

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

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

<Affirmation>

Long-term Issuer Rating:	AAA
Outlook:	Stable
Bonds:	AAA
EMTN Program:	AAA

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 development finance in the African countries, stimulating the contribution of Arab capital in African development, and 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 a leading role in coordinating Arab countries' assistance to Africa through the "Arab Coordination Group (ACG)" formulated by 10 Arab development finance institutions that work together to optimize the allocation of their resources. 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. This year marks BADEA's 50th anniversary. Due to the deteriorating security situation in Khartoum, Sudan where the BADEA's headquarters used to be located, the headquarters was temporarily relocated to Riyadh, Saudi Arabia. BADEA's financial functions have long been performed by its office in Cairo, Egypt. In 2015, lending to the private sector was added to its operations. So far, however, such lending has been limited to two-step loans to the banks in African countries, with minimal direct lending made to private non-financial companies.
- (3) The number of the member countries has remained unchanged at 18 since the signing of the 1974 agreement. The fact that borrowing countries are not the shareholders of BADEA is a unique feature. As of the end of 2023, Saudi Arabia was the largest shareholder with a 25.7% stake and high-income Gulf countries held a combined 62.1% stake. The Bank's articles of establishment has defined its mainstay operations as (1) development finance in the (non-Arab) African countries, (2) stimulating the contribution of Arab capital in African development and (3) technical cooperation required for African development. The 2024 amendment on the articles of establishment added two additional pillars of operation such as (4) supporting the development of private sector institutions in the African countries and (5) providing finance for Arab-African trade and inter-African trade finance. Like other MDBs, BADEA's articles of establishment includes provisions of immunities and privileges for an international organization, including immunity from expropriation of assets and taxation, legal and other restrictions within 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, (2) developing agricultural value chains, (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.

- (4) BADEA has been receiving strong support from its Arab shareholders as evidenced by the fact that BADEA's capital has been increased many times. The latest USD800 million capital increase was carried out in 2022 through diversion from its reserve. At the end of 2023, 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 USD5.6 billion. Loans and investments (public sector loans and trade finance and participations in African institutions) totaled USD3.22 billion, accounting for 53.9% of its total assets put at USD5.97 billion at the end of 2023. Cash and investments totaled USD2.55 billion (42.7% 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 USD5.6 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 USD6.32 billion while the Usable Reserve was USD6.56 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 0.5% at the end of 2023. 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. In 2022 in a deficit of USD188 million was recorded as its investment income had a valuation loss. Profitability has been restored by marking operational surplus of USD292 million in 2023 and USD101 million for the first half of 2024. Its liquidity was ample as it had cash and other liquid treasury investments equal to 43% of its total assets at the end of 2023.
- (6) As of the end of 2022, BADEA had no outstanding debt financing. It decided to start borrowing program of euros from the viewpoint of ALM management in providing euro-denominated loans to CFA franc-zone countries in West Africa. It set up an EMTN program in November 2023 and issued the first Euro bond of EUR500 million. It is under consideration that the outstanding issued debt amount would increase to around EUR1.5 billion for the medium-term. JCR holds that 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

<Affirmation>

Long-term Issuer Rating: AAA	Outlook: Stable				
Issue	Amount (mn)	Issue Date	Due Date	Coupon	Rating
EUR 500 million 3.750% Social Notes due 2027	EUR500	January 25, 2024	January 25, 2027	3.750%	AAA
Program Name:	Euro Medium Term Note Programme				
Maximum Issuable Amount:	Unlimited in Amount				
Credit Enhancement:	NA				
Rating:	AAA				

Rating Assignment Date: November 8, 2024

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.

A program rating is assigned to evaluate the creditworthiness of a program. The credit standing of an individual note issued under the program may be regarded as the same as that of the rated program. However, JCR does not consider the credit standing of the individual note as the same as that of the program, in the cases where the principal and interest payments of the individual note rely on the credit standing of a third party rather than the issuer of the program and notes (e.g. credit linked notes and exchangeable notes). JCR usually does not assign a rating to the individual note issued under the program, unless the issuer solicits a rating.



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