AFRICAN SOLIDARITY FUND

AA+/Positive/w-2

ANALYSIS

September 2021

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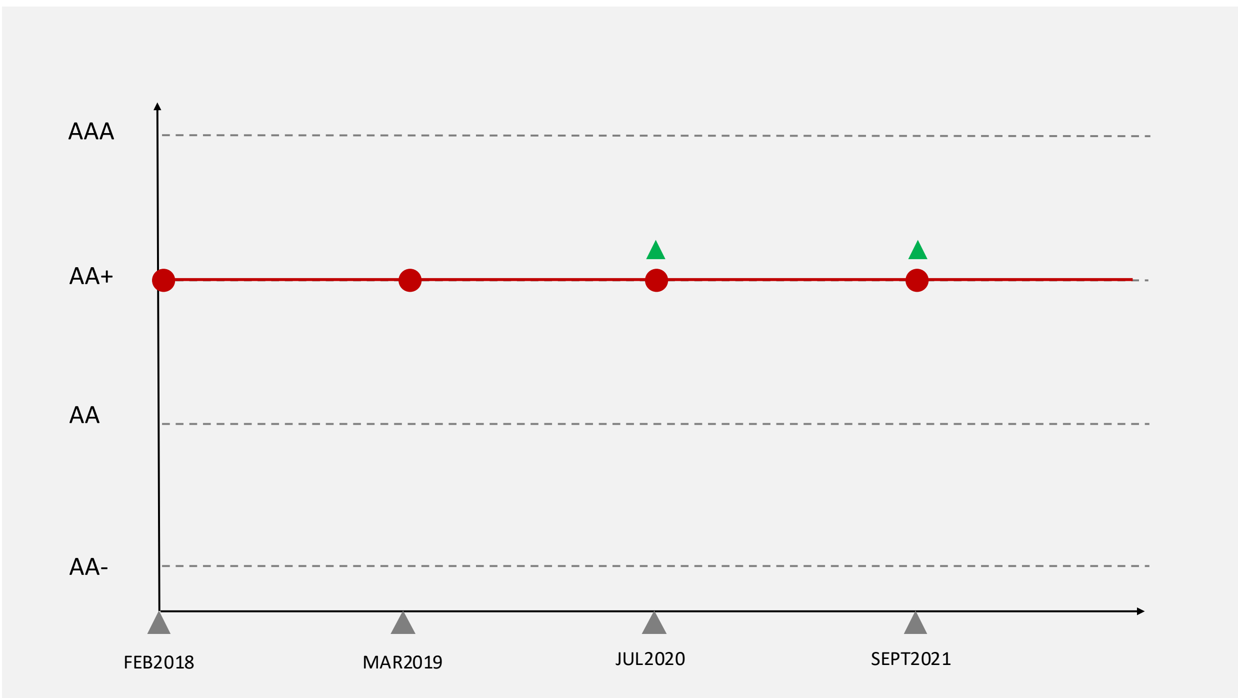
RATING

Rating scale	Regional	International
Methodology	Bank/MDB/GarFund	Bank/MDB/GarFund
Long-term rating	**AA+**	**iBB+**
Outlook	Positive	Positive
Short-term rating	w-2	iw-5
Watch	No	No

EVOLUTION OF THE LONG-TERM RATING



SUMMARY

- **WARA has rated the African Solidarity Fund since February 2018. In September 2021 its rating was affirmed at AA+/w-2 with a 'Positive' outlook.**

The African Solidarity Fund (ASF) is a multilateral financial institution with headquarters in Niger and as of July 2021 its shareholders were fourteen African Member States. This rating is not subject to any national sovereign ceiling, since the ASF is rated by WARA according to the methodology applicable to banks and multilateral development institutions, whose ratings are not capped.In September 2021 this rating was affirmed at **AA+/w-2**, while the outlook remains '**Positive**'.

For reference, on the international rating scale, the ratings and outlook assigned by WARA to the ASF are: **iBB+/Positive/iw-5.**

The ASF's *standalone rating*, independent of external support factors, is **'A'** according to WARA, which is equivalent to a total weighted score of **2.25/6.00 (i.e., a 6-basis-point upgrade compared to August 2020)**. As per its methodological classification criteria, WARA considers the ASF to be both a Bank / Multilateral Development Institution (MDB) and a Guarantee Fund (GarFund). Therefore, the applicable methodology is that of banks, while considering the particularities pertaining to MDBs and GarFunds, including the rules of parental external support factors calibration (see the ASF's Company Profile). Once the external support factors are incorporated (see page 7), the ASF's long-term counterparty rating becomes **'AA+'**, without this rating being dependent on any national ceiling.

In fact, the shareholders of the ASF are exclusively African States. 14 Member States, out of the 54 countries of the African continent, are currently shareholders of the ASF. These states are also members of one of the following three integrated regions: Economic Community of West African States (ECOWAS); Economic Community of Central African States (ECCAS); and Common Market for Eastern and Southern Africa (COMESA).

The ASF's standalone rating (**A**) is based on the following main drivers:

Credit strengths

- **Very strong capitalization,** despite an uneasy process of called capital paying-in.
- **Very high asset liquidity**, with no leverage.
- **Good diversification** in terms of countries and sectors.
- **Sound governance, robust management, and stringent controls**, which considerably limits operational risks.
- **Astute strategic positioning,** as it meets the high financing needs of SMEs, in a market with very few active players and where the strategic objectives of the ASF appear to be clear, relevant, and realistic at the same time.

Credit weaknesses

- **Excessive concentration on a limited number of large exposures**, given the still modest size of the portfolio of commitments despite the institution's long history.
- **Risk management that could be improved**, among others, by lowering the level of counterparty concentration and setting sectoral policies. WARA points out that the risk management framework is indeed given special attention and its strengthening is ongoing.
- **Low level of profitability,** as the institution is not profit-oriented. However, there has been progress in operational efficiency since 2018, while the improvement in portfolio quality allows the ASF to better control the cost of risk.

SCORECARD

BANK RATING FACTORS			Weight	Score	Weighted Score 2021	2020 Scores	
ENVIRONMENTAL FACTORS			**20%**	**2.45**	**0.49**	**2.45**	**0.49**
SRF.B1	**Macroeconomic environment**	**ME**	**8%**	**2.50**	**0.20**	**2.50**	**0.20**
	Maturity		*2%*	*3.00*	*0.06*	*3.00*	*0.06*
	Volatility		*2%*	*2.00*	*0.04*	*2.00*	*0.04*
	Diversification		*2%*	*2.00*	*0.04*	*2.00*	*0.04*
	Sustainability		*2%*	*3.00*	*0.06*	*3.00*	*0.06*
SRF.B2	**Operating environment**	**OE**	**7%**	**2.29**	**0.16**	**2.29**	**0.16**
	Systemic governance		*3%*	*2.00*	*0.06*	*2.00*	*0.06*
	Infrastructure		*2%*	*3.00*	*0.06*	*3.00*	*0.06*
	Information		*2%*	*2.00*	*0.04*	*2.00*	*0.04*
SRF.B3	**Regulatory environment**	**RE**	**5%**	**2.60**	**0.13**	**2.60**	**0.13**
	Regulation		*3%*	*3.00*	*0.09*	*3.00*	*0.09*
	Supervision		*2%*	*2.00*	*0.04*	*2.00*	*0.04*
QUALITATIVE FACTORS			**50%**	**2.38**	**1.19**	**2.51**	**1.25**
SRF.B4	**Strategic positioning**	**SP**	**15%**	**2.47**	**0.37**	**2.47**	**0.37**
	Market share		*6%*	*3.00*	*0.18*	*3.00*	*0.18*
	Operating diversification		*5%*	*3.00*	*0.15*	*3.00*	*0.15*
	Geographic diversification		*4%*	*1.00*	*0.04*	*1.00*	*0.04*
SRF.B5	**Governance and risk**	**GR**	**20%**	**2.35**	**0.47**	**2.42**	**0.48**
	Idiosyncratic governance		*7%*	*2.00*	*0.14*	*2.00*	*0.14*
	Risk Management		*7%*	*3.00*	*0.21*	*3.20*	*0.22*
	Controls		*6%*	*2.00*	*0.12*	*2.00*	*0.12*
SRF.B6	**Asset quality**	**AQ**	**15%**	**2.33**	**0.35**	**2.67**	**0.40**
	Qualitative performance of portfolios		*5%*	*2.00*	*0.10*	*3.00*	*0.15*
	Sector concentration		*5%*	*1.00*	*0.05*	*1.00*	*0.05*
	Counterparty concentration		*5%*	*4.00*	*0.20*	*4.00*	*0.20*
FINANCIAL FACTORS			**30%**	**1.90**	**0.57**	**1.90**	**0.57**
SRF.B7	**Profitability**	**PR**	**10%**	**3.70**	**0.37**	**3.70**	**0.37**
	Net asset return		*6%*	*3.50*	*0.21*	*3.50*	*0.21*
	Operational efficiency		*4%*	*4.00*	*0.16*	*4.00*	*0.16*
SRF.B8	**Liquidity**	**LQ**	**10%**	**1.00**	**0.10**	**1.00**	**0.10**
	Asset liquidity		*5%*	*1.00*	*0.05*	*1.00*	*0.05*
	Funding and liquidity management		*5%*	*1.00*	*0.05*	*1.00*	*0.05*
SRF.B9	**Capitalization**	**CA**	**10%**	**1.00**	**0.10**	**1.00**	**0.10**
	Financial leverage		*4%*	*1.00*	*0.04*	*1.00*	*0.04*
	Regulatory capital		*6%*	*1.00*	*0.06*	*1.00*	*0.06*
	TOTAL WEIGHTED SCORE				**2.25**	**2.31**	
	ADJUSTMENT				**0%**	**0%**	
	ADJUSTED TOTAL WEIGHTED SCORE				**2.25**	**2.31**	
	STANDALONE RATING				**A**	**A**	

ATWS		SR.B
From:	To:	
1.00	1.24	AAA
1.25	1.49	AA+
1.50	1.74	AA
1.75	1.99	AA-
2.00	2.24	A+
2.25	**2.49**	**A**
2.50	2.74	A-
2.75	2.99	BBB+
3.00	3.24	BBB
3.25	3.49	BBB-
3.50	3.74	BB+
3.75	3.99	BB
4.00	4.24	BB-
4.25	4.49	B+
4.50	4.74	B
4.75	4.99	B-
5.00	5.24	CCC+
5.25	5.49	CCC
5.50	5.74	CCC-
5.75	5.99	CC/C

+ 4 notches due to parental external support

OUTLOOK

The outlook attached to the rating on the ASF remains **Positive**. WARA justifies this positive outlook by the fact that the ASF's medium-term equity and liquidity indicators are expected to remain at a high level, which is a corollary of sound and transparent governance and a moderate appetite for risk. Moreover, the strengthening of human resources, scoring and integrated risk management tools (which are being procured), and file scrutiny processes supports improvement in asset quality, while the expected volume growth should allow the institution to significantly increase its structural profitability. Finally, its status of a guarantor, approved by COSUMAF and CMA (Rwanda) in 2019, will allow the ASF to broaden its field of activity. The due diligence to obtain approvals for the financial markets of Burundi and Mauritius is underway. Furthermore, the MTSDP valid up to 2025, which took over from the 2016-2020 MTSDP, should make it possible for the ASF to gain momentum with the first noticeable results expected as soon as the end of 2022.

An upgrade of the ASF's rating is contingent on: i) its Member States structural improvement; ii) the full payment of the called capital and the contribution to the Special Bonus Fund; iii) enhancement of its human resources; iv) incrementally curbing the counterparty concentration level, and more generally, upgrading of its risk management framework; and v) the improvement and stabilization of structural profitability, resulting from the successful implementation of the new medium-term strategic plan, and vi) strengthening of its standards in terms of governance and operations thanks to the partnerships with the ADB, the EU, the KFW, and also with the BDEAC.

A downgrade of the ASF's rating would be the consequence of: i) concentration risks materializing, i.e., increased losses on large exposures; ii) higher macroeconomic volatility in one or more economic communities where the ASF operates, which may result in quality deterioration of exposures; iii) a strategy that WARA would consider excessive in terms of financial leverage, likely to weaken the institution's capital or liquidity positions; iv) calling into question the capital support from Member States; or v) governance that WARA would view becoming more lenient, especially in case of less rigorous audit, compliance and expense management checks.

With this positive outlook, WARA points out that the probability of occurrence of the best-case scenarios is greater than that of the worst-case scenarios in the medium term; in other words, the ASF's current ratings reflect higher upgrading potential in comparison with the downgrading risk, considering that the ASF's ratings are subject to no country ceiling.

EXTERNAL SUPPORT FACTORS

The ASF's counterparty rating benefits from 4 notches of external support. As shown in the table below, the external support is parental in nature, considering that the ASF is viewed by WARA as a MDB, and MDBs, according to our methodology, are likely to be subject to significant capital support from their sovereign shareholders, particularly trough resorting one or more times to the subscribed and callable capital paying in. The ASF is considered by WARA as a GarFund, too, but this status, as such, does not contribute to providing it with any additional upgrade for external support.

Standalone rating	SR	A
Parental support		
Parent's identity	--	Sovereigns
SR of the parent	SR_P	Various
Strategic importance	I-Strat	MDB
External Support Factor - Parental	**ESF.P**	**+4**
Adjusted Standalone Rating	**ASR**	**AA+**
Systemic support		
National Systemic importance	I-Syst nat	--
Propensity to Support	PS	--
External Support Factor - National systemic	**ESF.Sn**	**--**
Regional Systemic importance	I-Syst reg	--
External Support Factor - Regional systemic	**ESF.Sr**	**--**
Counterparty Rating	**CR**	**AA+**

For reference: National Ceiling	N/A

In the case of MDBs, WARA uses a specific parent support matrix. This matrix is reported below. We now anticipate that the proportion of paid-in capital relative to authorized capital will, in the medium term, exceed 20% and remain below 50%, while the share of Member States rated at least AA to the capital of the ASF is not expected to exceed 20% in the same period.

MDBs: Number of notches for External Support		PERCENTAGE OF CAPITAL OWNED BY AA/AAA-RATED SOVEREIGNS		
		<20%	20%-50%	>50%
PAID-IN CAPITAL	>50%	+2	+4	+6
	20%-50%	+4	+6	AAA
	<20%	+6	AAA	AAA

ANALYSIS OF STANDALONE RATING FACTORS

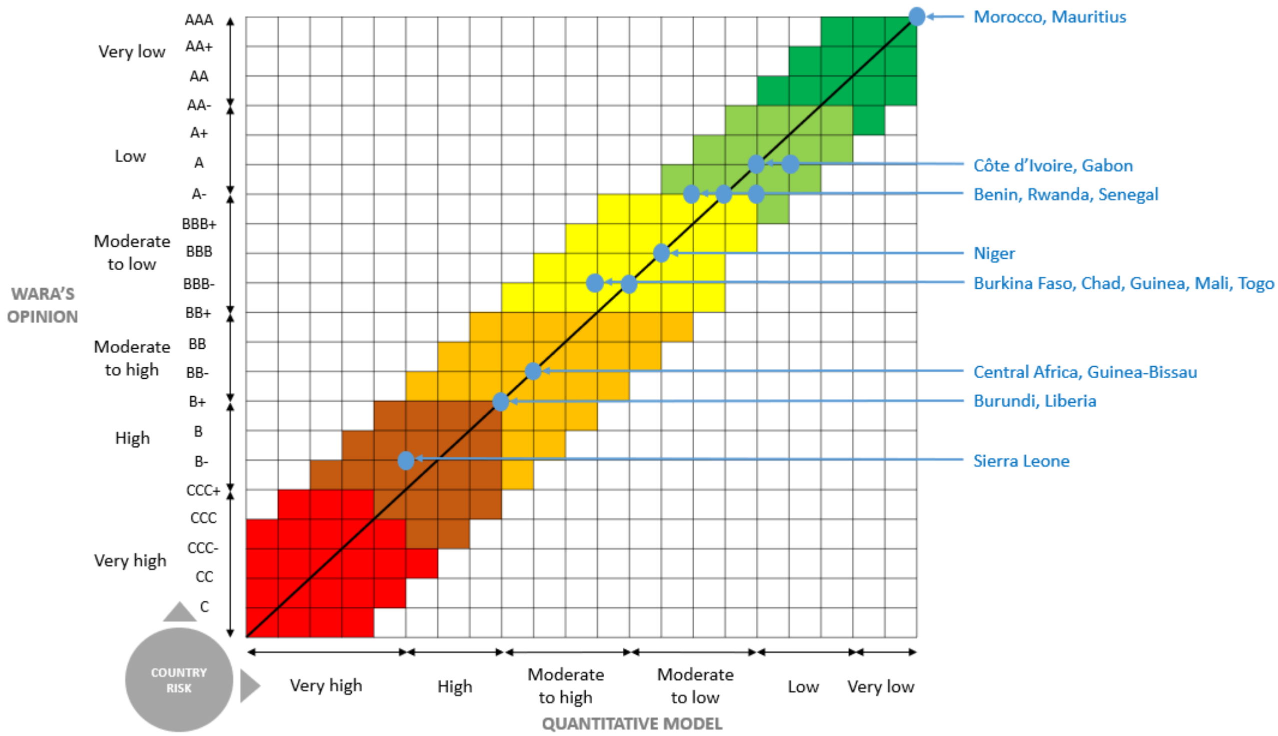
Environmental factors

Macroeconomic environment

- **The ASF operates in a multiregional context …**
- **…and covers a very large geographic area …**
- **…which nourishes a good level of territorial diversification of its financial activities.**

The ASF is statutorily authorized to act only in the 14 countries whose respective States are its shareholders, but they represent a very large geographical area. These states are members of one of the following three integrated regions: Economic Community of West African States (ECOWAS); Economic Community of Central African States (ECCAS); and Common Market for Eastern and Southern Africa (COMESA). Together, the ASF's 14 Member States had a population of 160 million inhabitants and a purchasing power parity (PPP) GDP of USD 475 billion at the end of 2019. This geographical scope provides the ASF with natural territorial diversification, which is a very positive rating factor.

WARA considers that the average country risk faced by the ASF in this multiregional context is 'moderate to low'. This conclusion is derived from a quantitative and qualitative analysis of the factors of macroeconomic resilience of each of the ASF's Member States, shown in the graph below. The quantitative model used by WARA as an anchor links the main macroeconomic ratios of each of the 14 national economies to their country risk scores. Then, WARA gives itself the opportunity to upgrade or downgrade these scores by one or two notches, depending on the qualitative characteristics of these national economies. The average and median levels of country risk, in regional currencies, are '*moderate to low*'; however, six countries are in the '*low*' and '*very low*' country risk categories, while in contrast, three countries are in the '*moderate to high*' country risk category (Central African Republic, Guinea-Bissau and Burundi).



The macroeconomic statistics of the ASF's 14 Member States in 2020 tended to confirm this assessment. The structural economic growth of the group of Member States is on average robust over a long cycle and in a normal situation (i.e., except the health crisis context). That said, in 2020, the actual weighted average growth of the group amounted to zero due to public health measures, which outperforms the rest of the world experiencing recession. On the other hand, both the amplitude of performance and the volatility of growth in most countries remain high. Inflation is under control. In contrast, competitiveness (measured by the current balance as a percentage of GDP) and attractiveness (measured by the ratio of FDI to GDP) remain fragile, even very fragile in some cases. These two sources of accumulation of foreign exchange reserves explain the relatively weak performance of the countries forming the group in terms of debt coverage by foreign currency reserves. However, this factor is neutral for the ASF: in fact, the Fund provides guarantees and financing only in regional currencies, and the CFAF (one of the ASF's major currencies) continues to be supported by the French Treasury, as to its convertibility and structural anchoring to the euro.

2020 MACROECONOMIC STATISTICS	Unit	BEN	BKF	BUR	CAF	CDI	CHA	GAB	GIB	MAL	MAU	NIG	RWA	SEN	TOG
Real GDP growth	%	3.8	2.0	0.3	(1.1)	(1.4)	(0.9)	(2.5)	(2.4)	(1.6)	(14.7)	1.5	(3.4)	0.7	1.8
Nominal GPD in PPP	Billion USD	42.5	47.6	9.2	4.7	139.7	26.4	33.5	3.8	47.4	26.1	47.1	28.7	58.8	18.4
Budget balance / GDP	%	(3.7)	(4.9)	(7.6)	(5.8)	(5.5)	(2.9)	(5.9)	(6.7)	(6.8)	(6.2)	(5.8)	(8.7)	(6.5)	(5.5)
Inflation	%	3.0	1.9	7.3	2.3	2.6	4.5	1.2	1.5	0.4	2.5	2.7	9.9	2.5	1.8
GPD per capita PPP	USD	3,506	2,279	771	970	5,300	1,610	15,010	1,947	2,480	20,610	1,946	2,220	3,510	2,224
Current balance / GDP	%	(4.0)	0.5	(15.9)	(8.6)	(7.3)	(7.0)	(11.2)	(10.5)	(2.0)	(11.9)	(7.2)	(10.2)	(12.3)	(4.3)
FDI	Billion USD	0.2	0.1	0.0	0.0	0.5	0.4	1.7	0.0	0.4	8.6	0.4	0.2	0.5	0.6
FDI/GDP	%	1.1	0.7	0.2	0.4	0.7	3.3	11.8	0.8	2.1	78.8	2.9	1.9	1.9	8.4
Total debt / GDP	%	24.9	24.3	21.5	43.4	42.2	28.7	60.0	41.5	36.2	118.7	29.8	62.6	66.5	35.7
Foreign exchange reserves / Total debt	%	38.5	37.0	12.9	43.3	37.4	13.5	17.3	42.2	27.1	56.3	42.5	26.1	19.9	61.5
Foreign exchange reserves / GDP	%	9.6	9.0	2.8	18.8	15.8	3.9	10.4	17.5	9.8	66.8	12.7	16.3	13.2	22.0

Operating environment

- **The operating environment by country reveals very marked differences from one country to another**
- **However, at the multiregional level, the degrees of institutional governance, economic information, management infrastructure and financial literacy have been significantly improving**

The ASF's Member States constitute a heterogeneous, but collaborative economic zone. While each of the three regional groups (ECOWAS, ECCAS and COMESA) has made considerable progress for convergence of their institutions, cyclical economic policies and mutual supervision, the relative levels of integration still differ significantly. The ECOWAS is undoubtedly the most cohesive regional unit and, within it, the WAEMU emerges as the most successful economic and monetary zone. The regionalization of African economies is a positive rating factor for the ASF, which perfectly fits in such logical dynamics and powerful trend. Emulation, coordination, mutual supervision, discipline, and collaboration are all advantages taken by the sub-regions from their common institutions and policies, which the ASF can rely on to plan its public service action and make it as readable and predictable as possible.

Country	Political context	Economic policies	External position	Country risk level
BEN	No major risk for Benin's political stability. Good institutional anchoring.	Structural reforms supported by the IMF. Expected 6-7% growth in 2018-2020. Stable inflation and FX rate.	Current account deficit still high, but declining thanks to the GAP and growth in cotton production.	
BKF	Successful political transition. Increased security risks in the north of the country.	Ambitious economic program but supported by the IMF. Important structural needs.	External deficit decreasing thanks to strengthening of the gold sector. Significant level of equipment Imports.	
BUR	Political instability; EU sanctions; international criticism.	Low economic performance; high poverty; resurgence of inflation.	Quasi-structural deficit of current account due to very low competitiveness.	
CAF	Recurring political fragility despite the return of the democratic process.	Improved economic policies with the IMF support. 4-5% growth. Inflation remains high, but now under control.	Despite renewed exports, the trade and current account deficits remain high.	
CDI	Overall, successful political transition. Successful 2020 Presidential election.	Strong growth in all sectors. Significant improvement in infrastructure. Gains in competitiveness and attractiveness.	Dynamic and diversified external flows. Robust and stable current account.	
CHA	Political stability but risks of institutional erosion.	Dependence on the oil sector. Fiscal fragility. Volatile growth.	Trade surplus mainly powered by the oil sector.	
GAB	Post-electoral political instability. Institutional weakening.	Slow economic diversification but supported by the IMF. 2-3% growth. Moderate inflation.	The declining oil prices have widened the trade balance deficit, which is uneasy to curb in the medium term.	

GIB	Fragile political stability.	Structural reform program supported by the IMF and external donors. 5-6% growth.	Current account surplus, supported by the good performance of the cashew nuts sector.	
MAL	Internal political tensions and high security risks.	Sound economic policies but difficult to apply. Very slow reduction of poverty.	Reduction in the trade deficit due to the good performance of the gold and cotton sectors.	
MAU	Robust institutions; successful democratic process; multicultural society with preserved equilibria.	Competitive and attractive economy, flexible and efficient. Stable 3-4% growth.	High trade deficit, but largely offset by the capital balance.	
NIG	Affirmed political stability; homogeneous society; increasing security risk.	Primary sector strengthening strategy supported by the IMF; greater diversification.	Current account deficit despite significant natural resources intended for exports	
RWA	Good level of political stability and institutional strengthening.	Sound and well-executed economic policies; increasing diversification; spectacular development.	The external deficit persists but it is on a downward trend as competitiveness improves.	
SEN	Good level of political stability; robust institutions.	Robust 6-7% growth; improvement in infrastructure; ambitious structural program.	The current account deficit persists despite the recovery in tourism revenue and transfers.	
TOG	No threat to political stability. Institutional strengthening.	Deterioration of the public debt level. Fiscal imbalances. 5-6% growth.	Significant trade deficit, however meant to be reduced thanks to the dynamic primary sector.	

Country risk level

Very high	High	High to moderate	Moderate to low	Low	Very low

Regulatory environment

- **The ASF has chosen to be regulated in the WAEMU zone by the Financial Markets Authority of the West African Monetary Union (FMA-WAMU, ex CREPMF)**
- **The regulation applicable to guarantors is adequate, but can be improved**

As an active guarantor in several WAEMU countries, the ASF is accordingly subject to the regulation and supervision applied to guarantee institutions in the sub-region by the Regional Council for Public Savings and Financial Markets. Regarding the two dimensions of control over guarantors, WARA views the prudential framework applicable in West Africa as adequate and sufficient, given the limited complexity of the guarantee institutions in the sub-region. The mere fact that the ASF is subject to the supervision by a Community regulator is in itself a positive rating factor. The prudential rules applicable to guarantors, their definition, and the ASF's position with respect to them at the end of 2020 are summarized in the table below; WARA emphasizes that the ASF is in compliance with all current prudential regulations. Furthermore, the Board of Directors (BoD) of the ASF also sets standards whose definitions are identical to those of the CREPMF, but the level of requirements they contain is less conservative.

Standard denomination	Definition	Standard set by the BoD	Standard set by the Regulator	ASF's position	Compliance YES/NO
Global risk coverage ratio	Eligible Own Funds (EOF)* / Net Weighted Risks	8% minimum	20% minimum	62.59%	YES
Counterparty exposure ratio (i.e., concentration risk ratio)	Exposures to one single counterparty < X% of EOF**	60% x EOF = CFAF 21.065 billion	30% x EOF = CFAF 10.5 billion	No file exceeding 30% of EOF	YES
Volume of large exposures	Σ exposures larger than Y% of EOF*** < Z x EOF****	Max. 8x EOF = CFAF 280.8 billion	Max. 3.2x EOF = CFAF 112.3 billion	CFAF 112.3 billion	YES
Liquidity ratio	Assets disposable in less than 3 months / Current liabilities	N/D	Minimum 1x	6,99x	YES

* Eligible Own Funds (EOF) at 31/12/2020 = CFAF 35.109 billion
** X% = 60% set by the BoD, 30% by FMA-WAMU.
*** Y% = 25% set by the BoD, 10% by FMA-WAMU.
**** Z = 8 set by the BoD, 3.2 by FMA-WAMU.

WARA considers that the prudential standards the guarantee institutions in WAEMU must comply with are still to be improved. In particular: (i) risk-adjusted regulatory capital ratios should, in our view, converge with those applicable to banks by the Central Bank of West African States (BCEAO), which draw heavily on the Basel Committee standards; (ii) the prudential ratios that constitute the backbone of supervision of guarantors seem too static to us, since they are based on yearend accounting data: a more dynamic approach including stress tests (especially on interest rates and liquidity) would bring undeniable analytical and informational benefits; (iii) operational and market risks are not captured by the existing prudential standards, while concentration risks are given special attention; and finally iv) the liquidity risk, in our opinion, is better identified by a set of short-term and long-term prudential indicators than by the short-term liquidity ratio alone. That said, the ASF displays a good level of transparency when it comes to publishing the annual position of its portfolio, especially in terms of asset quality, sector and geographic diversification, and dynamic trends in exposures. This is a positive rating factor.

Qualitative factors

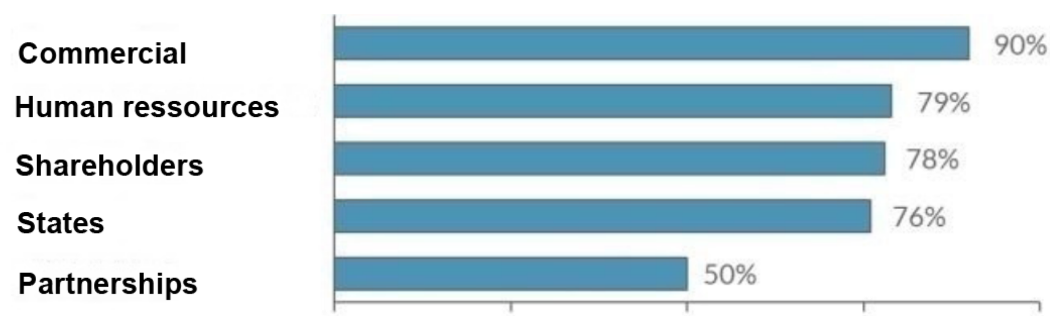
Strategic positioning

- **The ASF operates in an environment with no direct competitors, which is a positive rating factor**
- **The Fund emerges from a Strategic Plan whose implementation, marked by relevant adjustments, ended on a very positive note**
- **The objective of the new clear and ambitious strategic plan called 'Plan New Frontier 2025', which took over, is to position the Fund as the benchmark pan-African guarantee and financing institution by 2025**

The sector of guarantees for Africa's economic development is not, strictly speaking, a competitive sector, which is a positive rating factor, as market players do not engage either in a price war, or in a frantic race to volumes. Therefore, it is inappropriate, in the case of the ASF to allude to its possible 'competitors', but it is certainly more suitable to mention its 'peers'. A relevant approximation to identify the ASF's peers is the list of guarantee organizations (commonly called 'guarantors') in the WAEMU zone, which have agreed to opt for the FMA-WAMU, Financial Markets Authority of the West African Monetary Union, as their regulator. This authority regulates 6 entities as guarantors: West African Development Bank (BOAD), African Fund for Guarantee and Economic Cooperation (FAGACE), GUARANTCO, AFRICAN GUARANTEE FUND, PROPARCO and USAID.

In this context, the ASF has completed the enforcement of its amended 2016-2020 Strategic Development Plan, the initial reports show that the objectives set by the Fund have been achieved notwithstanding limited resources. Overall, after a mid-term adjustment to make it more operational, the 2016-2020 MTSDP was a great success with a 70% average rate of achievement. All strategics axes, except that of 'Partnerships', registered an implementation rate above 75%, which, in WARA's opinion, is very satisfactory.

Average rate of achievement by strategic priority in the 2016-2020 MTSDP



The 'Partnerships' axis, with most objectives not achieved, displays a 50% average implementation rate. WARA points out, however, that the FY2020 was marked by strengthening of the partnership strategy with actions focused on African development finance institutions which materialized in institutional and technical ties with several partnership agreements signed.

Framework cooperation agreements signed by the ASF in 2020

PARTNER	TYPE OF STRUCTURE	COUNTRIES OF OPERATION	DATE OF SIGNATURE
Central African States Development Bank (BDEAC)	Development bank	Burundi, Central African Republic, Chad, Gabon, Rwanda	24/01/2020
Coris Bank Mali	Commercial bank	Mali	27/08/2020
ETC Groupe	Financial institution	14 Member States	04/09/2020
Versus Bank, Côte d'Ivoire	Commercial bank	Republic of Côte d'Ivoire	17/12/2020

In terms of reforms, we can note the reorganization of positions through a new organization, a good restructuring, and optimal human capital management, continuous enhancement of internal expertise and strengthening of clear target-setting, which have allowed a better profile-job match. This has resulted in notable improvement in social climate, greater motivation of staff, more concerned by the institution's objectives.

On the operating side and notwithstanding limited resources mainly due to the failed paying in of capital necessary for the enforcement of the plan by the Member States, the planned diversification of the ASF's offer has been overwhelmingly outperforming with the launch of the individual guarantee options, such as portfolio guarantee or international trade guarantee. We also note improvements in service quality thanks to the more diligent file scrutiny and processing, even if they did not allow to achieve the objective of CFAF 100 billion in outstanding commitments.

On the financial side, the sought financial viability of the institution has been achieved. The financial indicators are all in the green now, with the net result turned positive during the first year of the implementation of the plan, while a positive result was not expected before the end of the last year of its enforcement, i.e., in 2020. However, despite a cost rationalization plan, the cost-to-income ratio stands at 65%, far from the targeted 55%. But there is no surprise considering the efforts made by the Fund to meet the standards of sub-regional financial institutions in terms of staff remuneration and attractiveness of social conditions and improve its visibility through commercial actions. Regarding risk management, the results are remarkable with a 3.5% loss rate at the end of 2020 compared with the targeted 10% and a bad debt ratio equal to zero in gross value insofar as 10 cases were overdue, of which 7 predated the implementation of the 2016-2020 MTSDP, and other 3 were concomitant to it.

The 2016-2020 MTSDP was succeeded by the 2021-2025 MTSDP built around three strategic priorities which, in the long term, should permit to strengthen the ASF's position as a pan-African benchmark institution, better channel its offer towards the expressed needs to better support States and the private sector, and increase its financial capacity to meet these needs. Through this plan valid up to 2025, the ASF aims to:

- enhance its political governance to make it more flexible and able to meet its ambitions of supporting value and productive jobs creation;
- optimize the portfolio of current products and develop new ones adapted to the respective needs of economic players;
- better monitor the socio-economic impact of its interventions;
- strengthen its equity thanks to the recovery of arrears from Member States and the development of new financing schemes.

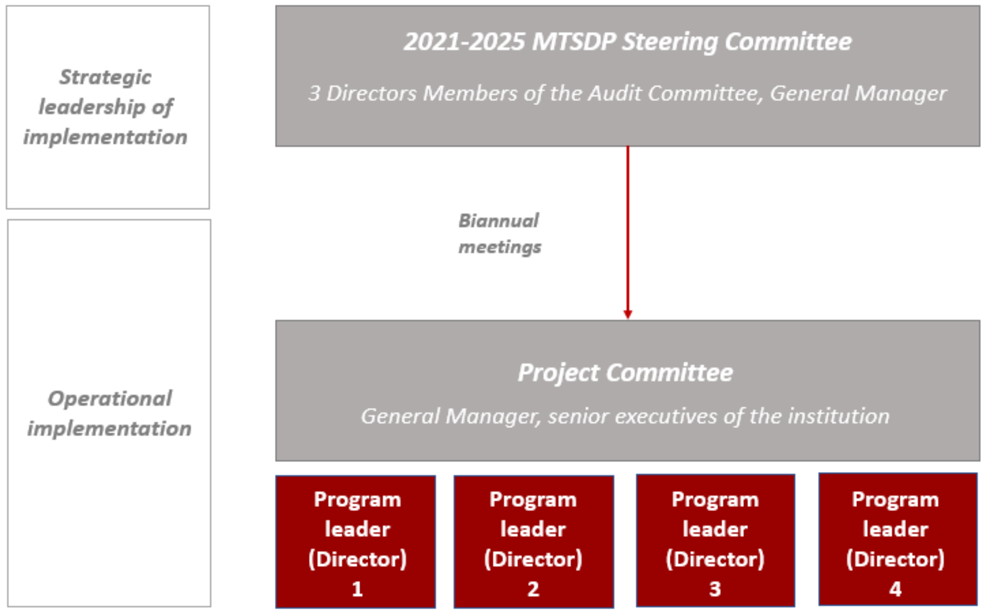
These goals will be achieved through a larger shareholder base, diversification and strengthening of the shareholders, remodeled governance bodies, better resource mobilization, and elaboration of offers more appropriate to the current needs of States and companies. The Fund plans to open its capital to non-regional countries and renowned regional financial institutions, such as the African Development Bank.

Plan New Frontier 2025

WARA considers that the ASF's three axes development approach — Further transformation — Supporting States and the private sector — Financial capacity building — makes sense and reflects a clear and innovating direction, focused on strengthening the Fund's regional positioning. Built on the achievements of the previous MTSDP, the new strategic plan called 'Plan New Frontier 2025' is in line with the new 2025 vision of the Fund: 'to become a strong and innovative pan-African institution supporting structural transformation of the Member States' economies', aiming to make the ASF a benchmark pan-African guarantee and financing institution by 2025. Therefore, ASF has been giving itself the means to realize its ambitions, which WARA believes to be within the Fund's reach considering the long road already covered.

First, the ASF's new MTSDP became more readable thanks to the clear strategic axes refocused on specific objectives, which contrasts with its previous strategic plans with the complex architecture of logical framework that impacted the pursued priority targets clarity and affected management of various projects. With the Plan New Frontier 2025, the ASF has been adopting a very specific and modern strategic framework corresponding to the current realities of its environment and addressing its current issues. Then, the ongoing Development Plan is built on the achievements of the 2016-2020 MTSDP, whose implementation enabled the ASF to regain a prominent place on the sub-regional scene, which reinforces its realistic character, makes its vision and challenges consistent, and offers a greater chance of success for the identified projects. Finally, the Plan New Frontier 2025 benefits from strengthened and flexible governance. Indeed, the operational implementation of the plan will henceforth be the sole responsibility of two bodies, such as a Steering Committee (SC) and a Project Committee (PC). The Steering Committee, made up of the Audit Committee members and the General Manager, will be responsible for monitoring progress in enforcement of the MTSDP and making the strategic decisions necessary for its deployment. The Project Committee, provided by the Restricted Executive Committee (ExCo) made up of the General Manager and senior executives of the institution, will ensure the implementation of the MTSDP road map through supervision of projects and programs whose fulfilment is under the responsibility of Directors.

WARA will closely monitor the enforcement of the 2021-2025 MTSDP through its programs and projects.



Governance and risk management

- **The ASF's governance is sound and robust …**
- **Despite the health crisis, the Fund has managed to maintain the pre-crisis quality of its portfolio.**
- **… Risk management has been improving**

The ASF's governance is sound and robust, which is a positive rating factor. The Fund's good governance derives from its Articles of Association as Multilateral Development Financial Institution, themselves built on the Agreement, having the value of a multilateral treaty, establishing the ASF on 21 December 1976, and emphasizing the role and the public service mission of the Fund. In this respect, its Board of Directors is made up of one representative of each Member State, which allows permanent control of the States over their common economic policy instrument. Furthermore, the States, through the Board of Directors, have set up three committees whose responsibilities fully reflect this concern for control and compliance:

- The Audit Committee is responsible for monitoring and evaluating the compliance with the institution's internal control systems.
- The Compensation Committee is responsible for deciding on the policy and remuneration levels applicable to the ASF's agents.
- The Superior Committee for Intervention is responsible for deciding on requests for intervention of the ASF beyond the CFAF 500 million limit. Below this limit, the decisions on requests for intervention are made by the Restricted Credit Committee (under the authority of the General Manager).

Moreover, the strong management team of the ASF echoes the control requirements of the Board of Directors, by setting up management committees that are inclined to exercise close control over the activity, too. In fact, the ASF's Operational, Administrative and Financial Procedures Manual provides, under the authority of the General Manager, for the existence of seven specific Management Committees. These Management Committees are as follows:

COMMITTEE	DESCRIPTION
Restricted Executive Committee	Its meetings are weekly. This Committee rules on the management of the institution.
Projects Committee	It meets at the initiative of the Operations Department. The Committee reviews the applications for intervention of the ASF.
Commitments Management Committee	This Committee reviews the portfolio status and the commitments monitoring reports presented by the Legal Affairs, Risk Management, and Portfolio Monitoring Department. It takes place at the end of each semester. Furthermore, to assure effective control over operations, in May 2019, the ASF's General Management set up a quarterly held Restricted Project Monitoring Committee and a Monthly meeting to monitor commitments within the Legal Affairs, Risk Management, and Portfolio Monitoring Department (*DAJRSE*). These complementary portfolio monitoring structures examine commitments of concern and check compliance with prudential standards to formulate the necessary recommendations relating thereto.
Treasury Committee	This Committee meets once a week, on the request of the Finance and Accounting Department's Manager, to review the institution's liquidity position.
Procurement Committee	Its meetings take place in case of purchases exceeding CFAF 10 million and below CFAF 50 million.
Tender Committee	The Procurement Committee members and two Directors form this Committee meant to examine bids received in response to the calls for tenders and rule on the latter when their amounts exceed CFAF 50 million.
IT Committee	It is convened by the General Manager, at the initiative of the Management Control and Information System Department, to discuss questions regarding the information system and technology.

The smooth passage of the exceptional period of COVID-19 pandemic shows mastery of operational implementation and a capacity for resilience in response to cyclical phenomena. The ASF has managed to cope with the negative effects of the global health and economic crisis associated with the 2020 Covid-19 pandemic, resulting in unprecedented implications for the sub-regional economy and social dynamics. Notwithstanding the impossibility of carrying out on-site missions both for prospecting and monitoring projects, and some delays in projects implementation and new investments launch in a number of Member States, the Fund has been able to preserve the pre-crisis level of commitment with new approved guarantees totaling CFAF 79.4 billion, i.e., 66.2% of the CFAF 120 billion annual target including 76.6 billion in guarantee portfolio (66.7% of the CFAF 115 billion objective) and 2.9 billion in refinancing commitments (57.8% of the 5 billion objective). Moreover, despite the repayment difficulties faced by some customers recipients of loans guaranteed by the ASF or benefiting from refinancing, the Fund has managed to maintain or even improve its portfolio quality.

WARA points out the significant efforts made by the institution to strengthen its risk management framework, both in terms of human resources and technical tools. Indeed, the ASF hired an extra risk analyst to enhance the analytical team (it consists of three analysts, which is still modest considering the 69 counterparties to be monitored) in addition to the 4 account managers recruited.

From now on, the files scrutiny is carried out by 'account manager + risk analyst' pairs distributed by geographical areas to assure reinforced control of incoming requests. This new approach of selective entry aims to improve the quality of counterparties. Furthermore, in July 2018, the ASF signed a technical assistance contract with the BPI to: (i) optimize the file scrutiny process; and (ii) develop a counterparty risk scoring tool. The assessment processes relying on the scoring tool, which is operational, have been implemented. Moreover, in 2019 the Fund's Board of Directors approved the new risk management policy reflected in the risk appetite statement: this illustrates the importance attached by the governance bodies to this topic. Finally, the ASF was approved as a guarantor by the Central African Financial Market Surveillance Commission (COSUMAF) on 12 June 2019 and by the Capital Market Authority (CMA Rwanda) on 27 May 2019. The institution has been studying the terms of a potential partnership with the European Union, too. Such an approach allows the ASF to strengthen its control and risk management systems as the affiliation to prudential authorities of different areas fosters discipline, best practices preservation and adaptation to the most demanding regulatory constraints.

That said, risk management remains perfectible according to WARA. Although the provisioning policy and its implementation are conservative (which is positive for the rating), the fact remains that the tolerance for concentration risks in terms of exposures to a single counterparty is, in our opinion, too high. The institution would undoubtedly benefit from adopting stricter rules on single-name exposures (WARA notes, however, that single-name exposures decline as business volume grows). In addition, the ASF does not have an analytical methodology capable of capturing its portfolio exposure given the potential correlations of its single-name exposures, an approach which is nevertheless highly recommended in relation to Pillar 2 of the regulatory capital standards for banks, known as Basel III. In the same vein, the institution would benefit from the systematical stress tests application, while market and operational risks could be quantified to enable the assessment of appetite for and tolerance to risk.

Asset quality

- **The ASF's portfolio of exposures is characterized by a good degree of geographic and sector diversification**
- **But also, by a high level of single-name concentration**
- **The quality of the portfolio, measured by its gross degradation rate, is good**

The geographic and sector diversification of the ASF's portfolio of exposures is good. The tables below summarize the average distribution by country and sector of the ASF's total guarantee portfolio (i.e., real and virtual) over the last three years. On average, we observe that no country or sector has exceeded the 20% level of total commitments over the last three years, even if in 2020, Senegal concentrated nearly a third of approvals.

Distribution of the total outstanding guarantee by country	2018		2019		2020		3-year average
Benin	5,402	8%	8,106	10%	13,948	18%	12%
Burkina Faso	11,735	17%	13,965	16%	491	1%	11%
Burundi	1,499	2%	1,382	2%	996	1%	2%
Central Africa	0	-	0	-	7,164	9%	3%
Chad	515	1%	506	1%	900	1%	1%
Côte d'Ivoire	11,107	16%	10,799	13%	1,440	2%	10%
Mali	7,500	11%	10,900	13%	6,601	9%	11%
Mauritius	0	-	0	-	400	0	0%
Niger	11,882	17%	15,295	18%	12,506	16%	17%
Rwanda	4,744	7%	8,370	10%	2,282	3%	7%
Senegal	5,613	8%	5,754	7%	24,829	32%	16%
Togo	10,539	15%	10,205	12%	5,000	7%	11%
Total	**70,536**	**100%**	**85,282**	**100%**	**76,557**	**100%**	**100%**

Distribution of the total outstanding guarantee by sector	2018		2019		2020		3-year average
Agro-industry	6,298	9%	13,877	16%	9,225	12%	12%
Construction	4,755	7%	12,914	15%	125	0%	7%
Education	634	1%	617	1%	-	0%	1%
Energy	1,402	2%	916	1%	-	0%	1%
Financial sector	12,848	18%	8,973	11%	7,530	10%	13%
Healthcare	3,259	5%	3,793	4%	-	0%	3%
Industry	15,979	23%	6,916	8%	10,250	13%	15%
Microfinance	2,770	4%	6,165	7%	18,700	24%	12%
Mining	-	0%	11,260	13%	5,000	7%	7%
Real Estate	1,976	3%	-	0%	-	0%	1%
Sustainable development	2,280	3%	-	0%	6,834	9%	4%
Telecom	1,660	2%	896	1%	2,106	3%	2%
Tourism	10,020	14%	8,247	10%	9,300	12%	12%
Trade and retail	-	0%	-	0%	-	0%	0%
Transport	6,655	9%	10,708	13%	7,487	10%	11%
Total	**70,536**	**100%**	**85,282**	**100%**	**76,557**	**100%**	**100%**

On the other hand, single-name concentration is very high. This is a negative rating factor. As of 31 December 2020, the total approved guarantees stood at CFAF 76.5 billion. This amount remains modest for a 40-year-old institution. Thus, the top 5 exposures alone represented 22% of the total actual outstanding portfolio at the end of 2020. Moreover, the top 20 exposures on the same date accounted for nearly 60% of this outstanding amount, which is very high. That said, WARA notes that with the increase in activity (and therefore in number of counterparties) related to the implementation of the 2020 MTSDP, the average outstanding amount per counterparty has been declining since 2017.

	2015	2016	2017	2018	2019	2020
Total outstanding guarantee	53,247	57,433	66,166	70,536	85,282	115,907
Number of counterparties (guarantee)	42	38	45	60	74	102
Average outstanding amount	**1,268**	**1,511**	**1,470**	**1,176**	**1,152**	**1,136**

The quality of the ASF's portfolio has improved since 2015 to reach a good level in 2020. The asset quality, measured by the ratio of nonperforming assets (NPAs) as a proportion of on- and off-balance sheet commitments, has amounted to 5.7% on average over the last three years, which corresponds to a good level (3) according to WARA's scoring grid. The contrast is striking when comparing with the 2015 and 2016 degradation rates, which were at a mediocre level according to our scoring grid. **In other words, since 2017, the ASF has not just provided guarantees; the institution has been offering good quality guarantees.**

	2015	2016	2017	2018	2019	2020	5-year average	3-year average
Nonperforming assets*	10,070	6,993	4,552	5,044	5,452	4,523		
Total of commitments*	66,149	68,588	74,043	78,248	95,886	131,309		
Portfolio degradation rate*	**15.2%**	**10.2%**	**6.1%**	**6.4%**	**5.7%**	**3.4%**	**6.4%**	**5.2%**

**Excluding interest on approved amounts*

WARA's Scoring Grid for Asset Quality (from 1 to 6, 1 being the best score)	1 excellent - very high	2 very good - high	3 good - adequate	4 insufficient - vulnerable	5 mediocre - low	6 failing - very low
Nonperforming assets ratio	below 2%	from 2% to 4%	from 4% to 7%	from 7% to 13%	from 13% to 25%	above 25%
Nonperforming assets coverage ratio (including doubtful and litigious claims and receivables)	above 100%	from 90% to 100%	from 70% to 90%	from 45% to 70%	from 30% to 45%	below 30%

This portfolio quality improvement trend observed by WARA was confirmed by the scoring carried out by the institution itself. In fact, the ASF has its own tool for evaluating the quality of counterparties. However, it only deals with actual outstanding commitments. We note that the share of risky cases (C and D) decreased from 39% in 2015 (4 out of 10 cases) to 5% (less than one out of 10 cases) in 2020. Better still, the proportion of cases rated D dropped from 21% (i.e., 1 out of 5) in 2015 to 0% in 2020. Such progress can be explained by the strengthened file scrutiny procedures (better upstream selection), the implementation of the scoring tool allowing automated management of scoring and better risk management.

Scoring of the ASF's Actual Outstanding Commitments	2015	2016	2017	2018	2019	2020
Actual outstanding commitments	44,067	41,968	40,593	50,278	65,605	80,483
In % of total outstanding commitments	83%	73%	61%	71%	77%	94%
Cases rated A: very low to low risk	14%	58%	64%	54%	76%	78%
Cases rated B: moderate risk	47%	21%	21%	34%	14%	17%
Total Good Risk cases	**61%**	**79%**	**85%**	**87%**	**90%**	**95%**
Cases rated C: high risk	18%	16%	15%	12%	9%	4%
Cases rated D: very high risk	21%	5%	0%	1%	1%	0%
Total Bad Risk cases	**39%**	**21%**	**15%**	**13%**	**10%**	**5%**

Financial factors

Profitability

- **As of 31 December 2020, the ASF displayed the profitability and operational efficiency levels that could be further improved.**
- **However, the institution's operational efficiency has been increasing.**
- **Finally, strengthening of the scoring and file scrutiny processes should contribute to better control the cost of risk and thus improve profitability.**

The ASF's profitability level is low. WARA measures the level of structural profitability by the ratio of net income to total assets and own funds. On average, over the last three years, the ASF has achieved a return on assets of 1.1%, which is a very good score (2) according to WARA's scoring grid. On the other hand, the return on equity of 2.6% corresponds to a poor level; so, the ASF's net return on assets score stands at 3.50 ... barely below the investment grade (set at 3.49). The level of profitability ratios fell sharply compared to 2019, impacted by both a drop in net profit (-57% compared to 2019), which returned to its 2015 level after impressive growth recorded since that date, and a 12% increase in called paid-in capital, following the additional payment of CFAF 3.5 billion (0.7 billion by Burkina, 0.4 billion by Burundi, 0.6 billion by Mali, 0.8 billion by Rwanda, and 1 billion by Togo) recorded in 2020. It should be noted that according to WARA's methodology, the equity and own funds considered to determine these indicators do not include unpaid capital, which has a positive effect on these ratios.

	2018	2019	2020	3-year average	WARA Score
Return on assets	1.2%	1.6%	0.5%	**1.1%**	2
Return on equity	3.0%	3.5%	1.3%	**2.6%**	5

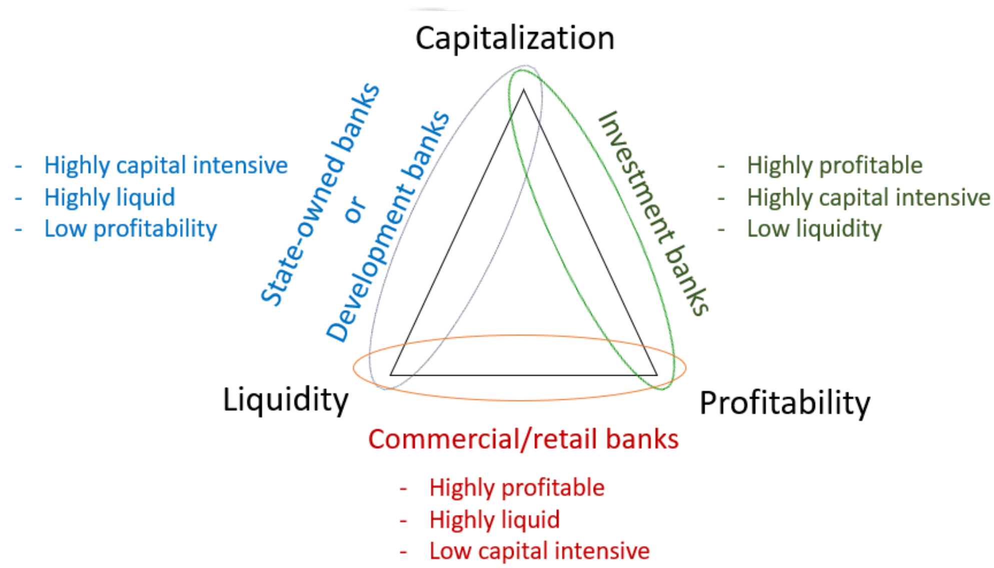
WARA's Scoring Grid for Profitability (from 1 to 6, 1 being the best score)	1 excellent - very high	2 very good - high	3 good - adequate	4 insufficient - vulnerable	5 mediocre - low	6 failing - very low
Return on assets (ROA)	above 2.50%	from 1.90% to 2.50%	from 1.20% to 1.90%	from 0.75% to 1.20%	from 0.30% to 0.75%	below 0.30%
Return on equity (ROE)	above 25%	from 17% to 25%	from 10% to 17%	from 6% to 10%	from 3% to 6%	below 3%

Furthermore, the institution's operational efficiency remains perfectible. Over the period considered, the cost-to-income ratio has amounted to 69% on average, corresponding to a level below the median (4) according to WARA's scoring grid. However, improvement in operational efficiency has been observed since 2018. This trend is expected to continue in the future, as the ASF approaches its target of CFAF 100 billion in outstanding commitments. Even though expenses are expected to be subject to upward pressure, too, the cost of new hires, projected investments in systems and tools, marketing expenses and a more aggressive commercial strategy should be more than offset by boosted volumes, which will undoubtedly benefit from the callable capital increase of CFAF 30 billion decided in 2020, regardless rapid funds paying in. Overall, WARA anticipates that the indicators of structural profitability and efficiency would continue to improve over the medium term.

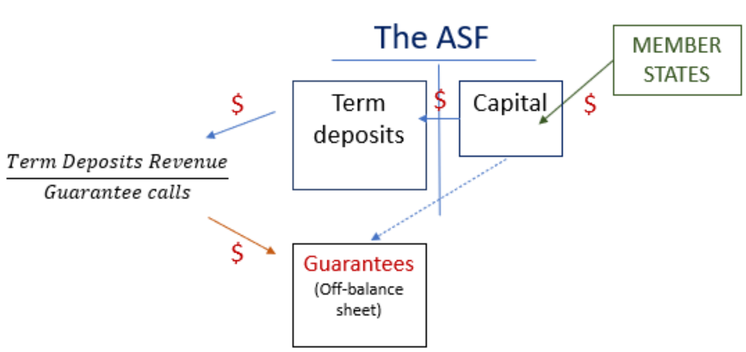
	2018	2019	2020	3-year average	WARA Score
Cost-to-income ratio (%)	78%	64%	65%	69%	4

That said, WARA specifies that considering its status, enhancing profitability is not an objective per se for the ASF. It should be reminded that the ASF, as a multilateral guarantee fund, has the main mission of facilitating access to credit and promoting the economic development of its Member States. Moreover, according to WARA's methodology, the ASF is considered as a Multilateral Development Bank when determining the eligible external support factors. It just so happens that according to the 'impossible triangle' theorem, a development bank is characterized by robust equity turning into liquidity and quasi-liquidity, which allows it to be very liquid and have important firepower when necessary (in our case, as the ASF is a guarantee fund, this firepower is used to deal with possible guarantee calls); but the negative effect of this high level of liquidity is a low return on investments (due to their short maturity coupled with a low level of risk).

For information, the theory of the impossible triangle states that it is impossible for a bank to simultaneously achieve the following three objectives: high capitalization, high liquidity, and high profitability. This theory is especially useful to distinguish the three main types of banks. Note that exceptions may exist depending on the type of market and/or economy.

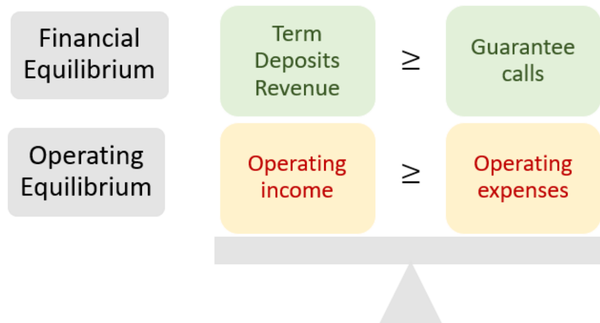


Therefore, to better assess the profitability of the ASF's business model, WARA will complete its analysis by observations regarding the coverage levels of 1) guarantee calls and 2) operating expenses.



In fact, the business model is as follows: 1) The capital received by the ASF from its Member States 2) is invested in term deposits to generate financial revenue; 3) which will allow to meet 4) any possible guarantee calls without reducing own funds.

Furthermore, when setting up guarantees operating income is generated (commissions and interest). The ASF aims to achieve a level of activity which enables to generate enough operating income to cover the institution's operating expenses. The diagram below summarizes the equilibria to be respected:



Regarding financial equilibrium, over the last three years, the ASF has generated enough income to cover 2 to 3 times the amount of approved guarantee calls. Especially, WARA observes an increase in the amount of financial income and a decrease in guarantee calls. Such a trend reflects the following: (i) the institution has been taking vigorous measures to get the called capital fully paid and then invested, while seeking new shareholders to increase its field of activity; and (ii) thanks to strengthening the file scrutiny and risk management processes, the quality of the guarantee portfolio has been improving, with fewer defaults and therefore fewer guarantee calls, as a result.

	2017	**2018**	**2019**	**2020**
Financial income	895	1,154	1,280	1,416
Approved (and/or disbursed) guarantee calls	434	375	0	0
Coverage of guarantee calls by investments (x)	**2x**	**3x**	**-**	**-**

On the operating side, the institution is barely profitable. The Fund reached its breakeven point in 2020, with its operating expenses fully covered by its operating income for the first time. WARA notes, however, that this situation remains precarious insofar as more operating income will be needed to cope with the accelerating growth of operating expenses resulting from the implementation of the new MTSDP. *This conclusion is consistent with our analysis of the cost-to-income ratio.*

	2017	2018	2019	2020
Operating income*	885	1,133	1,752	2,254
Operating expenses	1,685	1,994	2,079	2,217
Coverage of operating expenses by operating income	**53%**	**57%**	**84%**	**102%**

Liquidity

- **The ASF's liquidity is extremely robust**
- **And the Fund carries no debt on its balance sheet... for now**

The ASF's asset liquidity is a very positive rating factor. As of 31 December 2020, the core liquidity of the ASF amounted to CFAF 23.2 billion or 24% of the balance sheet. When WARA adds the securities, this ratio goes to 28% of the balance sheet, which is very high. Furthermore, WARA notes that CFAF 58 billion out of the CFAF 98 billion assets consist of called capital which has not been paid yet. After deducting this amount of capital, still virtual, from the balance sheet, the liquidity ratio stands at 67% of assets and amounts to 41% of actual off-balance sheet commitments, which is very robust. In the future, the ASF does not intend to put its liquidity under stress, even if its objectives in terms of volumes and profitability would be revised upward significantly.

	2017	2018	2019	2020
Core liquidity (Cash + Due from banks, including term deposits)	**17,636**	**20,077**	**20,203**	**23,249**
In % of total balance sheet	27%	30%	30%	24%
In % of total balance sheet excluding called-up unpaid capital (virtual)	66%	64%	56%	57%
In % of total actual commitments	42%	39%	30%	35%
General liquidity (Cash + Due from banks + Securities)	**17,651**	**21,101**	**24,213**	**27,320**
In % of total balance sheet	27%	32%	36%	28%
In % of total balance sheet excluding called-up unpaid capital (virtual)	66%	67%	67%	67%
In % of total actual commitments	42%	41%	36%	41%

	2018	2019	2020	3-year average	WARA Score
Liquid assets / Total assets (%)	32%	36%	28%	**32%**	1
Liquid assets / Short-term liabilities (%)	28,033%	14,990%	13,986%	**19,003%**	1

WARA's Scoring Grid for Liquidity (from 1 to 6, 1 being the best score)	1 excellent - very high	2 very good - high	3 good - adequate	4 insufficient - vulnerable	5 mediocre - low	6 failing - very low
Liquid assets / Total assets	above 20%	from 16% to 20%	from 11% to 16%	from 8% to 11%	from 5% to 8%	below 5%
Liquid assets / Short-term liabilities	above 125%	from 100% to 125%	from 75% to 100%	from 55% to 75%	from 35% to 55%	below 35%

Moreover, the ASF carries no debt on its balance sheet; however, the Fund is expected to start borrowing, and its funding mix would certainly make it dependent on the banking system, due to the scarcity of savings as well as the risk of funding concentration. Until now, the ASF has raised debt on very rare occasions and for very small amounts in comparison with the size of its actual and potential own funds. This reflects its very conservative management, in a structurally fragile economic environment, and in a business line where the risks of crystallization of credit losses are really high. It is a positive rating factor, too. However, the ASF is likely to resort to borrowing in the near future. The Fund aims at raising CFAF 25 billion from one or more banks and/or multilateral financial institutions. This will mechanically create asset-liability management challenges, the funding concentration risk, and an increased requirement for dynamic cash flow management. WARA already includes such drivers in its rating.

Capitalization

- **The ASF's equity ratios are very high;**
- **However, its ambitious targets in terms of volume growth will require additional capital tranches to be paid**

Despite its modest profitability in the long cycle, the ASF's own funds remain very robust. So far, reluctant to borrowing and unwilling to experience excessive inflation of exposures, the ASF has maintained extremely high capital ratios, which is a very positive rating factor. While the Financial Markets Authority of the West African Monetary Union imposes a minimum of 20% for the ratio of eligible own funds to risk-weighted assets, the ASF displayed a ratio of 62.59% at the end of 2020. Furthermore, the equity to assets ratio has averaged 42% over the last three years (maximum score of 1 according to our scoring grid), while the solvency ratio (own funds / total assets) has amounted to 44% on average (score of 1 according to WARA's methodology). Even compared to the total commitments, the own funds ratio in book value has averaged 33% over the last three years, which remains very high.

	2018	**2019**	**2020**	**3-year average**	WARA Score
Equity*/Assets (%)	45%	45%	35%	42%	1
Own funds* / Assets (%)	47%	47%	37%	44%	1
	2018	**2019**	**2020**	**3-year average**	
Own funds* / Total off-balance sheet commitments (%)	35%	35%	30%	33%	

WARA's Scoring Grid for Capitalization (from 1 to 6, 1 being the best score)	1 excellent - very high	2 very good - high	3 good - adequate	4 insufficient - vulnerable	5 mediocre - low	6 failing - very low
Equity / Total assets	above 9%	from 7.5% to 9%	from 6% to 7.5%	from 4.5% to 6%	from 3% to 4.5%	below 3%
Total solvency ratio	above 18%	from 15% to 18%	from 12% to 15%	from 10% to 12%	from 8% to 10%	below 8%

In addition, the own funds quality is excellent. This is a positive rating factor, too. As of 31 December 2020, most of the own funds were made of robust, known as Tier 1 (95%), sources, i.e., share capital, reserves, retained earnings, net income for the year. The ASF and its sovereign shareholders' extremely conservative dividend policy, which have consisted, since inception, in reinvesting all profits and serving no dividend, explains the good quality of the own funds, and reflects the Member States' commitment alongside the ASF in its public service mission.

	2018	2019	2020	3-year average
Equity*/ Own funds* (%)	95%	95%	96%	95%

In contrast, greater volumes of exposures in the future suggest that additional capital tranches will be called. The ASF's intrinsic profitability, even rising, will not allow it to support its expected growth. This is undoubtedly the reason of the decision made by the General Assembly in June 2019 to increase the ASF's callable capital to CFAF 90 billion reflecting efforts made by the States to meet their obligations. Therefore, WARA will pay close attention to the pace of capital paying in, based on the Fund's on- and off-balance sheet growth milestones. A too important discrepancy between the capital trajectory on one hand, and the trend in exposures on the other hand would inevitably lead to downgraded capital scores, which (all other things being equal) could weaken the Fund's standalone rating.

FINANCIAL DATA AND RATIOS

BALANCE SHEET (in millions of CFAF)	2015	2016	2017	2018	2019	2020
Cash	1	1	0	1	0	1
Due from banks	810	739	367	1,154	604	578
Term deposits	10,309	13,979	17,268	18,923	19,599	22,670
Marketable securities	162	44	0	1,000	4,000	4,060
Other securities	77	29	15	24	10	11
Net claims on customers	533	1,794	2,386	2,920	4,276	5,406
Suspense and miscellaneous accounts	955	934	756	1,233	1,231	1,544
Financial fixed assets	1,804	1,804	1,804	1,852	1,852	2,052
Tangible and intangible fixed assets	3,195	3,218	3,184	3,166	3,187	3,203
Shareholders: capital called but not paid in	3,666	39,812	37,757	34,414	31,354	57,911
Fixed assets acquired by foreclosure	649	649	829	1,249	1,249	1,249
Total Assets (in millions of CFAF)	**22,161**	**63,001**	**64,367**	**65,935**	**67,363**	**98,686**
Debt - unpaid guarantee call	1,544	1,194	--	--	--	--
Due to banks	--	--	--	--	--	--
Loans						
Suspense and miscellaneous accounts / Regularization accounts	3,681	3,565	3,829	4,042	4,211	4,368
Other liabilities	278	139	75	162	195	152
Total liabilities, excluding subordinated debt and own funds	5,503	4,899	3,904	4,204	4,407	4,520
Subordinated debt						
Minority interest						
Provision for risks and charges (PRC) & PRBG	1,636	857	708	939	749	1,146
Equity	13,397	55,853	58,595	59,864	61,511	92,556
Own funds = Equity + Minority interest + Unregulated provisions + Subsidies	16,658	58,102	60,463	61,731	62,956	94,166
Total Liabilities	**22,161**	**63,001**	**64,367**	**65,935**	**67,363**	**98,686**

INCOME STATEMENT (in millions of CFAF)	2015	2016	2017	2018	2019	2020
Interest income	325	638	893	1,118	1,177	1,142
Interest expense	--	--	--	(7)	--	--
Interest margin	**325**	**638**	**893**	**1,111**	**1,177**	**1,142**
Net foreign exchange income	3	(13)	(10)	4	(3)	(33)
Net marketable securities income	20	9	2	6	97	253
Net commission income	1,536	1,594	1,939	2,137	2,261	2,760
Other net operating income						
Total operating income, excluding interest margin	**1,559**	**1,590**	**1,931**	**2,147**	**2,355**	**2,980**
Total operating income	**1,884**	**2,228**	**2,823**	**3,258**	**3,532**	**4,122**
Personnel expenses	(623)	(719)	(858)	(1,062)	(1,233)	(1,431)
Other operating expenses	(856)	(667)	(830)	(934)	(849)	(790)
Depreciation and amortization	504	(806)	(156)	(531)	(170)	(466)
Total operating expenses	**(975)**	**(2,192)**	**(1,843)**	**(2,527)**	**(2,252)**	**(2,686)**
Pre-Provision Income (PPI)	**909**	**36**	**980**	**730**	**1,281**	**1,436**
Provisions for nonperforming assets (NPAs), net of recoveries	(643)	2,607	2,011	(194)	(1,130)	(1,269)
Net non-operating income	180	412	260	228	899	283
Earnings before income tax	**446**	**3,055**	**3,251**	**764**	**1,050**	**449**
Income tax	--	--	--	--	--	--
Net income	**446**	**3,055**	**3,251**	**764**	**1,050**	**449**
Minority interest						
Attributable net profit						

BALANCE SHEET GROWTH RATE (%)	2015	2016	2017	2018	2019	2020
Cash	0.00	-44.40	-22.74	68.14	-38.93	81.53
Due from banks	-12.24	-8.82	-50.30	214.36	-47.68	-4.24
Term deposits	51.96	35.60	23.53	9.58	3.57	15.67
Marketable securities	-81.01	-73.01	--	--	300.00	1.50
Other securities	185.19	-62.07	-47.76	54.55	-56.25	5.38
Net claims on customers	-55.02	236.54	33.02	22.37	46.45	26.43
Suspense and miscellaneous accounts	9.90	-2.20	-19.09	63.17	-0.16	25.45
Financial fixed assets	0.00	-0.01	0.00	2.66	0.00	10.80
Tangible and intangible fixed assets	-2.14	0.71	-1.04	-0.58	0.67	0.50
Shareholders: capital called but not paid in	-23.91	985.98	-5.16	-8.85	-8.89	84.70
Fixed assets acquired by foreclosure	0.00	-0.04	27.75	50.73	0.00	0.00
Debt - unpaid guarantee call	12.29	-22.65	--	--	--	--
Due to banks	--	--	--	--	--	--
Loans	--	--	--	--	--	--
Suspense and miscellaneous accounts / Regularization accounts	16.12	-3.15	7.39	5.57	4.19	3.71
Other liabilities	25.23	-49.92	-45.93	114.60	20.93	-22.09
Total liabilities, excluding subordinated debt and own funds	15.44	-10.98	-20.31	7.67	4.83	2.57
Subordinated debt	--	--	--	--	--	--
Minority interest	--	--	--	--	--	--
Provision for risks and charges (PRC) & PRBG	-11.04	-47.64	-17.40	32.66	-20.25	53.04
Equity	5.36	316.91	4.91	2.17	2.75	50.47
Own funds = Equity + Minority interest + Unregulated provisions + Subsidies	1.51	248.80	4.06	2.10	1.98	49.57

INCOME STATEMENT GROWTH RATE (%)	2015	2016	2017	2018	2019	2020
Interest income	21.72	96.30	39.92	25.22	5.31	-2.98
Interest expense	--	--	--	--	--	--
Interest margin	28.46	96.30	39.92	24.42	6.00	-2.98
Net foreign exchange income	-25.00	-542.79	-22.95	-140.02	-166.61	1,123.59
Net marketable securities income	-37.50	-56.05	-80.38	222.98	1,634.74	161.80
Net commission income	13.53	3.79	21.63	10.23	5.79	22.07
Other net operating income	--	--	--	--	--	--
Total operating income, excluding interest margin	12.24	1.97	21.43	11.22	9.69	26.53
Total operating income	14.74	18.25	26.73	15.39	8.43	16.69
Personnel expenses	4.36	15.35	19.35	23.82	16.11	16.04
Other operating expenses	37.18	-22.04	24.32	12.63	-9.15	-6.98
Depreciation and amortization	-150.60	-259.83	-80.64	240.49	-68.04	174.52
Total operating expenses	-56.02	124.77	-15.89	37.11	-10.91	19.30
Pre-Provision Income (PPI)	-258.09	-96.02	2,608.18	-25.46	75.35	12.11
Provisions for nonperforming assets (NPAs), net of recoveries	-77.63	-505.44	-22.87	-109.67	481.25	12.31
Net non-operating income	13.21	128.99	-36.94	-12.13	293.81	-68.58
Earnings before income tax	-113.55	585.06	6.39	-76.49	37.38	-57.23
Income tax	--	--	--	--	--	--
Net income	-113.55	585.06	6.39	-76.49	37.38	-57.23
Minority interest	--	--	--	--	--	--
Attributable net profit	--	--	--	--	--	--

BALANCE SHEET COMPOSITION (% of total assets)	2015	2016	2017	2018	2019	2020
Cash	0.00	0.00	0.00	0.00	0.00	0.00
Due from banks	3.66	1.17	0.57	1.75	0.90	0.59
Term deposits	46.52	22.19	26.83	28.70	29.09	22.97
Marketable securities	0.73	0.07	--	1.52	5.94	4.11
Other securities	0.35	0.05	0.02	0.04	0.02	0.01
Net claims on customers	2.41	2.85	3.71	4.43	6.35	5.48
Suspense and miscellaneous accounts	4.31	1.48	1.17	1.87	1.83	1.56
Financial fixed assets	8.14	2.86	2.80	2.81	2.75	2.08
Tangible and intangible fixed assets	14.42	5.11	4.95	4.80	4.73	3.25
Shareholders: capital called but not paid in	16.54	63.19	58.66	52.19	46.55	58.68
Fixed assets acquired by foreclosure	2.93	1.03	1.29	1.89	1.85	1.27
Debt - unpaid guarantee call	6.97	1.90	--	--	--	--
Due to banks	--	--	--	--	--	--
Loans	--	--	--	--	--	--
Suspense and miscellaneous accounts / Regularization accounts	16.61	5.66	5.95	6.13	6.25	4.43
Other liabilities	1.25	0.22	0.12	0.24	0.29	0.15
Total liabilities, excluding subordinated debt and own funds	24.83	7.78	6.07	6.38	6.54	4.58
Subordinated debt	--	--	--	--	--	--
Minority interest	--	--	--	--	--	--
Provision for risks and charges (PRC) & PRBG	7.38	1.36	1.10	1.42	1.11	1.16
Equity	60.45	88.65	91.03	90.79	91.31	93.79
Own funds = Equity + Minority interest + Unregulated provisions + Subsidies	75.17	92.22	93.93	93.62	93.46	95.42

INCOME STATEMENT COMPOSITION (% of total income)	2015	2016	2017	2018	2019	2020
Interest income	17.25	28.64	31.62	34.31	33.32	27.71
Interest expense	--	--	--	-0.22	--	--
Interest margin	17.25	28.64	31.62	34.09	33.32	27.71
Net foreign exchange income	0.16	-0.60	-0.36	0.13	-0.08	-0.81
Net marketable securities income	1.06	0.39	0.06	0.17	2.74	6.14
Net commission income	81.53	71.56	68.68	65.61	64.02	66.97
Other net operating income	--	--	--	--	--	--
Total operating income, excluding interest margin	82.75	71.36	68.38	65.91	66.68	72.29
Total operating income	100.00	100.00	100.00	100.00	100.00	100.00
Personnel expenses	-33.07	-32.26	-30.38	-32.60	-34.91	-34.71
Other operating expenses	-45.44	-29.96	-29.39	-28.68	-24.03	-19.16
Depreciation and amortization	26.75	-36.16	-5.52	-16.30	-4.80	-11.30
Total operating expenses	-51.75	-98.38	-65.29	-77.58	-63.74	-65.17
Pre-Provision Income (PPI)	48.25	1.62	34.71	22.42	36.26	34.83
Provisions for nonperforming assets (NPAs), net of recoveries	-34.13	117.02	71.23	-5.97	-31.99	-30.79
Net non-operating income	9.55	18.50	9.21	7.01	25.46	6.85
Earnings before income tax	23.67	137.15	115.14	23.46	29.73	10.90
Income tax	--	--	--	--	--	--
Net income	23.67	137.15	115.14	23.46	29.73	10.90
Minority interest	--	--	--	--	--	--
Attributable net profit	--	--	--	--	--	--

RATIOS	2015	2016	2017	2018	2019	2020
Profitability						
Return on assets	2.0%	4.8%	5.1%	1.2%	1.6%	0.5%
Return on average assets	2.1%	7.2%	5.1%	1.2%	1.6%	0.5%
Return on equity*	4.6%	19.0%	15.6%	3.0%	3.5%	1.3%
Return on 'Tier 1' capital (%)	4.6%	19.0%	15.6%	3.0%	3.5%	1.3%
Operating revenues, excluding margin / Total operating income (%)	83%	71%	68%	66%	67%	72%
Income tax / Earnings before tax (%)	-	-	-	-	-	-
Cost-to-income ratio (%) [5]	52%	98%	65%	78%	64%	65%
Personnel expenses / Total operating income (%)	33%	32%	30%	33%	35%	35%
Personnel expenses / Total operating expenses (%)	64%	33%	47%	42%	55%	53%
Liquidity						
Net claims on customers / Assets (%)	2%	3%	4%	4%	6%	5%
Current assets[7] / Total assets (%)	51%	23%	27%	32%	36%	28%
Current assets[7] / Short-term liabilities (x)	711%	812%	1,324%	28,033%	14,990%	13,986%
Capitalization						
Equity*/ Assets (%)	44%	25%	32%	39%	45%	35%
Own funds* / Assets (%)	59%	29%	35%	41%	47%	37%
Own funds* / Total off-balance sheet commitments (%)	23%	30%	33%	38%	35%	30%
Equity*/ Own funds* (%)	75%	88%	92%	93%	95%	96%
Asset quality						
Nonperforming assets (NPAs) / Gross claims on customers (%)	15.2%	10.2%	6.1%	6.4%	5.7%	3.4%

Notes:
*Equity: called-up unpaid capital is not included
*Own funds: called-up unpaid capital is not included,
which is favourable for profitability ratios, but negatively impacts solvency ratios
5. Cost-to-income ratio = Operating Expenses / Operating Income
6. Total Deposits = Customer Deposits + Due to banks
7. Current assets = Cash + Due from banks + Securities