23-I-0034
August 17, 2023

Japan Credit Rating Agency, Ltd. (JCR) announces the following credit rating.

Arab Bank for Economic Development in Africa (security code: -)

<Assignment>

Long-term Issuer Rating:	AAA
Outlook:	Stable

Rationale

(1) The Arab Bank for Economic Development in Africa (BADEA) is a multilateral development bank (MDB) established by Arab countries (Members of the League of Arab States - LAS) to promote economic development in (non-Arab) African countries. Its three main activities are participating in financing economic development in the African countries, stimulating the contribution of Arab capital in African development, and participating in providing the technical assistance required for development in Africa. The rating is based on the strong support BADEA enlists from the Arab countries which are its shareholders, the leading role it plays in coordinating Arab countries' support for Africa, the preferred creditor status it enjoys, its sound financial structure and its ample liquidity. The outlook for the rating is Stable. BADEA undertakes development cooperation programs for African countries under its long-term plan "BADEA2030" formulated in 2019 and its eighth Five-Year Plan (2020-2024), playing an important role in coordinating Arab countries' assistance to Africa through participation in the “Arab Coordination Group" – ACG, a consortium of 11 Arab development finance institutions that work together to optimize the application of their resources. It has been receiving strong support from its Arab shareholders as evidenced by the latest USD800 million capital increase it carried out in 2022. JCR holds that even when geopolitical instability should surface in some of the African countries BADEA lends, impairing the quality of its loan assets, it would be able to maintain its sound financial base backed by its high profitability and the strong support assured by its Arab shareholders.

(2) BADEA's establishment was agreed upon at the sixth Arab Summit held in Algiers in 1973 and 18 Arab countries signed an agreement on its incorporation in 1974. The Bank began its operations in 1975. Its headquarters is located in Khartoum, Sudan, but due to the deteriorating security situation in the country, the headquarters was temporarily relocated to Riyadh, Saudi Arabia. The evacuation from Sudan and the operation of the temporary headquarters facilities has been logistically and financially supported by Saudi Arabia, the largest shareholder. BADEA's financial functions have long been performed by its office in Cairo, Egypt, where some of its headquarter staff have been evacuated. In 2015, lending to the private sector was added to its operations. So far, however, such lending has been limited to two-step loans made to banks in African countries, with minimal direct lending made to private non-financial institutions.

(3) The number of the member countries has remained unchanged at 18 since the signing of the 1974 agreement. The fact that African countries, which are borrowing countries, are not the shareholders of BADEA is a feature that makes it unique among MDBs. As of the end of 2022, Saudi Arabia was the largest shareholder with a 25.7% stake. Other Gulf shareholders include Kuwait (15.7%), the United Arab Emirates (10.7%) and Qatar (8.6%). These four and other high-income Gulf countries support the Bank's financial base with a combined 62.1% stake. Egypt, a member of the Arab League, participates in BADEA as a shareholder, not as a borrower. The Bank's articles of establishment define its mainstay operations as (1) participating in financing economic development in the African countries, (2) stimulating the contribution of Arab capital in African development and (3) participating in technical cooperation required for African development. BADEA, like other MDBs, is provided in its articles of establishment with its privileged protections as an international organization, including immunity from expropriation of assets and taxation, legal and administrative restrictions of member countries, immunity of personnel from lawsuits, and protection of communications. Its long-term plan "BADEA 2030" sets four strategic pillars: (1) promoting infrastructure investment to achieve inclusive growth, industrialization and technological innovation, (2) developing agricultural value chains for empowerment and food security, (3) stimulating trade and private-sector development to support growth and job creation and (4) developing small and medium enterprises. The Bank is committed to implement its long-term strategy "BADEA 2030" in coordination with "AU2063 Agenda", a long-term

vision for the development and progress of Africa as a whole set forth in 2013 by the African Union (AU), a coalition of 55 African countries. As to trade stimulation listed as (3) above, it has been providing loans and technical assistance aimed to promote trade in accordance with the African Free Trade Agreement, which was signed in 2018 by 44 African countries in an initiative pushed by the AU.

(4) BADEA's capital has been increased several times. Its paid-in capital was augmented by USD800 million through diversion from its reserve most recently in 2022. At the end of the year, its authorized capital stood at USD20 billion, consisting of USD10 billion in subscribed capital and USD5 billion each in paid-in and callable capital. BADEA pays no dividends to its shareholders, but accumulates all its profits as the reserve and puts them into its capital. Its paid-in capital including the reserve stood at USD5.31 billion. Loans (public sector loans and trade finance) totaled USD2.73 billion, accounting for 50.3% of its total assets put at USD5.42 billion at the end of 2022. Cash and investments totaled USD2.58 billion (48% of the total assets). While 90% of its loans were made to sovereigns rated B or lower, investments were put in bonds rated A or higher through asset management companies in Europe and the U.S. BADEA defines the combined amount of its USD5.31 billion capital and 20% of its callable capital pledged by shareholders rated AA or higher as its "Usable Capital". It has adopted a financial policy to control weighted-average risk assets within the Usable Reserve. Its weighted-average risk assets were USD5.31 billion while the Usable Reserve was USD5.66 billion.

(5) Like other MDBs, BADEA has a track record of debt repayment as a preferred creditor and has not written off any loans since its inception. Its nonperforming loan ratio in terms of a percentage of 180-day delinquent loans rose to about 10% in 2016 but gradually declined later, standing low at 0.6% at the end of 2022. Risk management is conducted in conformity with its Risk Management Framework, which defines acceptable risk levels, through approval of individual loans by its Board of Directors and monitoring by its Risk Management Committee in reference to various indicators such as credit, market, ALM, liquidity and operational risks.

(6) Like other MDBs, BADEA is not profit-oriented but has been profitable to date as interest income from lending and investment income from its ample liquidity have exceeded the cost of operations. Despite the low interest rates charged on its loans to African countries, the Bank has made USD126 million in average annual profit over the past 20 years, well supporting its financial foundation. It ended 2022 in a deficit of USD188 million as its investment income had a valuation loss resulting from the global rise of interest rates and fall of equity prices. Its liquidity was ample as it had cash and other liquid treasury investments equal to 48% of its total assets at the end of 2022.

(7) As of the end of 2022, BADEA had no outstanding debt financing. It is considering borrowing euros from the viewpoint of ALM management in providing euro-denominated loans to CFA franc-zone countries in West Africa. It is setting up an EMTN program with expected initial issuances worth about EUR500 million. Borrowing of this scale will not bring any change in its net cash position and is unlikely to significantly change its financial structure.

Atsushi Masuda, Shinji Asano

Rating

Issuer: Arab Bank for Economic Development in Africa

<Assignment>

Long-term Issuer Rating: AAA Outlook: Stable

Rating Assignment Date: August 14, 2023

The assumptions for the credit ratings and the definitions of the rating symbols are published as "Types of Credit Ratings and Definitions of Rating Symbols" (January 6, 2014) in Information about JCR Ratings on JCR's website (https://www.jcr.co.jp/en/).

Outline of the rating methodology is shown as "Multilateral Development Banks" (March 29, 2013) in Information about JCR Ratings on JCR's website (https://www.jcr.co.jp/en/).

The rating stakeholder participated in the rating process of the aforementioned credit ratings.

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Disclosure Required by Paragraph (a)(1)(ii) of Rule 17g-7

Issuer:	Arab Bank for Economic Development in Africa
Rating Publication Date:	August 17, 2023

1 The Symbol, Number, or Score in the Rating Scale used to Denote Credit Rating Categories and Notches and, the Identity of the Obligor or the Identity and a Description of the Security or Money Market Instrument as Required by Paragraph (a)(1)(ii)(A) of Rule 17g-7

- Please see the news release. If the credit rating is a private rating, please see the report for private rating.

2 The version of the procedure or methodology used to determine the credit rating; as Required by Paragraph (a)(1)(ii)(B) of Rule 17g-7

- Please see the news release. If the credit rating is a private rating, please see the report for private rating.

3 The Main Assumptions and Principles used in Constructing the Procedures and Methodologies used to Determine the Credit Rating as Required by Paragraph (a)(1)(ii)(C) of Rule 17g-7

- The credit rating methodology assumes, in principle, to be applied to assess the likelihood of a given debt payment in light of its issuer's condition and business environment, etc. in the relevant future. There is certain limitation, however, in the time horizon that the rating foresees.
- The credit rating methodology assumes, in principle, that the factors posted in the below are particularly important for such likelihood to be determined, and that the rating determination is made by evaluating each of them not only quantitatively but also employing qualitative analyses.

A) Business Bases
The likelihood of a given debt payment is highly conditional to its issuer's business bases - how they can be maintained/ expanded into the future and thereby secure earnings and cash flows in adequacy and in a sustainable way.

B) Financial Grounds and Asset Quality
The likelihood of debt payment is highly dependent on the degree of the issuer's indebtedness and loss absorption capacity in terms of equity capital. Also notable is that a financial institution might see a significant loss of financial grounds as a result of changes in value of the assets under its possession.

C) Liquidity Positions
The likelihood of debt payment is highly dependent on the adequacy of the issuer's cash and other sources of repayment (liquidity positions).

D) Related Parties' Status and Stance of Support/ Assistance for the Issuer

The likelihood of debt payment is affected one way or the other by the issuer's related parties such as member countries, the issuer's related organizations, guarantor, and the government of the issuer's business domicile, etc. - by their own conditions and/ or position of support/ assistance for the issuer.

E) Order of Seniority in Debt Payment

The likelihood of debt payment can be different between given debts of the same issuer. The likelihood of debt payment for an individual debt is dependent on the issuer's discretion, and/ or its rank relative to other debts of the same issuer in the order of seniority in principal/ interest payment which is determined by design as financial product or by laws, etc.

4 The Potential Limitations of the Credit Rating as Required by Paragraph (a)(1)(ii)(D) of Rule 17g-7

・ The credit rating herewith presented by JCR is its summary opinion with regard to the likelihood of given debt payment and hence not necessarily a perfect representation of such likelihood. The credit rating is not intended to estimate the probability of default or the loss on given default, either.

・ The objective of the credit rating herewith presented does not include any concerns other than the likelihood of debt payment, such as risks of price changes, market liquidity, etc.

・ The credit rating herewith presented is necessary to be reviewed along with possible changes of the issuer of rated objects in its business performance and/ or circumstances which include regulatory environment, and hence subject to possible alteration.

5 Information on the Uncertainty of the Credit Rating as Required by Paragraph (a)(1)(ii)(E) of Rule 17g-7

・ The information used for the determination of credit rating as herewith presented is obtained by JCR from the issuer of rated objects and other sources that JCR trusts in terms of accuracy and reliability but possibly contains errors due to human, non-human or other causes. Consequently, the credit rating determined on the grounds of such information does not constitute, explicitly or implicitly, any representation or warrant of JCR on the information itself or any consequences of its use in terms of accuracy, relevance, timeliness, wholeness, market value, or usefulness for any specific purposes.

6 Use of Due Diligence Services of a Third Party in Taking the Rating Action as Required by Paragraph (a)(1)(ii)(F) of Rule 17g-7

・ There is no use of any third-party due diligence service in the determination of the credit rating herewith presented.

7 Use of Servicer or Remittance Reports to Conduct Surveillance of the Credit Rating Required by Paragraph (a)(1)(ii)(G) of Rule 17g-7

・ There is no use of any servicer or remittance report to conduct surveillance of the credit rating herewith presented.

8 The Types of Data Relied Upon for the Purpose of Determining the Credit Rating as Required by Paragraph (a)(1)(ii)(H) of Rule17g-7

- The information posted in the below, which includes data, is used for the determination of the credit rating herewith presented.

  A) Audited financial statements presented by the rating stakeholders

  B) Explanations of business performance, management plans, etc. presented by the rating stakeholders

9 Overall assessment of the Quality of Information Available and Considered in Determining the Credit Rating as Required by Paragraph (a)(1)(ii)(I) of Rule 17g-7

- JCR holds its basic policies for securing the quality of information as a base of due diligence for the determination of credit ratings. The information used as a base for the determination of credit rating herewith presented satisfies such policies, which include the audit by an independent auditor, the publication by the issuer or some independent media or, otherwise, JCR analyst's scrutiny, etc.
- JCR sees no particular weakness in the quality of information used for the determination of the credit rating herewith presented as compared to the information used in other cases of the credit rating for comparable issuers or ratable objects.
- If the credit rating is an Indication, please see the report for Indication.

10 Information Relating to Conflicts of Interest as Required by Paragraph (a)(1)(ii)(J) of Rule 17g-7

- JCR receives payment of compensation for the determination of the credit rating herewith presented from either one of those parties who are issuer, underwriter, depositor or sponsor.
- JCR did not receive in the last fiscal year in the past payment of compensation from the same party for any kind of JCR's service other than the determination of public or private credit rating, such as one in the ancillary business.

11 Explanation or Measure of the Potential Volatility of the Credit Rating as Required by Paragraph (a)(1)(ii)(K) of Rule 17g-7

A) Business Bases

The credit rating is subject to alteration if there is improvement or deterioration of the issuer's business bases, since its revenue, etc. may improve or deteriorate by the change in its business management policies, clients' preferences, competitive situation, or a technological innovation. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change in the business bases is large.

B) Financial Grounds and Asset Quality

The credit rating is subject to alteration if the issuer increases/ decreases its debt/ capital or vice versa and thereby makes its individual debt payment liability less or more bearable and its loss absorption capacity into the future decreased or increased. Also, the changes in the quality of asset under the issuer's holding may affect the credit rating, since such changes could raise or lower the likelihood of future loss of the issuer's financial grounds. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change in the financial grounds and/ or asset quality is large.

C) Liquidity Positions

The credit rating is subject to alteration if there is a change in the issuer's financial management policy or in the relations with fund procurement sources and the change thereby makes its liquidity positions improve or deteriorate. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change is large.

D) Related Parties' Status and Stance of Support/ Assistance for the Issuer

The credit rating is subject to alteration if there is a change in the issuer's member countries, the issuer's related organizations, guarantor or other provider of credit enhancement, or the government of the issuer's business domicile, or other related parties' own conditions and/ or position of support/ assistance for the issuer, and the change thereby makes its business bases, financial grounds and/ or liquidity positions improve or deteriorate, and/ or making the effectiveness of guarantee and other credit enhancement improve or deteriorate. The resultant alteration of the credit rating is usually a notch, with possibility of a few notches if and when the change is large.

E) Order of Seniority in Debt Payment and Non-Payment Forgiven by Contract

The credit rating is subject to alteration if there is a change in the rated debt's status in the order of seniority relative to other debts caused by the improvement/ deterioration of the issuer's financial condition. The resultant alteration of the credit rating is usually a notch, with possibility of a few notches if and when the change is large. Also, in case of the financial products for which non-payment of interest/ principal is contractually permissible, the credit rating is subject to alteration if and when the likelihood of such non-payment is projected to increase or decrease. The resultant alteration of the credit rating could be by a notch but often as much as a few notches.

F) Rise and Fall in General Economy and Markets

The credit rating is subject to alteration if there is a rise/ fall in the general economy and/ or the markets inducing the issuer's revenues/ expenses to increase/ decrease and vice versa, etc. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change is exceptionally large.

G) Various Events

The credit rating is subject to alteration on occurrence of various events, such as change in the issuer's major shareholders, M&A and other organizational change, accident, violation of the law, litigation, legal/ regulatory change, natural disaster, etc., which are unforeseeable at the time when the credit rating is determined, causing a significant change on the issuer's business bases, financial grounds, etc. The resultant alteration of the credit rating could be by a notch but more often than not as much as a few notches.

12 Information on the Content of the Credit Rating, Including the Historical Performance of the Credit Rating and the Expected Probability of Default and the Expected Loss in the Event of Default as Required by Paragraph (a)(1)(ii)(L) of Rule 17g-7

- The credit rating herewith presented by JCR is its summary opinion with regard to the likelihood of given debt payment and hence not necessarily a perfect representation of such likelihood. The credit rating is not intended to estimate the probability of default or the loss on given default, either.
- Facts of the probability of default are posted as Form NRSRO Exhibit 1 on the JCR website under the URL:

https://www.jcr.co.jp/en/service/company/regu/nrsro/

13 Information on the Sensitivity of the Credit Rating to Assumptions Made as Required by Paragraph (a)(1)(ii)(M) of Rule 17g-7

A) Business Bases

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer's business bases and powers of earning or cash flow generation, etc. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if the development is rapid in improvement or deterioration of the issuer's business bases on some drastic change in the operational environments, etc.

B) Financial Grounds and Asset Quality

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer's financial grounds and asset quality. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if the development is rapid in improvement or deterioration of the issuer’s financial grounds and/ or asset quality on some drastic change in its business bases.

C) Liquidity Risks

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer’s liquidity positions. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if the development is rapid in improvement or deterioration of the issuer’s liquidity positions on some drastic change in its financial management policy or relations with fund procurement sources, etc.

D) Related Parties’ Status and Stance of Support/ Assistance for the Issuer

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to member countries, the issuer’s related organizations, guarantor or other providers of credit enhancement, the government of the issuer’s business domicile or other related parties’ status and stance of support/ assistance for the issuer. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if there is a major change on the part of related parties, such as replacement, disappearance, some drastic improvement/ deterioration of financial grounds/ balances, etc.

E) Rise and Fall in General Economy and Markets

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the prospects of general economy and markets. JCR expects the change should be most likely by a notch but could be as much as a few notches, should the economy or the markets change so greatly.

14 Information on the Representations, Warranties, and Enforcement Mechanisms of an Asset-backed Security as Required by Paragraph (a)(1)(ii)(N) of rule 17g-7

・ The credit rating herewith presented is not for an ABS product, and hence no relevant issue.

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Attestation Required by Paragraph (a)(1)(iii) of Rule 17g-7

I, Kiichi Sugiura, have responsibility to this Rating Action and to the best of my knowledge:

A) No part of the credit rating was influenced by any other business activities.

B) The credit rating was based solely upon the merits of the obligor, security, or money market instrument being rated.

C) The credit rating was an independent evaluation of the credit risk of the obligor, security, or money market instrument.

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General Manager of International Rating Department

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