

CREDIT RATING ANNOUNCEMENT

GCR upgrades Shelter Afrique's national and international scale long and short-term issuer credit ratings with a Stable Outlook

Rating action

Ebene, 28 June 2024 – GCR Ratings (GCR) has upgraded Shelter Afrique Development Bank's international scale long issuer rating to B from B- and affirmed the short-term national scale issuer rating of B, with the outlook accorded as Stable. At the same time, the following long and short-term national scale issuer ratings have been upgraded:

- Kenyan National Scale ratings to AA_{-(KE)}/A1_{+(KE)} from A_{+(KE)}/ A1_(KE), with outlook accorded as Stable.
- Nigerian National Scale ratings at AA_{+(NG)}/A1_{+(NG)} from AA_(NG) / A1_{+(NG)}, with outlook accorded as Stable.
- Mauritian National Scale ratings at BB_{+(MU)}/B_(MU) from BB_(MU)/ B_(MU), with outlook accorded as Stable.

GCR has also upgraded the Nigerian national scale long term issue rating on the Series 1 Tranche A and Tranche B Senior Unsecured Notes, at the same level as the Nigerian issuer credit rating, issued under Shelter Afrique's NGN200billion Domestic Bond Issuance Programme, with outlook accorded as Stable.

Rated Entity/ Issue	Rating class	Rating scale	Rating	Outlook/Watch
Shelter Afrique Development Bank	Long- and short-term issuer	International	B/B	Stable Outlook
	Long- and short-term issuer	National	AA _{-(KE)} /A1 _{+(KE)}	Stable Outlook
	Long- and short-term issuer	National	AA _{+(NG)} /A1 _{+(NG)}	Stable Outlook
	Long- and short-term issuer	National	BB _{+(MU)} /B _(MU)	Stable Outlook
Series 1 Tranche A Senior Unsecured Notes	Long term issue	National	AA _{+(NG)}	Stable Outlook
Series 1 Tranche B Senior Unsecured Notes	Long term issue	National	AA _{+(NG)}	Stable Outlook

Rating rationale

The upgrade of Nairobi based, Shelter Afrique Development Bank's (SHAFDB, Shelter Afrique) ratings reflect improved status, building track record of preferential creditor treatment (PCT), and improved membership strength and diversity. These enhancements stem from its transition to a treaty-based establishment and strategic agreements aimed at addressing capital arrears. However, longer-term weak mandate execution track record, poor asset quality, and the modest funding structure continue to constrain the rating.

In October 2023, Shelter Afrique changed its name from The Company for Habitat and Housing in Africa to Shelter Afrique Development Bank. SHAFDB also revised its statutes and is established by treaty (previously act of parliament). SHAFDB intends to enter into an agreement with The Arab Bank for Economic Development in Africa (BADEA) aimed at assisting SHAFDB shareholders in paying their capital arrears. The amount being considered is US\$200m out of c.US\$280m in arrears from 36 shareholders.

Membership strength and diversity has improved. One of the most notable developments is SHAFDB's establishment by treaty, transitioning from its previous foundation under the Kenyan parliament. This structural shift has solidified the development bank's legitimacy and operational framework, which is critical in reinforcing confidence among current and potential members. We view the diverse membership base (on a regional basis) and treaty establishment as ratings positive. The bank has 46 shareholders and aims to admit two African states, a class B shareholder, and class C shareholders. However, the historical delays in shareholder support and the existing capital arrears remain a ratings constraint.

The building track-record of PCT is a ratings positive, reflecting an improvement in the relevance and importance of this institution to its shareholders. Evidence of improving capital arrears management, government-led non-performing loans (NPLs) resolution, and examples of sovereign support in recovery efforts have driven this uplift, demonstrating enhanced private creditor treatment.

GCR recognises an improvement in the status and diversity of Shelter Afrique demonstrated by significant transformation over the past two years, culminating in its elevation to the status of a development bank. While the rebranding and new statutes bolster its status as a multilateral development bank (MDB), operational challenges remain. Development related exposures have lagged behind projects, and the MDB's effectiveness in meeting its mandate needs improvement, particularly in terms of lending volumes and NPL management.

Shelter Afrique has a clear and strong mandate to provide financing for housing and urban infrastructure projects across its member countries, but a weak long-term track record remains a ratings constraint. The bank only disbursed 25% of its projected US\$80m in 2023, reducing development exposures to US\$223m at 31 December 2023 from US\$270m in 2022. Although the bank's commitment to its developmental mandate is evident, it needs to build a longer-term successful track record. The successful execution of the mandate and consistent disbursement of funds aligned with the forecast can enhance the bank's credibility and performance. We expect disbursements of US\$96m by end 2024.

SHAFDB's capitalisation is strong, with the GCR leverage ratio improving to 68.2% in December 2023 from 54.9% in 2022, driven by a return to profitability, capital arrear collections of US\$7.5 million, and a 17.1% decrease in assets. We expect the GCR leverage ratio to remain above 60% and a core earnings to adjusted assets range

of 1-2% over the next 12 to 18 months. Positive profitability forecasts are contingent on achieving lending targets and maintaining cost containment. Unsustainable practices resulting in earnings deterioration would be viewed negatively.

Risk is ratings negative. Shelter Afrique continues to struggle with poor asset quality and a high NPL ratio, which stood at 50.6% at the end of 2023, slightly down from 51.7% in 2022. While improvements in risk management have been noted, including a reduction in credit losses to 1.9% at FY2023 (FY2022: 3.7%), legacy impacts persist. Until the legacy NPLs are materially resolved, the risk score will remain constrained, albeit with a potential for gradual improvement as the bank executes its strategies effectively. Nevertheless, maintaining clean lending practices and demonstrating sustainable credit underwriting are critical. Positively, SHAFDB's exposure to market risk, particularly currency risk, has also been managed prudently. The impact of Naira devaluation was managed through careful matching of assets and liabilities, ensuring minimal impact on the bank's financial stability.

Funding and liquidity are neutral to the ratings. The funding structure is modest, with notable steps to diversify through loans from commercial banks and DFIs. Liquidity management faces some challenges due to the concentration of liquid assets in local banks. Positively, liquidity is more than adequate to cover immediate refinancing requirements. Improving funding diversification and the quality of liquid assets may enhance the bank's funding and liquidity profile.

We have not factored callable capital given the non-investment grade ratings of shareholders and the chequered history of timely support.

Shelter Afrique's Series 1 Senior Unsecured Notes

The Series 1 Notes have been issued under Shelter Afrique's (the Issuer) NGN200bn Domestic Bond Issuance Programme. The Issuer is permitted through a resolution of its Board of Directors dated 30th November 2021, to issue the Notes in various tranches, and under different terms and conditions as the board may deem fit, subject to the approval of the relevant regulatory authorities. Accordingly, the Notes constitute direct, unsubordinated and unsecured obligations of the Issuer.

Repayment of the Notes obligations ultimately depend on the performance of Issuer. Shelter Afrique irrevocably and unconditionally undertakes to the Trustee the due and punctual payment in accordance with the Trust Deed of the principal of and interest on all Notes and of any other amounts payable by the Issuer under the Trust Deed. As such, cognisance must be taken of the Issuer's credit profile.

The Notes rank pari passu with all senior unsecured indebtedness and the claims of the Issuer's creditors. Accordingly, the Notes have been accorded a public national scale long-term Issue rating of AA+(NG) in line with the Issuer's rating.

Outlook statement

The outlook is Stable. We expect stable best practice governance structures, further improvements to risk management and monitoring structures, enhanced preferential treatments. We also expect sustained clearance of capital arrears and legacy NPLs.

Rating triggers

The ratings may be improved if there is sustained defined and material improvement in asset quality without a deterioration in the GCR leverage or reserve coverage ratios. The rating may also be improved if 1) if there is a sustained track record of strong development mandate execution without a deterioration in asset quality, 2) material clearance of capital arrears, and 3) track record of shareholder support. The ratings may be downgraded if 1) there is limited measurable proof that the bank is fulfilling its mandate, 2) there is migration of new loans into NPL, 3) we see credit losses above 3%, or 4) the bank records a weaker than projected earnings. The rating triggers on the Programme and the Notes reflecting the rating triggers of the Issuer.

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Related criteria and research

Criteria for the GCR Ratings Framework, May 2024
GCR Rating Scales, Symbols & Definitions, May 2023
Criteria for Rating Supranational Institutions, May 2024
GCR Country Risk Scores, June 2024
GCR Financial Institutions Sector Risk Score, November 2023

Ratings history

Shelter Afrique Development Bank

Rating class	Review	Rating scale	Rating	Outlook	Date
Long and Short-Term issuer	Initial	International	B-/B	Stable	May 2021
	Initial	National	A ⁺ _(KE) /A1 _(KE)	Stable	May 2021
	Initial	National	AA _(NG) /A1 ⁺ _(NG)	Stable	May 2021
	Initial	National	B ⁺ _(MU) /B _(MU)	Stable	November 2021
	Last	International	B-/B	Positive	June 2023
	Last	National	A ⁺ _(KE) /A1 _(KE)	Positive	June 2023
	Last	National	AA _(NG) /A1 ⁺ _(NG)	Positive	June 2023
	Last	National	BB _(MU) /B _(MU)	Positive	June 2023
Series 1 Tranche A Senior Unsecured	Initial	National	AA _(NG)	Stable	June 2022
Notes	Last	National	AA _(NG)	Positive	June 2023
Series 1 Tranche B Senior Unsecured	Initial	National	AA _(NG)	Stable	June 2022
Notes	Last	National	AA _(NG)	Positive	June 2023

Risk score summary

Rating Components & Factors	Score
Operating environment	8.50
Country risk score	2.75
Sector risk score	2.50
Membership Strength and Diversity	2.00
Preferential Creditor Treatment	1.25
Business profile	(1.00)
Status and diversity	(2.50)
Mandate and track record	1.50
Sustainability	0.00
Financial profile	3.25
Capital and leverage	5.00
Risk	(1.75)
Funding structure and liquidity	0.00
Comparative profile	0.00
Callable capital	0.00
Peer comparison	0.00
Total Risk Score	10.75

Glossary

Agreement	A negotiated and usually legally enforceable understanding between two or more legally competent parties.
Arrears	An overdue debt, liability or obligation. An account is said to be 'in arrears' if one or more payments have been missed in transactions where regular payments are contractually required.
Asset Quality	Refers primarily to the credit quality of a bank's earning assets, the bulk of which comprises its loan portfolio, but will also include its investment portfolio as well as off balance sheet items. Quality in this context means the degree to which the loans that the bank has extended are performing (i.e., being paid back in accordance with their terms) and the likelihood that they will continue to perform.
Asset	A resource with economic value that a company owns or controls with the expectation that it will provide future benefit.
Bond	A long-term debt instrument issued by either a company, institution or the government to raise funds.
Callable	A provision that allows an Issuer the right, not the obligation, to repurchase a security before its maturity at an agreed price. The seller has the obligation to sell the security if the call option holder exercises the option.
Capital	The sum of money that is invested to generate proceeds.
Capitalisation	The provision of capital for a company, or the conversion of income or assets into capital.
Credit Rating	An opinion regarding the creditworthiness of an entity, a security or financial instrument, or an issuer of securities or financial instruments, using an established and defined ranking system of rating categories.
Credit	A contractual agreement in which a borrower receives something of value now and agrees to repay the lender at some date in the future, with interest. The term also refers to the borrowing capacity of an individual or company
Creditor	A credit provider that is owed debt obligations by a debtor.
Currency Risk	The potential for losses arising from adverse movements in exchange rates.
Deed	A legal document that is signed and delivered, especially one regarding the ownership of property or legal rights.
Diversification	Spreading risk by constructing a portfolio that contains different exposures whose returns are uncorrelated. The term also refers to companies which move into markets or products that bear little relation to ones they already operate in.
Exposure	Exposure is the amount of risk the holder of an asset or security is faced with as a consequence of holding the security or asset. For a company, its exposure may relate to a particular product class or customer grouping. Exposure may also arise from an overreliance on one source of funding. In insurance, it refers to an individual or company's vulnerability to various risks
Forecast	A calculation or estimate of future financial events.
Interest	Scheduled payments made to a creditor in return for the use of borrowed money. The size of the payments will be determined by the interest rate, the amount borrowed or principal and the duration of the loan.
Issuer	The party indebted or the person making repayments for its borrowings.
Leverage	With regard to corporate analysis, leverage (or gearing) refers to the extent to which a company is funded by debt.
Liabilities	All financial claims, debts or potential losses incurred by an individual or an organisation.
Liquid Assets	Assets, of a short term, which can be converted into cash.
Liquidity	The speed at which assets can be converted to cash. It can also refer to the ability of a company to service its debt obligations due to the presence of liquid assets such as cash and its equivalents. Market liquidity refers to the ease with which a security can be bought or sold quickly and in large volumes without affecting the market price.
Loan	A sum of money borrowed by a debtor that is expected to be paid back with interest to the creditor. A debt instrument where immovable property is the collateral for the loan. A mortgage gives the lender a right to take possession of the property if the borrower fails to repay the loan. Registration is a prerequisite for the existence of any mortgage loan. A mortgage can be registered over either a corporeal or incorporeal property, even if it does not belong to the mortgagee. Also called a Mortgage bond.

Loss	1. A tangible or intangible, financial or non-financial loss of economic value. 2. The happening of the event for which insurance pays (insurance).
Mandate	Authorisation or instruction to proceed with an undertaking or to take a course of action. A borrower, for example, might instruct the lead manager of a bond issue to proceed on the terms agreed.
Market Risk	Volatility in the value of a security/asset due to movements in share prices, interest rates, currencies, commodities or wider economic factors.
Market	An assessment of the property value, with the value being compared to similar properties in the area.
National Scale Rating	National scale ratings measure creditworthiness relative to issuers and issues within one country.
Obligation	The title given to the legal relationship that exists between parties to an agreement when they acquire personal rights against each other for entitlement to perform.
Pari Passu	Side by side; at the same rate or on an equal footing. Securities issued with a pari passu clause have rights and privileges that are equivalent to those of existing securities of the same class.
Performing	An obligation that performs according to its contractual obligations.
Principal	The total amount borrowed or lent, e.g. the face value of a bond, excluding interest.
Rating Outlook	See GCR Rating Scales, Symbols and Definitions.
Recovery	The action or process of regaining possession or control of something lost. To recoup losses.
Refinancing	The issue of new debt to replace maturing debt. New debt may be provided by existing or new lenders, with a new set of terms in place.
Repayment	Payment made to honour obligations in regard to a credit agreement in the following credited order: 3.) Satisfy the due or unpaid interest charges; 4.) Satisfy the due or unpaid fees or charges; and 5.) To reduce the amount of the principal debt.
Reserve	(1) An amount representing actual or potential liabilities kept by an insurer to cover debts to policyholders. (2) An amount allocated for a special purpose. Note that a reserve is usually a liability and not an extra fund. On occasion a reserve may be an asset, such as a reserve for taxes not yet due.
Risk Management	Process of identifying and monitoring business risks in a manner that offers a risk/return relationship that is acceptable to an entity's operating philosophy.
Risk	The chance of future uncertainty (i.e. deviation from expected earnings or an expected outcome) that will have an impact on objectives.
Senior	A security that has a higher repayment priority than junior securities.
Shareholder	An individual, entity or financial institution that holds shares or stock in an organisation or company.
Short Term	Current; ordinarily less than one year.
Tranche	A portion of an obligation, each of which has different terms.
Trust Deed	A deed of conveyance creating and setting out the conditions of a trust.
Trust	A third party that acts in the best interest of another party, according to the trust deed, usually the investors. Owner of a securitisation vehicle that acts in the best interest of the Noteholders.
Trustee	An individual or firm that holds or administers property or assets for the benefit of a third party.
Unconditional	Not subject to any conditions.
Underwriting	The process of selecting risks and classifying them according to their degrees of insurability so that the appropriate rates may be assigned. The process also includes rejection of those risks that do not qualify.
Upgrade	The rating has been raised on its specific scale.

Salient points of accorded rating

GCR affirms that a.) no part of the rating process was influenced by any other business activities of the credit rating agency; b.) the ratings were based solely on the merits of the rated entity, security or financial instrument being rated; and c.) such ratings were an independent evaluation of the risks and merits of the rated entity, security or financial instrument.

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The rated entity participated in the rating process via in person interaction, via online virtual interaction and via electronic communication and correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible. The information received from the rated entity and other reliable third parties to accord the credit ratings included:

- Audited financial results as at 31 December 2023
- Breakdown of loan book and funding as at December 2023
- Breakdown of facilities
- Other related documents

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