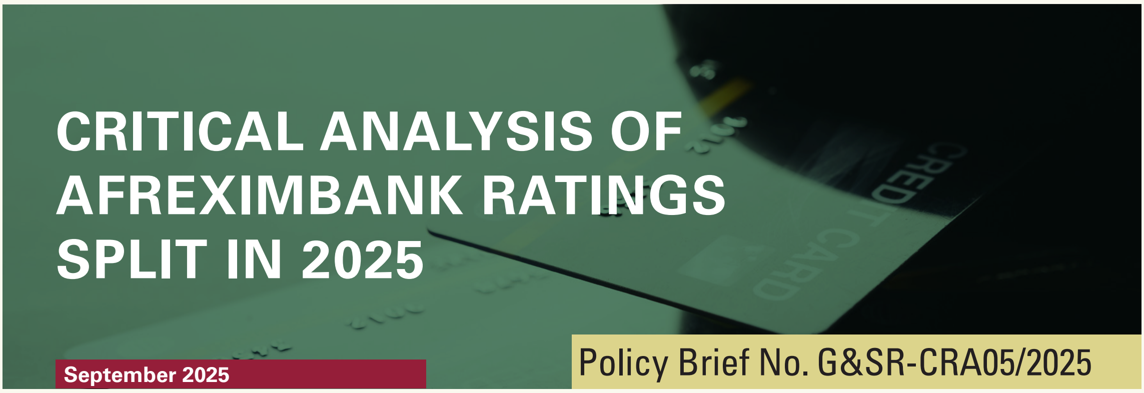

CRITICAL ANALYSIS OF AFREXIMBANK RATINGS SPLIT IN 2025

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APRM African Peer Review Mechanism

An Institution of the African Union

I. ABOUT THIS BRIEF

Decision [Assembly/AU/Dec.631(XXVII)] of the African Union Assembly of Heads of State and Government, along with Article 6(g) of the African Peer Review Mechanism (APRM) Statute (2020), mandates the APRM to support African countries in the area of credit ratings. As part of this mandate, the APRM routinely undertakes independent analyses of rating actions and commentaries issued by international credit rating agencies on African sovereigns and multilateral financial institutions.

II. EXECUTIVE SUMMARY

Since Fitch Ratings downgraded Afreximbank in June 2025, a noticeable divergence has emerged between how global and regional agencies assess African Multilateral Financial Institutions (AMFIs). Fitch and Moody's opted for downgrades, citing stress indicators on Afreximbank's balance sheet, such as rising non-performing loans (NPLs), weak risk management frameworks, and sovereign risk concentration. In contrast, regional agencies such as the Japan Credit Rating (JCR), Global Credit Ratings (GCR), and China Chengxin Credit Rating (CCXI) reaffirmed A-class ratings for the bank.

These regional agencies recognise Afreximbank's strategic role in Africa, its support from the African Union and Member States, and place greater weight on its capital buffers, liquidity, and, crucially, its countercyclical mandate and preferred creditor treatment (PCT). This divergence is not merely technical; it highlights methodological shortcomings and a lack of understanding of development mandates within traditional ratings frameworks. This policy brief interrogates these differences across key thematic areas and examines their implications for policy, investor relations, and Africa's strategic engagements with rating agencies.

III. ANALYSIS OF DIVERGING RISK FACTORS

On 4 June 2025, Fitch Ratings[1] downgraded Afreximbank's long-term issuer rating from BBB to BBB- with a negative outlook. Moody's followed suit on 1 July 2025, downgrading the bank from Baa1 to Baa2 with a stable outlook. In contrast, between 30 July and 4 August 2025, CCXI, GCR, and JCR affirmed Afreximbank's ratings at AAA (stable), A (rating watch), and A- (stable), respectively.

1 https://www.afreximbank.com/investor-relations/credit-ratings/

These rating outcomes are significant for several reasons:

a) CCXI is the primary gatekeeper for Panda bond issuance in China's interbank market, where Afreximbank has been an active borrower in 2025. CCXI is partly owned by Moody's, which holds a 30% stake.

b) JCR is a major player in Japan's credit rating market. In November 2024, Afreximbank issued its first Samurai bonds worth JPY 81.3 billion (approximately USD 530 million), leveraging its JCR rating.

c) GCR is the largest rating agency in Africa and has been fully owned by Moody's Corporation since July 2024.

The following sections detail the key risk factors underpinning the rating divergence:

1. Non-Performing Loans (NPLs)

Under the International Financial Reporting Standards (IFRS) 9, a loan is considered non-performing when it is credit-impaired, typically when contractual payments are over 90 days overdue, or there is objective evidence of default or significant financial distress. However, for Multilateral Development Banks (MDBs) like Afreximbank, sovereign exposures are often treaty-backed, collateralised, or structured with guarantees. These features provide strong loss mitigation and help ensure continued cash flows even under stress or restructuring. As such, Afreximbank reports a lower NPL ratio of 2.3% in the last financial year.

a) Fitch and Moody's reclassified sovereign exposures to Ghana, Zambia, and South Sudan as non-performing under their own impairment definitions, despite the bank's IFRS 9 treatment. Fitch flagged the NPLs above 6% as "high risk," while Moody's highlighted risks from unsecured sovereign lending and potential comparability issues under the Common Framework.

b) JCR, GCR, and CCXI accepted the bank's 2.3% reported NPL ratio, acknowledging the role of collateralisation, insurance, and preferential creditor treatment in mitigating loss. These agencies took the treaty-backed context into account and were less inclined to reclassify these exposures.

2. Capitalisation

Capitalisation measures a bank's ability to absorb losses while maintaining solvency. It includes paid-up capital, internal capital generation, and callable capital.

a) Fitch and Moody's recognised strong equity to assets and internal capital generation but emphasised concerns over risk-weighted solvency and unsecured sovereign lending. They saw potential capital adequacy erosion from weak asset performance and potential losses from sovereign restructurings, although they acknowledged shareholder injections and provisions as mitigating factors.

b) JCR, GCR, and CCXI adopted a broader view of capitalisation, placing greater weight on paid-up capital mobilisation (of USD 2.1 billion) from a total approved increase of USD 6.5 billion. They recognised the credit-enhanced callable capital of approximately USD 1.8 billion from the Capital Risk Protection Facility (CARPROOF) and other new capital protection schemes. These were considered sufficient to offset tail risks and support growth.

3. Liquidity and Solvency

Whilst liquidity ensures short-term operational stability, solvency guarantees long-term financial sustainability, underpinning the bank's ability to support trade finance and maintain credit ratings even in high-risk operating environments.

a) Fitch and Moody's acknowledged Afreximbank's strong liquidity buffers but cautioned that rising credit risks and sovereign exposures could pressure the bank's solvency over the medium term. Fitch assigned an 'a' liquidity factor rating, reflecting high-quality treasury assets, but noted potential strain if NPLs increase or sovereign restructurings expand. Moody's likewise highlighted robust cash holdings of USD 9.5 billion and a short-duration loan book that supports flexible liquidity management. However, both agencies noted that the bank's funding base is less diversified and that sovereign lending could pose solvency risks under stress scenarios.

b) JCR, GCR, and CCXI highlighted the adequacy of liquid assets, undrawn committed lines, matched funding, and the short-duration loan book. They concluded that the liquidity framework remains robust, with confidence that treasury asset quality and diversified funding channels (Samurai and Panda bonds, bilateral loans, club deals) support continuity. Consequently, these agencies conclude that Afreximbank's liquidity and solvency buffers effectively mitigate tail risks, supporting higher ratings and bolstering investor confidence in both domestic and international capital markets.

4. Mandate from AU Member States

Although it is an independent multilateral financial institution, Afreximbank carries a formal mandate from the African Union (AU) to advance the continent's trade and integration agenda. The AU Assembly of Heads of State and Government has repeatedly recognised Afreximbank as a strategic continental financial institution in its declarations, tasking the bank to support the African Continental Free Trade Area (AfCFTA) and to finance programmes during crises. In this way, Afreximbank plays a strategic role in operationalising AU priorities by mobilising resources and strengthening Africa's financial autonomy.

a) Fitch and Moody's acknowledge Afreximbank's growing importance as a multilateral trade financier but view its expanding mandate with caution. They suggest that greater involvement in sovereign support, AfCFTA implementation, and countercyclical lending heightens risk concentration. Consequently, both agencies consider mandate expansion a potential credit negative, with limited upside recognition.

b) JCR, GCR, and CCXI place greater emphasis on the credibility and execution of Afreximbank's mandate, linking its alignment with AU priorities (AfCFTA, PAPSS, and the Adjustment Fund) to long-term systemic stability. These agencies argue that the bank's countercyclical role during crises, its deep integration with AU Member States, and its unique position as the continent's designated trade finance institution enhance resilience rather than weaken it, meriting positive treatment in their credit analysis.

5. Preferred Creditor Treatment (PCT)

The PCT status of African Multilateral Financial Institutions (AMFIs), including Afreximbank, has been questioned by international frameworks due to the presence of private shareholding in their ownership structures. Despite this criticism, Afreximbank continues to receive preferential creditor treatment from participating AU Member States, as demonstrated by priority repayments when funds become available. The bank's PCT is enshrined in its ratified treaty establishing agreement, which legally binds member countries to honour their debt obligations in full. The AU Executive Council has on several occasions reaffirmed member states' commitment to the PCT enshrined in the agreement to which all member states are signatories.

a) Fitch and Moody's have increasingly questioned the strength of Afreximbank's PCT, arguing that the bank could be drawn into sovereign debt restructurings if comparability of treatment with Eurobond holders is strictly applied. They treat this uncertainty as a credit weakness, noting that it could result in losses or reprofiling for the bank.

b) JCR, GCR, and CCXI, by contrast, view Afreximbank's PCT as credible, citing its consistent track record of Member States honouring obligations as evidence of strong preferential treatment more broadly, as demonstrated behaviour, reinforced by treaty commitments and historical performance, and therefore granting the bank meaningful protection and recovery advantages.

6. Internal Risk Management

Rating agencies consider risk management a frontline defence against credit losses. For MFIs, it is both a prudential requirement and a strategic policy tool to demonstrate resilience while fulfilling their countercyclical mandates. Weaknesses in transparency, governance practices, or prudential alignment are viewed as signs of inadequate risk management.

a) Fitch and Moody's express significant concerns about Afreximbank's risk management. Both highlight limited transparency in loan-performance reporting, with Fitch declining to recognise IFRS 9 flexibilities. Fitch also points to opacity around collateral treatment and loan classification, which may delay timely recognition of credit stress. Moody's raises similar concerns and warns that the recent shift toward a more unsecured sovereign exposures has heightened capital and litigation risks in potential restructuring scenarios. Moody's also suggests that the bank's risk appetite and underwriting discipline require recalibration.

b) JCR, GCR, and CCXI placed greater emphasis on the bank's operational mitigants and its introduction of diversified instruments. They note that approximately 84% of loans are secured, and highlight the extensive use of insurance, structured trade finance, and syndications as evidence of a robust and evolving risk-management framework. These agencies view the bank's mix of collateralisation, callable capital enhancements, and insurance coverage as clear evidence that tail risks are actively managed. They affirmed that governance and control frameworks are adequate for the bank's expanding mandate.

7. High-Risk Operating Environment

Afreximbank's business model is structurally tied to Africa's sovereign and trade finance risk, which investors and international credit rating agencies classify as a high-risk operating environment. As a result, the bank's rating ceiling is largely constrained by the continent's credit challenges, despite its strong capitalisation, formal mandate, treaty protections, and critical policy role.

a) Fitch and Moody's applied a structural penalty to Afreximbank's standalone credit profile (SCP) due to its operational concentration in Africa, which they regard as a high-risk operating environment. Both agencies flagged geographic concentration in Egypt and Nigeria as a substantial vulnerability given weak sovereign credit quality, political risks, and commodity export dependence. The agencies apply a two-notch negative adjustment to the bank's rating to capture systemic and governance risks in the operating environment.

b) JCR, GCR, and CCXI adopt a more mitigant-weighted approach. While acknowledging the same macro vulnerabilities, they emphasise Afreximbank's structuring toolkit: secured trade finance, collateralisation, strong funding access, insurance, and syndications, which enhance the bank's resilience. They also highlight Afreximbank's countercyclical mandate and proven record of maintaining asset quality during crises. These agencies view these features as stabilising factors that offset environmental risk penalties and yield a more favourable operating environment assessment.

8. Strong Profitability

Afreximbank's consistently strong profitability is a core pillar supporting its credit profile and mitigates risks from sovereign exposures such as Ghana and Zambia. The Bank has shown resilience under various stress scenarios, maintaining robust capital adequacy even when tested for partial losses. Its ability to generate stable earnings across a diversified portfolio of trade finance, syndications, and structured products anchors this strength. For more than a decade, Afreximbank has maintained an average net profit-to-equity ratio of 10%, materially exceeding peer multilateral benchmarks, and providing significant internal capital generation.

a) Fitch and Moody's acknowledged Afreximbank's very strong profitability but remained cautious about its sustainability under stress. While crediting the bank for its stable earnings and high operating efficiency, they argue that concentrated sovereign exposures could erode earnings resilience in downside scenarios, particularly in the event of restructurings.

b) JCR, GCR, and CCXI placed greater emphasis on profitability as an active risk mitigant, arguing that strong internal capital generation materially offsets potential credit risks. They highlighted Afreximbank's 2024 net profit-to-usable equity ratio of over 12% as evidence of robust buffers that support solvency and growth even in high-risk environments. These agencies underline the bank's proven ability to generate countercyclical earnings and sustain profitability during market stress treating this as a structural strength underpinning higher ratings and investor confidence.

9. Conclusions and Policy Recommendations

The 2025 ratings split on Afreximbank underscores a deeper methodological divergence between international rating agencies (Fitch, Moody's) and regional counterparts (JCR, GCR, CCXI) in assessing AMFIs. International agencies apply more conservative classifications, penalising the operating environment and warning of sovereign debt restructuring risks. Regional agencies, by contrast, place greater weight on treaty-backed status, strong collateralisation, PCT-based capital protection, and countercyclical mandate, resulting in more favourable assessments. This divergence has material implications for funding costs, investor perceptions, and Africa's broader financial sovereignty. Despite the reluctance of international rating agencies to fully reflect Afreximbank's positive fundamentals, several measures could strengthen future outcomes:

a) In collaboration with the AU, treaty-based AMFIs should reinforce PCT and treaty protections through legal reaffirmations, AU declarations, and publication (where confidentiality allows) of PCT repayment track records to counter market scepticism.

b) Enhance disclosure and risk transparency on collateral coverage, insurance schemes, callable capital, and stress-testing results to demonstrate proactive risk management and address opacity concerns raised by Fitch and Moody's.

c) Integrating endorsements from regional rating agencies into investor relations strategies, especially in Panda and Samurai bond markets, to diversify funding sources and establish competitive benchmarks for other African issuers.

d) The APRM will intensify structured engagement with international rating agencies to address methodological gaps, including operating environment penalties and comparability issues, while simultaneously strengthening alternative rating ecosystems.

e) Highlight the sustained double-digit return on equity and internal capital generation as structural mitigants by publishing forward-looking profitability scenarios under sovereign stress cases to reinforce solvency credibility.

The rating split on Afreximbank illustrates the strategic importance of leveraging alternative rating opinions to counter overly conservative assumptions with transparent, data-driven narratives. A dual-track approach, balancing global and regional ratings, enhances Africa's financial autonomy and establishes a precedent for other AMFIs navigating similar global rating asymmetries.

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