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Research Update:

African Trade Insurance Agency Outlook Revised To Stable From Negative; 'A' Rating Affirmed

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Research Update:

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Overview

- African Trade Insurance Agency (ATI) has made progress over the past six months toward curing member-state sovereign and subsovereign payment delays, and no further arrears have occurred.
- Expanded shareholder membership combined with further capital injections reinforces ATI's strong business profile and strong capital position.
- We are revising our outlook on ATI to stable from negative and affirming our 'A' issuer credit rating on the insurer.
- The stable outlook reflects the resolution of most of the payment delays from sovereign member states, and the growing shareholder base, which reinforces ATI's strong business profile and translates into rising adjusted capital levels.

Rating Action

On March 14, 2018, S&P Global Ratings revised its outlook on African Trade Insurance Agency (ATI) to stable from negative. At the same time, we affirmed the 'A' issuer credit rating on ATI.

Rationale

We revised the outlook to stable from negative based on ATI's progress in resolving member-state sovereign and subsovereign payment delays, accrued since 2015. ATI has cured US\$10 million (70%) of these payment delays over the last six months, providing support for our assessment of ATI's preferred creditor status. No further arrears have occurred.

Outstanding payments from the government of Malawi and Kenya have been fully cured.

There is an outstanding claim with the government of Tanzania. ATI's statutes permit losses from sovereign exposure to be written off from the individual shareholder's equity. ATI has deducted US\$4.2 million from Tanzania's capital contributions in relation to this outstanding claim. We consider this weighs on ATI's preferred creditor status. Nevertheless, the size of the claim is not enough to offset the stable outlook.

ATI has been proactive in reinforcing its preferred creditor status through

strategic partnerships with other multilateral institutions and active engagement with ministers of finance and relevant government officials. It is currently working alongside the African Development Bank to lobby the Tanzanian government for the prompt resolution of this outstanding claim.

The rating on ATI reflects our assessment of the agency's strong business profile and adequate financial profile. Combined, these factors result in a stand-alone credit profile (SACP) assessment of 'a'. ATI does not benefit from any mechanism for extraordinary shareholder support; therefore, our ratings on the agency are equal with its SACP.

ATI was established by treaty in 2001 to support trade and investments in African member-state nations through offering political risk and export credit guarantee insurance. The agency has also recently begun to offer commercial surety bond insurance.

It currently has 23 paid-up shareholders, including the African Development Bank, and its shareholder base has grown from seven initial member countries to 14 fully fledged member countries, with other African states in the process of fulfilling the remaining membership requirements. Over the medium term, ATI's membership may be significantly boosted by members of the Economic Community of West African States. Discussions are currently underway with the governments of Ghana and Nigeria.

ATI's growing shareholder base reinforces the agency's important role and public policy mandate, and supports the strong business profile. In recognition of ATI's role as a catalyst in African economies, several multilateral institutions, such as the World Bank and African Development Bank, provide unsecured concessional loans to eligible low-income African states to finance their acquisition of ATI shares.

We view the agency's governance as prudent and transparent. ATI has been reinforcing its underwriting standards and risk management with an international consultancy enabled by a grant from the European Investment Bank. We believe that this will maintain the institution's risk management as it expands into new activities and countries.

We assess ATI's financial profile as adequate, reflecting its strong capital and earnings, intermediate risk position, and strong funding and liquidity.

The capital increases from existing members and new members such as Cote d'Ivoire, Zimbabwe, Ethiopia, and, most recently, South Sudan have brought ATI's capital and reserves, based on preliminary figures, to US\$242 million as of year-end 2017. Over the medium term, ATI's paid-in capital could lift capital above US\$250 million, a threshold that constrains our capital and earnings assessment, derived in part from the criteria we use to rate insurance companies.

ATI continues to demonstrate strong top-line growth based on preliminary 2017 figures. Gross premiums were US\$44.8 million in 2017, compared with US\$29.5

million in 2016. The growth in business is mainly driven by its political risk insurance product. ATI's net income was US\$10.0 million in 2017.

Outlook

The stable outlook on the long-term rating reflects the resolution of most of the payment delays from sovereign member states, and the growing shareholder base, which reinforces ATI's strong business profile and translates into rising adjusted capital levels.

We could raise the ratings over the next two years if expanded shareholder membership, combined with substantial capital injections, increases ATI's total adjusted capital sustainably beyond US\$250 million.

We could lower the ratings in the next two years if evidence of weakening shareholder support were to emerge, such as a re-emergence of diminishing preferred creditor status, indicated by sizable or prolonged arrears from sovereign or subsovereign members.

Related Criteria

- Criteria - Insurance - Specialty: Trade Credit Insurance Capital Requirements Under Standard & Poor's Capital Adequacy Model, Dec. 6, 2013
- Criteria - Insurance - General: Enterprise Risk Management, May 7, 2013
- Criteria - Governments - General: Multilateral Lending Institutions And Other Supranational Institutions Ratings Methodology, Nov. 26, 2012
- Criteria - Insurance - General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings List

Outlook Action; Ratings Affirmed

| | To | From |
|--------------------------------|-------------|---------------|
| African Trade Insurance Agency | | |
| Issuer Credit Rating | | |
| Foreign Currency | A/Stable/-- | A/Negative/-- |
| Financial Strength Rating | | |
| Local Currency | A/Stable/-- | A/Negative/-- |

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