# AFRICAN EXPORT-IMPORT BANK BANQUE AFRICAINE D'IMPORT-EXPORT (AFREXIMBANK)



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ANNUAL REPORT
AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

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# EVIMBANK ANNITAL DEDODT

# TRANSMITTAL LETTER

March 26, 2011

The Chairman General Meeting of Shareholders African Export-Import Bank Cairo Egypt

Dear Mr. Chairman,

In accordance with Article 35 of Afreximbank Charter, I have the honour, on behalf of the Board of Directors, to submit, herewith, the Report of the Bank's activities for the period January 1, 2010 to December 31, 2010, including its audited Financial Statements covering the same period.

The Report also contains a review of the international and African economic environments under which the Bank operated and highlights the trade developmental impact of some of the Bank's operations and activities during the period.

 $\mbox{Mr.}$  Chairman, please accept the assurances of my highest consideration.

Jean-Louis EKRA
President and Chairman of the Board of Directors

# **VISION AND MISSION STATEMENTS**

# Vision

To be The Trade Finance Bank for Africa

# Mission

To stimulate a consistent expansion, diversification and development of African trade while operating as a first class, profit-oriented, socially responsible financial institution and a centre of excellence in African trade matters.

# **BOARD OF DIRECTORS**

Chairman	Mr. Jean-Louis EKRA
Members of the Board	
Class "A"	Mr. Charles Boamah Director  Dr. Caleb Fundanga Director  Mr. Mahmoud Abd El-Aziz Mahmoud Director  Mrs. Yabawa Lawan Wabi Alternate Director
Class "B"	Dr. Gideon Gono Director  Mr. Jean-Marie Benoit Mani Director  Mr. Victor Nembelessini-Silué Director  Mr. Aomar Yidar Director
Class "C"	Mr. Anil Dua Director  Mr. Liu Liange Director
"Independent"	Mr. Franklin Kennedy Director  Mr. Ronnie S. Ntuli Director
Executive Secretary	Dr. George Elombi

# **MANAGEMENT**

#### Jean-Louis EKRA

President

#### Benedict O. Oramah

**Executive Vice President** 

(Business Development, Project & Corporate Finance)

#### **Denys Denya**

**Executive Vice President** 

(Finance, Administration & Banking Services)

#### **Philip Kamau**

Senior Director (Finance & Treasury)

#### **George Elombi**

Executive Secretary & Director (Legal Services)

#### **Samuel Loum**

Director (Credit)

#### **Francis Mbroh**

Director (Research, Planning & International Cooperation)

#### Kanayo Awani

Director (Trade Finance & Branches)

#### Kofi Adomakoh

Director (Project & Export Development Finance)

#### James Mwangi

Director (Risk Management)

#### **Robert Tomusange**

Director (Administrative Services)

# **EXTERNAL AUDITORS**

- 1. Ernst & Young, Kenya
- 2. Deloitte & Touche, Ghana

# **PERFORMANCE HIGHLIGHTS**

54%

year-on-year rise in Loan Approvals to US\$ 2.69 billion in 2010.

45%

year-on-year rise in Gross Loans Outstanding to US\$ 1.68 billion at the end of 2010.

32%

year-on-year increase in Total Assets to US\$ 1.9 billion at the end of 2010.

4%

year-on-year increase in Net Income to US\$44.4 million in 2010.

79%

year-on-year rise in Fee and Commission Income to US\$ 56.55 million in 2010.



26%

year-on-year growth in Interest Income to US\$ 73.8 million in 2010.

13%

year-on-year rise in Operating Income to US\$ 71.97 million in 2010.



28%

Cost-Income ratio in 2010 compared to industry average of over 50%.

CAIRO, EGYPT
Headquarters

**ABUJA, NIGERIA** Branch

## Loan Approvals during 2010 (US\$m)

Line of Credit Programme 1,254.4 28.0 Note Purchase Programme 200.0 **Direct Financing Programme** Project-Related Financing Programme 89.5 **Syndications Programme** 940.7 Special Risk Programme 70.0 73.9 Future-Flow Pre-Financing Programme 29.0 Asset-Backed Lending Programme

HARARE, ZIMBABWE Branch

# KEY MACROECONOMIC FACTS

- The rate of real GDP growth of African economies, as a group, quickened to 5% in 2010, from a level of 2% in 2009.
- The average rate of inflation for African economies, as a group, retreated from 6.72% in 2009 to 6.5% in 2010.
- Total African trade rose by 18.5% year-on-year to US\$ 949.6 billion in 2010.
- Intra-African trade increased by about 10% year-on-year to US\$ 104.4 billion in 2010.



# 1. INTRODUCTION / EXECUTIVE SUMMARY

- 1.1 This document (the "Report") sets out the activities and operations of African Export-Import Bank ("Afreximbank" or the "Bank") during 2010. The Report has been prepared in conformity with the corporate practice and reporting requirements of the Bank.
- 1.2 This year, the format and contents of the Report have been changed to reflect the growth and changing peculiarities of the Bank. In this regard, the expansion of the Bank's Research team has made it possible to produce an African Trade Report that touches on a specific thematic issue. Accordingly, the usually detailed African trade and economic environmental report has been much reduced in the Report and retained as an important component of the 2010 African Trade Report, jointly released with the Report. A new Chapter 4 has also been added to the Report to highlight a sample of the activities and operations of the Bank in 2010 that are assessed to have contributed towards the attainment of the Bank's trade development mandate. The introduction of this Chapter is to ensure that the Bank's Annual Reports deal holistically with issues that concern its trade development as well as commercial goals. This is considered critical in retaining the support of its public and private sector shareholders who invested in the Bank with divergent objectives, namely trade development promotion and profit/ commercial goals respectively.

The Report is therefore organized in five Chapters. This Chapter introduces the Report in the form of an Executive Summary of its contents. Chapter 2 reviews the global and African politico-economic environments under which the Bank operated during the review period while Chapter 3 presents

the activities and operations of the Bank in the context of the operating environment discussed in Chapter 2. These are followed by a discussion of the trade development impact of the Bank's operations and activities in Chapter 4 and a review of the 2010 financial performance of the Bank in Chapter 5.

1.3 The Report shows that the operating environment saw some improvements as the global economy experienced a solid rebound in activity across many sectors and national economies, especially during the second half of the review period. In this regard, the level of global output rose by 5% in 2010, in sharp contrast to a 0.6% contraction in output suffered in 2009. The stronger-thanexpected growth of the global economy was powered by continued robust economic expansion in Asia, led by China (10.3%) and India (9.7%); continued coordinated global policy interventions by governments and central banks in the form of fiscal stimuli, provision of liquidity and public guarantees in support of major financial and nonfinancial corporates under the auspices of the Group of Twenty (G20); and continued pursuit of more accommodative monetary policies in the form of low policy rates across the Organisation for Economic Cooperation and Development (OECD) countries. Further, bold policy interventions across economies of the OECD countries helped to calm global markets and ease global economic uncertainties and thereby stabilised consumer and business confidence across the developed world. It also helped to revive foreign direct investment (FDI) and other private capital flows all of which contributed to support the recovery of the global economy during 2010. Implementation of appropriate policy responses to the global economic crisis by the BRICs (Brazil, Russia,



India and China) and a number of other developing countries also supported the modest recovery of the global economy witnessed during the period under review.

Nevertheless, the observed growth performance of the global economy, which was generally considered to be near the potential, appeared to have been weighed down by a number of events, including a momentary halt in investment spending and lending in international credit markets, particularly during the second and third quarters of 2010 as a result of the emergence of new forms of uncertainties in major financial markets, such as doubts regarding fiscal sustainability and inadequacies in policy responses across many OECD countries, as well as worries about real and/or potential sovereign default by some European economies, such as those of Greece, Ireland, Portugal and Spain during the review period. Other factors that constrained the pace of expansion of the global economy during the period included natural disasters, such

as earthquakes in Haiti, Chile, and elsewhere in Asia, and floods in Bangladesh, India and Pakistan; isolated pockets of political difficulties that persisted in a number of countries, including Afghanistan, Madagascar, Sudan, Thailand, Myanmar, and Somalia coupled with lingering global concerns regarding the Israeli-Palestinian conflict and Iran's Nuclear Programme; and unresolved difficulties in concluding the Doha Round of Multilateral Trade Talks, among others.

1.4 During the review period, African economies, as a group, saw another year of growth with the rate of expansion of their real gross domestic product (GDP) quickening by 5% in 2010, reflecting a significant improvement on the 2% growth attained in 2009. The better growth performance achieved by African economies in 2010 was supported by a stronger-than-expected rebound in commodity demand and prices, which contributed to lift production levels and net exports. A rebound in official capital

1.5 The improvement in the global and African environments positively impacted the Bank's operations during the review period. In this regard, compared to 2009, loan approvals rose 54% year-on-year to US\$2.69 billion in 2010, and contributed to lift gross credits outstanding by about 45% year-onyear to US\$1.678 billion at the end of 2010. The rapid increase in loan approvals and credits outstanding was in response to 32% growth in facility applications received during the year to US\$18.5 billion. The growth in applications received reflected the liquidity constraints that affected the continent during the review year. Total assets also rose by about 32% year-on-year to US\$1.9 billion at the end of 2010.

1.6 It is worth noting that, as in the previous years, the operations and activities of the Bank were assessed to have positively impacted economic activities and trade across the continent in several ways, including

the promotion of African content in the continent's extractive industries through its financing of African entities involved in the delivery of goods and services to major mining and oil & gas companies operating in the continent; improving intra-African air transport and communication links in furtherance of intra-African trade by financing the acquisition of aircraft and telecoms equipment to support African air transport and telecommunication services operators; facilitating on-going efforts at diversification of exports by financing the processing of African commodities for export; and supporting the promotion of service exports by financing, among others, the creation of world-class hotel and tourism facilities in some member countries. Further, as part of its on-going efforts at supporting the development of African economies and trade, the Bank, during 2010, continued to leverage external financing to support the growth and development of Africa's exports. The net effects of all these operations and activities of the Bank on trade and other economic activities, the key ones of which have been discussed in detail in Chapter 4 of this Report, reflect an increase in Africa's exports, gradual but increasing share of processed and non-traditional exports in total exports of some Afreximbank member countries, gradual but steady increase in access of African counterparties to reasonably-priced international trade/project financing; direct and indirect employment creation; skills transfer; and improvements in intra-regional

1.7 Looking forward, the Bank expects the socio-economic factors that spurred the improved performance of the global and African economies and thus the Bank's operational performance in 2010 to remain in force and be supportive of growth during 2011. Downside risks foreseen include the emerging political difficulties in Zimbabwe

and North Africa and their possible negative impact on the global economy. Nevertheless, the Bank expects activities in 2011 to be driven by forecast improvement in international credit markets, which would spur activity in the syndications and bond markets, offering it better access to financing. Further, improvement in debt service capacity of African counterparties on the back of firm commodity prices and rising export receipts, and improvements in transaction origination

and loan management capabilities of the Bank resulting from strengthening of the human resource base as well as Information Technology in the Bank are expected to support the bank's business in 2011. It is in the context of the foregoing that the Bank forecasts full year loan assets to maintain its upward trend to US\$2.01 billion with total assets estimated to exceed US\$2.192 billion. Net Income is also forecast to rise to US\$50 million in 2011.

The rapid increase in loan approvals and credits outstanding was in response to 32% growth in facility applications received during the year to reach US\$18.5 billion.



# 2. THE OPERATING ENVIRONMENT

#### 2.1 The Global Economic Environment

#### 2.1.1 Global Output

The global economy experienced a remarkable rebound in activity levels across many sectors and national economies in 2010, especially during the second half of the year. In this regard, the level of global output rose by 5% in 2010, in sharp contrast to a 0.6% contraction suffered in 2009. The stronger-than-expected growth of the global economy was powered by robust economic expansion in Asia, led by China (which expanded by 10.3%) and India (9.7%); continued coordinated global policy interventions in the form of fiscal stimuli by fiscal authorities and various forms of Quantitative Easing measures by monetary authorities under the auspices of the Group of Twenty (G20); and continued pursuit of more accommodative monetary policy in the form of low policy rates across the OECD countries. Further, bold policy interventions across economies of the OECD countries helped to calm global markets and ease global economic uncertainties and thereby stabilized consumer and business confidence across the developed world. It also helped to revive foreign direct investment (FDI) and other private capital flows all of which contributed to support the recovery of the global economy during 2010. Implementation of appropriate policy responses to the global economic crisis by the BRICs (Brazil, Russia, India and China) and a number of other developing countries also supported the recovery of the global economy witnessed during the review period.

These notwithstanding, the performance of the global economy, which generally appears to be near its potential,

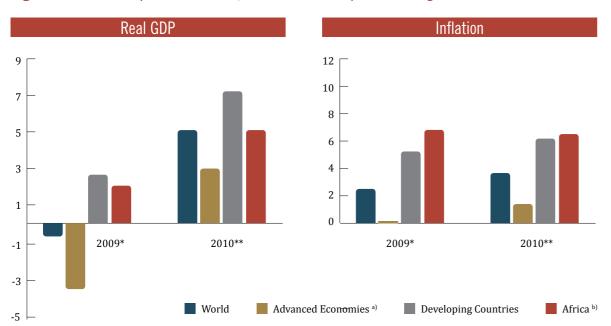
was weighed down by a number of events, including a momentary halt in investment spending and lending in international credit markets, particularly during the second and third quarters of 2010 as a result of the emergence of new forms of uncertainties in major financial markets, such as doubts regarding fiscal sustainability and inadequacies in policy responses across many OECD countries, and worries about real and/or potential sovereign default by some European economies, such as those of Greece, Ireland, Portugal and Spain. Other factors that constrained the growth of the global economy during the period included natural disasters, such as earthquakes in Haiti, Chile, and elsewhere in Asia; incidents of damaging floods in Bangladesh, India and Pakistan; isolated pockets of political difficulties that persisted in a number of countries, such as Afghanistan, Madagascar, Sudan, Thailand, Myanmar, and Somalia; lingering global concerns regarding the Israeli-Palestinian conflict and Iran's Nuclear Programme; and unresolved difficulties in concluding the Doha Round of Multilateral Trade Talks, among others. Presented hereunder is a summary of major developments in global output and prices.

Table 2.1 and Figure 2.1 show that all economies of the Group of Seven Industrialised Countries (G7), namely the United States of America (US), the United Kingdom (UK), Germany, France, Italy, Japan and Canada, achieved modest recovery in activity levels culminating in better (GDP) growth performances in 2010 compared to the two preceding years. On account of these positive growth developments, the G7 economies, as a group, saw the rate of growth of their real GDP improve to 2.56% in 2010, from respective rates of -4.07% and -0.14% in 2009 and 2008.

Global Output and Prices, Developments in Table

		Exc	Exchange Rate (End of period)		Real ( (annual p	Real GDP Growth annual percent change)	ı nge)	Infl. (annual p	Inflation Rate (annual percent change)	nge)	Interest F (en	Interest Rate (3-month), % (end of period)	nth), % []
	Unit	2008	2009	2010	2008*	*6002	2010**	*8002	*6002	2010**	*8002	*6002	2010**
WORLD					2.80	-0.60	2.00	2.98	2.46	3.67			
ADVANCED ECONOMIES a)					0.20	-3.40	3.00	3.40	0.10	1.40			
US	\$/\$	1.00	1.00	1.00	0.00	-2.60	2.80	3.80	-0.30	1.40	98.0	0.50	0.22
UK	£/\$	0.67	0.62	0.65	-0.10	-4.90	1.70	3.63	2.10	3.10	3.17	0.50	0.80
France	€/\$	0.74	0.67	0.75	1.64	-2.50	1.60	3.16	0.10	1.60	3.00	1.75	1.01
Japan	\$/*	91.32	89.45	82.10	-1.20	-6.30	4.30	1.40	-1.40	-1.00	0.30	0.30	0.17
Italy	€/\$	0.76	0.67	0.75	-1.32	-5.00	1.00	3.50	080	1.60	3.00	1.75	1.01
Canada	C\$/\$	1.23	1.05	1.00	0.52	-2.50	2.90	2.38	0.30	1.80	1.75	0.50	0.98
Germany	€/\$	0.74	0.67	0.75	1.00	-4.70	3.60	2.75	0.20	1.30	3.00	1.75	1.01
Memo Item													
EURO Area b)	€/\$	0.74	0.67	0.75	0.50	-4.10	1.80	3.30	0.30	1.60	3.00	1.75	1.01
Average c)					0.08	-4.07	2.56	2.95	0.26	1.40	2.15	1.01	0.74
DEVELOPING COUNTRIES d)					00.9	2.60	7.10	9.20	5.20	6.20			
Africa e)					6.25	2.00	2.00	11.62	6.72	6.50			
Developing Asia <sup>()</sup>					7.70	7.00	9.30	7.50	3.10	6.10			
Middle East					5.30	1.80	3.90	11.90	2.13	4.70			
Latin America and the Caribbean					4.30	-1.80	2.90	7.90	00.9	6.10			
NEWLY INDUSTRIALIZED ASIAN ECONOMIES					1.80	-0.90	8.20	4.50	1.30	2.60			
CENTRAL, EASTERN EUROPEAN					3.00	-3.60	4.20	8.10	4.70	5.20			
COMMONWEALTH OF INDEPENDENT STATES					2 30	6.50	4.20	15.60	11.20	7 00			

Figure 2.1 Global Output and Inflation, 2009 -10 (annual percent change)



- a) Figures include the G7 and other industrial countries.
- b) Inflation figures for Zimbabwe were not included in the calculations because they would bias the average for Africa.
- \* Revised \*\* Estimates

Source: Derived from Table 2.1

The rebound of the Advanced Economies positively impacted the level of economic activity in developing economies and regions during the period. In this regard, the rate of real GDP growth for the *Group of Developing Countries*, which decelerated sharply from 6% in 2008 to 2.6% in 2009, quickened to 7.1% in 2010 (Table 2.1 and Figure 2.1).

#### 2.1.2 Global Rates of Inflation

Consistent with the rebound in global economic activity, the average rate of increase in the general level of prices edged slightly upwards during 2010. Behind this price development were increases in global commodity prices, especially the strengthening of energy and food prices in response to demand and supply imbalances caused by rising activity levels across the world. In this regard, with the exception of Japan that continued to experience deflation, the average level of prices rose in

all G7 economies in 2010 compared to 2009. Consequently, the average rate of inflation for the G7 economies, as a group, rose to 1.4% in 2010, from a level of 0.26% in 2009 (Table 2.1 and Figure 2.1).

Table 2.1 and Figure 2.1 show that, during 2010, the general level of prices rose across all major regions of the developing world in conformity with the observed upturn in global output and demand. In this regard, the average rate of inflation for developing countries, as a group, rose to 6.2% in 2010, from a level of 5.2% in 2009.

#### 2.1.3 Global Financial Markets

The review period saw continued efforts at addressing perceived and/or real risks to sustainable expansion of the global economy through proactive coordination of macroeconomic policies, particularly among major developed and developing economies under the auspices of the G7



efforts were geared towards dealing with the liquidity challenges seen to be the major obstacle to global economic recovery. Accordingly, for the purpose of evolving robust coordinated policies and programmes to steer the global economy out of recession, several international conferences were held during the review period. Specifically, through international coordinated efforts, policy rates were kept at record low levels with a view to maintaining low funding costs and encouraging lending to support desired expansion in consumer and investment demand; availability of liquidity was improved through implementation of various forms of quantitative easing programmes for the purpose of stimulating lending; and bold fiscal stimulus packages were actively implemented across the major economies.

On account of the coordinated pursuit of accommodative monetary policies, short term interest rates maintained their downward trend across all G7 economies during the review period, with the exception of the UK and Canada. In the UK, short term interest rates rose marginally from 0.5% at the end of 2009 to 0.8% at the end of 2010 as the government sought to contain inflationary pressures. Short term interest rates also increased slightly to 0.98% at the end of 2010 in Canada, from a level of 0.5% at the end of 2009. As a result of these developments,

average short-term interest rates among the G7 economies trended downward to 0.74% at the end of 2010, from respective levels of 2.15% and 1.01% at the end of 2008 and 2009. Consistent with global trend, short-term interest rates across the Euro-zone economies also ended the review period at a lower level of 1.01%, from 1.75% a year earlier (Table 2.1).

Concerning international exchange rate movements, with the exception of the Japanese Yen and the Canadian dollar, the US dollar appreciated against all major international currencies during the review period compared to their average exchange rates at the end of 2009 (Table 2.1). Specifically, at the end of 2010, the US dollar had appreciated by 4.8% against the British Pound compared to their exchange values at the end of 2009. Compared to the pound exchange value of the dollar at the end of 2008, however, the US dollar was about 3% lower at the end of 2010. In line with market trend, the US dollar strengthened by about 11.9% against the euro during the review period to exchange for €0.75/\$1 at the end of 2010, from a rate of €0.67/\$1 at the end of 2009 (Table 2.1). Compared to the euro value of the dollar at the end of 2008, however, the dollar was just 1.4% higher at the end of 2010. The appreciation of the US dollar against the euro as seen during the review period derived from poor near- to medium-term prospects

of the Euro-zone economies, as a group, arising partly from a heightening of sovereign default risks across the region vis-à-vis better prospects for sustainable recovery of the US economy given the relatively more proactive and massive fiscal stimulus and other forms of growth-enhancing policy interventions being pursued by the US government.

#### 2.1.4 International Financing Conditions

Despite the bold policy interventions made by governments of major economies, the review period witnessed a marginal improvement in financing conditions in the international credit markets. This development resulted from the fact that although the global economy showed a strong growth, efforts at restoring stability in international financial markets to ensure a return to normal lending, were adversely impacted in late April and early May 2010 by an unexpected heightening of sovereign risk in certain parts of the Euro-zone, especially in Greece, Portugal, Spain and Ireland (see Box 2.1). These developments raised fears of potential spillovers between sovereigns and the international banking system, as well as increased market and liquidity risks, and prompted international investors and financiers to be cautious. Further, inter-bank lending was also dealt a severe blow as international banks once again became less willing to lend to one another, particularly to banks in the Euro-zone who were viewed as principal holders of a bulk of the maturing debt instruments previously issued by the fiscally-challenged European Governments. Largely as a result of these unexpected adverse market developments, financial asset price volatilities increased and contributed to dent international investor confidence and lending in general, especially during the second and third quarters of 2010. The unexpected surge in sovereign default risk prompted the creation of the European Financial Stability Facility (EFSF) in an amount of €400 billion by the governments of the European Union for the sole purpose

of providing financial assistance to Euro-zone economies in difficulty.

Although the stress precipitated by the heightening of sovereign, market and liquidity risks across the Euro-zone reportedly eased somewhat during the second half of 2010 as a result of bold EU-wide policy actions to contain the crisis, market confidence and the willingness of banks to lend were seriously weakened as the "credit standing" of the very sovereign governments that provided guarantees and liquidity to encourage banks to resume and/or increase lending, were called into question by those negative events in the Euro-zone.

Against this backdrop, although global financial conditions somewhat improved evidenced by a modest recovery in equity markets, bank lending remained tight with risk spreads at the end of the review period not significantly different from their levels in 2009. For example, average yield on OECD government bonds rose, with the yield on bond issuances of the Governments of Greece, Spain, Portugal and Ireland surging during the review period to between 500 and 650 basis points --- levels not seen since the launch of the European Economic and Monetary Union.

The difficulties that emerged in mature financial markets during the period reportedly triggered global risk aversion and a concomitant roll-back of international investment exposures in other regions and across developing and emerging markets in particular. Consequently, access of developing country counterparties to international credit did not improve in any appreciable manner during the review period as OECD banks and investors continued to focus on their domestic clients and/or economies, and regulatory pressures on international commercial banks to improve the quality of their assets remained in force. Accordingly, as in 2009, access of developing country borrowers to external financing, during 2010, remained significantly constrained, except for expensive, highly secured, very short tenored facilities.

#### Box 2.1 Sovereign Default Risk: Measurement and Management

Sovereign default risk refers to the risk that a government may default on its debt obligations while sovereign default refers simply to a failure by the government of a sovereign state to honour its debt obligations. Literature suggests that default could be one of two main forms: debt service default or technical default. Debt service default arises when the borrower/debtor is unable to make scheduled payment of interest and principal while technical default occurs when an affirmative or a negative covenant, undertakings as well as representations and warranties under a debt instrument or agreement is violated. Whenever there is a higher likelihood that a government may fail to pay its debt in the future, creditors (lenders and/or bondholders) demand a higher rate of interest (or coupon rate) as a compensation for assuming a higher risk of default. A situation of rapid surge or increases in interest rate on government debt driven largely by fears or higher probability or risk of default is often referred to as sovereign debt crisis.

History is replete with many sovereign default episodes that occurred in geographic clusters. Sturzenegger and Zettelmeyer (2006) noted that episodes or incidence of sovereign default tend to happen in clusters and usually follow lending booms. The first cluster of default, which occurred during 1824-1840, coincided with a lending boom precipitated by the gaining of political independence and access of Latin American countries to international financial markets in the 19th Century. The default episodes of the nineteenth century were reportedly concentrated mainly in Latin America and countries in peripheral Europe; those of the 1930s in Europe and Latin America; and those of the 1980s in Latin America and Africa. On a regional basis, during 1824-2004, Latin American recorded the highest number of sovereign default episodes of 126, followed by Africa with 63 episodes.<sup>1</sup> Almost all credit lending booms end in busts in which some debtors/or beneficiaries of the preceding credit boom either default or reschedule repayment of their debts. More recent sovereign defaults and debt restructuring include:

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- (a) Latin American debt crisis (1980s);
- (b) 1994 economic crisis in Mexico;
- (c) 1998 Russian financial crisis;
- (d) Argentine debt restructuring (2002); and
- (e) 2010 European sovereign debt crisis.

Records show that busts are usually triggered by at least one or combination of the following factors: (i) a deterioration of the terms of trade of debtor countries; (ii) a recession in the core countries that were providers of capital; (iii) a rise in international borrowing costs driven by events in creditor countries, such as tighter monetary policy; and (iv) a crisis in a major debtor country, transmitted internationally through financial and trade linkages.<sup>2</sup> According to economic literature on sovereign debt, the risk of default usually increases by: (a) deteriorating fiscal conditions; (b) deep recession/ depression; (c) wars; (d) political risk; (e) social unrest; (f) deflation; and (g) loss of control over one's sovereignty (including monetary policy and the ability to print its own money).

The framework of the post-war Bretton Woods Agreement underlying the current international financial architecture provides that the

<sup>1</sup> For more insight on default episodes and cluster. see Borensztein, E. and Panizza, U. (2008), "The Cost of Sovereign Default", IMF Working Paper

<sup>2 &</sup>quot;Sovereign Defaults and Debt Restructurings: Historical Overview" provides an elaborate discussion of the triggers for sovereign default and spike in sovereign default risk. ( Available at : www.mitpress.mit.edu/books)

International Monetary Fund could be invited to intervene to avert or mitigate the adverse effects of sovereign default. Further, since the 1990s, the opportunity to insure against potential sovereign default through the purchase of credit default swaps, has also contributed to minimise the incidence of sovereign default. Accordingly, sovereign defaults in the post-second world war era have been confined largely to developing economies. Nevertheless, rapid accumulation of debt by some governments of Organization for Economic Cooperation and Development (OECD) countries and those in the European Union (EU) in particular, has recently raised the specter or possibility of default by countries with mature financial and economic systems, as reflected in sudden increase in risk premia on their bond/debt issuances. This is on account of the fact that the international capital markets tend to raise the expected yield from a bond issue (or interest on loans) if the probability or risk of default by a country is considered as significant and/or expected to rise. Such a situation may raise the cost of debt service via an increase in "risk premium". Fear of destructive cycle of ever-increasing risk premia driven by unending expectation or aggravating perception of default usually reduces investors' appetite

The most common measures of sovereign default risk widely used by investors and the market are: (i) sovereign bond spread, (ii) sovereign risk rating of credit rating agencies, such as Moody's, S&P, and Fitch, and, (iii) sovereign credit default swap. Sovereign bond spread reflects the level of financial distress of a sovereign entity and thus the probability of default on its future debt obligations. It is measured, for U.S. dollar debt instrument, as the difference between the

for and thus the market's attitude to a country

considered as prone to default --- a situation

termed as "debt intolerance". "Debt intolerance",

until the recent European debt crisis that broke

in early 2010, was reserved for bond issues of

developing countries, but it has reportedly been

applied to Greece, Spain, Ireland and Portugal.

spread on the foreign bond (or loan) issuance of a government of a sovereign state over US Treasury securities of equivalent maturity. A government is considered as distressed with a higher probability of default if the difference between the spread on its bond or debt issuance and that of US Treasury instruments of equivalent maturity exceeds 1,000 basis point or 10%. Sovereign risk rating, which is an objective measure of both the ability and willingness of a country to service its debt, is derived on the basis of qualitative and quantitative assessment of key economic and socio-political attributes of a sovereign entity, such as solvency and liquidity factors in establishing the economic ability to pay, the level of development of governance systems and institutions, degree of integration into the global financial system, level of civil and political stability, and a country's history as a borrower from international credit markets, among other important factors. Sovereign ratings are thus assessments of relative likelihood that a borrower will default on its debt obligations, with the probability of default ranging between zero and hundred.

A sovereign rating of 100 implies a country has the strongest debt service capacity and least possibility of default, while a rating of zero represents weakest debt service capacity and highest default risk. Experience has shown that, the markets are heavily influenced by ratings assigned by ratings agencies on account of their impact or effect on actual behaviour of investors. Governments, especially those in mature financial markets tend to procure credit ratings for the purpose of easing their access to international capital markets since investors normally prefer rated debt securities (issued by rated sovereign entities) over unrated securities (issued by unrated sovereign entities). Whenever a rating agency, on the basis of its evaluation, anticipates a higher probability of default, it downgrades the credit rating of the sovereign entity. Accordingly, during the Eurozone debt crisis of early 2010, the probability of default and thus the sovereign

default risk of the countries deemed to have risen. The perceived higher probability of default contributed to push up both spread and the sovereign risk premium on bond issuances of Portugal, Ireland, Greece and Spain during the first half of 2010, following the downgrading of sovereign ratings of Greece, Portuguese and Spain in April 2010 by Fitch and S&P Rating Services.

Sovereign credit default swaps (CDS) is another benchmark for gauging sovereign risk. A CDS is simply a contract between two parties whereby the buyer of protection makes periodic payments (often referred to as CDS "fee" or "spread") to the seller, in return for a contracted amount if there is a credit event (such as default). The buyer of the CDS may be an investor who holds a government bonds (or loan), and prefers to hedge the risk of sovereign default or bankruptcy by buying a CDS. The amounts of regular payment that has to be made by a buyer under a CDS are expressed in basis point. The market appears to be more concerned about default possibilities and demands higher levels of financial protection in the form of higher levels of CDS, and vice versa. In this regard, for example, at the height of the Eurozone debt crisis during the second quarter of 2010, protection costs on debt issuances of some of the fiscally- challenged EU countries increased by more than two fold, with the CDS rate on bond issuance by Greece soaring 190%; those on Irish issuance rising by 168%; and increases of 129% and 127% on issues by Spain and Portugal respectively, according to CMA's Global Sovereign Credit Risk Report (see www. bloomberg.com/news/2010-07-06/worldsovereign-defaut-risk-climbs-).

On account of the global economic difficulties caused by past episodes of sovereign debt default and the challenges created by a the Eurozone debt crisis in particular, there has been renewed calls for a more proactive approach to the management of sovereign debt via a strengthening of traditional sovereign debt and

risk management systems and practices. In furtherance of this goal, the IMF and the Swedish National Debt Office hosted in Stockholm, Sweden, the 10th Annual IMF consultations on " Policy and Operational Issues Facing Public Debt Management", during July 1-2, 2010. The Forum, which was attended by public debt managers, central bankers and representatives of the private sector from 31 advanced and emerging market countries, debated and adopted an enhanced "Principles of Managing Public Debt in the context of Market Turbulence" dubbed the "Stockholm Principles". The Stockholm Principles, which seek to improve public debt and sovereign risk management, focus on three mutually reinforcing activity areas: (i) framework and operations, (ii) sound market communication strategies, and (iii) more cautions portfolio risk management. Concerning Framework and Operations, the SP recommends the following: (a) the scope of debt management should be defined in a way that also accounts for any relevant interactions between the nature of financial assets, explicit and implicit contingent liabilities, and the structure of the debt portfolio; (b) strategic and operational debt management decisions should be supported by relevant information sharing at the domestic, regional, and global levels; and (c) flexibility in market operations should be maintained to minimize execution risk, improve price discovery, relieve market dislocations, and support secondary market liquidity.

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With regard to Communication Strategies, the SP recommends: (a) proactive and timely market communication strategies should be maintained to support a transparent and predictable operational framework for debt management; (b) modifications to the operational toolkits of debt mangers should be properly explained; (c) communication among debt managers and monetary, fiscal and financial regulatory authorities should be promoted, given greater inter-linkages across objectives, yet with each agency maintaining independence and accountability for its respective role; and

(d) a close and continuing dialogue with the investor base should be promoted to keep abreast of its characteristics and preferences. Concerning Risk Management, the SP propose that: (a) debt portfolio risk should be kept at prudent levels, while funding costs are minimized over the medium to long term; (b) when determining medium-term debt management strategies, the range of risk factors considered should be consistent with the broadest definition of the debt portfolio and the associated range of potential scenarios; and (c) prudent risk management strategies covering the full range of risks facing sovereign debt managers should be adopted and communicated to investors.3 It is worth noting that the SP derive from a critical review of existing sovereign debt management policies and practices currently in force in a number of advanced and developing countries,

3 See IMF, 2010, Stockholm Principles. (Available at www.imf.org/external/np/mcm/stockholm/principles.htm)

best practices in debt capital market advisory services, as well as best practices in debt management policies and programmes of the IMF.

Africa has since the debt crisis of the 1980s not experienced any episode of Sovereign default of that nature due to years of implementation of sound macroeconomic policies. Better economic management, more transparency in credit standing through submission to credit ratings, better political stability, resolution of the debt burden many countries experienced in the 1980s have combined to facilitate the return of African sovereigns into that international capital (bond) markets with issuances by countries such as Senegal, Ghana, Nigeria, Gabon, in addition to traditional issuers, such as Republic of South Africa, Egypt, Tunisia and Morocco. Afreximbank is facilitating this process through providing Country Risk Guarantees to enhance the credit of African borrowers as a way of reducing the spreads their debt instruments attract.

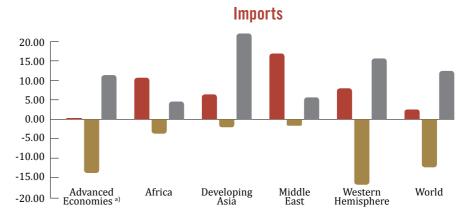
#### 2.1.5 Developments in Global Trade and **Trading Environment**

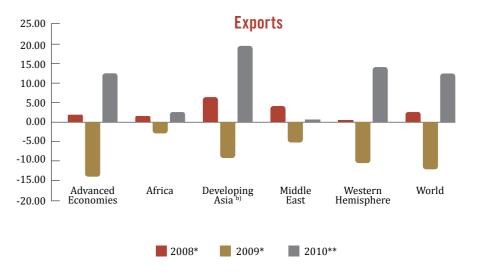
The level of global trade, during 2010, underwent a sharper-than-expected rally culminating in an estimated year-on-year growth in volume of global merchandise trade of about 12.5%. The sharp rebound in the trade seen during the period marked a significant turnaround from the approximately 12% year-on-year contraction recorded in 2009. This development is remarkable when viewed in the context of the multiplicity of challenges that prevailed in the global economy, including calls for and/ or actual recourse to protectionist policies by some countries in an attempt at steering their national economies out of recession. Records show that the rebound in volume of global merchandise trade in 2010 was aided by concerted global effort at containing old and new challenges in global financial markets; a turning of the global inventory cycle; firm

global demand for commodities led by China and India and other rapidly growing emerging economies; and continued pursuit of trade-led growth strategy by a number of countries around the world, among others.

In line with the significant pick-up in global economic activity and external demand, all major developed and developing regions posted significant expansion in volume of their merchandise trade (exports and imports) (Figure 2.2). In more specific terms, on a regional basis, the highest year-on-year growth in volume of merchandise exports in 2010 was achieved by Developing Asia (19.4%), followed by Western Hemisphere (14%), and the Advanced Economies (12.5%). On the import side, the highest yearon-year expansion in volume of merchandise imports was recorded by Developing Asia (22.4%), followed by Western Hemisphere (15.8%), and Advanced Economies (11.3%) (Figure 2.2).

Figure 2.2 Growth Rates of Merchandise Trade Volume in Major Regions of the World. 2008 -10 (annual percent change)





- a) Figures include the G7 and other industrial countries.
- b) Asia other than the Newly Industrialized Economies (i.e. Hong Kong SAR, Korea, Singapore, and Taiwan Province of China).
- \*\*Fstimates \* Revised

Source: IMF, World Economic Outlook Database, October 2010 at www.imf.org

In spite of the challenging trading environment, no disruptive shocks to global trade were observed during the review period as member countries continued to comply with international trade laws and/or rely on the dispute settlement mechanisms of the World Trade Organization (WTO). Accordingly, a number of serious trade disputes, which could have sparked retaliatory trade measures from the affected country (or region), for example, the raging dispute regarding provision of agricultural subsidies to US and European farmers amidst opposition from a large group of affected

developing countries, strong opposition to the introduction of Genetically Modified Organisms (GMO) in the European Union in spite of repeated objections from the US, were successfully managed during the review period. Other on-going contentious trade disputes, such as the provision of Community and State subsidies for the design and development of large civil aircraft (LCA) between the US and the European Community, France, Germany, Spain and the UK, as well as difficulties relating to the implementation of WTO ruling on Cotton and Banana Trade, were all successfully managed.

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#### 2.2 The African Economic Environment

#### 2.2.1 Review of Economic Conditions and **Price Levels**

The foregoing developments in the global and Advanced economies positively impacted the level of activity in Africa with the rate of real GDP growth of African economies, as a group, quickening to 5% in 2010, from a level of 2% in 2009 (Table 2.1).

The better growth performance of Africa achieved in 2010 was powered by the strong recovery in commodity prices, which contributed to lift export receipts and economic activity of many African economies. A majority of African economies depend on commodities. Records show that all three broad commodity groups of trade interest to the Continent, namely Agriculture, Energy and Metals posted impressive respective nominal price increases of 28.4%, 30.2% and 39.4% during the review period compared to their average levels in 2009 (see Table 2.6).1 Other factors that supported the increased level of economic activity in Africa during the period included a robust pick up in official capital flows from multilateral development finance institutions and western donor governments in the form of emergency funding (as discussed in Box 2.2), which compensated for the retreat in private capital flows, and modest recovery in tourism receipts and migrant remittances; and continued recourse to sound macroeconomic policies and improvement in political governance across the continent.

The recovery of the global and advanced economies during the review period lifted











#### **Box 2.2** Emergency Financing Mechanisms of Multilateral Agencies: Elements and Impact on the Global Economic Crisis.

Emergency Financing Mechanisms (EFMs) are financial assistance programmes provided by Multilateral Financial Institutions (MFIs), such as the International Monetary Fund ("IMF" or the "Fund"), the World Bank ("WB" or the "Bank"), African Development Bank (AfDB), Asian Development Bank (ADB), European Bank for Reconstruction and Development (EBRD), and Inter-American Development Bank (IDB), among others, to assist their member countries deal with socio-economic challenges arising from shocks, such as terms of trade and aid shocks, political disturbances, and natural disasters, such as droughts, floods, earthquakes and hurricanes. These EFMs take different forms such as balance of payments support intended to meet importation of essential goods (such as food, drugs and fuel), prop up national currency and restore macroeconomic stability; concessional medium to long term financing for critical infrastructure that may have been destroyed by civil war or natural disaster; short term financing to provide liquidity to meet external payment commitments, among others. In this Box, we explore the key elements of some of these EFMs provided by the MFIs and how such support schemes contributed to ameliorate the effects of the global economic crisis on some national economies during the period.

The IMF has since the 1960s been providing emergency financial assistance to its member countries hit by natural disasters under the Fund's Emergency Natural Disaster Assistance (ENDA) programme. Such support is usually to help crisis-hit member countries deal with balance of payments challenges arising from unexpected shortfalls in export earnings and/ or increased import financing needs occasioned by the disaster. It was, however, not until 1995 that the IMF set up its Emergency Financing Mechanism. This EFM facilitates rapid approval of IMF lending to its eligible member countries.

Under the IMF's EFM, conditions for lending still have to be agreed but disbursement is rapid and the loan size can be higher than normal. One element of IMF's EFM is the acceptance that there would be an understanding rather than a legal obligation that the member country would make early repurchase of the resources made available under emergency procedures, provided the member overcame its difficulties quickly. Records show, for example, that EFM was used by the IMF in 1997 during the Asian crisis to support Philippines, Thailand, Indonesia and Korea, in Turkey in 2001, in Georgia in 2008, etcetera. In Africa, the IMF provided a US\$23 million emergency financing support to Malawi in 2002/03 to help the country deal with food shortages precipitated by prolonged drought. The Fund also introduced the Emergency Post-Conflict Assistance (EPCA) programme in the mid-1990s to assist economic recovery efforts of its member countries coming out of civil wars or conflict situations. These programmes seek to support implementation of comprehensive economic recovery programmes by recipient countries as, in most cases, their economic infrastructure and production capacities might have been damaged by the conflict. In some cases, technical assistance is also provided by the Fund for capacity building in the areas of macroeconomic management and structural reforms. Available records show that the IMF provided emergency financing support to many African countries coming out of civil war or conflicts, including Rwanda, Sierra Leone, Guinea-Bissau, Central Africa Republic and Burundi, among others.

In response to the effects of the global financial crisis on African economies, the IMF overhauled its lending programme to address its member countries' need for emergency financing support. A few of the emergency financing extended by the IMF to African countries

<sup>1</sup> According to the Bank's African Trade Report 2010 the list of commodities of trade Interest to the continent include Agriculture (Cocoa Bean, Coffee, Copra, Cotton, Maize, Palm Oil, Rubber, Soyabean, Sugar, and Tea), Energy (Crude Oil) and Metals (Copper, Gold, Lead and Tin).

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during the global financial crisis included a US\$1.4 billion loan to Angola, aimed at restoring macroeconomic balances for a country whose economy suffered severely when oil prices plunged in early 2009; and a US\$551 million loan to Democratic Republic of Congo, one of the post-conflict countries hard hit by the effects of the global financial crisis. Further, to make its financial support more flexible and tailored to the diversity of low-income countries, while helping them deal with the effects of the global financial crisis, the Fund established a new Poverty Reduction and Growth Trust, which has the following three new lending windows, all under highly concessional terms:

- i. Extended Credit Facility (ECF), which replaced the Poverty Reduction and Growth Facility (PRGF) and provide a framework for addressing, on a sustainable basis, the medium- to long-term balance of payments difficulties; and offers more flexibility on program extensions, the timing of structural reforms, and formal poverty reduction strategy document requirements;
- ii. Standby Credit Facility (SCF), which provides flexible support to low-income countries with short-term financing and adjustment needs occasioned by domestic shocks, such as policy slippages or external socio-economic shocks; and targets countries that no longer face protracted balance of payments problems but may require help from time to time; and
- iii. Rapid Credit Facility (RCF), which provides quick-disbursing financial support in the form of a single, up-front payout to low-income countries facing urgent domestic and/or external financing needs, successive drawings for countries in post-conflict or other fragile situations; and provides flexible assistance without program-based conditionality when use of the above-mentioned facilities are either

not necessary (due to limited nature of need) or not possible (on account of institutional or capacity constraints).

Available records show that IMF concessional lending to low-income countries increased significantly from US\$1.2 billion in 2008 to US\$3.8 billion in 2009 in an attempt at addressing the acute external financing needs of such countries precipitated by the global financial crisis. The Fund expects to more than double the concessional resources available to low-income countries up to \$17 billion through 2011-14. It is expected that these new facilities, introduced in January 2010, would contribute to enhance the Fund's emergency financing activities in low-income countries, including those in Africa.

The emergency financing programmes of the World Bank (WB) are usually of a medium to long term nature and are intended to support the recovery of economies of crisis-hit member countries by addressing structural issues and constraints to economic growth occasioned by one form of crisis or the other. The focus of these programmes may include rehabilitation of economic and social infrastructure, rebuilding and strengthening core state functions and institutions, and enhancing the policy and institutional framework to sustain economic recovery. In the recent past, the WB has supported countries such as Liberia, Sierra Leone, Rwanda, and other countries coming out of crisis to deal with such challenges. For example, the WB, together with the AfDB and the International Finance Cooperation (IFC) has put in place a Joint Assistance Strategy (JAS) to support Sierra Leone during 2010-13. The Bank and its partners expect to mobilize about US\$300 million to support the country's economic growth through financing of investments in agriculture and fisheries, energy, transport and the financial sector. The JAS further entails financial assistance for human development purposes, such as improving

delivery of health services, education, water supply, and child healthcare services, among others. In addition, the World Bank has in place other emergency support programmes that provide, among others, food aid for the poor and vulnerable members of the society such as women, children and the unemployed, school feeding programs, and road reconstruction. The school feeding program, for instance, is a targeted social security arrangement intended to provide educational and health benefits to the most vulnerable children with a view to increasing enrollment levels in primary education in developing countries, especially those coming out of conflict. Due to socioeconomic challenges faced by many African countries as a result of the global economic crisis, the WB extended its school feeding program as a social safety net to support the vulnerable in some African countries, including Burundi, Central African Republic, Guinea-Bissau, Liberia and Togo, among others, during the crisis.

The European Bank for Reconstruction and Development (EBRD) also supported countries within its domain of operations, that is, countries across Central Europe and Central Asia, with emergency financing to complement support programs provided to these countries by other multilateral agencies, including the IMF and WB, during the global financial crisis. In this regard, under a Joint Action Plan with the European Investment Bank (EIB) and the WB, the EBRD contributed €6 billion towards a €24.5 billion Fund to support the financial and non-financial sectors of the economies in Central Europe and Central Asia. Other emergency funding provided by EBRD to countries within the two regions over the 2009-10 period included financing support worth about €680 million to the manufacturing and services sector; provision of trade financing in an amount of €573 million under a trade facilitation programme of the EBRD; financing to the energy sector worth about €840 million; infrastructure financing to the tune of €480 million; and financing for agribusiness projects worth about €640 million.

The African Development Bank (AfDB) also has in place EFMs to support crisis-hit African economies. In addition to implementation of joint Country Assistance Strategy programmes with the WB for African countries coming out of civil wars, such as Democratic Republic of Congo, Liberia and Sierra Leone, the AfDB also provides emergency financing to support member countries deal with trade finance and other crisisinduced challenges. For instance, at the height of the global financial crisis, the AfDB established a US\$1.5 billion Emergency Liquidity Facility (ELF) to address the adverse effects of the global credit squeeze on the capacity to fund essential imports of member countries following the withdrawal of international banks from the financing of African trade. The ELF is specifically aimed at providing financial support to private sector entities and financial institutions in Africa to enable them meet essential trade finance needs, and those of imports in particular.

It is worth noting that the emergency financing schemes of these multilateral agencies were supported by the Group of 20 (G-20).1 In this regard, the G-20 committed resources to these and other multilateral agencies to enable them implement their EFMs and thereby ameliorate the adverse effects of the crisis on national and global economies. In furtherance of this goal, at its meeting in

<sup>1</sup> The Group of 20 (G-20) is a grouping which was created in 1999 as a response both to the financial crises of the late 1990s and the need to include key developing economies in global economic discussion and governance. The Group comprises the finance ministers and central bank governors of 19 countries: Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, Republic of Korea, Turkey, United Kingdom, United States of America plus representatives of the European Union.

London in April 2009, the G-20 pledged to make available additional US\$850 billion through the IMF and multilateral development banks to support growth in developing countries, in the areas of infrastructure and trade, balance of payments support, debt rollover, and social support schemes, among others. Further, the G-20 agreed to support capital increases in favour of the multilateral development banks (MDBs), including ADB, IDB, AfDB, and EBRD. It also pledged to support other initiatives of the MDBs intended to leverage private capital more effectively, through the use of guarantees, insurance and bridge financing; and supported the IFC's Global Trade Liquidity Pool which aimed to mobilize up to US\$50 billion of trade finance to support developing countries over the 2009-11 period. In this regard, the G-20 pledged to provide US\$3-4 billion in voluntary bilateral contributions to the IFC Pool and also supported steps taken by other MDBs to increase support to global trade finance, and medium and long-term project finance through national export credit and investment agencies of member countries. The financing support provided by the G-20 and other bilateral donors enhanced the multilateral agencies' capacity to provide emergency

financing support to developing countries, including those in Africa. These emergency funding from multilateral development finance institutions and donor governments, to some extent, compensated for the retreat in private capital flows, and together with modest recovery in tourism receipts and migrant remittances, and continued recourse to sound macroeconomic policies, contributed to support the increased level of economic activity seen in Africa in 2010.

Afreximbank, as Africa's premier trade finance bank, also played an important role in facilitating the inflow of funding arising from some of the foregoing EFMs. In this regard, it participated actively in meetings where some of the EFM arrangements were discussed and agreed. It also acted as a vehicle for purveying some of these funds into Africa. Emergency funding in response to the crisis were received from the IFC, the AfDB and the UK Department for International Development (DFID). Funding approvals from Export Credit Agencies (ECAs) under arrangements agreed under the G-20 came in at close to US\$1 billion in 2009/10. These enabled Afreximbank to support trade finance requests that rose five-fold to about US\$15 billion in 2010.

global demand and thus prices and exports of the group of net oil exporting countries (NOECs). Consequently, the rate of GDP growth for the NOECs, as a group, which decelerated from a level of 5.9% in 2008 to 2.6% in 2009, quickened to 6% in 2010 following the strong rally in oil prices and the stimulating effects of expansionary fiscal and accommodative monetary policies pursued by national governments. The group of net oil importing countries (NOICs) also posted a better real GDP growth performance during the review period with the rate of growth of their GDP rising to 4.0% in 2010, from a level of 1.4 % in 2009. The observed improvement in growth performance of the NOICs was powered by strong non-oil commodity prices, continued recourse to prudent macroeconomic policies, and recovery in FDI

and other forms of capital inflows, such as migrant remittances and tourism receipts.

From a sub-regional perspective, the economies in north Africa, as a group, experienced a strengthening of the rate of expansion of their GDP to 5.4% in 2010, from 3.1% in 2009 (Table 2.2 and Figure 2.3). Behind this positive growth development were sustained pick-up in oil prices which lifted net export receipts and spurred FDI inflows into the oil & gas industries across the region and strong pick-up in tourism receipts and migrant remittances during the period. Compared to 2009, the average level of prices rose in comparison to 2010 in Libya, Mauritania, Morocco and Tunisia; and declined in Algeria, Egypt and Sudan. Following this development, the average rate

of inflation for the region rose slightly to 6.3% in 2010 from a level of 6.1% in 2009 (Table 2.3 and Figure 2.3).

In southern Africa, the level of economic activity underwent a significant revival during the review period, culminating in a pick-up of the region's rate of GDP growth to 3.8% in 2010, from a 1.1 % contraction in 2009 (Table 2.2 and Figure 2.3). The impressive recovery in economic activity across the region was driven by a strong recovery of the flagship economy of the region, the South African economy (which expanded by 3% in 2010, from about -2% in 2009); significant recovery in agricultural and mining activities across the region driven by firm commodity prices; and modest recovery in FDI and other capital inflows such as remittances; and a strong rally in export receipts arising from increased production and better export commodity prices. In 2010, the average rate of price inflation across the sub-region retreated slightly from a level of 8.4% in 2009 to 7.5% in 2010 (Table 2.3 and Figure 2.3).

During the period in review, the rate of growth of the economies of west Africa, as a group, quickened to 6.2%, from a level of 3% in 2009 (Table 2.2 and Figure 2.3). The rebound in the region's growth performance was powered by a sustained recovery in commodity prices buoyed by strong global demand for commodities; continued recourse to sound macroeconomic policies; a modest pick-up in migrant remittances and other forms of capital inflows; and continued robust expansion of the Nigerian economy, the flagship economy of the sub-region (from 7% in 2009 to 7.4% in 2010) coupled with significant improvements in growth performance of other economies in the region, such as Liberia (6.3%), Mali (5.1%), Ghana (5%), Sierra Leone (4.5%), Burkina Faso (4.4%) and Senegal (4%). The average rate of inflation for the region, as a group, edged upward to 6.3% in 2010 from a level of 5.6% in 2009 consistent with the rise in inflation pressures experienced around the world (Table 2.3 and Figure 2.3).

**Table 2.2** Africa: Real GDP Growth, 2008 - 10 *(annual percent change)* 

Africa	2008*	2009*	2010**
Algeria	2.4	2.4	3.8
Angola	13.3	0.7	5.9
Benin	5.0	2.5	2.8
Botswana	3.1	-3.7	8.4
Burkina Faso	5.2	3.2	4.4
Burundi	4.5	3.5	3.8
Cameroon	2.9	1.9	2.6
Cape Verde	5.6	3.0	4.1
Central African Republic	2.0	1.7	3.3
Chad	-0.4	-1.6	4.3
Comoros	1.0	1.8	2.1
Congo, Dem. Rep. of	6.2	2.8	5.4
Congo, Rep. of	5.6	7.5	10.6
Cote d'Ivoire	2.3	3.7	3.0
Djibouti	5.8	5.0	4.5
Egypt	7.2	4.7	5.3
Equatorial Guinea	10.7	5.3	0.9
Eritrea	-9.8	3.6	1.8
Ethiopia	11.2	10.0	8.0
Gabon	2.7	-1.4	4.5
Gambia	6.3	5.6	5.0
Ghana	7.2	4.1	5.0
Guinea	4.9	-0.3	3.0
Guinea-Bissau	3.6	3.0	3.5
Kenya	1.3	2.4	4.1
Lesotho	4.5	0.9	5.6
Liberia	7.1	4.6	6.3
Libya	2.3	-2.3	10.6
Madagascar	7.1	-3.7	-2.0
Malawi	8.8	7.5	6.0
Mali	5.0	4.4	5.1
Mauritania	3.7	-1.1	4.7
Mauritius	5.0	2.5	3.6
Morocco	5.6	4.9	4.0
Mozambique	6.7	6.3	6.5
Namibia	4.3	-0.8	4.4
Niger	8.7	-1.2	3.5
Nigeria	6.0	7.0	7.4
Rwanda	11.2	4.1	5.4
Sao Tome and Principe	5.8	4.0	4.5
Senegal	3.2	2.2 0.7	4.0
Seychelles	-1.3		4.0
Sierra Leone	5.5	3.2	4.5
Somalia	n/a	n/a	n/a
South Africa	3.7	-1.8	3.0
Sudan	6.8	4.5	5.5
Swaziland	2.4	1.2	2.0
Tanzania	7.4	6.0	6.5
Togo	2.2	3.0	3.3
Tunisia	4.5	3.1	3.8
Uganda	8.7	7.2	5.8
Zambia	5.7	6.3	6.6
Zimbabwe * Revised	-18.9	5.7	5.9

<sup>\*\*</sup> Estimates

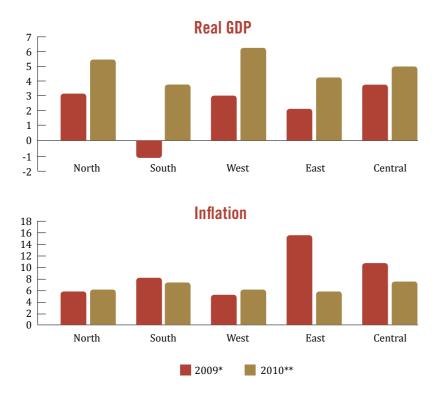
Sources: 1) IMF (2010) World Economic Outlook Database.
2) IMF (2010) World Economic Outlook (October).

Estimates

n/a not available.

<sup>3)</sup> EIU

Figure 2.3 Africa: Output and Inflation by Region, 2009 - 10 (annual percent change)



<sup>\*</sup> Actual \*\* Estimates

Sources: 1) IMF (2010) World Economic Outlook Database. 2) IMF (2010) World Economic Outlook (October)

During the period under review, the economies of eastern and central Africa, as a group, saw their level of activity pick-up as a result of the overall rebound of the global and advanced economies. In this regard, the growth of output of the east African economies, as a group, which decelerated from 6.6% in 2008 to 2.1% in 2009, recovered to 4.3% in 2010; while the group of central African economies saw their growth performance improve to about 5% in 2010 from a level of 3.8% in 2009, on the back of firm oil prices that boosted production and exports by the NOECs in the region, namely, Gabon, Cameroon, Chad and Equatorial Guinea (Table 2.2 and Figure 2.3). With regard to changes in the general price level, in line with African trends, the average rate of inflation across eastern and central African regions retreated in 2010 compared to their levels in 2009 (Table 2.3 and Figure 2.3).

The average rate of inflation for African economies, as a group, during 2010 retreated from 6.72% in 2009 to 6.5% in 2010 (Table 2.1). The observed let-up in inflationary pressures in Africa was partly due to continued pursuit of prudent monetary and fiscal policies in many African countries on the back of economic reforms; and the reversal of hyperinflationary conditions in Zimbabwe following the introduction of a multiple currency regime as part of the economic reforms in that country.

#### 2.2.2 External Reserves and Exchange **Rate Developments**

During the review period, the foreign exchange reserves of African economies, as a group, underwent a year-on-year decline of about 0.5% from US\$ 476.2 billion in 2009

to US\$ 474 billion in 2010 (Table 2.4). The marginal decline in reserve position of African countries seen in 2010 was essentially caused by decreases in reserve holdings of some NOECs, such as Egypt (-1.3%), Equatorial Guinea (-32.5%), Gabon (-5.9%), Libya (-3.9%) and Nigeria (-3.8%) coupled with drops in reserve holdings of some important beneficiaries of tourism receipts, such as Morocco (-9.5%) and Tunisia (-12.4%). As a result of the slight year-on-year decline in total reserve holdings, average import coverage for the continent as a whole decreased to 8.3 months in 2010, from a level of 9.1 months in 2009. On a country basis, available data show that five countries, namely Algeria (US\$ 153.5 billion), Libya (US\$ 96.3 billion), Nigeria (US\$ 43.7 billion), South Africa (US\$ 38.6 billion), and Egypt (US\$ 32.3 billion) accounted for about 77% of the total reserves held by the Continent at the end of the review period.

During 2010, continued modest pick-up in private capital inflows, tourism receipts, migrant remittances and exports in particular, improved external finances of many African economies and contributed to stabilize and/ or improve the US dollar value of some African currencies. Nevertheless, the review period saw only eight out of 49 African currencies appreciate against the US dollar compared to their average exchange rates in 2009 (Table 2.5), with significant levels of appreciation recorded by South African Rand (5.6%), and other sub-regional currencies linked to it such as the Lesotho Loti, Namibian dollar and the Swaziland Lilangeni; and the Eritrean Nakfa (2.6%) and the Seychellois Rupee (2.3%). Thus, most of the African currencies depreciated against the US dollar at the end of 2010 compared to their values at the end of 2009. This development arose from the appreciation of the US dollar against the Euro which triggered a weakening of the African currencies linked to it, namely the CFA, Comoros and Djibouti Franc.

Further, expansionary monetary and fiscal policies in many African economies fuelled demand for foreign exchange, which increased

**Table 2.3** Africa: Inflation, 2008 - 10<sup>a)</sup> (annual percent change)

Africa	2008	2009*	2010**
Algeria	4.9	5.7	5.5
Angola	12.5	13.7	13.3
Benin	8.0	2.2	2.8
Botswana	12.6	8.1	6.7
Burkina Faso	10.7	2.6	2.3
Burundi	24.4	10.7	7.2
Cameroon	5.3	3.0	3.0
Cape Verde	6.8	1.0	1.8
Central African Republic	9.3	3.5	1.4
Chad	8.3	10.1	6.0
Comoros	4.8	4.8	2.6
Congo, Dem. Rep. of	18.0	46.2	26.2
Congo, Rep. of	6.0	4.3	5.2
Cote d'Ivoire	6.3	1.0	1.4
Djibouti	12.0	1.7	3.9
Egypt	11.7	16.2	11.7
Equatorial Guinea	4.3	7.2	8.0
Eritrea	19.9	34.7	20.5
Ethiopia	25.3	36.4	2.8
Gabon	5.3	2.1	3.0
Gambia	4.5	4.6	3.9
Ghana	16.5	19.3	10.6
Guinea	18.4	4.7	15.4
Guinea-Bissau	10.4	-1.6	1.5
Kenya	16.2	9.3	4.1
Lesotho	10.7	7.2	6.3
Liberia	17.5	7.4	7.2
Libya	10.4	2.8	4.5
Madagascar	9.2	9.0	9.0
Malawi	8.7	8.4	8.0
Mali	9.1	2.2	2.1
Mauritania	7.3	2.2	6.1
Mauritius	9.7	2.5	2.5
Morocco	3.9	1.0	1.5
Mozambique	10.3	3.3	9.3
Namibia	10.0	9.1	6.5
Niger	10.5	1.1	3.4
Nigeria	11.6	12.4	11.9
Rwanda	15.4	10.4	6.4
Sao Tome and Principe	26.0	17.0	12.3
Senegal	5.8	-1.7	0.9
Seychelles	37.0	31.8	-2.4
Sierra Leone	14.8	9.2	16.5
Somalia	n/a	n/a	n/a
South Africa	11.5	7.1	5.6
Sudan	14.3	11.3	10.0
Swaziland	13.1	7.6	6.2
Tanzania	10.3	12.1	7.2
Togo	8.7	1.9	2.2
Tunisia	4.9	3.5	4.5
Uganda	7.3	14.2	9.4
Zambia	12.4	13.4	8.2
Zimbabwe	n/a	6.5	4.7
Average b)	11.6	8.9	6.6
Median	10.4	7.2	6.0
	6.5	9.8	5.3
Standard Deviation	0.5		
Skew	1.7	2.1	1.5

Revised

Estimates

n/a: not available.

a) Figures are average percent change in consumer price index over

b) Inflation figure for Zimbabwe for 2008 was not included in the calculations because it would bias the average for Africa.

Sources: 1) IMF (2010) World Economic Outlook Database

<sup>2)</sup> IMF (2010) World Economic Outlook (October).

<sup>3)</sup> EIU. Country Reports (various)

			10tal Reserve	S (EXCI. GOIG)				GOIG RESELVE	MIIIOH FINE I	oy Ouncest	MOTUIS OF IIII	norts covered	Dy Rese
AFRICA	Z008*	×600Z	2010**	Percentage	Percentage Change	2008	×6007	2010	Percentage	Percentage	Z008	- - - - - - - - - - - - - - - - - - -	70.7
				2009/2008	2010/2009				3008/5008	2010/2009			
Algeria	143,243.00	151,212.01	153,519.31	5.56	1.53	5.58	5.58	5.58	0.05	0.00	43.69	44.55	4,
Angola	17,869.40	13,863.17	17,268.95	-22.42	24.57	n.a.	n.a	n.a	n.a	n.a	9.91	9.54	ù.
Bettimen	1,203.33	1,247.78	1,137.94	2 16	7.70	0.00	0.00	0.00	0.00	0.00	27.10	2.49	
Burkina Faso	927 57	1,314.72	1 220 24	41 74	-7.19	0.00	0.00	0.00	000	0.00	6.50	918	.,
Burundi	265.70	326.74	269.53	22.97	-17.51	0.00	0.00	0.00	0.00	0.00	7.78	10.25	
Cameroon	3,086.38	3,729.08	3,426.21	20.82	-8.12	0.03	n.a	n.a	n.a	n.a	8.47	11.42	10
Cape Verde	258.49	371.55	355.73	43.74	-4.26	0.00	0.00	0.00	0.00	0.00	3.11	5.66	
Central Arrican Republic	1 245 47	213.66	164.26	75.43	10.02	0.01	n.a	n.a	n.a	n.a	17.20	7.05	
Comoros	1,343.47	140 47	094.03	25.30	10.93	0.01	0.00	ח מיני	0.00	II.a	17.29	0.40	
Congo, Democratic Rep. of	77.73	1.638.91	1.704.82	2.008.47	4.02	0.00	0.00	0.00	00:0	0.00	0.21	5.45	2.
Congo, Rep. of	3,871.78	3,861.71	4,178.23	-0.26	8.20	0.01	n.a	n.a	n.a	n.a	12.80	13.90	T
Cote d'Ivoire	2,252.08	3,314.41	3,197.12	47.17	-3.54	0.00	0.00	0.00	0.00	0.00	3.42	5.68	,
Djibouti	175.50	245.36	246.31	39.81	0.39	n.a.	n.a	n.a	n.a	n.a	0.84	1.26	1
Egypt	32,216.10	32,722.93	32,293.37	1.57	-1.31	2.43	2.43	2.43	0.00	n.a	7.33	8.74	_
Equatorial Guinea	4,431.19	3,299.32	2,228.16	-25.54	-32.47	0.00	n.a	n.a	n.a	n.a	30.82	19.95	11
Eritrea	57.90	n.a	n.a	n.a	n.a	0.00	n.a	n.a	n.a	n.a	1.13	n.a	
Ethiopia	1 023 40	1,806.83	1,806.83	107.56	0.00	0.00	0.00	n.a	0.00	n.a	1.42	3.12	
Gambia	1,923.49	2,022.28	1,902.12	5.14	-5.94	0.01	n.a	n.a	n.a	n.a	8.21	3.26	יט מ
Ghana	n.a.	n.a	e.n.	n.a	n.a	n.a.	n.a	n.a	n.a	n.a	n.a	0.12 D.a	•
Guinea	n.a.	n.a	n.a	n.a	n.a	n/a	n.a	n.a	n.a	n.a	n.a	n.a	
Guinea-Bissau	124.47	171.05	167.37	37.42	-2.15	0.00	0.00	0.00	0.00	0.00	5.18	6.26	
Kenya	2,878.52	3,905.04	4,278.99	35.66	9.58	0.00	0.00	0.00	0.00	n.a	2.74	3.93	. 2
Lesotho	n.a.	n.a	n.a	n.a	n.a	n.a.	n.a	n.a	n.a	n.a	n.a	n.a	
Liberia	160.86	377.88	407.93	134.91	7.95	n.a.	n.a	n.a	n.a	n.a	0.17	0.35	_ 1
Libya	92,313.30	100,163.63	96,265.86	8.20	-3.89	4.62	4.62	4.62	0.00	n.a	55.75	56.43	Ñ
Madagascar	982.31	1,152.03	1,078.57	17.28	-0.38	n.a.	n.a	n.a	n.a	n.a	2.83	4.40	
Malawi	1 071 10	151.53	1 444 91	-37.58	11.75	0.01	0.01	0.01	0.00	n.a	2.30	1.45	, .
Mauritania	186 23	228.64	21431	22.70	-6.26	0.00	0.00	0.00	0.00	0.00	4.01	130	
Mauritius	1.742.65	2.210.52	2.466.77	26.85	11.59	0.0	0.13	0.13	104.55	0.00	4.49	7.14	
Morocco	22,103.80	23,129.49	20,941.36	4.64	-9.46	0.71	0.71	0.71	0.14	n.a	6.64	8.94	
Mozambique	1,577.73	2,129.85	1,991.67	34.99	-6.49	0.10	0.08	0.08	-21.02	n.a	4.64	7.08	,
Namibia	1,292.95	2,080.81	1,963.97	60.94	-5.62	0.00	0.00	0.00	0.00	0.00	4.03	5.85	`
Niger	705.21	662.09	655.43	-5.69	-1.45	0.00	0.00	0.00	0.00	0.00	2.00	5.03	
Nigeria	53,001.80	45,414.88	43,684.65	-14.31	-3.81	0.69	0.69	0.69	0.00	n.a	11.65	12.59	11
Kwanda Sao Tome and Dringine	590.28	735.30	/5/.31	20.38	0.50	0.00	0.00	0.00	0.00	n.a	0.24	9.35	
Senegal	1.602.20	2.154.17	1.964.27	34.45	-8.82	0.00	0.00	0.00	00'0	00'0	3.40	5.71	
Seychelles	63.83	193.32	202.99	202.87	2.00	n.a.	n.a	n.a	n.a	n.a	0.56	2.48	
Sierra Leone	220.17	410.86	395.75	86.61	-3.68	n.a.	n.a	n.a	n.a	n.a	3.09	6.16	_,
Somalia	n.a.	n.a	n.a	n.a	n.a	n.a.	n.a	n.a	n.a	n.a	n.a	n.a	
South Africa	30,583.50	35,750.82	38,564.71	16.90	7.87	4.01	4.01	4.02	0.12	0.05	4.50	5.81	
Swaziland	751 94	972 84	760 96	20.03	-21 78	. E. E.	n u	n u	n u	n u	1.00	1.37	. `
Tanzania	2.862.90	3.520.97	3,431.90	22.99	-2.53	n.a.	n.a	n.a	n.a	n.a	4.51	6.47	
Togo	581.82	713.40	699.97	22.62	-1.88	0.00	0.00	0.00	0.00	0.00	7.30	8.71	
Tunisia	8,849.30	11,218.41	9,827.67	26.77	-12.40	0.22	0.22	0.22	0.00	n.a	4.23	6.58	
Uganda	2,300.57	3,038.09	2,963.26	32.06	-2.46	n.a.	n.a	n.a	n.a	n.a	6.10	12.90	Ξ.
Zambia	1,095.61	1,919.64	2,115.12	15.21	10.18	0.00	0.00	0.00	0.00	0.00	2.58	6.11	
Limbabwe	n/a	176 170 20		n/a	n/a	n/a	10 40	10 40	n/a	n/a	n/a	110 01	, 40
Iotal	952,894.13	10 351 72		5.14	-0.49	18.52	18.49	18.49	-0.12	0.01	360.41	419.91	3/2
Median	1,263.35	1,722.87				0.00	0.00	0.00			4.50	6.53	
Standard Deviation	25,760.13	27,261.24	27,5			1.39	1.53	1.58			10.75	10.13	71
Skew	4.03	4.09				2.81	2.43	2.30			3.14	3.39	5
Kurtosis	00'/T	17.77				0.98	4.01	4.10			10.57	16.71	4

\*\* Revised \*\*\* Estimates n/a not available 2) IMF (2010) International Financial Statistics Database. \* Total Reserves and Gold Reserves are end of quarters available. **Sources**: 1) IMF( 2010) *Direction of Trade Statistics Database*.

4) Afreximbank estimates

the pressure on some of the currencies resulting in their eventual depreciation against the US dollar during the review period.

#### 2.2.3 Review of Commodities of Trade Interest to Africa

During the period under review, all commodities of trade interest to Africa recorded significant price gains. All three broad commodity groups of trade interest to the Continent, namely Agriculture, Energy and *Metal* reportedly posted impressive respective nominal price increases of 28.4%, 30.2% and 39.4% in 2010 compared to their average levels in 2009 (Table 2.6). Following these nominal price developments, the real prices of Agriculture, Energy and Mineral/ Metals ended 2010 about 119%, 46% and 145% higher than their respective average levels in 2005 --- a period of marked rally in commodity prices. The impressive nominal price gains recorded during the period were fuelled by a significant rebound in global demand for commodities precipitated by the global economic recovery, especially in Western Europe, the US and among the BRIC economies, coupled with a sharper-thanexpected turning of the inventory cycle and modest recovery in commodity and trade finance.

With regard to price fluctuations, all three broad commodity groups experienced volatilities ranging from 9% (Energy) to 18% (Agriculture). On individual basis, Maize exhibited the highest volatility of 30%, followed by Copra and Cotton (29%), Sugar and Lead (19%) and Tin (17 %) with Tea exhibiting the least volatility of 7%. Gold prices on the average remained very stable during the period with zero volatility. Largely on account of the uncertainties that prevailed in the global economy and volatility in asset prices on major bourses around the world, the review period saw the continued use of commodities and precious metals in particular, as safe-haven assets by investors. Against this backdrop, activity



AFREXIMBANK ANNUAL REPORT

levels on major commodity exchanges in the developed and developing worlds reportedly rose during 2010.

#### 2.2.4 African Trade

The stronger-than-expected rebound of the global economy positively impacted global demand for commodities during the review period. As reported above, global demand and thus prices for many commodities of export interest to the continent strengthened and helped to raise export receipts of many commodity exporting countries. In this regard, the total value of Africa's merchandise exports and imports rose by respective 26.4% and 12% year-on-year in 2010 culminating in an impressive 18.5% year-onyear increase in total value of African trade to US\$ 949.64 billion in 2010. The total value of intra-African trade also rose by about 10% year-on-year to reach US\$ 104.4 billion in 2010.<sup>2</sup> The observed growth in intra-African trade was powered by continued pursuit of

<sup>2</sup> See African Trade Report, 2010 for more insights into major developments in African Trade that occurred in 2010.

**Table 2.5** Africa: Exchange Rate Developments, 2008 - 10 a) (per US\$ unless otherwise indicated)

					ange between b)
Africa	2008 (1)	2009*(2)	2010**(3)	(2) & (1)	(3) & (2)
Algeria - dinar	71.183	72.731	73.411	2.18	0.93
Angola - kwanza	75.169	89.399	91.866	18.93	2.76
Benin - franc	471.335	455.338	473.379	-3.39	3.96
Botswana - pula	7.519	6.673	6.594	-11.26	-1.17
Burkina Faso - franc	471.335	455.338	473.379	-3.39	3.96
Burundi - franc	1,234.980	1,226.005	1,230.900	-0.73	0.40
Cameroon - franc	471.335	455.338	473.379	-3.39	3.96
Cape Verde - escudos	79.234	76.546	79.578	-3.39	3.96
Central African Republic - franc	471.335	455.338	473.379	-3.39	3.96
Chad - franc	471.335	455.338	473.379	-3.39	3.96
Comoros - franc	353.501	341.502	355.036	-3.39	3.96
Congo, Dem. Rep. of - Congo franc	639.320	902.664	908.649	41.19	0.66
Congo, Rep. of - franc	471.335	455.338	473.379	-3.39	3.96
Cote d'Ivoire - franc	471.335	455.338	473.379	-3.39	3.96
Djibouti - franc	177.721	177.720	177.722	-0.00	0.00
Egypt - pound	5.504	5.475	5.660	-0.52	3.37
Equatorial Guinea - franc	471.335	455.338	473.379	-3.39	3.96
Eritrea - nakfa	15.375	15.792	15.375	2.71	-2.64
Ethiopia - birr	9.955	12.642	13.310	26.99	5.29
Gabon - franc	471.335	455.338	473.379	-3.39	3.96
Gambia - dalasi	24.700	26.940	28.726	9.07	6.63
Ghana - cedi	1.214	1.419	1.427	16.84	0.59
Guinea - Guinea franc	5,160.96	4,697.29	n/a	-8.98	n/a
Guinea-Bissau - franc	471.335	455.338	473.379	-3.39	3.96
Kenya - shilling	77.711	75.818	80.781	-2.44	6.55
Lesotho - loti	9.305	7.380	6.966	-20.69	-5.61
Liberia - Liberia dollar	64.000	70.498	72.499	10.15	2.84
Libya - dinar	1.255	1.233	1.307	-1.75	6.00
Madagascar - Ariary	1,860.360	1,954.656	2,014.808	5.07	3.08
Malawi - kwacha	140.600	145.998	169.897	3.84	16.37
Mali - franc	471.335	455.338	473.379	-3.39	3.96
Mauritania - ouguiyas	234.740	261.990	264.801	11.61	1.07
Mauritius - rupee	31.756	30.529	29.825	-3.86	-2.30
Morocco - dirham	8.098	7.860	8.221	-2.94	4.59
Mozambique - meticals	25.500	29.190	36.140	14.47	23.81
Namibia - namibia dollar	9.305	7.380	6.965	-20.69	-5.62
Niger - franc	471.335	455.338	473.379	-3.39	3.96
Nigeria - naira	132.563	149.583	148.790	12.84	-0.53
Rwanda - franc	558.898	571.241	591.316	2.21	3.51
Sao Tome and Principe - dobra	15,228.100	16,814.517	19,435.883	10.42	15.59
Senegal - franc	471.335	455.338	473.379	-3.39	3.96
Seychelles - rupee	16.573	11.157	12.382	-32.68	10.98
Sierra Leone - leone	3,042.240	3,855.666	4,033.664	26.74	4.62
Somalia - shilling	n/a	n.a	n/a	n.a	n/a
South Africa - rand	9.305	7.380	6.965	-20.69	-5.62
Sudan - pound	2.184	2.240	2.373	2.55	5.93
Swaziland - lilangeni	9.305	7.380	6.965	-20.69	-5.62
Tanzania - shilling	1,280.300	1,326.854	1,482.711	3.64	11.75
Togo - franc	471.335	455.338	473.379	-3.39	3.96
Tunisia - dinar	1.310	1.293	1.317	-1.33	1.91
Uganda - shilling	1,949.180	1,903.498	2,269.983	-2.34	19.25
Zambia - kwacha	4,832.260	4,640.577	4,860.965	-3.97	4.75
Zimbabwe - Zimbabwe dollar	n/a	n/a	n/a	n/a	n/a

<sup>\*</sup> actual \*\* estimates n/a not available

**Table 2.6** Nominal Price Developments for Commodities of Export Interest to Africa, 2008 -10 (in US\$/Metric tonnes unless otherwise indicated)

COMMODITY		2008	2009	2010	Annual Growth Rate 2009/2008	Annual Growth Rate 2010/2009	Price Volatility*** 2008	Price Volatility*** 2009	Price Volatility*** 2010
AGRICULTURE:									
Cocoa Bean		2,678.43	3,511.48	4,009.98	31.10	14.20	0.11	0.09	0.10
Coffee		2,143.98	1,492.90	1,516.04	-30.37	1.55	0.12	0.11	0.14
Copra**		815.83	479.75	715.97	-41.20	49.24	0.25	0.08	0.29
Cotton*		1,559.23	1,362.03	2,486.45	-12.65	82.55	0.13	0.12	0.29
Maize		221.08	197.02	243.66	-10.89	23.67	0.10	0.11	0.30
Palm Oil*		944.20	678.69	903.98	-28.12	33.20	0.31	0.11	0.16
Rubber*		1,494.65	1,166.18	1,904.78	-21.98	63.33	0.22	0.21	0.12
Soyabean		940.61	738.21	790.35	-21.52	7.06	0.18	0.07	0.09
Sugar (world)**		282.23	399.13	599.80	41.42	50.28	0.08	0.24	0.19
Tea**		2,413.75	2,721.33	3,201.25	12.74	17.64	0.11	0.14	0.07
Average		1,349.40	1,274.67	1,637.23	-5.54	28.44	0.16	0.13	0.18
ENERGY:									
Crude Oil*		712.10	449.84	585.81	-36.83	30.23	0.30	0.20	0.09
Average		712.10	449.84	585.81	-36.83	30.23	0.30	0.20	0.09
METALS:									
Copper		6,929.62	5,141.18	7,369.89	-25.81	43.35	0.28	0.26	0.09
Gold		3,073,880.90	3,100,786.25	4,320,514.02	0.88	39.34	0.07	0.32	0.00
Lead		2,089.38	1,713.96	2,239.04	-17.97	30.64	0.32	0.27	0.19
Tin*		19,057.10	13,431.44	20,127.49	-29.52	49.85	0.27	0.13	0.17
Average	a)	775,489.25	780,268.21	1,087,562.61	0.62	39.38	0.24	0.25	0.11
	b)	9,358.70	6,762.19	9,912.14	-27.74	46.58	0.29	0.22	0.15

<sup>\*</sup> Spot Prices. Others are future prices at the LIFFE and London Metal Exchange (nearest trading month).

Sources: 1) Financial Times (various issues).

2) www.worldbank.org/prospects/pinksheets

cross-border trade opportunities by African entrepreneurs and corporates across the continent; pursuit of export-led economic growth strategy by many African countries; a deepening of economic integration efforts of African governments at the sub-regional and regional levels; sustained improvement in transport and communication links among African countries; and a rising intraregional banking relationships driven by Afreximbank-sponsored African Bankers' Association (AfBA) and banking sector reforms in a number of African countries, all of which enabled many African countries to source some of their import needs from within the Continent.

The developments reported in this Chapter affected the slant and depth of the Bank's activities during the review period. As evident from the foregoing, the operating environment presented risks and opportunities which management of the Bank managed in the course of the year leading to the outcomes of operations and trade development impact discussed in Chapters 3 and 4 respectively, and the financial results reported in Chapter 5.

a) End of period figures available.

b) Figures should be seen as simple percentage changes and therefore do not represent nominal exchange rate depreciation or appreciation since, theoretically, a currency cannot depreciate by more than 100% or it ceases to exist.

**Sources**: 1) Economist Intelligence *Unit Country Report* (various issues).

<sup>2)</sup> IMF (2010) International Financial Statistics Database.

<sup>\*\*\*</sup> Measured by the coefficient of variation (CV) of price of relevant commodity. CV is the ratio of each standard deviation to its associated mean.

a) Gold is included.

b) Gold is not included.



# AFREXIMBANK ANNUAL REPORT 2010

# 3. AFREXIMBANK OPERATIONS AND ACTIVITIES

#### 3.1 INTRODUCTION

The Bank's operations and activities during 2010 were undertaken in line with the Bank's Third Strategic Plan (2007-2011) and annual budget for the review year, and within the context of developments in the global and African economies during the year. As discussed in Chapter 2, the global economy showed a strong recovery from the recession experienced in 2009. African economies, as a group, also posted significant improvements in economic performance during the period, aided in part by a pick-up in commodity prices; continued recourse to prudent macroeconomic policies and programmes; and a rebound in export receipts and external private and official capital inflows. These developments informed the focus and slant of the Bank's lending operations and activities during the period under review.

Internally, Management intensified the implementation of the Bank's Third Strategic Plan with regard to the objectives set forth in the 2010 Budget under the theme "Consolidating the Gains of the Value Race". The planned consolidation of gains in all aspects of the Bank's business was expected to be achieved via forging of result-oriented partnerships, increasing client engagement, recognition and retention, maintaining strong profitability and social responsibility while improving and protecting shareholder value through active implementation of a robust enterprise risk management framework for the benefit of all Stakeholders consistent with the Bank's mission and the overall corporate goal of transforming Afreximbank into a multi-billion dollar Bank at the end of the Third Strategic Plan period in 2011.

In furtherance of these objectives, the Bank, during the year, further strengthened its human resource capacities by recruiting an Executive Vice President in charge of Administration and Banking Services and Regional Managers for the Bank's branch offices. Management made further progress with regard to the implementation of much needed reform of its human resource management systems; continued to raise additional external resources to meet the growing demand for its facilities; sought to actively mobilize additional equity by setting up an Equity Task Force to spearhead the raising of equity finance from potential Classes "B" and "C" Shareholders; continued to focus on growing and diversifying its loan assets by product and geography; focused on improving on the Bank's profitability and efficiency by diversifying income sources necessary for dealing with economic crisis-induced high cost of funds; and worked with relevant statutory bodies of the Bank to achieve a full reconciliation of all Shareholders. To further underscore its standing as a credible counterparty in the international credit markets, the Bank, during the year, subjected itself to credit ratings by the three major rating agencies. In this regard, Fitch Ratings, in October 2010, affirmed the investment grade rating of BBB- it assigned to the Bank in 2009. Moody's Rating Services and Standard and Poor's Ratings Services also assigned the Bank long-term investment grade ratings of Baa2 and BBB- in May 2010 and November 2010 respectively. These ratings, all with Stable Outlooks, were assigned on the basis of the intrinsic strength of the Bank and despite the fact that more than 80% of its assets are loans to African entities. The Bank's strong capitalization, structured finance operating model, and proven demonstration of its preferred creditor treatment in member countries underpinned the ratings achieved.

Externally, developments in the global economy in general and the African environment in particular impacted the Bank's activities and operational achievements during the review period. These developments chronicled in Chapter Two of the Report show that although there were some improvements in the external environment, the overall operating conditions still remained challenging due to the fact that financing conditions in the international credit markets remained somewhat tight. Consequently, the surge in demand for the Bank's facilities experienced in 2009 continued during the year under review. This development provided business opportunity the pursuit of which resulted in a sharp increase in facility approvals during the year. Cognisant of the fact that the operating environment remained risky, Management continued to ensure that the Bank operated within its risk tolerance level which is premised on maintaining a judicious balance between profitability, liquidity and safety. Further, the Bank continued to be challenged by relatively higher cost of funds that persisted despite slight improvements in global liquidity levels.

This chapter discusses the activities and operations of the Bank in the context of the global and African socio-economic environments that prevailed during the review period and the operational goals and targets deriving from the Bank's 2010 Budget.

#### 3.2 REVIEW OF CREDIT OPERATIONS

The Bank's credit operations were, during 2010, implemented in the context of the global and African economic environments as summarised in Chapter 2. As a response to the challenges in its operating environment, the Bank, during the review period, continued to place emphasis on its Dual Recourse Facility (DRF) programme through which it extends recourse on credit exposure to the direct borrower and acceptable banks. Under the DRF programme, the Bank lends to a





Figure 3.1a Afreximbank: Facility approvals, 2008 - 2010

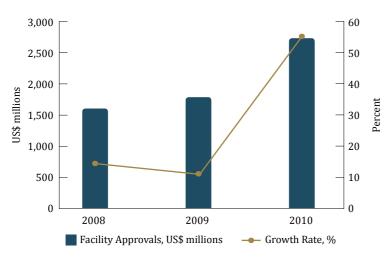
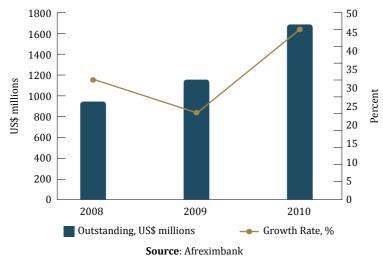


Figure 3.1b Afreximbank: Credit oustanding as at December 31, 2008 - 2010



corporate against the guarantee or aval of an acceptable bank or another creditworthy corporate.

During 2010, the value of credit facility requests received by the Bank amounted to US\$18.5 billion, an amount about 32% higher than the value of applications received a year earlier. The largest proportion of credit applications received was from the Financial Institutions sector, which accounted for about 48% of such applications.

In 2010, facility approvals increased by 54% year-on-year to reach US\$2.69 billion (Table 3.1 and Figure 3.1a), reflecting sustained increase in demand for the Bank's facilities during the period driven by the tight international credit market situation and the Bank's determination to assist its member countries to meet essential trade finance needs in the face of the global financial crisis. The observed surge in credit facility approvals was largely accounted for by the Line of Credit Programme, which saw approvals rise by 87% year-on-year in 2010 to account for about 47% of total credit approvals during the year. Loans outstanding also increased during the year by a significant 45% to reach US\$1.68 billion at the end of 2010 (Table 3.1 and Figure

Full details of the Bank's credit operations and other activities conducted during the review year are presented hereunder.

Table 3.1 Afreximbank: Distribution of Loan Approvals and Outstandings by Type of Programme, 2008 - 2010

chase/         Approvals (US\$m)         Growth Rate           thase/         2008         2010         2010         2010         2010         2010           thase/         477.400         671.250         1,254.448         40.61																	
140.00   149.000   28.000   77.38   15.000   10.000   28.000   1.84   15.000   10.000   20.000   28.000   1.84   15.000   10.000   20.000   28.000   1.84   15.000   10.000   20.000	e of Programme	App	orovals (US\$n	(T	Growth	Rate (%)	Share Type of	Share of Approvals by Type of Programme (%)	vals by me (%)	Outsi (E	Outstandings (US\$m) (End of Period)	5\$m)	Growth Rate (%)	tate (%)	Share of Type of I	Share of Outstandings by Type of Programme (%)	ngs by ie (%)
thase/       477.400       671.250       1,254.448       40.61         thase/       0.000       25.000       28.000       77.38         thase/       0.000       25.000       0.000       77.38         thase/       0.000       25.000       0.000       1.84         thase/       146.400       149.100       200.000       1.84         thase/       15.000       20.000       89.500       -28.57         thase/       15.000       10.000       70.000       -33.33         thase/       31.000       10.000       20.000       -33.33         thase/       31.000       10.000       73.900       245.16         thase/       0.000       0.000       29.000       245.16         thase/       0.000       0.000       0.000       0.000		2008	2009	2010	2009/2008	2010/2009	2008	2009	2010	2008	2009	2010	2009/2008	2010/2009	2008	2009	2010
thase/       0.000       25.000       20.000       77.38         samme       28.000       25.000       0.000       1.84         792.500       610.750       940.680       -22.93         rmme       15.000       10.000       20.000       -33.33         ment       31.000       10.000       73.900       245.16         mme       0.000       0.000       29.000       245.16         mme       0.000       0.000       0.000       29.000         t:       15.000       10.000       10.000       10.000	ine of Credit rogramme	477.400	671.250	1,254.448		88'98	30.32	38.53	46.71	189.316	401.296	459.039	111.97	14.39	20.18	34.77	27.34
thase/         0.000         25.000         0.000         1.84           t         146.400         149.100         200.000         1.84           amme         28.000         20.000         89.500         -28.57           amme         792.500         610.750         940.680         -22.93           imme         15.000         10.000         70.000         -33.33           imment         0.000         10.000         29.000         245.16           ment         0.000         0.000         29.000         245.16           ii         ii         10.000         0.000         0.000	ote Purchase rogramme	84.000	149.000	28.000		-81.21	5.34	8.55	1.04	121.306	133.388	206.340	96.6	54.69	12.93	11.56	12.29
amme       28.000       20.000       89.500       -28.57         amme       792.500       610.750       940.680       -22.93         15.000       10.000       70.000       -33.33         imme       31.000       10.000       73.900       245.16         ment       0.000       0.000       29.000         ii	ieceivables Purchase/ iiscounting rogramme	0.000	25.000	0.000		-100.00	0.00	1.44	0.00	15.603	0.000	0.000	-100.00		1.66	0.00	0.00
amme         28.000         20.000         89.500         -28.57           792.50         610.750         940.680         -22.93           15.000         10.000         70.000         -33.33            15.000         10.000         20.000            31.000         107.000         73.900         245.16           ment         0.000         0.000         29.000         245.16           mme          0.000         0.000         0.000           it	Direct Financing Programme	146.400	149.100	200.000		34.14	9.30	8.56	7.45	106.089	124.394	356.860	17.25	186.88	11.31	10.78	21.26
792.500   610.750   940.680   -22.93     15.000   10.000   70.000   -33.33     15.000   0.000   20.000   -33.33	Project-Related inancing Programme	28.000	20.000	89.500		347.50	1.78	1.15	3.33	25.699	11.776	54.530	-54.18	363.06	2.74	1.02	3.25
15.000   10.000   70.000   -33.33	yndications Yrogramme <sup>a)</sup>	792.500	610.750	940.680		54.02	50.34	35.06	35.03	405.797	339.489	483.400	-16.34	42.39	43.25	29.42	28.79
0.000   0.000   20.000   -33.33	special Risk Programme <sup>b)</sup> :	15.000	10.000	70.000		00.009	0.95	0.57	2.61	0.000	0.000	0.000			0.00	0.00	0.00
	Country Risk	0.000	0.000	20.000			0.00	0.00	0.74	0.000	0.000	0.000			0.00	0.00	0.00
imme     31.000     107.000     73.900     245.16       nding     0.000     0.000     29.000       ment     0.000     0.000     0.000       i:	Other Risk	15.000	10.000	50.000		400.00	0.00	0.57	1.86								
nding         0.000         0.000         29.000           ment         0.000         0.000         0.000           mme         I:	uture-Flow Pre- inancing Programme	31.000	107.000	73.900	24	-30.93	1.97	6.14	2.75	36.860	143.722	103.600	289.91	-27.92	3.93	12.45	6.17
ment 0.000 0.000 0.000 mme	sset-Backed Lending rogramme	0.000	0.000	29.000			0.00	0.00	1.08	37.500	0.000	15.080	-100.00		4.00	0.00	0.90
	Export Development Finance Programme	0.000	0.000	0.000			0.00	0.00	0.00	0.000	0.000	0.000			0.00	0.00	0.00
	norandum Item:																
20.000 120.000 -92.00	ntry Programme	250.000	20.000	120.000	-92.00	500.00											
Total 1,574.300 1,742.100 2,685.528 10.66 54.15	al	1,574.300	1,742.100	2,685.528	_	54.15	100	100	100	938.170	100 938.170 1,154.065 1,678.849	1,678.849	23.01	45.47	100.00	100.00 100.00	100.00
Cumulative Totals <sup>c)</sup> 13,164.814 14,906.914 17,592.442 13.23 18.02		13,164.814	14,906.914	17,592.442		18.02											

0 0 0 0 0 0 0

#### b) Note Purchase Programme

This is a programme through which the Bank provides financing to corporates by the purchase of Promissory Notes or similar instruments issued or accepted by them and avalized or guaranteed by an acceptable bank or other acceptable corporates. During 2010, approvals under this Programme declined by 81% from a level of US\$149 million in 2009 to US\$28 million to account for only 1% of total

facility approvals in 2010. In spite of the sharp drop in approvals, loans outstanding under the programme, grew by 55% year-on-year to US\$206 million at the end of 2010. Following this development, the Programme ended the review period with a share of about 12% of the Bank's loan portfolio, almost the same as its share in 2009 (Table 3.1).

# c) Receivables Purchase/Discounting Programme

This programme comprises of a family of facilities involving purchase of specific receivables of goods and services sold to foreign or domestic buyers, with or without recourse to the seller. The facilities operated under this programme are: i) Forfaiting, ii) Invoice/receivable discounting facility, iii) Factoring and receivables management facility; and iv) Joint bill discounting/ financing and re-financing facility. There were no approvals under this programme during the review period. There were also no loans outstanding under the programme as previous facilities were fully repaid at the end of the year (Table 3.1). Following the efforts of the Bank to introduce factoring in many parts of Africa in line with the goals of the Africa Chapter of the International Factors Group (IFG) of which the Bank is a member, many factoring applications were received and were under processing by year end.

#### d) Direct Financing Programme

Through this Programme, the Bank provides trade financing directly to corporates with balance sheet size of at least US\$2 million and an annual trade turnover of at least US\$10 million. Approvals under this programme during the year under review grew by 34% to about US\$200 million to account for about 7.5% of total credit approvals made in 2010. Loans outstanding under the Programme stood at about US\$357 million at the end of 2010, representing 21% of the Bank's loan portfolio at the end of the review period, up

from the level of 11% at the end of 2009 (Table 3.1). Increased activity under this programme reflected the switch of top corporates to the Bank as a funding source given the withdrawal of many international banks from African trade finance.

#### e) Project-related Financing Programme

The purpose of this Programme is to support large natural resource projects to develop Africa's export manufacturing capacity and infrastructure projects that facilitate exports or generate traded infrastructure services, such as power, ports, etcetera. It is also aimed at assisting private project promoters as well as African governments and their agencies executing essential projects which may not be directly export generating but may create necessary conducive environment for investments in the export sector. Facility approvals under the programme amounted to US\$89.5 million in 2010, a significant increase of 348% compared to the level in 2009, and accounted for about 3% of total facility approvals made in 2010. Loans outstanding under the programme also increased by about 363% year-on-year to US\$54.5 million to account for a 3% share of the Bank's loan portfolio at the end of 2010 (Table 3.1). The relatively low share of activity under this programme is on account of the fact that it is a relatively new area of operation for the Bank which required a cautious approach to asset creation under the programme.

#### f) Syndications Programme

The Syndications Programme is one of the main risk-sharing instruments the Bank uses to leverage international trade and project financing into Africa. Under this programme, the Bank arranges or joins a syndicate or club of reputable international and/or African banks in providing financing to African entities. Credit approvals under

the programme, during 2010, rose by 54% to US\$941 million, from a level of US\$611 million in 2009. On account of this development, the programme accounted for about 35% of the Bank's total loan approvals in 2010. Credits outstanding under the programme also increased by 42% year-on-year to US\$483 million at the end of 2010, representing the largest share of about 29% of the Bank's loan portfolio (Table 3.1). The surge in activity under the programme was a consequence of strenuous efforts by the Bank to revive interest in African syndications as the global economy recovered. The Specialised Funding Unit (SFU) in the Bank was strengthened to lead this effort.

#### g) Special Risks Programme

This Programme is designed to provide comfort to lenders extending facilities to African sovereigns, banks and corporates by transferring some of the financing risks to Afreximbank credit risk. Approvals under this programme amounted to US\$70 million in 2010 to account for about 2.6% of total facility approvals in 2010 (Table 3.1). The fact that activity under the programme did not expand very rapidly was a confirmation that lack of liquidity was at the heart of the economic crisis.

#### h) Future Flow Pre-Financing Programme

Financial future-flow transactions refer to future-flow debt offerings that rely upon receivables not generated from export of physical goods for repayment. Such receivables include credit card or cheques, migrant remittances, royalties arising from Bilateral Air Services Agreements (BASA), over flight fees, etcetera. During the review period, facility approvals under the programme amounted to US\$74 million, about 31% lower compared to the previous year's level. Loans outstanding under the programme also declined by 28% from a level of US\$144

51

million at the end of 2009 to US\$104 million, to account for 6% of the Bank's loan portfolio at the end of 2010 (Table 3.1).

#### i) Asset-Backed Lending Programme

As a result of privatization and the drive in many African countries to increase indigenous participation in all sectors of their national economies, there is a growing demand by African entrepreneurs for financing to enable them take advantage of the privatization and local content promotion opportunities by acquiring physical assets. In view of the specialized nature of this kind of financing, especially its asset-based nature, the Bank introduced this programme. A good feature of asset-backed financing is that the assets can serve as good collateral as their values are normally expected to rise with inflation. Approvals under the programme during the review period amounted to US\$29 million. Loans outstanding under the programme also amounted to US\$15 million, representing a share of about 1% of the Bank's loan portfolio at the end of 2010 (Table 3.1).

#### i) Export Development Finance Programme

Through this Programme, the Bank promotes export manufacturing in the Continent as a means of facilitating the diversification of Africa's exports away from commodities. The Bank defines its Export Development Finance Programme ("EDFP") as a process of combining credit, risk bearing, twinning, market access as well as advisory services geared towards creating non-commodity export products for sale to a broad range of export markets. During the review period, the Bank intensified its partnership building efforts with a view to expanding its twinning, risk sharing and market access activities under the Programme. In this regard, the Bank pursued several funding lines from its partner institutions during the review period for the purpose of supporting planned expansion of activity under the programme.



To ensure effective implementation of the programme, a Project and Export Development Finance (PEDF) Department, which was set up towards the end of 2009 to pursue this important aspect of the Bank's business, was staffed and re-oriented to focus on the establishment of credible operational systems and strategies to support robust and sustainable expansion of business under the Programme. In this regard, a Director, a Manager and an Administrative Assistant were recruited for the Department. Further, during the period, a senior consultant of the Bank advanced work on the preparation of Export Development Programmes for five pilot member countries. These strategic programmes are expected to be rolled out in earnest in 2011 with a view to improving the competitiveness and diversification of Africa's exports.

#### k) Country Programme

Under the Country Programme the Bank assists its member countries in peculiar difficulties not amenable to solutions offered by any one of the Bank's menu of products. During the review period, approvals under this programme amounted to US\$120 million reflecting initiatives implemented to grapple with some of the challenges in the Bank's difficult markets.

#### Box 3.1 Introducing Afreximbank's African Correspondent Banking and Letter of Credit Confirmation Facility (AFRICORRBANKING)

One of the challenges facing many African banks with significant trade finance business is the absence of dependable correspondent banking relationship with overseas banks. Specifically, many African banks have difficulty in providing import financing to their clients due to their inability to build efficient correspondent banking relationships with international banks. Few international banks are willing to offer significant correspondent banking lines to African banks due to country, regulatory and credit risk constraints. Which credit lines are granted, they are usually at uncompetitive terms, including significant cash collateralization of "Nostro Accounts", high pricing, and capricious withdrawal of services. The consequence is that Africa faces high cost of trade finance.

Afreximbank was created to address, among others, the high cost associated with the procurement of trade finance and correspondent banking services by African banks. The Bank's ability to address the problem is constrained by its non-presence in foreign markets where African businesses trade. Further, the wholesale banking nature of its operations also means that the Bank does not have adequate back-office arrangements to offer extensive correspondent banking services. As a way of addressing this, the Bank has been forging partnerships with financial institutions with significant international presence and back-office support systems to enable it offer comprehensive correspondent banking services to support African trade business. As a way of addressing this challenge, the Bank introduced in 2009 the African Correspondent Banking/African Letter of Credit Confirmation Facility ("Africorrbanking").

The Bank, through the Facility, offers: (a) correspondent banking services to African banks to enable them make payments and collections around the world, and (b) dedicated Letter of Credit Confirmation Facility for promotion of intra- and extra-African trade. This Facility is hinged on the extensive experience the Bank has gained across Africa through the use of African banks as trade finance intermediaries (TFIs). Benefits of the facility include: (i) reduced costs; (ii) improved correspondent banking relationships; and (iii) higher intra-African trade possibilities.

The product is designed and implemented through partnerships. In this regard, under the Facility, the Bank works with leading international banks as Africorrbanking Partners (APs). The APs are banks that offer full banking services around the world, especially in Europe and Asia, with strong presence in Africa (for example, Standard Chartered Bank) or have taken a decision to expand and/or support their operations in Africa, such as Landesbank Baden Wűrttemberg (LBBW) and Sumitomo Mitsui Banking Corporation (SMBC). These banks have the skills and resources to offer sophisticated correspondent banking services around the world. Based on their extensive branch network and correspondent relationships, they are able to advise, confirm and negotiate Letters of Credit (LCs) across major regions of the world.

Afreximbank also has an extensive network of African banks, called TFIs, through which it delivers its trade finance services. Many of the TFIs are also shareholders of the Bank. On the back of the combined strength of Afreximbank and the Africorrbanking Partners, the product improves access of African banks to correspondent banking services that are: (i) are tailored to specific bank's needs; (ii) are efficient, reliable and flexible; (iii) are costeffective; (iv) are Africa-friendly; and (v) which leverages the long-term relationships that Afreximbank has built with beneficiary banks.

#### The diagram below sets out the operating model and relationship between all parties in implementing the product

#### Figure B3.1 Operating Model of Africorrbanking Product

#### STRUCTURE

Afreximbank establishes risk sharing partnership with international banks (APs), leveraging synergies between Afreximbank's pan-African experience with international partner's extensive correspondent network in OECD markets

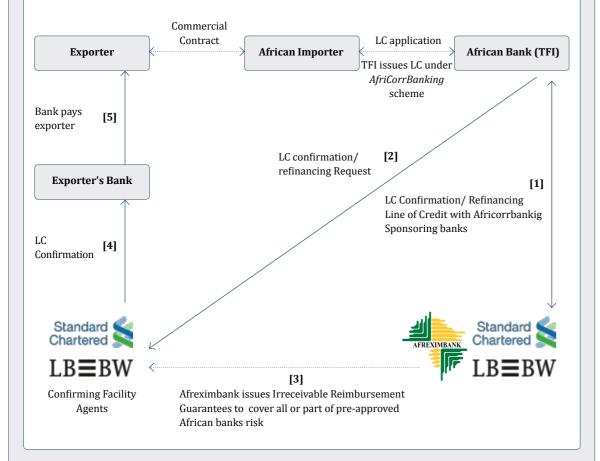
AfriCorrBanking partners pre-approve list of African banks to participate under the scheme

Afreximbank Trade Finance Intermediary(TFI) applies for line of credit under the AfriCorrBanking scheme

Line of credit is linked to importation of essential/ capital goods & services

AfriCorrBanking agent bank confirms/advises LC to exporters bank

Afreximbank provides Reimbursement Guarantees to participating international banks to cover all or part of the pre-approved African banks risk.



Key success factors for implementing a product of this type include strong origination capabilities, a strong network, automation, and human resource capacities, among others. These factors are embedded in the Partnerships Afreximbank is building. For example, as at the end of December 2010, Afreximbank had about 71 TFIs based in countries that have granted the Bank preferred creditor status. Further, the TFIs are based in economies with acceptable clearing and settlement systems, reliable communication facilities and automation standards, and thus satisfactory ICT infrastructure to support implementation of the product. Moreover, the Africorrbanking Partners (APs) have extensive reach through their network of branches and correspondents that makes it possible to provide correspondent banking services to key African trading partners around the world. APs also have sufficient support staff needed for the delivery of good and reliable correspondent banking services. Finally, Afreximbank and APs have robust Customer Due Diligence (CDD) procedures that support evaluation of counter party risk as well as satisfy the AML/KYC requirements of regulators. Also, the African banks admitted to the scheme are those with whom Afreximbank has had a minimum of 3 years satisfactory business relationships.

Africorrbanking scheme offers a comprehensive suite of correspondent banking services, namely:

(a) Trade services, (b) treasury services, (c) retail services, and (d) other ancillary services.1 Trade Services offered under the Facility include: (i) Letters of Credit Advising; (ii) Letters of Credit Opening and/or confirmation; (iii) Bills negotiation for Discounting /Acceptance; (iv) LC reimbursement; (v) Documentary bills for collection; (vi) Guarantees; and (vii) Standby Letters of Credit. The range of Treasury Services provided under the Facility include: (i) Foreign exchange quotations (spot, forwards, and swaps); (ii) Foreign currency hedging solutions; (iii) Money Market lines for investment and shortterm borrowing needs; and (iv) other liquidity and risk management solutions. The Retail

Services offered under the Facility include: (i) current, demand and other account types; (ii) check collections and clearing, including Cash Letter Services; and (iii) Wire Transfers and other forms of payment, especially access to international funds transfer systems such as SWIFT, CHIPS and Fedwire. Other ancillary services that can be offered to banks which makes Africorrbanking a one-stop shop for their international banking needs include: (i) Advisory Services; (ii) Arranging Syndications; (iii) Structured Trade Finance; (iv) Country Risk Guarantee Facility; and (v) Factoring.

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Participating Banks include: (i) banks based in Afreximbank member countries whose credit risks are acceptable to APs, and (ii) African-owned banks in the Diaspora. Further, Participating Banks must be: (a) banks with whom Afreximbank has had a minimum of 3 years satisfactory experience, unless specifically waived by the Bank and Africorrbanking Partners; and (b) banks that meet the credit, including CDD criteria of Afreximbank and APs, it being understood that where only one of the Partners is taking the full risk of the transaction then the bank in question must meet the credit criteria of the partner assuming the full risk. In all cases, CDD must be satisfactory to Afreximbank and Africorrbanking Partners.

Transactions eligible for support under the Africorrbanking include: (a) all eligible exports of Afreximbank Participating States ("Africorr Eligible States" or "AES") acceptable to Africorrbanking Partners; (b) all eligible imports of AES, that is, export-generating African imports, including raw materials, equipment, spare parts and other essential items; (c) intra-African trade in Eligible Items; (d) South-South trade in Eligible Items; and (e) all Eligible imports of Non-Participating States from AES.

<sup>1</sup> The services include: (i) Trade services letters of credit advising, letters of credit opening and/or confirmation.

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#### 3.3 ANALYSIS OF TRANSACTIONS

#### 3.3.1 Sector Financed

As in the previous years, the review period saw Financial Institutions accounting for a lion's share of the Bank's loan approvals and outstandings. This is a reflection of the Bank's operational emphasis on DRFs. In this regard, as shown in Table 3.2, approvals in favour of the Financial Institutions sector maintained its upward trend with a year-onyear increase of about 41% to reach US\$1.4 billion in 2010, and accounted for about 53% of total facility approvals made during the period. The Financial Institutions sector also accounted for the largest share of about 34% of the Bank's gross loan assets in an amount of US\$565 million at the end of 2010 (Table 3.2 and Figure 3.2).

The Telecommunications sector accounted for the second largest share of loan approvals with approvals under the sector amounting to US\$353 million accounting for a share of 13% of total facility approvals in 2010. This figure was about 86% higher compared to the approvals made in favour of the sector in 2009. Loans outstanding in favour of the sector also increased by 138% year-on-year to reach US\$363 million to account for the second highest share of 22% of the Bank's loan assets at the end of 2010 (Table 3.2 and Figure 3.2). This was followed by the Energy sector, which recorded a 33% increase in facility approvals in 2010 to reach US\$302 million to account for a share of about 11% of total facility approvals made in 2010. Loans outstanding under the sector also rose by 71% to US\$190 million to account for a share of 11% of the loan assets of the Bank at the end of 2010 (Table 3.2 and Figure 3.2). Table 3.2 further shows that the Transportation, Manufacturing and Services sectors emerged as the fourth, fifth and sixth most important sectors in the Bank's loan portfolio accounting for respective shares of 9.3%, 8.5% and 7.7% of the Bank's loan assets at the end of 2010 (Table 3.2 and Figure 3.2).

Type of Programme	Арр	Approvals (US\$m)	m)	Growth Rate (%)	ate (%)	Share of $\ell$	Share of Approvals by sector (%)	' sector	Outsta (Er	Outstandings (US\$m) (End of Period)	.\$m) []	Growth Rate (%)	(%)	Share of Ou	Share of Outstandings by (%)
Sector Financed	2008	2009	2010	2010 2009/2008 2010/2009	2010/2009	2008	2009	2010	2008	2009	2010	2010 2009/2008 2010/2009	2010/2009	2008	2009
Agriculture	45.000	0.000	199.600	-100.00		2.86	0.00	7.43	29.720	22.392	56.200	-24.66	150.98	3.17	1.94
Energy	300.200	226.300	302.040	-24.62	33.47	19.07	12.99	11.25	109.757	111.236	190.440	1.35	71.20	11.70	9.64
Services	156.500	105.300	158.900	-32.72	50.90	9.94	6.04	5.92	171.683	157.764	128.940	-8.11	-18.27	18.30	13.67
Metals and Minerals	87.500	72.750	105.000	-16.86	44.33	5.56	4.18	3.91	0.000	6.145	75.810		1133.69	0.00	0.53
Transportation	54.500	109.500	88.550	100.92	-19.13	3.46	6.29	3.30	80.394	54.117	156.660	-32.69	189.48	8.57	4.69
Manufacturing	71.200	40.000	67.200	-43.82	68.00	4.52	2.30	2.50	114.437	169.636	142.850	48.24	-15.79	12.20	14.70
Telecommunications	10.000	190.000	352.538	1800.00	85.55	0.64	10.91	13.13	111.762	152.875	363.120	36.79	137.53	11.91	13.25
Government	0.000	0.000	0.000			0.00	0.00	0.00	0.000	0.000	0.000			0.00	0.00
Financial Institutions <sup>a)</sup>	849.400	998.250	998.250 1,411.700	17.52	41.42	53.95	57.30	52.57	320.417	479.900	564.829	49.77	17.70	34.15	41.58
Total	1,574.300	1,574.300 1,742.100 2,685.528	2,685.528	10.66	54.15	100.00	100.00	100.00	938.170	938.170 1,154.065 1,678.849	1,678.849	23.01	45.47	100.00	100.00
Cumulative Total <sup>b)</sup>	13,164.814 14,906.914 17,592.442	14,906.914	17,592.442	13.23	18.02										

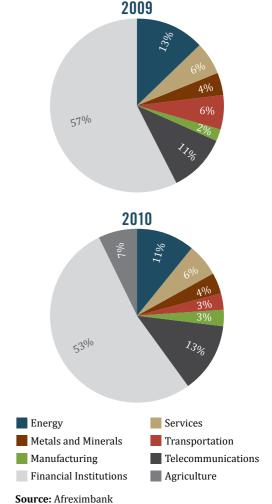
#### 3.3.2 Beneficiary Institutions

During the period under review, most of the Bank's credit approvals went to banks. Accordingly, banks accounted for 52% of total credit facility approvals in an amount of US\$1.4 billion in 2010, reflecting a 31% year-on-year growth in credit approvals in favour of banks during the period. Banks also accounted for 34% of Afreximbank's loan assets at the end of 2010. (Table 3.3). Corporates accounted for the highest share of the Bank's loans outstanding in an amount of US\$1.1 billion, equivalent to 66% of the Bank's loan portfolio at the end of 2010. It is important to state here that most of the loans to corporates were conducted under the Bank's Dual Recourse deal structures. Underscoring the Bank's continued emphasis on private sector operators, there were again no credits extended to governmental institutions during the review period.

#### 3.3.3 Direction of Trade Financed

The direction of trade financed by the Bank, as summarised in Table 3.4, shows that most of the approvals and loans outstanding were oriented toward mixed directional trade (intra- and extra-African), although their respective shares marginally declined in 2010 compared to 2009. Credit approvals in support of mixed directional trade accounted for 77% of total credit approvals in 2010, down from a level of 86% in 2009. Similarly, loans outstanding under mixed directional trade accounted for 83% of the Bank's loan portfolio at the end of 2010, slightly lower than its share of 87% at the end of 2009 (Table 3.4). Credit approvals and loans outstanding in support of intra-African trade increased significantly during the review period, to account for a share of 13.3% of total credit approvals made in 2010, and a share of 11.5% of the Bank's loans outstanding at the end of 2010 (Table 3.4). The increased intra-African trade lending activities is consistent with the observed increase in levels of intra-African trade in 2010 as reported in Chapter 2.

Figure 3.2 Afreximbank: Distribution of Loan Approvals by Sector, 2009 - 2010 (percent)



#### 3.3.4 Transaction Size and Other **Transaction Features**

The Bank's Risk Management Policies and Procedures (RMPP) impose certain limits on the Bank's exposure to any one obligor or transaction. These limits are related to certain percentages of the Bank's shareholders' funds. The objective is to diversify the Bank's assets and reduce concentration risks.

A review of the Bank's operations in the context of the above shows that average transaction size in 2010 increased to US\$29.5 million from the level of US\$25.2 million in 2009 (Figure 3.3). The number of transactions approved also increased to 91 in 2010, from a level of 69 in 2009.

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Table 3.3 Afreximbank: Distribution of Loan Approvals and Outstandings by Type of Beneficiary Institution, 2008 - 2010

	Αŗ	Approval (US\$m)	<u>-</u>	Growth Rate (%)	(%)	Share of, Benefic	Share of Approvals by Type of Beneficiary Institution (%)	Type of n (%)	Outs (F	Outstandings (US\$m) (End of Period)	\$m) )	Growth Rate (%)	ate (%)	Share of Or Benefic	Share of Outstandings by Type of Beneficiary Institution (%)	/ Type of n (%)
Type of Beneficiary Institution	2008	2009	2010	2010 2009/2008 2010/2009	2010/2009	2008	2009	2010	2008	2009	2010	2010 2009/2008 2010/2009	2010/2009	2008	2009	2010
Corporate/ Government Agency/ Parastatal	575.400	671.350	671.350 1,284.128	16.68	91.28	36.55	38.54	47.82	333.352	359.065	359.065 1,113.640	7.713	210.150	35.532	31.11	66.33
Bank	998.900	998.900 1,070.750 1,401.400	1,401.400	7.19	30.88	63.45	61.46	52.18	604.818	794.999	565.209	31.444	-28.905	64.468	68.89	33.67
Government	0.000	0.000	0.000			0.00	0.00	00.00	0.000	0.000	0.000			0.000	0.00	0.00
Total	1,574.300	1,574.300 1,742.100 2,685.528	2,685.528	10.66	54.15	100.00	100.00	100.00	938.170	938.170 1,154.064 1,678.849	1,678.849	23.01	45.47	100.00	100.00	100.00
Cumulative Total <sup>a)</sup>	13,164.814 14,906.914 17,592.442	14,906.914	17,592.442	13.23	18.02											

a) Since the Bank began operations in September 1994 Source: Afreximbank

Table 3.4 Afreximbank: Distribution of Loan Approvals and Outstandings by Trade Direction, 2008 - 2010

	Apj	Approvals (US\$m)	ට	Growth Rate (%)	Rate (%)	Share	Share of Approvals by Trade Direction (%)	als by (%)	Outs (F	Outstandings (US\$m) (End of Period)	S\$m) d)	Growth	Growth Rate (%)	Share of Trade	Share of Outstandings Trade Direction (%)
Trade Direction	2008	2009	2010	2010 2009/2008	/2008 2010/2009	2008	2009	2010	2008	2009		2010 2009/2008 2010/2009	2010/2009	2008	2009
Intra-African	155.200	71.500	357.990	-53.93	400.69	98.6	4.10	13.33	114.975	53.485	193.440	-53.48	261.67	12.26	4.63
Extra-African	363.700	179.800	267.340	-50.56	48.69	23.10	10.32	9.95	77.601	97.739	98.520	25.95	080	8.27	8.47
Intra- and Extra- African	1,055.400	1,490.800	2,060.198	41.25	38.19	67.04	85.57	76.71	745.594	1,002.841	1,386.889	34.50	38.30	79.47	86.90
Total	1,574.300	1,574.300 1,742.100 2,685.528	2,685.528	10.66		100.00	100.00	100.00	938.17	1,154.065	54.15 100.00 100.00 100.00 938.17 1,154.065 1,678.849	23.01		45.47 100.00 100.00 100	100.00
Cumulative Total a) 13,164.814 14,906.914 17,592.442	13,164.814	14,906.914	17,592.442	13.23	18.02										

ss by
(6)
2010
11.52
5.87
82.61

a) Since the Bank began operations in September 1994 Source: Afreximbank

Figure 3.4 shows that average maturities of facilities approved by the Bank during the period under review rose by about 35% to 1,238 days in 2010, from 914 days in 2009. The lengthening in maturities of the facilities granted by the Bank arose from increased demand for such facilities as well as the Bank's strategy of granting longer facility maturities to clients with which it had built sufficient knowledge about. In some cases, it also reflected Management's goal of keeping good assets longer in the books. It is to be noted that although maturities were extended, individual drawings under the facilities were normally for tenors mostly not exceeding 360 days. The standard deviation of the distribution of maturities of approved facilities also rose during 2010 compared to 2009, reflecting a higher dispersion in the distribution of the maturities (Figure 3.4).

#### 3.3.5 The Bank's Leveraging Role

Traditional instruments used by the Bank in leveraging international financing into Africa included arranging or co-arranging syndications and club deals and inviting others to share the risk of such deals; granting lenders taking African exposures certain guarantees that enable them to fund such facilities; raising money in its name from the market and on-lending to entities that would ordinarily not be able to access the international financial markets; and providing Advisory Services that facilitate the inflow of loans and foreign direct investments into Africa. The number of syndicated transactions that the Bank arranged, co-arranged or participated, increased from 21 in 2009 to 28 in 2010. The total amount of syndicated transactions the Bank arranged, co-arranged or participated, during the year under review more than doubled from US\$2.05 billion in 2009 to US\$4.23 billion in 2010 as shown in Figure 3.5. Further, it is worth noting that the Bank's participation in the syndicated deals, in terms of approvals, also increased by about 54% year-on-year to reach US\$941 million in 2010. Consequently, for every US dollar funding committed by the Bank, it was able to attract about US\$4.5 in 2010, up from US\$3.4

Figure 3.3 Afreximbank: Number and Average Size of Approved Transactions, 2008 - 2010

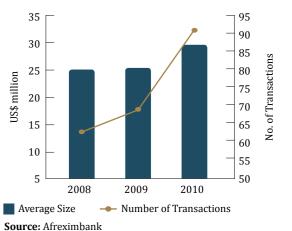


Figure 3.4 Average Maturities & Variance, 2008 - 2010 (days)

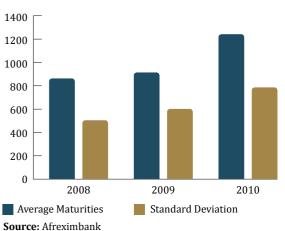
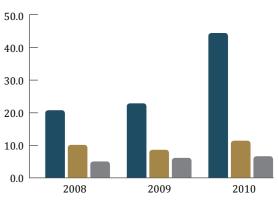


Figure 3.5 Syndications/Club Deals Arranged or Co-arranged by the Bank, 2008 - 2010



■ Total Syndicated Amount\* ■ Afreximbank's Participation\* Leveraging Ratio\*\*

\* In USD hundrad million

\*\* Shows amount attracted per USD participation by the bank Source: Afreximbank

in 2009. Increased activity under the Bank's syndications programme was deliberate and intended to ensure that the Bank facilitated the early return of international banks to African trade finance.

As in previous years, the Bank also leveraged international financing by providing guarantees in support of lenders funding African entities. The Bank also actively used its borrowing activities, discussed more fully in Section 3.4, in leveraging international financing into Africa during the review period.

#### 3.4 TREASURY ACTIVITIES

#### 3.4.1 Treasury Activities and Risk Management

During the review period, the Bank continued to implement its treasury activities in accordance with the provisions of the Treasury Policies and Procedures under its Risk Management Policies and Procedures. The main treasury operations conducted included borrowing, investments, and hedging related to non-US Dollar exposures of the Bank.

During the year under review, the Bank continued to raise funds in the Euro Syndicated Loan Market and from partner banks. In May 2010, the Bank raised an amount of US\$320 million and €134 million through a dual tranche syndicated facility. The syndication attracted 49 banks from Europe, Middle East, Africa and Asia and was oversubscribed by nearly three times.

In terms of mobilisation of funds from partner institutions or banks, the Bank during the year raised funding from Export Credit Agencies/Development Finance Institutions in an amount of US\$572 million and utilised US\$304 million.

In terms of repayments, in March 2010 the Bank repaid the US\$65 million and €31 million dual tranche syndicated term loan raised in October 2008. In March and May 2010 the Bank prepaid respectively the US\$185 million and €95 million dual tranche syndicated term loan raised in July

Further, in April 2010 the Bank prepaid the US\$180 million and €85 million dual tranche syndicated term loan it raised in November 2009 and was scheduled to mature in November 2010, as a means of lowering its cost of funds.

In December 2010, the Bank arranged a club loan facility amounting to US\$140 million and €74.5 million. In addition, the Bank also raised funding from money market lines during the year.

#### 3.4.2 Risk Management

During the year, Management continued to strengthen the Bank's risk analysis and management capabilities. In this regard, a comprehensive review of the current RMPP and the credit processes in general were undertaken with a view to identifying gaps and addressing them. In particular, considerable work was done towards putting in place instruments for effective implementation of the Enterprise Risk Management System in operation in the Bank. Further, the implementation of the SAP Enterprise Resource Planning (ERP) Software, which was initiated by Management during the period for the purpose of establishing an effective management information system, was well advanced. The SAP ERP is expected to improve risk management and reporting in the Bank.

#### 3.5 SHAREHOLDER MATTERS

**3.5.1** During the review period, no new shareholders joined the Bank. The number of shareholders of the Bank accordingly remained unchanged at 122. Total number of shares subscribed at the end of 2010 stood at 41.604 with a nominal value of US\$416.04 million. As at the end of the review period, all shareholders had met their obligations under the first installment of share subscriptions.

Defaulting shareholders under the second installment were 4, with a collective arrears in amount of US\$0.115 million (0.14% of total second installment amounts due). With a view to expanding Classes B and C Shareholders of the Bank, and in ensuring that the Bank maintained a strong Tier 1 capital ratio, management initiated a process of an active shareholder mobilisation. In this regard, it set up an Equity Mobilisation Task Force mandated to raise more than US\$300 million in additional equity. Towards the end of the review period, the Task Force was in the process of identifying a Financial Advisor to assist the Bank on this matter.

3.5.2 The number of countries and multilateral institutions that had ratified the Bank Agreement at the end of 2010 remained unchanged from the level at the end of 2009, at 24. The number of African countries that had signed or acceded to the Agreement for the Establishment of Afreximbank also stood at 33 at the end of 2010, unchanged from the level at the end of 2009.

**3.5.3** On June 5, 2010, the second Extraordinary General Meeting of Shareholders of the Bank was held in Gaborone, Botswana. The meeting approved amendments to the Bank's Charter and also accepted the invitation by the Egyptian Government to unconditionally rescind the previous decision to deny entry of the Bank's President into the country, bringing the longstanding dispute between Egyptian and other Shareholders to a definitive end. Following this development, the meeting decided that the process for the relocation of the Bank's Headquarters should be discontinued and the Headquarters retained in Cairo, Egypt. At the meeting, the Egyptian Shareholders re-affirmed their support for the Bank and its management and promised to provide every support to enable the Bank to fulfill its mandate. Following these developments, the Bank relocated its office to its permanent Headquarters building in the Heliopolis area of Cairo in November 2010.

**3.5.4** The Bank held its 17th General Meeting of Shareholders in Yaoundé, Cameroon on 24th July 2010. The Meeting was opened by a representative of the Prime Minister of the Republic of Cameroon, His Excellency Philemon Yang. The Government of Cameroon, through its Ministries of Finance, Economy and Planning, and Trade and Industries Development, contributed immensely to the success of the Meetings by providing extensive financial and logistic support.

**3.5.5** The General Meeting approved the Bank's Annual Report and Financial Statements for the year ended December 31, 2009 and also approved dividend payments in an amount of US\$9 million for 2009. Further, the General Meeting elected Mr. Lazare Esimi Menye, the Honourable Minister of Finance, Economy and Planning of the Government of Cameroon, as Chairman of the General Meeting for a term of one year.

**3.5.6** The General Meeting, on that occasion, also recommended that Deloitte & Touche and Ernst & Young be retained as joint Auditors of the Bank for the 2010 financial year as well as their remuneration for the 2009 Audit Work.

3.5.7 The 17th General Meeting also reappointed Mr. Jean-Louis Ekra as President of the Bank for a second and final term of 5 vears, in accordance with the Charter of the

**3.5.8** In line with amendments to the Charter approved by Shareholders on June 5, 2010 in Gaborone, Shareholders appointed two independent Directors, namely Mr. Franklin Hugh Kennedy and Mr. Ronnie Sibongiseni Ntuli to the Board, bringing to 12 the number of Board members, up from 10 before the Charter amendments.

#### 3.6 MEETINGS AND COOPERATION

**3.6.1** As part of the activities marking the 17th General Meeting of Shareholders, the Bank's Advisory Group on Trade Finance and Export **CHAPTER THREE** AFREXIMBANK OPERATIONS AND ACTIVITIES

Development in Africa (the "Group") held its 16th Annual Meeting on July 23, 2010 on the theme "The Global Economic Crises, Trade Diversification and Access to Trade Finance: Lessons of Recent and Past Experiences and the Implications for Africa". The event was opened by Mr. Jean-Marie Benoit Mani, National Director, Banque des Etats de l'Afrique Centrale (BEAC), Yaoundé, Cameroon. The President of the Bank, Mr. Jean-Louis EKRA, delivered the keynote address at the meeting. The colloquium was led by a lead presentation and distinguished lecture on the theme: "The Global Economic Crises, Trade Diversification and Access to Trade Finance: Lessons of Recent and Past Experiences and the Implications for Africa", delivered by Professor Victor Murinde, Director of Corporate Finance Research Group at Birmingham Business School, University of Birmingham, United Kingdom. The presentation formed the basis for a Roundtable which was constituted for an elaborate discussion of the paper. The session was chaired by Mr. Christopher Edordu, Former President of Afreximbank, Panelists for the Roundtable included Dr. Lanto Harding, Chief of Trade and Development, West African Monetary Institute (WAMI), Ghana; Dr. Janvier-Desire Nkurunziza, Africa Unit, UNCTAD, Geneva; Dr. Simon Nguiamba, Consultant and Former Senior Economic and Monetary Advisor to the Chairperson of the AU Commission; Mr. Daniel Tanoe, Economic Affairs Officer, United Nations Economic Commission for Africa (UNECA), Addis Ababa, and Ms. Pamela Green, Director, Syndications, Standard Chartered Bank, London. Mr. Goleele Mosinyi, Kago Capital (Pty) Ltd, Johannesburg, provided a synthesis of the Roundtable discussion. The questions debated by the panel included: (i) "Is There a Strong Justification for the Diversification of Africa's Exports away from Commodities given the Recent Commodity Price Booms/ Declines and their Effects on Trade and Growth Performance of the Continent?"; (ii) "What are The Lessons from Recent **Export Diversification Programmes such** as Establishment of Export Processing

Zones, Industrial Parks, and Export Credit Agencies and other Incentive Schemes, etc?"; (iii) "What are the Resource (Financial and Technical), Technology, Market Access and other Constraints to Export Diversification in Africa?"; (iv)"What is the Role of Technology and How Could it be Harnessed for Export Processing?"; and (v) "Will Intra-African Trade Help to Break Africa's Commodity Dependency?"

As part of the activities organized around the Advisory Group Meetings, an Investment Forum on Regional Investment Opportunities in the Economic Community of Central African States (ECCAS) Region was held under the theme "Export Production: Challenges and Opportunities", which was moderated by Mr. Bondoma Yokono Dieudonne, Director General of Economy, Planning and Public Investment, Ministry of Economy, Planning and Public Investment of Cameroon. The discussion was led by two presentations by Mr. Mouafo Maurice, Directeur de l'industrie au Ministère de l'Industrie, des Mines et du Développement Technologique and Mrs. Elombat Chantal, Directeur de l'Intégration Régionale au Ministère de l'Economie, de la Planification et de l'Aménagement du Territoire (Cameroun). Panelists for the Investment Forum included representatives of Agence de Promotion de l'Investissement (API), Chambre du Commerce, de l'industrie, des Mines et de l'Artisanat (CCIMA), Groupement Inter-Patronal du Cameroun (GICAM), Societe Nationale d'Investissement (SNI) and Agence de Normalisation et Qualite (ANOR).

As in the previous years, the Investment Forum was followed by one-on-one meetings between visiting prospective investors and business people in Cameroon. Further, as part of the activities organized around the 17th General Meeting, an exhibition was mounted by the organized private sector drawn from Cameroon and the CEMAC Region. The exhibition was well attended by participants at the General Meeting, members of the Advisory Group and representatives

of the banking and business communities in Cameroon.

**3.6.2** During the review period, some officers of the Bank attended meetings, conferences, courses, seminars and workshops in line with the Bank's strategy of using selected fora to train officers as well as market its products and services. In this regard, the President led a two-man delegation to participate in the 14th African Union (AU) Summit that held in Addis Ababa, Ethiopia during January 31-February 2, 2010. The Bank's delegation attended a number of Seminars that were organised by the AU around the theme of the Summit: "Information and Communication Technologies in Africa: Challenges and **Prospects for Development**". The delegation also met with senior officials of the Trade Commission of the AU to follow up on discussions relating to joint Afreximbank/AU initiatives aimed at promoting the growth and development of African trade, and discussed other business opportunities with partner institutions participating in the Summit.

3.6.3 A four-member delegation led by the President of the Bank, participated in the 4th Annual Africa Trade and Export Finance Conference held in Cape Town, South Africa during March 9-10, 2010. At the Conference, the President presented a paper on "The African Market: A Wealth of Opportunities". Two senior officials of the Bank participated in separate Panel Discussions on the respective subjects of "Generating Liquidity to Support Trade Initiatives" and "Project Financing and Infrastructural **Development: Who is Responsible?"** The delegation benefitted from the various topics discussed at the Conference, including liquidity challenges in the face of the global financial crisis, structuring trade deals, infrastructural investment, the increasing roles of Development Finance Institutions (DFIs) and Export Credit Agencies (ECAs), private equity opportunities and agribusiness development, among others. The delegation also used the opportunity offered by the Conference to explore collaboration

opportunities with selected participants as well as pursued business opportunities with existing and potential clients.

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**3.6.4** During March 8-11, 2010, a two-man delegation of the Bank attended the Hotel Investment Forum 2010 that held in Berlin, Germany. The Executive Vice President (Business Development and Corporate Banking) made a presentation on "A New Structured Approach to Sharing Risks in Financing Tourism Projects in Africa - An Introduction to Afreximbank's CONTOUR Facility" during the session on "The New Scramble for Africa - Investing in Sub-Saharan Africa's Hospitality Sector". The Forum exposed delegates to emerging trends in the hospitality industry with particular reference to Africa. The delegation used the opportunity to market the Bank's Construction/Tourism Relay Facility to participants at the workshop. The delegation also met with other participants to discuss business opportunities with existing and potential clients.

**3.6.5** At the invitation of the African Development Bank (AfDB), the President led a five-man delegation to the 2010 Annual Meetings of the AfDB that held in Abidjan, Cote d'Ivoire, during May 23-28, 2010. The Bank's delegation participated in various high-level and thematic seminars, which were organised around the theme "Africa on the Rebound: Towards Balanced and Clean Growth". The delegation also held discussions with existing and potential clients of the Bank with a view to resolving pending operational matters and winning new business for the Bank.

**3.6.6** At the invitation of the Royal African Society (RAS), the President delivered a Paper on the theme "African trade is changing" at a Breakfast meeting organised by RAS on February 25, 2010, in London, United Kingdom. The Presentation explored developments in African trade in terms of growth, composition and direction. The Paper also touched on the trend in intra-African trade and whether the regional

economic communities have been successful in achieving the goals for which they were created and that of the promotion of intra-African trade in particular. Members of the RAS, which is made up of academics, parliamentarians, government officials, and private sector entities with interest in the development of African economies and trade, were briefed on the role being played by the Afreximbank in respect of the promotion and financing of intra- and extra-African trade.

**3.6.7** At the invitation of the Inter-American Development Bank, a four-man delegation of the Bank attended the Annual Meetings of the Inter-American Development Bank and the Inter-American Investment Bank, which took place in Cancun, Mexico during March 19-23, 2010. The Bank delegation participated in the seminars organised around the Meetings. The delegation also used the opportunity offered by the gathering to pursue other business interests of the Bank. In this regard, the Bank signed a Memorandum of Understanding with the Brazilian Development Bank, Banco Nacional de Desenvolvimento Economico e Social (BNDES); discussed business opportunities and shared experiences with BLADEX, OPEC Fund for International Development (OFID), United States Department of Agriculture (USDA) and the Central American Bank for Economic Integration (CABEI).

3.6.8 The President of the Bank, Mr. Jean-Louis EKRA led a three-man delegation to attend the 5th Annual Meeting of the Global Network of Eximbanks and Development Finance Institutions (G-NEXID), which took place in Geneva during May 4-5, 2010. The Meeting reviewed the activities of the Network during 2009 and developed strategies for the pursuit of the near-term work programme of the Network in 2010. Some of the issues deliberated at the Meeting included funding strategies, drive to increase membership, strengthening the secretariat, establishing an information-sharing platform, and other matters relating to support and consolidation of the activities of the Network.

The 5th G-NEXID Annual Meeting was preceded by a one-day Seminar on the theme, "Food Security, Energy and Climate Change Issues: South-South Opportunities". The Seminar, which was attended by G-NEXID Members and other Stakeholders, benefitted from presentations by experts from the United Nations Environmental Programme, World Food Programme, United Nations Conference on Trade and Development, and the South-South Centre, among others.

**3.6.9** In furtherance of the Cooperation Agreement entered into with the West African Monetary Institute (WAMI) in 2009, the Bank and WAMI jointly organized a one-day Seminar on: "Obstacles to Intra-regional Trade in West Africa - the Challenge of Non-Tariff Barriers and Poor Trade Settlement System", on May 19, 2010, to precede the 3rd West African Monetary Zone (WAMZ) Trade Ministers' Forum in Abuja, Nigeria. Papers presented at the Seminar included: "Intra - Regional Trade and Economic Growth - Lessons of Cross-Regional Experience"; "Non - Tariff Barriers to Trade in West Africa: Challenges and Solutions"; "Promoting Intra - Regional Trade in Africa Through an Enhanced Trade Payment System: Introducing Afreximbank's African Letter of Credit Confirmation Scheme (AFRICORBANKING); "Developing the Infrastructure for a Credible Trade Settlement System to support intra -ECOWAS trade "; and "Risk as Constraint to financing Intra - Regional Trade in Africa: Some Solutions to Country and Commercial Risks and the Role of Regional *Trade Finance Institutions*". The Bank used the opportunity of the Seminar to share with participants its experiences in the promotion and financing of intra-African trade, as well as market its African Letter of Credit Confirmation Scheme (AFRICORBANKING) and other financial products directed at dealing with commercial and country risks in the financing of regional trade.

**3.6.10** At the invitation of United Nations Economic Commission for Africa (UNECA), a

two-man delegation from the Bank participated in the "UNECA Expert Meeting and Workshop on Aid for Trade (AfT) and Africa's Trading Capacity: Supply, Demand and Performance" which held during May 31-June 2, 2010 in Addis Ababa, Ethiopia. The meeting, which was jointly organized by the UNECA/African Trade Policy Centre (ATPC) in collaboration with the African Development Bank and the World Trade Organization, examined among other topics, "Status of Aid for Trade (AfT) Flows to Africa"; "Methodologies to Assess the Impact of Aid for Trade"; "Empirical evidence on the Impacts of Aid for Trade; and "How RECs and Member Countries can harness AfT potentials to deepen Regional Integration". A special session on the World Bank's "Trade Strategy for Africa" was held. The Bank's delegation used the opportunity to discuss reviving a cooperation agreement between Afreximbank and UNECA and to move the process of the cooperation forward.

**3.6.11** During October 7–12, 2010, a fivemember delegation of the Bank participated in the Annual Meetings of the World Bank/ International Monetary Fund (IMF) that held in Washington DC, USA. The Bank's delegation used the opportunity of the meetings to meet with representatives of its Shareholders and partner banks; attend the African Bankers' Award Ceremony and the African Investment Forum; and pursue other businesses with the Bank's partner institutions.

**3.6.12** During September 14-17, 2010, the President of the Bank led a two-man delegation to participate in the 3rd Korea Africa Economic Cooperation (KOAFEC) Ministerial Conference that held in Seoul, Korea. The Bank's delegation attended various sessions of the Conference, and used the opportunity of the mission to sign a Memorandum of Cooperation with the Korea Eximbank, as well as a US\$50 million Interbank Export Credit Facility granted the Bank by Korea Eximbank. The delegation also met with relevant Korean and African entities participating in the event with a view to generating business for the Bank.

**3.6.13** At the invitation of the African Development Bank (AfDB), the President of the Bank led a two-man delegation to participate in the Joint AfDB/WTO Trade Finance and Trade Facilitation Conference in Africa on "Engaging the Private Sector in Trade Policy-making and Trade Negotiation in Africa" that held on October 27, 2010 in Tunis, Tunisia during the AfDB African Economic Conference. The meeting was presided over by Mr. Pascal Lamy, Director General of WTO and Dr. Donald Kaberuka, President of the AfDB. The meeting discussed key issues relating to African Trade and the Private Sector, such as fashioning a greater role for the private sector in trade policy formulation and negotiations, effective implementation and monitoring of trade agreements in Africa, and the role of Aid for Trade in promoting trade and development in Africa, among other key issues. At the meeting, a Working Group, comprising Afreximbank and other private sector institutions, was formed to fashion out a framework for engaging the African private sector in Trade Policy formulation and the Multilateral Trade Negotiation Process. Afreximbank was appointed the Chair of the Working Group.

The foregoing Meetings, Conferences and Seminars provided an opportunity for the Bank's staff not only to acquire knowledge and skills but also to advance the Bank's business and fulfil its commitments under various Cooperation Agreements it had entered with relevant partner institutions.

3.6.14 In pursuit of its goal of developing and strengthening trade finance capacity in Africa, the Bank organized its Tenth Annual Seminar/Workshop on "Structured Trade Finance" during November 29-December 02, 2010 in Cairo, Egypt. The President of the Bank delivered a Welcome Statement at the Opening Session, which was attended by African Ambassadors and/or Heads of Diplomatic Missions in Cairo, senior officials of financial and non-financial institutions from across Africa, as well as representatives of the

media. The Opening Session also witnessed the signing of a Memorandum of Cooperation (MOC) between the Bank and Africa Carbon Credit Exchange (ACCE). The MOC provides a framework for collaboration between the two institutions regarding the promotion of environmentally friendly projects in Africa under the clean development mechanism of the United Nations Framework Convention on Climate Change's (UNFCCC) Kyoto Protocol. The training programme, which attracted 134 participants from within and outside Africa, began with a two-day seminar on "Fundamentals of Structured Trade Finance". The title of the Papers presented at the Seminar included: "Global and Africa's Economic Prospects and Implications for African Trade Finance"; "Understanding Basic Trade Finance Structuring Techniques with Some Examples and Pitfalls"; "Critical Issues In Originating Structured Trade Finance Deals: the Candidates, the Approach, Winning Arguments, Mid- and Back Office Support, Deal Breakers, etc"; "Market Trends and Practice for Syndicating African Trade Facilities"; "Key Considerations In Analysing the Credit of Structured Trade Finance Transactions"; "Managing Operational Risks In Structured Trade Finance Assets - The Issues, Challenges and Solutions"; "Fraud as a Major Operational Risk Challenge in Implementing Structured Trade Finance Deals - Some Lessons of Experience"; "Legal, Regulatory and Institutional Issues in Documenting and Implementing Structured Trade Finance Deals In Africa"; "Mitigating Commodity Financing Risks Through Collateral Management Structures"; "The Emerging Basle III and its Implications for Structured Trade Finance Banks"; "Introduction to Limited Recourse Project Financing"; and "Getting the Lights on - Critical Issues in Power Project Financing in Africa".

Resource persons for the Seminar included individuals with extensive knowledge and hands-on experience relating to the topics they discussed, namely Mr. Wilson Chola, Risk and Controls Head, Citibank, Johannesburg; Dr. B.O. Oramah, Executive Vice President (BDCB), Afreximbank; Mr. Chaste Nyilimana, Business Development Manager, and Mr. Ayodipo Ogunmoyela, Business Development Manager, Structured Trade Commodity Finance, FBN Bank (UK) Ltd, London; Ms. Pamela Green, Director, Syndications, Standard Chartered Bank, London; Ms. Anne-Marie Woolley, Head of Structured Trade and Commodity Finance, Standard Bank, London; Mr. Stephen Meintjes, General Manager, Nedbank, Johannesburg; Mr. Lamon Rutten, Managing Director, MCX, India and Mr. Geoffrey Wynne, Partner, Denton Wilde Sapte, London. Other speakers included Mr. Moustafa Matar, Country Manager, ACE Group, Egypt; Mr. Andrew Gamble, Partner, Hogan Lovells International LLP, London; Mr. Siyanga Malumo, Chairman, Africana Finance and Investment (AFI), Johannesburg; and Mr. Peter Gray, Partner, Clyde & Co. LLP, London.

A one-day workshop was also organized to complement the two-day seminar. The theme of the Workshop: "Special Products of Afreximbank" focused on some of the innovative financial products the Bank had introduced on its own and/or in partnership with other institutions to support trade and project ventures in Africa. The presentations at the Workshop were preceded by a video presentation on "Afreximbank: The Trade Finance Bank For Africa" focused on the Bank's formation, mandate, objectives, governance systems and financial products, among others. Discussions at the Workshop were guided by seven presentations, namely: "An Innovative Tool for Financing Tourism Proiects in Africa: An Introduction to Construction-Tourism Afreximbank Linked Relay Facility", presented by Dr. B. O. Oramah, Executive Vice President (BDCB), Afreximbank; "Commoditizing Carbon for Emissions Reduction: Afreximbank Approach to Carbon Financing", presented by Mr. Kofi Adomakoh, Director, and Dr (Ms.) C. Abou-Lehaf, Manager, Project & Export Development Finance, Afreximbank; and "Efficient and Effective Trade Services

at your Door Steps: Understanding Afreximbank African Correspondent Banking and Letter of Credit Confirmation Scheme (Africorrbanking)", presented by Ms. Kanayo Awani, Director, Trade Finance & Branches, Afreximbank. Four presentations focused on some aspects of "Export Credit Agency (ECA) Financing Through Afreximbank" were also made: (i)"Introduction to Afreximbank's ECA Loans Facilitation Programme (ECALP)" by Dr. Francis Mbroh, Director, Research, Planning and International Cooperation, Afreximbank; (ii) "Accessing Korea Eximbank Facilities" by Mr. Kwanghyun Byun, Deputy Director, Interbank Export Finance, Korea Eximbank, South Korea; (iii)"Facilities Offered by Japan Bank for International Cooperation (JBIC)" by Mr. Moriyuki Aida, Chief Representative for the Middle East, Japan Bank for International Cooperation (JBIC); and (iv) "Promoting Africa-German Trade: Financing Opportunities under Hermes Cover-Afreximbank Collaboration" by Mr. Andreas Klasen, Partner and Managing Director, Hermes Cover, PricewaterhouseCoopers, Germany.

Sessions of the Seminar/Workshop were chaired by Mr. Jean-Louis EKRA, President, Afreximbank; Dr. B. O. Oramah, Executive Vice President (BDCB), Afreximbank; Mr. Denys Denya, Executive Vice President (Administration and Banking Services), Afreximbank; Mr. Wilson Chola, Risk and Controls Head, Citibank, Johannesburg; and Mr. Stephen Meintjes, General Manager, Nedbank, Johannesburg.

#### 3.7 THE BOARD

- 3.7.1 The Board of Directors met on a quarterly basis during the year in review. Various governance-related tasks undertaken by the Board during 2010 are detailed hereunder.
- **3.7.1.1** Close monitoring of Corporate Strategy and execution to ensure that the

Bank was able to discharge its mandate given the challenges in the global and African economic environments;

**3.7.1.2** Review and approval of an enterprise risk management framework and establishment of an internal risk management function to anticipate and monitor the mitigation of risks;

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- **3.7.1.3** Review of the Bank's organisational structure and staffing needs to ensure sufficiency of resources to match the growth in operations, sufficiency of skills and overseeing the implementation of a staff training programme and ensuring that the reward structure is matched to performance;
- **3.7.1.4** Oversight of the implementation of the Bank's Award Schemes to Financial Institutions and Outstanding staff to reward those that commit to the contribution of the Bank's mission and objectives and incentivise others to emulate the examples set;
- **3.7.1.5** Close monitoring of the Bank's financial performance culminating with the review of the Annual Report and Financial Statements of the Bank for the year ended December 31, 2009, and subsequent presentation for approval by Shareholders of the Bank at the 17th Annual General Meeting;
- **3.7.1.6** Preparations for the 17th General Meeting of Shareholders and the second Extraordinary General Meeting.
- 3.7.2 Further, dedicated Board Committees continued to support the Board to ensure decisions taken were in line with approved overall mission and objectives. In this regard, the Executive Committee of the Board approved financing transactions and received reports on the Bank's credit operations while the Audit Committee reviewed the 2010 financial statements as well as the status of the 2010 financial year internal and external audit programmes. The Branch Management committee reviewed reports on the activities

of Branches and proposed measures for improving their operational efficiency. The Remuneration Committee oversaw the implementation of the performance-based remuneration structure.

#### 3.8 MEMBERSHIP MOBILIZATION

In furtherance of the goals of the Bank's Third Strategic Plan, Management envisaged that additional equity finance from new share subscriptions would be needed to support the Bank to achieve the required growth in assets as well as maintain strong credit ratings on a stand-alone basis. Related to this objective was the need to correct the deviation from the distribution of the Bank's shareholding amongst the 3 classes of shareholders as envisaged in the Bank's Charter. In this regard, Management, during 2010, established an Equity Task Force to spearhead mobilisation of additional equity capital targeting Classes "B" and "C" shares the subscription of which were below the target envisaged in the Bank's Charter. As at the end of the review period, the Task Force was in the process of identifying a Financial Advisor to assist the Bank in this regard.

#### 3.9 BRANCHES

During the review period, the Branch offices of the Bank functioned in line with the operational targets set for them by Management. The Branch offices were strengthened with the recruitment of regional managers during the period under review. A summary of activities of the branches is presented below.

#### 3.9.1 Harare Branch Office (HBO)

During 2010, operational activities of HBO markedly increased compared to 2009. In this regard, the total volume of business generated by HBO increased by 37% year-on-year to US\$1.1 billion in 2010. Of this volume of business generated in 2010, transactions approved by the Executive

Committee of the Board of Directors amounted to US\$520 million, representing a decline of about 3.2% from the level of US\$537 million achieved in 2009. Total volume of transactions at different stages of development stood at US\$467 million at the end of 2010, about 67% higher compared to 2009. The Branch also continued to effectively monitor transactions in its area of coverage during the review period.

#### 3.9.2 Abuja Branch Office (ABO)

The volume of new business generated by ABO during 2010 amounted to US\$384 million, reflecting a 58% increase over the level of US\$243 million achieved in 2009. Approvals during the period amounted to US\$125 million with a further US\$113 million worth of deals at different stages of processing. As in the previous periods, the Branch continued to support the Bank's operations during the period by following up on documentation necessary for disbursements, as well as other relationship management support services as required of ABO.

#### 3.10 TRADE INFORMATION

The review period saw the Bank intensify on-going efforts at providing its numerous African and non-African clients with country reports, financial sector reports, commodity market reports, and reports on international trade issues of economic interest to African entities, among others.

#### 3.11 ADMINISTRATION AND PERSONNEL

During the review period, the Bank, in line with its Third Strategic Plan completed an organisational restructuring which saw the formation of two main structural divisions: (a) Business Development and Corporate Banking to manage all development-related and (b) Administration and Banking Services to oversee the Bank's back office operations. Each of these divisions is headed by an Executive Vice President, who in turn reports to the President. The human resource capacity of the Bank was strengthened during the review period with the recruitment of 22 staff members, including the Executive Vice President in charge of Administration and Banking Services as well as other staff in other Departments of the Bank.

In line with Management's objective of equipping staff with relevant skills through appropriate training and knowledge sharing, some staff of the Bank attended training courses, conferences and seminars in areas considered relevant to the attainment of the Bank's medium-term goals. Some of the training courses, seminars and conferences attended by staff members are presented in Paragraph 3.6 of this Report. Further, the Bank, during the period, continued to implement its internal knowledge sharing training programme in which staff who have participated in external training programmes share the knowledge and experiences gained on such programmes with their colleagues.

Following the approval of the new Performance and Reward Policy by the Board of Directors in December 2009, Management implemented the Policy during the year under review, after educating staff on the various aspects of the new policy during the Bank's Annual Staff Communication Forum held in January 2010. The implementation of the Policy involved a new grading structure, new salary structure, new job titles for all staff of the Bank and a revised performance review process.

#### 3.12 BANKING RELATIONSHIPS

During the year under review, the Bank continued to deepen the scope and depth of its relationship with African and non-African partner institutions. Given the increased focus on business development,

the Bank, during the year, continued to receive at its headquarters delegations from major African and non-African institutions seeking to develop business relationship with the Bank. In this regard, during 2010, 138 visiting delegations were received at the Bank's Headquarters in Cairo compared to 73 received in 2009. Conscious efforts were also made to strengthen business relationships with major financial institutions in the Euro credit market through business calls and participation in syndicated and/or club deals originated by some of those partner banks.

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#### 3.13 AWARDS

**3.13.1** During the year, Afreximbank received two Awards for Excellence. These were (i) Best ECA/DFI in Africa award by Euromoney Trade Finance Magazine 2010 Awards of Excellence; and (ii) EMEA Finance Best Bond in Africa Deal for its first Bond issue of US\$300 million in late 2009.

3.13.2 The Bank also held its Third Financial Institutions Awards and its maiden Outstanding Staff Awards Ceremony in December 2010 at the Gala Dinner of the Annual Structured Trade Finance Seminar (see Box 3.2). The Financial Institutions Awards, which honour banks and similar institutions that have made exceptional contributions in support of the Bank's mandate and corporate goals, are in 3 categories, namely Platinum, Gold and Silver, with Platinum being the highest. Standard Chartered Bank Plc, UK received the Platinum Award; United Bank for Africa (UBA) received the Gold Award; and Banque National d'Investissement, Skye Bank and Bank of Tokyo-Mitsubishi received Silver Awards. Further, the Bank had its maiden Outstanding Staff Award conferred on Dr. B. O. Oramah, Executive Vice President (BDCB) for his outstanding commitment to the Bank and his role in spearheading the development of the Bank's strategy, and product development, among other initiatives.

#### INTRODUCTION

- 1.1 The African Export-Import Bank ("Afreximbank" or the "Bank") has since inception made tremendous progress in pursuing its trade development/ promotion mandate while delivering reasonable financial returns to its shareholders. The achievements were made possible by contributions of various entities, ranging from its founding fathers, shareholders, partner banks, staff members, and other African and non-African individuals and institutions.
- **1.2** Despite these achievements, the Bank recognizes that the challenges before it in the years ahead promise to be as daunting as those it successfully overcame in the past years. Overcoming those challenges will require the support and collaborative effort of various Stakeholders and Partners of the Bank. Since a system of noncompensation related rewards and incentives (Awards) have generally proven to be an effective tool of galvanizing support and encouraging hard-work and innovation in pursuit of set goals, especially in a situation where a system of compensation can not be created to reward each and every one of those who may have made tangible contributions to the key objects of an organization, Management of the Bank considered it necessary to introduce an Award Scheme in 2004.
- **1.3** The overall objective of the Scheme is to reward entities that have made significant contributions to the attainment of the Objectives of the Bank

as a way of incentivising others towards making even greater contributions to the work of the Bank.

#### 2. TYPES OF AWARDS

The Bank implements the following Awards under its Award Scheme:

#### Founders' Award

#### 2.1.1 Rationale:

- i) This particular award is in recognition of the fact that the establishment of the Bank was the product of a collective effort in response to a common challenge to the continent. There is no doubt that the ideas that led to the creation of the Bank were visionary; to implement the ideas required courage, in that it called for enormous financial and other sacrifices from African states and their private sector considering the difficult economic environment of the 1980s. Prior to the establishment of the Bank, many believed that Africans by themselves, or even when working with external parties, could not deal with their common problems. The successful establishment of the Bank therefore marked an important milestone in the annals of African development in that it destroyed that myth. The parties who played important roles in achieving this water-shed in the history of Africa deserve to be commended.
- ii) This particular class of the Bank's award scheme is therefore intended not only to reward those who made the Bank a reality through their vision and courage, but also in so doing challenge others to seek the same vision and courage.

#### 2.1.2 Eligibility:

The award is open to individuals, institutions and organizations whose contributions to the establishment of the Bank or its mandate, objectives and ideals have been outstanding, including those who may champion other visionary pan-African initiatives that may in future complement and reinforce the work of the Bank. They may include:

- i) Individuals, organizations and institutions who participated in the establishment stage of the Bank;
- ii) Individuals, organizations or institutions who, during the existence of the Bank have contributed to the pursuit of the same mandate, ideals and objectives.

#### 2.1.3 Criteria:

- a) Individuals, organizations or institutions who participated in the formative stages of the Bank through investment of time, intellect, as well as financial and other material resources.
- b) The same criteria as in 2.1.3 (a) but for individuals, organizations or institutions whose dedication in sustaining the ideals and activities of the Bank has been outstanding. This includes those who may champion any visionary pan-African initiative that complement the Bank's mandate and/or that facilitates Africa's development.

#### 2.1.4 Selection Process:

a) Nominations are accepted from all stakeholders, including shareholders,

participating states, business partners, board, management, staff, cooperation partners.

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- b) Information to stakeholders and the public inviting nominations will be available through:
- i. notices to shareholders at a General Meeting or otherwise;
- ii. notices to the general public;
- iii. the Bank's website:
- iv. notices to active business and other partners; and
- v. by means of the Bank's general publications (especially the information pack).
- c) Awards can be made posthumously.

#### 2.1.5 Frequency:

Once every five years but the Award Committee can, in exceptional circumstances, make an award on an adhoc basis.

#### 2.1.6 Ceremonies:

The Award will be accompanied by a ceremony the scale of which will be determined by the Founders' Award Committee.

#### 2.1.7 Past Winners:

The Founders' Award has only been granted once in 2004. The Gold Award winner in the Individuals category was Dr. Babacar N'diyae, Former President of the African Development Bank (AfDB) under whose auspices the AfDB promoted Afreximbank. The Award recognized his vision and tenacity in conceiving and working towards the establishment of the Bank. The African Development Bank and the United Nations Development Program (UNDP) also won Gold Awards for their supportive role in the establishment of the Bank. Further, awards were given to the Founding Board Members of the Bank for their strategic vision and dedication in ensuring the Bank's success and sustenance during the initial years:

- 1. Mrs. Olorun-Nimbe Cissoko
- 2. Mr. TuJianji
- 3. Mr. N. K. Kitomari
- 4. Mr. C. Konan Koffi
- 5. Mr. V. Odozi
- 6. Mr. A. Souyah
- 7. Mr. Tilahun Abbay
- 8. Mr. T. Whalley
- 9. Mr. Mahmoud Abdel Aziz
- 10. Mr. Lambert Ondo-Ndong

#### Financial Institutions Award

#### 2.2.1 Rationale:

a) The feasibility study for the establishment of Afreximbank (the "Feasibility Study") anticipated that the organisation would operate largely through local commercial banks and other financial institutions to achieve maximum efficiency in risk management, cost of product delivery and reach. It was thought that working through local financial institutions would also help to strengthen trade finance capacity in local banks while assisting the Bank in ensuring a greater integration of the African financial system. The Bank has, since inception, operated largely

through local financial institutions. The experience of the Bank has been that active participation of local banks in its programmes helps it immensely in meeting its objectives. Accordingly, as an important vehicle for delivering the Bank's services the Bank thought it necessary to create an incentive system that recognizes and rewards those banks that make significant contributions in assisting the Bank to fulfill its mandate.

b) The Feasibility Study also envisaged that the Bank would be set up as an international partnership involving African and international financial institutions. The involvement of international financial institutions was considered important in leveraging resources and building the capacity to support the mandate and other ideals of the Bank. Since the Bank commenced operations, many international banks  $have \, provided \, tremendous \, support \, to \, the$ Bank in furtherance of this partnership. It is therefore necessary that the Bank recognizes this partnership by instituting this category of award, given the support so far received and still expected from international financial institutions.

#### 2.2.2 Eligibility:

The award is open to: (a) African financial institutions; and (b) non-African financial institutions.

#### 2.2.3 Criteria:

The nominated financial institution should, in the opinion of the relevant Award Committee, have made an exceptional contribution to meeting the mandate and corporate goals of the Bank. The Award Committee takes

into account such factors as the length of relationship between the Bank and the institution, volume of business, profitability of the relationship, innovation in the use being made of the Bank's products, performance record with the Bank; the development of new and innovative products; and institutional and organizational support received from the institution in pursuing the mandate of the Bank.

#### 2.2.4 Selection Process:

Recommendations for this award are made by the Management of the Bank to the Regular Awards Committee. Up to five institutions may be selected.

#### 2.2.5 Frequency:

The Award may be made once every 2 years, but exceptionally on an ad-hoc basis.

#### 2.2.6 Ceremonies:

The Bank will organize an Award Ceremony and bear travel and related cost for the representative of the relevant institution.

#### 2.2.7 Past Winners:

The following are past winners of this Award and dates awarded:

Institution	Year of A	lwar
RBZ, Austria		2004
Standard Chartered Bank	k, UK	2004
MBC International Bank,	Nigeria	2004
West LB, Germany		2004
First Atlantic Bank Plc, N	igeria	2004
National Bank of Egypt, I	Egypt	2004
WGZ Bank, Germany		2004
RZB, Austria		2004
Access Bank, Nigeria		2004
Zenith Bank, Nigeria		200

MBCA, Zimbabwe	2007
PTA Bank	2007
LBBW, Germany	2007
WGZ, Germany	2007
Banque Nationale	
d'Investissement, Côte d'Ivoire	2010
Bank of Tokyo Mitsubishi UFJ,	
Japan	2010
United Bank for Africa, Nigeria	2010
Skye Bank, Nigeria	2010
Standard Chartered Bank, UK	2010

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#### Staff Award

#### 2.3.1 Rationale:

For a financial services institution, the people who run it are its greatest asset. This is because such institutions rely on dedication, integrity and innovation of staff members in renewing themselves and meeting their corporate goals. This award therefore recognizes that the Bank's Staff are its most important asset and that value can be gained not only through a normal compensationbased incentive scheme but through an Award Scheme that specially recognizes outstanding contributions and achievements. Similar organizations provide such awards as a non-salary incentive to staff in recognition of dedicated service to the mission of their institutions.

#### 2.3.2 Eligibility:

Serving or retired members of staff. Award may be made posthumously.

#### 2.3.3 Nature of awards under this scheme:

- a) These are for **Outstanding Contributions** and for **Long Service**.
- b) With respect to award for outstanding contribution, the Staff Member will,

in the opinion of the relevant Award Committee, have (i) contributed ideas that when implemented made a significant impact in improving the profitability and development impact of the Bank; (ii) resolved a major challenge before the Bank; (iii) made outstanding personal sacrifice, outside his/her call of duty, to champion the course of the Bank. To be eligible for the Award, the Staff Member will in addition have scored very high performance ratings for 3 consecutive years under the Bank's Staff Performance Appraisal Scheme from time to time in place.

- c) With regard to award for longevity, there are three categories:
- i. long service bronze award for staff with a minimum of 10 years of service;
- ii. silver award for staff members with a minimum of 15 years of service;
- iii. gold award for staff members with a minimum of 25 years of service.
- d) All Awards are accompanied by certificates.

#### 2.3.4 Winners:

- a) The Outstanding Contributions Award was made for the first time in 2010 to Dr. B.O. Oramah, currently Executive Vice President (Business Development and Corporate Banking) at the Bank;
- b) Longevity Awards have been made to staff in both the Silver and Bronze categories. As at the end of 2010, the silver long service award had been made to 9 staff members and the bronze long service awards had been made to 23 staff members.

#### 2.3.5 Criteria:

With respect to 2.3.3(b) above:

- a) The Award goes to staff who have made outstanding contributions or innovations to, or in, the activities of the Bank.
- b) The Award is made to staff who have completed at least one year of service with the Bank;
- c) The nominee should have been a member of staff at the time the accomplishment was made;

With respect to 2.3.3(c):

- a) The Award goes to staff who have completed at least 10, 15 or 25 years at the service of the Bank respectively for bronze, silver and gold Awards.
- b) The staff must not have faced disciplinary measures during the period.

#### 2.3.6 Selection Process:

Nominations are usually made to the relevant Awards Committee by:

- Senior Management
- Departmental Heads
- Other staff members.

#### 2.3.7 Frequency:

- a) Every 3 years for the award for Outstanding Contribution but exceptionally on ad-hoc basis; and
- b) Annually for the long service award.

#### 2.3.8 Award Ceremony:

The Bank will organize an Award Ceremony and bear travel and related cost for the Awardees.

#### INSTITUTIONAL FRAMEWORK

- **3.1** The Awards are implemented through the following Committees:
  - a. Founders' Award Committee: Members of this Committee comprise serving chairman of the General Meeting, the President, the most senior Executive Vice President and two Members of the Board of Directors. This Committee is called "Special Awards Committee". The Committee may invite outside consultants and/or Staff Members to advise them on technical matters.
  - b. Regular Awards Committee: This Committee is responsible for the Financial

Institutions and Staff Awards. Members of the Executive Committee of the Board are the members of this Committee. The Committee may invite outside consultants and/or Staff Members to advise them on technical matters.

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#### **FUNDING OF THE SCHEME:**

- **4.1** The Scheme is funded from the Bank's ordinary resources.
- **4.2** The Bank may receive donations from deserving individuals, institutions and/ or foundations in support of the Scheme, including in support of deserving new Scheme the donors may propose.



# 4. TRADE DEVELOPMENT IMPACT OF THE BANK'S OPERATIONS AND **ACTIVITIES**

#### 4.1 INTRODUCTION

Having reviewed the operational performance of the Bank in 2010, it is important that we highlight how the operations have impacted key stakeholders, namely African economies as well as Shareholders of the Bank. As an international Public-Private Partnership, the Bank walks a fine line of operating in a manner that meets the developmental aspirations of its public sector Shareholders while ensuring that it achieves financial returns at levels remunerative to its private sector Shareholders. While the operational and financial performance have been historically well reported in Annual Reports of the Bank since 1995 when the Bank issued the first of such reports, the trade developmental impact has received scant reporting attention.

In line with the objective of re-focusing the Bank's Annual Reports, this chapter highlights a few of the Bank's operational activities considered to have contributed in a significant way to the attainment of Afreximbank's trade and economic development mandate. The Bank's trade development agenda is encapsulated in its Mission Statement and essentially involves dealing with the trade challenges Africa faces, namely very low share of global trade; high commodity and market concentration; relatively low levels of intra-regional trade; stringent trade and project financing terms; and low levels of local participation in the tradables sector, etcetera. The Bank used

various channels and vehicles in its work towards addressing some of the above constraints.

The Bank's business, during the year, impacted African trade and economies via several of such channels, including the promotion of local content across Africa's enclave extractive industries through its financing of African entities involved in the delivery of goods and services to major mining and oil & gas companies operating in the continent; contributing to improved intra-African air transport and communication links in furtherance of intra-African trade by financing the acquisition of aircraft and telecoms equipment to support African companies providing those services; supporting on-going efforts at diversification of exports by financing the processing of African commodities for export; actively supporting the development of service exports by promoting and financing, among others, the creation of world-class hotel and tourism facilities in some member countries under the Bank's Construction/ Tourism Linked Relay Facility (Contour Africa).

Further, as part of efforts at facilitating the return of international banks to African trade finance following massive exit caused by the global economic crisis, the Bank during 2010 continued to leverage external financing into various African economies and contributed to the creation of capacities in the structuring and management of bankable trade and project finance deals through organisation of seminars/workshops and offer of internships

for the benefit of African bankers, traders and young professionals operating in the Continent's trade sector.

This Chapter attempts to shed light on a sample of key transactions and activities of the Bank in 2010 that in the Bank's opinion, would be making significant impact towards the attainment of the Bank's trade and economic development goals in Africa.

## 4.2 CHANNELS OF DEVELOPMENTAL IMPACT

# 4.2.1 PROMOTING AFRICAN CONTENT IN AFRICA'S EXTRACTIVE SECTOR

Afreximbank's African Content Promotion initiative was introduced to support entities providing services to major mining and oil & gas companies operating on the continent. African Content is defined by the Bank as the sum of rent, interest, salaries and wages, profits and dividends retained in Africa under a given project. This initiative was born out of the fact that although activity level in Africa's extractive industries had risen significantly in recent times evidenced by expansion in mining activities across the continent, discovery of new oil and gas fields, opening up of new mines in new locations, etcetera buoyed by firm global demand for commodities, the overall economy-wide impact of these extractive industries had tended to be very limited. Proactive policybased promotion of local content in these enclave, extractive industries, has therefore been considered, as experience has shown, to be one of the effective tools of increasing the domestic economy's share of the economic benefits arising from the activities of these industries in terms of receipts of rent, wages and salaries, interest and profits to domestic economic agents. Many African governments have embraced this policy tool with different levels of success. Key constraint to success is access to appropriate financing to support operators interested in taking advantage of the opportunity. Financing has been difficult due to the medium term nature of funding operators require; their lack of sufficient equity to attract corporate finance; and limited capacity of local banks to structure deals in support of such operations.

In response, the Bank has been providing appropriately structured financing and advisory services to support small- and medium-sized African firms' bid for service contracts, financing their working capital needs and acquisition of equipment and other logistics to enable them perform service contracts. The Bank's intervention has made many African service providers to emerge on the scene; expanded the capacities of some; and, in many cases, paved the way for expanding similar policy initiatives across Africa.

In 2008, the Bank arranged a revolving programmatic US\$50 Million Syndicated Mining Services Contract Financing Facility in favour of Zambian Mining Services Companies (MSCs). The facility was used to finance the execution of mining services contracts entered into between Zambian MSCs and Mining Majors for the purpose of supporting local content in the mining sector in Zambia and thereby increasing local value added in the production and export of minerals in Zambia. The facility, which was the first of its kind for small and medium-sized MSCs in Zambia, assisted the MSCs to procure the necessary logistics and equipment to perform service contracts, and to take on challenging, big ticket mining services contracts, formerly the preserve of leading global mining services companies.

In 2009 and 2010, the revolving facility, which was still operational, also assisted a number of Zambian MSCs to bid for larger and more technical service contracts in Zambia's extractive industries in furtherance of the Bank's Africa Content promotion programme and the Zambian Government's own initiative of increasing local participation in those industries. Apart from job creation, the facility has a long term potential of skills and technology transfer to Zambian nationals and entities.



# 4.2.2 SUPPORTING EXPORT DIVERSIFICATION THROUGH FINANCING OF PROCESSING OF COMMODITIES

In line with its mandate of promoting the diversification and development of African trade, the Bank has been actively supporting the processing of African commodities for exports given the high value addition (in terms of higher and more stable earnings, employment generation, technology transfer, and acquisition of managerial skills) associated with export manufacturing. During 2010, the Bank provided a financial and advisory services support to Tropical Farms Limited (TFL), a medium-sized agroprocessing company in Sierra Leone. TFL is engaged in value-addition through processing of cocoa and coffee for export. Afreximbank's financing enabled TFL to pioneer in Sierra Leone the use of solar dryers for the drying of cocoa and coffee, a technology which is more cost efficient and environmentally friendly.

financial support provided by Afreximbank, through First International Bank (FIB), Sierra Leone, one of its Trade Finance Intermediaries (TFIs), enabled the company to expand its business and exports as a contribution to the generation of foreign exchange, which for a small economy with limited access to external capital markets constitutes the principal source of funding for essential imports. Specifically, the improvement in value of its agro-processing products and exports enabled Sierra Leone to generate additional foreign currency earnings of about US\$3 million through increased production for exports in 2010. Further, the company was able to more than double its core staff strength from 10 to 24 in 2010 in

addition to the increase in the number of casual staff indirectly engaged as a result of the enhanced operations of TFL, offered training support to farmers, provided solar dryers and fermentation trays to farming communities and educated farmers on biodiversity and related issues.

It is worth noting that TFL has in place an indigenous management structure, made up of local professionals, based on the company's philosophy that there is a need to close the knowledge gap in the agro-processing sector and enhance human resource capacities in this sector, for a country that recently came out of civil war. The Bank believes that supporting such small- and medium-sized export-oriented agro-processing companies in Africa could make tremendous economywide impact due to the importance of such businesses and sectors to the overall development of the domestic economy.



During 2010, in Zimbabwe, Afreximbank supported the processing of commodities for exports through its financing of the Cotton Company of Zimbabwe (Cottco), an agroprocessing entity that the Bank has been continuously assisting during the last seven years. Cottco is the largest single ginner and marketer of seed cotton in Zimbabwe and the Southern African sub-region. The company, through its Inputs Credit Scheme for Outgrowers of Cotton, is involved in every facet of cotton production, including the provision of advisory service to farmers, merchandising of

planting seed, the provision of farming inputs (i.e. planting seed, fertilizers and chemicals on credit as well as advances for weeding and harvesting), and transportation of cotton harvest from farms to the main collection and processing centres. After processing, the company markets the main product, cotton lint and ginned seed, both locally and internationally, with between 70% and 80% of lint destined for the export markets.

Afreximbank's continuous pre-export financing facility, including a US\$70 million syndicated facility disbursed in 2010, provided the company with much needed working capital to fund its Inputs Credit Scheme as well as buy seed cotton from contract farmers, at a time many companies in Zimbabwe were facing major liquidity constraints. Further, the financing provided by Afreximbank offered the company a better alternative to domestic financing due to the high borrowing cost in the domestic market as well as local regulatory requirements which make it mandatory for all cotton merchants in Zimbabwe to have offshore lines of credit.

The Bank's support for Cottco and the company's determination to succeed through deployment of efficient operating systems and procedures have led to a significant growth in the depth and scope of the company's operations and profitability, and a brighter outlook for the firm. First, Cottco runs the largest Inputs Credit Scheme in the country, with 86,426 growers; 199,551 hectares under tillage; has the most extensive network of growers, infrastructure resources, geographical reach and know-how; and during the buying season for raw cotton, employs as much as 4,200 people on average. Second, through its Inputs Credit Scheme, the Company is continuously developing and promoting the growth of cotton farming in new areas. Over the two years to 2010, new cotton growing areas measuring 25,000 hectares had been opened up in Chiredzi (south-eastern part of the country), among other areas. This was achieved by giving



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growers planting seed for free and to the extent that the land in question was virgin land, no fertilisers were used. Chiredzi is earmarked to be the highest production zone over the next few years. Third, the company has been able to increase its crop intake over the years. In 2010, the company bought 111,000 metric tonnes and expects to buy 139,00 metric tonnes in 2011 and, by so doing, addressing on a continuous basis, the problem of marketing of raw cotton products, which used to be a big challenge to cotton growers in Zimbabwe.

Further, Cottco exports premium quality, handpicked cotton to 21 countries in Africa, Europe, South America and the Far East. Over the last few years, Cottco has on average generated close to US\$100 million per annum in export receivables, which is crucial in supporting the Zimbabwean economy.

Overall, the Bank's support has assisted Cottco in revitalizing its Inputs Credit Scheme, raised cotton production and processing for export, enabled the company to offer better prices to farmers, contributed to create direct and indirect employment, and contributed to lift overall export receipts for the financing of essential imports, especially during the last few years of the country's limited access to international credit markets.

## 4.2.3 LEVERAGING EXTERNAL FINANCING TO SUPPORT AFRICAN TRADE

In line with its strategy of using resultsoriented partnerships and cooperation to attract external financing to support trade development in Africa, the Bank, during the review period, used various instruments to leverage international financing into Africa. During the year, in fulfillment of this leveraging objective, the Bank arranged, coarranged or participated in 28 syndicated financing transactions amounting to US\$4.23 billion. The Bank's participation in these syndicated deals was US\$941 million. Thus, for every US dollar funding committed by the Bank, it was able to attract into Africa about US\$4.5 to support trade and other forms of economic activity.

Further, the Bank leverages international financing into Africa through its partnership with Export Credit Agencies (ECAs), who provide financing and guarantees for the importation of essential and capital goods from their country; and Development Finance Institutions (DFIs), who provide term financing for essential projects. Specifically, during 2010, the Bank received funded and unfunded facilities from ECAs, including Japan Bank for International Cooperation (US\$100 million), the US Department of Agriculture's GSM-102 (US\$90 million), Korea Exim Bank (US\$50 million), Saudi Export Program (US\$40 million), and SACE (US\$32 million), among others. The Bank also received funding support from DFIs, including the International Finance Corporation (IFC) of the World Bank (US\$200 million), African Development Bank (US\$150 million), China Development Bank (US\$100 million), and the Development Bank of Southern Africa (US\$50 million).





# 4.2.4 PROMOTING AIR AND COMMUNICATION LINKS TO SUPPORT INTRA-AFRICAN TRADE

As part of its effort at promoting intra-African trade, the Bank has been providing financing and advisory services support to African transport (including aviation) and communication service providers with a pan-African focus to enable them build the necessary infrastructure and/or provide the necessary services to support the trade. In this regard, during 2010, the Bank arranged and participated in an ECA-backed facility in favour of Lonrho's Fly540 (Fly540). Fly540 is building the first international standard, regional airline that fully connects Sub Saharan Africa ---East to West and North to South. Fly540 focuses on operations built around three regional hubs, in Nairobi (Kenya), Luanda (Angola) and Accra (Ghana). Each hub feeds passengers domestically, regionally and across the continent providing a route network that connects the continent, and offers intercontinental passengers arriving from Europe, USA, Middle East and Far East a pan African access. The Kenyan and Angolan hubs are presently operational whilst

the third regional hub, in Accra, Ghana, is expected to commence operations in 2011. Fly540 plans to establish reliable air links between eighteen countries in Africa by

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The US\$32 Million Aircraft Financing Facility for Fly540, which was underwritten by the Bank and supported with ECA guarantees from COFACE and SACE, in favour of HSBC, London, enabled the firm to acquire two new ATR 72 aircraft and also meet the operational goals of this promising ICAO-registered airline.1

The Bank is of the view that supporting Fly540, which is focused on the delivery of world class airline services connecting countries in Africa, will undoubtedly support intra-regional trade and impact positively on regional integration efforts of the Continent. It will also reduce costs of intra-African travels to the benefit of intra-regional trade, the promotion of which is a key mandate of the Bank.

<sup>1</sup> ICAO - International Civil Aviation Organization

CHAPTER FOUR TRADE DEVELOPMENT IMPACT OF THE BANK'S OPERATIONS AND ACTIVITIES



Further, during 2010, as part of its strategic goal of promoting the creation of the requisite physical infrastructure to support intra-African trade, the Bank supported the operations of ECONET Wireless Global (EWG), a diversified telecommunications group with operations/ telecoms interest in 7 African countries, namely Botswana, Burundi, Kenya, Lesotho, Nigeria, South Africa and Zimbabwe as well as in the United Kingdom and New Zealand. EWG offers ICT products and services in the core areas of mobile and fixed telephony services, as well as internet and satellite. In more specific terms, the Bank, in 2010, supported ECONET's regional business by arranging a US\$130 Million Syndicated Financing Facility for EWG to fund the procurement of GSM equipment (and related civil works), which EWG would lease to its GSM operating companies in Burundi and Zimbabwe.

Corollary to this, the Bank has been supporting EWG's subsidiary in Zimbabwe, ECONET Wireless Zimbabwe (EWZ) in its expansion programme by financing the acquisition of telecommunications equipment. For example, in December 2008, the Bank extended equipment import financing facility in an amount of US\$28 million to EWZ to fund importation of switching equipment and base stations for the expansion of the company's operations and network in Zimbabwe. Following the dollarisation of the Zimbabwe economy in 2009 and the introduction of economic tariffs coupled with continued financing support from Afreximbank, EWZ embarked on an ambitious network expansion program, which resulted in a four-fold increase in subscriber base, from 1.2 million at February 2009 to over 5 million at the beginning of February 2011. Through its business expansion programme, EWZ was able to contribute to the

growth of the Zimbabwean economy through contributions to fiscal revenue via direct and indirect taxes; employment generation, with a current direct staff complement of over 800 in addition to indirect employment expected to be created through airtime distribution, payphone business, internet cafés, printing of recharge cards and advertising agencies, among others. With the Bank's support, EWZ was able to get Zimbabwe connected to the world enabling the conduct of e-business, and other IT-dependent activities that contributed to trade and economic development.

# 4.2.5 PROMOTING THE DEVELOPMENT OF SERVICE EXPORTS

Consistent with its corporate goal of promoting service exports in Africa, the Bank recently introduced the Construction/Tourism-Linked Relay Facility (CONTOUR), to support the tourism industry, which has been identified as one of the key service export industries with enormous capacity to contribute to the growth and development of African economies, through foreign exchange earnings, direct and indirect employment creation, skills transfer and development of supply chains. Through the facility, the Bank finances and promotes the development of world class hotels and tourism facilities in Africa.

During 2010, the Bank promoted the development of such facilities in Mali, Zimbabwe, and Nigeria. In Mali, the Bank provided financing for the expansion of the facilities of a 5-Star Hotel, Residence Kome





S.A.U (or Radisson Mali) in Bamako. Following the Bank's provision of a €10 million Tourism-Linked Hotel Extension Financing Facility in 2009 and additional €3 million for the completion of extension works in 2010, the Hotel was able to expand the range as well as improve the quality of its services and, consequently, increase its turnover and contribution to the country's foreign exchange earnings, job creation and payment of fiscal revenue to the State.

In a similar vein, the Bank provided a Hotel Re-development Facility in an amount of US\$10 million to Central Hotels Limited (CHL) in Kano, Nigeria, to finance the refurbishment and expansion of its facilities. The Bank's assistance for the development of these hotel facilities is expected to spur tourism activities and service exports given the potential improvement in scope and quality of service of their facilities across the region.





# 5. REVIEW OF **OPERATING RESULTS**

# FOR FINANCIAL YEAR ENDED **DECEMBER 31, 2010**

#### 5.1 INTRODUCTION

The financial statements of the Bank include Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Shareholders' Equity, Statement of Cash Flows and the accompanying notes. This Chapter discusses and analyses the Bank's financial statements for the year ended December 31, 2010, paying particular attention to the factors that influenced the observed results.

# **5.2 STATEMENT OF COMPREHENSIVE** INCOME

The Statement of Comprehensive Income shows that the Bank posted a net income in an amount of US\$ 44.40 million in 2010 as compared to an amount of US\$ 42.61 million achieved in 2009, an increase of about 4%. This increase in net income came about mainly due to higher operating income in 2010, especially fee and comission on increased investment banking activity. A further detailed analysis of the Statement of Comprehensive Income is presented hereunder.

#### **Net Interest Income and Margin**

During the period under review, the Bank posted a 26% growth in interest income on the back of a robust expansion in loans and advances. Net Interest Income, which captured the difference between the interest paid by the Bank and the interest received



during the period, decreased by about 15% to US\$ 32.80 million (2009: US\$ 38.52 million). This decline resulted largely from an increase in interest expense by 103% as compared to a 26% increase in interest income. The quickening in the rate of growth of interest expense arose as a result of the relatively high cost of Euro bonds the Bank issued in 2009 when the international debt capital market was experiencing severe turbulence. More specifically, the increase in interest expense in 2010 is directly attributable to an amount of US\$ 23.9m (2009:US\$ 3.1m) paid on the US\$ 300 million five year Eurobond issued in November 2009 which has a coupon of 8.75% p.a. The full twelve months impact of the bond costs was experienced in 2010, while 2009 had an impact of only one and a half months. The Bank's strategic plan covering the period 2007-2011 envisaged that the Bank would issue bonds in 2009 in its efforts to diversify funding sources. As the global financial crisis intensified in 2009 and liquidity became scarce especially in the banking sector, the Bank entered the debt capital market in line with its strategic goals and to enable it meet

increased demands from customers whose access to international credit dried up.

In order to manage the costs of the bond downwards and mitigate the risk of interest rate mismatch on its balance sheet, Management proactively swapped the fixed interest rate on the bond to a floating rate basis at a level below the coupon. The interest rate swap resulted in an interest expense reduction of US\$ 3.1m (2009: US\$ 0.5m). Despite the increased funding costs, the bond issue enabled the Bank to diversify its funding sources as well as increase the maturity of its liabilities thereby reducing refinancing risk in its debt portfolio.

Given the decline in Net Interest Income, Net interest margin declined to 2.03% as at December 31, 2010 (2009: 3.17%). As explained earlier, the financial crisis affected the Bank's cost of funds in the second half of 2009 and carried forward into 2010. In March and May 2010 the Bank refinanced a portion of the high cost funds in its debt portfolio with lower priced funds as market conditions

improved. This refinancing ameliorated the impact of the high funding costs occasioned by the global financial crisis.

# Net Income achieved in 2010, representing a

87

**Q** billion

representing a 32% year-on-year growth.

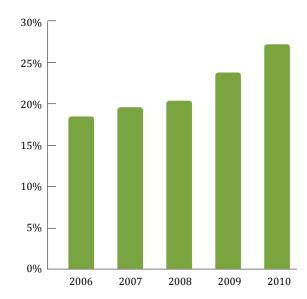
# million

Shareholders' Funds as at December 31, 2010.

## 5.2.2 Non-Interest Income

Fee and commission income surged by 79% compared to 2009 due to higher loan volumes (up by 45%) and advisory fees (up by 229%) on investment banking services. The increase in investment banking fees is in line with the strategy of the Bank to increase fee income to over 40% of operating income. However, there was a significant increase in fee and commission expenses of US\$11m (up by 129%) to US\$ 19.82m reflecting the impact of the global financial crisis which led to an increase in fees and commissions charged on borrowings made in the second half of 2009 and carried forward to 2010 compared to similar borrowings in 2008 and carried forward to 2009. The Bank was able to pass on the increased fees and commissions on its borrowings to its clients in its pricing strategy.

Figure 5.1 Afreximbank: Cost to income ratio: 2006-2010



## 5.2.3 Operating Income

Operating income, which is the sum of Net Interest Income, Net Fees and Commissions Income and Other Operating Income increased by 13% in 2010 to US\$ 71.97 million (2009: US\$ 63.6 million). The increase is explained mainly by an increase of about US\$ 13.81 million in net fee and commission income.

## **5.2.4 Operating Expenses**

Operating expenses increased by about 31% in 2010 to US\$ 20.17million. The increase is explained mainly by higher staff numbers which rose by 26%, comprising mostly senior staff, in 2010 compared to 2009. This increase in staff numbers resulted in increased staff costs and the related one-off expenses such as relocation costs. Higher staff numbers were in line with the staffing plan in the Bank's Third Strategic Plan and were intended to deal with expanded volumes of business and the goal of better geographic diversification of the Bank's loan assets. Thus, staffing was strengthened in the area of risk management, business development, including branches, legal and banking operations, among others. Training

activities also increased in 2010 compared to 2009. The costs of building capacity in terms of additional staffing and training will enable the Bank to effectively deliver on its mandate and manage the expected growth of business going forward.

Depreciation charges also increased in 2010 due to equipping and improving the Abuja Branch offices to effectively play its role as a Temporary Relocation Base (TRB) under the Bank's business continuity and contingency plans. Other costs were generally contained within inflationary increases during the period ended December 31, 2010.

#### 5.2.5 Cost to Income Ratio

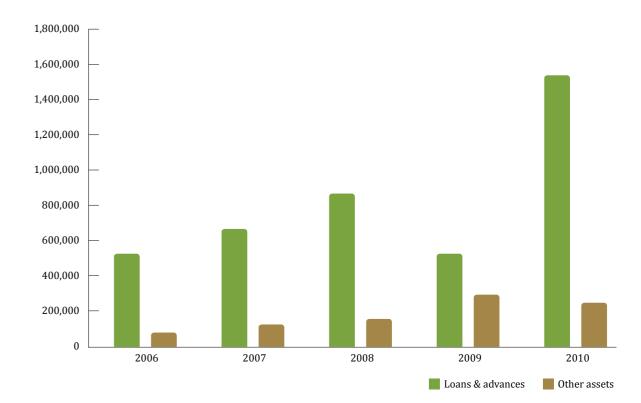
Figure 5.1 shows that the cost-income ratio (CIR) achieved by the Bank increased to 28%, from a level of 24% achieved in 2009 but below the medium term target of 30%. This increase arose from higher operating expenses as explained above. Despite the increase in this ratio, the level reported was still lower than the average of the Bank's peers.

Further, the increased funding costs as a result of the global financial crisis had a major impact on the CIR through higher interest and fees and comission expenses in 2009 and 2010. The increase in CIR should be understood in the context of a growing profitable institution, hence the medium term bench mark target of 30%. Stripping out the bond costs, which was a consequence of the global economic crisis, CIR would have been 21%.

# 5.2.6 Allowance for Impairment on Loans and Advances

Allowance for impairment on Loans and Advances increased by 149% to US\$ 7.735m (2009: US\$ 3.103m). This increase has come about due to increase in specific impairment allowance (up by US\$ 3.179m) arising from making full provision in 2010 on one facility which was non-performing. It also arose

**Figure 5.2** Afreximbank: Assets (US\$ thousands): 2006 – 2010



due to an increase in collective impairment allowances (up by US\$ 2.62m) compared to 2009 due to increase in loan volumes (up by US\$ 524m).

# 5.2.7 Earnings per Share

Earnings per share increased by about 4% from US\$ 1.03 in 2009 to US\$ 1.07 in 2010 as a result of higher net income.

#### 5.2.8 Dividends

On account of higher net income achieved during the year, the Board of Directors recommended a dividend payout amounting to US\$ 10 million to shareholders, reflecting an increase of about 11% over the US\$ 9 million paid out from 2009 operations. The past trend of increasing dividends to shareholders was thus maintained during the review period. Consistent with the tradition

of the Bank, shareholders were offered the option of receiving the dividend payment or using their dividend entitlement to acquire new ordinary shares of the Bank.

The Board in making its recommendation on the level of ordinary dividends took into consideration the objective of maintaining a growth trend in dividend payments amongst other considerations. The other considerations included profit performance, need to retain earnings to support on-going business growth, capital adequacy, inflation, as well as the need to balance internal and external financing.

#### 5.3 STATEMENT OF FINANCIAL POSITION

The statement of financial position of the Bank 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 these items with respect to 2010 is presented hereunder.

#### 5.3.1 Assets

Total assets of the Bank increased by about 32% as at December 31, 2010 to US\$ 1,905 million compared to the year ended December 31, 2009. This increase is explained mainly by higher volume of loans and advances. Loans and advances increased on a net basis by US\$ 516 million to US\$ 1,661 million (2009: US\$ 1,145 million). The increase in loans and advances and total assets is in line with the strategic plan and forecast targets.

A break-down of the Bank's assets in 2010 shows that Loans and Advances accounted for about 87% of total assets. Cash and deposits with other banks (investments) accounted for about 9%. The observed distribution was not materially different from the trend of past years, including distribution seen in 2009, and in line with 2010 forecasts.

## 5.3.2 Liabilities

During the review year, total liabilities of the Bank rose by about 41% to US\$ 1,449 million (2009: US\$ 1,024million) mainly due to increase in borrowings by about 44% to US\$ 1,320 million (2009: US\$ 914 million). Due to banks and debt securities accounted for about 71% and 20% respectively of the liabilities making them the largest components of liabilities. The liabilities of the Bank were used to fund the reported growth in loan assets.

#### 5.3.3 Shareholders' Funds

As a result of the evolution of the Bank's assets and liabilities as described above, as well as increases in Retained Earnings and General Reserves, the Bank's Net worth (Shareholders' Funds) rose by about 8% to US\$ 456.679 million, from US\$ 421.167 million as at the end of 2009.

#### **5.4 CONCLUSIONS**

A summary of the financial results described above shows that notwithstanding the challenges the Bank faced during 2010, it was able to maintain a solid financial performance reflected in satisfactory profit increase, asset growth and further improvements in capitalization and levels of efficiency ahead of the forecasts and targets the Bank set earlier.

The Bank expects to continue to improve on its operational and financial performance in the years ahead building on the solid foundation established in past years, in an improving economic environment. However, the uncertainty surrounding the sustainable economic recovery of the world's major economies and the expected inflationary pressures in Europe may negatively impact the Bank's cost of funding in 2011.

# FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

# REPORT OF THE AUDIT COMMITTEE TO THE BOARD OF DIRECTORS AND GENERAL MEETING OF THE AFRICAN EXPORT-IMPORT BANK

In compliance with the provisions of Article 30(1) and (3) of the Charter of the African Export-Import Bank and pursuant to the terms of Resolution No. Afrexim/BD/9/95/02 concerning the establishment, membership, functions and powers of the Audit Committee of the African Export-Import Bank (as amended), the Audit Committee considered the audited Financial Statements for the year ended December 31, 2010, at its meeting held on March 25, 2011.

In our opinion, the scope and planning of the audit for the year ended December 31, 2010 were adequate.

The Committee reviewed Management's comments on the Auditors' findings and both the Committee and the Auditors are satisfied with Management's responses.

After due consideration, the Committee accepted the Report of the Auditors to the effect that the Financial Statements were prepared in accordance with the ethical practice and international financial reporting standards and gave a true and fair view of the state of affairs of the Bank's financial condition as at December 31, 2010.

The Committee, therefore, recommended that the audited Financial Statements of the Bank for the Financial Year ended December 31, 2010 and the Auditors' Report thereon be approved by the Board and presented for consideration by Shareholders at the Eighteenth General Meeting.

The Committee accepted the provision made in the Financial Statements for the remuneration of the Auditors and recommends that the Board accepts same. Furthermore, the Audit Committee recommends to the Shareholders the reappointment of Deloitte & Touche and Ernst & Young as the Bank's External Auditors for the Financial Year 2011.

Yabawa Lawan Wabi Chairman **Audit Committee** Members of the Committee Mrs Y. Wabi; Mr J. Mani; Mr L. Liange; Mr R. Ntuli **II ERNST & YOUNG** 

Deloitte.

JOINT AUDITORS' REPORT TO THE SHAREHOLDERS OF AFRICAN EXPORT-IMPORT BANK

#### Report on the Financial Statements

We have audited the accompanying financial statements of African Export-Import Bank, which comprise the statement of financial position as at 31 December 2010 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

#### Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the Charter establishing the Bank, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of African Export-Import Bank as at 31 December 2010 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the Charter establishing the Bank.

Ernst & Young Kenya

26 March 2011

**Deloitte & Touche** Ghana

26 March 2011

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# STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2010

	<u>Note</u>	2010 US\$000	2009 US\$000
Interest income	8	73,796	58,739
Interest expense	9	(41,004)	(20,220)
Net interest income		32,792	38,519
Fee and commission income	10	56,553	31,564
Fee and commission expense	11	(19,816)	(8,634)
Net fee and commission income		36,737	22,930
Other operating income	12	2,446	2,151
Operating income		71,975	63,600
Personnel expenses	13	(11,189)	(7,257)
General and administrative expenses	14	(7,653)	(7,091)
Depreciation and amortisation expense	21	(1,331)	(1,081)
Operating expenses		(20,173)	(15,429)
Exchange adjustments		523	(2,156)
Operating profit before impairment allowances and provisions		52,325	46,015
Allowance for impairment on loans and advances	18	(7,735)	(3,103)
Provisions	18	(187)	(299)
PROFIT FOR THE YEAR		44,403	42,613
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		44,403	42,613
EARNINGS PER SHARE Basic and diluted earnings per share (expressed in US\$000 per share)	15	1.07	1.03

The accompanying notes to the financial statements form part of this statement.

# AFRICAN EXPORT-IMPORT BANK

STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2010

ASSETS	<u>Note</u>	2010 US\$000	2009 US\$000
Cash and due from banks	16	81,002	94,886
Deposits with other banks		100,000	126,281
Loans and advances to customers	17	1,661,249	1,144,663
Hedging derivatives	5	444	27,563
Prepayments and accrued income	19	48,584	36,774
Other assets	20	1,296	1,462
Property and equipment	21	12,848	13,628
Total assets		1,905,423	1,445,257
<u>LIABILITIES</u>			
Due to banks	22	1,024,016	618,189
Hedging derivatives	5	-	26,800
Debt securities in issue	23	296,395	295,679
Deposits and customer accounts	24	93,392	56,670
Other liabilities	25	34,941	26,752
Total liabilities		1,448,744	1,024,090
CAPITAL FUNDS			
Share capital	26	166,372	166,300
Share premium	27	18,039	18,002
General reserve	28	131,649	114,448
Retained earnings		140,619	122,417
Total capital funds		456,679	421,167
Total liabilities and capital funds		1,905,423	1,445,257
Jean-Louis Ekra <u>Chairman of the Board of Directors</u>			

The accompanying notes to the financial statements form part of this statement.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2010

	Share capital US\$ 000	Share premium US\$ 000	General reserve US\$ 000	Retained earnings <u>US\$ 000</u>	Total
Balance at 1 January 2009	165,082	16,605	97,641	104,611	383,939
Paid-in capital during 2009	1,218	1,397	-	-	2,615
Total comprehensive income for 2009	-	-	-	42,613	42,613
Transfer to general reserve	-	-	16,807	(16,807)	-
Dividends for 2008	-	-	-	(8,000)	(8,000)
Balance at 31 December 2009	166,300	18,002	114,448	122,417	421,167
Balance at 1 January 2010	166,300	18,002	114,448	122,417	421,167
Paid-in capital during 2010	72	37	-	-	109
Total comprehensive income for 2010	-	-	-	44,403	44,403
Transfer to general reserve	-	-	17,201	(17,201)	-
Dividends for 2009	-	-	-	(9,000)	(9,000)
Balance at 31 December 2010	166,372	18,039	131,649	140,619	456,679

The accompanying notes to the financial statements form part of this statement.

# **AFRICAN EXPORT-IMPORT BANK**

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2010

TOR THE TERM EMBED DECEMBER OF, 2010		
	<u>2010</u>	<u>2009</u>
	<u>US\$000</u>	<u>US\$000</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the year	44,403	42,613
Adjustment for non-cash items:		
Depreciation of property and equipment	1,331	1,081
Allowance for impairment on loans and advances	7,735	3,229
Provisions	2	129
Gain on disposal of property and equipment	(1)	(2)
Net increase in prepayments and accrued income	(11,810)	(21,961)
Net decrease/ (increase) in hedging derivatives assets	27,119	(27,563)
Net increase in other assets	(226)	(165)
Net (decrease)/increase in hedging derivatives liabilities	(26,800)	26,800
Net increase in other liabilities	4,408	1,843
Provisions no longer required	-	(126)
Net increase/(decrease) in deposits and customer accounts	36,622	(46,496)
Net increase in loans and advances to customers	(524,321)	(222,502)
Net cash outflows from operating activities	(441,538)	(243,120)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases and additions to property and equipment	(552)	(1,644)
Proceeds from sale of property and equipment	1	1
Net cash outflow from investing activities	(551)	(1,643)
CACH ELOME EDOM EINANGING ACTIVITIES		
CASH FLOWS FROM FINANCING ACTIVITIES  Not each from social subassintians and share promises		1 705
Net cash from capital subscriptions and share premium	- (4.610)	1,705
Dividends paid	(4,619)	(13,236)
Proceeds from borrowed funds and debt securities	1,343,235	1,000,947
Repayment of borrowed funds and debt securities	(936,692)	(640,907)
Net cash inflows from financing activities	401,924	348,509
Net (decrease)/increase in cash and cash equivalents	(40,165)	103,746
Cash and cash equivalents at 1 January	221,167	117,421
, , , , , ,	, -	,
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	181,002	221,167
Composed of:		
Deposits with other banks	100,000	126,281
Cash and due from banks	81,002	94,886
	181,002	221,167

The accompanying notes to the financial statements form part of this statement.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2010

#### STATUS AND ACTIVITIES

The African Export-Import Bank ("the Bank"), headquartered in Cairo, Egypt, is a supranational institution, established on 27 October 1993. The Bank started lending operations on 30 September 1994. The principal business of the Bank is the finance and facilitation of trade among African countries and between Africa and the rest of the world. The Bank's headquarters is located at No. 72 (B) El Maahad El Eshteraky Street Heliopolis, Cairo 11341, Egypt. In addition the Bank has branches in Abuja (Nigeria) and Harare (Zimbabwe).

#### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied by the Bank have been approved by the Board of Directors of the Bank and are consistent with International Financial Reporting Standards (IFRS) promulgated by the International Accounting Standards Board. The major accounting policies adopted which are consistent with those used in the previous financial year and applied by the Bank are summarized below.

#### 2.1. Basis of preparation

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards.

The financial statements are prepared under the historical cost convention and are presented in US dollars in accordance with the Bank's Charter. The functional currency of the Bank is the US dollar based on the fact that most of the activities of the Bank are conducted in US dollar. The Bank has not applied any IFRS before their effective dates.

The preparation of financial statements complying with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 6 below.

#### 2.1.1. Standards, amendments and interpretations effective in 2010

The Bank has adopted, where appropriate, the following new standards, amendments and interpretations as at 1 January 2010. The adoption of these standards did not have material impact on the financial performance of the Bank.

- Amendments to IAS 7 Statement of Cash Flows (as part of Improvements to IFRSs issued in 2009).
- IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended).

- IFRIC 17, 'Distribution of Non-cash Assets to Owners' (effective on or after 1 July 2009).
- IFRIC 18, 'Transfers of Assets from Customers' (effective for transfer of assets received on or after 1 July 2009).
- IFRIC 9, 'Reassessment of Embedded Derivatives and IAS 39, Financial Instruments: Recognition and Measurement'(effective 1 July 2009).
- IFRIC 16, 'Hedges of a Net Investment in a Foreign Operation' (effective 1 July 2009).
- IAS 38 (amendment), 'Intangible Assets' (effective 1 January 2010).
- IAS 1 (amendment), 'Presentation of Financial Statements'. The amendment clarifies that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current.
- IAS 36 (amendment), 'Impairment of Assets' (effective 1 January 2010).
- IAS 39 Financial Instruments: Recognition and Measurement Eligible Hedged Items
- IFRS 2 (amendments), 'Group Cash-settled Share-based Payment Transactions', (effective from 1 January 2010). In addition to incorporating IFRIC 8, 'Scope of IFRS 2', and IFRIC 11, 'IFRS 2 - Group and Treasury Share Transactions', the amendments expand on the guidance in IFRIC 11 to address the classification of group arrangements that were not covered by that interpretation.
- IFRS 5 (amendment), 'Non-current Assets Held for Sale and Discontinued Operations'.

# 2.1.2. Amendments to published standards and interpretations issued but not yet effective 1 January 2010

The Bank has chosen not to early adopt the following standards, amendments and interpretations to existing standards that were issued, but not yet effective, for accounting periods beginning on 1 January 2010. The application of these standards amendments and interpretations will not have material impact on the Bank's financial statements in the period of initial application.

- IFRS 1 First-time Adoption of International Financial Reporting Standards Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters (Effective for annual periods beginning on or after 1 July 2010).
- IFRS 9, 'Financial Instruments', issued in November 2009. This standard is the first step in the process to replace IAS 39, 'Financial Instruments: Recognition and Measurement'. IFRS 9 introduces new requirements for classifying and measuring financial assets and is relevant in the Bank's accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption.
- IAS 24 (revised), 'Related Party Disclosures', issued in November 2009. It supersedes IAS 24, 'Related Party Disclosures', issued in 2003. IAS 24 (revised) is mandatory for periods beginning on or after 1 January 2011. Earlier application, in whole or in part, is permitted. The revised standard clarifies and simplifies the definition of a related party

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED DECEMBER 31, 2010

> and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The Bank will apply the revised standard from 1 January 2011.

• IFRIC 19, 'Extinguishing Financial Liabilities with Equity instruments', effective 1 July 2010.

Improvements to IFRSs (issued in May 2010)

The IASB has issued an omnibus of amendments to its IFRS's. The amendments have not been adopted as they become effective for annual periods on or after either 1 July 2010 or 1 January 2011. The amendments are listed below.

- IFRS 3, Business Combinations
- IFRS 7, Financial Instruments: Disclosures
- IAS 1, Presentation of Financial Statements
- IAS 27, Consolidated and Separate Financial Statements
- IFRIC 13, Customer Loyalty Programmes

The Bank, however, expects no significant impact from the adoption of the amendments on its financial position or performance.

#### 2.2. Interest income and expense

For all financial instruments measured at amortized cost and interest bearing financial instruments classified as available-for-sale financial instruments, interest income or expense is recognized at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recognized as interest income or expense.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original effective interest rate applied to the new carrying amount.

#### 2.3. Fees and commission income

Unless included in the effective interest rate calculation, fees and commissions are generally recognized on an accrual basis when the service has been provided. Commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognized as an adjustment to the effective interest rate on the loan. Commission and fees arising from negotiating, or participating in the negotiation of a transaction for a third party is recognized on completion of the underlying transaction. Loan syndication fees are recognized as revenue when the syndication has been completed and the Bank has retained no part of the loan package for itself or has retained a part at the same effective interest rate as the other participants. Fees or component of fees that are performance linked (e.g. investment banking advisory services including among other things evaluating financing options, debt restructuring, etc.) are recognized when the performance criteria are fulfilled in accordance with the applicable terms of engagement.

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#### 2.4. Other operating income

Other operating income consists mainly of rental income which is accounted for on a straight-line basis over the lease terms on ongoing leases.

#### 2.5. Operating expenses

Operating expenses are recorded on accrual basis.

#### 2.6. Foreign currencies

Transactions in foreign currencies are translated into US dollars at the prevailing exchange rate at the date of the transaction.

At the reporting date, balances of monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates ruling at that date. Any gains or losses resulting from the translation are recognized in profit or loss in the statement of comprehensive income.

#### 2.7. Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash in hand, due from banks, and deposits with other banks with less than three months' maturity from the transaction date. Due from banks and deposits with other banks are carried at amortized cost as these balances earn interest.

#### 2.8. Loans and advances to customers

Loans and advances to customers are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and advances are carried at amortized cost using the effective interest rate method less allowance for impairment, and are recognized on the day on which they are drawn down by the borrower. They are initially recognized at fair value plus transaction costs and are de-recognized when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership.

#### 2.9. Impairment of loans and advances

The Bank assesses at each reporting date whether there is objective evidence that a loan is impaired. Loans and advances are identified as impaired where there is reasonable doubt

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED DECEMBER 31, 2010

> regarding the collectability of principal or interest. Whenever a payment is 90 days past due, loans and advances are automatically placed on impairment test. A loan is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan (a loss event) and that loss event (or events) has an impact on the estimated future cash flows of the loan that can be reliably estimated.

> The estimated period between losses occurring and its identification is determined by management for each loan. In general, the periods used vary between three months and twelve months; in exceptional cases, longer periods are warranted.

> The amount of loss is measured as the difference between the loan and advance carrying amount and the present value of estimated future cash flows discounted at the loan and advance effective interest rate determined under contract. The carrying amount of loans and advances are reduced through the use of an allowance account and the amount of the loss is recognized in profit or loss.

> In addition to specific provisions against individually significant loans and advances, the Bank also makes a collective impairment provision against loans and advances which although not specifically identified as requiring specific provisions, have a greater risk of default than when originally granted. This collective impairment is based on any deterioration in the internal grade of the loan, since it was granted. The amount of provision is based on historical loss experience for loans within each grade and is adjusted to reflect current economic changes. These internal gradings take into consideration various factors such as any deterioration in country risk, industry, identified structural weaknesses or deterioration in cash flows.

> The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

> When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed, including obtaining Board of Directors approval, and the amount of loss has been determined.

> If, in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in profit or loss.

#### 2.10. Property and equipment

Property and equipment are stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value.

Depreciation is calculated on the straight line basis at annual rates estimated to write off the carrying values of the assets over their expected useful lives, as follows:

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- Buildings 20 years - Motor vehicles 5 years - Furniture and equipment 4 years - Computers 3 years

- Leasehold improvements Over the remaining period of the lease

Property and equipment are periodically reviewed for impairment. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount. The recoverable amount is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses are recognized in profit or loss.

Property and equipment is de-recognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the profit or loss in the year the item is de-recognized.

The assets residual values, useful lives and methods of depreciation are reviewed at each reporting date, and adjusted prospectively if appropriate.

#### 2.11. Staff provident fund scheme

The Bank operates a defined contribution plan approved by the Board of Directors. Contributions are recognized in profit or loss on an accrual basis. The Bank has no further payment obligations once the contributions have been paid.

## 2.12. Government grants

Government grants are not recognized unless there is reasonable assurance that the grants will be received and that the Bank will comply with the conditions attaching to the grant. Grants relating to Headquarter building are recorded together with the related asset at cost.

#### 2.13. Provisions

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The estimated monetary liability for employees' accrued annual leave entitlement at the reporting date is recognized as an expense accrual.

#### 2.14. Operating leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

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NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED DECEMBER 31, 2010

> Leases which do not transfer to the Bank substantially all the risks and benefits incidental to ownership of the leased item, are accounted for as operating leases.

> The total payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.

#### 2.15. Borrowing costs

Borrowing costs are expensed in the period in which they are incurred. Discounts and premiums or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity are calculated on an effective interest basis.

## 2.16. Impairment of non-financial assets

The Bank assesses, at each reporting date or more frequently, whether there is an indication that an asset may be impaired. If such indication exists, the Bank makes an estimate of the asset's recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses are recognized in profit or loss.

#### 2.17. Debt securities in issue

Debt securities in issue are one of the Bank's sources of debt funding. Debt securities are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using effective interest method.

#### 2.18. Derivative financial instruments and hedge accounting

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. Changes in the fair value of derivative financial instruments, where they are not designated as hedging instruments, are recognized in profit or loss.

The business activities of the Bank expose it to financial risks that arise from changes in both foreign exchange rates and interest rates. The Bank uses forward currency contracts and interest rate swaps to hedge these exposures. In accordance with its treasury policy, the Bank does not enter into derivatives for speculative purposes.

The Bank designates certain derivatives as either:

- a) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedges);
- b) hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge).

The effective portion of changes in the fair value of derivative financial instruments that are designated as hedges of future cash flows are recognised in other comprehensive income and accumulated in equity and any ineffective portion is recognised immediately in profit or loss.

If the item being hedged is a non-financial asset or liability then the gains or losses on the associated derivative that had previously been recognised in equity are included in the measurement of the asset or liability at the time it is recognised.

Conversely if the item being hedged is a financial asset or liability, any amounts arising from changes in fair value that are deferred in equity are subsequently recognised in profit or loss in the same accounting period in which the hedged item affects profit for the year. Hedge accounting of a transaction is discontinued when the hedging instrument is sold, terminated, or exercised, or when the hedging instrument no longer qualifies for hedge accounting. Under these circumstances any cumulative gain or loss on the hedging instrument, which has already been recognised in equity, is retained in equity until the transaction occurs. However, if a hedged transaction is no longer expected to occur, any net cumulative gain or loss that has already been recognised in equity is immediately transferred to profit or loss.

A derivative that is embedded in another financial instrument, or in a host contract, is treated as a separate derivative if its risks and characteristics are not closely related to those of the host contract. Under these circumstances the host contract is not carried at fair value but any unrealised gains or losses on the derivative are reported in profit or loss.

#### 2.19. Dividend on ordinary shares

Dividend on ordinary shares are recognized as a liability and deducted from equity when they are approved by the Bank's shareholders. Dividends for the year that are approved after the reporting date are disclosed as a non-adjusting event.

#### 2.20. Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans and other banking facilities.

Financial guarantees are initially recognized in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the Bank's liabilities under such guarantees are measured at the higher of the initial measurement, less amortization calculated to recognize in the statement of comprehensive income the fee income earned on a straight line basis over the life of the guarantee and the best estimate of the expenditure required to settle any financial obligation arising at the reporting date. These estimates

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED DECEMBER 31, 2010

are determined based on experience of similar transactions and history of past losses, supplemented by the judgment of management. Any increase in the liability relating to guarantees is taken to the statement of comprehensive income under operating expenses.

## 3. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

#### 3.1. Use of financial instruments

The Bank's financial instruments consist primarily of cash and deposits with banks, loans and advances to customers, amounts due to banks, derivative financial instruments, debt securities in issue and customer deposits. The Bank borrows funds to meet disbursements in foreign currency as part of its matching of assets and liabilities in order to manage foreign currency risks. The proceeds from loans repayments are used to repay the borrowings.

## 3.2. Risk management

The Bank's business involves taking on risks in a targeted manner and managing them professionally. The core functions of the Bank's risk management are to identify all key risks facing the Bank, measure these risks, manage the risk positions and determine capital allocations. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and best market practice.

The Bank is not regulated by any monetary and/or financial authority, but strives to comply with all international risk management standards and to operate in accordance with the best practices in the industry.

To conduct the Bank's operations in a manner consistent with its charter and aims, objectives and expectations of its stakeholders, the Board of Directors has approved the Risk Management Policies and Procedures (RMPP). This document incorporates different risk management policies that were operating as stand-alone policies into an integrated document that takes an enterprise wide approach to risk management.

The RMPP primarily covers the following:

- Enterprise Risk Management (ERM) Policy
- Credit Policies and Credit Procedures (CPP)
- Treasury Policies and Procedures
- Business Continuity Management Policy
- Customer Due Diligence Policies and Procedures
- ICT Policies and Guidelines
- Environmental and Social Risk Management Policies and Procedures
- Operational Risk Policy

The Bank identifies and controls the various operational risks inherent in its business. Operational risk is managed and mitigated by ensuring that there is appropriate infrastructure, controls, systems, procedures, and trained and competent people in place discharging the various functions.

#### 3.3. Risk management structure

The risk management governance structure comprises (i) Board of Directors, responsible for oversight and approval of risk policies; (ii) Management Executive Committee, responsible for credit approval above management's authority levels; (iii) Management risk committee, responsible for the risk policies review and implementation; (iv) Risk Management Department, responsible for risk policies development and monitoring.

#### 3.4. Credit risk

Credit risk is the risk that a customer or counterparty of the Bank will be unable or unwilling to meet a commitment that it has entered into with the Bank. It arises from lending, trade finance, treasury and other activities undertaken by the Bank.

The carrying amounts of cash and deposits with banks and loans and advances to customers appearing on the statement of financial position represent the maximum amount exposed to credit risk.

#### 3.5. Concentration of credit risk

The Bank deals with a variety of major banks and its loans and advances are structured and spread among a number of major industries, customers (dealing with sectors) and geographical areas (comprising group of countries). In addition, the Bank has procedures and policies in place to limit the amount of credit exposure to any counterparty and country. The Bank reviews, on a regular basis, the credit limits of counterparties and countries and takes action accordingly to ensure that exposure limits are not exceeded.

#### 3.6. Credit risk measurement

The Bank assesses the probability of default of customer or counterparty using internal rating scale tailored to the various categories of counterparties. The rating scale has been developed internally and combines data analysis with credit officer judgment and is validated, where appropriate, by comparison with externally available information. Customers of the Bank are segmented into seven rating classes. The Bank's rating scale, which is shown below, reflects the range of default probabilities defined for each rating class. This means that, in principle, exposures migrate between classes as the assessment of their probability of default changes. The rating scale is kept under review and upgraded as necessary. The Bank regularly validates the performance of the rating and their predictive power with regard to default events.

#### **Bank's Internal Ratings Scale**

Bank's rating grade	Description of the ratin
1	Low risk
2	Satisfactory risk
3	Fair risk
4	Watch list
5	Sub-Standard risk
6	Doubtful and bad
7	Loss

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED DECEMBER 31, 2010

## 3.7. Impairment and provisioning policies

The impairment allowance shown in the statement of financial position is derived from each of the seven internal rating grades. However, the impairment allowance is composed largely of the sixth grading. The table below shows the percentage of the Bank's loans and advances and the associated impairment allowance for each of the internal rating categories.

#### Bank's rating

	<u>2010</u>		<u>2009</u>	
	<u>Loans &amp;</u> <u>advances %</u>	Impairment allowance %	Loans & advances %	Impairment allowance%
Low risk	3.7	1.7	14.8	8.6
Satisfactory risk	88.2	42	68.4	40
Fair risk	6.9	3.3	14.4	8.4
Watch list	0.6	0.3	1.5	0.9
Sub-Standard risk	-	-	-	-
Doubtful and bad	0.6	52.7	0.9	42.1
Loss	-	-	-	<u>-</u>
Total	100	100	100	100

The internal rating scale assists management to determine whether objective evidence of impairment exists under IAS 39, based on the following criteria set out by the Bank:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower;
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position; and
- Deterioration in the value of collateral.

The Bank's policy requires the review of individual financial assets, facilities and commitments at least quarterly or more regularly when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the impairment at reporting date on a case-by-case basis, and are applied to all individually significant accounts. The assessment normally encompasses collateral held (including re-confirmation of its enforceability) and the anticipated receipts for that individual account.

## 3.8. Maximum exposure credit risk before collateral held or other credit enhancements

	Maximum exposu	
	<u>2010</u>	<u>2009</u>
	<u>US\$000</u>	<u>US\$000</u>
Due from banks	80,976	94,864
Deposits with other banks	100,000	126,281
Loans and advances to customers	1,661,249	1,144,663
Credit risk exposures relating to off-statement of financial positions items are as follows:		
Letters of credit	49,686	28,888
Guarantees	70,976	-
Loan commitments and other credit related		
liabilities	162,940	318,699
	2,125,827	1,713,395

The above table represents a worse case scenario of credit risk exposure to the Bank at 31 December 2010 and 31 December 2009, without taking account of any collateral held or other credit enhancements attached. For on-statement of financial positions assets, the exposures set out above are based on net carrying amounts.

# 3.9. Concentration risks of loans and advances to customers with credit risk exposure

#### a) Geographical sectors

The following table breaks down the Bank's credit exposure at their carrying amounts (without taking into account any collateral held or other credit support), as categorised by geographical region as at 31 December 2010 and 31 December 2009 of the Bank's counterparties.

<u>%</u>
70
8,377 79
9,500 3
4,864 1
1,787 17
4,528 100
2 1 9

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED DECEMBER 31, 2010

# b) Industry sectors

The following table breaks down the Bank's credit exposure at their carrying amounts (without taking into account any collateral held or other credit support), as categorised by industry sector as at 31 December 2010 and 31 December 2009 of the Bank's counterparties.

	<u>2010</u>		<u>2009</u>	
	<u>US\$000</u>	<u>%</u>	<u>US\$000</u>	<u>%</u>
Agriculture	56,200	3	22,392	2
Energy	190,440	11	111,236	9
Services	128,940	8	157,849	14
Metals and minerals	75,810	5	6,145	1
Transportation	156,660	9	54,117	5
Manufacturing	142,850	8	169,636	15
Telecommunications	363,120	22	152,875	13
Financial institutions	564,829	34	480,278	41
	1,678,849	100	1,154,528	100

## 3.10. Loans and advances

Loans and advances are summarized as follows:

	<u>2010</u>	<u>2009</u>
	<u>US\$000</u>	<u>US\$000</u>
Neither past due nor impaired	1,653,843	1,126,822
Past due but not impaired	14,932	17,008
Impaired	10,074	10,698
Gross loans and advances	1,678,849	1,154,528
Less: Allowance for impairment (note 18)	(17,600)	(9,865)
Net loans and advances	1,661,249	1,144,663
Individually impaired	(9,256)	(4,146)
Collective impairment	(8,344)	(5,719)
Total	(17,600)	(9,865)

The total impairment charge for loans and advances is US\$ 7,735,000 (2009: US\$ 3,103,000) of which US\$ 5,110,000 (2009: US\$ 1,931,000) represents the individually impaired loans and the remaining amount of US\$ 2,625,000 (2009: US\$ 1,172,000), represents the collective impairment allowance. Further information of the impairment allowance for loans and advances to customers is provided in note 18.

## a) Loans and advances neither past due nor impaired

The credit quality of the portfolio of gross amounts of loans and advances that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by the Bank as follows:

	Loans and advance	
	<u>2010</u>	<u>2009</u>
Grade	<u>US\$000</u>	<u>US\$000</u>
Low risk	63,000	170,724
Satisfactory risk	1,480,621	790,147
Fair risk	110,222	165,951
Total	1,653,843	1,126,822

## b) Loans and advances past due but not impaired

Loans and advances that are past due are not considered impaired, unless other information is available to indicate the contrary. Gross amounts of loans and advances to customers that were past due but not impaired were as follows:

were past due but not impaired were as follows.		
	<u>Loar</u>	ns and advances
	<u>2010</u>	<u>2009</u>
	<u>US\$000</u>	<u>US\$000</u>
Past due up to 30 days	750	-
Past due 30 - 60 days	3,639	-
Past due 60 - 90 days	2,251	-
Past due over 90 days	8,292	17,008
Total	14,932	17,008
Fair value of collateral	20,892	16,300
c) Loans and advances impaired		
•	2010	2009
	US\$000	US\$000
Impaired loans	10,074	10,698
Fair value of collateral	818	5,862

Upon initial recognition of loans and advances, fair value of the collateral is based on valuation techniques commonly used for the corresponding assets. In subsequent periods, fair value is updated by reference to market prices, if available.

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED DECEMBER 31, 2010

#### 3.11. Collateral and other credit enhancements

Collateral available as security for loans and advances past due but not impaired and impaired loans is as follows:

	<u>2010</u>	<u>2009</u>
	<u>US\$000</u>	<u>US\$000</u>
Promissory notes	20,892	21,300
Assignment of receivables	818	862
	21,710	22,162

#### 3.12. Market risk

#### 3.12.1 Interest rate risk sensitivity analysis

At 31 December 2010, if exchange rates at that date had been 147 basis points lower with all other variables held constant, profit and reserves for the year would have been US\$ 6,944,000 (2009: US\$ 6,334,000) lower, arising mainly as a result of the bigger decrease in interest income on loans than the decrease in interest expense on borrowings. If interest rates had been 147 basis points higher, with all other variables held constant, profit would have been US\$ 6,944,000 (2009: US\$ 6,334,000) higher, arising mainly as a result of higher increase in interest income on loans than the increase in interest expense on borrowing. The sensitivity is higher in 2010 than in 2009 due to increase in interest rate sensitive assets and liabilities.

The table below summarizes the impact on profit and loss for each category of financial instruments held as at 31 December 2010. It includes the Bank's financial instruments at carrying amounts.

		Interest rate risk (IR)			
	<b>Carrying</b>	+ 147bp of US\$ IR	-147bp of US\$ IR		
	<u>amount</u>				
		<u>2010</u>	<u>2010</u>		
	<u>US\$000</u>	<u>US\$000</u>	<u>US\$000</u>		
Financial assets					
Cash due from banks	80,976	1,190	(1,190)		
Deposits with other banks	100,000	1,470	(1,470)		
Loans and advances to					
customers (gross)	1,678,849	24,679	(24,679)		
Impact on financial assets		27,339	(27,339)		
Financial liabilities					
Due to banks	1,024,016	(15,053)	15,053		
Debt securities in issue	270,000	(3,969)	3,969		
Deposits and customer					
accounts	93,392	(1,373)	1,373		
Impact on financial liabilities		(20,395)	20,395		
Total increase/(decrease)		6,944	(6,944)		

The table below summarizes the impact on profit and loss for each category of financial instruments held as at 31 December 2009. It includes the Bank's financial instruments at carrying amounts.

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		Interest rate risk (IR)			
	<b>Carrying</b>	+ 147bp of US\$IR	-147bp of US\$ IR		
	<u>amount</u>				
		<u>2009</u>	2009		
	<u>US\$000</u>	<u>US\$000</u>	<u>US\$000</u>		
Financial assets					
Cash due from banks	94,864	1,395	(1,395)		
Deposits with other banks	126,281	1,856	(1,856)		
Loans and advances to					
customers (gross)	1,154,528	16,972	(16,972)		
Impact on financial assets		20,223	(20,223)		
Financial liabilities					
Due to banks	618,189	(9,087)	9,087		
Debt securities in issue	270,000	(3,969)	3,969		
Deposits and customer					
accounts	56,670	(833)	833		
Impact on financial liabilities		(13,889)	13,889		
Total increase/(decrease)		6,334	(6,334)		

#### 3.12.2 Foreign exchange risk sensitivity analysis

At 31 December 2010, if foreign exchange rates at that date had been 10 percent lower with all other variables held constant, profit and reserves for the year would have been US\$ 10,000 (2009: US\$ 65,000) lower, arising mainly as a result of the bigger decrease in revaluation of loans than the borrowings. If foreign exchange rates had been 10 percent higher, with all other variables held constant, profit would have been US\$ 10,000 (2009: US\$ 65,000) higher, arising mainly as a result of higher increase in revaluation of loans than the increase on borrowings.

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED DECEMBER 31, 2010

> The following analysis details the Bank's sensitivity to a 10% increase and decrease in the value of the USD against the Euro, as the Bank is mainly exposed to Euro. 10% is the sensitivity rate used when reporting foreign currency risk internally and represents management's assessment of the reasonably possible change in foreign exchange rates. The table below summarizes the impact on profit and loss for each category of Euro financial instruments held as at 31 December 2010. It includes the Bank's Euro financial instruments at carrying amounts.

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		Foreign exc	hange risk
	Carrying amount	10% increase in the value of USD against Euro	10% decrease in the value of USD against Euro
		<u>2010</u>	<u>2010</u>
	<u>US\$000</u>	<u>US\$000</u>	<u>US\$000</u>
Financial assets			
Cash due from banks	26,924	2,692	(2,692)
Loans and advances to			
customers (gross)	245,505	24,550	(24,550)
Prepayments and accrued income	1,550	155	(155)
Impact on financial assets		27,397	(27,397)
Financial liabilities			
Due to banks	265,796	26,580	(26,580)
Deposits and customer accounts	3,608	361	(361)
Other liabilities	4,456	446	(446)
Impact on financial liabilities		27,387	(27,387)
Total increase/(decrease)		10	(10)

The table below summarizes the impact on profit and loss for each category of Euro financial instruments held as at 31 December 2009. It includes the Bank's Euro financial instruments at carrying amounts.

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		Foreign exchange risk		
	Carrying amount	10% increase in the value of USD against Euro	10% decrease in the value of USD against Euro	
		<u>2009</u>	<u>2009</u>	
	<u>US\$000</u>	<u>US\$000</u>	<u>US\$000</u>	
Financial assets				
Cash due from banks	12,203	1,220	(1,220)	
Deposits with other banks	66,281	6,628	(6,628)	
Loans and advances to				
customers (gross)	137,405	13,740	(13,740)	
Prepayments and accrued income	2,404	240	(240)	
Other assets	27,089	2,709	(2,709)	
Impact on financial assets		24,537	(24,537)	
Financial liabilities				
Due to banks	239,189	23,919	(23,919)	
Deposits and customer accounts	4,785	479	(479)	
Other liabilities	736	74	(74)	
Impact on financial liabilities		24,472	(24,472)	
Total increase/(decrease)		65	(65)	

## 3.13. Foreign exchange risk exposure

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. Foreign exchange risk is managed by the Bank by matching assets and liabilities in respective currencies. The Bank also uses currency derivatives, especially forward foreign exchange contracts to hedge foreign exchange risk. Open currency positions are monitored regularly and appropriate hedging actions taken.

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED DECEMBER 31, 2010

> The table below summarises the Bank exposure to foreign currency exchange rate risk as at 31 December 2010. Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency (in thousands of US\$):

	<u>Euro</u>	<u>NGN</u>	Other Currencies	<u>2010</u> <u>Total</u>
Assets				
Cash and due from banks	26,924	43	23	26,990
Loans and advances to customers	245,505	-	-	245,505
Prepayments and accrued income	1,550	-	-	1,550
Total financial assets	273,979	43	23	274,045
Liabilities				
Due to banks	265,796	-	-	265,796
Deposits and customer accounts	3,608	-	-	3,608
Other liabilities	4,456	-	-	4,456
Total financial liabilities	273,860	-	-	273,860
Net on statement financial of position	119	43	23	185
Credit commitments & financial guar-				
antees	47,156	-	-	47,156

The table below summarises the Bank exposure to foreign currency exchange rate risk as at 31 December 2009. Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency (in thousands of US\$):

	<u>Euro</u>	<u>NGN</u>	Other Currencies	2009 Total
Assets				
Cash and due from banks	12,203	79	10	12,292
Deposits with other banks	66,281	-	-	66,281
Loans and advances to customers	137,405	-	-	137,405
Prepayments and accrued income	2,404	-	-	2,404
Hedging derivatives	27,089	-	-	27,089
Total financial assets	245,382	79	10	245,471
Liabilities				
Due to banks	239,189	-	-	239,189
Deposits and customer accounts	4,785	-	-	4,785
Other liabilities	739	-	-	739
Total financial liabilities	244,713	-	-	244,713
Net on statement of financial position	669	79	10	758
Credit commitments & financial guarantees	4,730	-	-	4,730

## 3.14. Interest rate risk

Interest rate movements affect the Bank's profitability. Exposure to interest rate movements exists because the Bank has assets and liabilities on which interest rates either change from time to time (rate sensitive assets and liabilities) or, do not change (rate insensitive assets and liabilities). Exposure to interest rate movements arises when there is a mismatch between the rate sensitive assets and liabilities.

The Bank closely monitors interest rate movements and seeks to limit its exposure by managing the interest rate and maturity structure of assets and liabilities carried on the statement of financial position. Interest rate swaps are also used to manage interest rate risk.

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED DECEMBER 31, 2010

> The table below summarizes the Bank's exposure to interest rate risks as at 31 December 2010. It includes the Bank's financial instruments at carrying amounts (non-derivatives), categorized by the period of contractual re-pricing.

				<u>Non</u>	
	Up to 3 months	3-6 months	6-12 months	interest bearing	<u>2010</u> Total
	<u>US\$000</u>	<u>US\$000</u>	<u>US\$000</u>	<u>US\$000</u>	<u>US\$000</u>
Financial assets					
Cash and due from banks	80,976	-	-	26	81,002
Deposits with other banks	100,000	-	-	-	100,000
Loans and advances to customers	1,353,143	154,140	29,500	-	1,536,783
Prepayments and accrued					
income	-	-	-	48,584	48,584
Other assets	-	-	-	1,296	1,296
_					
Total financial assets	1,534,119	154,140	29,500	49,906	1,767,665
Financial liabilities					
Due to banks	938,633	70,882	-	-	1,009,515
Debt securities in issue	270,000	-	-	-	270,000
Deposits and customer					
accounts	93,392	-	-	-	93,392
Other liabilities	-	-	-	34,941	34,941
_					
Total financial liabilities	1,302,025	70,882	-	34,941	1,407,848
Total interest repricing gap	232,094	83,258	29,500		

The table below summarizes the Bank's exposure to interest rate risks as at 31 December 2009. It includes the Bank's financial instruments at carrying amounts (non-derivatives), categorized by the period of contractual re-pricing.

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				Non	
	Up to 3 months US\$000	3-6 months US\$000	6-12 months US\$000	interest bearing US\$000	2009 <u>Total</u> US\$000
Financial assets					
Cash and due from banks	94,864	-	-	22	94,886
Deposits with other banks	126,281	-	-	-	126,281
Loans and advances to					
customers	986,157	127,213	31,293	-	1,144,663
Prepayments and accrued					
income	-	-	-	36,774	36,774
Other assets	-	-	-	1,462	1,462
Total financial assets	1,207,302	127,213	31,293	38,258	1,404,066
Financial liabilities					
Due to banks	618,189	-	-	-	618,189
Debt securities in issue	270,000	-	-	-	270,000
Deposits and customer					
accounts	56,670	-	-	-	56,670
Other liabilities	-	-	-	26,752	26,752
Total financial liabilities	944,859	-	-	26,752	971,611
Total interest repricing gap	262,443	127,213	31,293		

## 3.15. Liquidity risk

Liquidity risk concerns the ability of the Bank to fulfill its financial obligations as they become due. The management of the liquidity risk is focused on the timing of the cash inflows and outflows as well as in the adequacy of the available cash, credit lines and high liquidity investments. The Bank manages its liquidity risk by preparing dynamic cash flow forecasts covering all expected cash flows from assets and liabilities and taking appropriate advance actions. Further, the bank has committed credit lines it can draw in case of need.

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED DECEMBER 31, 2010

The table below analyses the Bank's financial assets and financial liabilities (including principal and interest) into relevant maturity grouping based on the remaining period at the reporting date to the contractual maturity date as at 31 December 2010:

	Up to 1 month US\$000	1-3 months US\$000	3-12 months US\$000	<u>1-5</u> <u>years</u> <u>US\$000</u>	Over 5 years US\$000	2010 Total US\$000
Assets						
Cash and due from banks	81,002	-	-	-	-	81,002
Deposits with other banks	100,000	-	-	-	-	100,000
Loans and advances	324,622	352,362	714,859	258,733	46,638	1,697,214
Total assets	505,624	352,362	714,859	258,733	46,638	1,878,216
Liabilities						
Due to banks	1,234	3,541	739,914	270,201	14,501	1,029,391
Debt securities in issue	-	5,081	1,320	300,000	-	306,401
Deposits and customer						
accounts	93,292	-	100	-	-	93,392
Total liabilities	94,526	8,622	741,334	570,201	14,501	1,429,184
Net liquidity gap	411,098	343,740	(26,475)	(311,468)	32,137	449,032
Cumulative liquidity gap	411,098	754,838	728,362	416,895	449,032	

The table below analyses the Bank's financial assets and financial liabilities (including principal and interest) into relevant maturity grouping based on the remaining period at the reporting date to the contractual maturity date as at 31 December 2009:

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	Up to 1 month US\$000	1-3 months US\$000	3-12 months US\$000	1-5 years US\$000	2009 Total US\$000
Assets					
Cash and due from banks	94,886	-	-	-	94,886
Deposits with other banks	126,281	-	-	-	126,281
Loans and advances	210,554	474,162	266,319	214,773	1,165,808
Total assets	431,721	474,162	266,319	214,773	1,386,975
Liabilities					
Due to banks	5,558	349,855	266,636	-	622,049
Debt securities in issue	-	5,128	1,320	300,000	306,448
Deposits and customer					
accounts	41,356	15,443	-	-	56,799
Total liabilities	46,914	370,426	267,956	300,000	985,296
Net liquidity gap	384,807	103,736	(1,637)	(85,227)	401,679
Cumulative liquidity gap	384,807	488,543	486,906	401,679	

## 3.16. Capital management

The Bank's objectives when managing capital, which is a broader concept than the equity on the face of statement of financial position, are:

- To maintain a set minimum ratio of total capital to total risk weighted assets. The Bank's minimum risk asset ratio is 12 per cent compared to a minimum ratio of 8 per cent prescribed by the Basel Committee on Banking Supervision;
- To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns to shareholders and benefits to other stakeholders; and
- To maintain a strong capital position necessary for its long term financial health, and to support the development of its business.

The Bank is not subject to capital requirements by a regulatory body such as a central bank or equivalent. However, management has established a capital management policy that is based on maintenance of certain capital adequacy ratio in line with Basel Committee.

Capital adequacy is reviewed regularly by management using techniques based on the guidelines developed by Basel Committee.

With effect from 1 January 2009, the Bank is required to comply with the provisions of the Basel II framework in respect of capital.

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED DECEMBER 31, 2010

The Bank's capital is divided into two tiers:

- Tier 1 capital: Share capital, share premium, retained earnings and reserves created by appropriations of retained earnings.
- Tier 2 capital: Collective impairment allowances.

The risk-weighted assets is measured by means of a hierarchy of seven risk weights classified according to its nature and reflecting an estimate of credit, market and other risks associated with each asset and counterparty. A similar treatment is adopted for off-statement of financial position exposure.

The table below summarizes the composition of statutory capital and the ratio of the Bank's capital for the year ended 31 December.

	<u>2010</u> US\$000	<u>2009</u> US\$000
Tier 1 capital		
Share capital	166,372	166,300
Share premium	18,039	18,002
General reserve	131,649	114,448
Retained earnings	140,619	122,417
Total Tier 1 capital	456,679	421,167
Tier 2 capital		
Collective impairment allowance	8,344	5,719
Total Tier 2 capital	8,344	5,719
Total statutory capital	465,023	426,886
Risk - weighted assets:		
On-statement of financial position	1,767,698	1,240,957
Off-statement of financial position	139,560	119,900
Total risk-weighted assets	1,907,258	1,360,857
Basel ratio	24%	31%

The increase of the statutory capital in 2010 is primarily due to increase in profits and share capital subscriptions. The increase of risk weighted assets arises mainly from expansion of the lending business as reflected in the loan volumes.

## 4. FAIR VALUE OF FINANCIAL INSTRUMENTS

Estimated fair value is the amount at which an instrument could be exchanged in a current transaction between willing parties other than enforced or liquidation sale. The fair value of financial instruments recognized on the statement of financial position approximate to their carrying amounts as they bear variable interest rates determined under market conditions. The fair values of financial instruments not recognized on the statement of financial position are the same figures appearing as contingent liabilities and commitments (see note 7).

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## 5. DERIVATIVE FINANCIAL INSTUREMENTS

The Bank enters into interest rate swaps and foreign exchange forward contracts to hedge its exposure to changes in the fair value and cash flows attributable to changes in market interest and exchange rates on its assets and liabilities.

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities at year-end.

	<u>2010</u>	2009
	<u>US\$000</u>	<u>US\$000</u>
Assets		
Interest rate swap	444	474
Foreign exchange forward contracts	-	27,089
	444	27,563
Liabilites		
Foreign exchange forward contracts		26,800

Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts, in relation to movements in a specified underlying index such as an interest rate, foreign currency rate or equity index.

Interest rate swaps relate to contracts taken out by the Bank with other financial institutions in which the Bank either receives or pays a floating rate of interest in return for paying or receiving, respectively, a fixed rate of interest. The payment flows are usually netted against each other, with the difference being paid by one party to the other. The balance of US\$ 3,019,000 (asset) and US\$ 2,575,000 (liability) relates to accrued interest from interest rate swap.

In a foreign exchange swap, the Bank pays a specified amount in one currency and receives a specified amount in another currency. Foreign exchange swaps are settled gross.

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED DECEMBER 31, 2010

The following shows the interest rate derivative contracts that the Bank held at 31 December.

#### **Interest rate derivative contracts:**

Interest rate swap

2010 2009 US\$000 US\$000 270.000 270.000

The Bank entered into interest rate swap to hedge US\$ 270 million received from the debt securities issued on 13 November 2009 with fixed interest rate. The swap exchanged fixed rate for floating rate on funding to match floating rates received on assets. In respect of fair value hedges, loss of US\$ 6,000 arose on the hedging instruments during the year, as the carrying value of interests rate swap is less than the fair value.

#### **Foreign exchange derivative contracts:**

The Bank uses forward foreign exchange contracts to manage its exposure to foreign currency.

The following shows the foreign exchange derivative contracts that the Bank held at 31 December.

	2010 US\$000	2009 US\$000
Forward foreign exchange contracts		26,800

# 6. <u>Critical accounting estimates and judgements in applying</u> accounting policies

The preparation of financial statements involves management estimates and assumptions that may affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Bank reviews its loan portfolio regularly to assess whether a provision for impairment should be recorded in the statement of comprehensive income. In particular, considerable judgment by management is required in the estimation of the amount and timing of

future cash flows when determining the level of provisions required. Such estimates are necessarily subjective based on assumptions about several factors involving varying degrees of judgment and uncertainty. Consequently, actual results may differ resulting in future changes to such provisions.

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# 7. CONTINGENT LIABILITIES AND COMMITMENTS AND LEASE ARRANGEMENTS

## 7.1. Contingent liabilities

	2010 US\$000	2009 US\$000
Letters of credit	49,686	28,888
Guarantees	70,976	-
	120,662	28,888

The credit risk associated with these transactions is considered minimal because the Bank receives letter of credit from sound parties. To limit credit risk, the Bank deals exclusively with creditworthy counterparties.

#### **Commitments**

#### 7.1.1. Credit lines and other commitments to lend

The contractual amounts of the Bank's commitment not recognized on the statement of financial position as at 31 December are indicated below.

	<u>2010</u>	<u>2009</u>
	<u>US\$000</u>	<u>US\$000</u>
Less than one year	108,915	198,017
More than one year	54,025	120,682
	162,940	318,699

## 7.2. <u>Lease arrangements</u>

#### 7.2.1. Operating lease commitments - Bank as lessee

Where the Bank is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

	2010 US\$000	2009 US\$000
After one year but not more than five years	213	311

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED DECEMBER 31, 2010

# **INTEREST INCOME**

	<u>2010</u>	<u>2009</u>
	<u>US\$000</u>	<u>US\$000</u>
Interest on loans and advances	72,675	58,141
Interest on money market investments	1,121	598
	73,796	58,739

Interest income accrued on impaired financial assets is US\$ 376,000 (2009: US\$ 378,000)

# **INTEREST EXPENSE**

	<u>2010</u>	<u>2009</u>
	<u>US\$000</u>	<u>US\$000</u>
Interest on due to banks	17,126	17,062
Interest on debt securities in issue	23,866	3,142
Interest on shareholder and customer deposits	12	16
	41,004	20,220

Interest on debt securities above is reduced by US\$ 3,101,000 (2009: US\$ 474,000), which is the net of accrued interest due from interest rate derivative contracts.

# 10. FEES AND COMMISSION INCOME

	<u>2010</u>	<u>2009</u>
	<u>US\$000</u>	<u>US\$000</u>
Acceptance commissions and participation fees	18,136	14,200
Arrangement and investment banking fees	34,384	15,012
Management, commitment and other fees	4,033	2,352
	56,553	31,564

# 11. FEES AND COMMISSION EXPENSE

	<u>2010</u>	<u>2009</u>
	<u>US\$000</u>	<u>US\$000</u>
Participation and arrangement fees	18,197	8,190
Other fees paid	1,619	444
	19,816	8,634

# 12. OTHER OPERATING INCOME

	<u>2010</u>	<u>2009</u>
	<u>US\$000</u>	<u>US\$000</u>
Rental income	1,813	1,732
Other income	633	419
	2,446	2,151

# 13. PERSONNEL EXPENSES

Personnel expenses are made up as follows:

	<u>2010</u>	<u>2009</u>
	<u>US\$000</u>	<u>US\$000</u>
Wages and salaries	7,157	4,452
Staff provident fund costs (note 2.11)	576	410
Other employees benefits	3,456	2,395
	11,189	7,257

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED DECEMBER 31, 2010

# 14. GENERAL AND ADMINISTRATIVE EXPENSE

General and administrative expenses are made up as follows:

	<u>2010</u>	<u>2009</u>
	<u>US\$000</u>	<u>US\$000</u>
On continued uniquious and atatatate un un action as	2.044	2 200
Operational missions and statutory meetings	3,044	3,380
Professional services fees	1,015	962
Communications	1,134	820
Office rent	518	487
Other general and administrative expenses	1,942	1,442
	7,653	7,091

Professional services fees include US\$ 64,000 (2009: US\$ 60,000) in respect of external auditors' fees.

# 15. EARNINGS PER SHARE

Earnings per share are calculated by dividing the net income attributable to equity holders of the Bank by the weighted average number of ordinary shares in issue during the year.

Net income attributable to equity holders of the Bank have been calculated on the basis of assuming that all the net income for the year is distributed.

	<u>2010</u>	2009
Net income attributable to equity holders		
of the Bank (US\$ 000)	44,403	42,613
Weighted average number of ordinary shares in issue	41,605	41,435
Basic and diluted earnings per share (expressed in US\$ 000 per share)	1.07	1.03

Diluted earnings per share are the same as basic earnings per share as there were no dilutive potential ordinary shares.

# 16. CASH AND DUE FROM BANKS

	<u>2010</u>	<u>2009</u>
	<u>US\$000</u>	<u>US\$000</u>
Cash in hand	26	22
Due from banks	80,976	94,864
	81,002	94,886

# 17. LOANS AND ADVANCES TO CUSTOMERS

	<u>2010</u>	2009
	<u>US\$000</u>	<u>US\$000</u>
Loans and advances to customers	1,678,849	1,154,528
Less: Allowance for impairment (note 18.1)	(17,600)	(9,865)
Net loans and advances	1,661,249	1,144,663
Current	1,363,258	930,439
Non-current	297,991	214,224
	1,661,249	1,144,663

The fair value of the loan portfolio is approximately equal to the carrying amount because most of the loans bear a variable interest rate and are given at market conditions and terms.

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED DECEMBER 31, 2010

# 18. ALLOWANCE FOR IMPAIRMENT ON LOANS AND ADVANCES AND **PROVISIONS**

# 18.1 Allowance for impairment on loans and advances

Reconciliation of allowance for impairment of loans and advances is as follows:

## (a) Statement of Financial Position

<u> 2010</u>	<u>2009</u>
<u>\$000</u>	<u>US\$000</u>
9,865	12,906
7,735	3,229
-	(6,146)
-	(124)
,600	9,865
	9,865 7,735 - -

# (b) Statement of Comprehensive Income

	2010 US\$000	<u>2009</u> <u>US\$000</u>
Impairment charge for the year	7,735	3,229
Loans written off during the year	-	(2)
Repayment of impaired loans during the year	-	(124)
	7,735	3,103

## 18.2 Provisions

Reconciliation of provisions is as follows:

# (a) Statement of Financial Position

	<u>2010</u>	<u>2009</u>
	<u>US\$000</u>	<u>US\$000</u>
Balance as at 1 January	954	948
Provision for the year	187	176
Exchange adjustments	-	14
Provision no longer required	(205)	(184)
Balance at 31 December (note 20)	936	954
•		

## (b) Statement of Comprehensive Income

	<u>2010</u>	<u>2009</u>
	<u>US\$000</u>	<u>US\$000</u>
Provision for possible losses on other assets	168	176
Provision for leave pay	19	123
	187	299

# 19. PREPAYMENTS AND ACCRUED INCOME

	<u>2010</u>	<u>2009</u>
	<u>US\$000</u>	<u>US\$000</u>
Accrued income	32,265	19,577
Other prepayments	16,319	17,197
	48,584	36,774

# 20. OTHER ASSETS

	<u>2010</u>	<u>2009</u>
	<u>US\$000</u>	<u>US\$000</u>
Other receivables	2,191	2,151
Sundry debtors	41	265
Less: Provision for possible losses on other assets (note 18.2)	(936)	(954)
	1,296	1,462

Other receivables above mainly relate to taxes recoverable from some member countries in accordance with Article XIV of the Agreement for the Establishment of African Export-Import Bank (note 32).

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED DECEMBER 31, 2010

# 21. PROPERTY AND EQUIPMENT

The details of property and equipment are as follows:

	<u>2010</u> US\$000	2009 US\$000
Cost	<u>==,,==</u>	
- Land	6,221	6,221
- Building	13,667	13,667
- Motor vehicles	468	374
- Furniture and equipment	2,860	2,414
- Leasehold improvements	1,009	1,009
Less: Government grant	(6,187)	(6,187)
Less : Accumulated depreciation		
- Building	(2,459)	(1,776)
- Motor vehicles	(211)	(146)
- Furniture and equipment	(2,107)	(1,810)
- Leasehold improvements	(413)	(138)
Net carrying value as at 31 December	12,848	13,628
Movement during the year		
Net carrying value as at 1 January	13,628	13,065
Additions and disposals at cost		
- Addition to motor vehicles	94	204
- Addition to furniture and equipment	457	425
- Addition to leasehold improvements	-	1,009
- Disposal of motor vehicles	-	(27)
- Disposal of furniture and equipment	(6)	-
-Adjustment to building cost	-	6
Accumulated Depreciation		
- Disposal of motor vehicles	-	27
- Disposal of furniture and equipment	6	-
- Depreciation charge for building	(683)	(661)
-Depreciation charge for motor vehicles	(65)	(23)
- Depreciation charge for furniture and equipment	(377)	(260)
- Depreciation of leasehold improvements	(206)	(137)
Net carrying value as at 31 December	12,848	13,628

Adjustment to building cost relates to difference between the accrued variation cost in year 2008 and the actual payment made in year 2009.

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The Bank moved to new Headquarters in Heliopolis in November 2010, as a result the Headquarters building which was previously classified as Investment Property in 2009 is now included in Property and Equipment.

The government grant above relates to land received in 1996 from the Government of Arab Republic of Egypt, for the purpose of building the Bank's Headquarters' premises in Cairo, Egypt.

The Bank also has property (i.e. land and improvements thereon) received in 1996 from the Government of Zimbabwe, for the purpose of building the branch offices in Harare, Zimbabwe. The property is subject to use only while the branch offices are in Harare, Zimbabwe.

# 22. DUE TO BANKS

	<u>2010</u>	<u>2009</u>
	<u>US\$000</u>	<u>US\$000</u>
Current	739,314	618,189
Non current	284,702	<u>-</u>
	1,024,016	618,189

There is no collateral against the above due to banks. The fair value of the due to banks is approximately equal to carrying value, as they are drawn down under variable interest rates, market conditions and terms.

## 23. DEBT SECURITIES IN ISSUE

On 13 November 2009, the Bank issued, under an EMTN Programme, US\$ 300 million bonds (or senior notes) payable with a fixed coupon rate of 8.75% p.a. The entire debt matures in November 2014. Fitch Ratings assigned these bonds an investment grade rating (BBB-).

Debt securities at amortised cost:

<u> 2010</u>	<u>2009</u>
<u>US\$000</u>	<u>US\$000</u>
300,000	300,000
(3,605)	(4,321)
296,395	295,679
	300,000 (3,605)

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED DECEMBER 31, 2010

# DEPOSITS AND CUSTOMER ACCOUNTS

	<u>2010</u>	<u>2009</u>
	<u>US\$000</u>	<u>US\$000</u>
Shareholders' deposits for shares	5,909	5,882
Deposit accounts	9,313	21,441
Customer accounts	78,170	29,347
	93,392	56,670

In terms of customer group, the deposits and customer accounts above were from sovereigns, enterprises and financial institutions.

The fair value of the deposits of customer accounts approximate to carrying value, as they have variable interest rates.

# 25. OTHER LIABILITIES

	<u>2010</u>	<u>2009</u>
	US\$000	US\$000
Retentions	37	148
Prepaid and unearned income	10,814	8,129
Dividends payable	8,285	4,524
Deposit from tenants	424	424
Accrued expenses	10,097	9,820
Sundry creditors	1,582	1,430
Legal fees deposits	3,702	2,277
	34,941	26,752

# 26. SHARE CAPITAL

The share capital of the Bank is divided into three classes, payable in five equal installments, of which the first two installments have been called up. Shareholders can use their dividend entitlements to acquire more shares.

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Class A shares which may only be issued to (a) African states, either directly or indirectly through their central banks or other designated institutions, (b) the African Development Bank, and (c) African regional and sub-regional institutions;

Class B shares which may only be issued to African public and private commercial banks, financial institutions and African public and private investors; and

Class C shares which may only be issued to (a) international financial institutions and economic organizations; (b) non-African or foreign owned banks and financial institutions; and non-African public and private investors.

	<u>2010</u>	2009
	<u>US\$000</u>	<u>US\$000</u>
Authorized capital		
75,000 ordinary shares of US\$ 10,000 each.	750,000	750,000
Paid - in share capital		
Paid in capital - Class A	105,495	105,442
Paid in capital - Class B	43,685	43,676
Paid in capital - Class C	17,192	17,182
	166,372	166,300

The movement in paid up share capital is summarised as follows:

	<u>2010</u>		<u>20</u>	<u>2009</u>	
	No. of shares	<u>US\$000</u>	No. of shares	<u>US\$000</u>	
At 1 January	41,604	166,300	41,310	165,082	
Paid up from dividends during the year	6	72	94	418	
Paid up cash during the year	-	-	200	800	
At 31 December	41,610	166,372	41,604	166,300	

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED DECEMBER 31, 2010

# 27. SHARE PREMIUM

Premiums from the issue of shares are reported in the share premium. The movement in share premium is summarised as follows:

	<u>2010</u>		<u>2009</u>	
	No. of shares	<u>US\$000</u>	No. of shares	<u>US\$000</u>
At 1 January	41,604	18,002	41,310	16,605
Paid up from dividends during the year	6	37	94	492
Paid up cash during the year	-	-	200	905
At 31 December	41,610	18,039	41,604	18,002

# 28. GENERAL RESERVE

	<u>2010</u>	<u>2009</u>
	<u>US\$000</u>	<u>US\$000</u>
Balance at 1 January	114,448	97,641
Transfer for the financial year	17,201	16,807
Balance at 31 December	131,649	114,448

The general reserve is set up in accordance with Article 31 of the Bank's Charter in order to cover general banking risks, including future losses and other unforeseeable risks or contingencies.

# 29. DIVIDENDS

After the reporting date, the directors proposed dividends appropriations amounting to US\$ 10,000,000 (2009: US\$ 9,000,000). The 2010 dividend appropriation is subject to approval by the shareholders in their Annual General Meeting. These financial statements do not reflect the dividend payable, which will be accounted for in the shareholders' equity as an appropriation of retained earnings in the year ending 2011.

Dividends per share is summarised as follows:

	<u>2010</u>	<u>2009</u>
Dividends per share		
Dividends appropriations (US\$000)	10,000	9,000
Number of shares at 31 December	41,610	41,604
Dividends per share (US\$000)	0.24	0.22

# 30. RELATED PARTY TRANSACTIONS

The Bank's principal related parties are its shareholders. The Bank transacts commercial business such as loans and deposits directly with the shareholders themselves and institutions which are either controlled by the shareholder governments or over which they have significant influence.

The details of the related party transactions are as follows:

#### 30.1. Loans and advances to related parties

	<u>2010</u>	<u>2009</u>
	<u>US\$000</u>	<u>US\$000</u>
Outstanding loans at 1 January	49,038	27,619
Loans disbursed during the year	1,770	64,980
Loan repayments during the year	(40,658)	(43,561)
Outstanding loans at 31 December	10,150	49,038
Interest income earned during the year	3,399	3,295
Fees and commission earned during the year	281	2,564

Loans to related parties are made at market interest rates and subject to commercial negotiations as to terms.

#### **30.2.** Deposits from related parties

	<u>2010</u>	<u>2009</u>
	<u>US\$000</u>	<u>US\$000</u>
Deposits at 1 January	-	7,139
Deposits received during the year	2,657	4,953
Deposits repaid during the year	(2,657)	(12,092)
Deposits at 31 December	-	
Interest expense on deposits		1

The above deposits are unsecured, carry variable interest rates and are repayable on demand within 3 months or less.

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED DECEMBER 31, 2010

## 30.3. Key management personnel compensation

Compensation paid to the Bank's management and directors during the year is as follows:

	<u>2010</u>	<u>2009</u>
	<u>US\$000</u>	<u>US\$000</u>
Salaries and short-term benefits	3,695	2,866
Post-employment benefits	149	128
Termination benefits	268	138
	4,112	3,132

The Bank also provides loans and advances to its staff, including those in management. Such loans and advances are guaranteed by the staff terminal benefits payable at the time of departure from the Bank. The staff loans and advances are interest bearing and are granted in accordance with the Bank's Rules and Regulations. At 31 December 2010, outstanding balances on loans and advances to management staff amounted to US\$ 252,000 (2009: US\$188,000). Short-term benefits above include meeting allowances for Board members and staff allowances for children's education, dependency, home leave and housing.

No loans to related parties were written off in 2010 and 2009.

# 31. SEGMENT REPORTING

The Bank is multilateral trade finance institutions whose products and services are similar in nature, and are structured and distributed in a fairly uniform manner across borrowers. In the opinion of management, the Bank operates in a single operating segment.

## 32. TAXATION

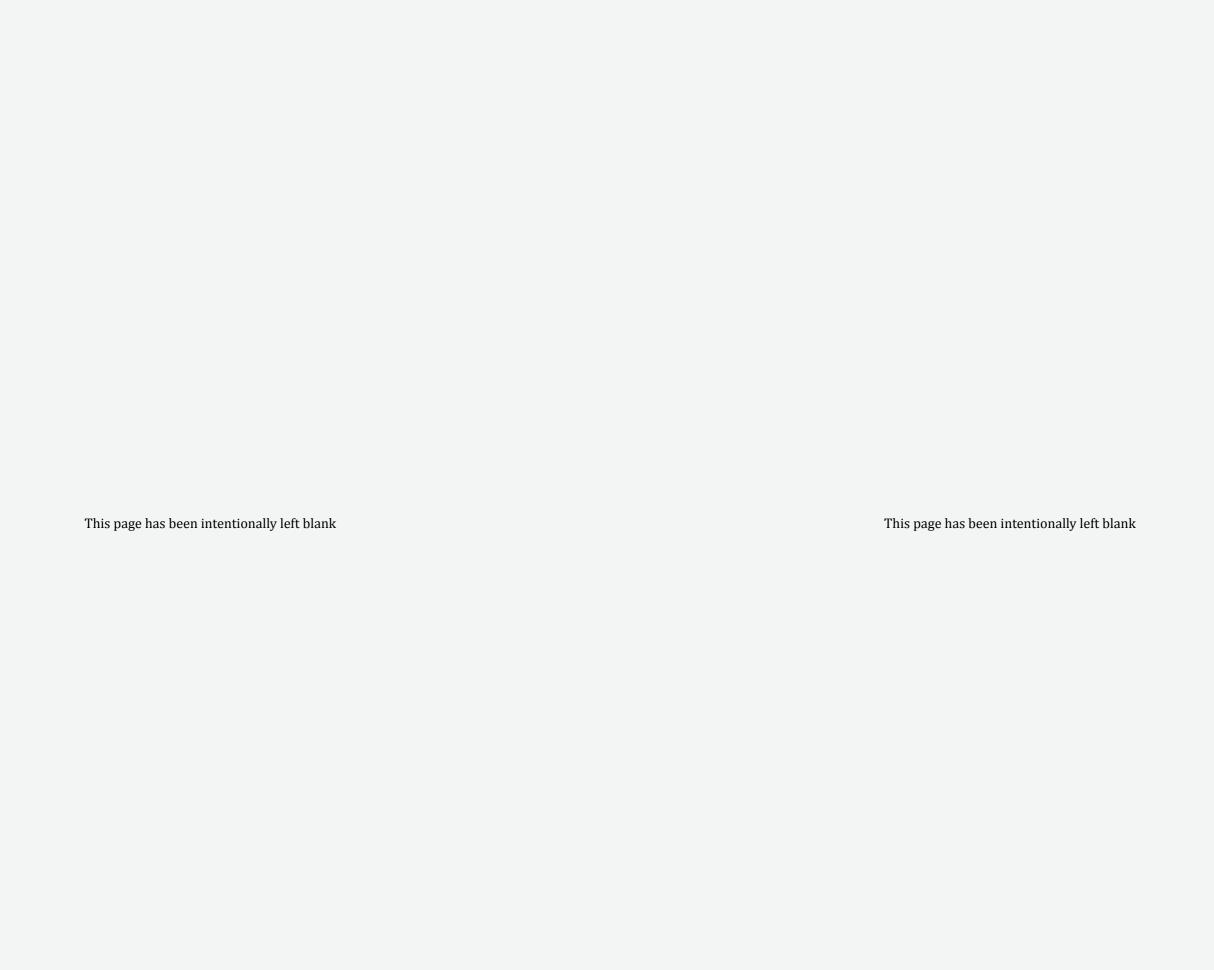
According to Article XIV of the Agreement for the Establishment of African Export-Import Bank, which is signed and ratified by African member countries, the Bank's property, assets, income, operations and transactions are exempt from all taxation and custom duties.

# 33. EVENTS AFTER THE DATE OF THE STATEMENT OF FINANICAL POSITION

There are no material events after the reporting date that would require disclosure or adjustment to these financial statements.

# 34. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on 26 March, 2011.



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