AFREXIMBANK

AFRICAN EXPORT-IMPORT BANK
Abridged Unaudited Financial Statements for the Half Year Ended 30 June 2018

DIRECTORS' COMMENTARY

GENERAL INFORMATION

The African Export-Import Bank (the Bank) is a multilateral trade finance institution, established in October 1993. It commenced lending operations in September 1994. The Bank's mandate is to promote, finance and facilitate intra and extra-African trade, while operating commercially. The Bank is headquartered in Cairo, Egypt and is located at No. 72 (B) El Maahad El Eshteraky Street, Heliopolis, Cairo 11341, Egypt. In addition, the Bank has regional offices in Harare (Zimbabwe), Abuja (Nigeria), Abidjan (Cote D'Ivoire) and is currently setting up a regional office in East Africa. The Bank has 4 classes of shareholders, class A (African Governments and/or associated institutions and African Multilateral institutions e.g African Development Bank), class B (African financial institutions and private investors), class C (non-African institutions) and class D (any investor). Class A,B and C shares are partially paid 40% upon subscription while class D shares are fully paid. Class D shares were created in 2012 to facilitate the Bank's entry in to the equity capital market. In October 2017 the Bank Listed Depository Receipts on the Stock Exchange of Mauritius backed by class D shares.

REVIEW OF FINANCIAL PERFORMANCE

1. **Introduction**

1.1 The interim financial statements of the Bank include Statement of Comprehensive Income, Statement of Financial Position, Statement of Cash Flows and the accompanying notes. This review discusses the Bank's financial statements for the six months ended 30 June 2018, paying particular attention to the strategic and environmental context within which they were achieved.

2. **Statement of Comprehensive Income**

2.1 Having successfully delivered on the objectives of its first year of implementing IMPACT 2021 and the emergency Countercyclical Trade Liquidity Facility (COTRALF) by 31 December 2017, the Bank began 2018 by prioritising initiatives aimed at promoting and financing Intra Africa trade. During the first six months of the year, significant progress was made in pursuit of this strategic goal especially regarding the organization of the first ever Intra African Trade Fair to be hosted in Cairo in December 2018. Progress has also been made in implementing the Industrialisation and Export Development pillar of the strategy especially around the establishment of Industrial parks and export Export Processing Zones (EPZ) within its member countries. Whilst the general recovery in international prices for most commodities has been positive for many countries, the rising interst rates have had negative impact on some of the countries with significant foreign debt. The growing protectionism and potential trade wars have also created some market uncertainties.

2.2 It was within this context that the Bank operated for the six months ended June 2018. The financial performance during the period was satisfactory and ahead of budget. Gross revenue increased by US$ 21 million to levels of US$ 343 million compared to prior year. This was primarily driven by a significant increase in fee income by 119% while interest and similar income recorded a 2% growth compared to prior year performance notwithstanding the decline in average loan balances. Interest and similar income increased despite the winding down of the Bank's 2-year Countercyclical Trade Liquidity Facility (COTRALF) programme, which led to a reduction in loans and advances which closed the period at US$8.8 billion (2017: US$10.5 billion). Interest and similar expenses increased by 12% compared to prior year in line with expectation given the rising interest rate environment. Consequently, operating income grew by 3% compared to prior period to reach US$ 199.9 million (2017: US$194.2 million). The Bank maintained operating expense growth within budget during the period under review despite the implementation of planned increase in human resources in order to support the execution of the current five year strategic plan.

2.3 Attributable earnings achieved by the Bank over the six months amounted to US$ 110 million. While 6% lower than prior year performance of US$117 million, the performance was well ahead of budget by 34%.

The decline against prior year was mainly due to fair value losses amounting to US$ 15 million arising from derivative instruments held for interest rate risk management purposes. The losses arose due to the impact of the rising interest rate environment. The interest rate swaps transforms the interest rate profile of the Bank's borrowings from fixed to floating in order to match the interest rate risk profile of the loan assets which is floating. As a result, the incurred fair value loss is adequately being compensated given that the majority of the loan book is priced at floating rate, thus any rise in market interest rates positively impacts the interest income. In addition, Management has put in place measures to cap these fair value losses going forward.

2.4 Despite the slight decline in net income on year-on-year basis, on the back of fair value loss from risk management derivatives, the key profitability ratios were well above budget with the return on the Bank's average shareholders' equity (ROAE) at 10% (Budget: 8.08% and 2017: 13.9%) and return on the Bank's average assets (ROAA) at 1.88% (Budget : 1.57% and 2017: 1.82%) as at 30 June 2018. In line with the additional equity raised during the first six months and last quarter of 2017, Basic Earnings per share (EPS) decreased from US$ 3,091 in 2017 to US$ 2,283 in 2018.

2.5 In line with the Bank's Capital management policy targets, the Bank's Capital Adequacy Ratio stood at a strong position of 25% (Budget : 23% and 2017: 24%), an improvement from prior year due to additional capital injection from both existing and new shareholders. A significant amount of slightly under US$300 million was raised during the last quarter of 2017 from the issuance of Depository receipts backed by the Bank's class D shares. In addition an amount of about US$ 78 million was also raised from other equity source between the last quarter of 2017 and end June 2018. As a result, the Bank's equity levels improved providing additional capacity for future business growth in line with the Bank's developmental agenda. A further detailed analysis of the Statement of Comprehensive Income is presented below.

Net Interest Income and Margin

2.6 The Bank achieved a 2% growth in interest and similar income at US$314.81 million (2017: US$308.85 million) on the back of increase in interest income from better priced loans and advances following the repayment of a large proportion of its related low priced cash-backed COTRALF. Interest income from money market investments reaching US$15.2 million mainly due to significant growth in the average outstanding cash balance by 96% as well as increase in average yield on these placements. Interest and similar expense increased by around 12% to close the period at US$139.27 million (2017: US$124.82 million) despite interest bearing liabilities declining to US$8.42 billion (2017: US$12.12 billion). There are two factors explainining the increase in interest expense, firstly in 2017 the Central Bank Deposit Programme (CENDEP) constituted over 40% while 2018 it constituted 17% of interest bearing liabilities thus significantly reducing interest expense and secondly 3 month Libor increased from 0.99% in January 2017 to 2.31% by June 2018 amid the general rising interest rate environment.

2.7 The Bank's net interest margin was up at 3.17% per annum in 2018, an increase from prior year performance of 3.01% per annum mainly due to improvement in average pricing of the loan portfolio arising from the repayment of COTRALF facilities which constituted a significant portion of the loan portfolio in 2017 and attracted lower margins given the high cash collaterals which were held under these facilities.

Non-Interest Income

2.8 Net fee and commission income increased by US$ 14.47 million to close the period at US$ 23.04 million (2017 :US$ 8.57million) given higher volumes of advisory mandates which were completed in 2018 compared to 2017. The achieved results reflected the benefits of the re-organisation carried out by the Bank which saw the resourcing of the Advisory and Capital Markets department and Trade services unit in line with the current 5 year strategic plan to boost non-funded income.

Operating Expenses

2.9 Operating expenses increased by US$ 12.23 million in 2018 compared to 2017 mainly due to increase in general and adminstrative expenses by US$ 7.73million to support the various strategic initiatives being pursued by the Bank in line with the Bank's mandate. In addition, the significant planned growth in professional staff recruitment which raised staff costs by US$ 3.99 million also contributed to the reported growth in operating expenses. The Bank's results reflected better effective cost controls and operating efficiency evidenced by the cost to income ratio of 20% which is well below the strategic plan target.

Allowance for Impairment on Loans and Advances

2.10 The allowance for impairment on Loans and Advances decreased by US$ 15.79 million to close the period at US$ 31.95 million (2017 :US$ 47.74 million) on the back of lower facilities experiencing repayment difficulties by US$31 million. On the other hand Collective impairment increased, however by US$15.4 million mainly due to increase in the basis of deriving the Collective impairment value by 30% in anticipation of potential impact of adoption of International Financial Reporting Standard (IFRS) 9 -"Financial Instruments". To this effect, the Bank is currently working on the implementation of IFRS 9 adoption and has not been able to reflect the full transitional adjustments for IFRS 9 in the reported results as the project was still ongoing. However Management expects that the impact would be limited to the off balance sheet exposures due to the short term nature of the trade finance loan portfolio and high collateral levels. The Bank's asset quality was within acceptable levels as reflected in the non-performing loans (NPL) ratio of 2.36% (2017 : 2.26%), a result of robust and effective credit risk management policies. The NPL ratio increased slightly from prior year despite the reduction in gross non performimg loans by 12% (US$30 million) due to a 16% (US$1.7bn) decline in gross outstanding loans. The provisions coverage ratio was satisfactory and well above the 100% minimum threshold at 149% (2017 : 130%).

3. Statement of Financial Position

3.1 The statement of financial position shows the position of the Bank's assets and liabilities as well as its Net worth or Shareholders funds at the reporting date. A detailed discussion of assets and liabilities with respect to the period ended 30 June 2018 is presented hereunder.

Assets

3.2 In line with expectation, the Bank's total assets declined by 18% from US$14.06 billion as at 30 June 2017 to US$11.52 billion as at 30 June 2018 mainly due to the winding down of the Bank's 2-year Countercyclical Trade Liquidity Facility (COTRALF) programme which saw net loans and advances balance reduce by 17% from levels of US$ 10.5 billion to US$ 8.8 billion as at 30 June 2018. The Bank expects to continue to grow the loan book to over $10 billion in the second half of the year in line with its strategic and business plans. Loans and advances balance accounted for 76% (2017: 75 %) of total assets while cash and due from banks assets constituted 20% (2017: 23%) of total assets. The Bank has the liquidity necessary to fund the planned disbursements in the 3rd and 4th quarters of the year when loan demands are usually at their peak.

Liabilities

3.3 Total liabilities of the Bank stood at US$ 9.21 billion (2017: US$ 12.31 billion) as at 30 June 2018, a decrease of 25% mainly due to 68% decline in customers deposit accounts as cash collaterals backing certain loans reduced as the loans were repaid. The borrowing balance rose by 3% from US$ 7.21 billion in 2017 to US$ 7.42 billion in 2018 which was necessary to inject liquidity to support expected business growth. Total borrowings accounted for about 81% (2017: 59%) of total liabilities while customer deposits and balances accounted for about 17% (2017: 40%) of total liabilities.

Shareholders' Funds

3.4 The Bank's shareholders' funds grew by 32% to close the period at US$2.31 billion (2017: US$1.75 billion) primarily driven by capital injections in line with the strategic plan to raise capital to sustain planned business growth. In addition, the Bank also generated internal capital arising from higher profitability which contributed to the increase in the Bank's net worth. The Bank's callable capital which has been significantly credit enhanced as part of the Bank's capital management strategy amounted to US$ 771.79 million (2017: US$ 568.63 million) as at 30 June 2018.

4. Conclusion

4.1 Management is pleased with the results achieved for the first half of the year and which are in line with expectation. In general, all the key performance metrics were in line with budget and strategic plan targets. The results buttressed the healthy financial standing of the Bank reflected in reported earnings growth, satisfactory profitability levels, high asset quality, solid liquidity and capital levels to support both existing and future business volumes. Expectations are that the Bank will grow the Attributable Income in the second half of the year to meet full year targets whilst maintaining a sustainable balance between a strong capital base, business growth and profitability to deliver sustainable returns to its shareholders.

NET ASSET VALUE ("NAV")

The NAV per share at 30 June 2018 was US$47,243 (2017: US$46,127).

DIVIDENDS

The shareholders approved a dividend appropriation amounting to US$57,534,000 from the 2017 financial year profit, at the Annual General Meeting held in July 2018. The dividend appropriation equal to 5% dividend yield on fully paid shares. The June 2018 financial statements do not reflect the dividend payable, which will be accounted for in equity as an appropriation of retained earnings in the 3rd quarter of 2018 after the approval obtained in July 2018. Dividend payments made during the six months in 2018 related to 2016 financial year.

NOTES

The Bank is required to publish financial results for the six months ended 30 June 2018 as per Listing Rule 12.19 of the SEM. The abridged unaudited financial statements for the six months ended 30 June 2018 («financial statements») have been prepared in accordance with the requirements of IFRS and the SEM Listing Rules. The Bank has not been able to adopt IFRS 9 «Financial Instruments» on 1 January 2018 when the accounting standard became effective as the implementation project is still ongoing.

The accounting policies adopted in the preparation of these financial statements are consistent with those applied in the preparation of the audited financial statements for the year ended 31 December 2017.

The abridged unaudited financial statements have not been reviewed or reported on by the Bank´s external auditors.

Copies of the abridged unaudited financial statements and the Statement of direct and indirect interests of each officer of the Bank, pursuant to Rule 8(2)(m) of the Securities (Disclosure Obligations of Reporting Issuers) Rules 2007, are available free of charge, upon request to the Executive Secretary at the Registered Office of the Bank at No.72(B) El-Maahad El-Eshteraky Street, Heliopolis, Cairo 11341, Egypt.

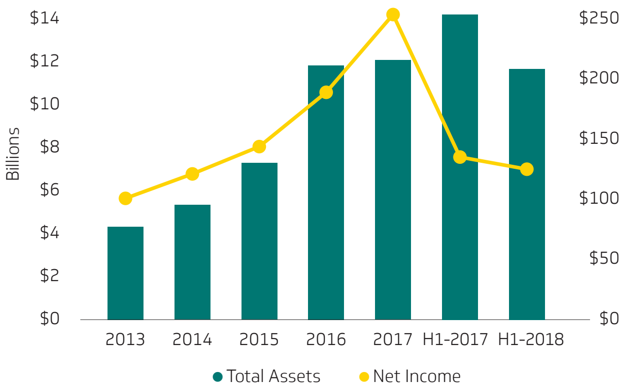
This communique is issued pursuant to SEM Listing Rules 11.3 and 12.20 and section 8.8 of the Securities Act of Mauritius 2005. Management accepts full responsibility for the accuracy of the information contained in these financial statements. Management are not aware of any matters or circumstances arising subsequent to the period ended 30 June 2018 that require any additional disclosure or adjustment to the financial statements.

African Export Import Bank

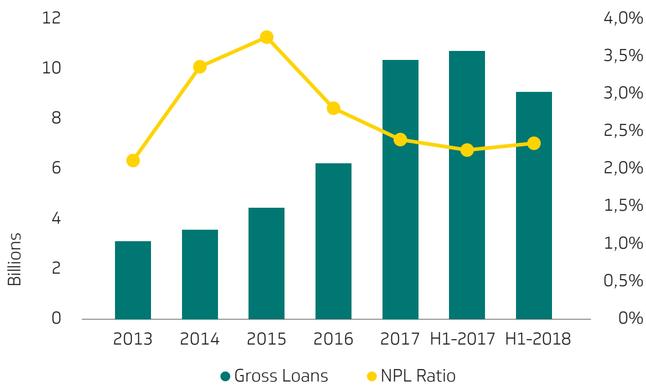
SBM Securities Limited
SEM Authorised Representative and Sponsor

16 August 2018

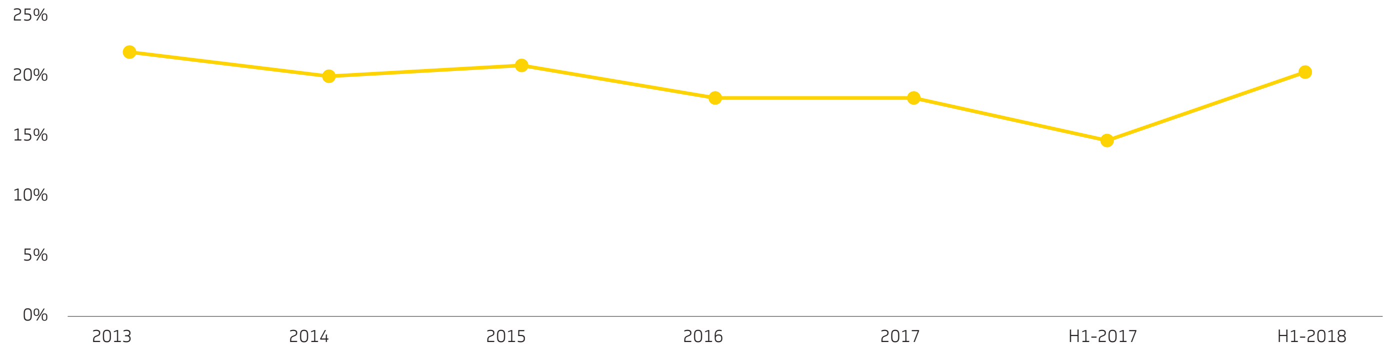
Net Income -Total Assets 5 year Trend Analysis



NPL ratio-Gross Loans 5 year Trend Analysis



Cost-Income Ratio Trend



STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2018

	30/6/2018 US$000	31/12/2017 US$000	30/6/2017 US$000
INTEREST AND SIMILAR INCOME			
Cash and cash equivalents	2 331 952	3 214 573	3 196 535
Loans and advances to customers	8 752 759	8 329 943	10 505 184
Derivative assets held for risk management	102	3 574	7 088
Prepayments and accrued income	366 506	298 102	297 053
Financial investments - held to maturity	30 268	30 268	30 268
Other assets	3 740	2 931	2 045
Property and equipment	31 640	32 838	23 679
Intangible Assets	1 178	1 248	627
Total assets	**11 518 145**	**11 913 477**	**14 062 479**
LIABILITIES			
Due to banks	5 033 024	4 231 374	4 371 085
Debt securities in issue	2 383 318	2 881 622	2 838 477
Deposits and customer accounts	1 547 838	2 149 356	4 905 565
Derivative liabilities held for risk management	33 908	21 467	17 033
Other liabilities	209 838	505 624	181 719
Total liabilities	**9 207 926**	**9 789 443**	**12 313 879**
CAPITAL FUNDS			
Share capital	489 012	470 816	379 088
Share premium	669 581	562 350	355 265
Warrants	42 496	91 723	99 157
Reserves	474 733	474 733	368 521
Retained earnings	634 397	524 412	546 569
Total capital funds	**2 310 219**	**2 124 034**	**1 748 600**
Total liabilities and capital funds	**11 518 145**	**11 913 477**	**14 062 479**

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE PERIOD ENDED 30 JUNE 2018

	Jun 2018 US$000	Jun 2017 US$000
Interest and similar income	314 809	308 852
Interest and similar expense	(139 272)	(124 820)
Net interest and similar income	**175 537**	**184 032**
Fee and commission income	28 240	12 895
Fee and commission expense	(5 201)	(4 324)
Net fee and commission income	**23 039**	**8 571**
Other operating income	1 312	1 613
Operating income	**199 888**	**194 216**
Personnel expenses	(21 011)	(17 020)
General and administrative expenses	(17 775)	(10 049)
Depreciation and amortisation expense	(2 131)	(1 616)
Operating expense	**(40 917)**	**(28 685)**
Exchange adjustments	(1 585)	(670)
Fair value loss from derivatives	(15 327)	-
Operating profit before impairment and provisions	**142 058**	**164 861**
Loan impairment charges	(31 952)	(47 738)
Impairment in other assets & accrued income	(122)	-
PROFIT FOR THE PERIOD	**109 985**	**117 123**
OTHER COMPREHENSIVE INCOME		
Other comprehensive income to be reclassified to profit or loss in subsequent periods		
Cashflow hedges	-	4 114
Total other comprehensive income to be reclassified to profit or loss in subsequent periods	**-**	**4 114**
Total other comprehensive income	**-**	**4 114**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**109 985**	**121 237**

STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED 30 JUNE 2018

	Share Capital US$000	Share Premium US$000	Warrants US$000
Balance at 1 January 2018	470 816	562 350	91 723
Issued and Paid in capital during 2018	18 196	107 231	
Warrants retirement	-	-	(49 227)
Profit of the period	-	-	-
Balance at 30 June 2018	**489 012**	**669 581**	**42 496**
Balance at 1 January 2017	378 488	355 310	98 716
Issued and Paid in capital during 2017	600	(45)	-
Issued during the year	-	-	441
Profit of the period	-	-	-
Other comprehensive income	-	-	-
Balance at 30 June 2017	**379 088**	**355 265**	**99 157**

STATEMENT OF CASH FLOWS FOR THE PERIOD ENDED 30 JUNE 2018

	Jun 2018 US$000	Jun 2017 US$000
INTEREST AND SIMILAR INCOME		
Profit for the period	**109 985**	**117 123**
Adjustment for non-cash items:		
Depreciation and amortization of intangible assets & property and equipment	2 131	1 616
Allowance for impairment on loans and advances	31 952	47 738
Impairement on accrued income	122	-
Net loss from cash flow hedge	15 327	-
	159 517	**166 477**
Changes in :		
Prepayments and accrued income	(68 526)	(55 639)
Hedging derivatives instruments	586	833
Other assets	(809)	1 024
Other liabilities	(292 914)	67 847
Deposits and customer accounts	(601 518)	1 127 072
Loans and advances to customers	(454 768)	(404 720)
Net cash inflows from operating activities	**(1 258 432)**	**902 894**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases and additions to property and equipment & intangible assets	(362)	(377)
Net cash outflows from investing activities	**(362)**	**(377)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases and additions to property and equipment & intangible assets	(863)	(642)
Net cash outflows from investing activities	**(863)**	**(642)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Net cash from capital subscriptions and share premium	125 427	555
Proceeds from issue of warrants	-	441
Retirement of warrants	(49 227)	-
Dividends paid	(2 872)	(43 470)
Net increase in due to banks and debt securities	303 346	1 067 677
Net cash inflows from financing activities	**376 674**	**1 025 203**
Net increase in cash and cash equivalents	(882 621)	1 927 455
Cash and cash equivalents at 1 January	3 214 573	1 269 080
CASH AND CASH EQUIVALENTS	**2 331 952**	**3 196 535**

General Reserve US$000	Asset Revaluation Reserve US$000	Cashflow hedge reserve US$000	Project preparation facility Fund reserve US$000	Retained Earnings US$000	Total US$000
447 762	19 471	-	7 500	524 412	**2 124 034**
-	-	-	-	-	**125 427**
-	-	-	-	-	**(49 227)**
-	-	-	-	109 985	**109 985**
447 762	**19 471**	**-**	**7 500**	**634 397**	**2 310 219**
366 283	11 600	(13 476)	-	429 446	**1 626 367**
-	-	-	-	-	**555**
-	-	-	-	-	**441**
-	-	-	-	117 123	**117 123**
-	-	4 114	-	-	**4 114**
366 283	**11 600**	**(9 362)**	**-**	**546 569**	**1 748 600**