

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



ANNUAL REPORT 2012

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(AFREXIMBANK)**



**ANNUAL REPORT
AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012**

TABLE OF CONTENTS

	Transmittal Letter	6
	Vision and Mission Statements	7
	Board of Directors	8
	Management	9
	External Auditors	9
	Performance Highlights	10
14	INTRODUCTION / EXECUTIVE SUMMARY	
18	THE OPERATING ENVIRONMENT	
	The Global Economic Environment	20
	The African Economic Environment	41
56	AFREXIMBANK OPERATIONS AND ACTIVITIES	
	Introduction	56
	Review of Credit Operations	58
	Analysis of Transactions	67
	Treasury Activities	71
	Shareholder Matters	74
	Meetings and Cooperation	75
	The Board	88
	Membership Mobilization	89
	Branches	89
	Trade Information	90
	Personnel and Administration	90
	Banking Relationships	91
	Awards	91
94	TRADE DEVELOPMENT IMPACT OF THE BANK'S OPERATIONS AND ACTIVITIES	
	Introduction	94
	Channels of Developmental Impact	95
104	OPERATING RESULTS FOR FINANCIAL YEAR ENDED DECEMBER 31, 2012	
	Introduction	104
	Statement of Comprehensive Income	104
	Statement of Financial Position	107
	Conclusions	108
109	FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012	

LIST OF TABLES

Table 2.1	Developments in Global Output and Prices, 2010 - 12	21
Table 2.2	Africa: Real GDP Growth, 2010 - 12 (<i>annual percent change</i>)	42
Table 2.3	Africa: Inflation, 2010 - 12 (<i>annual percent change</i>)	44
Table 2.4	Reserve Position of African Countries, 2010 - 12 (<i>In US\$ million unless otherwise indicated</i>)	45
Table 2.5	Africa: Exchange Rate Developments, 2010 - 12 (<i>per US\$ unless otherwise indicated</i>)	47
Table 2.6	Nominal Price Developments for Commodities of Export Interest to Africa, 2010 - 12 (<i>in US\$/metric tonnes unless otherwise indicated</i>)	48
Table 2.7	Afreximbank Price Index, 2010 - 12 (<i>2005 = 100</i>)	50
Table 2.8	Africa: World Trade, 2010 - 12 (<i>in US\$ billion unless otherwise indicated</i>)	52
Table 2.9	Intra-African Trade, 2010 - 12 (<i>in US\$ billion unless otherwise indicated</i>)	53
Table 3.1	Afreximbank: Distribution of Loan Approvals and Outstandings by Type of Programme, 2010 - 12	59
Table 3.2	Afreximbank: Distribution of Loan Approvals and Outstandings by Sector, 2010 - 12	67
Table 3.3	Afreximbank: Distribution of Loan Approvals and Outstandings by Type of Beneficiary Institution, 2010 - 12	68
Table 3.4	Afreximbank: Distribution of Loan Approvals and Outstandings by Trade Direction, 2010 - 12	69

LIST OF FIGURES

Figure 2.1	Global Output and Inflation, 2011 - 12 (<i>annual percent change</i>)	22
Figure 2.2	Growth Rates of Merchandise Trade Volume in Major Regions of the World, 2010 - 12 (<i>annual percent change</i>)	40
Figure 2.3	Africa: Output and Inflation by Region, 2011 - 12 (<i>annual percent change</i>)	43
Figure 3.1a	Afreximbank : Facility approvals, 2010 - 12	58
Figure 3.1b	Afreximbank: Credit outstanding as at December 31, 2010 - 12	58
Figure 3.2	Afreximbank: Distribution of Loan Approvals by Sector, 2011 - 12 (<i>percent</i>)	67
Figure 3.3	Afreximbank: Number and Average Size of Approved Transactions, 2010 - 12	70
Figure 3.4	Average Maturities and Variance, 2010 - 12 (<i>days</i>)	70
Figure 3.5	Syndications/Club Deals Arranged or Co-arranged by the Bank, 2010 - 12	70
Figure 5.1	Afreximbank: Cost to income ratio: 2008 - 12	106
Figure 5.2	Afreximbank: Assets (<i>US\$ thousands</i>): 2008 - 12	108

LIST OF BOXES

Box 2.1	Growing Access of African Sovereigns to the International Bond Market for Infrastructure Development: The Drivers, Opportunities and Prospects	28
Box 2.2	Powering Africa's Economic Transformation: The Trade Or Aid Debate	34
Box 3.1	Transforming Africa's Cocoa Industry: Introducing Afreximbank's Africa Cocoa Initiative (AFRICOIN)	61
Box 3.2	Promoting Africa – South Trade: Key Issues and Recommendations Arising from the 18th Meeting of the Bank's Advisory Group on Trade Finance and Export Development held on the Sidelines of the 19th Annual General Meeting of Afreximbank during July 11–13, 2012 in Beijing, China	79

TRANSMITTAL LETTER

March 23, 2013

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, 2012 to December 31, 2012, 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.

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”	Dr. Caleb Fundanga Director
	Mr. Stefan Luis-François Nalletamby Director
	Hon. Yerima Lawan Ngama Alternate Director
	Mr. Mahmoud Abd El-Aziz Mahmoud Saad Director
Class “B”	Dr. Gideon Gono Director
	Mr. Jean-Marie Benoit Mani Director
	Mr. Victor-Jérôme Nembelessini-Silué Director
	Mr. Aomar Yidar Director
Class “C”	Mr. Anil Dua Director
	Mr. Liu Liange Director
“Independent”	Mr. Franklin Hugh Kennedy Director
	Mr. Ronald Sibongiseni Ntuli Director
Executive Secretary	Dr. George Elombi

MANAGEMENT

Jean-Louis EKRA President
Benedict O. Oramah Executive Vice President (Business Development and Corporate Banking)
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)
Amr Kamel Director (Operations)

EXTERNAL AUDITORS

1.

Ernst & Young
2.

Deloitte & Touche

PERFORMANCE HIGHLIGHTS

30%

year-on-year increase in Total Assets to US\$3.7 billion at the end of 2012.

33%

year-on-year rise in Gross Loans Outstanding to US\$3.1 billion at the end of 2012.

18%

year-on-year increase in Operating Income to US\$105 million in 2012.

12%

year-on-year increase in Net Income to US\$64.8 million in 2012.

Loan Approvals during 2012

(US\$m)

Line of Credit Programme	1,252.9
Note Purchase Programme	100.0
Receivables Purchase/Discounting Programme	8.0
Direct Financing Programme	727.0
Project-Related Financing Programme	95.2
Syndications Programme	894.5
Special Risk Programme	125.0
Future-Flow Pre-Financing Programme	508.9

CAIRO, EGYPT
Headquarters

ABUJA, NIGERIA
Branch

HARARE, ZIMBABWE
Branch

US\$6.1

Leveraged US\$6.1 for every US\$1 committed by the Bank under its Syndicated Programme (US\$3.4 in 2011).



11.5%

Return on Equity (ROE) in 2012.

2%

Non-Performing Loans (NPL) as a share of Gross Loans in 2012.



26%

Cost-Income ratio in 2012 compared to industry average of over 50%.

KEY MACROECONOMIC FACTS

- The rate of real GDP growth of African economies, as a group, recovered from 2.4% in 2011 to 4.7% in 2012.
- The average rate of inflation for African economies, as a group, slowed from 9.71% in 2011 to 9.28% in 2012.
- Total African trade rose by 10% year-on-year to US\$1,281 billion in 2012.
- Intra-African trade increased by about 11% year-on-year to US\$144.3 billion in 2012.



CHAPTER ONE

INTRODUCTION / EXECUTIVE SUMMARY

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 2012. The Report has been prepared in conformity with the corporate practice and reporting requirements of the Bank.

1.2 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. Chapter 3 presents the activities and operations of the Bank in the context of the operating environment reviewed 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 2012 financial performance of the Bank in Chapter 5.

1.3 The Report shows that the pace of global economic recovery, which lost momentum in 2011, weakened during 2012 particularly during the first half of the review period on account of a heightening of global economic uncertainties and weak market confidence. Accordingly, the rate of growth of global output which slowed significantly from 5.1% in 2010 to 3.9% in 2011, decelerated further to 3.2% in 2012. Behind the observed weakening of the global economy were unexpected year-on-year contraction in output in a number of Eurozone countries coupled with significant slowdown of the German economy and a contraction of the French economy, the two flagship economies of the Eurozone; a worsening of the sovereign debt crises in Greece, Spain, Portugal and Italy; obvious lack of agreement among the Eurozone leaders on the appropriate set of policy measures needed to decisively address



the sovereign debt crisis and its adverse effect on the financial health of a number of banks in the region; growth-constraining effects of deep fiscal cuts across a number of Organization of Economic Cooperation and Development (OECD) economies in an attempt at addressing fiscal challenges and putting their sovereign debts on sustainable path; disorderly deleveraging and recapitalisation challenges of many European banks which adversely impacted activity in international credit markets and thus consumer and investment spending in general; and a significant slowdown of major developing economies such as China, India, Brazil, Argentina and Malaysia, among others.

Other factors that weighed down the global economic recovery during the review period were subtle recourse to protectionist trade policies by a number of advanced

and emerging economies in their attempts at stimulating domestic output growth and exports; unresolved difficulties in concluding the Doha Round of Multilateral Trade Talks; devastating effects of series of natural disasters that affected activity across many developed and developing countries; unresolved geopolitical tensions in the Middle East fuelled in part by international disagreements over Iran’s Nuclear programme and lack of progress regarding resolution of the Israeli-Palestinian conflict, which degenerated into hostilities during the first half of the review period; and pockets of socio-political difficulties in Egypt, Syria, Yemen, Libya, Mali, Democratic Republic of Congo, Central African Republic, Sudan/South Sudan, Philippines, Afghanistan, Colombia, and Pakistan, among others.

It is pertinent to note, however, that the estimated 3.2% expansion of the global economy seen in 2012 was better-than-expected, given the multiplicity of socio-economic shocks that impacted the global economy, especially during the first half of the review period. The continued expansion of the global economy witnessed in 2012 was supported by unrelenting pursuit of accommodative monetary policies in the form of low policy rates across the OECD countries and many developing economies; continued expansion of global trade, albeit at a slower pace compared to 2011; gradual-but-steady pick-up in industrial production in major trading nations, including the US, Japan, China, Russia, Indonesia, Brazil, South Korea, India and Turkey in response to firm import demand from emerging and developing economies; continued expansion of the group of developing economies, albeit at a slower rate, led by China and India; unrelenting efforts of European governments, the

US\$3.13 billion

Gross loans outstanding increased by about 33% year-on-year to reach US\$3.13 billion at the end of 2012

US\$3.7 billion

Total assets of the Bank rose by about 29% to US\$3.7 billion at the end of 2012, from a level of US\$2.87 billion at the end of 2011.

European Central Bank (ECB), policy makers of the OECD economies and multilateral institutions, such as the World Bank and the International Monetary Fund (IMF), aimed at addressing the fiscal challenges facing the Eurozone economies and averting a possible break-up of the bloc; and unwavering coordination of macroeconomic policies among developed and major developing countries under the auspices of the Group of Twenty (G20), the IMF and the World Bank, among others, for the purpose of stimulating global output growth.

1.4 During the review period, the level of economic activity across African economies, as a group, rose sharply despite the worsening of the Eurozone debt crisis and other forms of socio-economic difficulties that emerged in the global and African economic environments. In this regard, the rate of growth of African economies; as a group, which slowed sharply from 4.3% in 2010 to 2.4% in 2011, strengthened to 4.7% in 2012.

The strong rebound of the African economies witnessed in 2012 amid the multiplicity of the socio-economic challenges that impacted the global and African economies, such as socio-political difficulties that emerged in Mali and Central African Republic and the Sudan/South Sudan conflict, was supported by continued recourse to sound macroeconomic policies by many African governments; gradual but steady pick-up in external capital inflows, especially foreign direct investment (FDI) from major economies in the South (for example China, India and Brazil) into Africa's extractive and service industries; robust expansion of activity in the services sector, especially telecommunications, banking and the housing and construction industries; firm prices of two broad commodity groups of trade interest to the continent (namely Energy and Metals/Minerals) and increased production of many commodities driven by continued pursuit of export-led growth strategies, which contributed to a significant rise in export earnings and overall level of



African trade; continued improvement in quality of democratic governance and the consequent political stability which spurred investment spending across the continent; and modest pick-up in tourism receipts and migrant remittances, among other growth-enhancing factors.

1.5 The continued expansion of the global and African economies and other positive developments in the operating environments supported the Bank's operations and activities during the period under review. In this regard, the value of financing applications received by the Bank during 2012 rose by 10% year-on-year to US\$22.0 billion. Facility approvals declined by a marginal 1% year-on-year to reach US\$3.71 billion, reflecting a tightening of the credit appraisal and approval processes within the framework of the newly installed Risk Management Policies and Procedures (RMPP) of the Bank. Gross loans outstanding, however, increased by about 33% year-on-year to reach US\$3.13 billion at the end of 2012 as a result of increased utilisation of the Bank's credit facilities and operational efficiency emanating partly from on-going process improvements. Following the strong growth in loans, total assets of the Bank also

rose by about 29% to US\$3.7 billion at the end of 2012, from a level of US\$2.87 billion at the end of 2011.

1.6 It is worth noting that, as in the previous years, the operations and activities of the Bank impacted trade and economic development across the continent through several channels, including the promotion of local content across Africa's enclave extractive industries; financing of trade-supporting infrastructure especially, in aviation, power and telecommunications; strengthening of local industries in member countries via promoting and financing of extension and/or modernization of capacities for processing of goods for domestic and foreign markets; and supporting on-going efforts at diversification of exports by financing the processing of commodities; among others, as elaborated in detail in Chapter 4 of this Report. Further, the Bank, during the period, continued with ongoing efforts at leveraging external financing to support trade and economic development in the continent. It is pertinent to note that net effect of these operations and activities of the Bank as discussed in Chapter 4 of this Report reflect/include increase in export receipts,

intra-African trade, improvement in trade-supporting infrastructure, improved share of value added exports, export diversification and encouraged participation of African entities in the extractive sectors.

1.7 Looking forward, the Bank expects further improvements in the global and African economic environments driven by expected strengthening of the US and other major advanced and developing economies, such as Germany, France, Japan, China and India, and definitive resolution of the sovereign debt crisis of the Eurozone, among others. However, some downside risks remain. These risks include pockets of on-going political difficulties in some parts of Africa and the Middle East; potential growth dampening effect of the Eurozone debt crisis particularly if many of the on-going remedial measures such as deep cuts in government spending should be suspended as a result of mounting public opposition, or many of the measures fail to yield the desired outcomes; rising international tensions over Iran's Nuclear Programme; and potential recourse to protectionists measures should current disagreements in the stalled Doha Round of Multilateral Trade Talks remain unresolved.

Nevertheless, the Bank expects its activities in 2013 to be lifted by expected improvements in international credit markets, which would spur activity in the syndications and bond markets, offering it better access to financing. Further, expected improvements in debt service capacity of African counterparties buoyed by rising export receipts, as well as efficiency gains in transaction origination and loan management capabilities of the Bank are expected to boost the Bank's business in 2013. Against this backdrop and the additional liquidity expected from the on-going equity mobilisation exercise, the Bank forecasts full year loan assets to maintain its upward trend to US\$3.9 billion with total assets estimated to exceed US\$4.46 billion by the end of 2013. Net income is also forecast to rise to US\$130 million in 2013, from a level of US\$64.8 million in 2012.



CHAPTER TWO
**THE OPERATING
ENVIRONMENT**

2. THE OPERATING ENVIRONMENT

2.1 THE GLOBAL ECONOMIC ENVIRONMENT

2.1.1 Global Output

The pace of global economic recovery, which lost momentum in 2011, weakened during 2012 particularly during the first half of the review period on account of a heightening of global economic uncertainties and weak market confidence. Accordingly, the rate of growth of global output weakened to 3.2% in 2012, from respective levels of 5.1% and 3.9% in 2010 and 2011 (Table 2.1 and Figure 2.1). Responsible for the weakening of the global economic recovery were unexpected contraction in output in a number of Eurozone countries, including change to “Greece (-6.4%), Portugal (-3.2%), Italy (-2.4%), Slovenia (-2.3%), Cyprus (-2.3%), Spain (-1.4%) and the Netherlands (-0.9%) in 2012 coupled with a significant slowdown of the German economy and a contraction of the French economy, the two flagship economies of the Eurozone; a worsening of the sovereign debt crises in Greece, Spain, Portugal and Italy; obvious lack of agreement among the Eurozone leaders on the appropriate set of policy measures required to decisively address the sovereign debt crisis and its adverse effect on the financial health of a number of banks in the region, especially those in Italy, Spain and France; growth-constraining effect of deep fiscal cuts across a number of OECD economies in an attempt at addressing their fiscal challenges and putting sovereign debts on sustainable path; disorderly deleveraging and recapitalisation challenges of many European banks which adversely impacted activity in international credit markets and thus investment spending; and a significant slowdown of major developing economies such as China (from 9.2% growth in 2011 to 7.8% in 2012), India

(from 6.8% growth in 2011 to 4% in 2012), Brazil (from 2.7% growth in 2011 to 0.9% in 2012), Argentina (from 8.9% growth in 2011 to 1.9% in 2012) and Indonesia (from 6.5% growth in 2011 to 6.2% in 2012), among others.

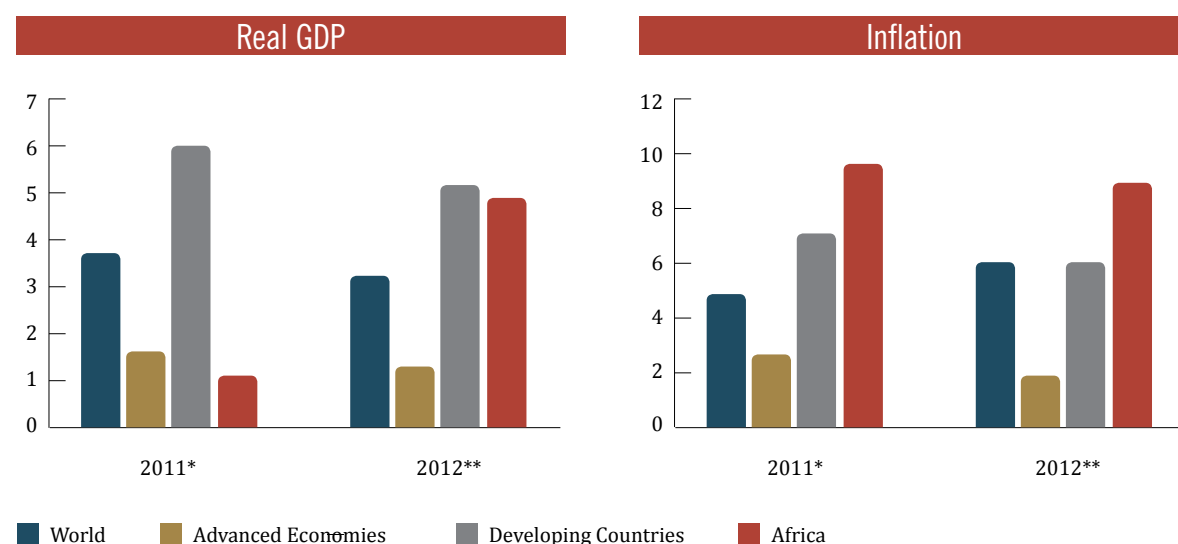
Other factors that weighed down the global economic recovery were subtle recourse to protectionist trade policies by a number of advanced and emerging economies as a way of stimulating domestic output growth and exports; unresolved difficulties in concluding the Doha Round of Multilateral Trade Talks; devastating effects of series of natural disasters that affected activity across many developed and developing economies, including floods in Nigeria, Singapore, Nepal, Pakistan, the US, the UK, Myanmar, Bangladesh, India, Peru, North Korea, Romania and Fiji, earthquake in Indonesia, Mexico, Guatemala, Chile, Myanmar, Iran, Japan, Thailand, New Zealand, US, Philippines, China, Italy, Afghanistan, and Bulgaria, among other natural disasters; unresolved geopolitical tensions in the Middle East fuelled in part by international disagreements over Iran’s Nuclear programme and lack of progress regarding resolution of the Israeli-Palestinian conflict which degenerated into hostilities during the first half of the review period; pockets of socio-political conflicts in Egypt, Syria, Yemen, Libya, Mali, Democratic Republic of Congo, Central African Republic, Philippines, Afghanistan, Colombia, and Mexico; Pakistan-Iran, Israel-Palestine, and Sudan/South Sudan.

It is worth noting, however, that the estimated 3.2% expansion of the global economy was better-than-expected, given the multiplicity of socio-economic shocks that impacted the global economy, especially during the first

Table 2.1 Developments in Global Output and Prices, 2010 - 12

	Unit	Exchange Rate (End of period)			Real GDP Growth (annual percent change)			Inflation Rate (annual percent change)			Interest Rate (3-month), % (end of period)		
		2010	2011	2012	2010*	2011*	2012**	2010*	2011*	2012**	2010	2011	2012
WORLD					5.14	3.90	3.20	3.67	4.89	4.00			
ADVANCED ECONOMIES ^{a)}					3.01	1.60	1.20	1.53	2.70	1.93			
US	\$/\$	1.00	1.00	1.00	2.40	1.80	2.20	1.60	3.10	2.00	0.22	0.25	0.31
UK	£/\$	0.65	0.65	0.62	2.90	0.90	0.20	3.30	4.50	2.70	0.80	0.50	0.52
France	€/€	0.75	0.77	0.76	1.40	1.70	-0.70	1.70	2.10	1.90	1.01	1.00	0.13
Japan	¥/\$	82.10	78.10	85.44	4.50	-0.60	2.30	-0.70	-0.30	0.00	0.17	0.10	0.13
Italy	€/€	0.75	0.77	0.76	1.50	0.40	-2.40	1.60	2.60	0.00	1.01	1.00	0.13
Canada	C\$/€	1.00	1.04	1.00	3.20	2.60	1.80	1.80	2.90	1.80	0.98	1.00	1.24
Germany	€/€	0.75	0.77	0.76	3.60	3.10	0.90	1.20	2.50	2.20	1.01	1.00	0.13
Memo Item													
EURO Area ^{b)}	€/€	0.75	0.77	0.76	2.00	1.40	-0.6	1.60	2.70	2.30	1.01	1.00	0.13
Average ^{c)}					2.79	1.41	0.61	1.50	2.49	1.51	0.74	0.69	0.37
DEVELOPING COUNTRIES ^{d)}					7.60	6.30	5.10	6.06	7.24	6.13			
Africa					4.31	2.41	4.66	6.28	9.74	9.28			
Developing Asia ^{e)}					9.51	8.00	6.60	5.70	6.50	5.00			
Middle East					4.30	3.10	3.72	6.91	9.69	10.41			
Latin America and the Caribbean					6.15	4.50	3.00	5.96	6.59	6.02			
NEWLY INDUSTRIALISED ASIAN COUNTRIES					6.95	4.49	5.42	5.69	6.55	5.04			
CENTRAL & EASTERN EUROPE					4.59	5.30	1.60	5.30	5.20	2.70			
COMMONWEALTH OF INDEPENDENT STATES					4.80	4.90	3.40	7.20	10.10	6.80			

* Revised
** Estimates
a) Figures include the G7 and other industrial countries.
b) EURO Area countries are: Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia, and Spain
c) Average relates to G7.
d) Emerging Market and Developing Countries.
e) Asia other than the Newly Industrialized Economies (i.e. Hong Kong SAR, South Korea, Singapore, and Taiwan Province of China).
Sources: 1) *The Economist* (various issues).
2) EIU Global Forecast Services, December 2012
3) EIU Country Risk Service: Main Report (various issues).
4) IMF World Economic Outlook Database (October, 2012).
5) World Bank World Development Indicators, 2012
6) Afreximbank Staff Estimates

Figure 2.1 Global Output and Inflation, 2011 - 12 (annual percent change)

Source: Derived from Table 2.1

half of the review period. The continued expansion of the global economy seen in 2012, was supported by unrelenting pursuit of accommodative monetary policies in the form of low policy rates across the OECD countries and many developing economies; continued expansion of global trade, albeit at a slower pace than in 2011; recovery in industrial production in major trading nations, including US, Japan, China, Russia, Indonesia, Brazil, South Korea, India and Turkey, in response to firm import demand from emerging and developing economies; continued expansion of the group of developing economies, albeit at a slower rate, led by Brazil, China and India; and strong recovery of the Japanese economy aided by strong post-tsunami reconstruction efforts by the Japanese government on the back of a bold fiscal stimulus package. Global growth was also supported by a modest rebound in market sentiments during the second half of 2012 buoyed by unrelenting efforts of European governments, European Central Bank (ECB), policy makers of the OECD economies and multilateral institutions, such as the World Bank and IMF, aimed at addressing the fiscal challenges facing the Eurozone economies and averting a possible break-up of the bloc, via implementation of a

plethora of economic recovery policies and programmes, including an agreement by Heads of State of the EU on a write-down of the sovereign debt of Greece; and increased use of ECB's Long-Term Refinancing Operations (LTRO) to recapitalise several European banks so as to shore-up their liquidity and stabilize international markets. Other key policies and programmes introduced during the period to stimulate recovery of the Eurozone economies included the Outright Monetary Transactions (OMT) programme, proposed creation of a single bank supervisory mechanism, and steps towards introduction of measures to facilitate greater fiscal integration across the Eurozone. Additionally, continued coordination of macroeconomic policies among developed and major developing countries under the auspices of the Group of Twenty (G20), the IMF and the World Bank, among others, supported the continued expansion of the global economy. These policy interventions somewhat supported public and private investment expenditure and household consumption spending during the second half of the review period. Presented hereunder is a detailed discussion of major developments in global output and prices as summarised in Table 2.1.



Table 2.1 and Figure 2.1 show that excepting the US and Japan, all other economies of the **Group of Seven Industrialised Countries** (G7), namely Germany, France, Italy, Canada and United Kingdom posted poor growth performances in 2012 compared to 2011. Following the disappointing output growth performances, the rate of real GDP growth of the G7 economies, as a group, which slowed from a level of 2.79% in 2010 to 1.41% in 2011, weakened further to 0.7% in 2012 (Table 2.1 and Figure 2.1).

Consistent with developments in global and advanced economies, the level of economic activity for the group of **Developing Countries** was adversely affected by the spill over effect of the Eurozone crisis during the review period. Consequently, the rate of real GDP growth for developing economies, as a group, trended downwards to 5.1% in 2012, from respective levels of 7.6% and 6.4% in 2010 and 2011 (Table 2.1 and Figure 2.1)

2.1.2 Global Rate of Inflation

During 2012, inflationary pressures eased in line with the global economic slowdown. In this regard, the global rate of inflation declined from an average level of 4.89% in 2011 to 4% in 2012. Behind this inflationary

development were a number of demand and supply forces. On the demand side, weak global demand precipitated primarily by a contraction of the Eurozone economies pursuit of austerity programmes by many OECD economies, particularly the Eurozone economies and the US, and disorderly deleveraging by international banks, restrained global aggregate demand and thus the average rate of increase in prices. Further, let-up in activity levels and roll-back of some accommodative policies and programmes in major developing economies, including Brazil, China and India for the purpose of either containing inflation or preventing a housing market bubble as was the case in China, contributed to hold back aggregate demand and thus inflationary pressures. On the supply side, a modest pick-up in manufacturing and improvement in food production in a number of developing economies, particularly during the second half of 2012 contributed to significantly reduce inflationary pressures in the global economy. Further, inflationary pressures were subdued by a modest 3% rise in global oil production and supply on account of increased production in the US (11.9%), Canada (6.6%), Saudi Arabia (6.6%) and Russia (1.2%), which more than compensated for the sanctions-induced decline in production and supply from Iran,

and stagnating supplies from Nigeria and Qatar. In this regard, with the exception of Japan, which experienced price stagnation, the average level of prices rose only marginally in all G7 economies in 2012 compared to 2011. Following of these price developments, the average rate of inflation for the G7 economies, as a group, declined to 1.51% in 2012 from a level of 2.49% in 2011 (Table 2.1 and Figure 2.1).

In line with global price developments as shown in Table 2.1 and Figure 2.1, apart from the Middle East, which experienced higher inflation in 2012 compared to 2011, the average rate of inflation for the group of developing economies retreated during the review period. In this regard, the average rate of inflation for developing economies, as a group, slowed from a level of 7.24% in 2011 to 6.13% in 2012. The highest rates of inflation were sustained in the Middle East and Africa, who recorded respective rates of 10% and 9%, with the lowest rate of 2.7% posted by the economies of Central and Eastern Europe, as a group (Table 2.1 and Figure 2.1).

2.1.3 Global Financial Markets

During the review period, a faltering of the pace of global economic recovery resulted largely from a heightening of uncertainties created by the sovereign debt crisis of the Eurozone and political difficulties relating to disagreements over the US government debt ceiling and fiscal cliff caused anxieties in global financial markets reflected by disorderly deleveraging among many international banks and high volatility in asset prices on major stock exchanges, particularly during the first half of 2012.

The review period also witnessed intensification of efforts towards addressing perceived and/or real risks to sustainable expansion of the global economy through proactive coordination of macroeconomic policies, especially those relating to resolution of the debt crisis of the Eurozone, among major developed and developing economies under



the auspices of the G7 and G20. Accordingly, at the G20 Summit convened during June 18-19, 2012, in Los Cabos, Mexico, G20 leaders re-affirmed their commitment to confront five key challenges facing the global economy and international financial market through aggressive pursuit of economic stabilization and structural reforms as foundations for growth, employment, trade and development; fortification of the financial systems and promotion of financial inclusion; improving the international financial architecture in the interconnected world; enhancing food security and addressing commodity price volatilities; and promoting sustainable development, green growth and the global fight against climate change. Further, multilateral agencies, such as the IMF, the World Bank, and regional development banks, such as the European Central Bank (ECB), and the African Development Bank (AfDB), among others, stepped up their interventions through continued deployment of various emergency funding programmes. For example, given the growth-damping effect of the Eurozone debt crisis on the global economy and financial markets, during the review period, the G20 and the IMF agreed to work with Eurozone leaders to develop a clear, simple, firewall that could operate to limit the contagion as well as steer the region out of the sovereign debt quagmire. Further, through continued international coordinated efforts, policy rates were kept low in many OECD countries with the view to encouraging lending and lifting investment spending to support global economic recovery.

Against this backdrop, during the review period, for the purpose of stimulating activity in key financial markets and promoting investment and consumer spending to strengthen global economic recovery, short term interest rates were broadly kept at record low levels across OECD economies and the G7 economies despite the marginal increases seen in the US, Canada and UK. Further, the 3-Month interest rate across the Eurozone was lowered to 0.13% at the end of 2012, from a level of 1% at the end of 2011 to encourage lending and stimulate domestic

demand and thus the overall level of economic activity across the bloc. In the US, the UK and Canada, as a result of emerging inflationary pressures, policy rates were marginally raised in 2012 above their levels in 2011. In more specific terms, the short term interest rate in UK was raised from 0.5% at the end of 2011 to 0.52% at the end of 2012 with corresponding rates in US and Canada rising by about 6 and 24 basis points in 2012 compared to their respective levels at the end of 2011. Following the foregoing interest rate developments, the average short term interest rate among the G7 economies retreated to 0.37% at the end of 2012, from a level of 0.69% at the end of 2011 (Table 2.1).

In the international currency market, excepting the Japanese Yen, the US dollar depreciated against all major international currencies during 2012 (Table 2.1). In more specific terms, the Japanese Yen suffered about 9.4% decline in value against the US dollar at the end of 2012 compared to 2011. On the other hand, the US dollar suffered 3.8% depreciation against the Canadian dollar at the end of 2012 compared to its exchange value at the end of 2011. The US dollar also depreciated by 4.6% against the British Pound at the end of 2012 compared to its exchange value at the end of 2011. During the review period, the Euro strengthened against the US dollar resulting in a gain of about 1.3%, to exchange for €0.76/\$ at the end of 2012 (Table 2.1). The marginal improvement in the US dollar exchange value of the Euro seen at the end of 2012 despite the worsening of the Eurozone debt crisis during the first half of the period, derived from unrelenting efforts of Eurozone leaders at resolving their sovereign debt crisis evidenced by their unbending commitment to implementation of austerity measures as a way of restoring international investor/creditor confidence in the bloc amid mounting public opposition to such programmes; successful conclusion agreement to write-down the sovereign debt of Greece; extension and confirmation of the right of the ECB to intervene in the sovereign debt market despite initial opposition from

Germany and other Eurozone governments, among others, all of which re-assured the market that all necessary measures will be taken to ensure that the Euro remain a credible common currency of the bloc.

2.1.4 International Financing Conditions

The review period witnessed a deterioration in financing conditions in international credit markets, particularly during the first half of 2012 on account of a worsening of sovereign default risks across the Eurozone as growing doubt about the ability of sovereigns to honour their debt repayment obligations began to negatively impact international credit perception of some of the heavily indebted bigger Eurozone countries, such as France, Italy and Spain. This market sentiment worsened when coupon rates on 10-year sovereign bond issuances of Spain and Italy rose above the Eurozone ceiling of 7%, and somewhat limited their access to the international bond market. In Spain, for instance, fiscal challenges and the refinancing difficulties that ensued led to increased domestic borrowing and a rise in total government debt to the Eurozone average of 90% (of GDP) during the first half of 2012, from a level of 60% at the end of 2011, raising credit default risks and thus the credit default swap (CDS) on Spanish government debt instrument.

Further, market conditions deteriorated due to subtle disagreements among France, Germany and the ECB over an appropriate region-wide response to the sovereign debt crisis facing the bloc, growing doubts about the commitment of the new French President to bailing out fiscally-distressed partners, the capacity of the new Greek President to honour its obligations under the bailout plans, and speculation regarding the potential knock-on effect of a possible break-up of the Zone or collapse of the Euro; mounting investor concerns about lack of a credible plan to recapitalise banks affected by the write down of Greek debt and/or potential sovereign default by Eurozone countries, which led to

downgrading of the sovereign credit ratings for 9 Eurozone countries, namely Cyprus, Italy, Portugal, Spain, Austria, France, Malta, Slovakia and Slovenia by *S&P*, and credit ratings for 47 Eurozone banks from across Spain (28), Germany (7), Netherlands (5), Austria (3), France (3), Luxembourg (1) and Belgium (1) with significant credit exposure to the fiscally-challenged economies in the Eurozone by *Moody's*. These developments battered business and consumer confidence and held-back lending in international credit markets during 2012, especially during the first half of the review period.

For the purpose of averting a global recession, improving financing conditions, and restoring investor and consumer confidence in the markets, Eurozone governments and the ECB, with the support of other G20 members including the US and UK and multilateral development institutions such as the World Bank and IMF introduced a number of results-oriented measures to improve liquidity in the Eurozone banking system and address other economic problems facing the Eurozone. In this regard, during the first half of the review period, the ECB: (i) offered Eurozone banks low-cost, three-year loans under its Long Term Refinancing Operations (LTROs), which resulted in the injection of more than US\$1.3 trillion into more than 800 Eurozone banks; (ii) reduced interest rates to a record low in an effort at stimulating lending and investment spending to support recovery of the Eurozone economies; (iii) purchased government bonds in the secondary markets in an attempt to stabilize bond yields; and (iv) with the support of the Eurozone governments and IMF, restructured and wrote down Greek debt (with 97% of privately held Greek bonds, representing US\$256 billion, discounted by 53%), as well as arranged a second European-IMF financial assistance package in favour of Greece.

Further, Eurozone governments and policy makers agreed to introduce a “*fiscal compact*” which would, among others, incorporate

special provisions for maintenance of balanced budget in national constitutions; and increase the size of the European rescue fund, the European Financial Stability Facility (EFSF) to €780 billion from the original level of €440 billion. Also, at a Summit of Heads of Eurozone Governments held in June, 2012, the European leaders agreed to introduce a **Growth Pact** (the “*Pact*”) with the view to accelerating the pace of economic the Eurozone and promote growth and stability among member countries by injecting at least €120 billion into the Eurozone economy. The Pact, unveiled in June 2012, entailed three key measures to promote public investment via: (i) issuance of a €4.5 billion project bonds, (ii) reallocation of approximately €55 billion unused EU structural development funds, and (iii) increasing the capital of European Investment Bank (EIB) by €10 billion to enable it increase lending to businesses.

Additionally, during the second half of the year, the Governing Council of the ECB introduced a bond-buying programme called Outright Monetary Transactions (OMT); resumed its government bonds purchase programme; agreed on key institutional reforms, including the European Commission’s proposal for the establishment of a single bank supervision mechanism to strengthen financial coordination, supervision and regulation of Eurozone banks; and agreed an additional bailout package for Greece in the form of lower rates on bailout loans, suspension of interest payments on Greek government debt for a decade, and ECB’s proposal to offer the country additional assistance in the form of a loan of US\$34.44 billion.

Other measures including pursuit of Quantitative Easing Three (QE3) by the Federal Reserve of the US in the form of a US\$40 billion asset purchase programme and a 10 trillion Japanese Yen (\$129 billion) asset purchase program of the Japanese government also contributed to subdue the adverse effect of the Eurozone crisis on global markets and somewhat improved global liquidity during 2012.

It is pertinent to note that the foregoing measures, among others, contributed in calming the markets and somewhat stabilized consumer and investor confidence in the Eurozone and other mature markets, and supported the recovery in global equity and bond markets during the second half of the review period, after losing about 10% of their value during the first half of 2012. Further, yields on high-spread Eurozone sovereign debt issuances narrowed substantially as financial markets’ assessment of sovereign default risks improved considerably with yields on 10-year sovereign bonds of Spain and Italy dropping by 148 and 146 basis points to 5.27% and 4.46% respectively by the end of 2012.

The sovereign debt crisis of the Eurozone and other economic difficulties in OECD economies evidenced by high price volatility in equity and housing markets restrained the flow of capital into developing countries during the first half of 2012. However, subsequent modest recovery in activity and stabilization of global financial markets on the back of bold coordinated efforts of the G20 and multilateral financial institutions contributed in calming the markets and restoring international investor confidence contributed to a significant resumption of capital flows to developing countries during the second half of the review period. Notwithstanding the modest rebound seen during the second half of the period, total capital flows to developing economies declined marginally in 2012 compared to the level in 2011. Specifically net private capital inflows to developing countries declined to US\$0.99 trillion in 2012 from US\$1.1 trillion in 2011.¹ Nevertheless, consistent with recent trend, during the period, developing country

1. Merchandise imports of the Eurozone bloc contracted by 6% during the first half of 2012 while the region’s merchandise exports shrunk by 4% during the same period, compared to an impressive 21% growth during the first half of 2011 (See *IMF Direction of Trade Statistics*, November 2012)

sovereign and corporate bond issuances increased by an impressive 15.8% from US\$123.8 billion in 2011 to US\$143.3 billion in 2012 as discussed in Box 2.1. Portfolio equity finance flows also grew by approximately 400% year-on-year to US\$108 billion in 2012. During the period, net bank lending (short-medium and long term) and syndicated lending declined by respective 33% and 35% compared to their pre-crisis levels in 2008. The fall in short-term lending partly reflects reduced availability of trade finance and the deceleration in global trade witnessed in 2012. Overall, both ODA and private capital flows to developing countries are still below the

pre-crisis level. For example, a recent OECD report indicated a 3% decline in foreign aid in 2012 compared to 2010.² The cyclical nature of external aid flows makes it an unreliable source of development financing as discussed in Box 2.2. In terms of pricing, the spread on bank and syndicated lending to developing country counterparties widened sharply from a range of 100-150 basis point in 2011 to a range of 250-350 basis points in 2012.

2. See Shah A. "Foreign Aid for Development Assistance", available at www.globalissues.org/article/35/foreign-aid-development-assistance

Box 2.1 Growing Access of African Sovereigns to the International Bond Market for Infrastructure Development: The Drivers, Opportunities and Prospects

The role of infrastructure in improving a country's competitiveness, facilitating domestic and international trade, and supporting economic growth and poverty alleviation cannot be overemphasized. The literature suggests that improvement in infrastructure and those of economic nature such as roads, railways and ports, for example, could significantly raise activity levels and thus gross domestic product and trade. Calderon Moral-Benito and Servén (2011),¹ for instance, showed that infrastructure raise GDP by between 7% and 10%. The World Bank (2008) also noted that a well-developed transport infrastructure and efficient freight services can reduce delays in transit times, make traded goods more affordable, increase consumer choice and help developing countries to integrate into the global supply/production chains. In Africa, the Africa Infrastructure Country Diagnostics, (2010) and Calderon (2009) noted that well-developed infrastructure could potentially contribute as much as 2% to GDP, with particularly positive effects in

East and Central Africa.²³ The AfDB (2012) also noted that infrastructure development in Africa could contribute to doubling of intra-African trade from the current levels of 11% to 22% and increase Africa's share of world trade by at least twice today's share of 2%.⁴ The assumed positive relationship between openness/trade competitiveness and infrastructure is highlighted in Figure B2.1.1. Figure B2.1.1 shows that countries with relatively limited paved roads as a percentage of total roads, such as Burundi, Eritrea, Ethiopia, Rwanda, Central African Republic and Tanzania, have low export/GDP ratio, a measure of export/trade competitiveness. It also shows that Libya, Tunisia, Mauritius, and Algeria with relatively better road infrastructure have higher exports/GDP ratio.

Despite the obvious potential economic gains from infrastructure, the rate of addition to capital investments in infrastructure in Africa has not kept pace with growth in demand resulting in a huge infrastructure deficit across the continent. It

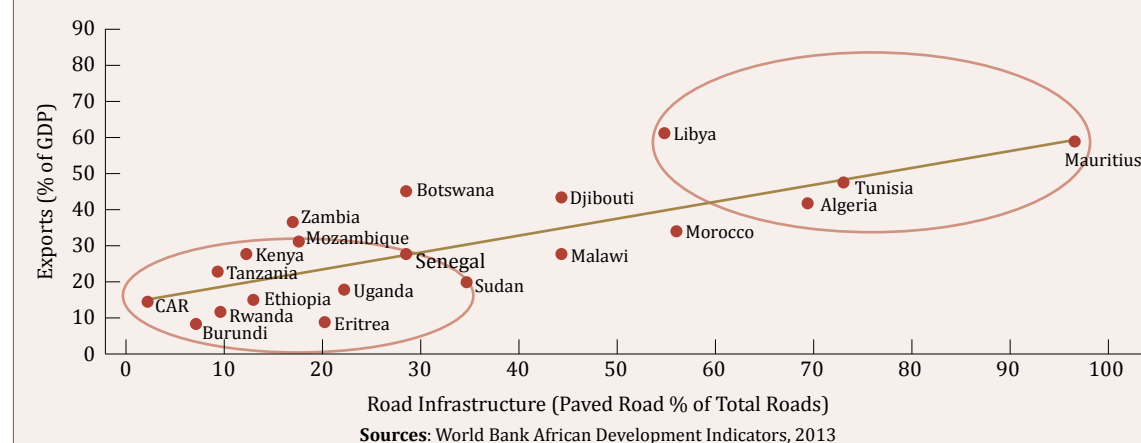
1 Calderón, César; Moral-Benito, Enrique; Servén, Luis. 2011. Is Infrastructure Capital Productive? A Dynamic Heterogeneous Approach. © World Bank. Available at <https://openknowledge.worldbank.org/handle/10986/3446>

2 Africa Infrastructure Country Diagnostic Study, World Bank 2010

3 Infrastructure and Growth in Africa; Cesar Calderon; World Bank, 2009

4 AfDB (2012) African Leaders Endorse Major Continental Infrastructure Programme. Available at <http://allafrica.com/stories/201202010971.html>

Figure B2.1.1 Infrastructure Role in Africa's Trade, 2001-10



is estimated that just about 40% of the continent's population has access to electricity; about 33% of the rural population has access to roads; and only about 5% of agriculture land is under irrigation. According to African Development Bank (AfDB, 2010),⁵ Africa's infrastructure deficit would require additional capital investment of about US\$93 billion annually till 2020 to address (AfDB, 2010). Current levels of social infrastructure does not present any comforting image as only 34% and 65% of Africa's population have access to modern sanitation and clean water respectively. The limited availability of infrastructure across Africa, however, suggests the existence of untapped productive potential that could be unlocked through scaling up of capital investment in infrastructure (AfDB, 2010). In this context, Africa offers huge investment opportunities particularly in the area of infrastructure where returns are noted to be higher compared to similar investments in other developing regions (AfDB, 2010). It is in the light of the above that mobilizing financing from the international capital markets to fund the continent's infrastructure deficit becomes critical.

Although, extant literature suggests that capital investments in public infrastructure and production capacity have the potential of boosting an economy's productivity and growth over the

5 African Development Bank (2010), "Infrastructure Deficit and Opportunities in Africa", Economic Brief, vol.1, Sept. Issue

long-term, most developing economies, especially those in Africa do not have sufficient internally-generated resources to finance such capital intensive projects. Accordingly, the main source of funding for public and private projects has historically been external financial resources made up of official and private debt creating flows and grants. Such external resources comprise official development assistance (i.e. concessional loans and grants), commercial bank loans, bond finance and direct investment or equity finance flows. Until very recently, public infrastructure projects in developing countries were largely funded with external financing from official sources, that is, i.e. multilateral and bilateral financial assistance while private sector capacity extension projects in developing countries were supported with external financing from international banks and other private sector investors. Thus, public infrastructure project financing deals in developing countries were, until the late 1990s and the 21st Century, of very minimal or no interest to the international private sector investors. For various reasons, international private investors are currently interested in the financing of public infrastructure projects evidenced by steady rise in the entry of public agencies/governments of developing countries into the international capital markets to raise financing to support infrastructure development. According to the international investor community, governments of developing countries could access financing from the international capital markets if such countries show sufficient capacity and willingness to

Table B2.1.1 Recent Bond Issuances by African Sovereigns, 2007-12

Country	Sovereign Rating	Year	Purpose	Amount (US\$ million)	Tenor
Ghana*	B	2007	Infrastructure	750	5-year
		2012	Infrastructure	750	3-5 years
Gabon	BB-	2007	Debt Restructuring	1000	10-year
Congo, Republic*	NR	2007		477.8	5-year
Senegal*	B+	2009	Energy Infrastructure	200	5-year
Cote d'Ivoire**	NR	2010	Infrastructure	2332	20-year
Tunisia		2010	Infrastructure	300	10-year
Nigeria	B+	2011	Infrastructure	500	10-year
Namibia	BBB	2011	Development of Oil infrastructure	500	10-year
Zambia*	B	2012	Road and Energy Infrastructure	750	10-year

* Countries that have reached the completion point of the HIPC initiative as at January 2012 and have benefited from full debt forgiveness under the HIPC initiative;

** Countries that are yet to reach the completion point of the HIPC initiative as at January 2012 and have benefited from partial debt forgiveness under the HIPC initiative;

Source: AfDB, 2013 "Attractiveness of African Sovereign Bonds." Available at (<http://www.afdb.org/en/blogs/afdb-championing-inclusive-growth-across-africa/post/attractiveness-of-african-sovereign-bonds-10251/>)

honour their external debt repayment obligations reflected by strong export performance, favourable external balances, sound regulatory environment and respect for rule of law, strong economic fundamentals and favourable sovereign credit rating, and political stability, among others. Most African economies do not have very favourable credit rating, yet governments of a number of them have been able to access the international debt capital markets in recent times as shown in Table B2.1.1, as a result of favourable economic circumstances of those countries.

The obvious question is what factors seem to be driving the growing appetite of international investors for sovereign debt instruments such as bonds issued by African governments?

The recent growth in access of African sovereigns to the international capital markets has been attributed to a number of factors such as political stability, better macroeconomic fundamentals, and investment-friendly regulatory environment, among others. These factors reinforce each other to present a credible evidence of an assurance regarding the ability and willingness of African

sovereigns to honour their external debt repayment obligations.

Political stability is regarded as an important condition required of a country intending to access the international capital market. On this score, the level of political governance across the continent has undergone significant improvement during the last two decades evidenced by declining number of coup d'états and let-up in socio-political conflicts from its peak during 1970-79. Many African countries are currently being governed by democratically-elected governments, about 43 democracies today compared to less than 30 during the 1970s. Other developments such as continued improvement in the capacity of the African Union in dispute resolution, and implementation of the African Peer Review Mechanism (APRM), all seem to be contributing to better political governance on the continent. In more specific terms, most African countries including those listed in Table B2.1.1 have adhered to democratic tenets in order to endear themselves to the international community and development partners due to emphasis placed on the rule of law, respect of human rights, and stronger democratic

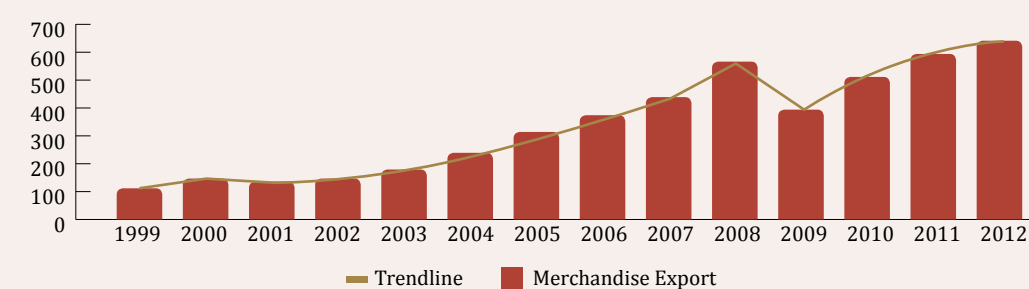
institutions, among others, by these countries. In a related study, Ames (1987) and Levi (1988) have shown that there is a positive relationship between adherence to democratic system of governance and economic growth and development. These positive developments have contributed to assure the international investor community that the emerging democratically elected governments including those listed in Table B2.1.1 who respect the rule of law are unlikely to repudiate or renege on their repayment obligations relating to their borrowings from the international debt market.

Rapidly improving macroeconomic fundamentals in a number of African countries continue to attract the attention of international investors looking for safe investment locations that offer attractive returns. The good growth performance of the continent during the last decade averaging about 4.9% per annum, second only to Developing Asia's average annual GDP growth of 5.1% during the same period seems to underscore the continent's position as a new promising investment frontier where safe business could be done (World Bank, *World Development Indicators*, 2012). Africa, during the last decade, maintained continuous improvement in macroeconomic stability as a result of the unbending recourse of many sovereigns to prudent macroeconomic policies and structural reforms, resulting in a fall in the average rate of inflation for African economies, as a group, from 24.5% during 1990-99 to 8.7% during 2000-10 (IMF, *International Financial Statistics*, 2012). The observed improvement in inflation, the modest decline in average interest

rate spread (IRS) from a level of 11% during 1990-2000 to about 9.2% during 2001-11, have enhanced macroeconomic stability and the continent's debt service capacity of a number of African economies. For instance, the continent's External Debt/GNI ratio declined from 69.1% during 1990-2000 to 37.5% during 2001-11 aided by support from IMF/World Bank-sponsored HIPC (Heavily Indebted Poor Countries) Initiative, robust expansion in export revenues, and prudent management of external finances. These macroeconomic developments contributed to improve external finances and debt service capacity and consequently the access of a number of African sovereign to the international capital markets including those listed in Table B2.1.1.

Improvement in export performance over the last decade has also contributed to improve the continent's external reserve holdings resulting in enhanced capacity of many countries to source term financing from the international capital markets. For instance, total value of Africa's merchandise exports trended upward with a sturdy average annual growth of 15.6% during 1999-2012, except for a brief interruption in 2009 on the heels of the global financial and economic crises that broke in 2008/9 as illustrated in Figure B2.1.2.

Countries such as Ghana, Kenya, Namibia and South Africa posted strong export performance during the last two decades, with their merchandise exports growing at respective average annual rates of 19.33%, 10.90%, 12.13% and 12.35% during 2001-11. Strong export receipts helped

Figure B2.1.2 Trend in Africa's Exports Value, 1999-2012, (US\$ billion)

Sources: 1) World Bank *World Development Indicators* Database, 2013
2) UNCTADSTAT, 2013

to lift external reserve holdings and thus the external debt service capacity of these countries, and improved their access to international capital markets during the last decade.

Sustained improvement in the legal and regulatory environment has also enhanced the access of these African frontier market sovereigns to international capital markets. This is because, continued improvement in the legal and regulatory environment driven by legal reforms and strengthening of state institutions contributed in creating business friendly regulatory environment, which spurred international investor confidence in these African economies and consequently their access to international capital markets.

Furthermore, African sovereign bonds are noted to offer higher returns compared to the returns associated with bond issuances of some other non-African developing country counterparties. This situation has equally enhanced the attractiveness of sovereign debt instruments issued by governments of some African countries, especially those considered as frontier markets. This emerging realization of comparatively better returns in Africa seems to be feeding into investment decisions of non-African investors and thus demand for African debt instruments.

The rapidly improving and/or growing economies in the continent offer several opportunities for investment in the infrastructure sector in Africa. The observed infrastructure gap offers opportunity for private investment in areas such as Energy, Transport and ICT sectors, among others. In 2008, only 38% of Africans had access to electricity compared to an average of 68% for all developing countries, 53% for South Asia and 80-90% for Latin America (AfDB, 2010). The figure is even worse for Sub-Saharan Africa (SSA), which currently stands at 26%. African countries endure on average 11.5 days of power outages per year due largely to lack of regional interconnectivity of the electricity grids and shortages in affected countries in 2007 (AfDB, 2010). Presently, some of the countries that used to have surpluses like South Africa have deficits due to increases in demand for electricity.

Limited and unreliable transport infrastructure across the continent also presents enormous opportunity to international investors. For example, total road network in SSA is only 204 km per 1,000 km² of land area compared to the world average of 944 km per 1,000 km² of land area (AfDB, 2010). These statistics confirm the existence of investment opportunities in the sub-sector. It is worthy to note that the proceeds of Ghana's sovereign bond issued in 2007 was largely used to finance transport infrastructure. Railway network, which is among the least developed public infrastructure in Africa also presents another opportunity to international investors. The limited railway network in the continent means service to fewer people for most African countries which currently ranges from 30 to 50 per million people with a few countries (such as Gabon, Botswana and South Africa) having railway networks that serve more than 400 people (AfDB, 2010). These figures are very low compared to Europe's range of 200 to 1000 lines per every 1,000km² of land area with their railway network serving thousands of people. Considering the bulky nature of Africa's primary commodity exports, a well-developed rail network offers a better means of transport than road transport. The development of a modern railway network and associated facilities across the continent offer opportunities to investors. Scaling up infrastructure also requires addressing poor linkages between roads and rail lines, and poor connectivity to ports, which further requires term funding.

Water and Sanitation is another area that offers enormous opportunities to investors. It is estimated that only 65% of Africans have access to clean water compared to 87% for East Asia and Pacific, and 91% for Latin America and the Caribbean. Furthermore, access to fixed-line telephones in the ICT sector is estimated to be 1.38 per 100 people in SSA, compared to 18.5% in Latin America and the Caribbean, and 16.2% in the Middle East and North Africa.

Further the lack of other reliable telecommunication infrastructure provide opportunity to investors. For instance, African Development Bank (2010) contends that the

continent's power costs almost more than twice (i.e. 14 US cents per kilowatt-hour versus 5 – 10 US cents) and mobile telephony service costs about 50% more (i.e. USD 12 per month versus USD 8 per month) elsewhere. These offer opportunities to be taken for better returns on investment since investors that have gone into the telecommunications subsector have realized better returns compared to investments in any other developing region (AfDB, 2010).

Though Africa is still saddled with many socio-economic challenges including poverty, its economic growth over the past decade has been quite impressive. Despite its history of economic instability during the mid 1970s up to the late 1980s, the continent presently offers one of the most attractive locations for, and returns on, investment. Consequently, sovereigns of emerging/frontier markets in the continent have been increasing their entry into the international bond markets, taking advantage of excess liquidity and/or continued search by investors for safe-haven assets in emerging/frontier markets. Specifically, global investors seeking to diversify their portfolio are attracted by higher yields offered by African debt instruments as they discount the risks in the face of rapidly improving political and economic governance, strong economic fundamentals and better external finances and debt service capacity across the continent. Thus, the growing appetite of global investors for African sovereign bonds reflects the continent's bright economic prospects and the rewarding investment opportunities it offers (AfDB 2013).

The continent is, overall, expected to continue in its present growth trajectory on the back of rapidly improving macroeconomic fundamentals, which is probably the best ever in its history. Over the medium-to long term, African economies, as a group, is expected to maintain good economic performance, especially strong export performance and consequent improvement in debt service capacity to continue to assure international investors that African counterparties will be able to honour their debt service obligations in the foreseeable future. Specifically, African

economies, as a group, is forecast to grow at an average annual rate of 5.7% during 2013-18; total merchandise exports of the continent is forecast to rise at an average annual rate of 5.6% over the medium term; the budding systems of democratic governance, transparency and respect for the rule of law are expected to continue in the foreseeable future, suggesting that African governments are more likely to honour their obligations to the international community including creditors; expected decline in inflation to 6% by 2018 from average level of 9.28% in 2012; suggests economic stability over the medium term and discovery and opening of new oil fields/mines over the near-to medium-term are also expected to strengthen government finances and external revenues, and consequently external debt service capacity – making it much easier for many African sovereigns to mobilize term funding from the international markets over the medium to long-term.

Afreximbank, in furtherance of its mission, intends to continue to work with its African and non-African partners to leverage term financing to support the development of infrastructure projects such as ports and harbours, airports, telecommunications, among others, with the view to improving the infrastructure needed to support extra-and intra-African trade. Accordingly, the Bank, through its Syndications, Project-related financing, Guarantee programme in support of African Government commitments to project promoters, ECA loans facilitation and Asset-backed lending programmes will continue to assist public and private African project promoters to enable them successfully enter the international credit markets to leverage term funding to support modernization and extension of trade-related infrastructure in the continent. Further, through its research and policy advocacy programmes, the Bank intends to continue to assist member countries to introduce appropriate policies and programmes to raise their export earnings and thereby improve external reserve holdings and debt service capacity in order to enhance their credit worthiness and thus their capacity to mobilize term funding from the international credit markets for projects in Africa.

Box 2.2 Powering Africa's Economic Transformation: The Trade Or Aid Debate

During the 1950s and 1960s, many typical less developed countries (LDC), which were characterized by low income and thus low savings, had huge savings/investment and foreign exchange gaps that, according to literature, acted as major constraints to their efforts at maintaining sustainable economic growth and development. It was also generally believed that those financial inhibitions could be overcome through acquisition of debt and non-debt creating financing from abroad. Specifically, it was believed that external capital could be mobilized to supplement the limited stock of domestic savings in capital-deficient developing countries. Through mobilization of external financing, developing countries were expected to have the resources to rehabilitate, modernize and extend social and economic infrastructure needed to support sustainable growth and structural transformation of their national economies. Corollary to that, developed countries were also urged to contribute in resolving the development financing challenges facing poor nations by providing financial assistance in the form of official development assistance (ODA) equivalent to 0.7 percent of their (i.e. developed countries) gross national product (GNP). This internationally accepted principle of the 1950s regarding financing of development was reinforced by the Monterrey Consensus of 2002.¹

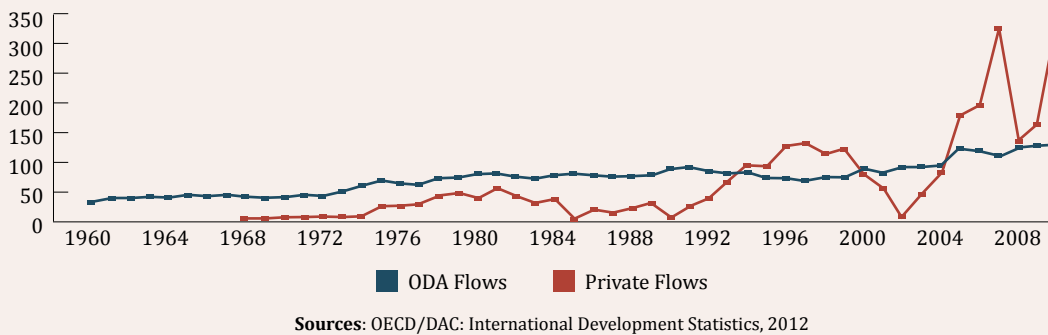
1 During March 18-22, 2002, the United Nations hosted a conference on "Financing for Development" in Monterrey, Mexico, which was attended by 50 heads of State or Governments and over 200 ministers, among other participants. At that conference, a consensus emerged on key issues relating to financing for development, which was dubbed the "Monterrey Consensus." Some of the key components of the consensus include: (i) identification of mechanisms to ensure availability of financing for attainment of the Millennium Development Goal, (ii) achieving sustainable growth and poverty reduction by mobilizing domestic saving (public and private), (iii) mobilization of domestic and international financial resources for development, and (iv) urging international financial institutions and regional development banks to support trade/exports as critical sources for growth and development.

Against this backdrop, since the beginning of the 1960s, developing countries have been receiving official development assistance (ODA) from bilateral and multilateral sources in the form of grants and loans; as well as voluntary assistance from private sources in the form of grants from non-governmental organizations, religious bodies, charities, foundations, and private companies. Foreign aid is generally considered as synonymous to official development assistance. According to the Development Assistance Committee (DAC), a loan could be considered as aid if it has a "grant element" of 25% or more. The theoretical basis for providing external financial assistance to developing countries was hinged on the belief that capital represents one of the key drivers of economic growth and development. Specifically, proponents of foreign aid argued that inadequate savings and the consequent low investment rate constitute the major inhibition to desired extension and/or modernization of capital investments required for attainment of sustainable growth and transformation of developing economies and that external financial resources could be used to close the observed financing gaps and place economies of LDCs on the path of rapid economic growth and development. One of the key supporting arguments for this theory was formulated by Chenery and Strout (1966), arguing that aid can significantly stimulate economic growth and development.² Jayasuriya (2006) agrees with Chenery and Strout (1966) postulation which was largely influenced by the role of the Marshall Plan in the reconstruction of the economies of Western Europe after the Second World War (WWII).³

2 Chenery, Hollis B. and Alan M. Strout (1966). "Foreign Assistance and Economic Development." The American Economic Review, vol. 56, no. 4 (September), pp. 679.733.

3 Jayasuriya, Sasira (2006). "Trade or Aid: Key Issues in the Debate." The Australian Economic Review, vol. 39, no. 1, pp. 60-2.

Figure B2.2.1 Private Capital and ODA Flows to Developing Countries 1960-2010, (US\$ millions)



During 1960-90, ODA represented the bulk of financial flows to developing countries. From the mid-1990s, however, ODA began to decline and private capital emerged as the leading source of development financing to LDCs (Figure B2.2.1). This development arose from the fact that governments of the DAC, as a group, failed to honor their commitment to provide ODA equivalent to 0.7% of their GNI, as captured in Figures B2.2.2 and B2.2.3.⁴

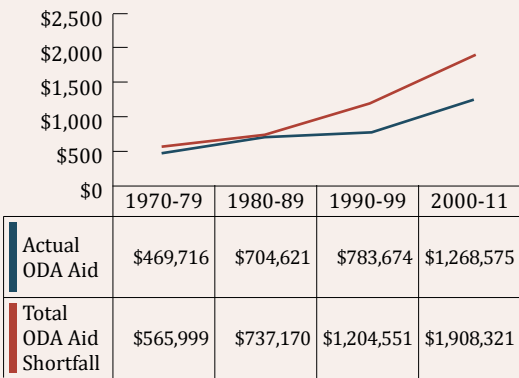
A recent OECD Report suggests that ODA actually fell by 3% in 2012 compared to 2010 (OECD, 2013).

It is worth noting, however, that the role of foreign aid in facilitating economic growth and development has been questioned in recent times on account of poor growth and development performance of many aid recipient countries, especially those in Sub-Saharan Africa. Available records show that during the last five decades, developing countries received over US\$3.7 trillion in the form of official development assistance (ODA) from member countries of the DAC,⁵ of which about US\$1.3 trillion representing

4 For further details on this, see "Foreign Aid for Development Assistance." Available at: (<http://www.globalissues.org/article/35/foreign-aid-development-assistance>)

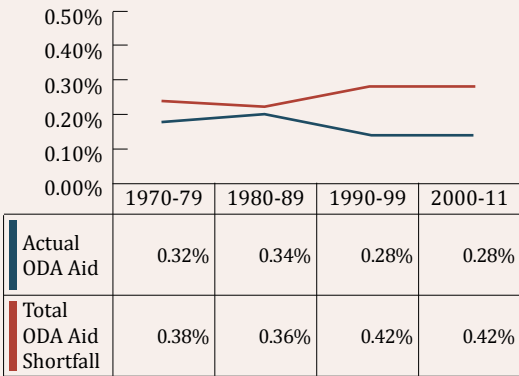
5 Members of the Development Assistance Committee (DAC) include: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy Japan, South Korea, Luxemburg, The Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, the UK and the US.

Figure B2.2.2 Gap between ODA Aid Given and ODA Aid Shortfall in US Dollars at 2010 Prices

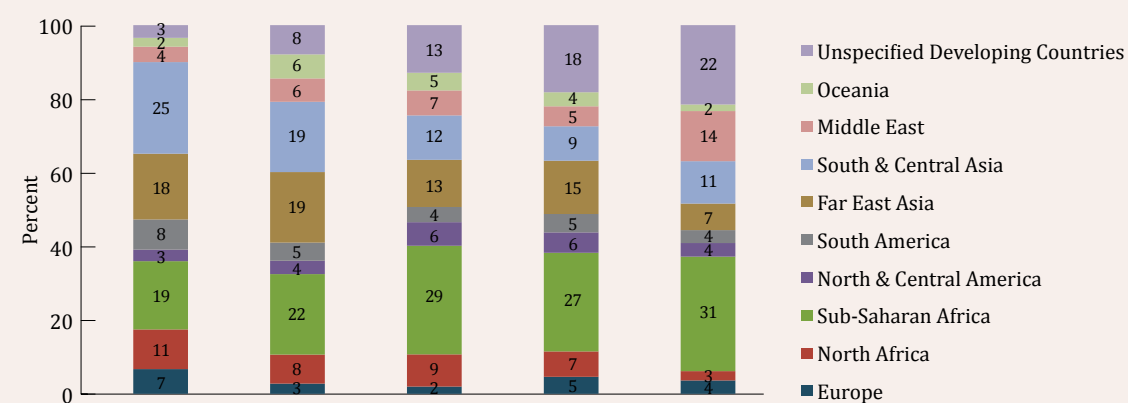


Source: OECD, April 2012. Available at: (<http://www.globalissues.org/article/35/foreign-aid-development-assistance>)

Figure B2.2.3 Gap between ODA AID Given and ODA Aid Shortfall as Percentage of 0.7% of GNI Target



Source: OECD, April 2012. Available at: (<http://www.globalissues.org/article/35/foreign-aid-development-assistance>)

Figure B2.2.4 Regional Distribution of Total ODA Flows to Developing Countries, 1960-2010 (%)

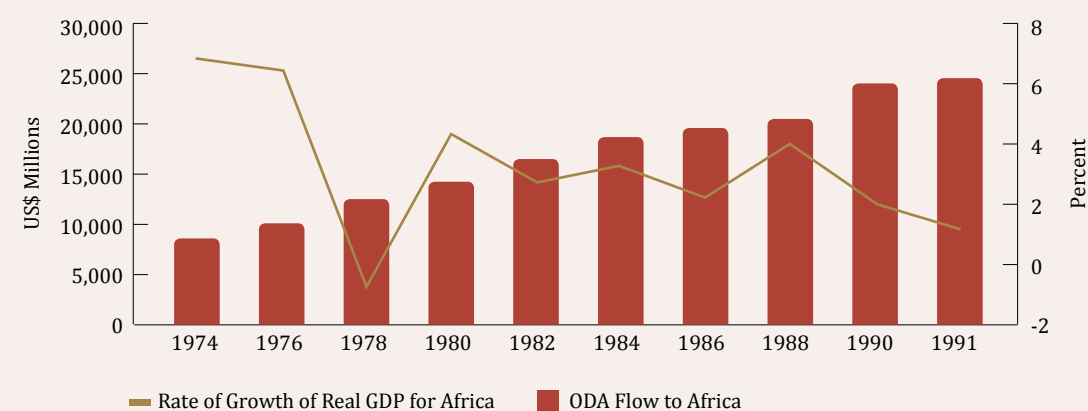
Source: OECD/DAC: *International Development Statistics*, 2012

a share of 35.2% was received by Africa with Sub-Saharan Africa accounting for a significant share of 27.3% of the total.⁶ On a regional basis, data show that during the fifty years period, that is, 1960-2010, Sub-Saharan Africa emerged as the largest recipient of ODA (Figure B2.2.4).

In spite of the significant ODA flows to LDCs during the 1970s and 90s, many developing countries and regions posted poor growth performances and, in some cases, economic decline on account of the weight of other non-financial constraints, such as limited

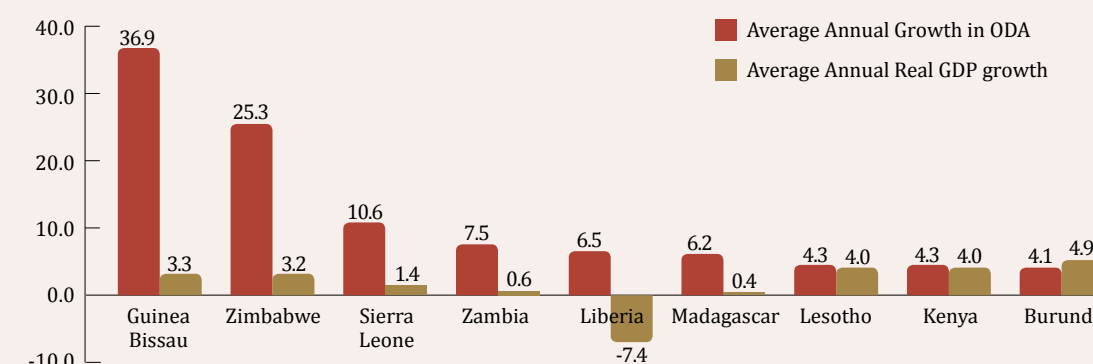
access to international markets for exports, poor macroeconomic management, technical capacity gaps, and political instability, among others. Accordingly, although ODA flows grew at an average annual rate of 6.1% during 1974-91, the rate of real GDP growth in Africa averaged only about 2.9% during the period (Figure B2.2.5).

As shown in Figure B2.2.6, a number of African countries received significant ODA during 1974-91. However, only 3 (i.e. Lesotho, Kenya and Burundi) out of a sample of 9 countries showed significant

Figure B2.2.5 ODA Flows and Rate of Growth of Real GDP for Africa, 1974-91

Source: 1. OECD/DAC: *International Development Statistics*, 2012
2. World Bank: *World Development Indicators*, 2012

⁶ See OECD/DAC: *International Development Statistics*, 2012 for further details.

Figure B2.2.6 Average Annual Growth in ODA and Real GDP for Selected African Countries, 1974-91 (%)

Source: 1. OECD/DAC: *International Development Statistics*, 2012
2. World Bank: *World Development Indicators*, 2012

positive correlation between their rates of growth of ODA receipts and real GDP while the remaining 6 countries suffered slow or deteriorating rate of GDP growth, contrary to expectation of better GDP growth upon bridging of financing gaps. Many of these countries remain members of the world's poorest, where in some cases, extreme poverty, food insecurity and diseases remain serious challenges. The experience of many African countries clearly shows a weak correlation between aid receipts and economic growth performance (Figure B2.2.5).

Consistent with the weak positive relation between ODA receipts and GDP growth performance, Abuzeid (2009) noted that over the last fifty years, the rate of GDP growth per capita in Africa underwent a significant decline and turned even negative for many years.⁷ The experiences of many African countries strengthen the claim of the critics that foreign aid has not only failed but has been a significant contributor to the lingering socio-economic malaise in many parts of the continent.

These critics maintain that foreign aid has been counterproductive because it inhibits or delays

implementation of much needed structural reforms intended to improve efficiency of resource use and attainment of better growth performance. This view is supported by Erixon and Sally (2006) who argue that after fifty years of sustained ODA flows to the LDCs, the result has been unsatisfactory as the economics of aid seems to be deceptive and perpetuate corruption.⁸ Further, it has been argued that aid contributes to deepen dependency by undermining the incentive for government of LDCs to implement credible policies and programs to mobilize domestic resources to fund capital investments needed to support sustainable growth and development of their economies. It has also been argued that foreign aid undermines national development efforts as a result of its high repayment costs (debt service payment) and conditionalities which, in some cases, tend to adversely affect the process of socioeconomic transformation in aid recipient countries. Moreover, some critics contend that foreign aid tends to dry up in times of unexpected economic difficulties either in the global economy or in the recipient country, implying that aid may not be a reliable or stable source of financing for development in LDCs. For

⁷ Abuzeid, Farah (Fall 2009). "Foreign Aid and the "Big Push" Theory: Lessons from Sub-Saharan Africa." *Stanford Journal of International Relations*, vol. 11, no.1

⁸ Erixon, Fredrik, and Razeen Sally (2006). "Policy Forum: Economic Development: Trade or Aid? Trade and Aid: Countering New Millennium Collectivism," *The Australian Economic Review*, 39(1): 69-77

instance, the global economic and financial crises which broke out in 2008/09 and the lingering sovereign debt difficulties of the Eurozone economies adversely impacted the capacity of DAC governments to meet their aid commitments, leading to a 3% decline in aid flows to LDCs in 2012 compared to 2010 (OECD, 2012).

Further, the inability of aid to fulfill its role of promoting growth and development is partly explained by the shift in the composition of foreign aid towards social objectives, especially humanitarian and emergency relief in response to famine and other emergencies in aid-recipient countries. Besides, although private capital flows now account for a bulk of external financial flows to developing countries, it mostly flow into a few emerging countries, leaving unaddressed the investment financing needs of the poorest of the developing regions, especially those in Africa. The foregoing weaknesses of foreign aid reinforce the view that external aid alone may not be sufficient for the attainment of sustainable growth and development and that the role of other factors, such as thriving trade sector and export industry in particular, may be crucial. Trade and thus access to external markets for exports and appropriate technology coupled with business partnerships are increasingly being seen as major pre-requisites for the attainment of sustainable growth and development in general. Against this backdrop, some observers have argued that increased trade offers better scope for addressing the financing gaps and laying the foundation for sustainable growth and transformation of developing economies compared to foreign aid.

Trade has been cited as a driver of economic transformation, especially in the current context of global inter-dependence. It has been argued that openness to trade leads to innovation, offers access to modern technology and technical know-how, and creates incentives for firms to invest in research and development for the acquisition of more efficient technologies and skills needed to reap economies of scale. Accordingly, it has been argued that trade could enhance access to financing and technical skills

and technology needed to stimulate economic growth and structural transformation over the long term. Hence, Erixon and Sally (2006) agree with Hughes (2003), that what is needed is more trade as they believe that there exists a strong positive correlation between trade and economic growth and development.⁹

Further, it has been argued that trade enable countries to generate foreign exchange receipts for the financing of essential imports, such as capital and intermediate goods needed to support production and consumption at home. The proposition that trade is a principal driver of sustainable growth and of national economies was recently borne out by the successful transformation experiences of a number of Asian economies, such as those of India and China on the back of their pursuit of trade-led growth strategies during the last three decades. External trade is also seen to have been instrumental in the economic transformation of South Korea, Taiwan, Brazil, Argentina, Singapore and Malaysia, among others. In light of the foregoing, some observers have concluded that it would be misleading to assert that aid alone, without access to appropriate technology and global markets for exports and financing, could bring about desired transformation of the economies of LDCs. Consequently, it is presently generally believed that trade could play a crucial role in the transformation of African economies.

Against this backdrop, many African governments are presently committing more financial and technical resources to trade development, and actively promoting the development of requisite economic infrastructures to support trade activity in the continent. Afreximbank shares fully the view that trade plays an important role in the growth and development process and has since inception of business in 1994, been committing more financial and technical resources to support the development of trade and trade-supporting infrastructure in its member countries.

⁹ Hughes, Helen (2003). "Aid Has Failed the Pacific." Issues Analysis, no.33 (May).



2.1.5 Developments in Global Trade and Trading Environment

Consistent with the observed slowdown of global economy, global trade also lost momentum in 2012 compared to 2011. In this regard the rate of growth in the volume of global merchandise trade, which weakened from 14% in 2010 to 6.3% in 2011, decelerated to 3.4% in 2012. The sharp deceleration in global merchandise trade seen in 2012 was due primarily to weak import demand across the OECD countries, especially from the Eurozone, as many economies in the bloc slid into recession,³ subtle recourse to protectionist trade measures by a number of countries as national authorities sought to stimulate domestic demand and growth in response to global economic uncertainties; protracted impasse in the Doha Round of Multilateral Trade Negotiations; deceleration in exports of a number of major trading

3. Merchandise imports of the Eurozone bloc contracted by 6% during the first half of 2012 while the region's merchandise exports shrunk by 4% during the same period, compared to an impressive 21% growth during the first half of 2011 (See *IMF Direction of Trade Statistics*, November 2012)

economies, including China, India, Brazil, Russia, South Korea, and Taiwan; and reduced availability of trade financing, occasioned by a heightening of market uncertainties and disorderly deleveraging by major international banks, which adversely affected the financing of cross-border trade in 2012, especially during the first half of the period. Other factors that impacted global merchandise trade during the review period included supply chain disruptions to cross border trade triggered by a spate of natural disasters, including floods in Thailand, which impacted seven major industrial estates and thereby caused a contraction in regional automobile production and a global shortage of hard disk drives during the first half of the review period; and unresolved geopolitical tensions across the Middle East and North Africa and international sanctions against Iran as a result of disagreements over its nuclear programme, which affected global supply of crude oil.

It is worth noting, however, that the continued expansion in global merchandise trade, albeit at a decelerating rate, seen in 2012 was buoyed by modest pick-up in industrial activity in some OECD countries, which spurred their imports of goods and services; continued

expansion of many developing economies led by Brazil, China and India, which contributed in lifting global trade (exports and imports); marginal improvement in availability of trade finance during the second half of 2012; and unrelenting efforts of multilateral agencies, including the World Trade Organization (WTO), the IMF, World Bank and the G20 at containing old and new challenges to global trade and economic growth.

On account of the continued deceleration in global economic activity and weak external demand, all major developed and developing regions experienced a lull in their merchandise trade during 2012. In this regard, concerning merchandise exports, during the period, with the exception of Latin America and the Caribbean and Africa, all major regions experienced deceleration in the rate of expansion of their volume of merchandise exports in 2012 compared to

2011. Developing Asia posted the highest year-on-year expansion in merchandise exports of 5%, significantly lower than the 8.6% recorded in 2011, with the group of advanced economies contending with the lowest rate of expansion of 2.4% in 2012. On the import side, excepting the Middle East, all major regions saw the rate of expansion in volume of their merchandise imports retreat significantly in 2012, compared to 2011. Middle East posted the highest year-on-year growth in merchandise imports of 10% in 2012, with the lowest rate of 1.7% posted by the group of advanced economies (Figure 2.2).

Despite the challenges that faced the global economy during the review period (as detailed in Section 2.1.1), the global trading environment did not experience any major disruption to trade as member countries of the WTO continued to comply with laws

governing international trade and/or rely on the dispute settlement mechanism of the WTO for resolution of trade-related disputes, evidenced by the growing number of disputes brought before the Dispute Settlement Body (DSB) of the WTO. In this regard, a number of serious trade disputes, which could have triggered disruptive trade wars or countervailing measures from the affected countries/regions, including the introduction of anti-dumping and countervailing measures in China over imports of broiler products, rare earth and certain automobiles and automobile parts from the US and subsequent countermove by the US against imports of shrimps, diamonds, saw-blades and other products from China; dispute between China and the European Union over the former's introduction of anti-dumping duties on X-Ray Security Inspection Equipment from the EU and the EU's response of introducing a feed-in-tariff on renewable energy generation products from China; and disputes between US and India on the latter's restriction of imports on certain agricultural products from US, were all successfully contained during the period.

policies by many African governments; gradual but steady pick-up in external capital inflows, especially FDI from major economies in the South (such as China, India, Brazil) into Africa's extractive and service industries; robust expansion of activity in the services sector, especially telecommunications, banking, and the housing and construction industries; firm prices of two broad commodity groups of trade interest to the continent (namely Energy and Metals/Minerals) and increased production of many commodities on the back of export-led growth strategies, which contributed to a significant rise in export earnings and overall level of African trade; continued improvement in quality of democratic governance across the continent; and sustained pick-up in tourism receipts and migrant remittances, among other growth-enhancing factors.

Emerging data suggest that despite the political difficulties that prevailed in certain parts of **North Africa**, the overall level of economic activity in the North rose during the period aided in part by an impressive 121.9% year-on-year recovery in output in Libya; firm oil prices and significant recovery in FDI inflows to the oil and gas sector and modest improvement in socio-political stability that facilitated resumption of economic activity and growth during 2012. Following these developments, the rate of expansion of the economies of the **Net Oil Exporting Countries (NOECs)**, as a group, which decelerated from a level of 4.3% in 2010 into a 1.1% contraction in 2011, recovered to 4.8% in 2012 (Table 2.2). On account of a significant moderation of global commodity market conditions and other socio-economic challenges that emerged during the review period, the **Net Oil-Importing Countries' (NOICs)**, as a group, saw the rate of growth of their real GDP trend downward to 3.3% in 2012, from respective levels of 5.2% and 3.6% in 2010 and 2011 (Table 2.2). The continued expansion of the economies of the group of NOICs, albeit at a slower rate, in 2012 was supported primarily by strong activity in the services sector led by telecommunications, banking

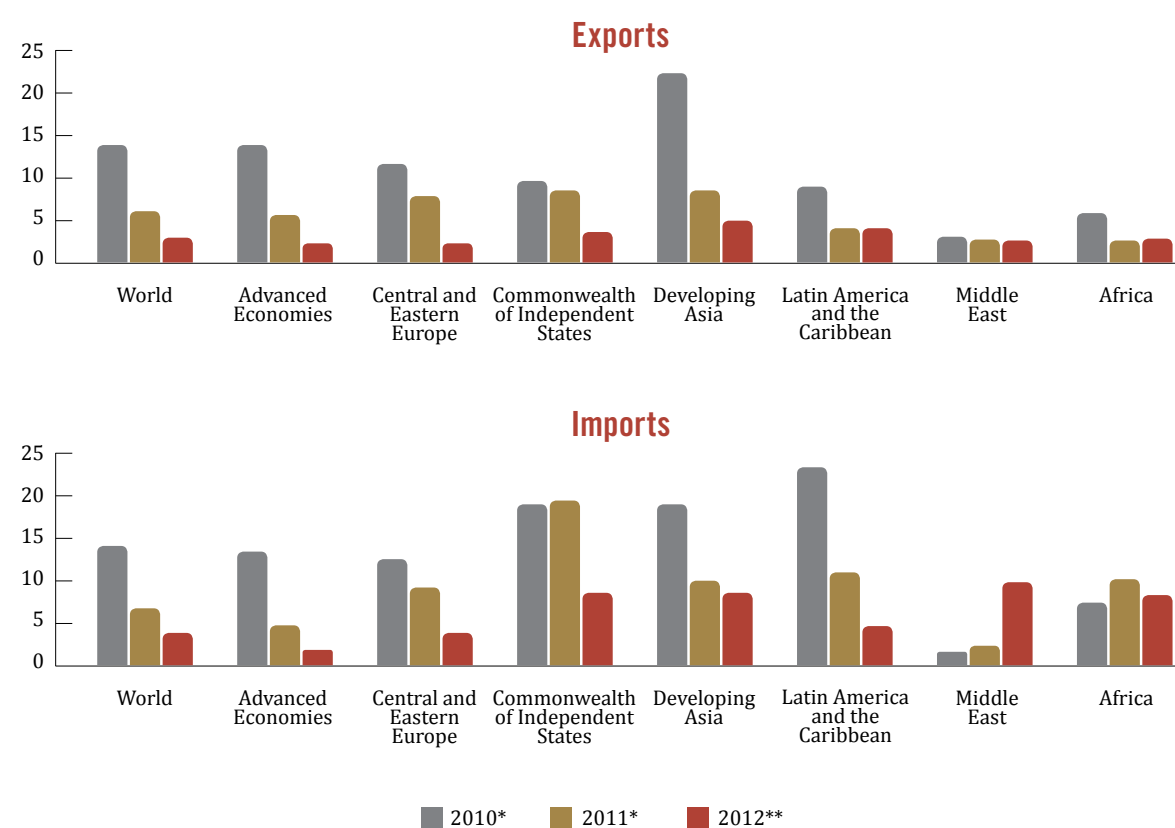
2.2 THE AFRICAN ECONOMIC ENVIRONMENT

2.2.1 Review of Economic Conditions and Price Levels

During the review period, the level of economic activity across African economies, as a group, recovered strongly despite the worsening of the Eurozone debt crisis, socio-political challenges that emerged in Mali, Central African Republic and the Sudan/South Sudan conflict and other forms of socio-economic difficulties that prevailed in the global and African economic environments. In this regard, the rate of growth in Africa's real GDP, which slowed sharply from 4.3% in 2010 to 2.4% in 2011, recovered to 4.7% in 2012 (Table 2.1).

The strong rebound in Africa's real GDP growth witnessed in 2012 was supported by continued recourse to sound macroeconomic

Figure 2.2 Growth Rates of Volume of Merchandise Trade in Major Regions of the World, 2010 - 12 (annual percent change)



* Revised **Estimates

Source: IMF, *World Economic Outlook Database*, October 2012 (available at www.imf.org)

Table 2.2 Africa: Real GDP Growth, 2010 - 12
(annual percent change)

Africa	2010*	2011*	2012**
Algeria	3.30	2.40	2.60
Angola	3.41	3.90	6.80
Benin	2.55	3.53	3.47
Botswana	7.02	5.09	3.82
Burkina Faso	7.89	4.16	6.99
Burundi	3.79	4.19	4.20
Cameroon	2.93	4.20	4.70
Cape Verde	5.21	5.05	4.29
Central African Republic	3.00	3.30	4.10
Chad	12.98	1.76	7.32
Comoros	2.10	2.23	2.45
Congo, Dem. Rep. of	7.17	6.88	7.11
Congo, Rep. of	8.75	3.42	4.93
Cote d'Ivoire	2.39	-4.73	8.13
Djibouti	3.49	4.49	4.82
Egypt	5.15	1.78	1.96
Equatorial Guinea	-0.51	7.80	5.67
Eritrea	2.19	8.72	7.54
Ethiopia	9.94	7.30	7.00
Gabon	6.61	4.81	6.11
Gambia	6.12	4.97	-1.62
Ghana	8.01	14.39	8.18
Guinea	1.94	3.59	4.79
Guinea-Bissau	3.47	5.30	-2.81
Kenya	5.76	4.38	5.13
Lesotho	5.21	4.93	4.26
Liberia	10.29	8.48	9.00
Libya	3.71	-59.69	121.90
Madagascar	1.57	0.99	1.90
Malawi	6.51	4.51	4.31
Mali	5.80	2.70	-4.49
Mauritania	5.19	4.75	5.30
Mauritius	4.13	4.11	3.37
Mayotte Islands	n/a	n/a	n/a
Morocco	3.68	4.55	2.87
Mozambique	6.80	7.10	7.50
Namibia	6.60	3.80	4.04
Niger	8.00	2.30	14.46
Nigeria	7.82	6.67	7.07
Reunion	n/a	n/a	n/a
Rwanda	7.20	8.60	7.70
Sao Tome and Principe	4.51	4.94	4.50
Senegal	4.13	2.63	3.69
Seychelles	6.71	4.95	3.01
Sierra Leone	4.95	6.00	21.29
Somalia	n/a	n/a	n/a
South Africa	2.89	3.12	2.59
South Sudan	n/a	1.44	-54.98
Sudan	4.45	-4.90	-11.24
Swaziland	2.00	1.30	-2.91
Tanzania	7.04	6.32	6.51
Togo	3.71	3.91	5.03
Tunisia	3.00	-1.80	2.70
Uganda	5.90	6.70	4.19
Zambia	7.61	5.90	6.47
Zimbabwe	9.01	9.30	5.02

* Revised ** Estimates n/a: not available.

Sources: 1) IMF (2012) *World Economic Outlook Database*.2) IMF (2012) *World Economic Outlook* (October)

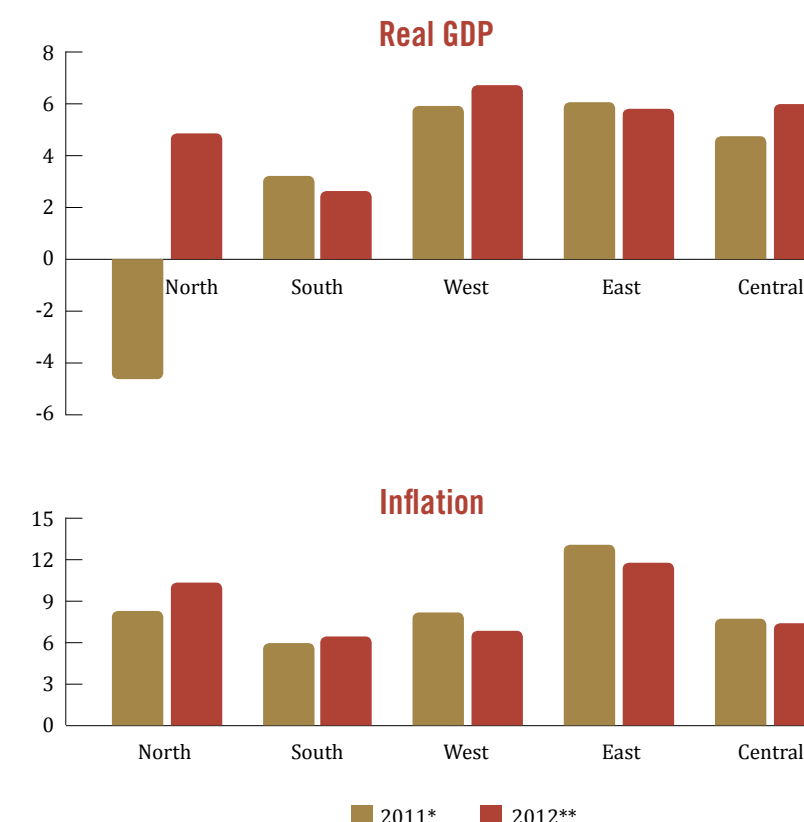
3) EIU: Various Country reports

4) World Bank (2012), *World Development Indicators*, (October)

and construction industries; relatively stable political environment and improvement in democratic governance, continued recourse to sound macroeconomic policies; gradual-but-steady inflow of FDI and other forms of capital; and sturdy pick-up in migrant remittances and tourism receipts.

From a sub-regional perspective, activity levels picked up across the **North African** region with the rate of growth of their real GDP recovering to 4.8% in 2012, reflecting an impressive turnaround from the 4.7% contraction suffered in 2011 (Table 2.2 and Figure 2.3) buoyed by better year-on-year growth performance of the economies of Algeria, Djibouti, Egypt, Libya and Tunisia. The observed improvement in the region's growth performance was supported by a rebound in FDI and other forms of private capital inflows, especially to the oil and gas sector as the socio-political tensions related to the so-called Arab Spring of 2011 eased; and gradual but steady pick-up in tourism and remittance receipts. Largely as a result of difficulties in restoring essential (local and foreign) supplies across the region to pre-uprising level, inflationary pressures intensified during the review period. Consequently, compared to 2011, the average level of prices rose in 2012 in Algeria, Morocco, Sudan, Tunisia, Egypt and Libya. In this regard, the average rate of inflation for the region rose to 10.3% in 2012, from a level of 8.5% in 2011 (Table 2.3 and Figure 2.3).

Across **Southern Africa**, the overall level of economic activity weakened considerably during the review period culminating in the region's rate of GDP growth decelerating to 2.7% in 2012, from a level of 3.2% in 2011 (Table 2.2 and Figure 2.3). The economic slowdown experienced by the region was primarily caused by a sharp moderation of Chinese and Indian demand for commodities and lacklustre pick-up in FDI flows into the mining industries in the region; significant slowdown of the South African economy, the flagship economy of the region on account of a spate of industrial actions that led to

Figure 2.3 Africa: Output and Inflation by Region, 2011 - 12 (annual percent change)

* Revised ** Estimates

Sources: 1) IMF, *World Economic Outlook Database*, October 2012 (available at www.imf.org)2) EIU *Country Report*, various issues

the closure of some mines; and a general weakening of activity in the mining sector across the region. For example, lower activity in the diamond mining industry seriously affected production levels in Botswana and Namibia as a result of poor market conditions occasioned by economic difficulties in the US, the largest consumer of polished diamonds. During 2012, the average rate of inflation across the sub-region rose to 6.6%, from a level of 6.1% in 2011 (Table 2.3 and Figure 2.3).

During the review period, activity level rose across many sectors and national economies in **West Africa** with the rate of expansion of the economies of the sub-region, as a group, which weakened from 6.7% in 2010 to 5.9% in 2011, rallying to 6.8% in 2012 (Table 2.2 and Figure 2.3). The improvement

in the region's growth performance seen in 2012 was driven primarily by continued robust expansion of the economy of Nigeria, the flagship economy of the region, on the back of firm oil prices; strong activity in the services industry led by banking and telecommunication across the region; and a modest recovery in FDI inflows, especially to the extractive industries in Nigeria, Chad, Cote d'Ivoire, Ghana, Mali, Guinea and Sierra Leone. The average rate of inflation for the region, as a group, receded to 6.97% in 2012, from 8.4% in 2011 aided by a let-up in average food and fuel prices due to political difficulties in passing-on the full price of fuel to consumers (Table 2.3 and Figure 2.3).

During 2012, economic performance of the economies of **Eastern and Central Africa** showed mixed fortunes compared to 2011.

Table 2.3 Africa: Inflation, 2010 - 12 (annual percent change)

Africa	2010*	2011*	2012**
Algeria	3.93	4.49	8.40
Angola	14.48	13.50	10.75
Benin	2.14	2.74	6.87
Botswana	6.95	8.46	7.52
Burkina Faso	-0.58	2.75	3.00
Burundi	4.09	14.89	14.65
Cameroon	1.28	2.94	3.00
Cape Verde	2.08	4.47	2.09
Central African Republic	1.49	1.20	6.85
Chad	-2.12	1.89	5.50
Comoros	3.90	6.79	5.63
Congo, Dem. Rep. of	23.46	15.54	10.45
Congo, Rep. of	4.98	1.77	5.15
Cote d'Ivoire	1.37	4.90	2.00
Djibouti	3.95	5.07	4.70
Egypt	11.70	11.07	8.65
Equatorial Guinea	6.09	6.29	5.42
Eritrea	12.71	13.34	12.26
Ethiopia	8.13	33.06	22.94
Gabon	1.45	1.26	2.30
Gambia	5.05	4.80	4.69
Ghana	10.71	8.73	9.82
Guinea	15.47	21.35	14.69
Guinea-Bissau	1.07	5.05	5.00
Kenya	4.09	14.00	9.97
Lesotho	3.60	5.57	5.35
Liberia	7.29	8.49	6.60
Libya	2.46	15.90	9.99
Madagascar	9.28	10.02	6.45
Malawi	7.41	7.62	17.72
Mali	1.29	3.05	7.25
Mauritania	6.26	5.69	5.90
Mauritius	2.93	6.54	4.48
Morocco	0.99	0.91	2.20
Mozambique	12.70	10.35	3.00
Namibia	4.47	5.75	6.68
Niger	0.94	2.94	4.50
Nigeria	13.72	10.84	11.45
Reunion	n/a	n/a	n/a
Rwanda	2.31	5.67	7.00
Sao Tome and Principe	13.34	14.32	10.51
Senegal	1.23	3.41	2.26
Seychelles	6.15	11.15	5.93
Sierra Leone	-2.40	2.56	7.49
Somalia	17.78	18.46	13.70
South Africa	4.27	5.00	5.64
South Sudan	n/a	47.31	54.83
Sudan	12.99	18.27	28.62
Swaziland	4.51	6.11	7.80
Tanzania	7.19	12.69	15.65
Togo	3.21	3.56	2.47
Tunisia	4.44	3.53	5.00
Uganda	3.97	18.68	14.58
Zambia	8.50	8.66	6.39
Zimbabwe	3.05	3.47	4.95
Average ^{b)}	5.9	9.1	8.8
Median	4.4	6.3	6.6
Standard Deviation	5.4	8.3	8.4
Skew	1.1	2.5	3.7
Kurtosis	1.1	8.6	17.7

* Revised ** Estimates n/a: not available.

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

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

Sources: 1) IMF (2012) *World Economic Outlook* Database.
2) IMF (2012) *World Economic Outlook* (October).
3) EIU: Various Country reports
4) World Bank (2012), World Development Indicators, (October)

In more specific terms, the rate of growth of the economies of *East Africa, as a group*, trended downward to 5.8% in 2012 from respective levels of 6.8% and 6.1% in 2010 and 2011 (Table 2.2 and Figure 2.3), as a result of poor non-oil commodity market conditions; lower FDI and migrant remittance inflows and a number of socio-political challenges that emerged in the region during the period. For example, terrorist attacks and on-going fight against terrorist cells in the region adversely affected tourism receipts. Activity level across the economies of *Central Africa*, as a group, however, strengthened in 2012 reflecting an improvement on its growth performances in 2010 and 2011. The region’s better growth performance was powered by strong net export growth on the back of firm prices and increased production of oil in Gabon and Equatorial Guinea; robust activity in the services industry especially in Cameroon and modest pick-up in remittances and tourism receipts. Average levels of inflation edged marginally downward in both regions in 2012 compared to their levels in 2011 (Table 2.3 and Figure 2.3).

2.2.2 External Reserves and Exchange Rate Development

The total external reserve holdings of African economies, as a group, ended the review period barely unchanged from its level at the end of 2011, at US\$509 billion (Table 2.4). Cross-country changes in external reserve holdings across the region were mixed as some countries raised their level of reserve holdings while others failed. The countries that suffered sharp declines in external reserve holdings included Mauritania (-32.34%), Guinea-Bissau (-25.95%), Tanzania (-19.22%), Senegal (-17.35%), Namibia (-15.71%), and Djibouti (-15.63%). The stagnation in external reserves reportedly stemmed largely from capital outflows from some North African countries (Egypt, Tunisia and Morocco) where socio-political difficulties created anxieties and prompted some international investors to exit; and lower-than expected rise in net

Table 2.4 Reserve Position of African Countries, 2010 - 12 (in US\$ Billions unless otherwise indicated)

	Total Reserves (Excl. Gold)	Percentage Change (%)			Gold Reserve (Million Fine Troy Ounces)			Percentage Change (%)			Months of Imports Covered by Reserves		
AFRICA	2010*	2011*	2012**	2011 / 2010	2012 / 2011	2010*	2011*	2012**	2011/2010	2012/2011	2010*	2011**	2012**
Algeria	162.61	182.82	187.10	12.43	2.34	5.58	5.58	5.58	0.00	0.00	48.21	47.23	44.27
Angola	19.75	28.79	26.19	45.76	-9.03	n.a	n.a	n.a	n.a	n.a	12.92	16.45	13.24
Benin	1.20	0.89	1.03	-26.05	15.61	0.00	0.00	0.00	0.00	1.00	6.67	3.94	3.81
Botswana	7.89	8.08	7.96	2.49	-1.53	n.a	n.a	n.a	n.a	n.a	16.73	13.55	11.17
Burkina Faso	1.07	0.96	1.17	-10.41	22.62	0.00	0.00	0.00	0.00	1.00	6.26	4.42	4.70
Burundi	0.33	0.29	0.40	-11.11	35.57	0.00	0.00	0.00	0.00	0.00	7.79	5.04	6.05
Cameroon	3.64	3.20	2.98	-12.19	-6.87	n.a	n.a	n.a	n.a	n.a	8.52	5.91	4.66
Cape Verde	0.38	0.34	0.34	-11.40	1.59	0.00	0.00	0.00	0.00	1.00	6.18	4.29	3.84
Central African Republic	0.18	0.15	0.23	-14.72	46.04	n.a	n.a	n.a	n.a	n.a	7.25	4.88	6.24
Chad	0.63	0.95	0.95	50.39	-0.60	n.a	n.a	n.a	n.a	n.a	3.61	5.43	4.92
Comoros	0.15	0.16	0.18	6.83	15.03	n.a	n.a	n.a	n.a	n.a	8.31	8.10	8.33
Congo, Democratic Rep. of	1.30	1.27	1.37	-2.47	8.34	0.00	0.00	0.00	0.00	1.00	3.47	2.77	2.62
Congo, Rep. of	4.45	5.64	5.29	26.86	-6.28	n.a	n.a	n.a	n.a	n.a	13.34	13.27	10.25
Cote d'Ivoire	3.62	4.32	3.78	19.08	-12.48	0.00	0.00	0.00	0.00	1.00	5.54	7.75	6.54
Djibouti	0.25	0.24	0.21	-1.96	-15.63	n.a	n.a	n.a	n.a	n.a	1.13	0.84	0.60
Egypt	33.61	14.92	13.80	-55.62	-7.48	2.43	2.43	2.43	n.a	n.a	7.62	3.04	2.70
Equatorial Guinea	2.35	3.05	2.92	30.15	-4.51	n.a	n.a	n.a	n.a	n.a	4.94	6.11	4.63
Eritrea	0.11	0.11	0.19	n.a	63.59	n.a	n.a	n.a	n.a	n.a	1.99	1.53	2.21
Ethiopia	1.83	1.87	2.07	2.50	10.90	n.a	n.a	n.a	n.a	n.a	2.55	2.52	2.49
Gabon	1.74	2.16	2.69	24.28	24.67	n.a	n.a	n.a	n.a	n.a	6.98	6.81	7.22
Gambia	0.20	0.22	0.22	10.72	-2.93	n.a	n.a	n.a	n.a	n.a	8.55	8.93	8.37
Ghana	4.76	5.48	4.74	15.12	-13.54	n.a	n.a	n.a	n.a	n.a	5.23	4.39	3.17
Guinea	0.11	0.11	0.65	2.50	486.68	n.a	n.a	n.a	n.a	n.a	0.92	0.66	3.28
Guinea-Bissau	0.16	0.22	0.16	40.64	-25.95	0.00	0.00	0.00	0.00	1.00	8.53	8.80	5.45
Kenya	4.32	4.26	4.70	-1.29	10.14	0.00	0.00	0.00	n.a	n.a	4.29	3.46	3.28
Lesotho	0.73	0.74	0.96	2.50	29.24	n.a	n.a	n.a	n.a	n.a	3.79	3.44	3.97
Liberia	0.38	0.39	0.60	2.50	52.45	n.a	n.a	n.a	n.a	n.a	6.45	5.77	7.56
Libya	99.65	104.80	110.50	5.17	5.44	4.62	4.62	4.62	n.a	n.a	113.88	251.51	145.83
Madagascar	1.17	1.28	1.33	9.18	4.17	n.a	n.a	n.a	n.a	n.a	5.57	5.29	4.85
Malawi	0.31	0.20	0.33	-35.77	66.29	0.01	0.01	n.a	n.a	n.a	1.70	1.03	1.49
Mali	1.34	1.38	2.34	2.54	69.56	0.00	0.00	0.00	0.00	1.00	5.66	5.09	7.49
Mauritania	0.27	0.48	0.33	78.41	-32.34	0.01	0.01	0.01	0.00	n.a	1.68	2.24	1.26
Mauritius	2.44	2.58	2.67	5.77	3.50	0.13	0.13	0.13	0.00	0.00	6.68	6.01	5.74
Morocco	22.61	19.53	19.12	-13.65	-2.07	0.71	0.71	0.71	0.00	n.a	7.67	5.31	4.52
Mozambique	2.16	2.47	2.32	14.33	-6.23	0.08	0.08	0.08	n.a	n.a	5.76	4.70	3.73
Namibia	1.70	1.79	1.51	5.37	-15.71	0.00	0.00	0.00	0.00	0.00	3.67	3.46	2.50
Niger	0.76	0.67	0.65	-11.48	-3.99	0.00	0.00	0.00	0.00	0.00	3.97	3.37	2.66
Nigeria	34.92	35.21	33.90	0.84	-3.71	0.69	0.69	0.69	n.a	n.a	9.47	6.61	5.82
Rwanda	0.81	1.05	0.90	29.20	-14.33	0.00	0.00	0.00	n.a	n.a	6.82	7.28	4.92
Sao Tome and Principe	0.05	0.05	0.05	n.a	2.96	n.a	n.a	n.a	n.a	n.a	5.29	4.75	4.28
Senegal	2.05	1.95	1.61	-4.97	-17.35	0.00	0.00	0.00	0.00	1.00	5.14	3.95	2.90
Seychelles	0.24	0.25	0.27	7.11	6.19	n.a	n.a	n.a	n.a	n.a	4.35	4.04	4.20
Sierra Leone	0.41	0.44	0.39	7.37	-11.41	n.a	n.a	n.a	n.a	n.a	6.37	3.19	2.04
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	n.a
South Africa	38.18	42.60	39.15	11.58	-8.10	4.02	4.02	4.02	0.00	0.00	4.86	4.20	3.72
South Sudan	n.a	n.a	n.a	n.a	n.a	0.00	0.00	0.00	0.00	0.00	0.00	n.a	n.a
Sudan ^{a)}	1.04	1.09	0.95	5.43	-13.48	n.a	n.a	n.a	n.a	n.a	1.24	1.47	1.25
Swaziland	0.76	0.60	0.57	-20.60	-5.43	n.a	n.a	n.a	n.a	n.a	4.54	3.60	3.36
Tanzania	3.90	3.73	3.01	-4.57	-19.22	n.a	n.a	n.a	n.a	n.a	5.98	4.14	2.73
Togo	0.71	0.77	0.87	8.30	12.13	0.00	0.00	0.00	0.00	1.00	5.72	5.47	5.58
Tunisia	9.46	9.70	8.49	2.50	-12.46	0.22	0.22	0.22	n.a	n.a	5.11	4.86	3.81
Uganda	2.71	2.62	2.75	-3.27	4.87	n.a	n.a	n.a	n.a	n.a	6.96	5.86	5.25
Zambia	2.09	2.32	2.29	11.00	-1.68	0.00	0.00	0.00	0.00	1.00	4.72	3.89	3.15
Zimbabwe	0.10	0.10	0.10	n.a	0.00	0.00	0.00	0.00	n.a	n.a	0.32	0.28	0.25
Total	487.57	509.30	509.22	4.46	-0.02	18.49	18.49	18.49	0.00	0.00	450.88	550.93	418.90
Average	9.38	9.79	9.79	0.68	0.71	0.80	0.80	0.80	0.00	0.00	8.51	10.59	8.06
Median	1.25	1.27	1.35	0.00	0.00	0.00	0.00	0.00	0.00	0.00	5.66	4.73	4.24
Standard Deviation	26.87	29.46	30.18	1.56	1.58	1.56	1.58	1.66	16.17	16.17	16.17	34.70	20.40
Skew	4.59	4.84	4.90	2.37	2.30	2.37	2.37	2.31	2.37	2.30	5.80	6.84	6.38
Kurtosis	23.03	25.52	25.85	4.49	4.18	4.49	4.18	3.23	3.23	3.23	36.51	48.10	42.89

* Revised ** Estimates n/a not available

a) Statistics for both South and North Sudan. Disaggregated statistics not available

Sources: 1) World Bank: World Development Indicators, 2012 2) CIA: World Factbook, 2012

exports and lacklustre pick-up in tourism receipts and FDI inflows. Largely as a result of the stagnation in total external reserve holdings of Africa, average import cover of the continent's external reserve holdings also fell from 10.6 months in 2011 to 8.1 months in 2012. It is pertinent, however, to note that despite the decline in import cover, the average of 8.1 months meets the IMF's recommended external reserve requirements equivalent to 4 to 8 months of import cover (Table 2.4). With regards to distribution, available data suggest that seven countries, namely Algeria (US\$187 billion), Libya (US\$111 billion), South Africa (US\$39 billion), Nigeria (US\$34 billion), Angola (US\$26 billion), Morocco (US\$19 billion) and Egypt (US\$14 billion) accounted for a combined share of over 80% of the continent's total external reserve holdings, largely unchanged from their share in 2011 (Table 2.4).

During 2012, lower-than-expected recovery in private capital inflows, tourism receipts, migrant remittances and export receipts coupled with capital outflows in some North African economies adversely impacted external balances of many African countries, which contributed to weaken the US dollar value of many African currencies. Following these developments, 2012 witnessed only 6 out of 39 currencies (down from 11 out of 39 in 2011) appreciate against the US dollar compared to their average exchange rates in 2011 (Table 2.5). On account of the marginal depreciation of the US dollar against the Euro to which a few African currencies are pegged, most of the African currencies depreciated against the US dollar. In this regard, most African currencies ended the review period lower compared to their US dollar exchange rate values at the end of 2011. It is in this context that the CFA currency, the currency being used by a large number of francophone African economies appreciated against the US dollar during the review period. Rising imports and demand for foreign exchange fuelled by expansionary economic policies and

Table 2.5 Africa: Exchange Rate Developments, 2010 - 12^{a)} (*per US\$ unless otherwise indicated*)

Africa	2010 (1)	2011 (2)	2012 (3)	Percentage change between ^{b)}	
				(2) & (1)	(3) & (2)
Algeria - <i>dinar</i>	73.411	74.04	78.28	0.86	5.73
Angola - <i>kwanza</i>	91.866	94.93	95.82	3.34	0.94
Benin - <i>franc</i>	485.030	497.30	495.40	2.53	-0.38
Botswana - <i>pula</i>	6.594	7.30	7.78	10.70	6.58
Burkina Faso - <i>franc</i>	485.030	497.30	495.40	2.53	-0.38
Burundi - <i>franc</i>	1,230.900	1227.00	1534.10	-0.32	25.03
Cameroon - <i>franc</i>	485.030	497.30	495.40	2.53	-0.38
Cape Verde - <i>escudos</i>	79.578	80.12	83.05	0.68	3.66
Central African Republic - <i>franc</i>	485.030	497.30	495.40	2.53	-0.38
Chad - <i>franc</i>	485.030	497.30	495.40	2.53	-0.38
Comoros - <i>franc</i>	355.036	357.66	371.82	0.74	3.96
Congo, Dem. Rep. of - <i>Congo franc</i>	908.649	910.00	915.18	0.15	0.57
Congo, Rep. of - <i>franc</i>	485.030	497.30	495.40	2.53	-0.38
Cote d'Ivoire - <i>franc</i>	485.030	497.30	495.40	2.53	-0.38
Djibouti - <i>franc</i>	177.722	174.75	180.50	-1.67	3.29
Egypt - <i>pound</i>	5.660	5.96	6.19	5.31	3.86
Equatorial Guinea - <i>franc</i>	485.030	497.30	495.40	2.53	-0.38
Eritrea - <i>nakfa</i>	15.375	15.00	15.11	-2.44	0.73
Ethiopia - <i>birr</i>	13.310	17.13	18.25	28.70	6.54
Gabon - <i>franc</i>	485.030	497.30	495.40	2.53	-0.38
Gambia - <i>dalasi</i>	28.726	28.75	32.49	0.08	13.01
Ghana - <i>cedi</i>	1.427	1.60	1.91	12.14	19.09
Guinea - <i>Guinea franc</i>	6,875.00	6700.00	6995.91	-2.55	4.42
Guinea-Bissau - <i>franc</i>	485.030	497.30	495.40	2.53	-0.38
Kenya - <i>shilling</i>	80.781	97.25	85.91	20.39	-11.66
Lesotho - <i>loti</i>	6.966	7.94	8.46	13.98	6.55
Liberia - <i>Liberia dollar</i>	72.499	72.00	72.50	-0.69	0.69
Libya - <i>dinar</i>	1.307	1.22	1.27	-6.63	3.76
Madagascar - <i>Ariary</i>	2,014.808	2100.00	2258.00	4.23	7.52
Malawi - <i>kwacha</i>	169.897	164.60	326.69	-3.12	98.48
Mali - <i>franc</i>	485.030	497.30	495.40	2.53	-0.38
Mauritania - <i>ouguiyas</i>	264.801	288.00	301.34	8.76	4.63
Mauritius - <i>rupee</i>	29.825	28.45	30.60	-4.61	7.56
Morocco - <i>dirham</i>	8.221	8.17	8.43	-0.62	3.18
Mozambique - <i>meticals</i>	36.140	26.60	29.00	-26.40	9.02
Namibia - <i>namibia dollar</i>	6.965	7.94	8.46	13.99	6.55
Niger - <i>franc</i>	485.030	497.30	495.40	2.53	-0.38
Nigeria - <i>naira</i>	148.790	157.25	155.92	5.69	-0.85
Rwanda - <i>franc</i>	591.316	596.00	619.84	0.79	4.00
Sao Tome and Principe - <i>dobra</i>	19,435.883	17850.00	18497.00	-8.16	3.62
Senegal - <i>franc</i>	485.030	497.30	495.40	2.53	-0.38
Seychelles - <i>rupee</i>	12.382	12.41	13.11	0.22	5.64
Sierra Leone - <i>leone</i>	4,033.664	4386.00	4307.00	8.73	-1.80
Somalia - <i>shilling</i>	1,600.000	1625.00	1605.00	1.56	-1.23
South Africa - <i>rand</i>	6.965	7.94	8.46	13.99	6.55
Sudan - <i>pound</i> ^{c)}	2.373	2.67	3.05	12.54	14.23
Swaziland - <i>lilangeni</i>	6.965	7.94	8.46	13.99	6.55
Tanzania - <i>shilling</i>	1,482.711	1775.00	1580.90	19.71	-10.94
Togo - <i>franc</i>	485.030	497.30	495.40	2.53	-0.38
Tunisia - <i>dinar</i>	1.317	1.43	1.55	8.56	8.39
Uganda - <i>shilling</i>	2,269.983	2600.00	2682.06	14.54	3.16
Zambia - <i>kwacha</i>	4,860.965	4945.00	5194.86	1.73	5.05
Zimbabwe - <i>Zimbabwe dollar</i>	361.900	361.90	361.90	0.00	0.00

* actual ** estimates n/a not available

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.

c) Currency for both North and South Sudan

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

2) IMF (2012) International Financial Statistics Database.

3) Mbendi Information Services (available at <http://www.mbendi.com/cyexch.htm>)

Table 2.6 Nominal Price Developments for Commodities of Export Interest to Africa, 2010 - 12
(in US\$/Metric tonnes unless otherwise indicated)

				Annual Growth Rate		Price Volatility***		
COMMODITY	2010	2011	2012	2011/2010	2012/2011	2011	2012	
AGRICULTURE:								
Cocoa Bean	4,009.98	3,448.88	2,853.24	-13.99	-17.27	0.14	0.05	
Coffee	1,516.04	2,201.60	2,016.26	45.22	-8.42	0.11	0.05	
Copra**	715.97	1,092.31	703.16	52.56	-35.63	0.21	0.20	
Cotton*	2,486.45	3,429.11	1,966.84	37.91	-42.64	0.54	0.09	
Maize	243.66	330.87	338.15	35.79	2.20	0.07	0.09	
Palm Oil*	903.98	1,119.75	999.43	23.87	-10.75	0.10	0.13	
Rubber*	1,904.78	2,481.78	1,754.55	30.29	-29.30	0.13	0.12	
Soyabean	790.35	967.54	1,069.54	22.42	10.54	0.06	0.10	
Sugar (world)**	599.80	730.07	579.22	21.72	-20.66	0.09	0.10	
Tea**	3,201.25	3,222.70	3,197.58	0.67	-0.78	0.04	0.08	
Average	1,637.23	1,902.46	1,547.80	16.20	-21.66	0.15	0.10	
ENERGY:								
Crude Oil*	585.81	812.84	816.38	38.75	0.44	0.06	0.07	
Average	585.81	812.84	816.38	38.75	0.44	0.06	0.07	
METALS:								
Copper	7,369.89	8,790.12	7,950.87	19.27	-9.55	0.12	0.05	
Gold	4,320,514.02	5,518,592.12	5,887,475.99	27.73	6.68	0.11	0.04	
Lead	2,239.04	2,372.53	2,060.57	5.96	-13.15	0.16	0.07	
Tin*	20,127.49	25,895.31	21,106.51	28.66	-18.49	0.18	0.09	
Average	a)	1,087,562.61	1,388,912.52	1,479,648.49	27.71	6.53	0.14	0.06
	b)	9,912.14	12,352.65	10,372.65	24.62	-16.03	0.15	0.07

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

** World Bank figures.

*** 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.

Sources: 1) *Financial Times* (various issues).

2) www.worldbank.org/prospects/pinksheets

limited scope for cuts in essential imports also exerted a downward pressure on many African currencies with the heaviest year-on-year depreciation against the US dollar in 2012 suffered by the Malawian kwacha (98.5%), Burundian franc (25.3%), Ghanaian cedi (19.1%), Sudanese pound (14.2%), and the Gambian dalasi (13%) (Table 2.5).

2.2.3 Review of Commodities of Trade Interest to Africa

During the review period, a number of commodities of trade interest to Africa

posted price gains while others suffered losses. In this regard, two of the three broad commodity groups of trade interest to the continent, namely Energy and Minerals/Metals sustained respective nominal price gains averaging 0.4% and 6.5% in 2012 compared to their average levels in 2011 (Table 2.6). Despite the nominal price weaknesses, the real prices of the three broad groups of Agriculture, Energy and Minerals/Metals commodities ended 2012 about 140%, 103% and 173% higher than their respective average levels in 2005 – a period of marked rally in commodity prices



(Table 2.7). The firm energy prices seen in 2012 was partly driven by the US/EU sanctions against the Iranian Government as a result of disagreements over Iran's Nuclear Programme, and continued tensions across the Middle East, especially in Syria, Yemen and Sudan/South Sudan and their knock on effect on global supplies of crude oil. On the other hand, the price losses suffered by the Agricultural (8 out of 10) and Metal/Mineral (excluding gold) commodities emanated from a moderation in global market conditions triggered in part by weak global demand by major industrialised and emerging market economies in Asia and Latin America, such as China and India in response to low industrial production.

Regarding price fluctuations, all three broad commodity groups experienced volatilities ranging from 6% (Metals/Minerals) to 10% (Agriculture). On individual basis, Copra exhibited the highest price volatility of 20%

followed by Palm oil (13%), Rubber (12%), and Soyabean and Sugar (10%), with Gold prices exhibiting the least volatility of 4%. As a result of continuing global economic uncertainties and price volatilities that prevailed on major bourses around the world, the review period saw the continued use of some commodities and precious metals in particular, as safe-haven assets by investors in their portfolio mix. Against this backdrop, activity levels measured by the volume of traded contracts rose on several bourses. For example, the volume of traded contracts on the **London Metal Exchange (LME)** and the **Multi-Commodity Exchange of India (MCX)** rose by respective 9% and 83% in 2012 compared to 2011.

Due largely to weak global demand and, in some cases, rising global inventories, nominal prices of Agricultural commodities, as a group, softened by about 22% in 2012 in sharp contrast to a year-on-year gain of about 16% recorded in 2011. On account of weak nominal

Table 2.7 Afreximbank Price Index, 2010 - 12 ^{a)}
(2005 = 100)

				Change %	
COMMODITY	2010	2011	2012	2011	2012
	(1)	(2)	(3)	(4) = (2) - (1)	(5) = (3) - (2)
AGRICULTURE:					
Cocoa Bean	264.17	227.21	187.97	-36.96	-39.24
Coffee	152.03	220.78	202.19	68.75	-18.59
Copra**	173.02	263.97	169.92	90.95	-94.05
Cotton*	205.30	283.13	162.40	77.83	-120.73
Maize	249.67	339.04	346.49	89.36	7.45
Palm Oil*	214.94	266.24	237.64	51.30	-28.60
Rubber**	199.19	259.54	183.48	60.34	-76.06
Soyabean	257.45	315.17	459.07	57.72	143.90
Sugar (world)**	275.39	335.20	265.94	59.81	-69.26
Tea**	194.37	195.67	180.05	1.30	-15.62
Average	218.55	270.59	239.52	52.04	-31.08
ENERGY:					
Crude Oil*	145.89	202.43	203.31	56.54	0.89
Average	145.89	202.43	203.31	56.54	0.89
METALS:					
Copper	201.01	239.74	216.86	38.74	-22.89
Gold*	275.87	352.37	375.92	76.50	23.55
Lead	229.58	243.27	211.28	13.69	-31.99
Tin*	273.16	351.44	286.45	78.28	-64.99
Average	b)	244.91	296.70	272.63	51.80
	c)	234.58	278.15	238.19	43.57

* Spot Prices
** World Bank figures.
a) This index covers all commodities which together contribute over 85% of Africa's total exports and is based on US\$ per metric tonne prices.
b) Gold is included.
c) Gold is not included.
Source: Derived from Table 2.6 by Afreximbank Staff

prices, real agricultural prices averaged the review period about 31% lower than their average levels in 2011. Further, compared to other broad categories of commodities, Agricultural commodities exhibited the highest level of volatility of 10% in 2012.

2.2.4 African Trade

The continued modest expansion of the global economy and growing economic and trade links between major emerging economies in the South and Africa

contributed to raise the value of the continent's merchandise trade during the review period. Specifically, the value of Africa's merchandise exports and imports maintained its upward trend with respective 8.9% and 11.1% year-on-year increases in 2012. Consequently, the value of total African trade grew by 10% year-on-year to US\$1,280.6 billion in 2012 as shown in Table 2.8. Further, the total value of intra-African trade also rose resulting in a year-on-year expansion of 11.1% to US\$144.3 billion in 2012 (Table 2.9). The continued



robust expansion in intra-African trade was supported by proactive pursuit of export-led growth and trade diversification strategies by many African countries; continued deepening of regional integration efforts at the regional and sub-regional levels through adoption of result oriented policies to boost intra-African trade; increased sourcing of oil and grains from near-markets within Africa by many African countries; sustained improvements in political governance and legal and regulatory frameworks; continued efforts at enhancing the financial, transport, communication and other relevant trade-supporting infrastructure across the continent; and a deepening of intra-regional banking arrangements led by Afreximbank-sponsored African Bankers Association (ABA) and banking sector reforms in many African countries, which together enabled many African countries to obtain their desired imports from within the Continent.

In its efforts to encourage the African private sector to actively participate in

trade policy formulation, the Bank, working with its partners, including the United Nations Economic Commission for Africa (UNECA), African Development Bank, WTO and International Trade Centre (ITC) established the Pan-African Private Sector Trade Policy Committee initiative (PAFTRAC) with Afreximbank serving as the secretariat. PAFTRAC is an institutional arrangement aimed at facilitating effective private sector participation in trade policy issues with a view to enhancing the role of the African Private Sector in trade policy making and in the negotiation, implementation and monitoring of multilateral trade agreements.

The developments reported in this chapter affected the slant and focus of the Bank's operations and activities during the review period. The operating environment presented risks and opportunities which were successfully managed by the Bank, leading to the operational outcome and trade development impact discussed in Chapter 3 and 4 respectively of this Report.

Table 2.8 Africa: World Trade, 2010 - 12 (in US\$ billion unless otherwise indicated)

	Total Exports			Country Share of Total Exports, %			Total Imports			Country Share of Total Imports, %			Total Trade			Country Share of Total Trade, %			Trade Balance (US\$ Billion)								
	2010*	2011*	2012**	2010	2011	2012	2010*	2011*	2012**	2010	2011*	2012**	2010*	2011*	2012**	2010	2011	2012	2010	2011	2012						
Africa	57.05	73.39	77.68	28.64	5.84	11.21	11.94	40.47	46.45	50.72	14.78	9.18	8.57	8.19	8.05	97.53	119.84	128.39	22.88	7.14	9.94	10.29	10.03	16.58	26.94	26.96	
Algeria	50.59	65.50	71.67	29.46	9.43	9.94	10.96	11.02	18.34	21.00	23.73	14.49	13.01	3.88	3.70	3.77	68.94	86.50	95.41	25.48	10.30	7.03	7.43	7.45	32.33	44.50	
Angola	1.39	1.80	2.17	29.50	20.65	0.27	0.30	0.33	2.16	2.70	3.23	25.00	19.61	0.46	0.48	0.51	3.55	4.50	5.40	26.76	20.03	0.36	0.39	0.42	-0.77	-0.90	
Botswana	4.69	5.79	6.24	23.37	7.78	0.92	0.97	0.96	5.66	7.16	8.55	26.57	19.38	1.20	1.26	1.36	10.35	12.95	14.79	25.12	14.19	1.05	1.11	1.15	-0.96	-1.37	
Burkina Faso	1.29	1.80	2.27	39.74	25.98	0.25	0.30	0.35	2.05	2.60	3.00	26.94	15.32	0.43	0.46	0.48	3.34	4.40	5.27	31.88	19.68	0.34	0.38	0.41	-0.76	-0.80	
Burundi	0.10	0.14	0.17	38.35	20.88	0.02	0.02	0.03	0.51	0.70	0.79	37.48	12.85	0.11	0.12	0.13	0.61	0.84	0.96	37.62	14.18	0.06	0.07	0.09	-0.41	-0.56	
Cameroun	3.88	4.60	4.95	18.60	7.55	0.76	0.77	0.76	5.13	6.50	7.67	26.62	18.04	1.09	1.15	1.22	0.91	11.10	12.62	23.17	13.69	0.92	0.95	0.97	-0.19	-0.23	
Cape Verde	0.04	0.07	0.10	63.52	31.89	0.01	0.01	0.02	0.01	0.04	0.05	10.7	27.63	13.32	0.16	0.17	0.17	0.79	1.02	1.17	29.66	14.65	0.08	0.09	-0.87	-0.98	
Central African Rep.	0.14	0.16	0.16	14.29	1.63	0.03	0.03	0.02	0.30	0.38	0.43	26.67	14.24	0.06	0.07	0.07	0.44	0.54	0.62	22.73	10.50	0.04	0.05	0.05	-0.16	-0.22	
Chad	3.50	4.70	5.17	34.29	9.91	0.69	0.79	0.79	2.10	2.10	2.31	0.00	9.89	0.44	0.37	0.37	5.60	6.80	7.47	21.43	19.90	0.57	0.58	0.58	2.86	2.86	
Comoros	0.03	0.03	0.05	78.99	12.56	0.01	0.01	0.01	0.21	0.23	0.26	9.54	11.88	0.04	0.04	0.04	0.24	0.24	0.28	18.14	12.01	0.02	0.02	0.02	-0.18	-0.18	
Congo, Dem. Rep. of	5.30	6.60	8.08	24.53	22.41	1.04	1.10	1.24	4.50	5.50	6.19	22.22	14.47	0.95	0.97	1.00	9.80	12.10	14.38	28.14	12.01	1.04	1.12	0.80	1.10	1.78	
Congo, Rep. of	9.30	10.80	12.58	16.13	16.46	1.83	1.81	1.93	4.00	5.10	6.30	27.50	21.35	0.95	0.99	0.98	13.30	15.90	18.77	19.55	18.03	1.36	1.37	1.47	5.30	5.70	
Cote d'Ivoire	10.32	11.13	11.80	7.82	6.03	2.02	2.03	1.86	1.81	7.85	6.68	6.93	-14.90	3.79	1.66	1.18	1.10	18.17	17.81	18.73	-1.99	5.18	1.85	1.46	2.47	4.45	
Djibouti	0.46	0.53	0.59	15.18	10.97	0.09	0.09	0.09	2.64	3.50	4.41	32.54	17.44	0.44	0.56	0.62	0.65	3.11	4.04	4.70	29.95	16.58	0.32	0.35	0.37	-2.18	
Egypt	26.44	30.53	29.15	15.47	-4.50	5.19	5.11	4.48	52.92	58.90	61.30	5.26	26.04	1.01	1.12	1.06	1.20	15.36	89.43	90.45	12.69	11.14	8.09	7.68	7.06	-26.49	
Equatorial Guinea	9.90	13.50	15.73	36.36	16.50	1.95	2.26	2.42	6.90	9.00	10.00	30.43	13.28	0.15	0.16	0.16	0.16	0.70	1.30	2.77	85.19	113.04	0.07	0.11	0.22	-0.68	
Eritrea	0.01	0.40	1.75	32.33	337.50	0.00	0.07	0.27	0.69	0.90	1.02	34.2	12.46	1.82	1.57	1.59	10.93	11.13	13.17	5.30	14.40	1.11	0.99	1.03	-6.28	-6.84	
Ethiopia	2.33	2.61	3.16	12.24	0.44	0.04	0.04	0.04	0.49	0.860	0.90	10.00	34.2	12.46	1.82	1.57	1.59	10.93	11.13	13.17	5.30	14.40	1.11	0.99	1.03	-6.28	
Gabon	8.69	12.50	14.74	43.91	17.89	1.71	2.09	2.27	2.98	3.80	4.47	27.41	17.62	0.63	0.67	0.71	11.67	16.30	19.21	39.69	17.83	1.19	1.40	1.50	5.70	8.70	
Gambia, The	0.03	0.04	0.07	14.33	73.74	0.01	0.01	0.01	0.28	0.30	0.31	5.98	3.52	0.06	0.05	0.05	0.05	0.05	0.34	0.38	6.90	11.78	0.03	0.03	0.03	-0.25	-0.26
Ghana	7.96	13.00	14.97	63.31	15.14	1.56	2.18	2.30	10.92	15.00	17.95	37.34	19.64	2.31	2.64	2.85	18.88	28.00	32.91	48.29	17.52	1.92	2.40	2.57	-2.96	-2.98	
Guinea	1.47	1.75	1.98	18.95	13.07	0.29	0.29	0.30	1.40	2.00	2.37	42.36	18.41	0.30	0.35	0.38	2.88	3.75	4.35	30.39	15.92	0.32	0.34	0.37	-0.02	-0.03	
Guinea-Bissau	0.12	0.23	0.30	91.67	29.92	0.02	0.04	0.05	0.22	0.30	0.36	36.36	19.66	0.05	0.05	0.06	0.34	0.55	0.66	55.88	24.12	0.03	0.05	0.05	-0.10	-0.07	
Kenya	5.17	5.76	6.39	11.34	11.10	1.02	0.96	0.98	12.09	14.78	17.16	22.24	16.11	2.56	2.61	2.72	17.24	20.54	23.56	18.98	14.70	1.76	1.76	1.84	-6.92	-9.03	
Lesotho	0.22	0.30	0.35	32.97	18.30	0.04	0.05	0.05	0.71	0.81	0.90	9.09	52.38	0.15	0.14	0.15	0.93	1.11	1.30	19.07	16.78	0.09	0.10	0.10	-0.49	-0.52	
Liberia	0.88	1.10	1.22	25.33	10.75	0.17	0.18	0.19	0.20	0.20	2.60	2.91	13.04	11.92	0.49	0.46	0.46	3.18	3.70	4.13	16.44	11.57	0.32	0.32	0.32	-1.42	-1.50
Libya	48.90	17.50	27.67	-64.21	58.10	9.61	2.93	4.25	10.50	5.00	9.09	52.38	81.95	2.22	0.88	1.44	59.40	22.50	36.76	-62.12	63.38	6.05	3.93	2.87	38.40	12.50	
Madagascar	1.07	1.59	1.79	48.41	12.40	0.21	0.27	0.27	2.53	2.90	3.29	14.80	13.59	0.54	0.51	0.52	3.60	4.49	5.08	24.81	13.17	0.37	0.39	0.40	-1.45	-1.51	
Malawi	1.07	1.24	1.42	16.30	14.47	0.21	0.21	0.22	2.17	2.29	2.65	5.38	15.75	0.46	0.40	0.42	3.24	3.53	4.07	9.98	15.30	0.33	0.30	0.32	-1.11	-1.05	
Mali	2.00	2.46	2.73	23.23	11.10	0.39	0.41	0.42	2.85	3.25	3.71	14.04	15.20	0.60	0.57	0.59	4.85	5.71	6.48	17.82	13.44	0.49	0.49	0.51	-0.85	-0.79	
Mauritania	2.26	2.65	2.74	17.03	3.52	0.44	0.44	0.44	4.39	5.16	5.59	17.61	8.43	0.93	0.91	0.89	6.65	7.80	8.33	17.41	6.77	0.68	0.67	0.65	-2.12	-2.51	
Morocco	17.77	21.15	23.45	19.03	10.88	3.49	3.54	3.61	35.38	44.10	50.78	24.65	15.14	7.49	7.78	8.06	53.15	65.26	74.24	22.77	13.76	5.42	5.60	5.80	-17.61	-22.95	
Mozambique	2.90	3.60	4.04	12.36	0.57	0.60	0.62	4.50	6.30	7.45	40.00	18.23	0.95	1.11	1.18	1.18	7.40	9.90	11.49	33.78	16.10	0.75	0.85	0.90	-1.60	-2.70	
Namibia	4.03	4.49	5.01	11.54	11.51	0.79	0.75	0.77	5.55	6.20	7.23	11.71	16.65	1.18	1.09	1.15	9.58	10.69	12.24	11.64	14.49	0.98	0.92	0.96	-1.52	-1.71	
Niger	1.04	1.25	1.50	20.19	20.37	0.20	0.21	0.23	2.30	2.40	2.92	4.35	21.46	0.49	0.42	0.46	3.34	3.65	4.42	9.28	21.09	0.34	0.31	0.35	-1.26	-1.15	
Nigeria	84.00	119.00	121.42	41.67	2.04	16.50	19.92	18.67	44.24	63.95	69.88	44.57	26.93	9.37	11.27	11.09	128.24	182.95	191.31	42.67	4.57	13.07	15.71	14.94	39.76	55.05	
Rwanda	0.25	0.38	0.47	49.34	24.96	0.05	0.06	0.07	1.43	1.73	2.20	20.89	24.93	0.30	0.30	0.35	1.69	2.11	2.67	25.19	26.58	0.17	0.18	0.21	-0.18	-0.15	
Sao Tome and Principe	0.01	0.01	0.01	18.18	14.94	0.00	0.00	0.00	0.11	0.13	0.13	0.15	15.91	14.18	0.02	0.02	0.12	0.14	0.16	16.12	14.25	0.01	0.01	0.01	-0.10	-0.13	
Senegal	2.16	2.54	2.81	17.61	10.47	0.42	0.43	0.43	0.43	0.43	0.43	4.78	5.91	0.66	0.66	0.66	6.94	8.45	9.74	21.77	14.25	0.01	0.01	0.01	-0.37	-0.36	
Seychelles	0.01	0.01	0.01	17.61	10.47	0.42	0.43	0.43	0.43	0.43	0.43	4.78	5.91	0.66	0.66	0.66	6.94	8.45	9.								

CHAPTER THREE

AFREXIMBANK OPERATIONS AND ACTIVITIES



3. AFREXIMBANK OPERATIONS AND ACTIVITIES

3.1 INTRODUCTION

During 2012, the Bank's operations and activities were carried out in line with the targets set in the Annual Budget for 2012, which represented the first year of implementation of the Bank's Fourth Strategic Plan, 2012-16 ("Project 3-5-3" or "Plan IV"), and within the context of developments in the global and African economic environments during the review period. As discussed in Chapter 2, the global economy showed further signs of weakness during the review period on account of a heightening of global economic uncertainties and weak global market conditions precipitated by a worsening of the sovereign debt crisis of the Eurozone. Despite the multiplicity of challenges that emerged in the global and African operating environments, the rate of expansion of African economies, as a group, which averaged 2.4% in 2011, strengthened to 4.7% 2012 buoyed by firm oil prices, gradual-but-steady pick-up in FDI inflows, continued recourse to sound macroeconomic policies, sustained improvement in quality of political governance across the continent; and continued recovery in remittances and tourism receipts. These developments impacted the focus and slant of the Bank's lending operations and activities during the period under review.

The Bank's operational performance in 2012 was also affected by a number of internal factors. In this regard, during the review period, Management commenced implementation of the Bank's Fourth Strategic Plan. Consistent with practice and as contemplated in the Plan document,

the Annual Budgets are the instruments of its implementation. The 2012 Budget was therefore derived from the Plan document and themed ***"Leveraging Internal Strengths and Recent Gains for Operational Efficiency"***. In this regard, the 2012 Budget attempted to consolidate the achievements made under The Third Strategic Plan (Plan III) as foundation for the realization of the objectives of Plan IV. Specifically, under the 2012 Budget, Management sought, among other key objectives, to strategically promote intra-African trade through the introduction of an Intra-African Trade Facilitation Programme (INTRAFAFAP), strengthen risk management systems by installing relevant Enterprise Risk Management (ERM) instruments, enhance operational efficiency through process improvements via continued, proactive implementation of the SAP Enterprise Resource Planning Programme, improve the geographic distribution of the Bank's loan assets, strengthen the human resource capacity of the Bank to equip it for the robust growth envisaged under Plan IV, advance the Bank's drive towards diversification of its funding sources, intensify on-going shareholder mobilization efforts to ensure that the Bank is sufficiently capitalized to facilitate attainment of the target growth in loan assets, devote resources towards planning the 19th General Meeting of Shareholders of the Bank, continue to forge constructive partnerships, maintain and/or improve its credit ratings, and revamp its ICT infrastructure at both the Headquarters and branch offices consistent with envisaged improvements in operating systems and processes.



In furtherance of these objectives, the Bank, during the period, strengthened its human resource capacity, especially in the areas of corporate finance and advisory services, research and planning, banking operations, external communications, audit and finance; and intensified work towards strengthening its emergency management capabilities by retaining the internationally renowned consultancy group, Control Risk, UK, to guide this effort. Considerable effort and resources were also devoted towards preparation and organization of the 19th General Meeting of Shareholders that held in Beijing, China in July; and continued to focus on growing and diversifying its loan assets by product and geography. Management also appointed Citibank, BNP Paribas, Standard Chartered Bank and Ecobank as Financial Advisors for the Bank's equity mobilisation efforts and committed considerable amount of resources to the exercise codenamed "Project Roxy", including collation of charter amendments and organisation of two extraordinary general meeting of shareholders to consider and finally approve a set of charter amendments needed to facilitate the equity

mobilisation exercise. In spite of the many difficulties that prevailed in global markets, the Bank was able to count on the support of its partner institutions in the Euro-credit market. In this regard, the Bank continued to enjoy money market lines and benefitted from syndicated loans arranged by some of its partners which enabled it to grow its loan assets as well as fulfil obligations to its creditors.

The foregoing internal and external factors ensured that the Bank continued to meet the challenges posed by the unrelenting surge in demand for its financial services by African counterparties during the review period. In this regard, in response to the uncertainties in its operating environment, 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 high cost of funds that persisted during the period despite slight improvement in global liquidity situation seen during the second half of 2012.

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 2012 Budget.

3.2 REVIEW OF CREDIT OPERATIONS

As in the previous years, the Bank's credit operations were, during 2012, implemented in the context of the global and African politico-economic environments. In this regard, for the purpose of managing old and new challenges that prevailed in its operating environment and in line with its operating model, the Bank continued to place emphasis on its Dual Recourse Facilities (DRF) programme, Structured Trade Finance (STF) Operating Model, and Syndications programme. Under the DRF programme, the Bank lends to a corporate against the guarantee or aval of an acceptable bank or another creditworthy corporate. The Syndications Programme is one of the main risk-sharing instruments the Bank uses to leverage international trade and project financing into Africa. Increased activity under the Direct Financing Programme reflected the continued switch of top corporates to the Bank as a funding source given the withdrawal of many international banks from African trade finance.

During 2012, the value of credit facility requests received by the Bank amounted to US\$22.0 billion, an amount about 10% 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 40% of such applications.

In 2012, credit facility approvals declined marginally by 1% to US\$3.71 billion, from US\$3.75 billion in 2011 (Table 3.1 and Figure 3.1a), reflecting a tightening of the credit appraisal and approval processes

within the framework of the newly installed Risk Management Policies and Procedures (RMPP) of the Bank. Gross loans outstanding, however, increased by about 33% year-on-year to reach US\$3.13 billion at the end of 2012 (Table 3.1 and Figure 3.1b) as a result of increased utilisation of the Bank's facilities coupled with improvements in the operating processes of the Bank.

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

Figure 3.1a Afreximbank: Facility Approvals, 2010 - 12

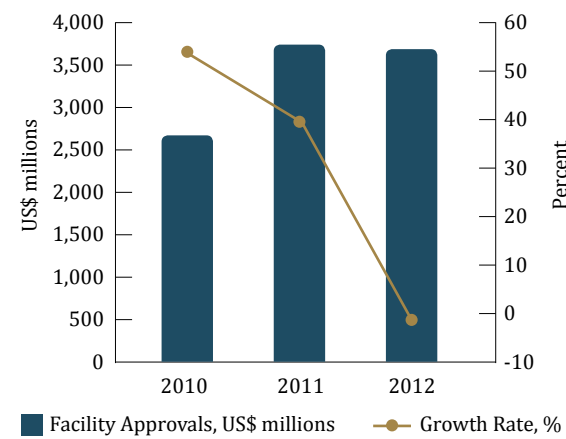


Figure 3.1b Afreximbank: Credit Outstanding as at December 31, 2010 - 12

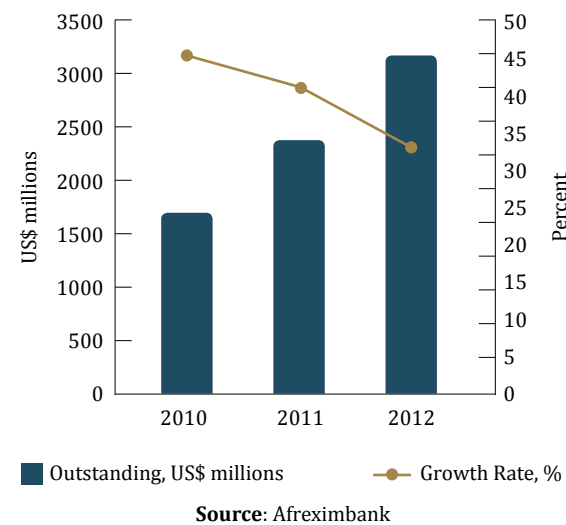


Table 3.1 Afreximbank: Distribution of Loan Approvals and Outstandings by Type of Programme, 2010 - 12

Type of Programme	Approvals (US\$m)			Growth Rate (%)			Share of Approvals by Type of Programme (%)			Outstandings (US\$m) (End of Period)			Growth Rate (%)			Share of Outstandings by Type of Programme (%)		
	2010	2011	2012	2010/2011	2011/2012	2012/2011	2010	2011	2012	2010	2011	2012	2011/2010	2012/2011	2012/2011	2010	2011	2012
1. Line of Credit Programme	1,254.45	1,621.10	1,252.94	29.23	-22.71	-22.71	46.71	43.20	33.76	459.04	958.73	710.24	108.86	-25.92	-25.92	27.34	40.54	22.66
2. Note Purchase Programme	28.00	100.00	100.00	257.15	0.00	0.00	1.04	2.66	2.69	206.34	127.51	273.33	-38.20	114.35	114.35	12.29	5.39	8.72
3. Receivables Purchase/Discounting Programme	-	44.00	8.00	8.00	-81.81	0.00	0.00	1.17	0.22	0.00	0.17	170.95	100,459.41	0.00	0.00	0.01	0.01	5.45
4. Direct Financing Programme	200.00	566.50	726.98	183.25	28.33	28.33	7.45	15.10	19.59	356.86	258.30	398.67	-27.62	54.35	54.35	21.26	10.92	12.72
5. Project-Related Financing Programme*	89.50	103.10	95.15	15.20	-7.71	-7.71	3.33	2.75	2.56	54.53	70.36	146.56	29.04	108.29	108.29	3.25	2.98	4.68
6. Syndications Programme ^{a)}	940.68	953.00	894.50	1.31	-6.14	-6.14	35.03	25.40	24.10	483.40	799.22	992.12	65.33	24.14	24.14	28.79	33.79	31.66
7. Special Risk Programme ^{b)}	70.00	85.00	125.00	21.43	47.06	47.06	2.61	2.27	3.37	0.00	15.25	119.59		684.18	684.18	0.00	0.64	3.82
Country Risk	20.00	50.00	-	150.00	-100.00	-100.00	0.74	1.33	0.00	0.00	15.25	119.59		684.18	684.18	0.00	0.64	3.82
Other Risk	50.00	35.00	125.00	-30.00	257.14	257.14	1.86	0.93	3.37	0.00	0.00	0.00	3.94	104.23	104.23	0.00	0.00	0.00
8. Future-Flow Pre-Financing Programme	73.90	153.20	508.89	107.31	232.17	232.17	2.75	4.08	13.71	103.60	107.68	219.92				6.17	4.55	7.02
9. Asset-Backed Lending Programme	29.00	126.50	-	336.21	-100.00	-100.00	1.08	3.37	0.00	15.08	27.91	102.65	85.05	267.85	267.85	0.90	1.18	3.28
10. Export Development Finance Programme	-	-	-	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Memorandum Item:																		
Country Programme	120.00	100.00	100.00	-16.67	0.00	0.00	0.00	0.00	2.69									
Total	2,685.53	3,752.40	3,711.46	39.73	-1.09	-1.09	100	100	100	16,788.85	23,651.13	31,340.04	40.88	32.51	32.51	100.00	100.00	100.00
Cumulative Totals ^{c)}	17,592.44	21,344.84	25,056.30	25.17	19.89	19.89												

* Excludes an amount of US\$368 Million in support of African projects approved under the Bank's Syndications Programme in 2012

a) Includes co-financing and sub-participation

b) Contingent liabilities

c) Since the Bank began operations in September 1994

Note: Gaps represent infinity.

Source: Afreximbank

a) Line of Credit Programme (LOCP)

The LOCP is a programme through which the Bank provides funded and unfunded credit lines to creditworthy African and non-African banks designated as the Bank's Trade Finance Intermediaries (TFIs). Through this programme, the Bank provides loan and guarantee facilities to trading entities whose balance sheet size and trade turnover would not normally qualify them for the Bank's direct lending. Facilities provided under this programme included (i) Trade Finance (Export-Import) facility, (ii) Pre- and Post-Export financing facility, (iii) L/C Confirmation and Refinancing Facility, and (iv) Re-Imbursement Guarantee Facility and Africorrbanking, a facility through which the Bank provides L/C confirmation, trade/correspondent banking services to African banks. During 2012, loan approvals under this Programme declined by 23% year-on-year to reach US\$1.25 billion. The LOCP, however, dominated credit approvals during the review year, accounting for a share of 34% of total facility approvals. On account of the sharp drop in credit approvals under the LOCP, loans outstanding under the Programme also declined by 26% from US\$959 million in 2011 to US\$710 million in 2012, to account for the second largest share of 23% of the Bank's loan portfolio at the end of 2012 (Table 3.1).

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. Credit approvals under the programme amounted to US\$100 million representing a share of 2.7% of total facility approvals made during the period. Loans outstanding under the programme increased by 114% year-on-year to US\$273 million at the end of 2012. Following the surge in outstandings, the

Programme ended the review period with a share of 9% of the Bank's loan portfolio, up from a level of 5.4% in 2011 (Table 3.1).

c) Receivables Purchase/Discounting Programme

This programme comprises 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. Credit facility approvals under the programme in 2012 amounted to US\$8 million, representing about 0.2% of total credit facility approvals made during the review period. Loans outstanding under the programme at the end of 2012 amounted to US\$171 million representing a 5.5% share of total outstanding at the end of the period (Table 3.1).

d) Direct Financing Programme

Through this Programme, the Bank provides pre- and post-export 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 28% year-on-year to US\$727 million to account for 20% of total credit facility approvals made in 2012. Loans outstanding under the Programme stood at US\$399 million at the end of 2012, representing an increase of about 54% compared to the level at the end of 2011, and accounted for 13% of the Bank's loan portfolio at the end of the review period (Table 3.1). Increased activity under this programme continue to reflect the switch of top African corporates to the Bank as a funding source following the withdrawal of many international banks from African trade finance in recent times.

e) Project-related Financing Programme

The purpose of this Programme is to develop Africa's export manufacturing capacity by financing the import of equipment needed for export manufacturing and infrastructure projects that facilitate exports or generate traded infrastructure services, such as power, ports, and telecoms 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. Credit approvals made under the programme amounted to US\$95

million in 2012 (excluding project financing in an amount of US\$368 million arranged under the Bank's Syndications Programme), and accounted for about 3% of total credit facility approvals made in 2012. Loans outstanding under the programme also increased by 108% year-on-year to US\$147 million to account for a 5% share of the Bank's loan portfolio at the end of 2012 (Table 3.1). The surge in activity under this programme reflects the conscious efforts being made by the Bank to finance trade-related projects on the continent as well as its support for commodity processing via various initiatives including the recently launched Africa Cocoa Initiative (AFRICOIN) as discussed in Box 3.1.

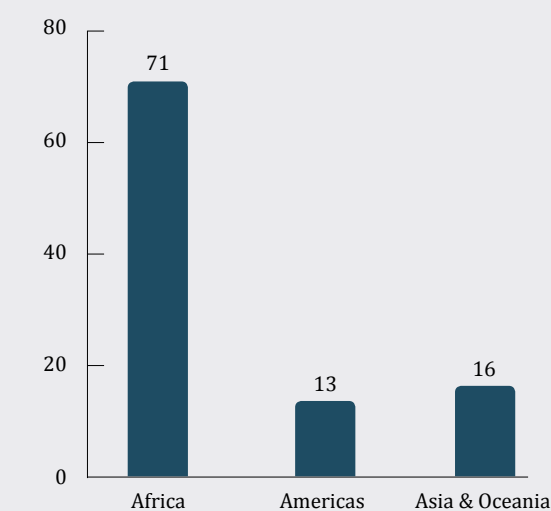
Box 3.1 Transforming Africa's Cocoa Industry – Introducing Afreximbank's Africa Cocoa Initiative (AFRICOIN)

The Cocoa industry remains one of the major sources of fiscal and export revenues for cocoa producing countries in West and Central Africa (WCA). Further, the commodity, often called the "Brown Gold", is a major employer of unskilled to semi-skilled labour. In Ghana, for instance, in 2005, the cocoa industry accounted for 50% of total agriculture exports and 28% of merchandise export revenue, behind gold (Breisinger, et al 2008).¹ In Cote d'Ivoire, the Cocoa Industry accounted for 70% of total merchandise exports in 2005 and contributed 20% of GDP in 2010 (Agritrade, 2012 and Abbott 2007).² The importance of the commodity also stems from the dominance of the continent in global production of raw cocoa beans. For, example, in 2010, the four major African producing countries, namely

Cameroon, Cote d'Ivoire, Ghana and Nigeria, accounted for a combined share of over 70% of global cocoa bean production (Figure B3.1.1).

Despite its potential to contribute to structural transformation and industrialisation, a bulk of the cocoa produced in African countries continues to

Figure B3.1.1 Regional Distribution of Global Cocoa Beans Production 2010 (Percent)



Source: ICCO Annual Report 2010

¹ For more insight see Breisinger C., Diao X., Kolavalli S., and Thurlow J., (2008). *The Role of Cocoa In Ghana's Future Development*. Ghana Strategy Support Program (GSSP) Background Paper No. GSSP 0011

² Agritrade (2012). Special Report: Côte d'Ivoire's cocoa sector reforms 2011-2012. Available at <http://agritrade.cta.int/en/layout/set/print/Agriculture/Commodities/Cocoa/Special-report-Cote-d-Ivoire-s-cocoa-sector-reforms-2011-2012>

be exported in raw form. Over the last 5 decades, raw cocoa bean exports have accounted for more than 85% of total cocoa-related exports. Consequently, earnings from cocoa exports tend to fluctuate as a result of high price volatilities associated with raw commodities in international markets (Figure B3.1.2). Low earnings from the cocoa beans exports were further worsened by declining productivity due to poor agronomic factors, such as declining capital investments and continued use of inferior agriculture technologies, particularly during the 1970s up to the late 1990s. In this regard, total cocoa beans production by African countries, as a group, which stood at 1.1 million tonnes in 1964, declined to about 700,000 tonnes in 1968 and underwent anaemic growth during 1990-2000, resulting in a significant drop in the continent's share of global cocoa beans production from over 90% to 70% during the period (Figure B3.1.3).

Due to its economic importance, as highlighted above, the industry received considerable attention during 1980s and 1990s under IMF/World Bank sponsored reforms in the four major

cocoa producing countries. During that period, governments of cocoa producing countries, at the behest of the IMF and the World Bank sought to address challenges confronting key sectors/industries, including the major commodity export industries such as the cocoa industry. The Structural Adjustment Programmes (SAPs) and Economic Recovery Programmes (ERPs) that swept through the continent in the 1980s and 1990s occasioned massive restructuring and liberalisation of most activities in the cocoa industry (except Côte d'Ivoire and Ghana that undertook partial reforms). The reforms, which were carried out in several phases during 1980/2000 and entailed liberalisation of major activities across the upstream and downstream segments of the cocoa value chain, were broadly anchored on dismantling state monopoly across the value chain (Figure B3.1.4). At the upstream, the reforms ranged from liberalisation of internal/external marketing, quality control inspection, and haulage to price liberalisation, albeit at varying levels and times across countries in Africa. In the cocoa processing segment, the monopoly enjoyed by traditional state-owned Cocoa Processing

Figure B3.1.2 Trends in Cocoa Prices, 1960-2012 (Cents/kg)

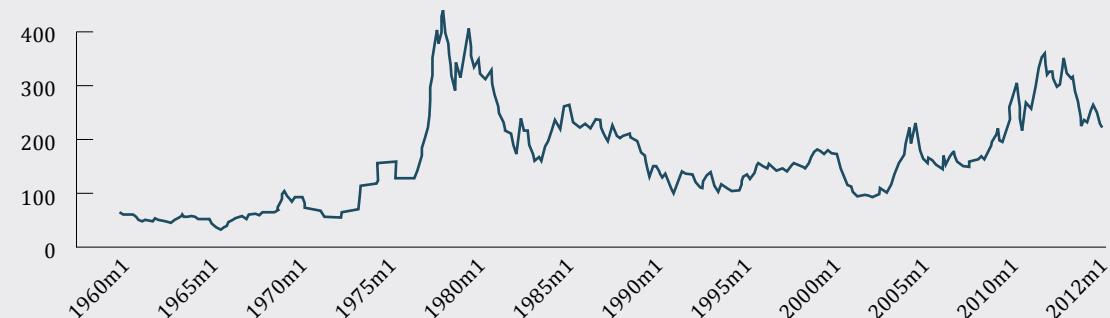
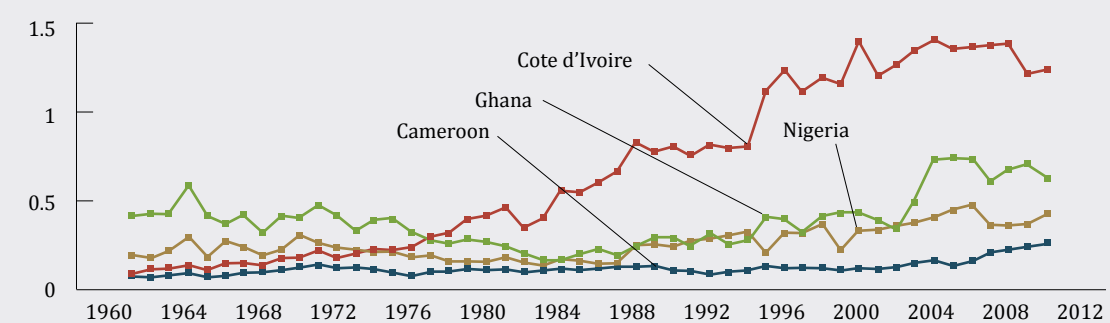
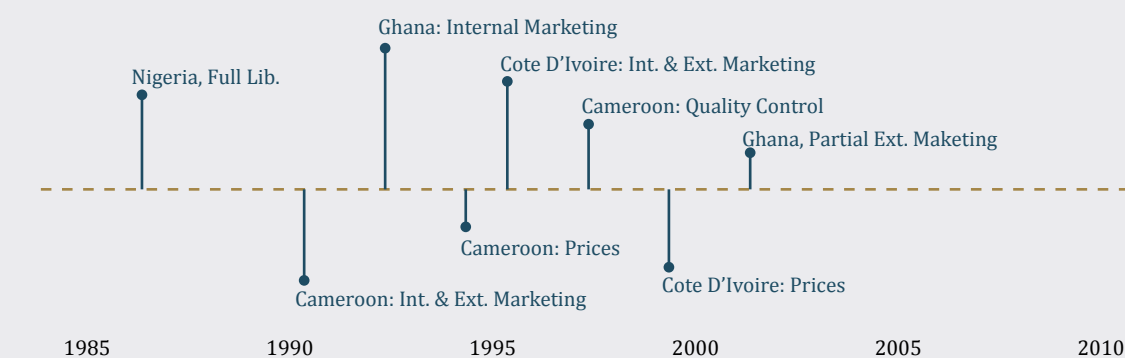


Figure B3.1.3 Trends in Cocoa Beans Production in Africa, 1960-2011 (Millions of Tonnes)



Source: ICCO Annual Report, various issues

Figure B3.1.4 Cocoa Sector Reforms in Africa, 1980-2005



Source: UNCTAD - Cocoa Study: Industry Structure and Competition, 2008

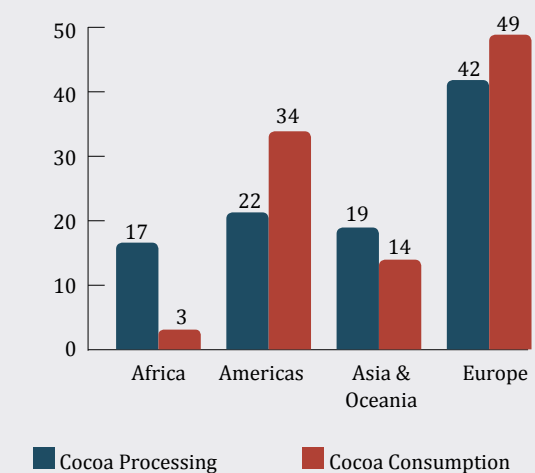
Companies was broken with the entry of several processing companies, mostly Transnational Corporations (TNCs) from Europe and North America.

These reforms, which virtually dismantled the elaborate logistic arrangements that supported cocoa production and trading activities, such as scheduled pricing, input supply arrangements, warehousing, quality control, transportation, and producer price support scheme, somewhat inadvertently undermined production in many cocoa producer countries in the continent. As a consequence, cocoa production in the reforming countries, namely Nigeria and Cameroon fell by 26% and 13% respectively between 1970 and 1999 on account of poor agronomic practises, limited capital investments, absence of affordable credit following the dismantling of the commodity boards around which financing was previously arranged to support the industry. Côte d'Ivoire and Ghana, which resisted aspects of the IMF/World Bank-sponsored reforms, managed to raise their cocoa outputs during the same period.

Additionally, limited processing capacities also meant that major cocoa producing countries in Africa could not benefit from stable and higher revenues associated with processing of cocoa beans. The situation was further worsened by a number of challenges, including high tariffs on processed cocoa products compared to zero rates on unprocessed or raw commodity exports into OECD markets, stringent Sanitary and Phytosanitary (SPS) requirements for

processed food products in OECD countries, lack of government/institutional support for the sector, and limited capacity of local banks to structure bankable trade and project finance deals etcetera. Further, low level of consumption of processed cocoa products in Africa (3% compared to over 49% in Europe and 34% in the Americas) implies limited market access for Africa based processors (Figure B3.1.5). As a result, despite accounting for over 70% of global cocoa beans production over the last five decades, the continent accounts for a paltry 17% of world processed cocoa compared to 42% for Europe, which does not produce any raw cocoa beans, and 19% for Asia and Oceania (Figure B3.1.5).

Figure B3.1.5 Regional Distribution of Global Processing and Consumption, 2010, (Percent)



Source: ICCO: World Cocoa Economy - Past and Present, 2010

To address the challenges facing the cocoa industry in Africa so as to improve participation of African producers across the global cocoa value chain, conscious efforts should be made to proactively boost cocoa bean production, value addition and local (African) consumption of processed cocoa products. The interventions should consciously seek to improve agronomic practices, enhance access of farmers to modern farming and production techniques, improve access to inputs including fertilizers and insecticides, and facilitate access to appropriate financing, among others. In the downstream sector, efforts should be directed towards improving access to long term finance for creation of processing capacities, assuring the quality of processed cocoa to instil international consumer confidence of cocoa products originating from Africa, enhancing access of African processors to markets in Asia and Latin America and promoting local consumption of processed cocoa products.

Afreximbank, guided by its mission of supporting the development and diversification of Africa's export basket and markets, and in line with its goal of supporting on-going public and private sector efforts at addressing the challenges confronting the African cocoa industry, introduced the Africa Cocoa Initiative ("AFRICOIN" or the 'Initiative') in 2012. The Initiative, which is part of the Bank's Export Development Programme (EDP), is aimed at providing "End-to-End" solutions to the difficulties facing the African cocoa industry by providing corporate finance and advisory services to eligible entities in the African Cocoa Value Chain. Specifically, the initiative is intended to, among others, (i) facilitate cocoa bean production and productivity growth on African cocoa farms; (ii) promote and finance extension of capacity for processing of cocoa beans into industrial raw materials (cocoa liquor, cocoa powder and cocoa butter) to feed manufacturing plants in Africa, Europe, North America and Asia; and (iii) promote consumption of cocoa products in Africa, Asia and the Middle East.

The Initiative is being implemented using the following instruments: (i) Afreximbank's Export Development Financing Programme, (ii) Corporate Advisory Services, and (iii) Issuance of Cocoa Bonds.

Under the Export Development Financing Facility, the Bank provides Term Funding for the establishment of processing plants; Working Capital Financing for the procurement of cocoa beans for processing; and facilitates Market Access through twining initiatives, i.e. linking Africa processors with leading buyers and actors in the global cocoa economy to ensure access to markets, and technical and managerial know-how.

Further, the Bank arranges Issuance of Cocoa Bonds by Governments and private sector entities to finance upstream activities and to promote domestic consumption of cocoa products and capital expenditure.

Additionally, the Bank offers Corporate Advisory Services to support the creation of linkages between upstream producers and domestic processors based in origin countries and global chocolate manufacturers; and to facilitate the creation of Joint Ventures between Local Processors and Multinational Corporations (to guarantee off-takes and market access).

The Initiative supports 4 key activities in the cocoa value chain, including: (i) plantation expansion and productivity improvements; (ii) imports and/or domestic production of cocoa inputs for the cocoa industry, such as pesticides and fertilizer; (iii) expansion of existing processing plants/establishment of new plants; and (iv) Promotion of cocoa consumption in Africa, Asia and the Middle East. Eligible entities/organizations for the Bank's support under the Initiative include: (i) private cocoa sector participants, including input producers and importers; (ii) entities with cocoa processing/manufacturing plants located in Africa; (iii) governments and government agencies, for example, national cocoa boards; and (iv) Multinational Cocoa

processing/manufacturing entities operating in Africa. AFRICOIN is being implemented through public-private, and African/non-African partnerships. In this regard, the Initiative is being implemented in partnership with major players in the world cocoa economy, including: (i) International Cocoa Organization (ICCO); (ii) African Governments and Government Agencies in major cocoa producing countries; (iii) African banks and Development Finance Institutions; (iv) African Entrepreneurs;/Corporates; (v) Multinational Cocoa Processing/Manufacturing Companies; (vi) Alliance of Cocoa Producing Countries (COPAL); and (vii) Public/Private Sector Cocoa Research Institutions in Africa.

Over the medium term, the programme is expected to contribute in raising the share of value added cocoa exports to at least 35% from the current level of under 17%, increase the level of employment in the industry, raise farm incomes, and contribute to overall improvement in the living standards of cocoa producing communities.

Given the socio-economic importance of this initiative, the Bank in 2012 began providing financial and technical support to entities in the downstream sector. For instance, in 2012, the

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 eligible entities. Credit approvals under the programme during 2012 declined by 6% year-on-year to US\$895 million. The programme accounted for the second largest share of credit approvals of about 24%. Despite the decline in approvals, credits outstanding under the programme rose by 24% year-on-year to US\$992 million at the end of 2012, to

Bank provided financing in favour of two cocoa processing entities, namely Conditionnement de Cacao et Cafe (CONDICAF) and FTN Cocoa Processors based in Cote d'Ivoire and Nigeria respectively. It also provided corporate advisory services under the Initiative which led to the creation of Joint Ventures (JVs) between the two entities and Transmar Group of Companies. The two JVs led to injection of equity finance into the two processing companies, and facilitated access their to modern technology and international markets. Further, the Bank intensified its efforts at enlisting support for the Initiative by attending several cocoa fora, including the 85th Regular Session of the International Cocoa Council and 145th Meeting of the Executive Committee of ICCO in March 2012 at Guayaquil, Ecuador and the 86th Regular Session of the International Cocoa Council and 146th Meeting of the Executive Committee of ICCO in September, 2012 in London, UK. It also participated in the COPAL Conference held in September, 2012 in Yaoundé, Cameroon and the International Cocoa Conference that held in November, 2012 in Abidjan, Cote d'Ivoire.

account for the largest share of 32% of the Bank's loan assets (Table 3.1). The continued strong activity under the programme was a consequence of strenuous efforts by the Bank to revive interest in African syndications as the global economy recovered.

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 risk. Approvals under this programme increased by 47% to US\$125 million to account for about 3.4% of total

facility approvals made during the review period. Outstanding obligations under the programme at the end of the review period amounted to about US\$120 million (Table 3.1).

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\$509 million, about 232% higher compared to the previous year's level. Loans outstanding under the programme also increased by 104% year-on-year to US\$220 million, to account for a share of 7% of the Bank's loan portfolio at the end of 2012 (Table 3.1). The increased level of activity reflected growing demand for the Bank's Construction and Tourism Link Relay (CONTOUR) facility launched in 2010.

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 their asset-based nature, the Bank introduced this programme to serve the needs of eligible entrepreneurs. A good feature of asset-backed financing is that the assets can serve as good collateral as their values are normally expected to grow with inflation. There were no approvals under the programme during the year under review. Loans outstanding under the programme, however, increased by 268% year-on-year

to US\$103 million in 2012 due primarily to increased utilization of previously approved facilities. The programme ended the review period with a share of 3% of the Bank's loans outstanding (Table 3.1).

j) 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 Export Development Programme (EDP). 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. Further, on-going work regarding the preparation of Export Development Programs for five pilot member countries was advanced during 2012, and is expected to be rolled out during 2013 consistent with on-going efforts of the Bank at improving the competitiveness and diversification of African exports.

k) Country Programme

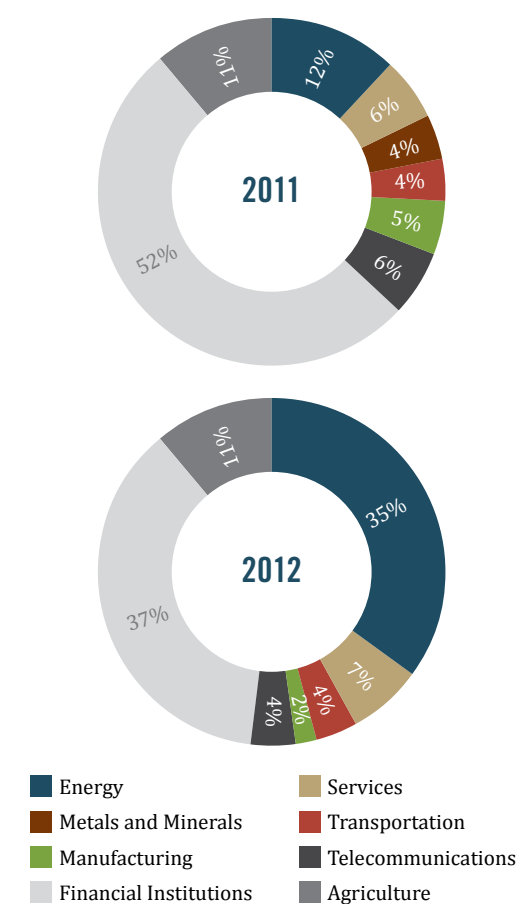
Under the Country Programme the Bank assists its member countries in peculiar difficulties not amenable to solutions offered by any one of the Bank's menu of products. During the review period, approvals under the programme amounted to US\$100 million in respect of the Zimbabwe Economic and Trade Revival Facility (ZETRF), which was put in place to support Small and Medium-sized Enterprises (SMEs) in that country (Table 3.1).

3.3 ANALYSIS OF TRANSACTIONS

3.3.1 Sector Financed

As in the previous years, the review period saw Financial Institutions accounting for the largest share of the Bank's loan approvals and outstanding by sector, as a reflection of the Bank's continued operational emphasis on DRFs. In this regard, as shown in Table 3.2, approvals in favour of the Financial Institutions sector amounted to US\$1.38 billion, about 29% lower compared to 2011. Nevertheless, the programme accounted for the largest share of 37% of total facility approvals made in 2012. The Financial Institutions sector also accounted for the largest share of about 31% of the Bank's gross loan assets in an amount of US\$978 million at the end of 2012 (Table 3.2 and Figure 3.2).

Figure 3.2 Afreximbank: Distribution of Loan Approvals by Sector, 2011 - 12 (percent)



Source: Afreximbank

Table 3.2 Afreximbank: Distribution of Loan Approvals and Outstandings by Sector, 2010 - 12

Sector Financed	Approvals (US\$m)			Growth Rate (%)			Share of Approvals by Sector (%)			Outstandings (US\$m)			Growth Rate (%)			Share of Outstandings by Sector (%)		
	2010	2011	2012	2010/2011	2011/2012	2012/2011	2010	2011	2012	2010	2011	2012	2010/2011	2011/2012	2012/2011	2010	2011	2012
Agriculture	199.600	422.700	413.760	111.77	-2.11	-2.11	7.43	11.26	11.15	56.200	76.476	220.905	36.08	188.86	188.86	3.35	3.23	7.05
Energy	302.040	462.400	1287.880	53.09	178.52	53.09	11.25	12.32	34.70	190.440	542.470	819.452	184.85	51.06	51.06	11.34	22.94	26.15
Services	158.900	213.700	243.685	34.49	14.03	14.03	5.92	5.70	6.57	128.940	58.051	111.226	-54.98	91.60	91.60	7.68	2.45	3.55
Metals and Minerals	105.000	145.000	0.000	38.10	-100.00	-100.00	3.91	3.86	0.00	75.810	12.795	128.374	-83.12	903.31	903.31	4.52	0.54	4.10
Transportation	88.550	133.000	130.880	50.20	-1.59	-1.59	3.30	3.54	3.53	156.660	115.937	402.212	-25.99	246.92	246.92	9.33	4.90	12.83
Manufacturing	67.200	196.500	87.810	192.41	-55.31	-55.31	2.50	5.24	2.37	142.85	69.866	115.024	-51.09	64.64	64.64	8.51	2.95	3.67
Telecommunications	352.538	220.000	162.500	-37.60	-26.14	-26.14	13.13	5.86	4.38	363.120	363.192	358.820	0.02	-1.20	-1.20	21.63	15.36	11.45
Government	0.000	0.000	0.000	0.00	0.00	0.00	0.00	0.00	0.00	0.000	44.019	0.000	-100.00	0.00	0.00	0.00	1.86	0.00
Financial Institutions ^{a)}	1,411.700	1,959.100	1,384.940	38.78	-29.31	-29.31	52.57	52.21	37.32	564.829	1082.321	978.022	91.62	-9.64	-9.64	33.64	45.76	31.21
Total	2,685.528	3,752.400	3,711.455	39.73	-1.09	-1.09	100.00	100.00	100.00	1,678.849	2,365.127	3,134.035	40.88	32.51	32.51	100.00	100.00	100.00
Cumulative Total^{b)}	17,592.442	21,344.842	25,056.297	25.17														

a) Approvals for financial institutions include unfunded credit guarantees but excludes commodity specific lending made through banks. Outstandings for financial institutions exclude commodity specific lending made through banks.

b) Since the Bank began operations in September 1994

Note: Gaps represent infinity

Source: Afreximbank

The Energy sector accounted for the second largest share of loan approvals and credits outstanding at the end of 2012. Total loan approvals in favour of the sector, during the period, amounted to US\$1.3 billion, reflecting a 179% year-on-year growth over the previous year's level. Accordingly, the sector accounted for the second largest share of 35% of total loan approvals made in 2012. On the back of continued surge in loan approvals, credits outstanding under the Sector rose by 51% year-on-year to US\$819 million to account for a share of about 26% of the Bank's gross loan assets at the end of the period under review (Table 3.2 and Figure 3.2). Further, Table 3.2 shows that the Transportation, Telecommunication and Agriculture sectors emerged as the third, fourth, and fifth most important sectors in the Bank's loan portfolio accounting for respective shares of 13%, 11%, and 7% of gross credits outstanding at the end of 2012 (Table 3.2).

3.3.2 Beneficiary Institutions

During the year under review, credit approvals to Corporates rose by about 30% year-on-year to US\$2.3 billion and accounted for 63% of facility approvals made in 2012. The increased share of approvals to Corporates reflects increased activity under the Bank's Direct Financing, Future Flow Financing, Syndications and Project Financing programmes where the Bank lends directly to such corporates. This group of beneficiaries also accounted for the highest share of 54% of the Bank's loan assets in an amount of US\$1.7 billion at the end of 2012 (Table 3.3). Banks accounted for credits outstanding in an amount of US\$1.3 billion, equivalent to 43% of the Bank's loan assets at the end of 2012. It is important to note that most of the loans to corporates were conducted under the Bank's Dual Recourse deal structures. There were no credit approvals made in favour of governmental institutions during the review period. As a result of utilization of previous years' credit approvals, loans outstanding in favour of government entities rose from

Table 3.3 Afreximbank: Distribution of Loan Approvals and Outstandings by Type of Beneficiary Institution, 2010 - 12

Type of Beneficiary Institution	Approvals (US\$m)			Growth Rate (%)			Share of Approvals by Type of Beneficiary Institution (%)			Outstandings (US\$m) (End of Period)			Growth Rate (%)			Share of Outstandings by Type of Beneficiary Institution (%)		
	2010	2011	2012	2011/2010	2012/2011		2010	2011	2012	2010	2011	2012	2011/2010	2012/2011		2010	2011	2012
Corporate/ Government Agency/ Parastatal	1,284.13	1,793.30	2,326.52	39.65	29.73		47.82	47.79	62.68	1,113.640	1,238.787	1,697.120	11.238	36.999		66.334	52.38	54.15
Bank	1,401.40	1,959.10	1,384.94	39.80	-29.31		52.18	52.21	37.32	565.209	1082.321	1336.915	91.490	23.523		33.666	45.76	42.66
Government	0.00	0.00	0.00				0.00	0.00	0.00	0.000	44.019	100.000	127.175			0.000	1.86	3.19
Total	2,685.53	3,752.40	3,711.46	39.73	-1.09		100.00	100.00	100.00	1678.849	2,365.127	3,134.035	40.88	32.51		100.00	100.00	100.00
Cumulative Total ^{a)}	17,592.44	21,344.84	25,056.30	25.17	19.89													

a) Since the Bank began operations in September 1994

Source: Afreximbank

US\$44 million at the end of 2011 to US\$100 million to account for 3% of the Bank's loan assets at the end of 2012 (Table 3.3).

3.3.3 Direction of Trade Finance

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, that is, intra- and extra-African trade. Credit approvals in support of mixed directional trade accounted for 74% of total credit approvals in 2012, up from a level of 70% in 2011. Similarly, loans outstanding under mixed directional trade accounted for 60% of the Bank's loan assets at the end of 2012, slightly lower than its share of 65% at the end of 2011 (Table 3.4). Credit approvals and loans outstanding in support of intra-African trade also rose during the review period to account for a share of 22% of total credit approvals made in 2012, and a share of 24% of the Bank's loans outstanding at the end of 2012 (Table 3.4). The continued growth in intra-African trade lending activities was the direct outcome of on-going regional and sub-regional efforts at lifting the trade as reported in Chapter 2. It also reflected deliberate effort on the part of the Bank to expand activity in this area in furtherance of its mandate.

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 any concentration risk it poses.

A review of the Bank's operations in the context of the above shows that average transaction size in 2012 declined to US\$39.5 million from a level of US\$43.1 million in 2011 (Figure 3.3). The number of transactions, however, increased from 89 in 2011 to 94 in 2012 (Figure 3.3).

Table 3.4 Afreximbank: Distribution of Loan Approvals and Outstandings by Trade Direction, 2010 - 12

Trade Direction	Approvals (US\$m)			Growth Rate (%)			Share of Approvals by Trade Direction (%)			Outstandings (US\$m) (End of Period)			Growth Rate (%)			Share of Outstandings by Trade Direction (%)		
	2010	2011	2012	2011/2010	2012/2011		2010	2011	2012	2010	2011	2012	2011/2010	2012/2011		2010	2011	2012
Intra-African	357.990	539.500	812.560	50.70	50.61		13.33	14.38	21.89	193.440	442.892	738.687	128.96	66.79		11.52	18.73	23.57
Extra-African	267.340	602.500	142.410	125.37	-76.36		9.95	16.06	3.84	98.520	377.120	529.770	282.79	40.48		5.87	15.95	16.90
Intra- and Extra-African	2,060.198	2,610.400	2,756.485	26.71	5.60		76.71	69.57	74.27	1,386.889	1,545.115	1,865.578	11.41	20.74		82.61	65.33	59.53
Total	2,685.528	3,752.400	3,711.455	39.73	-1.09		100.00	100.00	100.00	1678.849	2,365.127	3,134.035	40.88	32.51		100.00	100.00	100.00
Cumulative Total ^{a)}	17,592.44	21,344.84	25,056.30	25.17	19.89													

a) Since the Bank began operations in September 1994

Source: Afreximbank

Figure 3.3 Afreximbank: Number and Average Size of Approved Transactions, 2010 - 12

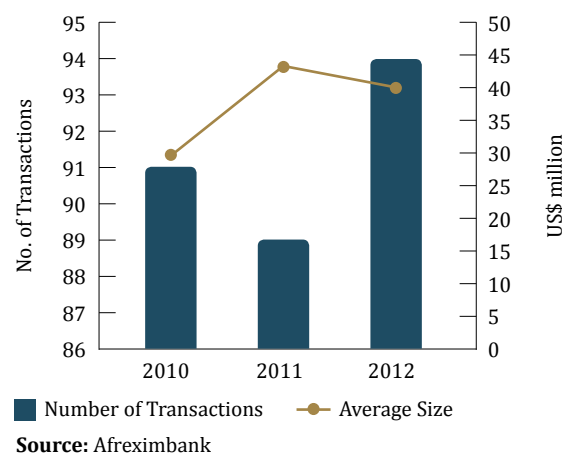


Figure 3.4 Average Maturities and Variance, 2010 - 12 (days)

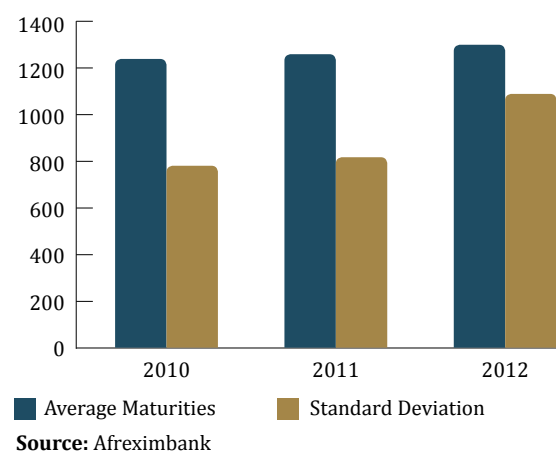


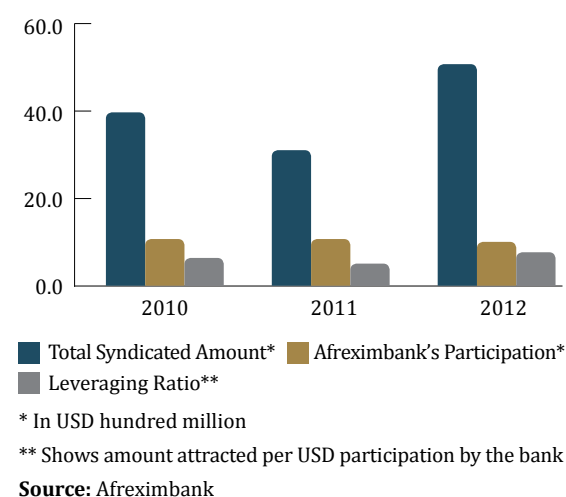
Figure 3.4 shows that average maturities of facilities approved by the Bank during the period under review rose marginally by 3% to 1,296 days in 2012, from 1,259 days in 2011. The lengthening in maturities of the facilities granted by the Bank arose from increased demand for such facilities as well 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 mostly for tenors not exceeding 360 days. The standard deviation of the distribution of maturities of approved facilities also rose during 2012 compared

to 2011, 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 encourage the inflow of loans and Foreign Direct Investments. The number of syndicated transactions that the Bank arranged, co-arranged, or participated in during 2012 increased from 14 in 2011 to 15 in 2012. During the same period, the amount of syndicated transactions the Bank arranged, co-arranged or participated rose about 67% to US\$5.45 billion in 2012 from US\$3.27 billion in 2011 (Figure 3.5). Further, the Bank's participation in the syndicated deals, in terms of approvals, amounted to US\$894.5 million in 2012 (Table 3.1). Following these developments, for every US dollar funding committed by the Bank, it

Figure 3.5 Syndications/Club Deals Arranged or Co-arranged by the Bank, 2010 - 12



was able to attract into the continent about US\$6.1 in 2012, significantly higher than the US\$3.4 attracted in 2011, reflecting enhanced credibility of the Bank as a preferred partner in the African syndications market.

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 below, in leveraging international financing into Africa during the review period.

3.4 TREASURY ACTIVITIES

3.4.1 The Bank continued to implement its treasury activities in accordance with the provisions of Treasury Policies and Procedures which form part of the Bank's Risk Management Policies and Procedures (RMPP). The main treasury operations conducted included borrowing, investments and hedging related to non-US Dollar exposures of the Bank.

During the period under review, the Bank continued to raise funds in the Euro

Syndicated Loan Market and from partner banks. In March 2012, the Bank raised an amount of US\$393 million and €195.5 million through a dual tranche syndicated facility and utilised US\$378 million and €190 million. The syndication attracted 35 banks from Europe, Middle East, Africa and Asia. Further, in December 2012, the Bank arranged a private placement with BNP Paribas to raise €35 million under the US\$1.5 billion Euro Medium Term Note (EMTN) Program.

In terms of mobilisation of funds from partner institutions or banks, the Bank during the period raised funding from Export Credit Agencies (ECAs) and Development Finance Institutions (DFIs) in an amount of US\$262 million and utilised US\$181 million. The Bank also raised bilateral loans from its partners.

In terms of repayments, the Bank fully repaid in March 2012 respective amounts of US\$125 million and €74.75 million due on syndicated term-loans raised in March and May 2010 and also repaid US\$81 million under the U.S. Commodity Credit Corporation's (CCC) GSM Program in addition to €48 million due on bilateral lines received from its partners.



The Bank manages the foreign exchange risk arising from its financing operations by borrowing in currency of lending and entering into forward foreign exchange contracts with creditworthy counterparties. As at the end of the review period, outstanding forward foreign exchange contracts were €67 million.

The amount of investments (short term placements) held by the Bank at the end 2012 was US\$230 million. These short term investments were placed with counterparties who meet the Bank's minimum credit rating of BBB- (S&P) as approved by the Board of Directors of the Bank.

3.4.2 Risk Management and Compliance

3.4.2.1 Risk Management

Following approval of the revised Risk Management Policies and Procedures (RMPP) Document by the Board of Directors in December 2011, the Risk Management Department (RMD), during the period under review, focused on implementation of the RMPP. Pursuant to a phased roll-out of the programme, activities and initiatives

introduced by the department during the course of 2012 included the following:

Introduction of a Bank-wide Risk Event Register

The risk register forms part of the Bank's Operational Risk Framework and serves as a tool for capturing risk event and loss data, which is a key requirement for the Bank's intended migration to standard and advanced measurement approaches for operational risk. Guidelines on how to fill loss event details in the risk register were communicated to relevant staff.

Financial Analysis and Risk Rating Models

The excel-based models were designed to standardise data presentation and enhance credit risk assessment, grading and measurement capabilities. The models were approved for implementation by senior management during the first half of the review period.

Business Continuity and Crisis Management

To enhance emergency and disaster preparedness, the Bank engaged Control Risk, a UK-based risk and crisis management

advisory firm to assist the Bank in the design of Business Impact Analyses (BIA) for Business Continuity Planning (BCP) purposes. The Control Risk Team undertook BIA assessments at the Bank's Headquarters in Cairo and the Branch Offices during 2012.

Management of Problem Loans

During the review period, RMD played a significant role in managing the non-performing loans, by contributing to the loan recovery efforts of the Bank. In this regard, RMD began the development of problem loan management guidelines, which are intended to guide and standardise the process for managing problem facilities.

3.4.2.2 Compliance Processes

During the review period, the Bank, in its efforts at contributing towards the global fight against cross-border financial crimes, strengthened its Anti-Money Laundering and Know-Your-Customer (AML/KYC) processes by integrating certain aspects of the 40+9 Revised Recommendations of the Financial Action Task Force (FATF) into its risk management framework. As in the previous years, due diligence assessments

were performed on all potential shareholders of the Bank, suppliers of goods and services to the Bank with value in excess of US\$20,000 and other counterparties involved in credit transactions with the Bank as stipulated in the Bank's Customer Due Diligence (CDD) Policies and Procedures. On the operational front, during the reporting year, the Compliance Unit conducted 120 AML/KYC assessments on credit transactions which were reviewed and approved by the Management Compliance Committee, and subsequently submitted detailed reports to the Executive Committee of the Board at its 79th, 80th, 81st, and 82nd Meetings held in March, July, September and December, 2012 respectively.

Further, the Compliance Unit responded to due diligence queries raised by the Bank's international lending partners and correspondent banks. The Compliance Unit also developed AML/KYC templates which were adopted by all partner institutions involved in the implementation of the Bank's African Correspondent Banking and Letter of Credit Confirmation Facility (Africorrbanking). Further, for the purpose of forging constructive partnerships for the global fight against money-laundering/terrorist financing and other forms of cross-border financial crimes, the Bank started processing its membership of the Association of Certified Anti-Money Laundering Specialists (ACAMS); and began working with identified international partners with a view to establishing an Annual African Financial Institutions Forum to exchange ideas on how to collectively address all forms of cross-border financial crimes in Africa.

As part of its efforts at strengthening internal capacities to fight money laundering and terrorist financing and other forms of cross-border financial crimes, the Bank during the reporting year, organized a workshop for its Board of Directors and Senior Management. The one-day workshop, which was held on the occasion of the Bank's Second Extra-Ordinary General Meeting of Shareholders that held in Nairobi, Kenya during

September 11-15, 2012, discussed topical issues, including *“Corporate Governance”; “Afreximbank’s Role regarding Anti-Money Laundering, Terrorist Financing, National and International Sanctions”; and “Recent Socio-Economic and Political Developments and their Impact on Afreximbank’s Operating Environment”*.

3.5 SHAREHOLDER MATTERS

3.5.1 In 2012, one new shareholder joined the Bank in category B. Accordingly, the number of shareholders of the Bank increased to 125 from 124 in 2011. In this regard, the total number of shares subscribed at the end of 2012 stood at 42,624 units with a nominal value of US\$426,240 million, up from 42,308 units with a nominal value of US\$423,080 million at the end of 2011. The increased value of the Bank’s shareholding was on account of existing shareholders using their accumulated dividend and/cash to acquire additional shares. At the end of the review period, all shareholders had met their obligations under the first and second instalments of share subscriptions.

3.5.2 The number of countries and multilateral institutions that had ratified the Bank Agreement at the end of 2012 remained unchanged, from the level at the end of 2011, at 24. The number of African countries that had signed or acceded to the Agreement for the Establishment of Afreximbank thus remained unchanged at 33 at the end of the review period. However, a sustained initiative to attract the membership of some important trading nations of the continent, such as South Africa, was undertaken and it is expected that discussions would be concluded in 2013.

3.5.3 During the review period, the Bank held its 19th Annual General Meeting in Beijing, China in July 2012 and two Extraordinary General Meetings: one in Nairobi, Kenya, in September and another in Harare, Zimbabwe in December 2012.

At the Extraordinary General Meeting (EGM), Shareholders present unanimously approved the proposed amendments to the Charter and proposals for the equity raise exercise paving the way for an increase in the authorised share capital of the Bank from US\$750 million to US\$5 billion and the creation of a new Class of Shareholders, Class “D” whose shares would be offered, to and bought by any person. Also, Class “D” shares would be listed. Following the adopted resolution of the Harare EGM, US\$500 million worth of new shares in Class “D” was immediately available for subscription by existing and new Shareholders. Management intensified efforts towards a broader equity mobilisation project, aimed at attracting sufficient capital to support the Bank’s business in the medium term and also to achieve the re-balancing of the Shareholding distribution to 35% Public Sector and 65% Private Sector as intended by the Bank’s Founding Fathers.

3.5.4 During the review period, the Standing Committee of the General Meeting met once to approve an amendment of the compensation to senior management and suggested some adjustments to the sitting allowance and others expenses of the Directors. These approvals were reported at the 19th Annual General Meeting in Beijing, China, the first AGM of the Bank to be held outside the continent. Shareholders at the AGM also considered and approved the financial statements for the year ending 31st December 2011, together with a dividend distribution of US\$11.6 million. The activities of the AGM included a 3-day Trade and Investment exhibition and a 3-day series of extensive seminars/conferences with several themes, including theme of China-Africa financial cooperation. The Bank also took opportunity of the gathering to launch the Bank’s Africa Cocoa Initiative and presented and obtained the buy-in of members of the Group and other participants present at the meeting to advance work on the establishment of the Africa-China Business Association.



3.6 MEETINGS AND COOPERATION

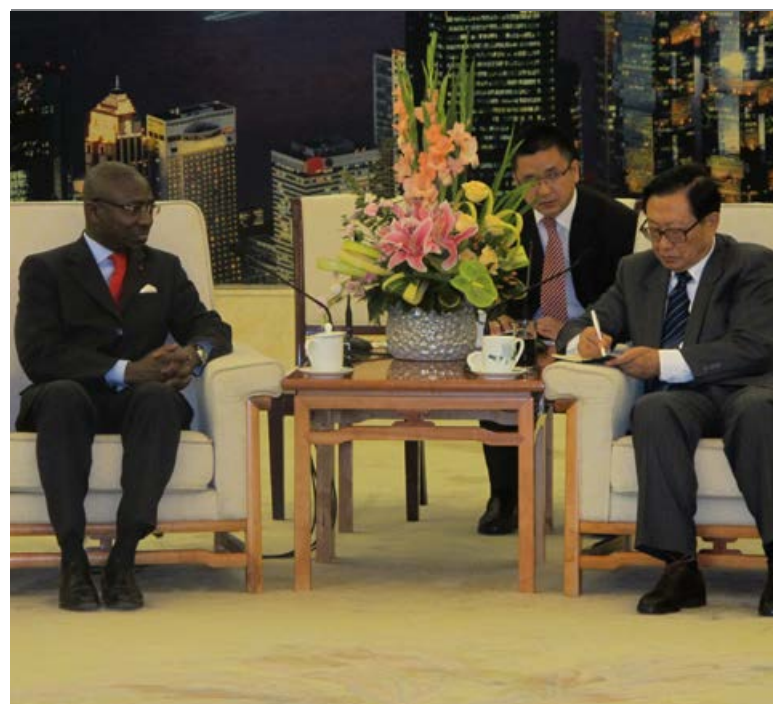
3.6.1 As part of the activities marking the 19th General Meeting of Shareholders, the Bank’s Advisory Group on Trade Finance and Export Development in Africa (the “Group”) held its 18th Annual Meeting during July 11-13, 2012 in Beijing, China. For the purpose of broadening the focus and slant of the Group’s meetings, the Bank adopted a new format for the Group’s meeting which entailed the organisation of a 3-day Series of Seminars. In this regard, the 18th Meeting of the Group, which was organised in collaboration with the Export - Import Bank of China (China Exim), marked the maiden edition of an Extended Meeting of the Group.

The first day’s Seminar held on July 11, 2012 focused on the theme: *“A Dynamic South in an Uncertain World: Can Prosperity Be Universalized?”* The Seminar was led by a thematic presentation on the topic: *“South-South Cooperation under Conditions of Dynamic Disequilibrium in the Global Economy – Opportunities and Challenges”*, which was delivered by Dr Richard Kozul-Wright, Director, Economic Cooperation and Integration Division, United Nations Conference on Trade and Development (UNCTAD), on behalf of H.E. Mr Supachai Panitchpakdi, Secretary General of UNCTAD. The lead presentation set the stage for in-depth discussions at three panel sessions which subsequently examined different aspects of South-South Cooperation in the context of promoting Africa-South trade. The panellists at Panel Session 1, which included Mr German Rios, Advisor, Office of the President of Banco de Desarrollo de América Latina (CAF), H.E. Dr Mohamed Ibn Chambas, Secretary-General of the African, Caribbean and Pacific Group of States (ACP), Dr Frannie Léautier, Executive Secretary, Africa Capacity Building Foundation (ACBF), and Mr Wang Jianye, Chief Economist, China Exim, examined the subject: *“South-South Trade Drivers – The Forces of Change”*. Moderated by Dr Richard Kozul-Wright, the panellists discussed among other issues, the

forces behind the observed strengthening of South-South trade relations, identified certain regional trends that were becoming discernible, for example, the gradually rising Africa/Latin American (LATAM) trade, and the implications of the emerging trend in shaping South-South and global trade over the medium- to long-term.

The panel of experts at Panel Session 2, comprising Mr T.C.A. Ranganathan, Chairman and Managing Director at Export-Import Bank of India, Mr George Otieno, Chief Executive Officer, African Trade Insurance Agency (ATI), Mr Paul-Harry Aithnard, Group Head of Research, Ecobank Transnational Incorporated (Ecobank) and Mr Dai Chunjing, Deputy General Manager, China Export & Credit Insurance Corporation, deliberated on the theme: ***“Deepening the Link – Are South-South Financial and Investment Flows tracking Trade Flows?”*** The panel session, which was moderated by Mr Siyanga Malumo, Chairman, Africana Finance and Investment, South Africa, examined the extent of South-South financial and investment cooperation by identifying the main drivers of, and constraints to, investment flows; examined the relationship between trade and investment flows from a South-South perspective and discussed the divergence of flow patterns from expectations, and the characteristics of South-South as compared to North-South flows, among others.

Moderated by Dr Jean-Marc Anga, Executive Director at the International Cocoa Organization (ICCO), London, panellists at Panel Session 3, made up of Mr Nanga Coulibaly, Secretary-General, Cocoa Producers Alliance, Lagos, Dr Kwaku Baah Owusu, Director of Economic Studies, Inter-African Coffee Organization (IACO), Abidjan, Prof. C.A. Osuntogun, Director, Resource Integrated Development Foundation (RIDF), Nigeria, and Mr Michael Kenfak Ndoping, Director General, National Coffee and Cocoa Board (NCCB), Cameroon debated the theme: ***“Does Commodity Composition of Africa-South Trade Matter?”*** Specifically,



the panel discussed issues surrounding the commodity composition of Africa's trade with the South, in particular whether Africa-South trade has worked to deepen Africa's commodity dependence as major suppliers of raw materials to industries in fast growing South countries that export manufactures to the North, or whether the strong demand from South economies supported commodity prices and thereby undermined the incentive for economic and trade diversification in Africa, and debated whether efforts should be made to expand commodity exports to the South by fostering increased consumer demand for such items as cocoa and coffee, among other issues.

The first day's seminar concluded with a Special Session on “Programmes and Facilities Offered by Afreximbank and Exim China in Support of China-Africa Trade”, during which presentations were made by Dr Benedict O. Oramah, Executive Vice President responsible for Business Development and Corporate Banking (BDCB) at Afreximbank and Mr Zhu Xinqiang, Vice President, China Exim.

The second day's event entailed Trade and Investment Exhibition and an Investment Forum under the theme: ***“Africa-China***



Partnership for Economic Growth and Long-Term Prosperity”. The 3-day Trade and Investment Exhibition was jointly opened by Mr Denys Denya, Executive Vice President responsible for Finance, Administration and Banking Services (FABS) at Afreximbank, Mr Zhu Xinqiang, Vice President, China Exim and Mr Xu Hubin, Secretary General of China Council for the Promotion of International Trade (CCPIT). The Trade and Investment Exhibition, which had the participation of over 50 Chinese and African companies with over 20 from Africa, provided an important platform for those companies engaged in China-Africa trade to market their products, exchange business ideas, explore business opportunities, and forge strategic alliances with the view to expanding their businesses into each other's market and thereby contribute to raise China-Africa trade and investment flows.

The Investment Forum was opened by Dr B. O. Oramah, Executive Vice President, (BDCB), Afreximbank and Mr Zhu Xinqiang, Vice President, China Exim Bank. Discussions at the Forum were led by a presentation on ***“Africa: The New Investment Frontier”*** by Mr Zemedeneh Negatu, Managing Partner of Ernst and Young, Ethiopia and Head of Transaction

Advisory Services, Ernst and Young, Africa. The lead presentation set the stage for an in-depth discussion on specific investment opportunities in Africa from sub-regional and sectoral perspectives at a Break-Away Session (BAS). Discussions at the BAS were led by brief presentations from representatives of the sub-regional Chambers of Commerce and/or industry Associations in Africa. In this regard, Mr Oswald Binha, President, Association of SADC Chambers of Commerce and Industry (representing Southern Africa); Mrs Agnes Gitau, Head of Global Operations, Eastern African Economic Chambers of Commerce (representing East Africa); Mr Jean-Louis Billon, President, Chamber of Commerce, Cote d'Ivoire (representing West Africa); and Mr Ekoko Mukete, Vice President, Cameroon Chamber of Commerce, Industry and Mines, (representing Central Africa) elaborated on key sectors in their respective sub-regions that offer business opportunities which African, Chinese, and non-African investors participating in the Forum could explore.

The outcomes of the BAS served as input for the proposed Africa-China Business Association (ACBA) for which a Concept Paper regarding its establishment was presented for the consideration of members of the



group and other participants at the meeting. The proposed ACBA is intended to serve as a mechanism to support the growing trade and investment flows between China and Africa; provide a platform for the pursuit of business opportunities that emerged from the Trade and Investment Exhibition which held during the event; as well as facilitate a deepening of business relations between Chinese and African entrepreneurs and enterprises.

In furtherance of the Bank's on-going cooperation with the ICCO regarding the development of Africa's Cocoa Sector, a Special Session on Promoting Cocoa Processing and Trade with China was held during the Investment Forum. In this regard, a presentation on **"From Commodities to Raw Materials: Afreximbank's Approach to Promoting Commodity Transformation in Africa"** was made by Dr B. O. Oramah, Executive Vice President (BDCB), Afreximbank followed by a second presentation on **"Boosting Cocoa Consumption in Asia"** by Dr Jean-Marc Anga, Executive Director, ICCO, to educate participants on those initiatives.

The climax of the Advisory Group meeting was the Seminar on the third day captioned: **"Forum on China - Africa Financial Cooperation"**, organized under the theme: **"China's Development Experiences and Lessons for Africa"**. The Opening Ceremony

was marked by Keynote Speeches from four Dignitaries, namely Hon. Mr Sufian Ahmed, Minister of Finance and Economic Development, Ethiopia; Mr Zhai Jun, Deputy Minister at the Ministry of Foreign Affairs; Mr Li Dongrong, Deputy Governor of the People's Bank of China (PBOC); and H.E. Jean-Louis EKRA, President of Afreximbank, following Opening Remarks by Mr Li Ruogu, President of China Exim. These were followed by Welcome Speeches by H.E. Chief Olusegun Obasanjo, Former President of the Federal Republic of Nigeria and Mr Dai Bingguo, a Chinese State Counsellor.

Three Roundtable sessions were held at the Forum. A high level panel, comprising H.E. Mr Joaquim Chissano, Former President of Mozambique; Hon. Mr Sufian Ahmed, Minister of Finance and Economic Development, Ethiopia; Dr Lim Mah-Hui, Senior Finance and Economics Advisor, South Centre, Geneva; and H.E. Dr Babacar Ndiaye, Former President, African Development Bank, deliberated on the topic: **"Can China and Africa Learn from Each Other?"** Moderated by Mr Liu Liange, Vice President, China Exim, the panel discussed among other issues, the challenges China faced regarding implementation of its development agenda and how they were overcome; available and planned assistance from China in support of Africa's development agenda; and challenges Africa still needs to overcome to ensure

successful implementation of its development programmes.

Discussions at Roundtable II were preceded by two thematic presentations: **"Chinese Perspectives on China-Africa Financial Cooperation in the Context of the Rising Importance of China as Africa's Major Trading Partner: Currency, Banking, Trade and Investment Issues"** delivered by Mr Li Ruogu, President and Chairman of China Exim Bank; and **"The African Perspective to China-Africa Financial Cooperation in the Context of the Rising Importance of China as Africa's Major Trading Partner"**, presented by H.E. Dr Michael Gondwe, Governor, Bank of Zambia, Zambia. Mr Christopher Edordu who chaired the presentation of the thematic papers also moderated Roundtable II which debated the subject: **"Perspective on China-Africa Financial Cooperation"**. The panel, made up of seasoned bankers, included Mr Li Jun, Vice President of China Exim; Mr Mike Blades, Managing Director, International Business Development, Standard Bank, China; Ms Razia Khan, Chief Economist for Africa, Standard Chartered Bank; and Mr Paul-Harry Aithnard, Group Head of Research, Ecobank, pored over the current global financial architecture in the light of recent global financial and economic crises, and the rising importance of China in the global financial system; opportunities and challenges to fostering stronger financial ties between China and Africa given the rapidly

expanding trade links; issues arising from using the Yuan as a reserve currency and possible bilateral arrangements to promote financial flows between Africa and China, among other pertinent issues.

Panellists at Roundtable III examined the topic: **"China-Africa Cooperation on Infrastructure Development"**, which was moderated by Mr Wang Jianye, Chief Economist of China Exim. Issues discussed included Africa's infrastructure development and financing needs in the wake of the global financial crisis; the challenges to, and prospects for, Africa's infrastructure development; China-Africa cooperation in infrastructure development finance and potential challenges to China-Africa cooperation in infrastructure development in Africa, among other issues. The panel, made up of accomplished professionals, included Mr He Zhenwei, Deputy Secretary-General of China Industrial Overseas Development and Planning Association; Mr Klaus Rohland, Country Director, China, the World Bank; Dr Admassu Tadesse, President, PTA Bank; Mr Christian Adevolande, President, West African Development Bank; and Mr Strive Masiyiwa, Founder and Executive Chairman, ECONET Wireless, South Africa. The maiden edition of the 3-day series of Seminars/Extended Meeting of the Group was hugely successful. Key issues and recommendations arising from the Meeting are discussed in Box 3.2.

Box 3.2 Promoting Africa – South Trade: Key Issues and Recommendations Arising from the 18th Meeting of the Bank's Advisory Group on Trade Finance and Export Development held on the Sidelines of the 19th Annual General Meeting of Afreximbank during July 11–13, 2012 in Beijing, China

Africa's sustained economic growth performance of the last decade has been attributed partly to the Continent's budding trade and investment relations with major economies in the South, led by China and India, it has been observed. The growing trade and investment relations with Southern economies contributed to firm commodity prices via strong demand from

the South; helped to diversify Africa's export markets; created opportunities for technology transfer; and engendered a sustained surge in FDI flows into Africa from major economies in the South. The rapidly growing trade and economic relations between Africa and the South is also evidenced by many Southern countries formalising trade and economic pacts with

Africa at Summit levels, including the Forum on China–Africa Cooperation (FOCAC) held in 2006, 2009 and 2012, India-Africa Partnership Summit in 2011, and Africa – South America (ASA) Summit in 2009, among others, with the view to deepening trade and economic relations with Africa. Accordingly, a number of bilateral economic and trade pacts between African countries and their major South partners have been entered in recent times.

It is from the foregoing and in line with the Bank’s mandate of promoting South- South trade that the Bank made as one of the key objectives under its 4th Strategic Plan, 2012-16 (“Plan IV” or “4th Plan”), proactive promotion of Africa – South trade. In furtherance of this objective, the 18th Meeting of the Bank’s Advisory Group on Trade Finance and Export Development in Africa held on the sidelines of the 19th General Meeting of Shareholders in Beijing, China during July 11 – 13, 2012, focused on some aspects of the emerging South – South cooperation and the promotion of Africa – South trade in particular. The Meeting discussed a whole lot of issues relating to the evolution of the budding Africa – South trade and economic relations, including opportunities and challenges to South – South cooperation, the potential of Africa to attract investment from the South economies, commodity composition of Africa-South trade; and cooperation between China and Africa, among other pertinent issues. This Box summarises some of the key issues and conclusions that emerged from the Meeting that could be useful to policy makers in the design and implementation of appropriate policies and programmes to support Africa – South trade.

The lead thematic presentation on: **“South-South Cooperation under Conditions of Dynamic Disequilibrium in the Global Economy – Opportunities and Challenges”** on Day 1 which was delivered by Dr. Richard Kozul-Wright, Director, Economic Cooperation and Integration Division, United Nations Conference on Trade and Development (UNCTAD) on behalf of H.E. Mr Supachai Panitchpakdi, Secretary General

of UNCTAD, examined some opportunities that South – South cooperation presents as well as challenges that must be addressed.

The paper noted that the 2000s witnessed a very strong economic growth performance across all regions in the South. Further, most economies in the South showed relatively more resilience to external shocks such as the global financial crisis of 2008/9 and posted better growth performances compared to many advanced economies who plunged into economic recession and/or stagnation. In this regard, the paper posited that Southern economies’ resilience, and rebound from, the recent global financial and economic crises marks an important break with the past and holds out the hope that an emerging economically-vibrant South could contribute immensely to the creation of a more balanced and stable global economy.

Nevertheless, the paper observed that many Southern economies remain dependent on the advanced economies are thus vulnerable to changes in policy and economic conditions in the North. It further observed that the growing South-South trade and economic ties are often dependent on Northern markets and firms in the context, for example, of global supply chains, and thus it is important not to exaggerate the independent nature of Southern economies from the North. In this regard, the paper recommended the need to build productive capacity and expand domestic markets in the South.

Another critical challenge identified by the paper was whether or not there exist sufficient financial resources in the larger Southern economies to support transformation of the smaller ones. It was noted that the growing surpluses in some dynamic Southern economies in recent years had raised the possibility that such resources could be channeled to support growth and development of other economies in the South. In this regard, the proposed Bank of the South in Latin America and the BRICS Bank were cited as possible models which could serve this

purpose while the possibility of using Sovereign Wealth Funds in the South to help finance long-term investment projects in the least developed southern countries was also proposed.

The paper pointed out that notwithstanding their gradual pick-up in recent times, investment levels especially in Latin America and Africa still remain low to support attainment of a more inclusive and sustainable growth. Moreover, the pace of industrial development and economic diversification in general in these regions remain sluggish with a number of countries that extended capacity for manufacturing presently showing signs of de-industrialization, the paper observed. Accordingly, it was recommended that in the longer term, although the policy challenges facing growth poles in the South vary, there was an urgent need to focus on capital accumulation and investment, structural change, and productivity improvement among Southern countries.

Further, the low investment levels and attendant high dependence on foreign capital, the paper noted, are challenges that need to be addressed especially by commodity-exporting countries. The heavy reliance on foreign direct investment by these economies has unfortunately not generated the local entrepreneurial development needed to move them further up the development ladder. The paper therefore recommended that mobilization of domestic savings and accessing the right kind of development finance remains an issue that Southern economies should address as a way of reducing their dependence on foreign capital.

Following the assessment of the opportunities and challenges outlined above, the paper noted that the way forward for South-South cooperation depends on (i) internalization of the drivers of growth in order to secure self-sustaining economic expansion, (ii) greater autonomy for Southern countries to determine their own development trajectory, and (iii) implementation of sustainable, strategic and inclusive development policies and programmes. Against this backdrop, the paper concluded that

South - South cooperation, though a work in progress, nevertheless provides a hopeful sign that the recent strong growth performance of the South can persist and spread to other countries and that the global imbalances which have in the past held back development in the South can be better addressed.

Key issues arising from presentations by panelists at the three Roundtable sessions on **“South-South Trade Drivers- The Forces of Change”**; **“Deepening the Link-Are South-South Financial and Investment Flows Tracking Trade Flows?”**; and **“Does Commodity Composition of Africa- South Trade Matter?”** and the ensuing discussions brought to the fore the need (i) to change the commodity composition of Africa-South trade; (ii) to leverage comparative advantage to boost agriculture commodity production; (iii) to effectively manage the boom-bust cycle associated with commodity prices; and (v) for Africa to pursue a new trading model with major Southern economies.

One of the key issues that emerged at the Meeting was that the commodity composition of Africa’s exports has not changed significantly in spite of the changing direction of African trade with the South. In this regard, the high composition of commodities in Africa’s export basket seen at the height of the continent’s trade with Northern economies is still evident in its emerging trade with the South. It was argued that in spite of the strong demand for commodities by the rapidly-expanding Southern economies that have kept commodity prices firm, commodity price volatility risk still persists and thus commodity-exporting African countries cannot continue to rely on the high demand from Southern economies to keep prices high. In this regard, it was recommended that Africa should deepen ongoing efforts at value addition through processing of commodities with the view to changing the composition of Africa’s merchandise exports, enhancing revenues from commodity value chain and reducing vulnerability to commodity price shocks.

The Meeting also recommended that while diversification efforts of Africa's exports continue to be made, there was the need for African commodity-producing countries to leverage their comparative advantage in commodity production to increase output and export earnings. It emerged that in the case of coffee, African coffee producers' share of global coffee production had declined from about 32% in the 1970s to a level of about 12% during the 2000s; and thus African coffee producers could not reap the benefits of the recent high coffee prices in the form of higher export earnings due to the unimpressive growth in their production and export volumes. One of the reasons for the decline in coffee production, it was pointed out, was the low level of investment in that sector in many African producing countries following the liberalization of the commodity sector as part of the IMF/World Bank – sponsored Structural Adjustment Programmes that forced a roll-back of government support for the industry, and the subsequent low investment by the private sector in that orphaned industry following liberalization. To address the problem of low investment in the commodities sector, it was recommended that effective public private partnerships be forged to support the sector. Such arrangements could provide the requisite incentives for private sector participation in the sector with governments still playing an active role in that sector.

The Meeting also emphasized the need for commodity-exporting African countries to have strict fiscal rules in place to deal with the boom-bust cycle associated with commodity prices. This, it emerged at the meeting, may involve setting aside part of the high export revenues during periods of commodity price booms to be used to support infrastructure investment and human development, with the view to developing productive capabilities to help diversify the economy, and partly saving as a buffer to absorb any shocks arising from commodity price declines.

Another consensus that emerged at the Meeting was the need for African countries to pursue

a new trading model with major Southern countries as was done by South Africa in its trade agreements with China and India. The South Africa–China bilateral trade arrangement, it was pointed out, is aimed at fostering a more balanced trade regime between the two countries. In this regard, China is expected to increase investment in South Africa's manufacturing sector to enhance the productive capacity of that country; and to promote value addition in South Africa's commodity sector within proximities to sources of raw materials in South Africa. It was therefore suggested that other large African countries such as Nigeria and Egypt could use a similar approach in negotiating better trade agreements with major Southern economies, while other African economies could use a co-ordinated regional approach to negotiate such trade arrangements with major trading partners in the South.

The lead presentation on *“Africa – The New Investment Frontier”* by Mr Zemedeneh Negatu, Managing Partner of Ernst and Young, Ethiopia and Head of Transaction Advisory Services, Ernst and Young, Africa at the *Investment Forum* on the Second Day elaborated on the investment potential of Africa and the drivers of this emerging trend. The paper noted that the emergence of Africa as an attractive investment destination is underpinned by: (i) strong and sustained economic growth in recent years; (ii) improved macroeconomic fundamentals across the Continent; (iii) favourable investment climate raising international investor confidence in Africa; and (iv) improving political climate, among others.

Africa's GDP was estimated to have crossed the US\$2 trillion mark in 2011, and forecast to rise further to US\$2.7 trillion in 2016 and US\$3 trillion in 2018; with Africa emerging as the second fastest growing region in the world with an average annual real GDP growth rate over the past decade of 4.9% and only second to Developing Asia (5.1%). Further, six African countries (Angola, Nigeria, Ethiopia, Chad, Mozambique and Rwanda) were found to be

among the ten fastest growing economies in the world during 2001-10; with seven African countries (Ethiopia, Mozambique, Tanzania, Congo, Ghana, Zambia and Nigeria) expected to be among the ten fastest growing economies during 2011-15. The paper also noted that Africa's economic growth performance was robust compared to other regions in spite of the multiplicity of shocks that emerged over the past decade, including the global financial and economic crises in 2008/9.

The paper also observed that continued pursuit of prudent macroeconomic policies and structural reforms have contributed to sustained improvement in key macroeconomic indicators, such the rate of inflation, interest rates and external debt position in Africa. In particular, between 1990-99 and 2000-10, average rate of inflation fell from 24.5% to 8.7%; average interest rate spread declined from 11% to about 9.2%; and external Debt/GNI ratio declined from 69.1% to 37.5%.

Growing international Investor Confidence in Africa is reflected by sustained robust expansion in FDI inflows during the last decade. In particular, it was noted that Africa's access to international credit (made up of bond issuance, bank lending and equity placement) increased from less than US\$1 billion in 1990 to US\$28 billion in 2011; and with net portfolio equity flows into the Continent rising from US\$4.5 billion in 2000 to US\$14 billion in 2010.

The paper also noted the rapidly improving political climate across the continent which has contributed in boosting international investor confidence in the Continent; as well as tremendous improvement in the legal and regulatory environment for business in Africa in recent years on the back of legal reforms and the strengthening of state institutions, which lifted investor confidence in Africa as an attractive location for investment. The paper also suggested that going forward, regional integration efforts should be deepened to sustain Africa's economic growth and

development; and in this regard, recommended that efforts be made to bridge the infrastructure gap in the Continent to facilitate regional integration.

Discussions that followed presentations by representatives from the sub-regions namely, East Africa, West Africa, Southern Africa and Central Africa at the Break-Away Session concluded that to improve Africa's international competitiveness, efforts should be made to attract investments from major Southern economies into the following trade-related infrastructure projects: (i) ports and harbours facilities; (ii) transport facilities, especially railway network to link production centers to the ports and/or domestic consuming centers; (iii) airport facilities to support the tourism industry; (iv) energy sector (renewable energy projects, etcetera); and (v) ICT industry.

The *Forum on China – Africa Financial Cooperation*, which was the climax of the 3-Day Advisory Group Meeting organised under the theme: *“China's Development Experiences and Lessons for Africa”*, considered three broad issues namely, *“Can China and Africa Learn from Each Other?”*; *“Perspectives on China-Africa Financial Cooperation”* and *“China-Africa Cooperation on Infrastructure Development”*. Following extensive deliberations at these Roundtable sessions, the Meeting recommended (i) an optimal mix of state planning and market-oriented policies and programmes in the design of economic development strategies, (ii) appropriate market reforms and strong institutional support, and (iii) areas around which China's cooperation with Africa should be emphasized.

Concerning the need for effective combination of state planning and market economy in economic policy, it was emphasized that to ensure sustainable economic growth and development, African countries need to have a proper balance between state planning and a free market economy in economic policy design and planning. It was observed that China's successful

economic development experience was somewhat underpinned by its mixed economic planning model and that going forward, African countries need to devise such right policy mix in their economic development planning process.

On the issue of appropriate market reforms and strong institutional support, the Meeting observed that appropriate reforms and strong institutions were key factors that could drive economic development and transformation in Africa. In this regard, banking sector reforms; reform of state owned enterprises; mobilization of domestic savings; creation of incentives to attract foreign direct investments etcetera were identified as some of the important reform measures which could contribute to propel the Continent's economic growth and development.

Regarding financial cooperation, it was proposed that African countries need to improve on macroeconomic conditions and their investment climate to enable it attract private sector flows in the form of FDIs and portfolio investment from China and other major economies in the

South. It was observed that FDI flows were becoming a more important source of external financing than Official Development Assistance (ODAs) and a source of technology transfer and productivity enhancements etcetera. It was noted that Africa could attract more FDI flows from China and the South in general by creating a business-friendly environment. In the area of cooperation in infrastructure development, it was acknowledged that economic and social infrastructure gaps in Africa remain critical constraints to economic growth, regional integration and social development on the Continent. China's investment in infrastructure development in many African countries was acknowledged to have contributed to addressing part of the infrastructure gaps in the Continent. A consensus emerged at the Meeting that in view of the huge infrastructure financing gap facing the Continent, there was the need for major economies in the South, including China to invest more in infrastructure development in Africa, especially in sphere of transportation, power generation, and telecommunications, among other key sectors.

3.6.2 A two-man Bank delegation attended a workshop on "Promotion and Financing of Renewable Businesses", which was organized by the Association of African Development Finance Institutions (AADFI), in partnership with the Southern African Development Community - Development Finance Resource Centre (SADC-DFRC), Development Bank of Southern Africa (DBSA), Vulindlela Academy and the African Development Institute (ADI) during March 5-9, 2012 in Johannesburg, South Africa. The Workshop, which was attended by participants from the private sector, government agencies, and Development Finance Institutions (DFIs) in Africa, discussed pertinent issues relating to the promotion and financing of renewable energy projects in Africa. The delegation also met with representatives of various institutions participating in the workshop with the view to exploring business opportunities with them.

3.6.3 The Executive Vice President (Business Development and Corporate Banking), Dr B. O. Oramah, led a Bank delegation to attend the 2012 Annual Meetings of the Inter-American Development Bank that held during March 16-19, 2012 in Montevideo, Uruguay. During the mission, the Bank's delegation held several bilateral meetings with representatives of banks, DFIs and commodity traders for the purpose of building strategic alliances to facilitate Africa - Latin America trade and investment flows. In this regard, the delegation signed a Memorandum of Understanding (MoU) with officials of the Banco de Desarrollo de América Latina (CAF), which is to serve as a framework for the promotion of trade and investment flows between member countries of the two institutions.

3.6.4 A delegation from the Bank also attended the 2012 Canadian Council on



Africa (CCA) Conference held in Montreal, Canada, during March 19-20, 2012. The Bank delegation used the opportunity provided by the gathering to hold several meetings aimed at promoting trade and investment between Africa and Canada. In this regard, discussions were held with Export Development Canada (EDC), and the Canadian Commercial Corporation, among others, on how to deepen cooperation with the Bank.

3.6.5 At the invitation of the African Development Bank (AfDB) Group, the President, Mr Jean-Louis Ekra, led a Bank delegation to attend the 38th Ordinary General Assembly of the Association of African Development Finance Institutions (AADFI) and the 47th African Development Bank Annual Meetings that held in Arusha, Tanzania, during May 28 - June 1, 2012. The Bank's delegation participated in various high-level seminars/workshops which were organized around the theme *"Africa and the Emerging Global Landscape: Opportunities and Challenges of the Global Financial Crisis"*. The President also participated as a panellist in a High-level Seminar which discussed issues relating to the theme of the Annual Meetings. The Bank's delegation used the opportunity offered by the Meetings to

sign a Memorandum of Understanding (MOU) with the African Capacity Building Foundation (ACBF); held discussions with representatives of existing and potential clients participating in the Meetings; and pursued other business of the Bank.

3.6.6 During June 18-22, 2012, a Bank delegation attended the BNP Paribas Annual Central Banks/Sovereign Conference that held in Paris, France. The Conference, which brought together senior officials from the Private Sector, Central Banks, Treasury departments, and other reputable international institutions, discussed ongoing developments in the Eurozone and emerging market economies as well as growing business opportunities in Africa. The President participated in a panel session on the theme *"Africa: Growing Role in the Global Investment Landscape"*, and shed light on the growing investment opportunities across the continent engendered by the rapidly improving political and economic environments in Africa, among others. The delegation also met with representatives of the European Investment Bank (EIB) and Export Development Canada (EDC) and discussed issues relating to cooperation with the Bank.



3.6.7 A Bank representative attended the 34th Annual Ordinary Meeting of the General Assembly of Africa Reinsurance that held on June 21, 2012 in Rabat, Morocco. The Meeting highlighted the essence of adopting industry best practices and international reporting standards in the preparation of Management Reports. In this regard, the Meeting noted that issues regarding sections on Capital Management, Enterprise Risk Management and Corporate Governance frameworks should be incorporated in Management Reports as they represent critical components of an Organisation's broad policies and practices relating to internal and external capital adequacy models and financial ratings; and risk landscape, risk governance structure, risk management processes and risk modelling framework.

3.6.8 During October 7-10, 2012, the Executive Vice President (BDCB) and Chair of the Africa Chapter of the International Factors Group (IFG), Dr B. O. Oramah led a two-member delegation to attend the 50th Annual Meeting of IFG that held in Brussels, Belgium. The delegation participated in a series of seminars and training programmes organised at the event, including presentations and roundtable discussions on a wide range of issues, including *“Regulation and Harmonization”*; *“Improving Service Quality in the Two-Factor Business”*; *“Constraints and Opportunities for Factoring in Emerging Markets”*; *“Turning Capital Requirements and Basel Rules into Business*

Opportunities for the Factoring Industry”; and *“The Future of Factoring and Invoice Finance in Mature Markets”*, among others. The Bank's delegation also participated in the 4th International Factors Group (IFG) Africa Chapter Meeting, which held on the side-lines of the Annual Meetings of the IFG; and held series of meetings with other IFG members with a view to advancing the promotion of factoring on the Continent.

3.6.9 During October 15-18, 2012, a two-member delegation of the Bank participated in the 5th Korea Africa Economic Cooperation (KOAFEC) Ministerial Conference that held in Seoul, Korea. The delegation attended various sessions of the Conference, and used the opportunity of the mission to discuss with Korea Exim Bank issues relating to implementation of the Memorandum of Cooperation signed in 2010. The delegation also met with relevant Korean and African entities participating in the event with the view to generating business for the Bank. Further, the delegation met with Ministers of Finance from South Sudan, Sao Tome & Principe, and the Democratic Republic of Congo and discussed the possibility their joining the Bank as shareholders.

3.6.10 The President of the Bank participated in the Institute of International Finance (IIF)'s Africa Financial Summit that held during November 11-13, 2012 in Cape Town, South Africa. The Summit, which was IIF's first high level gathering of financial

industry leaders and experts in Africa, attracted a large number of Chief Executive Officers (CEOs) and senior executives of leading financial institutions on the Continent, as well as policymakers and representatives of major international financial institutions operating in Africa. The President at that meeting presented a paper on *“Investing in Africa: Challenges and Opportunities”* as a Panellist at one of the Roundtable sessions. Other topics discussed at the Summit included: *“Deepening Financial Markets in Africa”*, *“Regional Banking Issues, Investment Opportunities and Risks in African Economies”*; and *“Regional Implications for the New Global Bank Regulation and Supervision Framework”*, among other issues of relevance to the promotion of the financial sector in Africa.

3.6.11 In furtherance of its goal of promoting the development of the Cocoa sector in Africa, the Bank participated in various fora on the global cocoa industry. In this regard, an officer of the Bank participated in the ICCO's 86th Regular Session and 146th Executive Committee Meetings which held during September 17-20, 2012 in London, UK. Another Bank official participated in the 17th International Cocoa Research Conference of the Alliance of Cocoa Producing Countries (COPAL) that held during October 15-20, 2012, in Yaoundé, Cameroon. The Bank's representatives used the opportunities offered by the two fora to discuss with stakeholders pertinent issues relating to the development of the industry in cocoa-producing African countries and enlisted their support for the Bank's Africa Cocoa Initiative. Further, during November 19 – 23, 2012, a six-man delegation attended the ICCO World Cocoa Conference that held in Abidjan, Cote d'Ivoire. That global forum provided the Bank delegation a unique opportunity to showcase the Bank's newly launched AFRICOIN programme to participants in the global cocoa business. At that meeting, the Bank mounted an Exhibition stand to market its financial programmes and facilities at the event. Further, the Bank signed an US\$18 million and Euro 18.5 million

medium term credit facilities in favour of FTN Cocoa Nigeria and CONDICAF Cote d'Ivoire respectively under the AFRICOIN programme. Proceeds of the two facilities are to be used to fund extension of processing capacities of the two institutions. The Bank also used the opportunity of the gathering to pursue other business opportunities with a host of cocoa marketing and processing companies in Africa that participated in the Conference.

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.

3.6.12 In pursuit of its goal of developing and strengthening trade finance capacity among banks and bankers in Africa, the Bank organized its Twelfth Annual Seminar/Workshop on *“Structured Trade Finance”* during November 5-7, 2012 in Cairo, Egypt. The President of the Bank, Mr Jean-Louis EKRA delivered a Welcome Statement at the Opening Session, while H. E. Ambassador Mona Omar, Assistant Minister for African Affairs at the Ministry of Foreign Affairs of Egypt gave a Keynote Address. The training programme, which attracted 88 participants from within and outside Africa, began with a two-day seminar on *“Fundamentals of Structured Trade Finance”*. The title of Papers presented at the Seminar included: *“The Eurozone Debt Crisis and Implications for African Trade Finance”*; *“Understanding the Basic Techniques of Structuring Trade Finance Transactions”*; *“Originating Structured Trade Finance Deals: Critical Considerations and Success Factors”*; *“Using Collateral Management Agreements (CMAs) to Manage Operational Risks: Opportunities and Challenges”*; *“Trade-Backed Deal Structures – Issues, Benefits and Risks”*; *“Structuring and Documenting Loan Market Association Compliant Deals”*; *“Managing Operational Risks in Structured Trade Finance: Challenges and Solutions”*;

“The Emerging Basle III and its Implications for Structured Trade Finance”; “Legal, Regulatory and Institutional Issues in Documenting and Implementing Structured Trade Finance Deals under the OHADA System”; “Warehousing and Collateral Management Structures for Managing Commodity-Financing Risks”; “Dealing with Fraud in Implementing Structured Trade Finance Deals”; and “Fundamentals of Limited Recourse Project Financing”.

Resource persons for the Seminar included individuals with extensive knowledge and hands-on experience relating to the topics they discussed, namely Dr Edward George, Head of Soft Commodities Research, Ecobank Transnational Incorporated, Lome, Togo; Dr B. O. Oramah, Executive Vice President (BDCB), Afreximbank, Cairo, Egypt; Mr Babajide Bode-Harrison, Assistant Director, Structured Trade Commodity Finance, FBN Bank Ltd, London, UK; Mostafa Matar, Country Manager, ACE Global Egypt Limited, Alexandria, Egypt; Ms Anne-Marie Wooley, Director, Standard Bank, London, UK; Mr Roger Dyer, Partner, Hunton and Williams LLP, London, UK; Dr Oki Wale, Saibatek Ltd, London, UK; Mr Andrew Gamble, Partner, Hogan Lovells International LLP, London, UK; Mr Pascal Agboyibor, Managing Partner, Orrick Rambaud Martel, Paris, France; Mr Andrew Barr-Sim, Managing Director, Drum Resources Limited, London, UK; Mr Lamon Rutten, Manager, Technical Centre for Agricultural and Rural Cooperation (CTA), the Netherlands; and Mr Goleele Mosinyi, Managing Director, Africana Finance and Investment (AFI), Johannesburg, South Africa.

In line with custom, two workshops were also organized to complement the two-day seminar. The first workshop (“Workshop I”) on: **“Financial Modelling in Structured Trade and Project Finance”** was organized to help deepen participants’ understanding of various financial modelling tools and techniques used in trade and project finance. The speaker/tutor for Workshop I was Mr Alastair Day, Systematic Finance, London, UK. Some of the topics discussed at the Workshop included

“Modelling Mistakes and Basic Model Design”; “Model Structure and Layout”; and “Model Sensitivities and Reporting”; Mr Day also led discussion of Case Studies on Modelling Trade and Project Finance Deals. The second workshop (“Workshop II”) focussed on the theme: **“Promoting and Financing Trade between North and Middle Africa: Facilities and Services Offered by Afreximbank”**. A presentation on the subject was made by Dr B. O. Oramah, following which B2B meetings were organized for Egyptian Businesses/Investors and Middle African Counterparts to explore potential cross-border business opportunities in that regard. Sessions of the Seminar/Workshop were chaired by members of Senior Management of the Bank, including Mr Jean-Louis EKRA, President; Dr B. O. Oramah, Executive Vice President (BDCB); and Mr Denys Denya, Executive Vice President (FABS).

3.7 THE BOARD

3.7.1 During the review period, the Board of Directors met four times and took very important decisions on issues affecting the Bank. In particular, the Board reviewed the Annual Report and Financial Statements of the Bank for the year ended December 31, 2011, and approved that these be submitted to the Nineteenth General Meeting of Shareholders that held in Beijing, China in July 2012.

In view of the increasing funding and capital requirements to meet the target growth in loans, the Board endorsed plans for an equity mobilization exercise, currently underway. The Board also approved the issuance of the laissez passer for officials, employees, and consultants working for the Bank and requested that Management seek the assistance of members States to give recognition to the travel document when issued. Also considered by the Board were strategic marketing plans for 2012-2014 of the Abuja and Harare branch offices, and requests to the Governments of Nigeria and Zimbabwe for land to build the branch office premises.



During the review period, the Board Members and Senior Management benefited from a workshop on good governance held in Nairobi in September 2012.

3.7.2 The Committees of the Board met regularly to deliberate on issues relating to the Bank’s operations and activities. In this regard, the Executive Committee, the Audit Committee and the Branch Management Committee of the Board met in accordance with their meeting schedules and deliberated on issues within their respective terms of reference. The Executive Committee of the Board approved financing transactions and received reports on the Bank’s credit operations. The Audit Committee received and reviewed the internal audit report from the internal audit department and BDO. The Committee also reviewed progress on the 2012 external audit exercise and considered and approved the external audit work programme for 2013. The Branch Management sub-committee of the Board reviewed reports on the activities of branch offices and proposed measures for improving their operational efficiency.

3.8 MEMBERSHIP MOBILIZATION

During the review period, the Bank finalized the appointment of BNP Paribas, Citibank, Standard Chartered Bank and Ecobank

as Transaction Advisors to spearhead the Bank’s capital raise initiative. Plans were also concluded to formally invite existing Shareholders to increase their equity stakes in the Bank, as part of the Bank’s on-going equity mobilization exercise launched in early 2012.

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. A summary of the operations and activities of the branches is presented below.

3.9.1 Harare Branch Office (HBO)

During 2012, HBO continued to effectively contribute towards the mandate and objectives of the Bank. To this end, operational activities of HBO improved in 2012 compared to 2011. In this regard, the total volume of business generated by HBO increased by 6% year-on-year to US\$1, 550.82 million (2011: US\$1,457 million). Of this volume of business generated in 2012, transactions approved by the Executive Committee of the Board of Directors amounted to US\$630 million, representing an increase of about 28.3% from a level of US\$491 million in 2011.

Total volume of transactions at different stages of development stood at US\$94 million (2011: US\$41 million) at the end of 2012, about 129% high than the level at the end of 2011. However, the volume of operational facilities declined to US\$409 million in 2012, representing a year-on-year decline of 28%. In addition, the Branch continued to effectively monitor transactions in its area of coverage during the review period.

3.9.2 Abuja Branch Office (ABO)

During the review period, the volume of new business generated by Abuja Branch Office (ABO) grew by 27% to US\$747 million compared to US\$589 million in 2011. Approvals during the period amounted to US\$473.1 million, representing a 49.5% increase over the US\$316.5 million achieved in 2011. Another US\$217.37 million worth of transactions were at credit study stage of the approval at the end of the review period. ABO's facility utilization stood at US\$179.8 million at the end of 2012. The Branch continued to provide support in terms of following up on documentation necessary for disbursements, as well as other relationship management support as required of ABO.

3.10 TRADE INFORMATION

The review period saw the Bank intensify on-going efforts at providing its clients with country reports, financial sector reports, commodity market reports, and reports on international trade issues of economic interest to African entities, among others. The Bank also continued to expand its data base on African banks and commodities of trade interest to Africa.

3.11 PERSONNEL AND ADMINISTRATION

3.11.1 Personnel

During the period under review, the Human Resource Department continued to ensure that

the manpower needs of the Bank were met through implementation of the Bank's Staffing Plan and Training Programme for the year. In this regard, the human resource capacity of the Bank was strengthened with the recruitment of 22 staff members during the year under review. Further, there were 2 resignations, 2 retirements and the Bank lost 1 employee during the year under review. Accordingly, the Bank's staff strength at the end of the review period stood at 100, representing about 16% growth over the level of 84 at the end of 2011.

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 envisaged under Plan IV. 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 shared the knowledge and experiences gained on such programmes with their colleagues.

3.11.2 Administration

The Administrative Services department assists the Bank to achieve its mission by providing a range of support services including: facilities and office management; protocol and government relations; travel and events management; procurement; and ICT services.

As a result of the socio-political difficulties and its attendant security concerns in Egypt, the Bank considered and approved a security hardware package for the building which includes; explosion detection hardware, bollards, X-Ray machines; walk through metal detectors, office access control system, and an enhanced CCTV camera system. Implementation of these initiatives began during the review period.

The primary function of the ICT Unit is to support the Bank in its day-to-day activities by providing appropriate Information and Communications Technologies (ICT) that enables the bank to offer its products and services in an efficient and accurate manner. During the period, the ICT unit continued to make progress towards the implementation of the ICT activity plan for 2012 and implemented the SAP Enterprise and Resource Planning (ERP) Software and the I-apply software for loans origination activities. The Bank live on the SAP financials, SAP HR and completed the customization and implementation of the SAP CML which is a module that will be used by the Operations Department for the automation of their business Processes. The unit also coordinated the re-engineering of all business processes of the bank. In order to enhance security of the ICT resources of the Bank, during 2012, the ICT unit upgraded its IT security systems to allow for a more secure and reliable access to mobile users through the implementation of Cisco any connect secure mobility client. The Bank also upgraded its swift payment system to a newer version that is more secure and provides for higher redundancy to ensure business continuity. In a bid to abide by ICT industry standards, the Bank, during the review period, upgraded its data centre infrastructure in all three locations of the Bank. Specifically, the Bank upgraded the communication link with its Disaster Recovery Site (DRS) to accommodate for the replication of its systems and data; all telecommunications equipment at the headquarters and branch office locations were upgraded with newer technologies in order to improve on communication channels, while reducing the total cost of ownership; and upgraded all computers that have exceeded the mandatory depreciation period of the Bank and were in inoperable condition.

During 2012, as part of the planned automation exercise, the Bank installed the document management systems using Laserfiche technology in order to secure storage of the Bank's documents as well as ease retrieval of information. In this regard,

installation of the Laserfiche client software on all staff computers was completed and end user training provided to staff at the head office and branches.

The Bank, during the period, continued to work with Control Risks UK and the International SOS to strengthen its emergency response, crisis management and BCCP arrangements. In this regard, a team of consultants visited the Bank's Cairo office and branches to interview management and staff, gather data and created awareness about the conduct emergency response, crisis management and BCCP.

3.12 BANKING RELATIONSHIPS

During the review period, 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 period, continued to receive at its headquarters delegations from major African and non-African institutions seeking to develop business relationship with the Bank. 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.

3.13 AWARDS

During the review period, the Bank received five Awards for Excellence. These awards included: the Best Supranational Bond, by Europe, Middle East and Africa (EMEA) Finance Magazine; Best ECA/DFI, by Euro Money Trade Finance Magazine; Best Trade Finance Bank, by Capital Finance International (CFI); Best Development Finance Institution, by the Association of African Development Finance Institutions (AADFI); and Aircraft Debt Deal of the year – Middle East and Africa, by Global Transport Finance (GTF).

CHAPTER FOUR

TRADE DEVELOPMENT IMPACT OF THE BANK'S OPERATIONS AND ACTIVITIES



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

4.1 INTRODUCTION

One of the principal objectives for establishing the African Export-Import Bank (the "Bank" or "Afreximbank") was to use it as a platform to advance trade and economic integration within Africa as well as between Africa and the rest of the world. This objective is expected to be realised on a sustainable basis through profitable operations of the Bank. In pursuit of this objective, the Bank's business continues to be carried out in line with the philosophy of pursuing trade development in Africa using commercial approaches. Accordingly, it is imperative that the Bank reports both financial and operational performance as well as the (direct and indirect) development impact of its operations regularly for the benefit of its diverse Stakeholders as part of the Annual Reports intended to update them (i.e. Stakeholders) on the overall performance of the Bank.

In furtherance of this mandate, the Bank, during 2012, continued to conduct its operations and activities in a manner consistent with the commercial and developmental expectations of its key stakeholders, namely African governments/public agencies as well as African and non-African private sector shareholders of the Bank. This Section of the Report therefore puts into appropriate context the extent to which the Bank's operations and activities impacted trade and economic development in member countries during 2012 in line

with the new reporting requirements of the Bank. Specifically, the chapter elaborates on a sample of the Bank's operational activities considered to have contributed or expected to contribute in a significant way towards the attainment of the trade and economic development aspects of its mandate.

The Bank's trade development agenda as captured in its Vision and Mission Statements essentially entail addressing the trade challenges facing African countries, as a group, namely very low share of global trade; high export product and market concentration; relatively low levels of intra-regional trade; stringent external trade and project financing terms; and low levels of local participation in the tradable sector, etcetera. As elaborated hereunder, the Bank's business, during the year under review, reportedly impacted African trade and economies via several 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 and gas companies operating in the continent; financing trade-supporting infrastructure especially in aviation, power and telecommunication; strengthening local industries in member countries to extend and/or modernize capacities for processing of goods for domestic and foreign markets; supporting on-going efforts at diversification of exports by financing the processing of commodities for exports under the various programmes and facilities of the

Bank, including the AFRICOIN programme; and supporting large scale agricultural production and agro-processing in Africa, among others.

4.2 CHANNELS OF DEVELOPMENTAL IMPACT

4.2.1 Promoting Local Content in Africa's Extractive Sector

The Bank, during the review period, continued to support activities relating to its local content promotion programme in Africa's extractive sector; an initiative introduced to support indigenous private sector entities providing services to major mining and oil and gas companies operating on the continent, with a view to increasing the domestic economy's share of the economic benefits arising from the activities of such extractive industries in terms of receipts of rent, wages and salaries, interest and profits to domestic economic agents.

In this regard, the Bank, during the year, arranged a US\$52 Million Syndicated Mining Services Contract Financing Facility in favour of Engineers & Planners Limited (E&P), a medium-sized indigenous Mining Services Company in Ghana, providing various forms of engineering services to support the operations of Mining Majors, including Gold Fields Ghana Limited and Golden Star Resources Limited. The proceeds of the credit facility, which was closed during 2012, is expected to be used for equipment importation and working capital finance to enable E&P execute mining service contracts for these Mining Majors. On the back of the syndicated financing facility underwritten by the Bank, ECOWAS Bank for Investment and Development (EBID) and Access Bank Ghana, E&P has been financially empowered to win engineering service contracts worth over US\$500 million, with potentially significant foreign exchange earnings for the country, which in the absence of the Bank's financing support, could leak out of the Ghanaian

economy in the form of payments to foreign service providers. Besides, hundreds of direct and indirect skilled and unskilled jobs are expected to be created by E&P as a result of availability of financing for the execution of service contracts won by the company. Further, the financing arranged by the Bank is expected to propel the firm to win more contracts as the Mining Majors become more confident in its ability to successfully execute service contracts.

Further, a US\$50 Million Revolving Syndicated Mining Services Contract Facility arranged by the Bank in favour of Zambian Mining Services Companies (MSCs) in 2008, which is still operational, continue to avail some funding support to a number of Zambian MSCs to bid for and execute mining services contracts in Zambia's extractive industries. In this regard, during the year under review, further drawdowns were made under the facility which enabled these indigenous firms to execute mining services contracts for the Mining Majors and, in so doing, increased the local or national share of the economic value resulting from the operations of the extractive industries, including job creation, transfer of skills and technology to Zambian nationals and entities operating in that sector, and enterprise development, among other benefits associated with increasing participation of indigenes (individuals and corporates) in the country's mining industry.



The Bank's continuous intervention, through this programme, which is expected to be extended to other member countries with significant mining sector operations will not only enhance the capacity of indigenous firms to provide such services but could also pave the way for the formulation and implementation of local content policy initiatives in those countries for the overall benefit of African economies, as a group.

4.2.2 Financing Trade-Supporting Infrastructure in The Bank's Member Countries



As part of its efforts at promoting and financing intra- and extra-African trade, the Bank finances the development of trade-related infrastructure, in the sphere of transportation, energy/power, and telecommunications, among others, to support trade and thereby contribute to socio-economic development in its member countries. In this regard, cognizant of the crucial contribution of energy/power to sustainable development of trade and national economies, the Bank, during 2012, provided a US\$35 million receivables-backed amortizing term loan facility to Zimbabwe Electricity Transmission and Distribution Company (ZETDC) to finance importation of power equipment and construction of five power sub-stations in Zimbabwe.

The facility, which was availed by way of Afreximbank confirming Letters of Credit (L/



Cs) opened by Stanbic Bank for importation of power equipment as well as for working capital financing purposes, was secured by future receivables expected from reputable mining companies in Zimbabwe under Power Supply Purchase Agreements signed between ZETDC and reputable global mining houses with extensive experience in mining activities in Zimbabwe. The planned enhancement to the power generating capacity of ZETDC arising from installation of the new sub-stations is expected to boost power supply and thereby improve the well-being of domestic consumers as well as improve operations of industries especially mining firms, to support the mining sector. Further, the additional power supply will enable mining firms to revamp their operations by running additional shifts and contribute to increased mineral production and export earnings, and employment of additional staff who would have been redundant in the absence of regular power for 24-hour operations of the mines. Further, it is expected that the enhanced power generating capacity arising from the project will complement energy sector reforms being implemented by the Government, such as increases in electricity tariffs, and introduction of prepaid meters, among others, to ensure adequate and reliable supply of electricity to support production of goods and services consistent with the national economic recovery efforts of the country.

With low power generation of around 1,200 MW against installed capacity of 1,960 MW and national demand of approximately 2,200

MW, the project is expected to enhance electricity generation and distribution capacity. Using modern infrastructure and technology, the new sub-stations will improve efficiency in the transmission and distribution of electricity as well as enhance reliability of power supply especially to major electricity users in the mining sector, who are major drivers of the country's on-going economic recovery programme.

4.2.3 Promoting Air Transportation to Support Intra-African Trade

In line with its mandate of promoting intra-African trade, the Bank has been providing financing and advisory services support to African transport (including aviation) service providers with a pan-African focus to enable them build the necessary infrastructure and/or provide the necessary services to support regional trade. The Bank has in recent years arranged syndicated financing facilities for acquisition of aircrafts by African-focused airlines such as Arik Air and Lonrho's Fly 540 and gained experience and built capacity in aviation financing on the Continent.

On the back of this experience, during the year under review, the Bank submitted a competitive bid and won the mandate from Kenya Airways (KQ) to arrange and participate in a US\$1.968 billion syndicated Aircraft Acquisition Financing Facility for KQ. The financing facility, which is composed of Pre-Delivery Payment (PDP) facility of US\$359.8 million and a Delivery Facility of US\$1.608 billion is for the purchase of nine new Boeing 787-800s (Dreamliners) (**B787s**), one Boeing 777-300ER (**B777-300ER**), and ten Embraer -190 aircrafts (**E-190s**). The



mandate was awarded to the Bank following due consideration and assessment of several financing proposals received from various international banks and development finance institutions in response to a request for proposals (RFP) issued by KQ in March 2012. The new deliveries will enhance both capacity expansion as well as allow for replacement of aircrafts that are due for retirement. Specifically, the Dreamliners will replace KQ's B767 aircrafts due for retirement whilst the E190s will be used for capacity expansion on the Africa/regional routes.

Under the terms of the mandate, the Bank underwrote up to US\$300 million and took a final stake of US\$100 million in the syndication. The Bank's support to one of Africa's leading carriers with impeccable international reputation for delivery of quality services, KQ, is expected to enhance KQ's competitiveness in the growing aviation industry as well as facilitate intra-African trade, which is at the core of the Bank's mandate. Under the business expansion programme, KQ intends to operate in all major African cities; add at least six new locations to its flight destinations each year over the next five years; expand its operations in Asia with more flights to China and India; and enhance its freight business to take advantage of the growing global cargo business, among others.

Through this project, the Bank expects to contribute tremendously to the development of infrastructure in support of intra- and extra- African travel and trade; support diversification of Africa's exports from commodities to services; leverage finance from international banks in support of Africa's development from syndication partners and

Export Credit Agencies (ECAs); support on-going efforts at modernising infrastructure in Africa's aviation sector; and contribute to foreign exchange, and employment generation, among others.

4.2.4 Supporting Local Industries by Enhancing Productive Capacity

The Bank, during 2010-11, provided a US\$10 million 5-year dual tranche financing facility in support of a capacity expansion project of a medium-sized company, Riggs Ventures West Africa Plc, based in Nigeria. The company is engaged in the manufacture of high quality polypropylene bags and sacks for both agricultural and industrial products such as fertilizer, flour, salt, livestock feeds, malt cake, cocoa bean cake, palm kernel cake, cassava, cotton, beans, soya beans, sorghum, maize, rice, wheat, sesame seeds, cocoa beans, cashew-nuts, palm kernel, coffee seeds, among others.

The facility, which was guaranteed by Nigerian Export Import Bank (NEXIM), was utilized for importation of ultra-modern plant and machinery from Bag Solutions Worldwide (BSW) based in Austria in 2011. Following installation of the plant and machinery and commencement of production at the new factory, the company was able to significantly raise its annual production capacity by more than seven fold from 9 million sacks to 69 million sacks. It has also been able to increase its production lines, with the recent production of cement sacks in addition to its existing agro and industrial bag product



lines. Further, on account of the Bank-sponsored capacity expansion programme, the company was able to increase its staff strength with the creation of 300 additional direct jobs and 500 indirect jobs. It is also worth noting that following the expansion project, Riggs Ventures now ranks as the 3rd largest manufacturer of polypropylene bags and sacks in Nigeria and plans to expand its operations to serve other parts of West Africa and East Africa.

4.2.5 Supporting Large Scale Agribusiness on the Continent

During the year, the Bank participated in a US\$309 million syndicated loan facility in favour of OLAM Palm Gabon (OPG) for the financing of an agro-industrial oil palm plantations project in Gabon. The Bank's participation in the project amounted to €70 million.

OPG, which is a joint venture owned by Olam International ("OI") and the Government of Gabon, has as its principal business industrial production of oil palm fruits in Gabon and processing the oil palm fruits into industrial raw materials for export. The US\$309 million syndicated loan facility arranged by ECOBANK Capital is the debt component of the US\$442.1 million project, with 30% equity finance provided by OI.

Under the project, OPG intends to establish a commercial oil palm plantation of 50,000



hectares in the country. The target 50,000 hectares oil palm plantation is expected to result in the production of 280,000 tons of oil palm fruit annually. It is also envisaged that the project will create 14,000 (8,000 direct and 6,000 indirect) jobs. In terms of export revenues, it is expected that US\$300 million of export revenues will be generated each year, with the eventual creation of a palm-oil refinery in Gabon.

The Bank's participation in this transaction was in recognition of the importance of the project to the Gabonese economy and the Continent as a whole. Participation in the project conforms with the Bank's goal of supporting the diversification of trade and economies of its member countries, including Gabon. Thus the expectation is that the project will contribute to diversify the Gabonese economy away from oil with increasing focus on agribusiness, an industry with enormous comparative advantage given the country's extensive endowment of arable land for agriculture. Further, given that Africa reportedly accounts for a paltry 2% of the global palm oil trade, which is dominated by Benin, Côte d'Ivoire and Ghana (who account for a combined share of about 80% of the trade in Africa), the participation of Gabon in the sector as a major producer of palm

oil in Africa will contribute to increase the continent's share of the global trade in this important product, which aside from human consumption, is required as important raw material by the cosmetic, animal feed and bio-fuel industries. Thus, the project is expected to contribute to the development of allied industries, including soap manufacturing, cosmetics and food industry; among others.

It is also worth noting that by partnering with OLAM International, one of the leading players in the global agriculture value chain, the Bank will contribute to promoting Africa-South trade and investment flows as envisaged under its current strategic plan. Further, the Bank's participation in



the syndication deal arranged by ECOBANK Capital also underscores its belief in forging strategic alliances with pan-African financial institutions to support Africa's trade and economic development efforts. Finally, it is worth noting that without the involvement of the Bank and its African partner, Ecobank Capital, this project would not have materialized given international lenders' aversion to funding of agriculture plantations and their relatively high risk perception of African projects, especially those requiring longer tenors.

4.2.6 Supporting the Development of Telecommunications Infrastructure in Afreximbank's Member Countries

A reliable and efficient telecommunications sector is a pre-requisite for trade facilitation; international competitiveness and sustainable economic development as national economies are becoming increasingly dependent on telephones, internet and other telecommunication technologies to source raw materials, explore new markets and engage in trade in a more cost-efficient



manner. Economies with higher levels of penetration in telephony are more likely to attain higher operational efficiency than those that are not. It is from the foregoing that the telecommunications sector is increasingly becoming one of the key sectors the Bank has been supporting as part of its efforts at

improving competitiveness of African traders and other economic agents.

In this regard, during the year, the Bank availed two Receivables Purchase Facilities amounting to US\$8 million to the Gambia Telecommunications Company Limited (GAMTEL) and the Gambia Telecommunications Cellular Company Limited (GAMCEL) to enable them modernize their infrastructure to provide quality telecommunication services to their clients. The transaction involved the purchase of the underlying invoices / receivables arising from the sale of telecommunications equipment and services to the two service providers in The Gambia by Huawei PTE Limited of Singapore ("Huawei"). The contract covers the design, supply, delivery, installation and commissioning of the telecommunication equipment for these two companies. The project represents the first phase of the country's Telecommunication Improvement Project (TIP). The second phase is expected to be carried out upon successful completion of the first phase.

GAMTEL is the primary provider of telecommunications services in The Gambia and has monopoly over fixed line telephony service, while GAMCEL provides GSM Cellular services. The facilities are to improve their service delivery capacities in the telecommunications sector of The Gambia. The facility also underscores the diversity in the Bank's support to member countries irrespective of the size of national trade and economy.

4.2.7 Supporting Export Diversification through Processing Of Export Commodities

In recognition of the fact that Africa accounts for at least 70% of global cocoa production and the fact that only 25% of the continent's production is processed in Africa, the Bank, guided by its mandate of supporting diversification and value addition to Africa's exports, sought to support on-



going efforts by cocoa producing African governments at expanding their combined cocoa grinding capacity from its current level of 25% to a minimum of 35% over the medium term. In pursuit of this goal, the Bank recently launched the Africa Cocoa Initiative ("AFRICOIN" or the "Initiative") for the purpose of providing "End-to-End" solutions to Africa's cocoa sector through financing and provision of corporate finance and advisory services to eligible entities in the Cocoa Value Chain on the Continent. Specifically, the Initiative seeks to support the development of new cocoa plantations to boost the continent's supply of cocoa beans, facilitate increases in cocoa sector productivity, promote value addition through processing of cocoa beans into industrial raw materials (cocoa butter, liquor and cocoa cake) to feed manufacturing plants in Africa, Europe, North America and Asia, and promote consumption of cocoa products in Africa, the Middle East and Asia.

In furtherance of this, the Bank, during the year, used various fora it organised and/or participated in to discuss with key stakeholders in cocoa-producing African countries pertinent issues relating to improvements in productivity and production with the view to enlisting their support for this Initiative. In this regard, for the purpose of informing the focus and slant of the Initiative, the Bank attended several important cocoa industry conferences/seminars, including the 85th Ordinary Session and 145th Executive Committee of the ICCO during March 17-21, 2012 in Ecuador, the 17th International Cocoa Research Conference of the Cocoa Producers

Alliance (COPAL) during October, 17-19, 2012 in Cameroon and the ICCO World Cocoa Conference held during November 19-23, 2012 in Cote d'Ivoire. Further, the Bank closed an €18.5 million and US\$18 million medium term facilities in favour of Conditionnement de Cacao et Cafe (CONDICAF) Cote d'Ivoire and FTN Cocoa Nigeria respectively under the AFRICOIN programme on the sidelines of the ICCO World Cocoa Conference.

The facility extended to CONDICAF is intended to finance both capital investments needed to increase the company's cocoa processing capacity from current level of 12,000 metric tonnes per annum to about 45,000 metric tonnes per annum during the 2013/14 cocoa season, as well as fund the purchase of cocoa beans for processing. The company processes cocoa into liquor, cake and butter which are exported to OECD buyers under fixed price contracts. Thus, the planned extension of processing capacity and exports will contribute to lift the country's foreign exchange earnings; create additional skilled and unskilled jobs; and contribute to fiscal revenues in support of the economic recovery efforts of the government of the Republic of Cote d'Ivoire.

The US\$18 million medium term facility to FTN Cocoa Processors, one of the leading companies in Nigeria involved in the processing of cocoa beans into cocoa butter and cocoa cake/powder for the domestic market and export, is to enable the company to purchase cocoa beans and expand its processing capacity from 10,000 metric tonnes per year to 20,000 metric tonnes per year. The programmed enhancements to purchasing and processing capacities of FTN is also expected to contribute to the creation of about 130 direct jobs and 250 indirect jobs, generate additional foreign exchange earnings of US\$40 million per annum through exports, enable the company to procure bigger export contracts by building stronger relationships with major multinational off-takers and enhance cocoa bean production through cocoa farmer support programmes.



CHAPTER FIVE
OPERATING RESULTS
FOR FINANCIAL YEAR ENDED DECEMBER 31, 2012

5. OPERATING RESULTS

FOR FINANCIAL YEAR ENDED
DECEMBER 31, 2012

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 the Bank's financial statements for the year ended December 31, 2012, 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 realized a net income in an amount of US\$64.81 million in 2012 as compared to an amount of US\$ 57.87million achieved in 2011, representing a year-on-year increase of about 12%. This increase arose as a result of growth in the Bank's interest earning assets by 29%. The Bank posted a total comprehensive income in an amount of US\$ 107.88 million in 2012 as compared to a figure of US\$ 57.87 million in 2011, an increase of about 86%. This increase in total comprehensive income is explained mainly by the revaluation of the Headquarter's building and land in 2012. The revaluation was done to enhance the relevance of information presented in the financial statements and to have fair value presentation of events and transactions in the financial statements. A

further detailed analysis of the Statement of Comprehensive Income is presented hereunder.

5.2.1 Net Interest Income and Margin

During the period under review, the Bank posted a 22% growth in interest income to US\$178 million (2011: US\$ 146 million) on the back increase in lending assets. Interest expenses increased by about 33% to US\$102.20 million (2011: US\$76.63 million). This increase was accounted for by : (i) higher borrowings volume in 2012 to reach a level of US\$ 2.587 billion (2011: US\$2.034 billion); (ii) increase in interest expense on debt securities by US\$ 14.38 million in 2012 as the US\$500 million five year Eurobond issued in July 2011 which has a coupon of 5.75% p.a. had the full twelve months impact of the bond

costs, while 2011 had an impact of only five months. Borrowings includes debt securities of US\$ 844.36 million and due to banks of US\$1.743 billion. Proceeds of the borrowings were used to fund loan asset growth.

Considering that the Bank's loan assets are largely priced on floating rate basis, the interest rate on the bonds was partially swapped from fixed to floating as a way of minimizing the risk of interest rate mismatch. The swap operation resulted in an interest expense reduction of US\$3.7m (2011: US\$ 4.50m).

Net interest margin stood at 2.43% in 2012 compared to 3.05% in 2011. The decline in net interest margin is explained mainly by higher loan disbursements within the last quarter of 2012 totalling US\$ 1.042 billion compared to US\$ 0.58 billion in

US\$ 65 million

Net Income achieved in 2012, representing a 12% year-on-year growth.

US\$ 3.7 billion

Total Assets as at December 31, 2012, representing a 30% year-on-year growth.

US\$ 612 million

Shareholders' Funds as at December 31, 2012, representing a 20% year-on-year growth.

the last quarter of 2011 and expansion in Francophone countries where margins are lower. The increase of 80% in loan disbursements reflects an improvement in the Bank's lending operations. The impact of this increase is expected to improve interest rate efficiency matrices in 2013.

5.2.2 Non-Interest Income

Net Fee and Commission Income, which is the difference between the fees and commissions paid by the Bank and the fees and commissions received, increased by 59%, or US\$10.24 million, to US\$27.72 million compared to 2011. Increase in fee and commission income in 2012 arose mainly from higher advisory fees and commissions on letter of credit confirmation by 65% and 23% respectively. The observed increase



reflects a rigorous pursuit of investment banking activities in 2012 and increase in letter of credit confirmations in 2012 due to more aggressive push of African correspondent banking product. The increase in advisory fees is in line with the strategy of the Bank to increase fee income to over 40% of operating income. Fee and commission expenses increased by about 29% to US\$ 3.28 million (2011: US\$ 2.54million). This increase is attributable mainly to fees paid on the US\$ 500 million five year Eurobond issued in July 2011 amortized over a full year period compared to five months in 2011.

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 18% in 2012 to US\$ 105.37 million (2011: US\$ 89.38 million). The increase is explained mainly by higher net interest income as a result of growth in lending assets and higher advisory fees from increased investment banking activities, arising from diversification of revenues strategy.

5.2.4 Operating Expenses

Operating expenses increased by about 22% in 2012 to US\$ 27.45 million. The increase is explained mainly by: (a) increase in staff costs by 24% arising from higher staff number to support business growth in line with strategic plan. The increase in staff numbers was accompanied by the related one-off recruitment expenses such as relocation costs; (b) computerization costs due to introduction of business process modeling to improve information processing flow and efficiency; (c) increase in group life and accident by 31% arising from increase in number of staffs; (d) travel and meetings expenses which increased by 8 % mainly due to the two Extraordinary General Meetings held in September and December 2012 to approve Charter

Amendments; (e) communication expenses which increased by 37% in relation to the cost of events sponsorship as to increase bank visibility and market the Bank's activities; and (f) higher depreciation charges in 2012 due to furnishing of the Headquarters.

5.2.5 Cost Income Ratio

Figure 5.1 below, shows that the cost-income ratio of the Bank slightly increased to 26%, from a level of 25% arising from higher operating expenses explained above.

Figure 5.1 Afreximbank: Cost to Income Ratio: 2008 - 12



5.2.6 Allowance for Impairment on Loans and Advances

Allowance for impairment on Loans and Advances increased from US\$ 3.76 million in 2011 to US\$ 13.28 million in 2012. This increase has come about due to increase in specific provisions in certain facilities which were non-performing as well as increase in collective impairment provisions due to increase in the loans volume.

5.2.7 Earnings Per Share

Earnings per share increased by about 10% from US\$ 1,386 in 2011 to US\$ 1,531 in 2012 as a result of higher net income for the year.

5.2.8 Dividends

On account of higher net income achieved during the year and maintaining the historical payout ratio, the Board of Directors recommends a dividend payout amounting to US\$ 14.8 million to shareholders, reflecting an increase of about 28% over the US\$ 11.6 million paid out from 2011 operations. The past trend of increasing dividends to shareholders was thus maintained during the review period. Consistent with the tradition of the Bank, shareholders will be 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 include profit performance, need to retain earnings to support on-going

Loans and advances
increased on a net basis by

US\$ 756 million



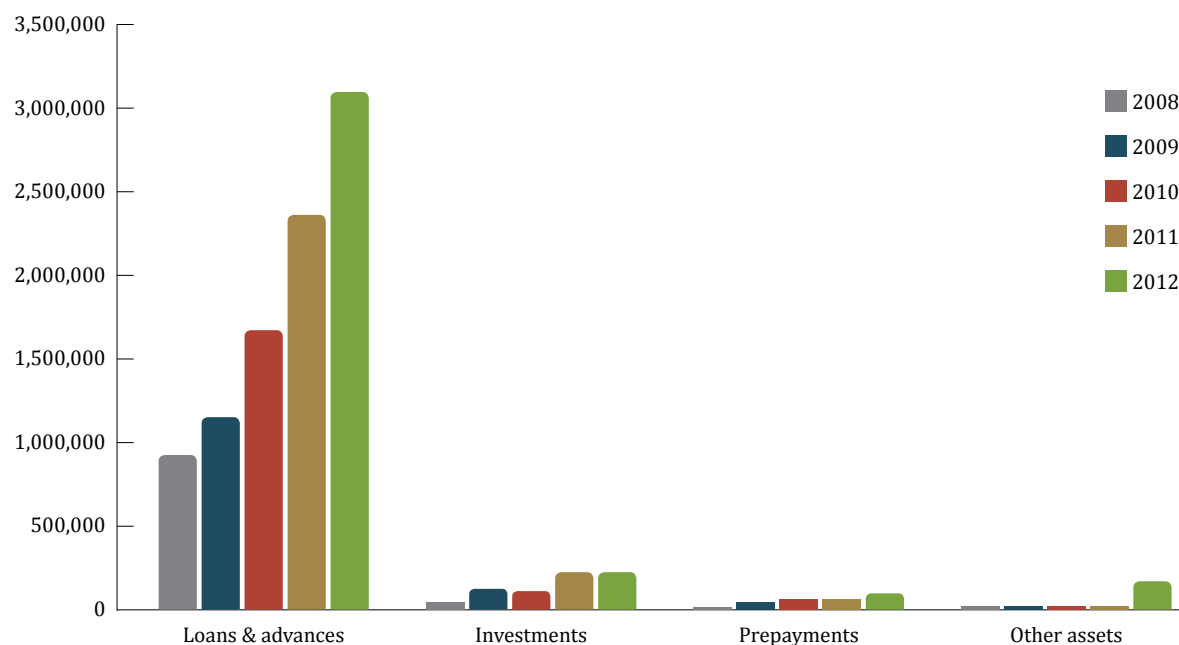
business growth, capital adequacy, inflation, as well as the need to balance internal and external financing.

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 2012 is presented hereunder.

5.3.1 Assets

Total assets of the Bank increased by about 30% year-on-year to US\$ 3.731 billion as at December 30, 2012. This increase arose mainly from higher volume of loans and advances. Loans and advances increased on a net basis by US\$ 756 million to US\$ 3.10 billion (2011: US\$ 2.34 billion). The increase in loans and advances and total assets is in line with the strategic plan and forecast targets.

Figure 5.2 Afreximbank: Assets (US\$ Thousands): 2008 - 12

A break-down of the Bank's assets in 2012 shows that Loans and Advances accounted for about 83% of total assets. Cash and deposits with other banks (*investments*) accounted for about 10%. The observed distribution was not materially different from the trend of past years distribution seen in 2011, and in line with 2012 forecasts.

5.3.2 Liabilities

During the review year, total liabilities of the Bank rose by about 32% to US\$ 3.120 billion (2011: US\$ 2.355 billion) mainly due to increase in borrowings by about 27% to US\$ 2.587 billion (2011: US\$ 2.034 billion). Due to banks and debt securities accounted for about 56% and 27% respectively of the liabilities making them the largest components of liabilities. The liabilities of the Bank were used to fund planned growth in loan assets.

5.3.2 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 Reserves, the Bank's Net worth (Shareholders' Funds) rose by about 20% to US\$ 612.27 million from US\$ 512.1 million of 2011. Capital adequacy ratio declined marginally to 19 % from 22 % in 2011. The Bank is in the process of raising additional equity in 2013.

5.4 CONCLUSIONS

A summary of the financial results described above shows that notwithstanding the challenges the Bank faced during 2012, it was able to maintain a solid financial performance reflected in satisfactory profit increase, asset growth and levels of efficiency ahead of the forecasts and targets the Bank in the strategic plan.

20. 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 a challenging economic environment.

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2012

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 Chapter 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 31 December, 2012, at its meeting held on 22 March 2013.

In our opinion, the scope and planning of the audit for the year ended 31 December, 2012 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 effects 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 31 December, 2012.

The Committee, therefore, recommended that the audited Financial Statements of the Bank for the Financial Year ended 31 December, 2012 and the Auditors' Report thereon be approved by the Board and presented for consideration by Shareholders at the Nineteenth 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 2013.

Jean-Marie Benoit Mani

**Chairman
Audit Committee**



Members of the Committee

J-M. B. Mani, Y. Nagama, Liu Liange; R. Ntuli



Deloitte.

REPORT OF THE JOINT AUDITORS 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 2012 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 information.

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 auditor's judgment, 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 auditor considers 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 entity'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 2012 and 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


2 April, 2013
Date


Deloitte & Touche
Ghana


2nd April, 2013
Date

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AFRICAN EXPORT-IMPORT BANK**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Note</u>	<u>2012</u> <u>US\$000</u>	<u>2011</u> <u>US\$000</u>
Interest and similar income	8	177,660	146,393
Interest and similar expense	9	(102,197)	(76,632)
Net interest and similar income		75,463	69,761
Fee and commission income	10	30,999	20,020
Fee and commission expense	11	(3,278)	(2,539)
Net fee and commission income		27,721	17,481
Other operating income	12	2,187	2,138
Operating income		105,371	89,380
Personnel expenses	13	(14,598)	(11,806)
General and administrative expenses	14	(10,825)	(9,102)
Depreciation and amortisation expense	21	(2,027)	(1,604)
Operating expenses		(27,450)	(22,512)
Exchange adjustments		403	(83)
Operating profit before impairment allowances and provisions		78,324	66,785
Loan impairment charges	18	(13,283)	(3,762)
Provisions	18	(230)	(5,156)
PROFIT FOR THE YEAR		64,811	57,867
OTHER COMPREHENSIVE INCOME			
Gains on revaluation of land and building	21	32,345	-
Cashflow hedges	5	10,728	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		107,884	57,867
EARNINGS PER SHARE			
Basic and diluted earnings per share (expressed in US\$000 per share)	15	1.53	1.39

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

AFRICAN EXPORT-IMPORT BANK**STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2012**

	<u>Note</u>	<u>2012</u> <u>US\$000</u>	<u>2011</u> <u>US\$000</u>
ASSETS			
Cash and cash equivalents	16	376,611	352,040
Loans and advances to customers	17	3,101,004	2,345,379
Hedging derivatives	5	123,366	80,279
Prepayments and accrued income	19	78,157	69,644
Other assets	20	5,291	6,152
Property and equipment	21	46,204	14,063
Total assets		3,730,633	2,867,557
LIABILITIES			
Due to banks	22	1,742,611	1,190,794
Hedging derivatives	5	114,165	74,740
Debt securities in issue	23	844,355	842,781
Deposits and customer accounts	24	322,805	157,851
Other liabilities	25	94,426	89,291
Total liabilities		3,118,362	2,355,457
CAPITAL FUNDS			
Share capital	26	170,497	169,172
Share premium	27	25,355	22,793
Reserves	28	222,863	154,783
Retained earnings	29	193,556	165,352
Total capital funds		612,271	512,100
Total liabilities and capital funds		3,730,633	2,867,557

Jean-Louis Ekra

Chairman of the Board of Directors

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

AFRICAN EXPORT-IMPORT BANK

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2012

	Share capital	Share premium	General reserve	Revaluation reserve	Cash flow hedge reserve	Retained earnings	Total
	US\$000	US\$000	US\$000	US\$000	US\$000	US\$000	US\$000
Balance at 1 January 2011	166,372	18,039	131,649	-	-	140,619	456,679
Paid-in capital during 2011	2,800	4,754	-	-	-	-	7,554
Transfer to cash flow hedge	-	-	-	-	-	-	-
Total comprehensive income for 2011	-	-	-	-	-	57,867	57,867
Transfer to general reserve	-	-	23,134	-	-	(23,134)	-
Dividends for 2010	-	-	-	-	-	(10,000)	(10,000)
Balance at 31 December 2011	169,172	22,793	154,783	-	-	165,352	512,100
Balance at 1 January 2012	169,172	22,793	154,783	-	-	165,352	512,100
Paid-in capital during 2012	1,325	2,562	-	-	-	-	3,887
Profit of the year	-	-	-	-	-	64,811	64,811
Transfer to general reserve	-	-	25,007	-	-	(25,007)	-
Other comprehensive income	-	-	-	32,345	10,728	-	43,073
Dividends for 2011	-	-	-	-	-	(11,600)	(11,600)
Balance at 31 December 2012	170,497	25,355	179,790	32,345	10,728	193,556	612,271

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, 2012

	2012 US\$000	2011 US\$000
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the year	64,811	57,867
Adjustment for non-cash items:		
Depreciation of property and equipment	2,027	1,604
Allowance for impairment on loans and advances	13,283	3,762
Provision for possible losses on other asset	230	114
Provision for possible losses on accrued income	-	4,956
Gain on disposal of property and equipment	-	(12)
Net increase in prepayments and accrued income	(8,513)	(26,017)
Net increase in hedging derivatives assets	(32,359)	(79,835)
Net decrease /(increase)in other assets	687	(5,002)
Net increase in hedging derivatives liabilities	39,425	74,740
Net increase in other liabilities	2,578	54,376
Net increase in deposits and customer accounts	164,425	64,799
Net increase in loans and advances to customers	(768,909)	(687,891)
Net cash outflows from operating activities	(522,315)	(536,539)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases and additions to property and equipment	(1,823)	(2,820)
Proceeds from sale of property and equipment	-	12
Net cash outflows from investing activities	(1,823)	(2,808)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net cash from capital subscriptions and share premium	1,965	3,532
Dividends paid	(6,647)	(6,311)
Proceeds from borrowed funds and debt securities	1,397,670	2,178,698
Repayment of borrowed funds and debt securities	(844,279)	(1,465,534)
Net cash inflows from financing activities	548,709	710,385
Net increase in cash and cash equivalents	24,571	171,038
Cash and cash equivalents at 1 January	352,040	181,002
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	376,611	352,040

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

AFRICAN EXPORT-IMPORT BANK

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2012

1. 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).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied by the Bank have been approved by the Board of Directors of the Bank and in accordance 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 as issued by the IASB.

The financial statements are prepared under the historical cost convention except for land and buildings and derivative financial instruments that have been measured at fair value 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 2012

The accounting policies adopted are consistent with those of the previous financial year, except for the following amendments to IFRS effective as of 1 January 2012:

- IAS 12 Income Taxes (Amendment) – Deferred Taxes: Recovery of Underlying Assets. The amendment is effective for annual periods beginning on or after 1 January 2012 and has no effect on the Bank's financial position, performance or its disclosures.
- IFRS 1 First-Time Adoption of International Financial Reporting Standards (Amendment) – Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters. The

amendment is effective for annual periods beginning on or after 1 July 2011. The amendment had no impact on the Bank.

- IFRS 7 Financial Instruments: Disclosures – Enhanced Derecognition Disclosure Requirements. The amendment is effective for annual periods beginning on or after 1 July 2011 and has no impact on the Bank's financial statements.

2.1.2 The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's financial statements are disclosed below.

The Bank intends to adopt these standards, if applicable, when they become effective.

- IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1. The amendment becomes effective for annual periods beginning on or after 1 July 2012, and will therefore be applied, if applicable, in the Bank's financial statements after becoming effective.
- IAS 19 Employee Benefits (Revised). The amendment becomes effective for annual periods beginning on or after 1 January 2013. The amendments have no impact on the Bank.
- IAS 28 Investments in Associates and Joint Ventures (as revised in 2011). The revised standard becomes effective for annual periods beginning on or after 1 January 2013. The revised standard has no impact on the Bank.
- IAS 32 Offsetting Financial Assets and Financial Liabilities — Amendments to IAS 32. These amendments are not expected to impact the Bank's financial position or performance and become effective for annual periods beginning on or after 1 January 2014.
- IFRS 1 Government Loans – Amendments to IFRS 1. The amendment is effective for annual periods on or after 1 January 2013. The amendment has no impact on the Bank.
- IFRS 7 Disclosures — Offsetting Financial Assets and Financial Liabilities — Amendments to IFRS 7. These amendments will not impact the Bank's financial position or performance and become effective for annual periods beginning on or after 1 January 2013.
- IFRS 9 Financial Instruments: Classification and Measurement. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2015.
- IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements. This standard becomes effective for annual periods beginning on or after 1 January 2013, and has no impact on the Bank.
- IFRS 12 Disclosure of Interests in Other Entities. This standard becomes effective for annual periods beginning on or after 1 January 2013.
- IFRS 13 Fair Value Measurement. This standard becomes effective for annual periods beginning on or after 1 January 2013.

AFRICAN EXPORT-IMPORT BANK

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED DECEMBER 31, 2012

- IFRS 1 First-time Adoption of International Financial Reporting Standards. These improvements are effective for annual periods beginning on or after 1 January 2013.
- IAS 16 Property Plant and Equipment. This improvement clarifies that major spare parts and servicing equipment that meet the definition of property; plant and equipment are not inventory. These improvements are effective for annual periods beginning on or after 1 January 2013.
- IAS 32 Financial Instruments, Presentation. This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes. These improvements are effective for annual periods beginning on or after 1 January 2013.
- IAS 34 Interim Financial Reporting. These improvements are effective for annual periods beginning on or after 1 January 2013. The amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures. These improvements are effective for annual periods beginning on or after 1 January 2013.

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. 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.

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. 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. Subsequently, loans and advances are measured 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.

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 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 original 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.

AFRICAN EXPORT-IMPORT BANK

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED DECEMBER 31, 2012

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 grading 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

Motor vehicles, furniture and equipment, computers and leasehold improvements 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:

- Buildings	20 years
- Motor vehicles	5 years
- Furniture and equipment	4 years
- Computers	3 years
- Leasehold improvements	Over the remaining period of the lease

Motor vehicles, furniture and equipment, computers and leasehold improvements 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.

Motor vehicles, furniture and equipment, computers and leasehold improvements are 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.

Given the need to enhance the relevance of information presented in the financial statements and to have more reliable presentation of events and transactions in the financial statements, the Bank changed the accounting policy of valuation of the Headquarters' land and building from cost model to revaluation model in the current year. This has in turn affected the book value of the Headquarters' building and land represented in the current year. Revaluation adjustments are recognized in other comprehensive income and accumulated in the asset revaluation reserve in equity, except to the extent they reverse a revaluation decrease of the same asset previously recognized in the profit or loss. A revaluation deficit is recognised in the profit or loss, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve.

Prior to 1 January 2012, the Bank was adopting the cost model in recording the Headquarters' building and land, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. The accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Upon adoption of the revaluation model on 1 January 2012, the Headquarters' land and building are valued at the fair value at the reporting date by an independent valuer.

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 Headquarters 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.

AFRICAN EXPORT-IMPORT BANK

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED DECEMBER 31, 2012

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 fulfillment 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.

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 profit or loss 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. 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.

2.16. 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.

2.17. Derivative financial instruments and hedge accounting

The Bank makes use of derivative instruments to manage exposures to interest rate, foreign currency and credit risks, including exposures arising from highly probable forecast transactions and firm commitments. In order to manage particular risks, the Bank applies hedge accounting for transactions which meet specified criteria.

At inception of the hedge relationship, the Bank formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the risk management objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship at inception and on an ongoing basis.

At each hedge effectiveness assessment date, a hedge relationship must be expected to be highly effective on a prospective basis and demonstrate that it was effective (retrospective

effectiveness) for the designated period in order to qualify for hedge accounting. A formal assessment is undertaken by comparing the hedging instrument's effectiveness in offsetting the changes in fair value or cash flows attributable to the hedged risk in the hedged item, both at inception and at each quarter end on an ongoing basis. A hedge is expected to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated were offset by the hedging instrument in a range of 80% to 125% and were expected to achieve such offset in future periods. Hedge ineffectiveness is recognized in the income statement in other income. For situations where the hedged item is a forecast transaction, the Bank also assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect the income statement.

(i) Fair value hedges

For designated and qualifying fair value hedges, the cumulative change in the fair value of a hedging derivative is recognized in the income statement in other income. Meanwhile, the cumulative change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item in the statement of financial position and is also recognized in the income statement in other income.

If the hedging instrument expires or is sold, terminated or exercised, or where the hedge no longer meets the criteria for hedge accounting, the hedge relationship is discontinued prospectively. For hedged items recorded at amortized cost, the difference between the carrying value of the hedged item on termination and the face value is amortized over the remaining term of the original hedge using the recalculated effective interest rate method. If the hedged item is derecognized, the unamortized fair value adjustment is recognized immediately in the income statement.

(ii) Cash flow hedges

For designated and qualifying cash flow hedges, the effective portion of the cumulative gain or loss on the hedging instrument is initially recognized directly in equity in the Cash flow hedge reserve. The ineffective portion of the gain or loss on the hedging instrument is recognized immediately in other income in the income statement.

When the hedged cash flow affects the income statement, the gain or loss on the hedging instrument is recorded in the corresponding income or expense line of the income statement. When the forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognized in the other comprehensive income are removed from the reserve and included in the initial cost of the asset or liability.

When a hedging instrument expires, or is sold, terminated, exercised, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss that has been recognized in other comprehensive income at that time remains in other comprehensive income and is recognized when the hedged forecast transaction is ultimately recognized in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the income statement.

AFRICAN EXPORT-IMPORT BANK

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED DECEMBER 31, 2012

2.18. 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.

2.19. 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 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) Board Executive Committee, responsible for credit approval above management's authority levels; (iii) Management Risk and Strategy Committee, responsible for the risk policies review and implementation; and (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

AFRICAN EXPORT-IMPORT BANK

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED DECEMBER 31, 2012

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 rating
1	Low risk
2	Satisfactory risk
3	Fair risk
4	Watch list
5	Sub-Standard risk
6	Doubtful and bad
7	Loss

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

	2012		2011	
	<u>Loans & advances %</u>	<u>Impairment allowance%</u>	<u>Loans & advances %</u>	<u>Impairment allowance%</u>
Low risk	18.30	10.99	13.10	7.85
Satisfactory risk	66.70	40.09	70.05	41.95
Fair risk	8.40	5.08	15.56	9.31
Watch list	2.09	1.22	0.82	0.49
Sub-Standard risk	2.41	1.47	-	-
Doubtful and bad	2.10	41.15	0.47	40.40
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

	<u>Maximum exposure</u>	
	<u>2012</u>	<u>2011</u>
	<u>US\$000</u>	<u>US\$000</u>
Due from banks	146,571	122,000
Deposits with other banks	230,000	230,000
Loans and advances to customers	3,127,020	2,365,127
Credit risk exposures relating to off-statement of financial positions items are as follows:		
Letters of credit	142,009	42,023
Guarantees	186,900	117,573
Loan commitments and other credit related		
Liabilities	778,549	382,864
	4,611,049	3,259,587

The above table represents a worst case scenario of credit risk exposure to the Bank at 31 December 2012 and 31 December 2011, 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.

AFRICAN EXPORT-IMPORT BANK

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2012

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 categorized by geographical region as at 31 December 2012 and 31 December 2011 of the Bank's counterparties.

	<u>2012</u>		<u>2011</u>	
	<u>US\$000</u>	<u>%</u>	<u>US\$000</u>	<u>%</u>
West Africa	1,762,514	56.4	1,537,230	65.0
North Africa	227,577	7.3	205,273	8.7
Regional	30,387	1.0	50,000	2.1
East Africa	415,518	13.3	105,692	4.5
Central Africa	305,856	9.7	149,923	6.3
Southern Africa	385,168	12.3	317,009	13.4
	3,127,020	100	2,365,127	100

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 categorized by industry sector as at 31 December 2012 and 31 December 2011 of the Bank's counterparties.

	<u>2012</u>		<u>2011</u>	
	<u>US\$000</u>	<u>%</u>	<u>US\$000</u>	<u>%</u>
Agriculture	220,905	7	76,476	3
Energy	812,437	26	542,470	23
Services	111,226	3.6	58,051	2
Metals and minerals	128,374	4.1	12,795	1
Transportation	402,212	13	115,937	5
Manufacturing	115,024	4	69,866	3
Telecommunications	358,820	11	363,192	15
Financial institutions	963,503	30.80	1,082,321	46
Government	14,519	0.5	44,019	2
	3,127,020	100	2,365,127	100

3.10. Loans and advances

Loans and advances are summarized as follows:

	<u>2012</u>	<u>2011</u>
	<u>US\$000</u>	<u>US\$000</u>
Neither past due nor impaired	3,062,072	2,334,545
Past due but not impaired	-	19,362
Impaired	64,948	11,220
Gross loans and advances	3,127,020	2,365,127
Less: Allowance for impairment (note 18)	(26,016)	(19,748)
Net loans and advances	3,101,004	2,345,379
Individually impaired	(10,706)	(7,979)
Collective impairment	(15,310)	(11,769)
Total	(26,016)	(19,748)

The total impairment charge for loans and advances is US\$ 13,283,000 (2011: US\$ 3,762,000) of which US\$ 9,742,000 (2011: US\$ 336,000) represents the individually impaired loans and the remaining amount of US\$ 3,541,000 (2011: US\$ 3,426,000), 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:

	<u>Loans and advances</u>	
	<u>2012</u>	<u>2011</u>
Grade	<u>US\$000</u>	<u>US\$000</u>
Low risk	572,045	309,891
Satisfactory risk	2,085,885	1,656,676
Fair risk	264,233	367,978
Watch list	139,909	-
Total	3,062,072	2,334,545

AFRICAN EXPORT-IMPORT BANK
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2012

(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:

	Loans and advances	
	<u>2012</u>	<u>2011</u>
	<u>US\$000</u>	<u>US\$000</u>
Past due up to 30 days	-	-
Past due 30 - 60 days	-	-
Past due 60 - 90 days	-	9,463
Past due over 90 days	-	9,899
Total	-	19,362
Fair value of collateral	-	20,611

(c) Loans and advances impaired

	<u>2012</u>	<u>2011</u>
	<u>US\$000</u>	<u>US\$000</u>
Impaired loans	64,948	11,220
Fair value of collateral	56,417	4,205

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.

3.11. Market risk

3.11.1 Interest rate risk sensitivity analysis

At 31 December 2012, if interest rates at that date had been 25 basis points lower with all other variables held constant, profit and reserves for the year would have been US\$ 1,776,000 (2011: US\$ 1,330,000) lower, arising mainly as a result of the lower decrease in interest income on loans than the decrease in interest expense on borrowings. If interest rates had been 25 basis points higher, with all other variables held constant, profit would have been US\$ 1,776,000 (2011: US\$ 1,330,000) 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 2012 than in 2011 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 2012. It includes the Bank's financial instruments at carrying amounts.

		<u>Interest rate risk (IR)</u>	
	<u>Carrying amount</u>	<u>+25bp of US\$IR</u>	<u>-25bp of US\$ IR</u>
		<u>2012</u>	<u>2012</u>
	<u>US\$000</u>	<u>US\$000</u>	<u>US\$000</u>
Financial assets			
Cash due from banks	146,571	366	(366)
Deposits with other banks	230,000	575	(575)
Loans and advances to customers (gross)	2,720,579	6,801	(6,801)
Impact on financial assets		7,742	(7,742)
Financial liabilities			
Due to banks	1,717,224	4,293	(4,293)
Debt securities in issue	346,256	866	(866)
Deposits and customer accounts	322,804	807	(807)
Impact on financial liabilities		5,966	(5,966)
Total increase/(decrease)		1,776	(1,776)

AFRICAN EXPORT-IMPORT BANK
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2012

The table below summarizes the impact on profit and loss for each category of financial instruments held as at 31 December 2011. It includes the Bank's financial instruments at carrying amounts.

	Interest rate risk (IR)		
	Carrying amount	+25bp of US\$ IR	-25bp of US\$ IR
	US\$000	2011 US\$000	2011 US\$000
Financial assets			
Cash due from banks	122,000	305	(305)
Deposits with other banks	230,000	575	(575)
Loans and advances to customers (gross)	1,936,317	4,841	(4,841)
Impact on financial assets		5,721	(5,721)
Financial liabilities			
Due to banks	1,082,625	2,707	(2,707)
Debt securities in issue	515,465	1,289	(1,289)
Deposits and customer accounts	157,851	395	(395)
Impact on financial liabilities		4,391	(4,391)
Total increase/(decrease)		1,330	(1,330)

3.11.2 Foreign exchange risk sensitivity analysis

At 31 December 2012, 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\$ 1,499,000 (2011: US\$ 70,000) 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\$ 1,499,000 (2011: US\$ 70,000) higher, arising mainly as a result of higher increase in revaluation of loans than the increase on borrowings.

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 2012. It includes the Bank's Euro financial instruments at carrying amounts.

	Foreign exchange risk		
	Carrying amount	10% increase in the value of USD against Euro	10% decrease in the value of USD against Euro
	US\$000	2012 US\$000	2012 US\$000
Financial assets			
Cash due from banks	763	76	(76)
Loans and advances to customers (gross)	641,517	64,152	(64,152)
Impact on financial assets	642,280	64,228	(64,228)
Financial liabilities			
Due to banks	458,712	45,871	(45,871)
Debt securities in issue	46,256	4,626	(4,626)
Deposits and customer accounts	8,160	816	(816)
Hedging derivatives	114,165	11,416	(11,416)
Other liabilities	-	-	-
Impact on financial liabilities	627,293	62,729	(62,729)
Total increase/(decrease)	14,987	1,499	(1,499)

AFRICAN EXPORT-IMPORT BANK

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED DECEMBER 31, 2012

The table below summarizes the impact on profit and loss for each category of Euro financial instruments held as at 31 December 2011. It includes the Bank's Euro financial instruments at carrying amounts.

	Foreign exchange risk		
	Carrying amount	10% increase in the value of USD against Euro	10% decrease in the value of USD against Euro
	2011	2011	2011
	US\$000	US\$000	US\$000
Financial assets			
Cash due from banks	6,214	621	(621)
Loans and advances to customers (gross)	487,159	48,716	(48,716)
Impact on financial assets	493,373	49,337	(49,337)
Financial liabilities			
Due to banks	345,938	34,593	(34,593)
Debt securities in issue	45,465	4,547	(4,547)
Deposits and customer accounts	10,111	1,011	(1,011)
Hedging derivatives	91,055	9,106	(9,106)
Other liabilities	104	10	(10)
Impact on financial liabilities	492,673	49,267	(49,267)
Total increase/(decrease)	700	70	(70)

3.12. 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.

The table below summarises the Bank exposure to foreign currency exchange rate risk as at 31 December 2012. Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency (in thousands of US\$):

	Euro	NGN	Other	2012
	US\$000	US\$000	Currencies	Total
	US\$000	US\$000	US\$000	US\$000
Assets				
Cash and due from banks	763	103	317	1,183
Loans and advances to customers	641,517	-	-	641,517
Total financial assets	642,280	103	317	642,700
Liabilities				
Due to banks	458,712	-	-	458,712
Debt securities in issue	46,256	-	-	46,256
Deposits and customer accounts	8,160	-	-	8,160
Hedging derivatives	114,165	-	-	114,165
Other liabilities	-	-	-	-
Total financial liabilities	627,293	-	-	627,293
Net on statement of financial position	14,987	103	317	15,407
Credit commitments & financial guarantees	194,937	-	-	194,937

The table below summarises the Bank exposure to foreign currency exchange rate risk as at 31 December 2011. Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency (in thousands of US\$):

	Euro	NGN	Other	2011
	US\$000	US\$000	Currencies	Total
	US\$000	US\$000	US\$000	US\$000
Assets				
Cash and due from banks	6,214	95	140	6,449
Loans and advances to customers	487,159	-	-	487,159
Total financial assets	493,373	95	140	493,608
Liabilities				
Due to banks	345,938	-	-	345,938
Debt securities in issue	45,465	-	-	45,465
Deposits and customer accounts	10,111	-	-	10,111
Hedging derivatives	91,055	-	-	91,055
Other liabilities	104	-	-	104
Total financial liabilities	492,673	-	-	492,673
Net on statement of financial position	700	95	140	935
Credit commitments & financial guarantees	34,787	-	-	34,787

AFRICAN EXPORT-IMPORT BANK
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2012

3.13. 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.

The table below summarizes the Bank's exposure to interest rate risks as at 31 December 2012. It includes the Bank's financial instruments at carrying amounts (non-derivatives), categorized by the period of contractual re-pricing.

	<u>Up to 3 months US\$000</u>	<u>3-6 months US\$000</u>	<u>6-12 months US\$000</u>	<u>Non interest bearing US\$000</u>	<u>2012 Total US\$000</u>
Financial assets					
Cash and due from banks	146,571	-	-	40	146,611
Deposits with other banks	230,000	-	-	-	230,000
Loans and advances to customers	2,094,715	397,583	113,679	-	2,605,977
Prepayments and accrued income	-	-	-	78,786	78,786
Other assets	-	-	-	4,555	4,555
Total financial assets	2,471,286	397,583	113,679	83,381	3,065,929
Financial liabilities					
Due to banks	1,620,182	84,042	13,000	-	1,717,224
Debt securities in issue	346,256	-	-	-	346,256
Deposits and customer accounts	322,804	-	-	-	322,804
Other liabilities	95,506	-	-	-	95,506
Total financial liabilities	2,384,748	84,042	13,000	-	2,481,790
Total interest repricing gap	86,538	313,541	100,679		

The table below summarizes the Bank's exposure to interest rate risks as at 31 December 2011. It includes the Bank's financial instruments at carrying amounts (non-derivatives), categorized by the period of contractual re-pricing.

	<u>Up to 3 months US\$000</u>	<u>3-6 months US\$000</u>	<u>6-12 months US\$000</u>	<u>Non interest bearing US\$000</u>	<u>2011 Total US\$000</u>
Financial assets					
Cash and due from banks	122,000	-	-	40	122,040
Deposits with other banks	230,000	-	-	-	230,000
Loans and advances to customers	1,795,223	121,094	20,000	-	1,936,317
Prepayments and accrued income	-	-	-	69,644	69,644
Other assets	-	-	-	6,152	6,152
Total financial assets	2,147,223	121,094	20,000	75,836	2,364,153
Financial liabilities					
Due to banks	1,126,790	64,004	-	-	1,190,794
Debt securities in issue	515,465	-	-	-	515,465
Deposits and customer accounts	157,851	-	-	-	157,851
Other liabilities	-	-	-	89,292	89,292
Total financial liabilities	1,800,106	64,004	-	89,292	1,953,402
Total interest repricing gap	347,117	57,090	20,000		

3.14. 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.

AFRICAN EXPORT-IMPORT BANK

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED DECEMBER 31, 2012

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 2012:

	<u>Up to 1 month US\$000</u>	<u>1-3 months US\$000</u>	<u>3-12 months US\$000</u>	<u>1-5 years US\$000</u>	<u>Over 5 years US\$000</u>	<u>2012 Total US\$000</u>
Assets						
Cash and due from banks	146,611	-	-	-	-	146,611
Deposits with other banks	230,029	-	-	-	-	230,029
Loans and advances	710,606	645,523	554,179	1,127,710	146,194	3,184,212
Total assets	1,087,247	645,523	554,179	1,127,710	146,194	3,560,853
Liabilities						
Due to banks	23,145	50,311	671,682	892,180	117,410	1,754,729
Debt securities in issue	9,575	318	13,198	846,256	-	869,347
Deposits and customer accounts	322,804	-	-	-	-	322,804
Total liabilities	355,524	50,629	684,880	1,738,436	117,410	2,946,880
Net liquidity gap	731,722	594,894	(130,701)	(610,726)	(28,784)	613,973
Cumulative liquidity gap	731,722	1,326,616	1,195,915	585,188	613,973	

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 2011:

	<u>Up to 1 month US\$000</u>	<u>1-3 months US\$000</u>	<u>3-12 months US\$000</u>	<u>1-5 years US\$000</u>	<u>Over 5 years US\$000</u>	<u>2011 Total US\$000</u>
Assets						
Cash and due from banks	122,040	-	-	-	-	122,040
Deposits with other banks	230,012	-	-	-	-	230,012
Loans and advances	214,051	548,083	527,769	1,059,570	48,987	2,398,460
Total assets	566,103	548,083	527,769	1,059,570	48,987	2,750,512
Liabilities						
Due to banks	17,625	257,781	123,069	735,707	75,072	1,209,254
Debt securities in issue	9,698	3,329	51,350	818,912	-	883,289
Deposits and customer accounts	157,851	-	100	-	-	157,951
Total liabilities	185,174	261,110	174,519	1,554,619	75,072	2,250,494
Net liquidity gap	380,929	286,973	353,250	(495,049)	(26,085)	500,018
Cumulative liquidity gap	380,929	667,902	1,021,152	526,103	500,018	

3.15. 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.

AFRICAN EXPORT-IMPORT BANK
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2012

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

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 and revaluation reserve.
- 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>2012</u> <u>US\$000</u>	<u>2011</u> <u>US\$000</u>
Tier 1 capital		
Share capital	170,497	169,172
Share premium	25,355	22,793
Reserves	222,863	154,783
Retained earnings	193,556	165,352
Total Tier 1 capital	612,271	512,100
Tier 2 capital		
Collective impairment allowance	15,310	11,769
Total Tier 2 capital	15,310	11,769
Total statutory capital	627,581	523,869
Risk – weighted assets:		
On-statement of financial position	2,989,909	2,045,145
Off-statement of financial position	378,019	299,230
Total risk-weighted assets	3,367,928	2,341,375
Basel ratio	19%	22%

The increase of the statutory capital in 2012 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 ASSETS AND LIABILITIES**

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 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).

(a) Financial instruments not measured at fair value

The table below summarizes the carrying amounts and fair values of those financial assets and liabilities not presented on the Bank's statement of financial position at their fair value:

	Carrying value		Fair value	
	<u>2012</u> <u>US\$000</u>	<u>2011</u> <u>US\$000</u>	<u>2012</u> <u>US\$000</u>	<u>2011</u> <u>US\$000</u>
Financial assets				
Loans and advances	3,101,004	2,345,379	3,107,414	2,352,016
Financial liabilities				
Due to banks	1,742,611	1,190,794	1,743,080	1,191,094
Debt securities in issue (gross)	846,250	845,465	924,543	889,224

(i) Loans and advances

Loans and advances are net of charges for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

(ii) Debt securities in issue

The aggregate fair values are calculated based on quoted prices. For those notes where quoted market prices are not available, a discounted cash flow model is used.

(b) Financial instruments measured at fair value are disclosed in note 5.

(c) Fair value hierarchy

AFRICAN EXPORT-IMPORT BANK

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED DECEMBER 31, 2012

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges (for example, London Stock Exchange, Frankfurt Stock Exchange, New York Stock Exchange) and exchange traded derivatives like futures (for example, Nasdaq, S&P 500).
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the majority of the OTC derivative contracts, traded loans and issued structured debt. The sources of input parameters like LIBOR yield curve or counterparty credit risk is Reuters.
- Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available. The Bank considers relevant and observable market prices in its valuations where possible.

The table below shows the fair values of assets and liabilities measured at fair value at year-end.

	Level 2	
	<u>2012</u>	<u>2011</u>
	<u>US\$000</u>	<u>US\$000</u>
Assets		
Interest rate swap	11,187	719
Foreign exchange forward contracts	112,179	79,560
	123,366	80,279
Liabilities		
Foreign exchange forward contracts	114,165	74,740

Total gains or losses for the period are included in profit or loss as well as total gains relating financial instruments designated at fair value depending on the category of the related asset/ liability.

5. DERIVATIVE FINANCIAL INSTRUMENTS

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>2012</u>	<u>2011</u>
	<u>US\$000</u>	<u>US\$000</u>
Assets		
Interest rate swap	11,187	719
Foreign exchange forward contracts	112,179	79,560
	123,366	80,279
Liabilities		
Foreign exchange forward contracts	114,165	74,740

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.

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.

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

Interest rate derivative contracts:

	<u>2012</u>	<u>2011</u>
	<u>US\$000</u>	<u>US\$000</u>
Interest rate swap	300,000	515,465

The Bank entered into interest rate swap to hedge US\$ 300 million received from the debt securities issued on 29th July 2011 respectively with fixed interest rate. The swap exchanged fixed rate for floating rate on funding to match floating rates received on assets. In this respect of a cash flow hedge a gain of US\$ 10,728,000 arose on the hedging instruments during the year.

AFRICAN EXPORT-IMPORT BANK

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED DECEMBER 31, 2012

6. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING 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.

(a) Impairment losses on loans and advances

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.

(b) Fair value of financial instruments

The fair value of financial instruments where no active market exists or where quoted prices are not otherwise available are determined by using valuation techniques. In these cases, the fair values are estimated from observable data in respect of similar financial instruments. Where market observable inputs are not available, they are estimated based on appropriate assumptions.

7. Contingent Liabilities and Commitments AND LEASE ARRANGEMENTS

7.1. Contingent liabilities

	<u>2012</u> <u>US\$000</u>	<u>2011</u> <u>US\$000</u>
Letters of credit	142,009	42,023
Guarantees	186,900	117,573
	<u>328,909</u>	<u>159,596</u>

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>2012</u> <u>US\$000</u>	<u>2011</u> <u>US\$000</u>
Less than one year	376,710	92,749
More than one year	401,838	290,115
	<u>778,548</u>	<u>382,864</u>

7.2. Lease arrangements

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:

	<u>2012</u> <u>US\$000</u>	<u>2011</u> <u>US\$000</u>
After one year but not more than five years	<u>154</u>	<u>114</u>

8. INTEREST AND SIMILAR INCOME

	<u>2012</u> <u>US\$000</u>	<u>2011</u> <u>US\$000</u>
Loans and advances	176,843	145,814
Interest on money market investments	817	579
	<u>177,660</u>	<u>146,393</u>

Interest income accrued on impaired financial assets is US\$ 3,088,000 (2011: US\$ 566,000)

9. INTEREST AND SIMILAR EXPENSE

	<u>2012</u> <u>US\$000</u>	<u>2011</u> <u>US\$000</u>
Due to banks	47,678	38,110
Debt securities in issue	52,888	38,509
Shareholder and customer deposits	1,631	13
	<u>102,197</u>	<u>76,632</u>

Interest on debt securities above is reduced by US\$ 3,678,000 (2011: US\$ 4,508,000), which is the net of accrued interest due from interest rate derivative contracts.

AFRICAN EXPORT-IMPORT BANK

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2012

10. FEES AND COMMISSION INCOME

	<u>2012</u> <u>US\$000</u>	<u>2011</u> <u>US\$000</u>
Advisory fees	27,951	16,916
Commission on L/Cs	2,129	1,736
Guarantee fees	919	1,368
	<u>30,999</u>	<u>20,020</u>

11. FEES AND COMMISSION EXPENSE

	<u>2012</u> <u>US\$000</u>	<u>2011</u> <u>US\$000</u>
Bonds issue fees	2,041	1,462
Legal and agency fees	333	479
Other fees paid	904	598
	<u>3,278</u>	<u>2,539</u>

12. OTHER OPERATING INCOME

	<u>2012</u> <u>US\$000</u>	<u>2011</u> <u>US\$000</u>
Rental income	1,790	1,943
Other income	397	195
	<u>2,187</u>	<u>2,138</u>

13. PERSONNEL EXPENSES

Personnel expenses are made up as follows:

	<u>2012</u> <u>US\$000</u>	<u>2011</u> <u>US\$000</u>
Wages and salaries	9,386	7,416
Staff provident fund costs (note 2.11)	810	703
Other employees benefits	4,402	3,687
	<u>14,598</u>	<u>11,806</u>

14. GENERAL AND ADMINISTRATIVE EXPENSE

General and administrative expenses are made up as follows:

	<u>2012</u> <u>US\$000</u>	<u>2011</u> <u>US\$000</u>
Operational missions and statutory meetings	4,331	4,000
Professional services fees	2,204	1,544
Communications	1,723	1,261
Office rent	168	165
Other general and administrative expenses	2,399	2,132
	<u>10,825</u>	<u>9,102</u>

Professional services fees include US\$ 80,000 (2011: US\$ 74,000) 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>2012</u>	<u>2011</u>
Net income attributable to equity holders of the Bank (US\$000)	64,811	57,867
Weighted average number of ordinary shares in issue	42,334	41,747
Basic and diluted earnings per share (expressed in US\$000 per share)	<u>1.53</u>	<u>1.39</u>

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

AFRICAN EXPORT-IMPORT BANK**NOTES TO THE FINANCIAL STATEMENTS (continued)**
FOR THE YEAR ENDED DECEMBER 31, 2012**16. CASH AND DUE FROM BANKS**

	<u>2012</u>	<u>2011</u>
	<u>US\$000</u>	<u>US\$000</u>
Cash in hand	40	40
Due from banks	146,571	122,000
Money market placements	230,000	230,000
	<u>376,611</u>	<u>352,040</u>

17. LOANS AND ADVANCES TO CUSTOMERS

	<u>2012</u>	<u>2011</u>
	<u>US\$000</u>	<u>US\$000</u>
Loans and advances to customers	3,127,020	2,365,127
Less: Allowance for impairment (note 18.1)	(26,016)	(19,748)
Net loans and advances	<u>3,101,004</u>	<u>2,345,379</u>
Current	1,833,090	1,245,102
Non-current	1,267,914	1,100,277
	<u>3,101,004</u>	<u>2,345,379</u>

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>2012</u>	<u>2011</u>
	<u>US\$000</u>	<u>US\$000</u>
Balance as at 1 January	19,748	17,600
Impairment charge for the year	13,283	3,762
Loans written off during the year as uncollectible	(7,015)	(1,614)
Balance as at 31 December (note 3.10)	<u>26,016</u>	<u>19,748</u>

(b) Statement of Comprehensive Income

	<u>2012</u>	<u>2011</u>
	<u>US\$000</u>	<u>US\$000</u>
Impairment charge for the year	13,283	4,390
Repayment of impaired loans during the year	-	(628)
	<u>13,283</u>	<u>3,762</u>

18.2. Provisions

Reconciliation of provisions is as follows:

(a) Statement of Financial Position

	<u>2012</u>	<u>2011</u>
	<u>US\$000</u>	<u>US\$000</u>
Balance as at 1 January	5,940	936
Provision for the year for possible losses on accrued income	-	4,956
Provision for the year for possible losses on other assets	175	135
Provision no longer required	(4,956)	(87)
Balance at 31 December	<u>1,159</u>	<u>5,940</u>

(b) Statement of Comprehensive Income

	<u>2012</u>	<u>2011</u>
	<u>US\$000</u>	<u>US\$000</u>
Provision for the year for possible losses on accrued income	-	4,956
Provision for the year for possible losses on other assets	175	135
Provision for leave pay	55	65
	<u>230</u>	<u>5,156</u>

AFRICAN EXPORT-IMPORT BANK

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED DECEMBER 31, 2012

19. PREPAYMENTS AND ACCRUED INCOME

	<u>2012</u>	<u>2011</u>
	<u>US\$000</u>	<u>US\$000</u>
Accrued income	54,293	49,375
Other prepayments	23,864	25,225
Less: Provision for possible losses on accrued income	-	(4,956)
	78,157	69,644

20. OTHER ASSETS

	<u>2012</u>	<u>2011</u>
	<u>US\$000</u>	<u>US\$000</u>
Other receivables	2,600	2,076
Sundry debtors	3,850	5,060
Less: Provision for possible losses on other assets	(1,159)	(984)
	5,291	6,152

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).

21. PROPERTY AND EQUIPMENT

The table below analyses the details of the Bank's property and equipment:

	Land	Building	Motor vehicles	Furniture and equipment	Leasehold improvements	Total
	<u>US\$000</u>	<u>US\$000</u>	<u>US\$000</u>	<u>US\$000</u>	<u>US\$000</u>	<u>US\$000</u>
Cost as at 1 January 2011	6,221	13,666	468	2,860	1,009	24,224
Additions	-	-	-	2,820	-	2,820
Disposals	-	-	-	(1,403)	-	(1,403)
Less: Government grant	(6,187)	-	-	-	-	(6,187)
Cost as at 31 December 2011	34	13,666	468	4,277	1,009	19,454
Accumulated Depreciation						
As at 1 January 2011	-	(2,459)	(211)	(2,107)	(413)	(5,190)
Charge of the year	-	(686)	(73)	(570)	(275)	(2,027)
Disposal of furniture and equipment	-	-	-	(1,403)	-	(1,403)
Total accumulated depreciation as at 31 December 2011	-	(3,145)	(284)	(1,274)	(688)	(5,391)
Net book value as at 31 December 2011	34	10,521	184	3,003	321	14,063
Cost as at 1 January 2012	34	13,666	468	4,277	1,009	19,454
Additions	-	-	115	1,708	-	1,823
Revaluation	14,118	18,227	-	-	-	32,345
Transfer*	-	(3,831)	-	-	-	(3,831)
Cost as at 31 December 2012	14,152	28,062	583	5,985	1,009	49,791
Accumulated Depreciation						
As at 1 January 2012	-	(3,145)	(284)	(1,274)	(688)	(5,391)
Charge of the year	-	(686)	(64)	(1,002)	(275)	(2,027)
Transfer*	-	3,831	-	-	-	3,831
Total accumulated depreciation as at 31 December 2012	-	-	(348)	(2,276)	(963)	(3,587)
Net book value as at 31 December 2012	14,152	28,062	235	3,709	46	46,204

AFRICAN EXPORT-IMPORT BANK

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED DECEMBER 31, 2012

The fair value of the building and the land which reflects market conditions at the reporting date was US\$ 28,062,000 and US\$ 14,152,000 respectively. The fair value is determined using independent valuer.

The net carrying amount of the Headquarters' land and building would have been US\$ 9,835,000 and US\$ 34,000 if both classes had not been revalued. The revaluation surplus recorded from changing the accounting policy was US\$ 32,345,000 as at 31 December 2012.

Transfer relates to the accumulated depreciation as at the revaluation date that was eliminated against the gross carrying amount of the revalued asset.

22. DUE TO BANKS

	<u>2012</u>	<u>2011</u>
	<u>US\$000</u>	<u>US\$000</u>
Current	720,733	389,245
Non current	1,021,878	801,549
	<u>1,742,611</u>	<u>1,190,794</u>

There is no collateral against the above due to banks.

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. Further, on 29th July 2011, the Bank issued, under an EMTN Programme, US\$ 500 million bonds (or senior notes) payable with a fixed coupon rate of 5.75% p.a. The entire debt matures in November 2016. Fitch Ratings, Moody's and S&P assigned these bonds an investment grade rating BBB-, Baa2 and BBB- respectively. The private placement which was issued on 18th February 2011 matured on August 2012. However, the Bank reissued on 21st December 2012, under the EMTN Programme, another Euro 35 million private placement with a floating rate. The entire debt matures on 30 June 2014.

Debt securities at amortised cost:

	<u>Coupon rate (%)</u>	<u>2012</u>	<u>2011</u>
		<u>US\$000</u>	<u>US\$000</u>
Fixed rate debt securities due 2014	8.75	300,000	300,000
Fixed rate debt securities due 2016	5.75	500,000	500,000
Euro 35 million floating rate private placement note due 2014 / 2012	-	46,256	45,465
Less: Discount on bond payable		(1,901)	(2,684)
		<u>844,355</u>	<u>842,781</u>

24. DEPOSITS AND CUSTOMER ACCOUNTS

	<u>2012</u>	<u>2011</u>
	<u>US\$000</u>	<u>US\$000</u>
Shareholders' deposits for shares	7,438	7,329
Deposit accounts	37,338	17,376
Customer accounts	278,029	133,146
	<u>322,805</u>	<u>157,851</u>

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.

AFRICAN EXPORT-IMPORT BANK
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2012

25. OTHER LIABILITIES

	<u>2012</u> <u>US\$000</u>	<u>2011</u> <u>US\$000</u>
Retentions	37	37
Prepaid and unearned income	48,269	33,507
Dividends payable	10,698	8,196
Deposit from tenants	423	423
Accrued expenses	22,229	21,467
Sundry creditors	9,242	21,208
Legal fees deposits	3,528	4,453
	<u>94,426</u>	<u>89,291</u>

26. SHARE CAPITAL

The share capital of the Bank is divided into four classes of which A, B and C classes, are payable in five equal installments, of which the first two installments have been called up. Class D shares are fully paid at time of subscription. Shareholders can use their dividend entitlements to acquire more shares.

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 subregional 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) nonAfrican or foreign owned banks and financial institutions; and nonAfrican public and private investors.

Class D shares which may be issued in the name of any person.

The introduction of Class D shares and increase of authorised capital from US\$ 750 million to US\$ 5 billion was approved by shareholders at an Extraordinary General Meeting held on 8 December 2012.

	<u>2012</u> <u>US\$000</u>	<u>2011</u> <u>US\$000</u>
Authorized capital		
500,000 / 75,000 ordinary shares of US\$ 10,000 each.	<u>5,000,000</u>	<u>750,000</u>
Paid in share capital		
Paid in capital - Class A	109,349	108,087
Paid in capital - Class B	43,948	43,885
Paid in capital - Class C	17,200	17,200
	<u>170,497</u>	<u>169,172</u>

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

	<u>2012</u> <u>No. of shares</u>	<u>US\$000</u>	<u>2011</u> <u>No. of shares</u>	<u>US\$000</u>
At 1 January	42,308	169,172	41,610	166,372
Paid up from dividends during the year	153	673	377	1,508
Paid up cash during the year	163	652	321	1,292
At 31 December	42,624	170,497	42,308	169,172

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>2012</u> <u>No. of shares</u>	<u>US\$000</u>	<u>2011</u> <u>No. of shares</u>	<u>US\$000</u>
At 1 January	42,308	22,793	41,610	18,039
Paid up from dividends during the year	153	1,240	377	2,514
Paid up cash during the year	163	1,322	321	2,240
At 31 December	42,624	25,355	42,308	22,793

AFRICAN EXPORT-IMPORT BANK

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2012

28. RESERVES

	<u>General Reserves</u>	<u>Revalu- ation Reserve</u>	<u>Cashflow hedge Reserve</u>	<u>Total</u>
	<u>US\$000</u>	<u>US\$000</u>	<u>US\$000</u>	<u>US\$000</u>
Balance as at 1 January 2011	131,649	-	-	131,649
Transfer for the financial year	23,134	-	-	23,134
Balance as at 31 December 2011	154,783	-	-	154,783
Balance as at 1 January 2012	154,783	-	-	154,783
Revaluation of land	-	14,118	-	14,118
Revaluation of building	-	18,227	-	18,227
Transfer to cash flow hedge	-	-	10,728	10,728
Transfer for the financial year	25,007	-	-	25,007
Balance as at 31 December 2012	179,790	32,345	10,728	222,863

The revaluation and cash flow hedge reserves are restricted from distribution to the shareholders.

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. RETAINED EARNINGS

	<u>US\$000</u>
Balance as at 1 January 2011	140,619
Profit for the year	57,867
Transfer to general reserve	(23,134)
Dividends for 2010	(10,000)
Balance as at 31 December 2011	165,352
Balance as at 1 January 2012	165,352
Profit for the year	64,811
Transfer to general reserve	(25,007)
Dividends for 2011	(11,600)
Balance as at 31 December 2012	193,556

30. DIVIDENDS

After the reporting date, the directors proposed dividends appropriations amounting to US\$ 14,800,000 (2011: US\$ 11,600,000). The 2012 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 2013.

Dividends per share is summarised as follows:

	<u>2012</u>	<u>2011</u>
Dividends per share		
Dividends appropriations (US\$000)	14,800	11,600
Number of shares at 31 December	42,624	42,308
Dividends per share (US\$000)	0.35	0.27

AFRICAN EXPORT-IMPORT BANK

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED DECEMBER 31, 2012

31. 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:

31.1. Loans and advances to related parties

	<u>2012</u> <u>US\$000</u>	<u>2011</u> <u>US\$000</u>
Outstanding loans at 1 January	-	10,150
Loans disbursed during the year	-	-
Loan repayments during the year	-	(10,150)
Outstanding loans at 31 December	-	-
Interest income earned during the year	-	857
Fees and commission earned during the year	-	645

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

No loans to related parties were written off in 2012 and 2011.

31.2. Key management personnel compensation

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

	<u>2012</u> <u>US\$000</u>	<u>2011</u> <u>US\$000</u>
Salaries and short-term benefits	4,612	4,236
Post-employment benefits	199	187
Termination benefits	268	214
	<u>5,079</u>	<u>4,637</u>

The Bank 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 2012, outstanding balances on loans and advances to management staff amounted to US\$ 216,000 (2011: US\$246,000). Short-term benefits above include meeting allowances for Board members and staff allowances for children's education, dependency, home leave and housing.

32. SEGMENT REPORTING

The Bank is a multilateral trade finance institution 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.

33. TAXATION

According to Article XIV of the Agreement for the Establishment of African ExportImport 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.

34. EVENTS AFTER THE REPORTING DATE

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

35. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on 23 March, 2013.

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