News Release

Japan Credit Rating Agency, Ltd.

24-I-0064
November 1, 2024

Japan Credit Rating Agency, Ltd. (JCR) announces the following credit rating.

The Eastern and Southern African Trade and Development Bank (security code: -)

<Assignment>
Long-term Issuer Rating: A-
Outlook: Stable

Eastern and Southern African Trade Fund (security code: -)

<Assignment>
Long-term Issuer Rating: A-
Outlook: Stable

Rationale

Issuer: The Eastern and Southern African Trade and Development Bank (TDB)

(1) TDB is a multilateral development bank (MDB) that provides development finance such as trade finance and project and infrastructure finance for Eastern and Southern African Member States. TDB is a part of TDB Group, which also comprises of the Trade and Development Fund (TDF), TDB Captive Insurance Company (TCI), Eastern and Southern African Trade Advisers Limited (ESATAL) and Eastern and Southern African Trade Fund (ESATF). The rating is primarily reflected by the strong support it enlists from its shareholders, solid earning capacity and its preferred creditor status. On the other hand, it is constrained by its high credit risk loan portfolio and relatively high financial leverage. Based on the above, JCR has assigned a rating of "A-" with Stable outlook. In response to the G20's recommendation to expand the functions of MDBs, TDB intends to strengthen capital inflows from the private sector and develop and expand its investment and loan operations. JCR will closely monitor the creditworthiness of the borrower countries, the status of debt restructuring, and the expansion of the loans to the private sector to have the results reflected on the rating.

(2) TDB is headquartered in Mauritius and Burundi. It has its operation office in Kenya and its regional offices in Zimbabwe, Ethiopia and DR Congo. At the time of its establishment, TDB's shareholders were limited to 12 member states. However, its equity capital structure has become diversified as the number of its shareholders increased to total of 48 shareholders comprising of sovereigns and institutional investors, including pension funds, insurance companies, sovereign wealth funds and development finance institutions as at the end of 2023. TDB concluded transactions with the AfDB and the Clean Technology Fund, for USD 15 million each in 2023. In addition, negotiations are underway with institutions, and are expected to increase in the future. In particular, preparations are in progress to have another MDB provide substantial loans to regional member states on concessional terms and the funds from these loans to be used to increase TDB's capital. The scheme is expected to come through by the end of 2024.

(3) TDB has been continuously accumulating its paid-in capital by enlisting strong support from its shareholders for its operations. Its authorized capital was increased from USD 2.0 billion at the time of its inception to USD 3.0 billion in 2013, USD 5.0 billion in 2020 and USD 6.0 billion in 2021. The subscribed capital was increased from USD 1.3 billion to USD 3.0 billion and the paid-in capital (paid-in capital plus share premium) was increased from USD 250 million to USD 600 million between the end of 2013 and the end of 2023. The paid-in capital accounted for 20.6% of the subscribed capital at the end of 2023, with the remaining 79.4% being callable capital, which will be paid in at the request of the Board of Directors. The majority of the callable capital has been pledged by shareholders with relatively low credit rating, and TDB adopts a mid-term credit risk mitigation instrument to enhance the credit quality of its callable capital. The capital adequacy ratio in the broad sense (at the end of 2023), taking into account insurance-credit enhancement, is maintained in the mid-30% range. Its leverage is relatively high, with the ratio of outstanding loans to shareholders' equity standing at about 316% at the end of 2023, slightly higher than in MDBs rated non-AAA by JCR. Nevertheless, the leverage ratio is within the risk appetite limit set by the TDB's risk management appetite framework. JCR will closely monitor whether TDB can continue to implement appropriate financial management.

(4) TDB's total assets (USD 10.0 billion at the end of 2023) predominantly consist of loans (66% of the total), with other assets being cash and cash equivalents. Its loan portfolio has been on an increasing trend since its inception, amounting to USD 6.7 billion at the end of 2023. Portfolio concentration has been improving in recent years. With loan portfolio split by sovereign and non-sovereign loans accounting for about 68% and 32%, respectively. The main beneficiaries of TDB facilities are sovereign entities in regions with high risks. Under this circumstance, TDB mitigates credit risk through utilization of insurance and collateralization. At the end of 2023, about 70% of its loans were secured. Moreover, TDB like other MDBs, has a track record of enjoying preferential repayment of debts as a preferred creditor. Its Stage 3 non-performing loan (NPL) ratio is somewhat increasing, but it has been contained at around 3% with sufficient risk mitigants. On the other hand, its Stage 2 loans increased sharply in volume at the end of 2023 due to reclassification of two sovereign trade finance exposures. The credibility of other borrower countries can be adversely affected by lingering inflationary pressures and widespread conflicts and political unrest. JCR will closely monitor future developments in those countries.

(5) TDB's profitability is higher than the average of MDBs rated AAA by JCR, and its ROE consistently stays above its target level. Unlike other MDBs, TDB pays dividends. With respect to risk management, it sets the level of risks it can accept, and operates in conformity with risk appetite regarding various aspects such as exposures by country, obligor and sector, and liquidity. TDB's liquidity is reasonable, with the ratio of cash and cash equivalents to the total assets standing at around 30% at the end of 2023. On top of this, it retains undrawn credit lines totaling USD1.85 billion. Its funding sources are diversified, including bilateral loans and syndicated loans from financial institutions, borrowing from export credit agencies and development finance institutions, and bond issuance in international markets. In response to the G20's recommendation to revitalize MDBs, TDB is considering and promoting diversification of financing instruments, including the use of private-sector funds.

Issuer: Eastern and Southern African Trade Fund (ESATF)

(1) ESATF is an open-ended investment fund managed by ESATAL, a fully-owned subsidiary of TDB. The rating reflects the relatively short turnover cash flow structure and stable track record of the short-term trade finance, and the fact that the borrowing limit is set conservatively against the repayment resources. On the other hand, the countries in which ESATF invests include countries with unstable domestic politics, and their creditworthiness is low. Therefore, the ability of fund management, including continuous monitoring of borrowers, has a significant impact on its rating. JCR has assigned a rating of "A-" with Stable outlook, the same rating as TDB, taking into account the structure that TDB is the main sponsor and ESATAL is responsible for the fund management.

(2) Based in Mauritius, which is expected to play the role of an international financial center in Africa, ESATF is supervised by the Financial Services Commission (Mauritius). As of September 2024, 32% was held by TDB, 30% by BADEA and 38% by other investors such as public and private institutional investors. ESATF's fund management is supported by its main investors, TDB and BADEA. Its investment targets are short-term trade finance mainly in the Eastern and Southern African countries, working capital finance, export finance and project-related financial transactions. ESATF finances the trade of a variety of strategic commodities and products, both export (agriculture, oil, and minerals) and import (agriculture and food, pharmaceuticals, fertilizers, and refined oil). ESATAL aims for a long-term stable operation of ESATF as its asset manager by leveraging the knowledge, expertise, and network developed by the TDB Group. In October 2021, TDB and BADEA signed a three-year strategic partnership agreement to attract more institutional investors. This partnership is expected to be extended in the near future. Since then, the number of its institutional investors has been increasing and ESATF's assets under management have grown to approximately USD 208 million as at 1st October 2024.

(3) ESATF's current portfolio is diversified as investment framework put caps on countries, sectors and obligors, and as asset allocation is carried out in accordance with its investment policy. The credit risk of the countries in which it invests is low, but the risk is partially controlled through collateral protection and other measures. The portfolio has a relatively short average maturity of less than two years. ESATF sets its earnings target at SOFR + [3-5%]. The stable performance of the fund has been confirmed despite the impact of the COVID-19 pandemic and challenging investment environment. Financially, ESATF uses leverage through overdraft facilities as a means of supplementing liquidity. The fund has no record of bond issuances or bank term loans to date. It has a scheme in place to ensure its financial soundness, limiting borrowings to a maximum of 25% of NAV and a 3-month notice on equity investors' requests for a refund of their investments.

Atsushi Masuda, Michihisa Ueno

Rating
Issuer: The Eastern and Southern African Trade and Development Bank

<Assignment>
Long-term Issuer Rating: A- Outlook: Stable

Issuer: Eastern and Southern African Trade Fund

<Assignment>
Long-term Issuer Rating: A- Outlook: Stable

Rating Assignment Date: October 29, 2024

The assumptions for the credit ratings and the definitions of the rating symbols are published as "Types of Credit Ratings and Definitions of Rating Symbols" (January 6, 2014) in Information about JCR Ratings on JCR's website (https://www.jcr.co.jp/en/).

Outline of the rating methodology is shown as "Multilateral Development Banks" (March 29, 2013) and "Investment Funds" (November 22, 2019) in Information about JCR Ratings on JCR's website (https://www.jcr.co.jp/en/).

The rating stakeholder participated in the rating process of the aforementioned credit ratings.

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INFORMATION DISCLOSURE FORM

Japan Credit Rating Agency, Ltd.

Disclosure Required by Paragraph (a)(1)(ii) of Rule 17g-7

Issuer:	The Eastern and Southern African Trade and Development Bank Eastern and Southern African Trade Fund
Rating Publication Date:	November 1, 2024

1 The Symbol, Number, or Score in the Rating Scale used to Denote Credit Rating Categories and Notches and, the Identity of the Obligor or the Identity and a Description of the Security or Money Market Instrument as Required by Paragraph (a)(1)(ii)(A) of Rule 17g-7

- Please see the news release. If the credit rating is a private rating, please see the report for private rating.

2 The version of the procedure or methodology used to determine the credit rating; as Required by Paragraph (a)(1)(ii)(B) of Rule 17g-7

- Please see the news release. If the credit rating is a private rating, please see the report for private rating.

3 The Main Assumptions and Principles used in Constructing the Procedures and Methodologies used to Determine the Credit Rating as Required by Paragraph (a)(1)(ii)(C) of Rule 17g-7

- The credit rating methodology assumes, in principle, to be applied to assess the likelihood of a given debt payment in light of its issuer's condition and business environment, etc. in the relevant future. There is certain limitation, however, in the time horizon that the rating foresees.
- The credit rating methodology assumes, in principle, that the factors posted in the below are particularly important for such likelihood to be determined, and that the rating determination is made by evaluating each of them not only quantitatively but also employing qualitative analyses.

A) Business Bases

The likelihood of a given debt payment is highly conditional to its issuer's business bases - how they can be maintained/ expanded into the future and thereby secure earnings and cash flows in adequacy and in a sustainable way.

B) Financial Grounds and Asset Quality

The likelihood of debt payment is highly dependent on the degree of the issuer's indebtedness and loss absorption capacity in terms of equity capital. Also notable is that a financial institution might see a significant loss of financial grounds as a result of changes in value of the assets under its possession.

C) Liquidity Positions

The likelihood of debt payment is highly dependent on the adequacy of the issuer's cash and other sources of repayment (liquidity positions).

D) Related Parties' Status and Stance of Support/ Assistance for the Issuer

The likelihood of debt payment is affected one way or the other by the issuer's related parties such as member countries, the issuer's related organizations, guarantor, and the government of the issuer's business domicile, etc. - by their own conditions and/ or position of support/ assistance for the issuer.

E) Order of Seniority in Debt Payment

The likelihood of debt payment can be different between given debts of the same issuer. The likelihood of debt payment for an individual debt is dependent on the issuer's discretion, and/ or its rank relative to other debts of the same issuer in the order of seniority in principal/ interest payment which is determined by design as financial product or by laws, etc.

4 The Potential Limitations of the Credit Rating as Required by Paragraph (a)(1)(ii)(D) of Rule 17g-7

- The credit rating herewith presented by JCR is its summary opinion with regard to the likelihood of given debt payment and hence not necessarily a perfect representation of such likelihood. The credit rating is not intended to estimate the probability of default or the loss on given default, either.
- The objective of the credit rating herewith presented does not include any concerns other than the likelihood of debt payment, such as risks of price changes, market liquidity, etc.
- The credit rating herewith presented is necessary to be reviewed along with possible changes of the issuer of rated objects in its business performance and/ or circumstances which include regulatory environment, and hence subject to possible alteration.

5 Information on the Uncertainty of the Credit Rating as Required by Paragraph (a)(1)(ii)(E) of Rule 17g-7

- The information used for the determination of credit rating as herewith presented is obtained by JCR from the issuer of rated objects and other sources that JCR trusts in terms of accuracy and reliability but possibly contains errors due to human, non-human or other causes. Consequently, the credit rating determined on the grounds of such information does not constitute, explicitly or implicitly, any representation or warrant of JCR on the information itself or any consequences of its use in terms of accuracy, relevance, timeliness, wholeness, market value, or usefulness for any specific purposes.

6 Use of Due Diligence Services of a Third Party in Taking the Rating Action as Required by Paragraph (a)(1)(ii)(F) of Rule 17g-7

- There is no use of any third-party due diligence service in the determination of the credit rating herewith presented.

7 Use of Servicer or Remittance Reports to Conduct Surveillance of the Credit Rating Required by Paragraph (a)(1)(ii)(G) of Rule 17g-7

- There is no use of any servicer or remittance report to conduct surveillance of the credit rating herewith presented.

8 The Types of Data Relied Upon for the Purpose of Determining the Credit Rating as Required by Paragraph (a)(1)(ii)(H) of Rule17g-7

- The information posted in the below, which includes data, is used for the determination of the credit rating herewith presented.

A) Audited financial statements presented by the rating stakeholders
B) Explanations of business performance, management plans, etc. presented by the rating stakeholders

9 Overall assessment of the Quality of Information Available and Considered in Determining the Credit Rating as Required by Paragraph (a)(1)(ii)(I) of Rule 17g-7

- JCR holds its basic policies for securing the quality of information as a base of due diligence for the determination of credit ratings. The information used as a base for the determination of credit rating herewith presented satisfies such policies, which include the audit by an independent auditor, the publication by the issuer or some independent media or, otherwise, JCR analyst's scrutiny, etc.
- JCR sees no particular weakness in the quality of information used for the determination of the credit rating herewith presented as compared to the information used in other cases of the credit rating for comparable issuers or ratable objects.
- If the credit rating is an Indication, please see the report for Indication.

10 Information Relating to Conflicts of Interest as Required by Paragraph (a)(1)(ii)(J) of Rule 17g-7

- JCR receives payment of compensation for the determination of the credit rating herewith presented from either one of those parties who are issuer, underwriter, depositor or sponsor.
- JCR did not receive in the last fiscal year in the past payment of compensation from the same party for any kind of JCR's service other than the determination of public or private credit rating, such as one in the ancillary business.

11 Explanation or Measure of the Potential Volatility of the Credit Rating as Required by Paragraph (a)(1)(ii)(K) of Rule 17g-7

A) Business Bases
The credit rating is subject to alteration if there is improvement or deterioration of the issuer's business bases, since its revenue, etc. may improve or deteriorate by the change in its business management policies, clients' preferences, competitive situation, or a technological innovation. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change in the business bases is large.

B) Financial Grounds and Asset Quality
The credit rating is subject to alteration if the issuer increases/ decreases its debt/ capital or vice versa and thereby makes its individual debt payment liability less or more bearable and its loss absorption capacity into the future decreased or increased. Also, the changes in the quality of asset under the issuer's holding may affect the credit rating, since such changes could raise or lower the likelihood of future loss of the issuer's financial grounds. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change in the financial grounds and/ or asset quality is large.

C) Liquidity Positions
The credit rating is subject to alteration if there is a change in the issuer's financial management policy or in the relations with fund procurement sources and the change thereby makes its liquidity positions improve or deteriorate. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change is large.

D) Related Parties' Status and Stance of Support/ Assistance for the Issuer
The credit rating is subject to alteration if there is a change in the issuer's member countries, the issuer's related organizations, guarantor or other provider of credit enhancement, or the government of the issuer's business domicile, or other related parties' own conditions and/ or position of support/

assistance for the issuer, and the change thereby makes its business bases, financial grounds and/ or liquidity positions improve or deteriorate, and/ or making the effectiveness of guarantee and other credit enhancement improve or deteriorate. The resultant alteration of the credit rating is usually a notch, with possibility of a few notches if and when the change is large.

E) Order of Seniority in Debt Payment and Non-Payment Forgiven by Contract

The credit rating is subject to alteration if there is a change in the rated debt's status in the order of seniority relative to other debts caused by the improvement/ deterioration of the issuer's financial condition. The resultant alteration of the credit rating is usually a notch, with possibility of a few notches if and when the change is large. Also, in case of the financial products for which non-payment of interest/ principal is contractually permissible, the credit rating is subject to alteration if and when the likelihood of such non-payment is projected to increase or decrease. The resultant alteration of the credit rating could be by a notch but often as much as a few notches.

F) Rise and Fall in General Economy and Markets

The credit rating is subject to alteration if there is a rise/ fall in the general economy and/ or the markets inducing the issuer's revenues/ expenses to increase/ decrease and vice versa, etc. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change is exceptionally large.

G) Various Events

The credit rating is subject to alteration on occurrence of various events, such as change in the issuer's major shareholders, M&A and other organizational change, accident, violation of the law, litigation, legal/ regulatory change, natural disaster, etc., which are unforeseeable at the time when the credit rating is determined, causing a significant change on the issuer's business bases, financial grounds, etc. The resultant alteration of the credit rating could be by a notch but more often than not as much as a few notches.

12 Information on the Content of the Credit Rating, Including the Historical Performance of the Credit Rating and the Expected Probability of Default and the Expected Loss in the Event of Default as Required by Paragraph (a)(1)(ii)(L) of Rule 17g-7

- The credit rating herewith presented by JCR is its summary opinion with regard to the likelihood of given debt payment and hence not necessarily a perfect representation of such likelihood. The credit rating is not intended to estimate the probability of default or the loss on given default, either.
- Facts of the probability of default are posted as Form NRSRO Exhibit 1 on the JCR website under the URL:

https://www.jcr.co.jp/en/service/company/regu/nrsro/

13 Information on the Sensitivity of the Credit Rating to Assumptions Made as Required by Paragraph (a)(1)(ii)(M) of Rule 17g-7

A) Business Bases

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer's business bases and powers of earning or cash flow generation, etc. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if the development is rapid in improvement or deterioration of the issuer's business bases on some drastic change in the operational environments, etc.

B) Financial Grounds and Asset Quality

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer's financial grounds and asset quality. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if the development is rapid in improvement or deterioration of the issuer's financial grounds and/ or asset quality on some drastic change in its business bases.

C) Liquidity Risks

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer's liquidity positions. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if the development is rapid in improvement or deterioration of the issuer's liquidity positions on some drastic change in its financial management policy or relations with fund procurement sources, etc.

D) Related Parties' Status and Stance of Support/ Assistance for the Issuer

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to member countries, the issuer's related organizations, guarantor or other providers of credit enhancement, the government of the issuer's business domicile or other related parties' status and stance of support/ assistance for the issuer. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if there is a major change on the part of related parties, such as replacement, disappearance, some drastic improvement/ deterioration of financial grounds/ balances, etc.

E) Rise and Fall in General Economy and Markets

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the prospects of general economy and markets. JCR expects the change should be most likely by a notch but could be as much as a few notches, should the economy or the markets change so greatly.

14 Information on the Representations, Warranties, and Enforcement Mechanisms of an Asset-backed Security as Required by Paragraph (a)(1)(ii)(N) of rule 17g-7

- The credit rating herewith presented is not for an ABS product, and hence no relevant issue.

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Attestation Required by Paragraph (a)(1)(iii) of Rule 17g-7

I, Kiichi Sugiura, have responsibility to this Rating Action and to the best of my knowledge:

A) No part of the credit rating was influenced by any other business activities.

B) The credit rating was based solely upon the merits of the obligor, security, or money market instrument being rated.

C) The credit rating was an independent evaluation of the credit risk of the obligor, security, or money market instrument.

杉浦 輝一

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General Manager of International Department

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