The bank also exposes itself to equity through its banking book to facilitate the development of the private sector in African member countries. Consequently, a majority of the exposures are to regional development banks or investment funds. The bank does not seek to take a controlling stake in these companies but rather encourages others to participate. Internal regulations restrict equity investments to less than 15% of the aggregate amount of the bank's paid-in capital, reserves, and surplus in terms of used risk capital. At Dec. 31, 2011, equity participations, including the participation in the African Development Fund, accounted for less than 6.3% of shareholders' equity.

AFDB's structural exchange- and interest-rate risks are well monitored and controlled. The agreement establishing AFDB requires liabilities in any currency to be matched with assets in the same currency. Because the bank borrows disproportionately in fixed rate U.S. dollars, it employs interest rate and cross-currency swaps to achieve the required matching; to avoid creating new currency mismatches, the bank requires borrowers to service their loans in the currency disbursed. However, the bank is still left with a net asset position that is exposed to translation risk when exchange rates fluctuate. It addresses this problem by matching, to the extent practicable, the composition of its net assets with the composition of SDRs.

Interest rate risk is minimized by matching assets and liabilities. About two-thirds of loans and investments are floating rate and match the bulk of AFDB's liabilities. A smaller proportion of the loan book has variable lending rates, repriced twice a year, and this is matched to a larger borrowing pool. The fixed-rate loans and investments held at amortized cost components are limited to match the equity portion of funds. When direct matching is not available the bank uses interest rate swaps, with creditworthy counterparties, to manage the risk.

AFDB generally executes International Swaps and Derivatives Association master agreements and netting agreements with its derivative counterparties. Its bank and corporate investment counterparties are required to have ratings of 'A' or higher for exposures of six months or less, 'AA-' for exposures of six months to five years, and 'AAA' for exposures beyond 10 years. Derivatives are held at fair value on the balance sheet and at Dec. 31, 2011, the bank had a UA1.1 billion net positive derivative position.

Funding Profile Benefits From Stable, Low Cost of Funds

AFDB's funding profile remained broadly stable throughout 2011, growing by just under 8%. It was dominated by long-term wholesale debt and benefited from strong investor appetite in the bank's paper. In our opinion, refinancing is a minimal risk for AFDB given its 'AAA' rating and its significant liquid asset cushion, but also due to the cost pass-through policy whereby funding costs are passed on to borrowers.

AFDB's funding profile remains very diverse in terms of investor base, currency, and maturity. Global benchmark bonds remain the primary source of funding, with domestic markets, Uridashi bonds (bonds in various currencies held by Japanese households), private placements, and loans all alternative funding sources. The investor base remains well-diversified geographically. The U.S. dollar remains the major currency of funding (52%), followed by the South African Rand (14%) and Japanese Yen (13%). After swaps, the euro is the second largest currency exposure in the funding profile. The maturity profile of borrowings is evenly spread, with refinancing spread up to and more than a five-year period. At Dec. 31, 2011, approximately 25% of the bank's borrowings matured within one year, and 40% within two years.

The cost of funds remained very low in 2011, down again from one year earlier, which is a key advantage for the bank. At Dec. 31, 2011, interest expense accounted for 2.45% of interest bearing borrowings down from 2.53% one year earlier.

Leverage

Standard & Poor's calculates four leverage ratios for comparative purposes:

- Gross debt to adjusted shareholders' equity (264% at year-end 2011);
- Gross debt to adjusted shareholders' equity plus 'AAA' callable capital (83% at year-end 2011)
- Gross debt net of liquid assets to adjusted shareholders' equity (129%); and
- Gross debt net of liquid assets to adjusted shareholders' equity plus 'AAA' callable capital (40%)

AFDB's internal capital framework caps total outstanding debt at 100% of usable capital (equity plus callable capital from non-borrowing members rated 'A-' or higher). Outstanding debt fell to 55% of usable capital at Dec. 31, 2011, from 85% one year earlier, the result of more usable capital from nonborrowing members rated 'A-'.

Table 4

African Development Bank--Leverage								
	--Year ended Dec. 31--							
(%)	**2011**	**2010**	**2009**	**2008**	**2007**	**2006**	**2005**	**2004**
Gross debt/adjusted shareholders' equity	264.0	249.0	226.5	146.3	133.9	134.4	139.6	136.7
Gross debt/adjusted shareholders' equity + 'AAA' callable capital	83.0	118.0	106.2	68.1	61.4	59.5	61.0	58.6
Gross debt net of liquid assets/adjusted shareholders' equity	129	126	86	111	75	63	67	70
Gross debt net of liquid assets/adjusted shareholders' equity + 'AAA' callable capital	40	60	41	51	35	28	30	30

Liquidity: Adequate

AFDB's liquidity policy calls for maintaining liquidity in excess of a "prudential minimum level", which is defined as the sum of debt-service payments over the next year, the projected net loan disbursements for the next year, the loan equivalent of guarantees, and undisbursed equity investments. The bank typically carries liquidity far above the prudential minimum level.

In our opinion, AFDB's management of liquidity is adequate, aided by the high amount of liquid assets the bank holds on balance sheet. At year-end 2011, liquid assets (including all cash and deposits and treasury investments, regardless of maturity) accounted for more than 33% of total assets and more than 51% of total borrowings.

AFDB's access to emergency liquidity largely comes through callable capital from its shareholders. The only alternative source is a long-established euro commercial paper program. This is being used regularly for amounts up to €500 million to maintain presence in that market.

Table 5

African Development Bank-- Liquidity								
	--Year ended Dec. 31--							
(Mil. SDR, unless otherwise indicated)	**2011**	**2010**	**2009**	**2008**	**2007**	**2006**	**2005**	**2004**
AFDB liquidity								
Prudential minimum liquidity	4,900	2,967	5,382	1,102	1,600	1,430	1,260	1,150
Liquidity	6,600	5,886	6,500	1,540	2,680	3,060	3,020	2,670
Liquidity as a % of prudential minimum liquidity	135.0	198.4	120.8	139.7	167.5	214.0	239.7	232.2
S&P liquidity measures								
Liquid assets/total assets	33.0	41.0	45.0	41.0	45.0	50.0	45.0	42.0
Liquid assets/gross debt	51.0	65.0	73.0	77.0	88.0	106.0	88.0	80.0
Liquid assets/undisbursed loans + equity investments + estimated one-year debt service	190.0	115.0	119.0	139.0	178.0	240.0	225.0	212.0

Profitability: Loss Making Due to Volatile Financial Markets

As a development institution, AFDB does not seek to maximize income, but rather to earn a sufficient return to ensure its financial strength and to permit it to meet its development and other financing goals. Nevertheless, AFDB achieves moderate and stable returns for the risks undertaken.

In 2011, the bank was pushed into a loss making position of minus SDR139.1 million, after a series of adjustments totaling minus SDR191.0 million, largely reflecting changes in the fair value of investments and actuarial losses on benefit plans. Beyond these extraordinary losses, the bank's core earnings continue to suffer from a low interest rate cycle and volatile financial markets. Furthermore the operating costs continue to rise as a percentage of operating revenues, reaching 31% at Dec. 31, 2011, from 25% one year earlier. As a result, core earnings (profit before extraordinaries and distribution of income) shrunk to 0.84% of total assets at Dec. 31, 2011, down from 1.12% at Dec. 31, 2010. Standard & Poor's expects the restrained operating performance to continue over the next 12 months as global economic uncertainties keep operating revenues at low levels.

Table 6

African Development Bank--Summary Income Statement

	--Year ended Dec. 31--							
(Mil. SDR, unless otherwise indicated)	**2011**	**2010**	**2009**	**2008**	**2007**	**2006**	**2005**	**2004***
Income from loans and debt securities	320	300	296	362	347	329	324	323
Income from investments and related derivatives	169	219	223	203	232	214	155	124
Interest and amortized issuance costs	317	303	(306)	(252)	(268)	(245)	(219)	(231)
Other borrowing-related expenses	(135)	(167)	(76)	(70)	(7)	(3)	(22)	16
Provision for impairment on loan charges	(14)	(16)	(11)	62	53	(29)	(7)	(2)
Provision for impairment on loan principal	(3)	(11)	0	101	17	(23)	21	(51)
Provision for impairment on equity investments¶	0	(1)	(2)	(18)	(1)	(35)	1	3
Provision for impairment on investments	6	19	3	(38)	0	0	0	0
Other income (net)	4	3	27	9	(2)	28	17	7
Administrative expense	(79)	(75)	(63)	(47)	(42)	(37)	(42)	(38)
Other expense	(3)	(7)	(5)	(7)	(6)	(5)	(8)	(7)
Operating income	165	214	231	305	324	194	221	144
Distribution of income approved by the board of governors	(113)	(146)	(163)	(257)	(120)	(139)	(144)	0
Net income	52	67	68	47	204	55	77	144
(Loss)/gain on available-for-sale investments taken to equity§	(101)	8	(19)	(18)	33	(9)	6	2
Actuarial losses on defined benefit plans	(90)	(1)	28	(86)	(11)	(7)	(4)	(31)
Total recognized income	(139)	74	77	(56)	226	39	80	115

*Figures for 2004 are not strictly comparable with later years ¶Includes other receivables prior to 2007 §Includes net losses on financial assets at fair value and unrealised loss on fair valued borrowings arising from "own" credit.

Ratings Detail (As Of October 8, 2012)

African Development Bank	
Counterparty Credit Rating	
Foreign Currency	AAA/Stable/A-1+
Senior Unsecured	AAA
Subordinated	AA+

Ratings Detail (As Of October 8, 2012) (cont.)		
Counterparty Credit Ratings History		
24-Jul-2003	*Foreign Currency*	AAA/Stable/A-1+
06-Jun-2001		AA+/Stable/A-1+
09-Aug-2000		AA+/Negative/A-1+

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.