

MOODY'S

RATINGS

Rating Action: Moody's Ratings changes AFC's outlook to stable, affirms A3 ratings

24 Sep 2024

New York, September 24, 2024 -- Moody's Ratings (Moody's) has changed the outlook on the Africa Finance Corporation (AFC or the corporation) to stable from negative and has affirmed AFC's long-term foreign currency issuer and senior unsecured ratings at A3, as well as AFC's short-term foreign currency issuer rating at P-2. Concurrently, we have also affirmed the corporation's provisional long-term foreign currency senior unsecured MTN program rating at (P)A3 and the other short-term foreign currency program rating at (P)P-2.

The change in outlook to stable from negative is driven by our expectation that AFC will be able to maintain stable or improving leverage and that the asset performance track record will be preserved. The improved leverage outlook compared to trends up to 2021 reflects the corporation's strong equity raising strategy. The bank exceeded its \$1 billion target in 2019-23, and aims to continue raising equity capital during 2024-28. Moreover, the corporation lowered its dividend payout ratio starting 2023 which will help retain a higher share of earnings and grow the capital base organically in the future. Notwithstanding increased country risk in several of AFC's countries of operation over the past year, asset performance has proven resilient amid effective credit protections. The stable outlook also reflects management's governance track record and early intervention capacity to mitigate materializing risks at an early stage.

The A3 rating affirmation reflects the corporation's adherence to its prudential guidelines to safeguard the institution's intrinsic financial strength based on solid capital adequacy and high-quality liquidity buffers, commensurate with the corporation's equity investments and private sector exposures in high country-risk areas.

RATINGS RATIONALE

RATIONALE FOR THE STABLE OUTLOOK

LEVERAGE OUTLOOK IMPROVES AMID CONTINUED EQUITY RAISING EFFORTS

Following several years of deterioration, we expect the leverage ratio to level out within the 3x-3.5x equity range. That compares to the median of A-rated peers of between 1x-1.5x. The corporation is now operating within, but closer to, its prudential leverage limit of 30% Basel CAR, limiting the room for operations expansion to the pace of equity accumulation.

After peaking at 3.6 times equity in 2021, our calculation of AFC's leverage ratio (defined as development-related assets, including loans + equity exposures + guarantees, in addition to treasury assets rated A3 and below, divided by usable equity) eased back to 3.3x in 2023. This is the result of the corporation's \$1 billion equity raising effort for 2019-2023 which has concluded with \$1.1 billion in new equity raised by the end of 2023.

In addition to new shareholder capital, usable equity has benefited from a steadily increasing share of retained earnings, which at the end of 2023 accounted for almost 40% of usable equity on a cumulative basis. We expect this trend to be reinforced by AFC's decision to lower the dividend payout ratio to 25% from 30%, starting 2023. Looking forward, we expect AFC's new equity raising initiative over 2024-28 to continue to support the institution's operations.

ASSET PERFORMANCE RESILIENT TO THE CHALLENGING OPERATING ENVIRONMENT

At the end of 2023, over 50% of AFC's development-related assets (DRA) were in countries with sovereign ratings in the Caa-Ca rating categories, indicating a high degree of country risk. Operations in Nigeria, Government of (Caa1 positive) accounted for 34% of DRA, followed by 12% in Egypt, Government of (Caa1 positive), 7% in Senegal, Government of (Ba3 stable), 6% in Cote d'Ivoire, Government of (Ba2 stable) and 5% each in Ghana, Government of (Ca stable) and Gabon, Government of (Caa2 stable). In addition to the weak weighted average borrower rating at Caa1, AFC's asset quality assessment also captures the corporation's comparatively high equity exposures at 15% of DRA and its private sector orientation that could limit the scope for preferred creditor treatment.

However, asset performance has remained resilient in 2023 and in the first half of 2024. The number and amount of nominal non-performing loans (NPL) have remained broadly unchanged in nominal terms compared to one year before. Meanwhile, the share of IFRS Stage 2 assets including loans with 30-90 days payment delays are on a declining trend compared to the entire loan book, taking into account observed trends for the first half of 2024. The corporation's robust asset performance amid a challenging operating environment also reflects the corporation's governance standards and management's early intervention capacity to mitigate materializing risks at an early stage.

In addition to solid provisioning levels that cover almost 190% of NPL, we also take

into account targeted credit protections that AFC has put in place which enhance asset credit quality. For instance, in 2023, almost 17.7% of the notional amount of loans benefited from insurance backed by at least A-rated insurance companies, an increase from 16.4% in 2022 and including both single name non-payment insurance (12.1%) and portfolio non-payment insurance (5.6%).

RATIONALE FOR AFFIRMING THE A3 RATINGS

The A3 rating affirmation reflects the corporation's continued adherence to its prudential guidelines to safeguard the corporation's intrinsic financial strength based on solid capital adequacy and high-quality liquidity buffers, commensurate with the corporation's private sector exposures in high country-risk areas. The corporation maintains broad access to diverse liquidity sources, supporting AFC's strong liquidity assessment in line with global peers.

The A3 rating also incorporates AFC's low strength of member support owing to the low average shareholder rating and weak contractual support in the form of very low callable capital coverage of outstanding debt. However, the continued broadening of the shareholder base, including outside of the region, underpins our improved non-contractual support assessment despite the still concentrated shareholding structure among the Central Bank of Nigeria (accounting for 39% of subscribed capital) and Nigerian financial institutions (41%).

ENVIRONMENTAL, SOCIAL AND GOVERNANCE CONSIDERATIONS

AFC's credit impact score (CIS-2) reflects its moderate exposure to environmental risk and neutral-to-low exposure to social and governance risks. The assessment reflects the corporation's efforts to diversify towards renewable energy infrastructure projects, thus mitigating carbon transition risk. It also reflects AFC's pro-active adoption of credit protection measures to insulate AFC's asset quality from a deteriorating operating environment.

AFC's environmental risk profile score of E-3 reflects its investments in the hydrocarbon sector, exposing its portfolio to carbon transition risks. This exposure is being mitigated by the corporation's portfolio diversification by sector and its effort to expand investments in the renewable energy sector.

The S-2 social risk issuer profile score reflects AFC's focus on key infrastructure like power generation, port infrastructure, energy generation, and communications infrastructure which expand the population's access to basic services, thereby enhancing AFC's standing in the region.

The governance risk issuer profile score of G-2 reflects sound governance principles and risk management framework. This is evidenced by the corporation's management of commodity price shocks and a deteriorating operating environment, mitigated by the adoption of specific credit protection measures to help insulate the asset quality of

its investment portfolio.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

A significant build-up of the capital buffer via retained earnings and new shareholder capital that materially reduces leverage more in line with the A-rated median would be credit positive, as would the expansion of operations without jeopardizing asset performance through economic and credit cycles. The further diversification of the shareholder base including with the participation of a number of investment-grade shareholders would also be credit positive.

We could downgrade the ratings if asset performance were likely to weaken significantly. An inability to implement the corporation's strategy aimed at strengthening its capital base would also be credit negative. Furthermore, a marked erosion of liquidity buffers or increasing signs that access to funding is weakened significantly would also likely lead to a downgrade.

The principal methodology used in these ratings was Multilateral Development Banks and Other Supranational Entities published in February 2024 and available at <https://ratings.moodys.com/rmc-documents/414557>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions>.

For any affected securities or rated entities receiving direct credit support/credit substitution from another entity or entities subject to a credit rating action (the supporting entity), and whose ratings may change as a result of a credit rating action as to the supporting entity, the associated regulatory disclosures will relate to the supporting entity. Exceptions to this approach may be applicable in certain jurisdictions.

For ratings issued on a program, series, category/class of debt or security, certain regulatory disclosures applicable to each rating of a subsequently issued bond or note of the same series, category/class of debt, or security, or pursuant to a program for which the ratings are derived exclusively from existing ratings, in accordance with Moody's rating practices, can be found in the most recent Credit Rating Announcement related to the same class of Credit Rating.

For provisional ratings, the Credit Rating Announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive

rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating.

Moody's does not always publish a separate Credit Rating Announcement for each Credit Rating assigned in the Anticipated Ratings Process or Subsequent Ratings Process.

These ratings are solicited. Please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website <https://ratings.moodys.com>.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

At least one ESG consideration was material to the credit rating action(s) announced and described above. Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://ratings.moodys.com/documents/PBC_1355824.

The Global Scale Credit Rating(s) discussed in this Credit Rating Announcement was(were) issued by one of Moody's affiliates outside the EU and UK and is(are) endorsed for use in the EU and UK in accordance with the EU and UK CRA Regulation.

Please see <https://ratings.moodys.com> for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the issuer/deal page on <https://ratings.moodys.com> for additional regulatory disclosures for each credit rating.

Elisa Parisi-Capone
Vice President - Senior Analyst
Sovereign Risk Group
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Matt Robinson
Associate Managing Director
Sovereign Risk Group
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

© 2024 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S CREDIT RATINGS AFFILIATES ARE THEIR CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MATERIALS, PRODUCTS, SERVICES AND INFORMATION PUBLISHED BY MOODY'S (COLLECTIVELY, "PUBLICATIONS") MAY INCLUDE SUCH CURRENT OPINIONS. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT OR IMPAIRMENT. SEE APPLICABLE MOODY'S RATING SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY MOODY'S CREDIT RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS, NON-CREDIT ASSESSMENTS ("ASSESSMENTS"), AND OTHER OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. AND/OR ITS AFFILIATES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS, ASSESSMENTS AND OTHER

OPINIONS AND PUBLISHES ITS PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS, AND PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS OR PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the credit rating process or in preparing its Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage

arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING, ASSESSMENT, OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any credit rating, agreed to pay to Moody's Investors Service, Inc. for credit ratings opinions and services rendered by it fees ranging from \$1,000 to approximately \$5,000,000. MCO and Moody's Investors Service also maintain policies and procedures to address the independence of Moody's Investors Service credit ratings and credit rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold credit ratings from Moody's Investors Service, Inc. and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of

the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any credit rating, agreed to pay to MJKK or MSFJ (as applicable) for credit ratings opinions and services rendered by it fees ranging from JPY100,000 to approximately JPY550,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.