PRESS RELEASE:

First-Time Ratings on the AFRICAN SOLIDARITY FUND

WARA assigns the African Solidarity Fund its first-time rating of AA+

The African Solidarity Fund (ASF), a multilateral financial institution, is rated AA+ by WARA. The outlook is stable.

Dakar, on the 06/02/2018 — **West Africa Rating Agency** (WARA) announces today the publication of its first-time rating on the African Solidarity Fund (**ASF**). On WARA's regional scale, the long-term rating of the ASF stands at '**AA+**', in the investment-grade category, while its short-term rating is '**w-2**'. Such counterparty rating is derived from a standalone rating of 'A', to which WARA adds 4 notches of external support stemming from the Fund's sovereign shareholding and its status as a multilateral financial institution for development. The outlook attached to these ratings is **stable**.

Simultaneously, on its international scale, WARA assigns to the ASF the following ratings: iBB+/Stable/iw-5.

The ASF's standalone rating of '**A**' reflects the robust nature of the Fund's capital base, despite the uneasy process by which called capital is actually paid in, and the very high level of its asset liquidity, while debt is inexistent. The ASF also benefits from the good geographic and sector diversification of its portfolio of commitments. The Fund's governance is sound, its management is solid, and its control mechanisms are thoroughly implemented, which considerably limits operational risks. On top of this, the institution's strategic positioning is astute, as it helps SMEs indirectly access much needed financing on a market where only few players are competing, and where the ASF's objectives appear equally clear, consistent and realistic.

Having said that, resources, especially human ones, are under pressure, despite a degree of efficiency still subject to improvement. That said, recruitments are ongoing in order to further strengthen middle management. Despite the institution's long history (more than forty years), the level of concentration of its counterparties remains very high in comparison with the modest size of its portfolio of guarantees. In addition, WARA considers that risk management is still perfectible, especially through the purchase of scoring and rating instruments already used by other institutions, the incremental improvement of the quality of underlying assets and the implementation of sectoral policies. The risk management framework is indeed subject to peculiar attention in view of its gradual improvement. Finally, the Fund's profitability appears highly volatile, because of the uneven multiregional, macroeconomic environment, the institution's public mission that does not focus on profitability and makes it necessarily subject to high credit risk, along with a very limited appetite for business aggressiveness, prior to the appointment of the new management team in 2015.

WARA justifies the **4 notches of external support** by the institution's multilateral status and the powerful backing of its 14 member States as shareholders. These States are also members of one of the following economic zones: Economic Community of West African States (ECOWAS); Economic Community of Central African States (ECCAS); or Common Market for Eastern and Southern Africa (COMESA).

The outlook attached to the ASF's ratings is **stable**.

An upgrade of the ASF's rating is subject to: i) the structural improvement of its member States' macroeconomic environment; ii) the full payment of called capital; iii) further enhancement of its human resources; iv) the institution's capacity to incrementally curb the concentration of its counterparties, and more generally, the modernization of its risk management framework; and v) the improvement and stabilization of its core/structural profitability, as a consequence of the successful execution of its medium-term strategic plan, built on both an increase in volumes as well as more ambitious quality standards.

A downgrade of the ASF's rating would be the consequence of: i) concentration risks materializing, i.e. further credit losses booked on large exposures; ii) macroeconomic volatility increasing in one or more economic communities where the ASF is operating, leading to a sharp deterioration of its asset quality; iii) a strategy that WARA would consider excessive in terms of financial leverage, capable of weakening the institution's capital or liquidity positions; iv) the member States calling off their capital support to the Fund; or v) governance becoming more lenient, especially less rigorous audit controls, compliance checks and expense management.

With a stable outlook, WARA signals that the probability of occurrence of the best-case scenarios is equivalent to that of the worst-case scenarios in the medium term; in other words, the ASF's current ratings carry as much downward pressure as upward potential, taking into consideration that the ASF's ratings are subject to no country ceiling.

With regards its methodological criteria, WARA considers that the ASF is at the same time a Multilateral Development Bank/Institution (MDB) and a Guarantee Fund (GarFund). As a result, the applicable methodology is that of Banks, while taking into account the peculiarities pertaining to MDBs and GarFunds, especially when it comes to calibrating parental external support factors. The rating methodology for Banks was first published on the 12th of July 2012, and was subsequently revised in September 2016; it is available on WARA's Website:
www.emergingmarketsratings.com

Information sources used by WARA to carry out the ASF's ratings are mainly private information obtained during discussions with the ASF's management team in November 2017. This information, coupled with publicly available sources, is considered by WARA as satisfactory for conducting the ASF's credit rating process.

Finally, WARA notes that the credit rating process for the ASF was requested and participating, meaning that it was performed upon a request by the ASF, and that the company's management actively participated in the discussions with WARA's team of analysts.

The ASF's first-time, long-term rating of '**AA+**' is eight notches above the minimum credit rating accepted by the CREPMF to issue debt without a guarantee.

The comprehensive credit rating report is available upon request by e-mail.
Contact: infos@rating-africa.org

Contact

Lead Analyst
Anouar HASSOUNE
Mobile : +336 34 17 25 02
Email : anouar.hassoune@rating-africa.org