

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

Fitch Ratings-Paris/London-08 July 2009: Fitch Ratings has today affirmed the African Development Bank's (AfDB) Long-term Issuer Default Rating (IDR) at 'AAA' with a Stable Outlook. Fitch has simultaneously affirmed the AfDB's Short-term IDR at 'F1+'. The ratings are primarily based on support from the bank's 77 member countries, its high level of capitalisation and conservative risk management policies.

AfDB's capital is held by the 77 member countries, 53 of which are African. Some 10.6% of the capital has been paid in, and 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 believes these countries would provide additional support to the AfDB if necessary. As with other regional multilateral development banks (MDBs), the bank's exposure to credit risk is significant. The AfDB's 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. The AfDB's policies regarding risk management, gearing and liquidity are conservative and capitalisation is strong: its ratio of usable capital to required capital stood at 13.3 times at end-2008, one of the highest among MDBs.

The impact of the ongoing global economic crisis on AfDB has been limited so far. As the bank holds only small amounts of asset- and mortgage-backed securities in its liquid assets portfolio and had no exposure to distressed financial institutions, it has recorded limited credit losses on treasury operations. In addition, its largest borrowers have proved resilient to the depressed economic environment so far, and no increase in arrears was recorded in 2008. Impaired loans, which have been on a decreasing trend due to the debt relief obtained by many countries, fell in 2008 to 4.7% of outstanding loans from 10.9% at end-2007; this was in great part attributable to the clearance by Cote d'Ivoire of its arrears to the bank. However, loan disbursements are expected to rise during the remainder of 2009 and during 2010, as many sovereign borrowers in Africa have difficulties accessing the debt markets, and have increasingly applied to the AfDB for financing. At the same time, the AfDB's rapid growth in private-sector lending is expected to 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 coming years and abide by the bank's prudential rules, the AfDB's board of directors has started discussions with its shareholders to substantially increase its capital.

The AfDB is an MDB created to assist the economic and social development of African countries. The bank is headquartered in Abidjan (Cote d'Ivoire), but has been temporarily relocated in Tunis (Tunisia) since 2003. It had 1,491 employees at end-2008

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