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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.

Transmittal Letter 17 March, 2018

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 1 January, 2017 to 31 December, 2017, 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.

Dr Benedict Oramah

President and Chairman
of the Board of Directors

Board of directors

Dr. Benedict Okey Oramah
President & Chairman

Dr. George Elombi
Executive Secretary

Members of the Board of Directors

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Dr. Louis Kirangwa Kasekende

Mr. Stefan Luis Francois Nalletamby

Mr. Gamal Mohamed Abdel-Aziz Negm

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Mr. Ronald Sibongiseni Ntuli

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President and Chairman
of the Board of Directors

Mr. Denys Denya
Executive Vice-President
(Finance, Administration & Banking Services)

Dr. George Elombi
Executive Vice-President
(Governance, Legal & Corporate Services)

Mr. Amr Kamel
Executive Vice-President
(Business Development & Corporate Banking)

Ms. Kanayo Awani
Managing Director
(Intra-African Trade Initiative)

Dr. Philip O. Kamau
Senior Director (Finance)

Mr. Samuel Loum
Director (Credit Assessment)

Dr. Hippolyte Fofack
Chief Economist & Director
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Dr. Robert Ochola
Director (Strategy & Innovation)

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Director (Risk Management)

Mr. Stephen Tio Kauma
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Director (Syndications and Agency)

Mr. Rene Awambeng
Director (Client Relations)

Ms. Samallie Kiyingi
Director (Legal services)

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Director (Advisory & Capital Markets)

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Director (Operations)

Mr. Obi Emekekwue
Director (Communications)

Mr. Chandi Mwenebungu
Director (Treasury)

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Chapter One

Executive summary

Executive summary

This Annual Report for 2017 presents the operational and financial performance of the African Export-Import Bank ("Afreximbank" or "Bank"), one full year since the launch of its fifth Strategic Plan, IMPACT 2021 – Africa Transformed.

The Bank's operations and activities were carried out in line with the approved Budget and Work Programme of 2017, and the Annual Report was prepared in line with the Bank's reporting requirements and corporate best practices that were in effect during the year.

The Annual Report is organised as follows: Chapter 2 provides an update on major global and African economic and trade developments of the year that affected the business of the Bank; Chapter 3 reviews lending operations and major activities undertaken throughout the year; Chapter 4 describes the development impact of the Bank's interventions on its member states across Africa; Chapter 5 provides Management discussions and analysis of the financial year; Chapter 6 presents the audited financial statements and, finally, Chapter 7 provides investor information.

US$
7.93bn
2017 approvals up 57.35% compared with 2015

1.1 THE BANK'S OPERATING ENVIRONMENT

Global economic activity continued to firm up in 2017, with world GDP growth quickening to 3.7 percent from 3.2 percent in 2016. This mainly reflected firm recovery in domestic demand in advanced economies and in China as well as improved performance in other large developing countries. Higher levels of investment at the global level coupled with stronger international trade activity also contributed to improved global economic performance.

In Africa, GDP growth is estimated to have accelerated to 3.7 percent in 2017, up from 2.8 percent in 2016. Key factors that contributed to this rebound included strong and firm commodity prices; a faster-than-anticipated growth recovery, especially among non-resource–intensive economies; a positive reversal of economic fortunes of the continent's two largest economies – Nigeria and South Africa, and an improvement in macroeconomic fundamentals in a number of countries, underscoring Africa's resilience.

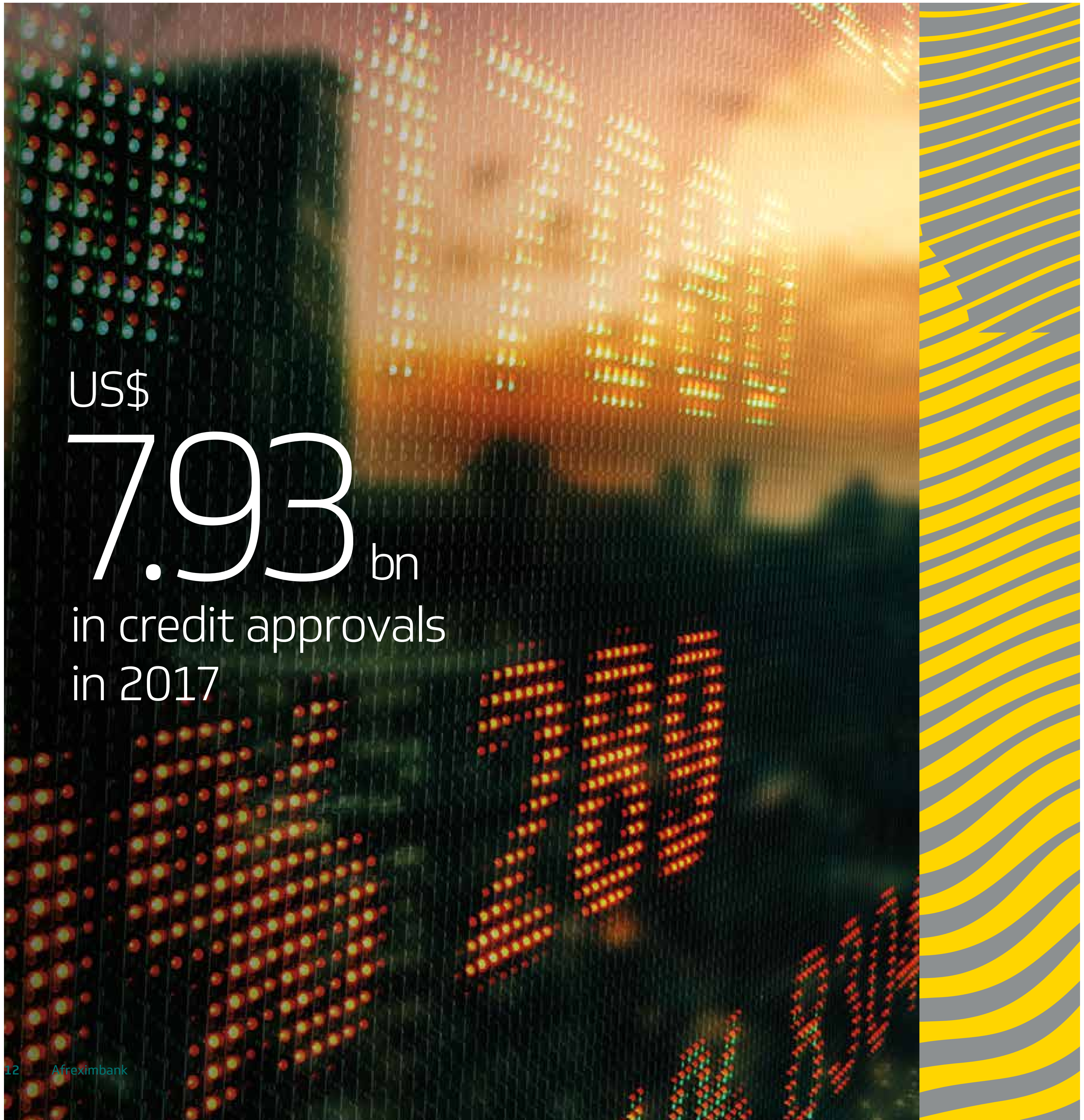
The volume of global merchandise trade is estimated to have grown by 3.6 percent in 2017, up from 1.3 percent in 2016. This significant improvement in trade growth was supported by the synchronous upturn in global output and recovering global demand. Robust growth in China and the partial recovery in oil and other commodity prices also lent support to the recovery of global trade in 2017. In Africa, total merchandise trade grew by 2.1 percent to US$833.94 billion in 2017 following an 11.9 percent contraction in 2016; the steady recovery in global prices for commodities, particularly those of export interest to Africa, were the main drivers of this impressive growth.

1.2 THE BANK'S OPERATIONS AND ACTIVITIES

The Bank's total facility approvals stood at US$7.93 billion in 2017, down by 34.08 percent relative to the US$12.03 billion recorded in 2016; nevertheless, at US$5.04 billion, approvals in 2017 were 57.35 percent higher than in 2015. The decrease in the level of facility approvals in 2017 is mainly attributed to a scale-down in the Bank's interventions under the Countercyclical Trade Liquidity Facility (COTRALF), as planned at the inception of the facility. The COTRALF, a two-year emergency intervention, was approved by the Board of Directors in 2015 to support the Bank's member states coping with the negative impact of the commodity counter-shock as well as the impact of terrorism activities on many African countries. The COTRALF was the main driver of the Bank's balance sheet in 2017, raising total assets to more than US$14 billion as at June 2017 when the COTRALF was at its peak, and gradually lowering them as the facility scaled down. Accordingly, outstanding loans decreased by 17.79 percent to US$8.48 billion at the end of 2017 as a large proportion (about US$3.2 billion) of the COTRALF was repaid in November and December.

Line of Credit, Syndications, and Direct Financing Programmes were the main lending programmes used by the Bank in 2017 to support member countries, financial institutions, and corporate entities in Africa. During the year, the Bank approved more than US$4 billion, and about US$2.31 billion and US$1.32 billion, respectively, under the Line of Credit, Syndications and Direct Financing Programmes. In terms of outstanding loans, these three programmes accounted for about 85 percent of the Bank's total loans portfolio in 2017.

Executive summary



1.2 THE BANK'S OPERATIONS AND ACTIVITIES (CONTINUED)

At the sectoral level, financial institutions, which play the role of the Bank's trade finance intermediaries, remained the largest beneficiaries of the Bank's lending operations. The funds borrowed by financial institutions were channelled to other economic sectors, thereby maximizing the Bank's reach across the continent, especially to small and medium-sized enterprises. The manufacturing sector was the second largest beneficiary in terms of approvals, reflecting the Bank's strategic priority to promote industrialisation and value-added exports in Africa. Other key sectors that benefitted from the Bank's lending activities in 2017 included energy, agriculture, services, transportation, telecommunications, and metals and mining.

During the year, the Bank continued to play a major role in leveraging international financing into Africa through its Syndications Programme. The Bank was mandated lead/co-lead arranger for 11 transactions that attracted about US$3.11 billion, of which the Bank contributed US$1.42 billion in terms of approvals.

To cope with the impressive growth of its loans and advances, the Bank's Treasury Department mobilised about US$4.8 billion during the year, of which more than US$2.1 billion was raised from African sources. Other sources of mobilised funds included, among others, bilateral lines of credit, export credit agencies, development finance institutions, and money market lines.

1.3 DEVELOPMENT IMPACT

In 2017, the Bank positively impacted trade and economic development across the continent through activities centred on the main strategic pillars of its fifth Strategic plan, namely:

- Intra-African Trade, which comprises promotion of intra-African trade in manufactures and facilitation of effective participation of African entities in the continent's extractive industries.
- Industrialisation and Export Development, which includes financing for expanding capacity to support higher levels of activity in the continent's manufacturing and agro-processing sector; promotion of export diversification through supporting service exports; and support for small and medium-sized enterprises operating in export supply chains through factoring to drive down credit costs and increase competitiveness.
- Trade-Enabling Infrastructure, which supports intra-African trade and industrialisation in Africa.
- Trade Finance Leadership, which encompasses support to member countries adversely affected by global shocks.

In keeping with its renewed commitment to transforming African trade, the Bank ended 2017 with a US$7.93 billion in credit approvals in favour of African financial institutions, manufacturing, agro-processing, electricity, oil and gas, construction, transport and communication, and services (such as hospitality).

In the context of ongoing efforts to increase the efficiency and development impact of its operations, the Bank accelerated its work in 2017 to develop a framework to consistently monitor and evaluate its projects during their implementation life cycle. Beneficiaries' performance will be gauged vis-à-vis the Bank's objectives of boosting intra-African trade, Africa-South and value-added export competitiveness, investment, employment creation, and income equality.

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Chapter Two

The Operating Environment

The Operating Environment

2.1 THE GLOBAL ECONOMIC ENVIRONMENT

2.1.1 Output Development

The economic recovery that started in mid-2016 firmed up in 2017, with global output expanding by 3.7 percent, up from 3.2 percent in 2016, on the back of robust economic growth in both developed and developing economies, especially following cyclical upswings in Europe and growth re-acceleration in China (Table 2.1 and Figure 2.1). Broad-based growth and strong economic performance reflected firmer growth in domestic demand in advanced economies and China, improved performance in other large developing market economies, and continued recovery in global investment, which—in a context of benign financing conditions and generally accommodative policies—spurred stronger manufacturing activity. Strong growth in world trade—reflected in a rising forward-looking export index, and supported by a recovery in commodity markets, pickup in investment among advanced economies, and increased manufacturing output in Asia—also contributed to the positive global growth performance in 2017.

Aided by higher-than-projected growth during the third quarter of 2017, the group of advanced economies grew by 2.2 percent in 2017, up from 1.7 percent in 2016. Notable among these economies are those of Germany, Japan, South Korea, and the United States, which grew above historical trends during the period, suggesting that weaknesses in consumption during the first half of the year turned out to be temporary.

Business investment continued to strengthen, partly reflecting a recovery in the energy sector, rising profits, and strengthening external demand.

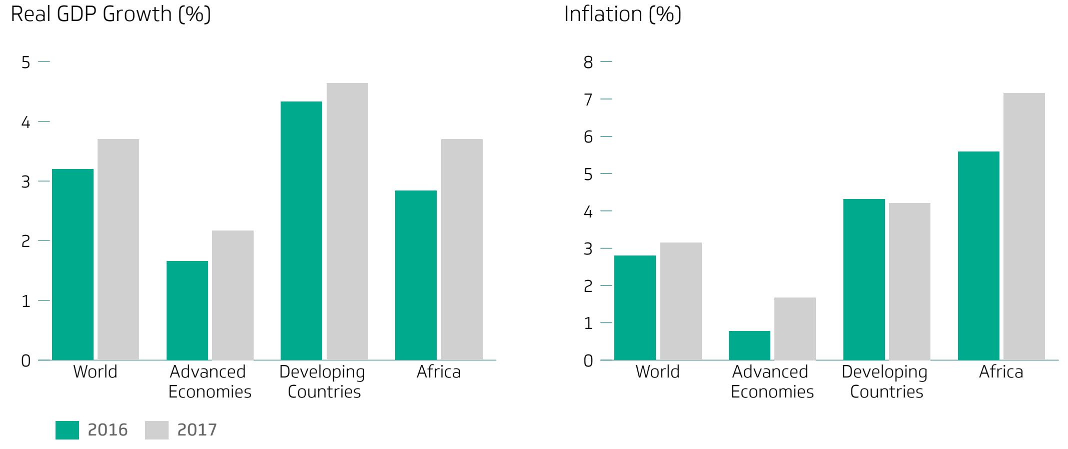
In the United States, output expanded by 2.3 percent, up from 1.6 percent in 2016. This impressive growth performance was supported by strengthening private investment and consumption in a context of rising household income and diminishing drag from capacity adjustment in the energy sector.

In the euro area, growth gained substantial momentum in 2017, with output expanding by 2.4 percent, up from 1.8 percent in 2016. The broad-based recovery across the euro area partly reflects the continued stimulative stance of the European Central Bank bond-buying programme, strengthening global demand, and stronger private consumption and investment.

In Japan, output expanded by about 1.7 percent in 2017, up from 0.9 percent in 2016, setting the country on the path of one of its strongest growth performances in decades. In addition to the resilience of the export-led growth model, the remarkable performance achieved by the country in 2017 reflects firming domestic demand, a gradual recovery in consumer spending, and robust investment supported by fiscal stimulus.

Among developing market economies, higher domestic demand in China and continued recovery in other key developed markets supported growth in the region. On the back of a rebound in the industrial sector, a resilient property market, and strong export growth, China grew by 6.9

Figure 2.1 Global output and inflation, 2016-17 (%)



Sources: 1. IMF, World Economic Outlook, 2015. 2. World Bank Global Economic Prospects, 2015. 3. EIU Country Reports, various issues

Economic recovery continued in 2017 with global output expanding by 3.7%

The Operating Environment

Table 2.1 Developments in Global Output, 2015–17

	Exchange Rate[1] (End of period)			Real GDP Growth[2] (annual percent change)			Inflation Rate[2] (annual percent change)			Interest Rate (3-month)[3] (End of period, percentage)		
	2015	2016	2017*	2015	2016	2017*	2015	2016	2017*	2015	2016	2017*
WORLD				3.40	3.20	3.70	2.79	2.80	3.15	–	–	–
ADVANCED ECONOMIES				2.23	1.66	2.17	0.27	0.77	1.68	–	–	–
US	1.00	1.00	1.00	2.86	1.49	2.18	0.12	1.28	2.11	0.23	0.64	1.15
UK	1.48	1.23	1.35	2.19	1.81	1.66	0.04	0.66	2.63	0.55	0.49	
France	1.09	1.05	1.20	1.07	1.19	1.57	0.09	0.31	1.16	(0.02)	(0.26)	(0.33)
Japan	120.50	116.80	112.90	1.11	1.03	1.51	0.79	(0.11)	0.37	0.17	0.07	0.06
Italy	1.09	1.05	1.20	0.78	0.88	1.51	0.11	(0.05)	1.41	(0.02)	(0.26)	(0.33)
Canada	1.38	1.34	1.26	0.94	1.47	3.04	1.13	1.41	1.60	0.82	0.82	1.06
Germany	1.09	1.05	1.20	1.50	1.86	2.05	0.13	0.38	1.56	(0.02)	(0.26)	(0.33)
Memo Item												
EURO Area	1.09	1.05	1.20	2.01	1.79	2.15	0.03	0.24	1.48	(0.02)	(0.26)	(0.33)
DEVELOPING COUNTRIES	4.26	4.33		4.26	4.33	4.64	4.73	4.32	4.21	–	–	–
Africa				2.89	2.84	3.70	4.65	5.59	7.15	–	–	–
Developing Asia				6.77	6.45	6.48	2.71	2.77	2.63	–	–	–
Latin America and the Caribbean				0.08	(0.90)	1.20	5.54	5.61	4.16	–	–	–
Developing Europe				4.74	3.12	4.50	3.22	3.25	5.98	–	–	–
Commonwealth of Independent States				(2.19)	0.39	2.13	15.54	8.26	5.77	–	–	–

* Estimates
Sources: 1) IMF Exchange Rate Archives (February, 2018)
2) IMF World Economic Outlook Database (October, 2017)
3) OECD Main Economic Indicators (2018)

percent in 2017. Strong private consumption and services continue to support economic activity in India, which grew by 6.7 percent in 2017. In Brazil, strong export performance and a diminished pace of contraction in domestic demand allowed the economy to return to positive growth in the first quarter of 2017 (after eight quarters of decline) to achieve an annualised growth rate of 1 percent in 2017 compared with a contraction of 3.5 percent in 2016. Mexico maintained its growth momentum despite uncertainty related to the renegotiation of the North American Free Trade Agreement and significant tightening of monetary policy over the past two years. Recovering domestic and external demand also supported growth in Russia and Turkey. Accordingly, developing countries, as a group, posted growth of 4.6 percent in 2017, up from 4.3 percent in 2016.

2.1.2 Price Developments

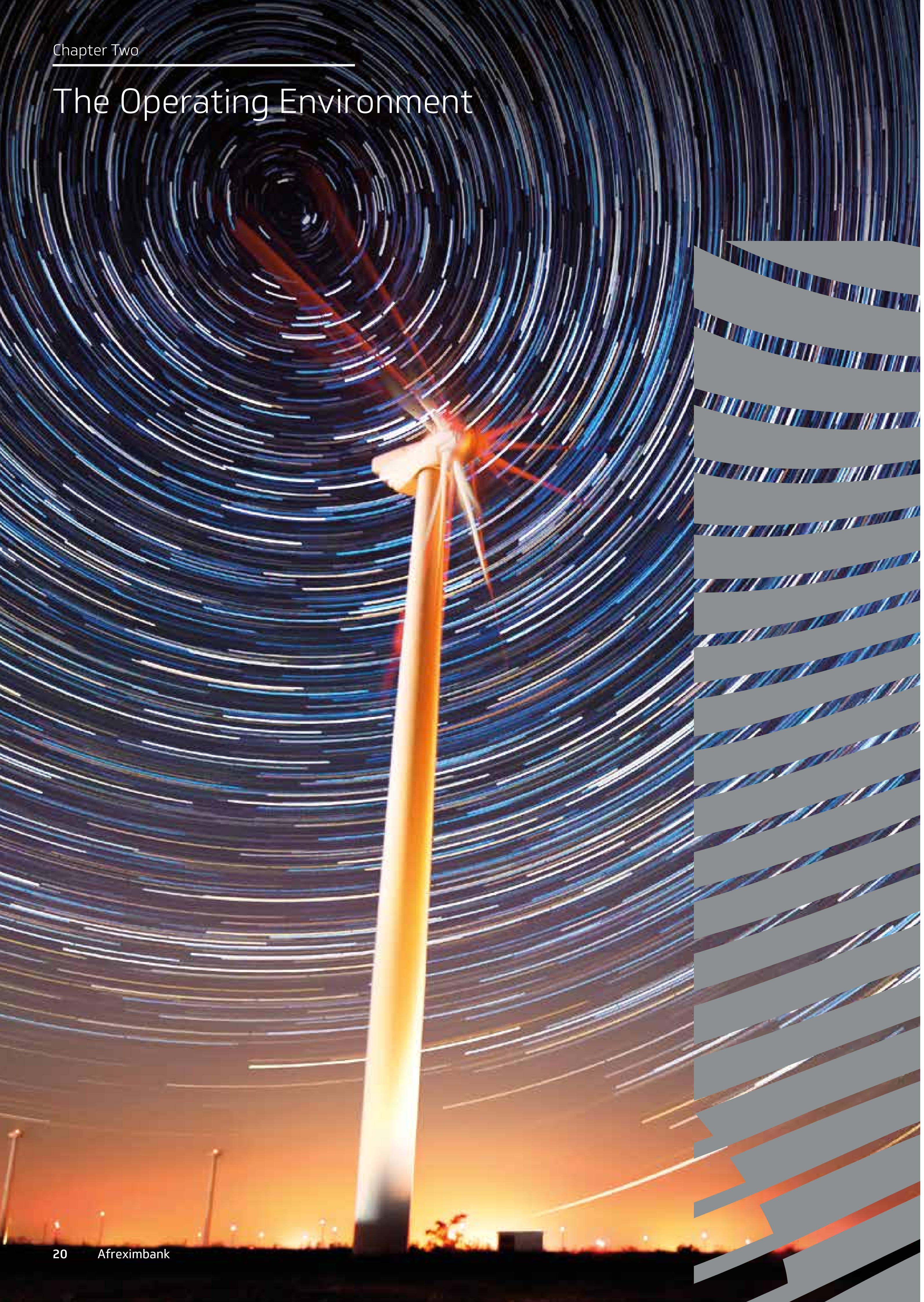
Global consumer price inflation increased to 3.2 percent in 2017, up from 2.8 percent in 2016, largely reflecting a boost from rising commodity prices, especially as the oil price recovery of 2016 firmed up in 2017 and exerted upward pressure on the global price level (Table 2.1 and Figure 2.1). Despite the increase in general price levels and an increasingly favourable economic environment with strengthening domestic demand and improving labour markets, core inflation in advanced economies remained below central bank targets. In the euro area, core inflation remained low while in Japan it remained slightly negative for six months through July. In the United States—where core inflation is higher—the annual change in the core personal consumption expenditure deflator declined and the overall consumer price level subsequently increased, though still slightly below the 2 percent target. In developing market economies, expectations of consumer price inflation during the year diminished for the second consecutive year to 4.2 percent in 2017, down from 4.3 percent in 2016.

2.1.3 Financial Markets

Financial market performance in 2017 continued to strengthen in response to significant policy support, regulatory enhancements, the dissipating impact of the earlier commodity price collapse, and synchronised broad-based growth. Concerns that plagued markets in 2016—largely arising from uncertainty regarding the United Kingdom's exit from the European Union, ongoing geopolitical tensions in some parts of the world, fears of a growth slowdown in China, and weak commodity prices—subsided and fuelled a rally in equity prices. The election of Donald Trump as US president—while ushering in a period of policy uncertainty—raised expectations of an expansionary fiscal policy under his administration and boosted asset prices. Overall, financial markets showed resilience and adjusted to risks, with most major stock indices ending the year at or very near all-time highs.

Following the late rally in the latter part of 2016, financial markets continued to prosper in 2017 as positive economic activity globally was driven by accommodative monetary policy. Despite the requirements of interest rate hikes by the US Federal Reserve, which set the Federal Funds target rate at 1.25 percent after a 75 basis points increase in 2017, central banks' policy remained largely accommodative during the review period. The European Central Bank maintained its main refinance rate at 0 percent and agreed to taper monthly bond purchases in 2018. Similarly, the Bank of Japan remained on an expansionary path, even though total assets on its balance sheet inched down by US$3.9 billion in December 2017—the first month-end to month-end decline since the quantitative and qualitative easing programme kicked off in late 2012—suggesting that tightening could be on the way.

The Operating Environment



US$
33tn
Global trade is estimated to have exceeded US$33 trillion in 2017

2.1.3 Financial Markets (continued)

The Bank of England bucked the trend by raising its policy rate from 0.25 percent to 0.5 percent—the first rate hike since 2008—in what it called a "gradual and limited" cycle to counter inflation.

Driven by the synchronised upswing in global activity and developments in the United States, global equity markets continued to rally in 2017. Supported by favourable earnings prospects, gradual normalisation of monetary policy, weak inflation, and low expected volatility, all major stock indices ended the year near their all-time highs. The Japanese stock market was among the best performers of the developed nations (in local currency terms), with the Nikkei 225 index rising to levels last seen in 1992. In the United States, the benchmark S&P 500 index finished with a return of 19.4 percent and the Dow Jones Industrial Average hit an all-time high in December 2017 (within a few points of the 25,000 level) ending the year more than 25 percent up. London's benchmark FTSE 100 index rose by more than 8.3 percent to hit an all-time high of 7,687 points. European stocks also continued to make progress helped by upbeat economic numbers, particularly in manufacturing and services growth. The Euro Stoxx 50 index rose to its highest level in more than two years, and Germany's Dax index hit a record high of 13,478 points in December 2017. Conversely, EU bond yields remained relatively flat, given continued quantitative easing bond purchases by the European Central Bank.

Developing markets were boosted by the rally in oil prices as well as a recovery in prices of base metals and iron ore. The MSCI's World Equity Index, which tracks 47 countries, ended the year 22 percent higher. Although these gains primarily reflect stock market moves in China, India, and other Asian economies, Latin American countries, including Argentina, Peru, and Brazil, also rallied significantly with the recovery of commodity prices. Developing markets' sovereign debt also enjoyed support from international bond investors as improving credit quality and high running yields made these bonds attractive relative to developed market offerings.

Political events also remained a central theme in global currency markets as major financial centres reacted to the June 2016 Brexit referendum, creeping protectionism in the United States, and ongoing geopolitical tensions. Although US interest rates are on a rising trajectory, the positive correlation with the US dollar was undermined by other factors, most notably the fiscal incidence of the US tax bill as well as improved business sentiments in the rest of the world. As a result, the dollar lost ground against all major currencies in 2017.

The dollar index, which represents a basket of currencies dominated by the euro, dropped 9.9 percent in 2017, its worst performance since 2003. After a year of excess volatility following the June 2016 Brexit referendum, the pound sterling recovered in 2017 ending the year 10 percent higher against the US dollar. The euro clawed back lost ground in 2016 ending the year 14 percent higher against the US dollar, while the Japanese yen ended the year 3.8 percent up against the dollar. Meanwhile, the Chinese yuan gained 6.3 percent against the US dollar on the back of stronger-than-expected growth in China. The South African rand ended the year 9.8 percent firmer against the US dollar partly on an improved growth outlook and political environment.

The Operating Environment

3.1% in 2017

Growth in African oil-exporting countries

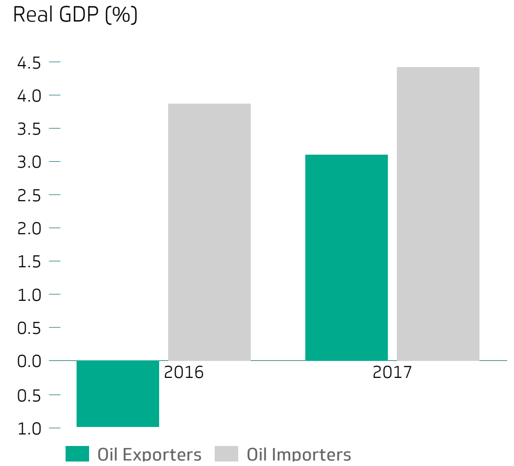
A weaker dollar, combined with attractive yields, strong growth, and further opening of bond markets, saw capital flows to developing economies strengthen in 2017. According to the Institute for International Finance, 2017 was the strongest on aggregate since 2014 as portfolio flows to developing markets reached US$235 billion.

2.1.4 Financing Conditions

Financing conditions remained largely accommodative in 2017 as policymakers continued attempts to stoke growth and steer inflation towards prescribed targets. Despite three interest rate hikes by the Federal Reserve, US Treasury yields ended the year slightly lower as the absence of inflation kept a lid on bond yields. In the UK bond market, yields on the 10-year gilt also ended the year marginally lower despite the Bank of England raising interest rates. Financing conditions in China saw some tightening as the country tries to contain and reduce systemic threats to its financial system, with the central bank keeping liquidity tight as it seeks to flush out speculative financing and force local governments to keep their debt levels under control.

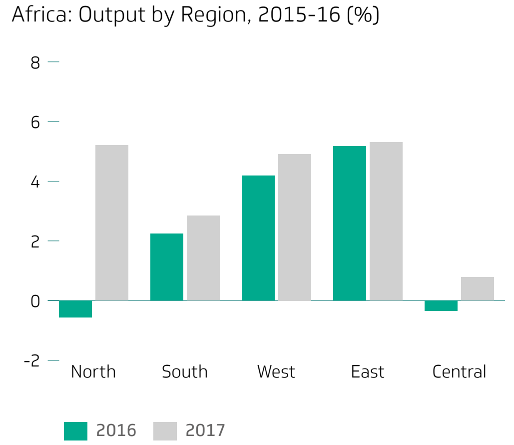
Notwithstanding the generally favourable global environment, financing conditions in Africa remained tight, with limited liquidity occasioned by the lingering effect of the end of the commodity super-cycle and the withdrawal of a large number of international financial institutions from the African market in response to an increasingly stringent regulatory environment and implementation of sanctions. Challenges surrounding letters of credit confirmation resulting from the large-scale withdrawal of major banks, among others, meant that access to funds by African entities remained difficult or was at a higher premium relative to overall global financing conditions.

Figure 2.2 Average GDP Growth of African Net Oil Exporters and Importers, 2016-17 (%)



Source: International Monetary Fund, World Economic Outlook database. *Revised; **Estimates.
Note: n/a = not available.

Figure 2.3 Africa: Output by Region, 2016-17 (%)



Source: 1. IMF (2017), World Economic Outlook
2. EIU: Various Reports

Box 2.1: Rising Global Interest Rates and Lending Spreads: Implications for Africa

The bout of interest rate hikes that started in December 2015 and accelerated in 2017 with the US Federal Reserve lifting interest rates three times, has continued in 2018 with a 25 basis points (bps) increase by the Federal Reserve in March. Median market forecasts point to another 75bps increase in 2018, which could put the Federal Funds rate at 2.5 percent by the end of 2018. This normalisation in US interest rates follows a period of accommodative monetary policy adopted in the aftermath of the 2008–09 global financial crisis to boost economic growth.

Why Has the London Inter-Bank Offered Rate Risen Sharply?

The global cyclical upswing that began midway through 2016 and was sustained in 2017 has raised the spectre of inflationary pressures and incentivised central banks in leading economies to transition out of easy monetary conditions. In the United States, tightening monetary policy has been accompanied by expansionary fiscal policy. In early 2018, the US president signed a budget deal increasing federal discretionary spending, following the US$1 trillion tax bill approved in December 2017. These measures are expected to widen the fiscal deficit and increase public sector borrowing. A January 2018 US Treasury Borrowing Advisory Committee report estimates that the Treasury will need to borrow, on net, US$955 billion in the fiscal year that ends in September 2018, up from around US$519 billion in fiscal year 2017. At the same time, the Federal Reserve is shrinking the size of its balance sheet—offloading its bond purchases—after acquiring trillions of dollars in debt. These factors are combining to increase the supply of bonds going into the US market at a time when the strengthening US and global economy, coupled with expectations of inflation, have set the Federal Reserve on a path of monetary policy tightening.

The increased issuance of Treasury bills has lifted Treasury bill yields above comparable-maturity overnight indexed swaps rates for the first time in almost a decade. Moreover, capital outflows from many developing markets on account of increasingly attractive US assets, and the expected repatriation of corporate cash after the US administration's tax reform, have reduced the supply of dollars for short-term lending in the eurodollar market. And, with the supply of T-bills crowding out corporate bonds, the resulting higher rates are feeding into the London Inter-Bank Offered Rate (LIBOR), which has risen to its highest level since November 2008 (see Figure B.2.1.1).

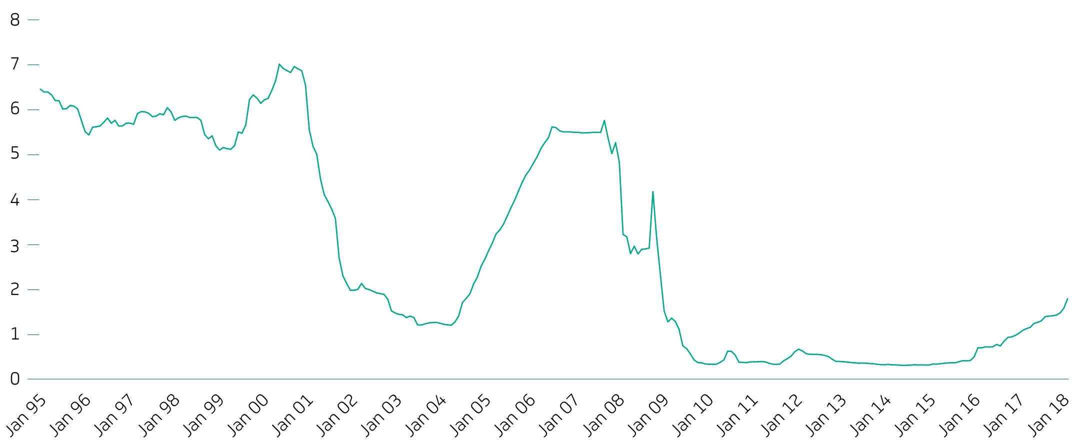
With about US$350–370 trillion of financial products and loans linked to LIBOR globally, the impact of rising interest rates will be felt by African sovereigns as well as corporate and institutional entities whose liabilities (or assets) are linked to the dollar-based benchmark. In the bond market, a rising LIBOR is likely to raise the cost of borrowing for issuers, particularly given higher yields on US Treasuries, and will necessitate attractive coupon payments to lure leveraged investors. Debt service costs for African bond issuers who may not have locked in LIBOR-referenced borrowing costs is also likely to rise.

Implications of Rising Global Interest Rates for African Sovereign and Corporate Entities

Aside from a rising cost of capital, African entities are also likely to be impacted by the rise in global interest rates through other channels, including trade, growth, and capital flight. In a region where high borrowing costs have generally been singled out as a major constraint to investment and growth, tightening monetary policy could further exacerbate macroeconomic challenges. While increasingly more attractive US assets will amplify capital outflows from developing countries with a peg to the US dollar will be particularly vulnerable to capital flight.

In view of the macroeconomic and trade finance-related challenges posed by rising global interest rates, it has become even more pressing for the continent to scale up measures to stem the negative impact of tighter dollar liquidity on trade and growth. In that regard, progress on fiscal reform in some countries—including broadening the tax base and combating illicit financial flows—as a way of mobilising domestic resources, will be supportive of long-term investment and growth. Current initiatives being pursued by the Afreximbank—including the Central Bank Deposit Programme, which is designed to mobilise part of the foreign exchange reserves of African central banks to fund trade and projects in Africa while providing favourable returns—could become even more relevant. Moreover, by arranging or co-arranging syndications and club deals and providing advisory services, Afreximbank is encouraging the flow of appropriately priced loans and foreign direct investment into the continent. In addition, continued leveraging of excess liquidity in domestic currency markets to finance large-scale infrastructure projects on the part of African sovereigns, multilateral financial institutions, and corporations, will mitigate currency risks and contribute to overall efforts to improve the region's resilience to external shocks.

Figure B.2.1.1 US 3month Libor



Sources: Bloomberg

The Operating Environment

2.1.5 Developments in Trade and the Trade Environment

According to the World Trade Organization's most recent estimates, the volume of global merchandise trade grew by 3.6 percent in 2017, up from 1.3 percent in 2016. Trade in current US dollar terms is also estimated to have exceeded US$33 trillion in 2017, largely supported by the synchronous upturn in global output and recovering global demand. Robust growth in China and the partial recovery in prices for oil and other commodities also lent support to the recovery.

In North America, the volume of merchandise imports grew by 4.1 percent, up from 0.4 percent in 2016, and merchandise exports grew by 4.2 percent, up from 0.5 percent in 2016. Asia remained the fastest-growing region in 2017, with both merchandise imports and exports increasing, respectively, by 5.8 percent in 2017 (up from 2 percent in 2016) and 6.4 percent in 2017 (up from the 1.8 percent in 2016). The growth in merchandise trade is largely attributable to stronger-than-expected economic growth and strong trade flows in China. The value of China's merchandise imports increased to US$1.84 trillion in 2017, up from US$1.59 trillion in 2016, and merchandise exports reached US$2.3 trillion, up from US$2.1 trillion in 2016.

In South and Central America, trade growth remained relatively flat in 2017 despite the partial recovery in prices for oil and other primary commodities. The region's merchandise imports recovered, recording growth of 1.1 percent in 2017 compared with a 8.7 percent decline in 2016 as Brazil came out of recession. Merchandise exports grew by 0.5 percent in 2017 compared with 2 percent to 2016. The rebound in Europe's trade continued in 2017, supported by a stronger export performance. European merchandise exports recorded growth of 2.5 percent in 2017, up from 1.4 percent in 2016, and merchandise imports grew by 2.4 percent in 2017, down from 3.1 percent in 2016.

The synchronised upturn in the global economy meant that both developed and developing economies contributed to the recovery in global trade in 2017, with developing countries continuing to drive growth in global trade. Merchandise exports of developing economies as a group rose by 4.7 percent in 2017, up from 1.3 percent in 2016, while merchandise imports grew by 5.1 percent in 2017 compared with 0.2 percent in 2016. Merchandise exports of developed economies grew by 3 percent in 2017, up from 1.4 percent in 2016, while merchandise imports grew by 3 percent in 2017 compared to 2 percent in 2016.

2.2 THE AFRICAN ECONOMIC ENVIRONMENT

2.2.1 Output Development

Consistent with global output developments, the rate of real output growth in Africa is estimated to have increased to 3.7 percent in 2017 compared with 2.8 percent in 2016 (Table 2.1 and Figure 2.2). The continent's growth rebounded during the second half of 2016 and strengthened further in 2017, spurred by a number of factors, including strengthening commodity prices; faster growth recovery, especially among non-resource–intensive economies; a positive reversal of the economic fortunes of the continent's two largest economies (Nigeria and South Africa); and improved macroeconomic fundamentals in a number of countries, underscoring Africa's resilience. Further contributing to Africa's growth performance during the review period was the impact of a recourse to policies aimed at ensuring effective adjustment to low commodity prices and restructuring away from overdependence on natural resources and commodities towards value addition and export diversification.

2.2.1.1 Regional Variations

For the first time in more than three years, growth rebounded across the major oil-exporting countries on the continent, registering estimated growth of 3.1 percent in 2017, a significant increase from the contraction of about 1 percent posted in 2016 (Figure 2.3). The growth rebound was largely driven by a reversal in oil prices caused by increased global demand and strong growth in China after two consecutive years of gradual deceleration. The output performance of the group of major oil-exporting countries was also influenced by a rebound of the Nigerian economy from a contraction of 0.75 percent to an estimated 1 percent 2017—on the back of a recovery in the oil sector, solid performance in the agriculture sector, and increasing investment—and by strong growth performance in Libya after several years of contraction. Net oil-importing countries' economies recorded an estimated 4.4 percent increase in real GDP growth in 2017, up from 3.9 percent in 2016.

Partly reflecting strong recovery in Libya— with output expansion estimated at 55 percent—the rate of real GDP growth for North African countries as a group rose by an estimated 5.2 percent in 2017, the second-fastest growing sub-region during the period. This growth was also underpinned by a turnaround in the fiscal revenue positions of a number of countries, including Libya and Algeria, on the back of a strong resurgence in commodity

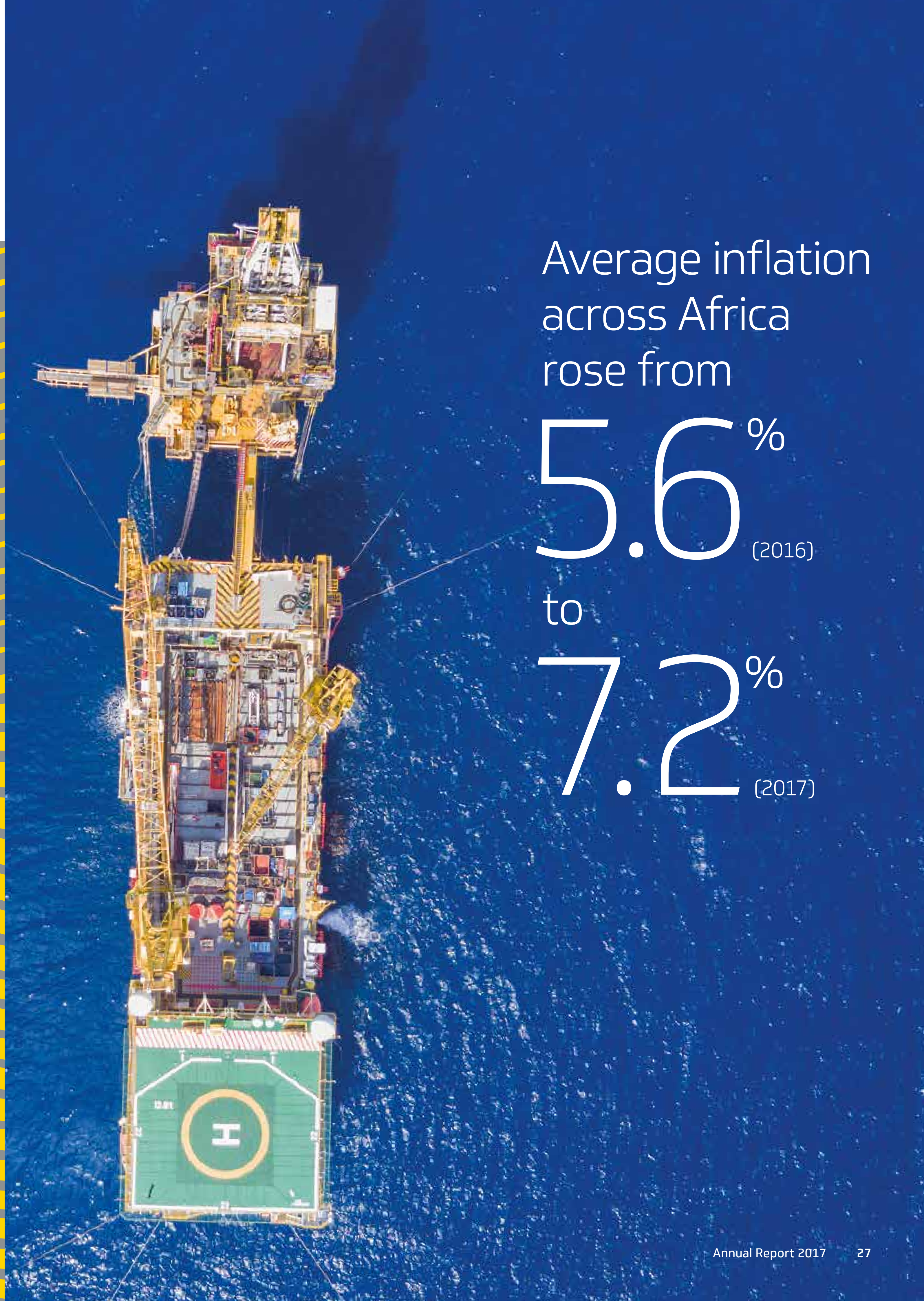


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Table 2.2 Africa: Real GDP Growth, 2015-17 (annual percent change)

Country Name	2015	2016	2017
Algeria	3.70	3.30	1.46
Angola	3.01	-0.67	1.48
Benin	2.10	4.03	5.40
Botswana	-1.70	4.29	4.48
Burkina Faso	4.03	5.87	6.38
Burundi	-3.96	-1.04	0.00
Cameroon	5.77	4.67	3.97
Cape Verde	1.01	3.82	3.99
Central African Republic	4.80	4.53	4.75
Chad	1.77	-6.43	0.60
Comoros	1.03	2.16	3.30
Congo, Dem. Rep. of	6.92	2.40	2.78
Congo, Rep. of	2.62	-2.81	-3.63
Cote d'Ivoire	8.94	7.71	7.63
Djibouti	6.50	6.50	7.00
Egypt	4.37	4.30	4.10
Equatorial Guinea	-9.13	-9.69	-7.39
Eritrea	4.78	3.67	3.26
Ethiopia	10.41	7.96	8.46
Gabon	3.88	2.08	0.96
Gambia	4.30	2.22	3.00
Ghana	3.84	3.47	5.89
Guinea	3.51	6.63	6.66
Guinea-Bissau	5.11	5.09	5.00
Kenya	5.71	5.85	5.02
Lesotho	2.53	2.36	4.64
Liberia	0.02	-1.64	2.57
Libya	-10.29	-2.98	55.09
Madagascar	3.12	4.18	4.34
Malawi	2.95	2.27	4.50
Mali	5.96	5.79	5.30
Mauritania	0.92	1.74	3.76
Mauritius	3.50	3.90	3.90
Morocco	4.55	1.22	4.82
Mozambique	6.59	3.85	4.75
Namibia	5.99	1.08	0.79
Niger	3.96	5.03	4.20
Nigeria	2.65	-1.62	1.00
Rwanda	8.87	5.93	6.16
Sao Tome and Principe	3.96	4.10	5.00
Senegal	6.46	6.74	6.80
Seychelles	4.98	4.48	4.06
Sierra Leone	-20.49	6.07	6.03
Somalia	3.60	3.20	2.42
South Africa	1.30	0.28	0.70
South Sudan	-0.17	-13.83	-6.26
Sudan	4.88	3.05	3.75
Swaziland	1.10	-0.01	0.25
Tanzania	6.95	6.95	6.50
Togo	5.30	5.00	5.00
Tunisia	1.10	1.00	2.33
Uganda	5.67	2.32	4.44
Zambia	2.92	3.42	3.98
Zimbabwe	1.42	0.65	2.81

Sources: IMF (2017) World Economic Outlook Database (October)

Table 2.3. Africa: Inflation, 2015-17 (annual percent change)

Country Name	2015	2016	2017
Algeria	4.78	6.40	5.50
Angola	10.29	32.38	30.92
Benin	0.27	-0.81	2.01
Botswana	3.05	2.81	3.70
Burkina Faso	0.91	-0.19	1.50
Burundi	5.55	5.53	17.96
Cameroon	2.70	0.87	0.67
Cape Verde	0.13	-1.41	0.95
Central African Republic	4.50	4.62	3.77
Chad	6.76	-1.12	0.21
Comoros	2.00	1.80	2.00
Congo, Dem. Rep. of	0.96	18.20	41.67
Congo, Rep. of	2.74	3.58	-0.45
Cote d'Ivoire	1.24	0.72	1.00
Djibouti	2.10	2.70	3.00
Egypt	10.99	10.20	23.54
Equatorial Guinea	1.70	1.40	1.66
Eritrea	9.00	9.00	9.00
Ethiopia	10.12	7.26	8.05
Gabon	-0.14	2.09	2.50
Gambia	6.81	7.23	8.29
Ghana	17.15	17.46	11.80
Guinea	8.15	8.17	8.50
Guinea-Bissau	1.48	1.50	2.80
Kenya	6.58	6.32	7.95
Lesotho	4.30	6.36	6.60
Liberia	7.74	8.84	12.76
Libya	9.84	27.11	32.80
Madagascar	7.40	6.66	7.80
Malawi	21.86	21.73	12.97
Mali	1.44	-1.80	0.18
Mauritania	0.49	1.47	2.08
Mauritius	1.29	0.98	4.23
Morocco	1.55	1.60	0.90
Mozambique	2.39	19.24	17.48
Namibia	3.40	6.73	6.00
Niger	1.01	0.30	1.00
Nigeria	9.01	15.70	16.31
Rwanda	2.51	5.72	7.10
Sao Tome and Principe	5.26	5.43	4.46
Senegal	0.13	0.85	2.07
Seychelles	4.04	-1.01	2.82
Sierra Leone	8.97	11.54	16.92
Somalia	3.60	3.20	2.42
South Africa	1.30	0.28	0.70
South Sudan	-0.17	-13.83	-6.26
Sudan	4.88	3.05	3.75
Swaziland	1.10	-0.01	0.25
Tanzania	6.95	6.95	6.50
Togo	5.30	5.00	5.00
Tunisia	1.10	1.00	2.33
Uganda	5.67	2.32	4.44
Zambia	2.92	3.42	3.98
Zimbabwe	1.42	0.65	2.81

Sources: IMF (2017) World Economic Outlook Database (October)

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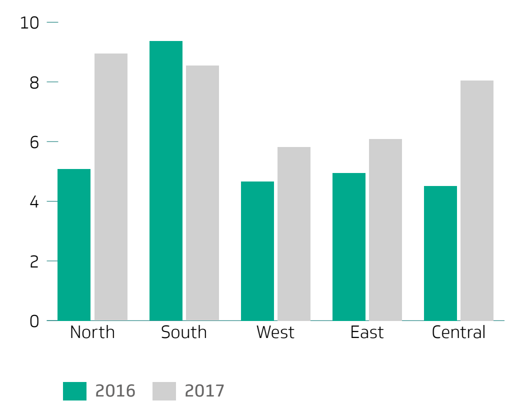
Figure 2.4 Africa: Inflation by Region, 2016-17 (%)



Source: 1. IMF (2017), World Economic Outlook
2. EIU: Various Reports

2.2.1.1 Regional Variations (continued)

prices and a gradual pickup in tourism receipts, especially in Egypt and Tunisia, as a result of improved security conditions, macroeconomic fundamentals, and business confidence.

Economies in Southern Africa also experienced growth acceleration—an estimated 2.8 percent in 2017, up from about 2.2 percent in 2016. This acceleration was largely driven by the sub-region's three main commodity exporters: South Africa, which more than doubled its growth from 0.3 percent to 0.7 percent; Angola, where output expanded by 1.5 percent in 2017 from a contraction of 0.7 percent in 2016; and Zambia, which grew by an estimated 4.1 percent. The improvement also reflects strong growth in the agriculture sector in South Africa (on account of increased rainfall), ongoing reforms, and an improving investment climate in Angola following a successful political transition.

West African economies witnessed an increase in the rate of growth of output, from 4.2 percent in 2016 to an estimated 4.9 percent in 2017, driven by a pickup in oil prices and oil export revenues (supported by increased oil production), and by output growth in the agriculture sector in Nigeria—the region's largest economy. Other large countries contributed to output expansion in the region, including Côte d'Ivoire (7.6 percent), Ghana (5.9 percent), and Senegal (6.8 percent), as did smaller countries, including Benin (5.4 percent), Burkina Faso (6.3 percent), Sierra Leone (6 percent), and Togo (5 percent).

East Africa remained the fastest-growing sub-region, posting estimated growth of 5.3 percent in 2017, up from 5.1 percent in 2016. Growth in the sub-region was robust and broad-based, with many countries— Djibouti, Ethiopia, Kenya, Rwanda, Tanzania, and Uganda—growing at an estimated 5 percent or more, driven by increased private consumption and strong construction activity; increased public investment in infrastructure, mainly in Djibouti and Ethiopia; and easing political tensions in Burundi. Growth in the sub-region was also impacted by a continued expansion of services, including information and communications technology in a number of countries as well as increased manufacturing activity, which boosted the share of industry, particularly in Ethiopia, Kenya, Rwanda, and Tanzania.

Central Africa recovered from an output contraction of 0.34 percent in 2016 to register growth of 0.78 percent in 2017. The modest growth performance achieved by the sub-region in the context of the oil price recovery was underscored by sharp output contraction in the Republic of Congo (3.6 percent) and Equatorial Guinea (7.4 percent). Other factors that contributed to this underperformance include deteriorating macroeconomic conditions, stoked largely by the drop in oil revenues in a sub-region that is heavily dependent on oil production; and lingering security concerns and socio-political tensions in the Democratic Republic of Congo and the Central African Republic.

2.2.1.2 Price Developments

The average rate of inflation across the continent rose from 5.6 percent in 2016 to an estimated 7.2 percent in 2017 (Table 2.2 and Figure 2.4), above the rate for comparator regions and the world. Inflationary pressures were fuelled in part by exchange rate depreciation and widening fiscal deficits, stoked by the lingering effect of the commodity price shock, though inflation in CFA franc countries was generally lower than the average for Africa as a result of the currency peg to the euro, which remains the anchor of the monetary union. While the continent posted an increase in inflation in 2017, there was wide variation across countries. As shown in Table 2.3, inflation remained high in a number of leading economies, including the Democratic Republic of Congo (41.7 percent), Angola (30.9 percent), Egypt (23.5 percent), Nigeria (16.3 percent), and Ghana (11.8 percent).

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Inflation increased in Northern Africa to an estimated 8.9 percent in 2017, up from 5.1 percent in 2016, partly on the back of high inflationary pressures in Libya (32.8 percent) and Egypt (23.5 percent), coupled with a continued reduction in subsidies and rising domestic demand in parts of the sub-region. Inflationary pressures eased in Southern Africa, falling from 9.4 percent in 2016 to 8.5 percent in 2017. The price level within the region was influenced by a general price reduction in Angola (from 33.7 percent to 30.9 percent) and Mozambique (19.2 percent to 17.5 percent). The average rate of inflation in West Africa increased to 5.8 percent in 2017, up from about 4.7 percent in 2017, mainly driven by inflationary pressures in Nigeria (16.3 percent) and Ghana (11.8 percent).

The average rate of inflation in East Africa increased to an estimated 6.1 percent, up from 5 percent in 2016, as a result of a rise in food prices, especially in Kenya—the sub-region's largest economy, where the effects of drought adversely impacted maize harvests, causing chronic shortages of the staple in the context of increasing demand. The average rate of inflation in Central Africa increased to an estimated 8.1 percent in 2017, up from 4.5 percent in 2016.

2.2.2 External Reserves and Exchange Rates

The recovery in commodity prices—oil prices in particular—and consequent increase in export receipts helped reverse the 2015–16 downward trajectory of Africa's overall reserve position. The level of Africa's reserve holdings, which had contracted by 7.5 percent to US$ 391.91 billion in 2016, rebound by 6.1 percent to US$ 415.97 billion in 2017 (Table 2.4), largely on account of the fact that more than 45 percent of Africa's export earnings derive from oil revenues.

More specifically, with the help of rising oil prices and production, the region's major oil-exporting countries saw an increase in the level of their foreign exchange reserves, for example, by about 60.5 percent in Equatorial Guinea, 32.6 percent in Nigeria, 13.2 percent in Libya, and 5.7 percent in Gabon.

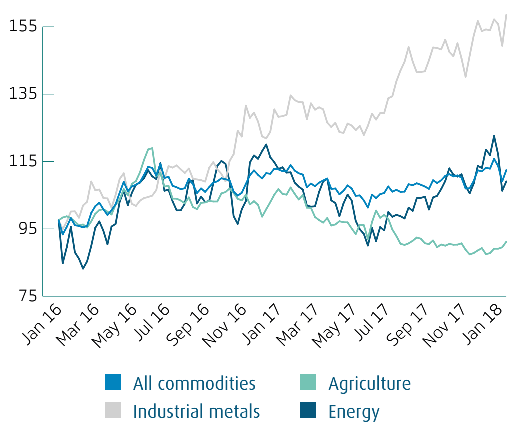
The reversal in the trajectory of Africa's level of foreign exchange reserves was also partly driven by rising capital flows into the region, supported by improving governance and a healthier investment climate, which helped reduce risk perception and attract foreign investors. These developments also helped step up tourist arrivals, which further boosted the reserve position of major tourist-dependent economies in the region. Given the gradual recovery in external reserves, the region's average import coverage rose slightly to 7.2 months in 2017 from 6.6 months in 2016 and remained well above the International Monetary Fund's recommended external reserves threshold of three months of imports cover.

The relative improvement in export receipts led to a remarkable turnaround in the performance of many African national currencies in 2017, with many of them appreciating against the US dollar The best-performing African currencies were generally those pertaining to members of monetary unions. For instance, the CFA franc, the common currency of fifteen mainly francophone countries, which is pegged to the euro, appreciated by about 12.3 percent against the US dollar in 2017 as economic recovery in the euro area continued to gather steam. Similarly, the common monetary area in southern Africa—comprising Lesotho, Namibia, South Africa, and Swaziland—saw its currency appreciate by about 9.9 percent in 2017 against the US dollar on account of increasing business confidence grounded on strong prospects for political transition in South Africa supported by low inflationary pressure and narrowing fiscal deficits in the country.

Other currencies that performed well in 2017 included those of Mozambique, Morocco, Mauritius, and Zambia. The Mozambican metical appreciated by 10.7 percent against the US dollar in 2017, the Moroccan dirham by 8.1 percent, the Mauritian rupee by 6.6 percent, and the Zambian kwacha by 4.3 percent.

Figure 2.5 Trends in Africa's Merchandise Trade, 2016-17

Billions of US dollars



Sources: Bloomberg, Afreximbank Research Developments in African Trade.

Table 2.4. Reserve Position of African Countries, 2015-17 (in US$ billions unless otherwise indicated)

	Total Reserves (Excluding Gold)			Growth Rate (Percent)[1]			Months of Import Cover by Reserves		
Country Name	2015*	2016	2017	2015*	2016	2017	2015*	2016	2017
Algeria	144.68	114.39	97.20	-19.45	-20.94	-15.03	32.43	29.38	23.12
Angola**	23.79	23.74	13.93	-15.43	-0.20	-41.33	14.35	12.06	8.58
Benin	0.67	0.58	0.40	-11.84	-13.43	-31.90	1.04	2.65	1.76
Botswana**	7.55	7.19	7.62	-9.25	-4.78	6.00	16.87	14.00	15.22
Burkina Faso	0.66	0.05	0.00	-19.51	-92.29	-98.23	2.77	0.18	0.00
Burundi	0.14	0.09	0.10	-56.25	-32.82	10.26	2.50	1.80	2.24
Cameroun**	3.50	2.23	2.70	9.37	-36.41	21.31	5.78	8.74	6.63
Cape Varde**	0.49	0.57	0.63	-3.92	16.89	9.26	6.66	1.40	9.06
Central Africa Republic**	0.21	0.24	0.26	-19.23	14.19	9.01	3.09	7.17	8.13
Chad**	0.37	0.01	0.01	-65.74	-97.79	-38.91	4.56	2.15	0.03
Comoros**	0.20	0.16	0.18	17.65	-20.63	12.50	8.73	10.66	10.30
Congo Dem. Rep. of	1.22	0.71	0.49	-21.79	-41.95	-31.09	1.94	1.65	0.54
Congo Republic**	2.22	0.71	0.65	-54.97	-67.82	-9.43	5.18	2.49	2.12
Cote d'Ivoire	0.34	4.94	5.18	-15.00	1351.47	4.98	0.34	7.07	7.29
Djibouti**	0.36	0.41	0.50	-7.69	13.17	23.36	0.83	3.17	8.00
Egypt**	13.23	20.86	37.55	10.25	57.66	80.01	2.23	4.41	7.66
Equatorial Guinea**	1.21	0.06	0.10	-58.42	-94.85	60.49	7.35	0.59	0.41
Eritrea**	0.20	0.21	0.23	-4.76	4.10	9.65	2.09	5.89	2.42
Ethiopia**	3.73	3.02	3.34	35.14	-18.99	10.60	2.42	1.82	2.55
Gabon**	1.87	0.79	0.84	-24.60	-57.79	5.78	5.67	3.93	3.58
Gambia**	0.10	0.09	0.09	-37.50	-12.36	4.98	1.12	2.73	3.45
Ghana**	5.89	5.54	7.35	7.09	-5.86	32.52	3.95	5.84	7.23
Guinea, The	0.25	0.37	0.34	-13.79	49.09	-8.67	0.43	2.00	0.82
Guinea, Bissau	0.18	0.35	0.36	-5.26	94.11	2.00	6.52	16.47	15.27
Kenya**	7.55	7.60	8.06	-4.55	0.66	6.02	4.15	6.38	6.32
Lesotho**	0.90	0.93	0.81	-15.89	2.80	-12.73	5.57	9.20	5.57
Liberia**	0.52	0.53	0.42	4.00	1.67	-19.65	0.65	0.60	4.39
Libya**	73.67	65.89	74.62	-17.31	-10.55	13.24	62.06	72.60	78.89
Madagascar	0.83	1.18	1.11	6.41	42.61	-6.18	2.57	4.76	4.78
Malawi**	0.69	0.65	0.59	15.00	-6.52	-8.68	5.04	3.73	3.09
Mali	0.11	0.40	0.64	-8.33	259.73	61.94	0.31	1.23	1.94
Mauritania**	0.54	0.84	0.78	-12.90	54.68	-6.14	1.88	4.61	4.40
Mauritius	3.96	4.50	5.98	9.70	13.74	32.85	10.02	11.61	15.51
Morocco	22.25	24.54	25.35	13.12	10.30	3.31	6.83	7.06	7.80
Mozambique	2.41	2.02	2.31	-19.67	-16.08	14.27	2.57	4.43	5.74
Namibia**	1.69	1.83	2.15	43.22	8.50	17.14	2.37	3.27	4.05
Niger	0.79	1.19	1.25	-17.71	50.13	5.31	5.08	7.63	8.15
Nigeria	30.61	29.24	38.77	-16.53	-4.47	32.57	6.30	11.07	14.01
Rwanda**	1.03	1.10	0.99	-3.74	7.17	-10.29	7.80	7.38	6.09
Sao Tome and Principe**	0.73	0.06	0.06	15.87	-91.34	-0.95	81.36	5.41	6.26
Senegal	0.15	1.55	1.80	-21.05	936.00	16.02	0.34	3.40	4.15
Seychelles	0.54	0.52	0.55	14.89	-3.05	5.60	4.59	3.81	6.14
Sierra Leone**	0.62	0.50	0.50	3.33	-19.80	0.55	5.57	6.20	4.05
Somalia								0.00	
South Africa**	41.62	42.57	50.71	-5.90	2.27	19.13	5.07	6.43	7.46
South Sudan	0.23	0.07	0.51	-45.24	-70.37	640.91	—	3.55	
Sudan**	0.17	0.17	0.51	-5.56	-1.18	200.60	0.18	0.36	0.70
Swaziland**	0.55	0.56	0.54	-20.29	2.60	-4.66	4.93	1.92	4.97
Tanzania**	4.01	4.33	5.24	-8.66	7.88	21.20	3.51	6.56	7.34
Togo	0.74	0.17	0.22	-17.78	-77.03	27.65	0.86	1.19	1.14
Tunisia	7.33	5.89	5.60	1.24	-19.68	-4.93	3.87	3.72	3.50
Uganda**	2.91	3.03	3.46	-12.35	4.26	14.01	7.51	7.54	8.37
Zambia	2.97	2.35	1.98	-3.57	-20.78	-15.97	4.21	3.74	3.16
Zimbabwe**	0.42	0.41	0.44	16.67	-3.16	7.93	1.01	1.11	0.93
Total	**423.60**	**391.93**	415.97	**-13.64**	**-7.48**	6.13	**385.09**	**358.73**	375.33
Average	**7.99**	**7.39**	7.85	**-9.41**	**38.54**		**7.41**	**6.64**	7.22

† Growth rates are Afreximbank Staff calculations. *Revised. **Estimates for 2016 based on latest avaibale data
— Not available. Sources: IMF, IFS Database. EIU Country Reports, various issues. IMF IFS Database

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Among the worst-performing African currencies was the franc of the Democratic Republic of Congo, which depreciated by 41.9 percent against the US dollar in 2017 as a result of a widening current account deficit, heightened political tensions, and inflationary pressures. In addition, the Sierra Leone leone depreciated by 35.1 percent, the Liberian dollar by 24.1 percent, and the Gambian dalasi by 11.7 percent during the year.

2.2.3 Commodity Price Developments

2017 was a year of two halves in commodity markets, with prices sloping lower during the first half of the year before recouping their losses during the second half. Although at the end of 2017, the Bloomberg Commodity Index was marginally higher than it was at the start of the year, it was below the highs recorded in February 2017. Overall, the index gained 0.75 percent in 2017 compared with a gain of 12.1 percent in 2016, resulting in the most-compressed 12-month range for the index in 22 years. The trend in commodity prices is partly attributable to currency movements associated with a peak in the US dollar during the first half of the year and a gradual decline during the second half. (See Tables 2.6 and 2.7 for further details on commodity price developments).

The oil market, fundamentally supported by the decision of the Organization of Petroleum Exporting Countries (OPEC) and its allies to reduce supply until the end of 2018, posted a second consecutive annual increase in 2017. At the same time, during the first half of 2017, surplus oil inventories in the face of continued shale output and a still-sluggish global economy, explain to some extent the weakness in oil prices. According to OPEC data, the organisation oversupplied markets by about 700,000 barrels a day during the first half of 2017. This surplus was also due to an increase in supply from Libya and Nigeria, which had been exempted from OPEC cuts earlier in the year. Signs of a strengthening global economy, coupled with greater conformity with production cut targets during the second half of 2017, resulted in a drawdown in US stocks. These developments, combined with signs of domestic and regional political turbulence related to Saudi Arabia, pushed oil into a mini bull market during the second half of the year.

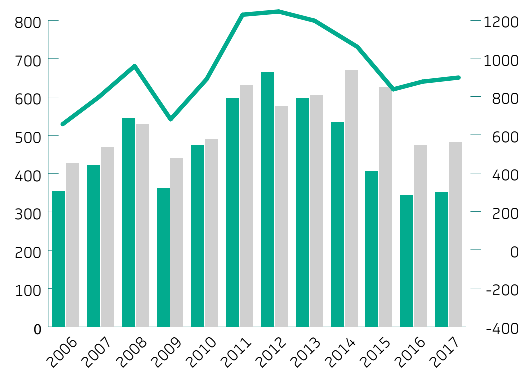
Despite a moderate mid-year rally in grain prices over concerns about dry weather in Europe, agricultural commodity prices generally trended lower throughout 2017. The Bloomberg agricultural sub-index was 12.5 percent weaker in December 2017 compared with a gain of 3.7 percent in December 2016, largely due to benign weather conditions. With international climate models indicative of La Niña weather conditions, yields for commodities, such as cocoa, were boosted by good soil moisture levels, which contributed to keeping cocoa prices relatively low throughout 2017. Meanwhile, the combination of strong output and flat demand meant that coffee prices also remained weak, with the International Coffee Organization composite index for coffee ending 2017 at a 21-month low.

In contrast, industrial metals consistently outperformed other commodities in 2017 (Figure 2.5), with palladium up 50 percent and aluminium up 22.7 percent. Copper prices rose by 26.8 percent, their biggest annual increase in seven years and a boon for exporters (for example, Zambia). Industrial metal prices benefitted from strong fundamentals as the global recovery gathered pace but also from concerns over production in leading manufacturing hubs, such as China, as well as short-term market cyclicality.

Among precious metals, gold prices were choppy, although they trended higher over the course of the year. However, gold came under pressure following prospects for US tax cuts and interest rate hikes, which could help push inflation-adjusted interest rates marginally higher, reversing investor demand for gold as an inflation hedge. Gold therefore ended the year below its September peak of US$1,349 an ounce but still up 0.7 percent compared with its level at the start of the year.

Figure 2.6 Trends in Intra-African Merchandise Trade, 2005-17

Billions of US dollars



Sources: The Economist Intelligence Units, Country Reports (Various sources), 2018. International Monetary Fund, Direction of Trade Statistics (DOTS), 2018

Table 2.5. Africa: Exchange Rate Developments, 2015-17 (per US$ unless otherwise indicated)

				Percentage Change between	
Country Name	[1] 2015	[2] 2016	[3] 2017	(2) & (1)	(3) & (2)
Algeria - dinar	107.15	110.17	114.72	2.81	4.13
Angola - kwanza	135.22	165.08	170.30	22.08	3.16
Benin - franc	603.65	623.38	547.00	3.27	-12.25
Botswana - pula	11.26	10.68	10.35	-5.20	-3.07
Burkina Faso - franc	603.65	623.38	547.00	3.27	-12.25
Burundi - franc	1558.00	1675.05	1767.00	7.51	5.49
Cameroon - franc	603.65	623.38	547.00	3.27	-12.25
Cape Verde - escudos	100.99	104.88	97.80	3.85	-6.75
Central African Republic - franc	603.65	623.38	547.00	3.27	-12.25
Chad - franc	603.65	623.38	547.00	3.27	-12.25
Comoros - franc	452.74	467.54	388.90	3.27	-12.25
Congo, Dem. Rep. of - Congo franc	925.50	1076.00	1527.00	16.26	41.91
Congo, Rep. of - franc	603.65	623.38	547.00	3.27	-12.25
Cote d'Ivoire - franc	603.65	623.38	547.00	3.27	-12.25
Djibouti - franc	177.63	177.60	177.72	-0.02	0.07
Egypt - pound	7.83	18.13	17.77	131.73	-2.00
Equatorial Guinea - franc	603.65	623.38	547.00	3.27	-12.25
Eritrea - nakfa	10.47	15.28	15.38	45.94	0.65
Ethiopia - birr	21.28	22.70	23.95	6.67	5.51
Gabon - franc	603.65	623.38	547.00	3.27	-12.25
Gambia - dalasi	39.36	42.15	47.08	7.10	11.70
Ghana - cedi	3.81	4.28	4.35	12.22	1.74
Guinea - Guinea franc	7755.00	9368.00	9100.00	20.80	-2.86
Guinea-Bissau - franc	603.65	623.38	547.00	3.27	-12.25
Kenya - shilling	102.33	102.22	103.41	-0.10	1.16
Lesotho - loti	15.52	13.74	12.38	-11.46	-9.88
Liberia - Liberia dollar	86.75	91.00	112.90	4.90	24.07
Libya - dinar	1.37	1.44	1.39	5.33	-3.32
Madagascar - Ariary	3220.00	3340.00	3240.40	3.73	-2.98
Malawi - kwacha	615.50	715.76	738.90	16.29	3.23
Mali - franc	603.65	623.38	547.00	3.27	-12.25
Mauritania - ouguiyas	309.50	354.00	359.20	14.38	1.47
Mauritius - rupee	35.90	35.85	33.48	-0.14	-6.61
Morocco - dirham	9.92	10.11	9.30	1.98	-8.06
Mozambique - meticals	47.50	71.23	63.60	49.96	-10.71
Namibia - namibia dollar	15.52	13.74	12.38	-11.46	-9.88
Niger - franc	603.65	623.38	547.00	3.27	-12.25
Nigeria - naira	199.03	304.20	305.50	52.85	0.43
Rwanda - franc	745.00	811.65	843.27	8.95	3.90
Sao Tome and Principe - dobra	22497.50	23304.50	19921.20	3.59	-14.52
Senegal - franc	603.65	623.38	547.00	3.27	-12.25
Seychelles - rupee	12.07	13.36	13.60	10.66	1.82
Sierra Leone - leone	4147.31	5465.00	7380.80	31.77	35.06
Somalia - shilling	618.00	575.71	581.07	-6.84	0.93
South Africa - rand	15.52	13.74	12.38	-11.46	-9.88
South Sudan - pound	6.10	6.48	6.85	6.22	5.72
Sudan - pound	6.10	6.48	6.85	6.22	5.72
Swaziland - lilangeni	15.52	13.74	12.38	-11.46	-9.88
Tanzania - shilling	2158.66	2174.00	2229.00	0.71	2.53
Togo - franc	603.65	623.38	547.00	3.27	-12.25
Tunisia - dinar	2.03	2.30	2.48	13.25	7.81
Uganda - shilling	3372.68	3602.00	3640.00	6.80	1.05
Zambia - kwacha	11.00	9.96	9.53	-9.47	-4.30
Zimbabwe - US Dollar*	1.00	1.00	1.00	0.00	0.00

* US Dollar used as official currency since 2009. Sources: Bloomberg. XE website (www.xe.com)

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Table 2.6. Commodity Prices, 2015-17

Agriculture	Units	2015	2016	2017	Annual Growth Rate 2015/16	Annual Growth Rate 2016/17
Barley	($/mt)	194.29	103.92	97.64	-46.52	-6.04
Cocoa Bean	($/mt)	3135.05	2890.76	2127.90	-7.79	-26.39
Coffee (Arabica)	($/mt)	3526.07	3611.08	3106.31	2.41	-13.98
Copra	($/mt)	735.25	982.02	1065.31	33.56	8.48
Cotton	($/mt)	1552.42	1636.12	1842.99	5.39	12.64
Maize	($/mt)	169.75	159.16	154.53	-6.24	-2.91
Palm Oil	($/mt)	622.67	700.19	714.67	12.45	2.07
Rubber TSR20	($/mt)	1365.82	1381.13	1666.85	1.12	20.69
Soyabean	($/mt)	390.42	808.92	845.83	107.19	4.56
Sugar	($/mt)	296.26	398.06	353.13	34.36	-11.29
Tea	($/mt)	2707.28	2640.80	3103.57	-2.46	17.52
Wheat	($/mt)	204.47	176.30	178.18	-13.78	1.07
Average		1241.65	1290.70	1271.41	9.98	0.54
Energy (Crude Oil)						
Crude Oil	($/bbl)	50.75	44.05	54.39	-13.21	23.49
Average		52.37	44.05	54.39	-13.21	23.49
Precious Metals						
Gold	($/troy oz)	1160.66	1248.99	1257.56	7.61	0.69
Platinum	($/troy oz)	1053.20	987.09	948.45	-6.28	-3.91
Silver	($/troy oz)	15.72	17.15	17.07	9.08	-0.47
Metals and Minerals						
Aluminium	($/mt)	1664.68	1604.18	1967.65	-3.63	22.66
Copper	($/mt)	5510.46	4867.90	6169.94	-11.66	26.75
Lead	($/mt)	1787.82	1866.65	2314.67	4.41	24.00
Tin	($/mt)	16066.63	17933.76	20061.17	11.62	11.86
Zinc	($/mt)	1931.68	2089.98	2890.87	8.19	38.32
Average		5,392.25	5,672.49	6,680.86	1.79	24.72

Sources: 1. Financial Times (Various issues). 2. World Bank Commodity Prices, 2015

Table 2.7. Real Commodity Prices, (2005=100)

	Units	2015 (1)	2016 (2)	2017 (3)	2015 (4) = (2) – (1)	2016 (5) = (3) – (2)
Barley	($/mt)	204.34	109.29	102.69	-95.05	-6.60
Cocoa Bean	($/mt)	206.61	190.51	140.23	-16.10	-50.27
Coffee Arabica	($/mt)	353.61	362.13	311.51	8.52	-50.62
Copra	($/mt)	177.68	237.32	257.45	59.64	20.13
Cotton	($/mt)	128.18	135.09	152.17	6.91	17.08
Maize	($/mt)	173.94	163.09	158.35	-10.85	-4.74
Palm Oil	($/mt)	148.05	166.48	169.92	18.43	3.44
Rubber	($/mt)	142.83	144.43	174.31	1.60	29.88
Soyabean	($/mt)	127.18	263.50	275.52	136.32	12.03
Sugar	($/mt)	136.02	182.77	162.13	46.74	-20.63
Tea	($/mt)	164.38	160.34	188.44	-4.04	28.10
Wheat	($/mt)	134.21	115.72	116.96	-18.49	1.23
Average	**Index**	**174.75**	**185.89**	184.14	**11.14**	-1.75
Energy (Crude Oil)						
*Crude Oil	($/bbl)	93.24	80.93	99.93	-14.40	19.01
Average		**93.24**	**80.93**	99.93	**-14.40**	19.01
Presious Metals						
Gold	($/troy oz)	260.92	280.77	282.70	19.86	1.93
Platinum	($/troy oz)	117.48	110.10	105.79	-7.37	-4.31
Silver	($/troy oz)	215.05	234.57	233.46	19.52	-1.10
Metals and Minerals						
Aluminium	($/mt)	87.69	84.51	103.65	-3.19	19.15
Copper	($/mt)	149.79	132.32	167.71	-17.47	35.39
Lead	($/mt)	183.11	191.18	237.07	8.07	45.89
Tin	($/mt)	217.71	243.01	271.84	25.30	28.83
Zinc	($/mt)	139.84	151.30	209.28	11.46	57.98
Average	Index	155.63	160.46	197.91	4.84	37.45

Sources: 1. Financial Times (Various issues). 2. World Bank Commodity Prices, 2017

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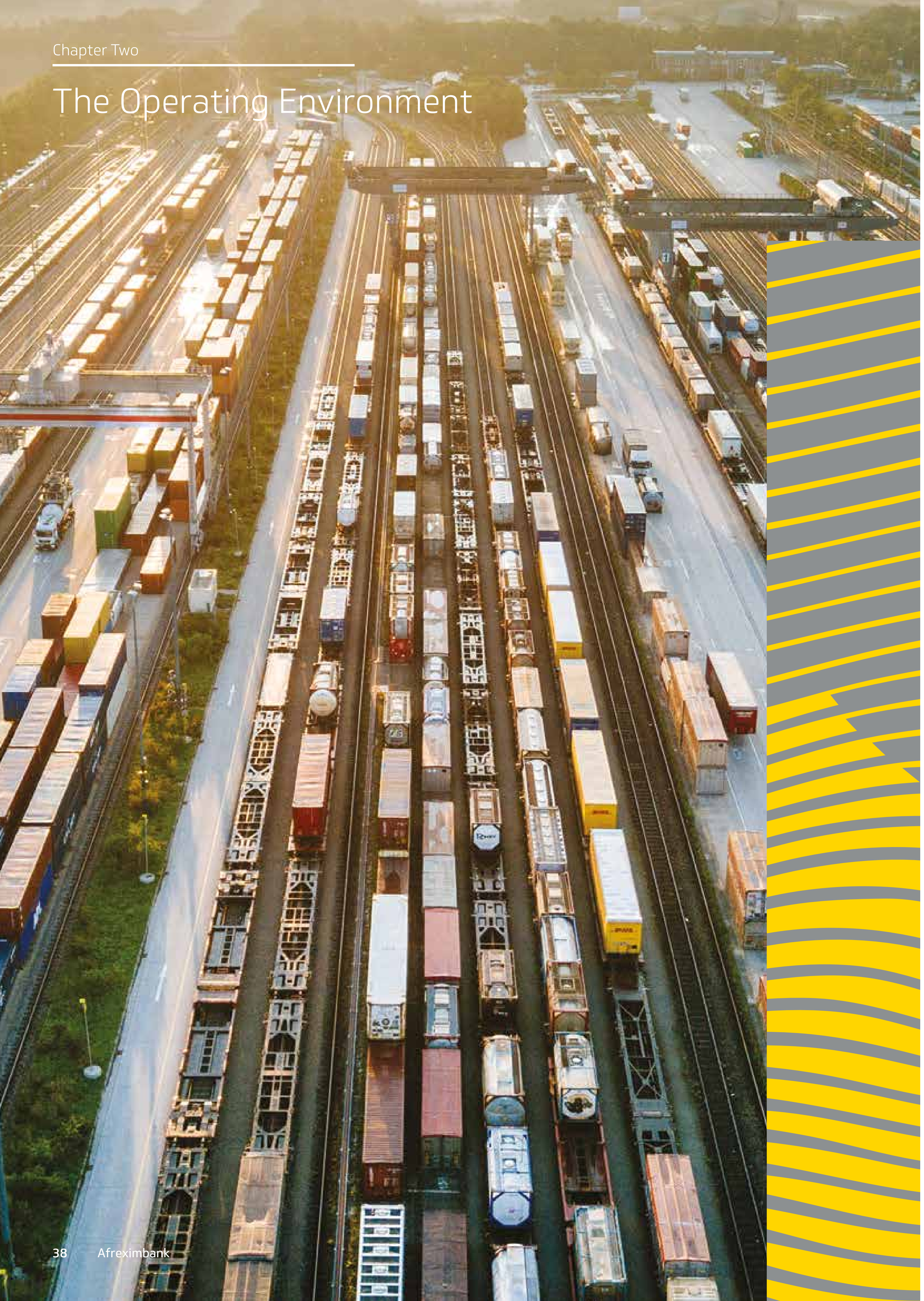

2.1%

Growth in merchandise trade across the region

2.2.4 African Trade Performance

Consistent with the gradual strengthening of the global economy and continued tightening of trade links between major developing economies in the South and Africa, the value of the region's total merchandise trade rose by about 2.1 percent to US$833.94 billion in 2017 compared with an 11.9 percent contraction in 2016 (Figure 2.6 and Table 2.8). The steady recovery in prices of commodities, particularly those of export interest to Africa, was the main driver of the growth resurgence of the region's merchandise trade during the review period.

In a region where oil exports account for more than 45 percent of total exports, the gradual strengthening of crude oil prices significantly contributed to a reversal in the downward trend in Africa's total exports. Oil-exporting countries saw the value of their exports increase by 4.8 percent to US$116.71 billion in 2017, up from US$111.4 billion in 2016. This reversal was also achieved with the help of the continued recovery of prices of non-energy commodities. The group of net oil-importing countries registered an increase in the value of their exports of 1 percent to US$234.7 billion in 2017, up from US$232.4 billion in 2016—thus enabling the value of the region's total exports to rebound by 2.2 percent in 2017 compared with a contraction of 13.2 percent in 2016.

The continued improvement in commodity prices was largely supported by an increase in the growth rates of a number of advanced economies, notably Canada, the United States, and Japan; faster-than-expected growth in some countries in Europe, such as France and Germany; as well as growth reacceleration in China, all of which boosted global demand and investment in commodity markets. Adverse weather conditions, especially hurricanes in parts of North and South America, and protracted conflicts, militant activities, and refugee movements in many parts of the world, including some parts of Africa and Eastern Europe, disrupted economic activity and exerted upward pressure on commodity prices.

Nonetheless, Africa's merchandise exports faced several challenges, including most notably an excessive dependency on primary commodities and natural resources, which have exposed the region to recurrent adverse commodity terms-of-trade shocks and a lingering trade finance gap recently exacerbated by large-scale withdrawals of international banks from correspondent banking relationships in Africa.

The value of Africa's merchandise imports also gathered momentum (albeit slight), picking up by 1.9 percent to US$482.5 billion in 2017, up from US$ 473.4 billion in 2016, thus putting pressure on the region's trade deficit, which widened further to US$131.1 billion in 2017, up from US$129.6 billion in 2016 (Figure 2.6 and Table 2.8). The rebound in the value of imports largely arose as foreign reserves increased in the face of improving export receipts driven by firming commodity prices—developments that signalled a shift towards normalisation of economic activities, thus enabling African economies to boost their import demand. As such, oil-exporting countries saw their imports rise by 4.3 percent to US$111.4 billion in 2017, up from US$106.8 billion in 2016, led by strong import growth in Gabon (16 percent), Libya (12.3 percent), Equatorial Guinea (10.4 percent), and Angola (9 percent).

The group of net oil-importing countries saw the value of their imports increase by 1.3 percent to US$371.1 billion in 2017 from US$366.5 billion in 2016 as revenues from non-oil commodities improved while adjustments to increasing oil price bills remained gradual. Accordingly, Zimbabwe, Comoros, the Democratic Republic of Congo, and Malawi saw the value of their imports rise by 28 percent, 16.4 percent, 13.4 percent, and 10.4 percent, respectively during the review period.

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2.2.4.1 Intra-African Trade

There is a growing awareness on the continent of the transformational impact of intra-regional trade, with a number of strategic initiatives championed by the region's business and political leaders and development finance institutions, including the Afreximbank. More specifically, in 2017, the Bank supported growth of intra-regional trade through increased financing of, and investment in, trade-supporting infrastructure to expand light manufacturing industries with a view to transforming the structure of African economies and diversifying exports.

In 2017, the value of intra-African trade grew by 8.83 percent year-on-year compared with a decline of about 10 percent in 2016, boosted by the rising tide of global trade, an improvement in African economic growth, and rising commodity prices (Table 2.9).

On the whole, Botswana, Namibia, South Africa, Swaziland, Zambia, and Zimbabwe, accounted for about 44 percent of intra-African trade in 2017.

The top five biggest increases in intra-African trade were seen in Burkina Faso (up 66.7 percent), Guinea (up 44.2 percent), Mozambique (up 35.2 percent), the Democratic Republic of Congo (up 29.5 percent), and the Central African Republic (up 28.3 percent). However, other countries—including Botswana, Gambia, Libya, Mali, and Zimbabwe, which collectively accounted for about 10 percent of total intra-African trade—registered steep declines in their trading activities with the rest of the region, with an average drop of more than 20 percent.

The biggest drag on intra-African trade came from Botswana, which experienced a 16.2 percent decline in two-way trade with the continent, resulting in a contraction of its share of intra-African trade from 5.5 percent in 2016 to 4.3 percent in 2017.

The decline from Botswana was part of a wider trend experienced by the country in 2017 due in part to a slump in mining exports.

Southern African, led by South Africa, continued to drive the bulk of intra-African trade, although trade among some of the sub-region's countries declined. Zimbabwe's intra-African trade, for example, fell by 21.4 percent; while the country recorded an increase in tobacco and precious mineral trade with the rest of Africa, this was more than offset by a decline in industrial machinery and fertiliser imports from the continent. In contrast, South Africa's trade with the rest of the continent rose by 8.9 percent year-on-year in 2017, reflecting stronger imports and exports from the region. South Africa increased its imports of fuel, precious stones, metals, textiles, essential oils, and live animals and, conversely, increased its exports to Africa across the board, including industrial and household goods, supported in part by the competitiveness of the rand and deepening trade ties within the region.

In effect, 2017 also saw remarkable progress towards economic integration and development in the region, for instance towards a Single African Air Transport Market (SAATM). Launched in January 2018, the SAATM is an important milestone for boosting trade in the region and liberalising frequencies in Africa's transport sector. It is also an impetus in the drive towards continental objectives—specifically greater intra-regional trade—by creating a single unified air transport market and opening up intra-African aviation routes to accelerate economic growth in the region. Likewise, the commitment by African leaders to launch the Continental Free Trade Area is a historic move, one which establishes the single largest market in the world and has the potential to significantly increase intra-African trade and drive investment through economies of scale.

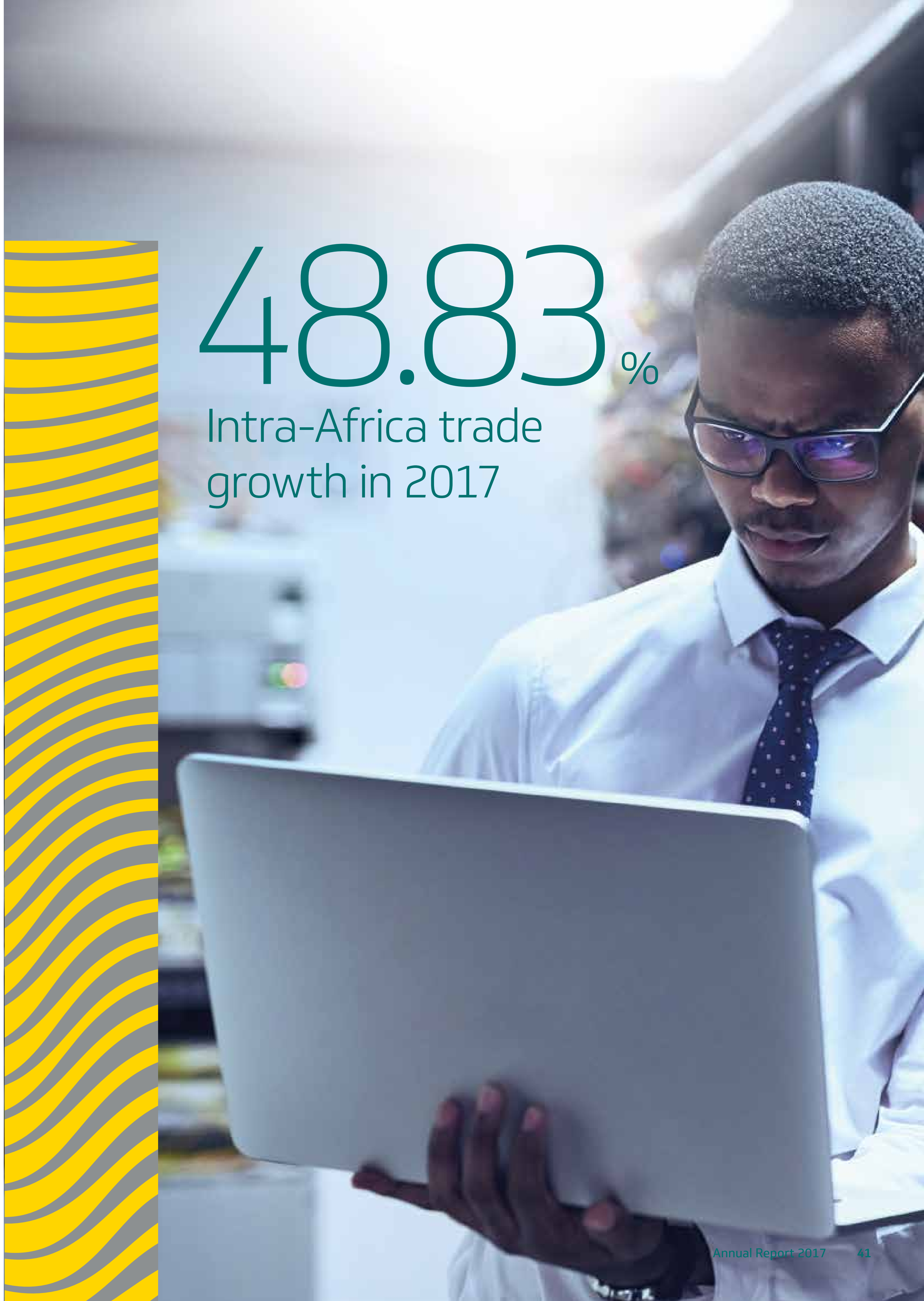

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Table 2.8. Africa: Merchandise Trade, 2015-17 (in US$ billions unless otherwise indicated)

	Merchandise Exports			Growth Rate (Percent)		Share of Merchandise Exports (Percent)			Merchandise Imports			Growth Rate (Percent)		Share of Merchandise Imports (Percent)			Total Merchandise Trade			Growth Rate (Percent)		Share of Total Merchandise Trade (Percent)			Trade Balance Value (Exports – Imports)		
Country Name	2015	2016	2017	2016	2017	2015	2016	2017	2015	2016	2017	2016	2017	2015	2016	2017	2015	2016	2017	2016	2017	2015	2016	2017	2015	2016	2017
Algeria	34.56	29.31	30.77	-15.20	4.99	8.73	8.53	8.76	49.73	45.72	46.83	-8.05	2.42	9.36	9.66	9.71	84.29	75.03	77.60	-10.98	3.42	9.09	9.18	9.31	-15.16	-16.41	-16.06
Angola	32.73	23.79	24.07	-27.33	1.18	8.27	6.92	6.85	16.77	15.13	16.49	-9.79	9.00	3.16	3.20	3.42	49.50	38.92	40.56	-21.38	4.22	5.34	4.76	4.86	15.96	8.66	7.58
Benin	0.63	0.44	0.48	-29.45	8.79	0.16	0.13	0.14	2.48	2.63	2.70	6.28	2.45	0.47	0.56	0.56	3.10	3.07	3.18	-0.93	3.36	0.33	0.38	0.38	-1.85	-2.19	-2.215
Botswana	6.33	7.33	6.74	15.85	-8.09	1.60	2.13	1.92	7.70	6.16	6.21	-19.93	0.75	1.45	1.30	1.29	14.03	13.50	12.95	-3.79	-4.05	1.51	1.65	1.55	-1.37	1.17	0.53
Burkina Faso	2.19	2.53	2.57	15.60	1.41	0.55	0.74	0.73	2.99	3.35	3.29	12.18	-1.70	0.56	0.71	0.68	5.18	5.89	5.86	13.63	-0.36	0.56	0.72	0.70	-0.79	-0.82	-0.724
Burundi	0.12	0.13	0.11	5.98	-15.03	0.03	0.04	0.03	0.56	0.63	0.62	11.55	-0.88	0.11	0.13	0.13	0.68	0.75	0.73	10.55	-3.30	0.07	0.09	0.09	-0.44	-0.50	-0.51
Cameroon	5.25	4.25	4.38	-19.05	3.06	1.33	1.24	1.25	6.50	4.20	4.50	-35.38	7.14	1.22	0.89	0.93	11.75	8.45	8.88	-28.09	5.09	1.27	1.03	1.06	-1.25	0.05	-0.12
Cape Verde	0.49	0.49	0.51	0.00	4.08	0.12	0.14	0.15	0.80	0.80	0.83	0.00	3.62	0.15	0.17	0.17	1.29	1.29	1.34	0.00	3.80	0.14	0.16	0.16	-0.31	-0.31	-0.319
Central African Republic	0.19	0.12	0.12	-35.11	-2.73	0.05	0.04	0.03	0.46	0.40	0.39	-12.06	-3.88	0.09	0.08	0.08	0.65	0.52	0.51	-18.83	-3.61	0.07	0.06	0.06	-0.27	-0.28	-0.266
Chad	2.22	1.58	1.63	-28.84	3.07	0.56	0.46	0.46	0.90	0.64	0.69	-28.68	7.85	0.17	0.14	0.14	3.12	2.22	2.32	-28.80	4.44	0.34	0.27	0.28	1.33	0.94	0.94
Comoros	0.01	0.01	0.01	0.00	0.00	0.00	0.00	0.00	0.14	0.18	0.21	25.53	16.44	0.03	0.04	0.04	0.15	0.19	0.22	23.85	15.56	0.02	0.02	0.03	-0.13	-0.17	-0.198
Congo, Dem. Rep.	6.09	5.61	5.64	-7.98	0.62	1.54	1.63	1.60	6.37	5.14	5.83	-19.25	13.43	1.20	1.09	1.21	12.46	10.75	11.47	-13.74	6.74	1.34	1.31	1.38	-0.27	0.47	-0.19
Congo, Rep.	3.18	2.62	2.80	-17.66	6.88	0.80	0.76	0.80	3.42	3.44	3.66	0.53	6.38	0.64	0.73	0.76	6.60	6.06	6.46	-8.24	6.59	0.71	0.74	0.77	-0.24	-0.82	-0.859
Cote d'Ivoire	11.90	10.07	10.55	-15.40	4.79	3.00	2.93	3.00	9.56	8.02	8.53	-16.11	6.30	1.80	1.69	1.77	21.46	18.09	19.08	-15.71	5.46	2.31	2.21	2.29	2.34	2.05	2.023
Djibouti	0.35	0.35	0.16	-0.42	-55.19	0.09	0.10	0.04	1.44	1.54	1.38	6.79	-10.46	0.27	0.33	0.29	1.79	1.89	1.54	5.38	-18.71	0.19	0.23	0.18	-1.09	-1.19	-1.224
Egypt, Arab Rep.	21.12	20.02	20.55	-5.20	2.64	5.33	5.82	5.85	69.79	56.71	57.15	-18.75	0.78	13.13	11.98	11.84	90.91	76.73	77.70	-15.60	1.27	9.80	9.39	9.32	-48.67	-36.68	-36.6
Equatorial Guinea	6.57	4.48	4.90	-31.84	9.42	1.66	1.30	1.39	1.79	1.26	1.39	-29.51	10.44	0.34	0.27	0.29	8.36	5.74	6.29	-31.35	9.65	0.90	0.70	0.75	4.78	3.22	3.51
Eritrea	0.43	0.29	0.42	-32.61	44.95	0.11	0.08	0.12	0.42	0.42	0.46	1.06	8.37	0.08	0.09	0.10	0.85	0.71	0.88	-15.97	23.21	0.09	0.09	0.11	0.01	-0.13	-0.04
Ethiopia	4.51	4.17	3.25	-7.75	-21.97	1.14	1.21	0.92	20.28	19.96	17.73	-1.57	-11.17	3.82	4.22	3.67	24.79	24.12	20.98	-2.70	-13.04	2.67	2.95	2.52	-15.76	-15.79	-14.48
Gabon	4.67	3.49	3.69	-25.30	5.82	1.18	1.01	1.05	2.95	2.41	2.80	-18.09	16.04	0.55	0.51	0.58	7.61	5.90	6.49	-22.51	10.00	0.82	0.72	0.78	1.72	1.07	0.89
Gambia, The	0.07	0.10	0.09	33.75	-6.39	0.02	0.03	0.03	0.41	0.38	0.33	-7.01	-14.26	0.08	0.08	0.07	0.49	0.48	0.42	-0.98	-12.69	0.05	0.06	0.05	-0.34	-0.29	-0.24
Ghana	13.36	10.62	10.82	-20.51	1.92	3.37	3.09	3.08	11.53	11.39	12.20	-1.23	7.10	2.17	2.41	2.53	24.89	22.01	23.02	-11.58	4.60	2.68	2.69	2.76	1.82	-0.78	-1.38
Guinea	1.75	2.83	3.25	61.87	14.84	0.44	0.82	0.92	3.14	3.24	3.28	3.09	1.22	0.59	0.68	0.68	4.89	6.07	6.53	24.10	7.57	0.53	0.74	0.78	-1.40	-0.41	-0.03
Guinea-Bissau	0.31	0.32	0.34	4.78	6.01	0.08	0.09	0.10	0.23	0.25	0.28	10.57	9.96	0.04	0.05	0.06	0.54	0.58	0.62	7.27	7.76	0.06	0.07	0.07	0.08	0.07	0.06
Kenya	5.60	5.44	5.63	-2.82	3.40	1.41	1.58	1.60	16.39	14.29	15.30	-12.77	7.04	3.08	3.02	3.17	21.99	19.74	20.93	-10.24	6.04	2.37	2.42	2.51	-10.78	-8.85	-9.67
Lesotho	0.63	0.64	0.79	0.80	23.54	0.16	0.19	0.22	1.25	1.21	1.44	-3.73	19.35	0.24	0.25	0.30	1.89	1.85	2.23	-2.20	20.80	0.20	0.23	0.27	-0.62	-0.57	-0.65
Liberia	1.21	1.05	0.52	-13.61	-50.43	0.31	0.31	0.15	9.07	10.08	9.64	11.13	-4.37	1.71	2.13	2.00	10.29	11.13	10.16	8.21	-8.71	1.11	1.36	1.22	-7.86	-9.03	-9.12
Libya	8.15	5.71	6.39	-29.93	11.85	2.06	1.66	1.82	8.21	6.54	7.35	-20.31	12.34	1.54	1.38	1.52	16.36	12.26	13.74	-25.10	12.11	1.76	1.50	1.65	-0.06	-0.83	-0.96
Madagascar	2.18	2.29	2.38	5.20	3.94	0.55	0.67	0.68	2.98	2.99	2.79	0.25	-6.56	0.56	0.63	0.58	5.16	5.28	5.17	2.34	-2.01	0.56	0.65	0.62	-0.80	-0.70	-0.41
Malawi	1.08	1.11	1.44	3.16	29.31	0.27	0.32	0.41	2.31	2.07	2.29	-10.31	10.37	0.44	0.44	0.47	3.39	3.19	3.73	-6.03	16.99	0.37	0.39	0.45	-1.23	-0.96	-0.85
Mali	0.94	0.84	0.87	-10.93	3.57	0.24	0.24	0.25	3.12	3.85	3.97	23.37	3.00	0.59	0.81	0.82	4.07	4.69	4.84	15.42	3.10	0.44	0.57	0.58	-2.18	-3.01	-3.1
Mauritania	1.58	1.63	1.60	3.28	-1.85	0.40	0.47	0.46	2.25	2.18	2.14	-3.53	-1.62	0.42	0.46	0.44	3.83	3.81	3.74	-0.73	-1.72	0.41	0.47	0.45	-0.68	-0.55	-0.54
Mauritius	2.40	2.19	2.37	-8.74	8.06	0.61	0.64	0.67	4.69	4.65	4.63	-0.78	-0.52	0.88	0.98	0.96	7.09	6.85	7.00	-3.48	2.23	0.76	0.84	0.84	-2.29	-2.46	-2.26
Morocco	21.14	22.83	22.96	7.97	0.59	5.34	6.64	6.53	36.03	40.79	38.80	13.20	-4.87	6.78	8.62	8.04	57.17	63.61	61.76	11.27	-2.91	6.16	7.78	7.41	-14.89	-17.96	-15.84
Mozambique	3.29	3.39	3.92	3.02	15.62	0.83	0.99	1.12	8.15	5.48	4.83	-32.70	-11.90	1.53	1.16	1.00	11.44	8.87	8.75	-22.42	-1.38	1.23	1.09	1.05	-4.85	-2.09	-0.91
Namibia	4.49	4.52	3.98	0.57	-11.90	1.13	1.31	1.13	7.71	6.73	6.36	-12.67	-5.48	1.45	1.42	1.32	12.20	11.25	10.34	-7.79	-8.06	1.31	1.38	1.24	-3.21	-2.21	-2.38
Niger	0.79	0.93	1.01	17.71	8.93	0.20	0.27	0.29	2.46	1.86	1.84	-24.23	-1.34	0.46	0.39	0.38	3.25	2.79	2.85	-14.06	2.07	0.35	0.34	0.34	-1.67	-0.94	-0.83
Nigeria	58.12	40.41	42.46	-30.48	5.08	14.68	11.75	12.08	38.76	31.69	32.20	-18.22	1.59	7.29	6.70	6.67	96.88	72.10	74.66	-25.58	3.55	10.44	8.82	8.95	19.37	8.71	10.26
Rwanda	0.43	0.42	0.46	-2.10	9.78	0.11	0.12	0.13	1.85	1.80	1.95	-3.17	8.63	0.35	0.38	0.40	2.28	2.21	2.41	-2.97	8.85	0.25	0.27	0.29	-1.43	-1.38	-1.49
Sao Tome and Principe	0.01	0.01	0.01	-2.96	0.00	0.00	0.00	0.00	0.14	0.14	0.12	-1.40	-14.39	0.03	0.03	0.02	0.15	0.15	0.13	-1.51	-13.43	0.02	0.02	0.02	-0.13	-0.13	-0.11
Senegal	2.32	2.68	2.36	15.41	-11.92	0.59	0.78	0.67	5.23	5.48	5.21	4.71	-4.93	0.98	1.16	1.08	7.55	8.16	7.57	8.00	-7.22	0.81	1.00	0.91	-2.91	-2.80	-2.85
Seychelles	0.48	0.49	0.51	1.90	4.86	0.12	0.14	0.15	0.12	0.12	0.11	0.00	-8.33	0.02	0.03	0.02	0.60	0.61	0.62	1.52	2.25	0.06	0.07	0.07	0.36	0.37	0.4
Sierra Leone	0.12	0.17	0.19	40.94	11.76	0.03	0.05	0.05	1.77	1.21	1.28	-31.55	5.79	0.33	0.26	0.27	1.89	1.38	1.47	-26.92	6.52	0.20	0.17	0.18	-1.65	-1.04	-1.09
Somalia	0.68	0.65	0.57	-5.35	-11.87	0.17	0.19	0.16	2.15	2.37	2.36	10.32	-0.31	0.40	0.50	0.49	2.83	3.01	2.93	6.54	-2.79	0.31	0.37	n/a	-1.46	-1.72	-1.79
South Africa	81.49	74.91	76.62	-8.07	2.28	20.58	21.79	21.80	90.55	79.49	81.15	-12.21	2.09	17.04	16.79	16.82	172.03	154.40	157.77	-10.25	2.18	18.55	18.89	18.92	-9.06	-4.58	-4.53
South Sudan	2.19	1.38	1.21	-37.26	n/a	0.55	0.40	0.34	0.35	0.23	0.25	-34.32	8.54	0.07	0.05	0.05	2.54	1.61	1.46	-36.86	-9.10	0.27	0.20	n/a	1.84	1.15	0.96
Sudan	3.17	2.60	2.62	-17.98	0.82	0.80	0.76	0.75	9.51	9.02	10.03	-5.14	11.20	1.79	1.91	2.08	12.68	11.62	12.65	-8.35	8.88	1.37	1.42	1.52	-6.34	-6.42	-7.41
Swaziland	2.34	2.23	1.66	-4.90	-25.40	0.59	0.65	0.47	0.49	0.68	0.63	38.78	-7.35	0.09	0.14	0.13	2.83	2.91	2.29	2.66	-21.18	0.31	0.36	0.27	1.85	1.55	1.03
Tanzania	6.26	5.10	5.21	-18.45	2.07	1.58	1.48	1.48	14.78	7.91	8.57	-46.47	8.29	2.78	1.67	1.78	21.04	13.02	13.78	-38.13	5.85	2.27	1.59	1.65	-8.52	-2.81	-3.36
Togo	0.72	0.72	0.83	0.64	15.01	0.18	0.21	0.24	1.73	1.72	1.90	-0.91	10.65	0.33	0.36	0.39	2.45	2.44	2.73	-0.45	11.94	0.26	0.30	0.33	-1.02	-1.00	-1.07
Tunisia	13.44	12.89	12.93	-4.08	0.29	3.39	3.75	3.68	20.41	17.98	19.20	-11.92	6.77	3.84	3.80	3.98	33.86	30.88	32.13	-8.81	4.06	3.65	3.78	3.85	-6.97	-5.09	-6.27
Uganda	2.00	2.30	2.53	14.93	10.15	0.50	0.67	0.72	5.53	4.83	4.96	-12.63	2.69	1.04	1.02	1.03	7.53	7.13	7.49	-5.31	5.09	0.81	0.87	0.90	-3.53	-2.53	-2.43
Zambia	7.04	6.51	6.64	-7.55	2.04	1.78	1.89	1.89	8.48	7.56	7.81	-10.91	3.36	1.60	1.60	1.62	15.52	14.06	14.45	-9.39	2.75	1.67	1.72	1.73	-1.44	-1.05	-1.17
Zimbabwe	2.68	2.83	2.91	5.71	2.74	0.68	0.82	0.83	4.70	4.40	5.64	-6.30	28.04	0.88	0.93	1.17	7.38	7.24	8.55	-1.94	18.14	0.80	0.89	1.03	-2.02	-1.57	-2.73
TOTAL	396.02	343.80	351.43	-13.19	2.22	100.00	100.00	100.00	531.52	473.38	482.52	-10.94	1.93	100.00	100.00	100.00	927.54	817.18	833.94	-11.90	2.05	100.00	100.00	100.00	-135.50	-129.59	-131.092

Sources: Economist Intelligence Unit, Country Report (various issues); International Monetary Fund, Direction of Trade Statistics database; World Bank, World Development Indicators database; UNCTADStat; and Afreximbank staff estimates.

The Operating Environment

Table 2.9. Intra-African Trade, 2015-17 (in US$ billions unless otherwise indicated)

	Intra-African Exports			Growth Rate (Percent)		Country Share of Total Intra-African Exports (Percent)			Intra-African Imports			Growth Rate (Percent)	
Country Name	2015*	2016*	2017**	2016	2017	2015*	2016*	2017**	2015*	2016*	2017**	2016	2017
Algeria	1.61	1.20	0.75	-25.33	-37.86	2.30	1.87	1.12	0.97	0.94	1.11	-3.28	17.86
Angola	1.41	1.29	1.24	-8.78	-3.72	2.01	2.00	1.85	1.23	0.96	1.02	-22.27	6.66
Benin	0.16	0.10	0.14	-37.16	40.50	0.23	0.16	0.21	0.48	0.45	0.47	-4.26	2.65
Botswana	1.85	1.94	1.07	4.97	-44.72	2.64	3.02	1.60	5.71	4.77	4.55	-16.46	-4.55
Burkina Faso	0.35	0.34	0.75	-2.43	118.85	0.50	0.53	1.12	0.74	0.87	1.27	17.78	46.17
Burundi	0.05	0.06	0.05	5.47	-10.01	0.08	0.09	0.08	0.15	0.19	0.20	23.05	8.42
Cameroon	0.49	0.36	0.61	-26.49	68.09	0.70	0.56	0.91	1.51	0.83	0.74	-45.34	-10.39
Cape Verde	0.01	0.00	0.00	-95.49	-21.69	0.02	0.00	0.00	0.01	0.02	0.02	65.32	26.72
Central African Rep.	0.02	0.02	0.02	5.19	-18.72	0.03	0.03	0.03	0.10	0.05	0.08	-48.40	48.33
Chad	0.00	0.00	0.00	-25.06	-10.21	0.00	0.00	0.00	0.21	0.16	0.18	-22.63	9.46
Comoros	0.00	0.00	0.00	50.63	-47.75	0.00	0.00	0.00	0.02	0.02	0.02	1.29	-5.98
Congo, Dem. Rep. of	1.24	1.15	1.97	-7.13	70.32	1.77	1.79	2.94	2.62	2.27	2.47	-13.49	8.72
Congo, Rep. of	0.65	0.45	0.51	-30.03	12.45	0.92	0.70	0.76	0.38	0.38	0.30	-1.99	-20.68
Cote D'Ivoire	3.30	2.82	3.28	-14.47	16.34	4.70	4.38	4.90	2.19	1.81	2.05	-17.49	13.38
Djibouti	0.22	0.22	0.23	-0.66	4.09	0.32	0.34	0.34	0.13	0.14	0.15	4.60	8.51
Egypt	2.65	1.20	1.17	-54.63	-3.04	3.78	1.87	1.74	1.63	1.21	1.53	-25.34	25.95
Equatorial Guinea	0.24	0.18	0.23	-23.73	24.35	0.34	0.29	0.34	0.16	0.12	0.12	-25.55	1.65
Eriteria	0.00	0.00	0.00	-17.90	5.43	0.00	0.00	0.00	0.08	0.04	0.04	-51.43	-10.97
Ethiopia	1.37	1.36	1.42	-1.17	4.66	1.96	2.11	2.12	0.47	0.39	0.56	-17.07	45.34
Gabon	0.18	0.14	0.17	-20.74	22.99	0.25	0.22	0.26	0.30	0.24	0.23	-19.78	-5.78
Gambia, The	0.06	0.08	0.06	30.00	-28.18	0.08	0.12	0.08	0.08	0.09	0.08	12.81	-15.17
Ghana	1.04	1.73	1.74	65.99	0.54	1.49	2.69	2.60	0.86	0.86	0.94	0.01	8.73
Guinea	0.42	0.63	0.97	50.38	52.63	0.60	0.98	1.44	0.21	0.22	0.26	4.89	19.88
Guinea-Bissau	0.05	0.02	0.03	-59.46	77.11	0.07	0.03	0.05	0.04	0.05	0.05	31.48	-16.36
Kenya	2.15	1.99	2.01	-7.40	0.88	3.07	3.09	3.00	1.38	1.34	1.69	-3.18	26.56
Lesotho	0.34	0.37	0.41	9.07	9.88	0.49	0.58	0.61	1.05	1.03	1.23	-1.90	19.56
Liberia	0.06	0.13	0.06	105.42	-51.71	0.09	0.20	0.09	0.13	0.10	0.14	-23.16	43.04
Libya	0.09	0.08	0.08	-11.60	11.34	0.12	0.12	0.13	0.27	0.26	0.21	-1.66	-21.38
Madagascar	0.17	0.18	0.20	8.16	8.14	0.24	0.28	0.29	0.28	0.29	0.30	0.69	4.86
Malawi	0.37	0.44	0.57	19.49	30.42	0.52	0.68	0.85	0.77	0.77	0.82	-0.35	7.00
Mali	0.16	1.77	0.35	1037.01	-80.40	0.22	2.75	0.52	1.10	1.61	1.92	46.10	19.41
Mauritania	0.14	0.17	0.21	24.77	19.74	0.20	0.27	0.31	0.18	0.19	0.21	10.10	5.96
Mauritius	0.44	0.43	0.46	-3.12	6.82	0.63	0.67	0.69	0.53	0.60	0.73	12.72	22.08
Morocco	1.78	1.92	2.01	8.09	4.59	2.53	2.98	3.00	1.53	1.19	1.08	-22.41	-8.97
Mozambique	0.79	0.89	1.25	11.75	40.99	1.13	1.38	1.87	2.66	1.75	2.32	-34.04	32.27
Namibia	2.54	2.02	3.15	-20.44	55.90	3.62	3.13	4.70	5.53	4.68	4.24	-15.29	-9.44
Niger	0.18	0.19	0.20	1.02	6.35	0.26	0.29	0.30	0.38	0.32	0.34	-15.70	3.76
Nigeria	7.26	4.95	5.03	-31.78	1.68	10.36	7.69	7.52	1.70	1.50	1.36	-12.05	-8.87
Rwanda	0.17	0.16	0.32	-7.08	95.29	0.25	0.25	0.47	0.55	0.56	0.56	0.29	0.64
Sao Tome and Principe	0.00	0.00	0.00	-68.62	42.39	0.00	0.00	0.00	0.03	0.03	0.02	-23.80	-5.80
Senegal	0.99	1.22	1.07	22.47	-12.29	1.42	1.89	1.59	0.88	0.91	1.02	3.48	12.18
Seychelles	0.01	0.02	0.02	284.66	-10.96	0.01	0.04	0.03	0.16	0.15	0.15	-7.24	2.62
Sierra Leone	0.03	0.17	0.19	561.38	11.78	0.04	0.27	0.29	0.53	0.12	0.15	-76.75	26.20
Somalia	0.04	0.04	0.04	-1.43	-3.96	0.06	0.06	0.06	0.54	0.55	0.57	1.26	3.92
South Africa	23.55	21.30	23.26	-9.56	9.21	33.62	33.08	34.75	9.54	8.09	8.72	-15.13	7.76
South Sudan	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.01	0.08	4.07	1300.05	4982.56
Sudan	0.18	0.10	0.08	-47.41	-19.52	0.26	0.15	0.12	0.23	0.23	0.27	1.50	14.19
Swaziland	2.17	2.10	2.32	-2.84	10.12	3.09	3.27	3.46	2.74	2.64	2.81	-3.62	6.69
Tanzania	2.31	1.66	1.76	-28.11	5.76	3.30	2.58	2.62	0.97	0.95	1.01	-2.19	6.30
Togo	0.44	0.50	0.52	12.53	5.18	0.63	0.77	0.78	0.30	0.23	0.24	-22.53	5.64
Tunisia	1.10	1.16	1.01	5.79	-13.62	1.57	1.81	1.50	1.04	0.95	0.93	-8.98	-1.80
Uganda	1.03	1.04	1.15	1.18	10.32	1.47	1.62	1.72	0.94	0.79	0.88	-15.75	11.47
Zambia	1.70	1.43	1.56	-15.91	9.30	2.43	2.22	2.33	4.86	4.39	5.03	-9.67	14.44
Zimbabwe	2.48	2.64	1.27	6.69	-51.81	3.54	4.11	1.90	3.52	3.46	3.53	-1.61	1.90
TOTAL	70.05	64.38	66.94	-8.09	3.98	100.00	100.00	100.00	64.63	56.85	64.99	-12.04	14.34

	Country Share of Total Intra-African Imports (Percent)			Total Intra-African Trade			Growth Rate (Percent)		Country Share of Total Intra-African Trade (Percent)			Trade Balance Value (Exports – Imports)		
Country Name	2015	2016	2017	2015	2016	2017	2016	2017	2015*	2016*	2017**	2015*	2016*	2017**
Algeria	1.51	1.66	1.71	2.58	2.14	1.86	-17.01	-13.37	1.92	1.77	1.41	0.64	0.26	-0.36
Angola	1.91	1.69	1.57	2.64	2.24	2.26	-15.08	0.72	2.89	1.96	1.71	0.18	0.33	0.21
Benin	0.74	0.80	0.72	0.64	0.56	0.61	-12.63	9.57	0.78	0.47	0.46	-0.31	-0.35	-0.32
Botswana	8.83	8.39	7.00	7.56	6.71	5.62	-11.21	-16.18	5.74	5.61	4.26	-3.86	-2.82	-3.48
Burkina Faso	1.14	1.53	1.96	1.09	1.21	2.02	11.27	66.69	2.00	0.81	1.53	-0.39	-0.53	-0.52
Burundi	0.24	0.33	0.31	0.21	0.25	0.26	18.39	4.07	0.15	0.20	0.19	-0.10	-0.13	-0.15
Cameroon	2.34	1.45	1.14	2.00	1.19	1.35	-40.70	13.55	2.19	1.49	1.02	-1.02	-0.46	-0.13
Cape Verde	0.02	0.03	0.04	0.02	0.02	0.03	-14.09	25.46	0.01	0.02	0.02	0.00	-0.02	-0.02
Central African Rep.	0.15	0.09	0.12	0.12	0.07	0.09	-39.14	28.31	0.04	0.09	0.07	-0.08	-0.03	-0.06
Chad	0.33	0.29	0.27	0.21	0.17	0.18	-22.67	9.18	0.18	0.16	0.14	-0.21	-0.16	-0.18
Comoros	0.03	0.04	0.03	0.02	0.02	0.02	3.28	-8.43	0.02	0.02	0.02	-0.02	-0.02	-0.02
Congo, Dem. Rep. of	4.06	3.99	3.80	3.87	3.42	4.43	-11.45	29.49	3.89	2.87	3.36	-1.38	-1.12	-0.50
Congo, Rep. of	0.59	0.66	0.46	1.03	0.83	0.81	-19.61	-2.56	1.18	0.76	0.61	0.26	0.08	0.21
Cote D'Ivoire	3.40	3.19	3.16	5.49	4.63	5.33	-15.68	15.18	5.60	4.08	4.04	1.10	1.01	1.23
Djibouti	0.21	0.25	0.23	0.35	0.36	0.38	1.32	5.80	0.19	0.26	0.29	0.09	0.08	0.08
Egypt	2.52	2.14	2.35	4.28	2.42	2.69	-43.49	11.53	3.17	1.99	2.04	1.02	-0.01	-0.36
Equatorial Guinea	0.25	0.21	0.19	0.40	0.30	0.35	-24.46	15.42	0.69	0.30	0.26	0.08	0.06	0.11
Eriteria	0.13	0.07	0.06	0.09	0.04	0.04	-50.26	-10.02	0.05	0.06	0.03	-0.08	-0.04	-0.03
Ethiopia	0.72	0.68	0.86	1.84	1.74	1.98	-5.20	13.67	1.28	1.36	1.50	0.91	0.97	0.86
Gabon	0.47	0.43	0.35	0.48	0.38	0.40	-20.13	4.71	0.60	0.36	0.30	-0.13	-0.10	-0.06
Gambia, The	0.12	0.16	0.12	0.14	0.17	0.13	20.18	-21.20	0.10	0.14	0.10	-0.02	-0.01	-0.02
Ghana	1.34	1.52	1.44	1.91	2.60	2.68	36.11	3.27	4.58	1.42	2.03	0.18	0.87	0.80
Guinea	0.33	0.39	0.41	0.63	0.85	1.23	35.22	44.16	0.48	0.47	0.93	0.21	0.41	0.70
Guinea-Bissau	0.06	0.10	0.07	0.09	0.07	0.08	-17.41	8.31	0.07	0.07	0.06	0.01	-0.03	-0.01
Kenya	2.14	2.36	2.61	3.53	3.33	3.70	-5.75	11.21	2.69	2.62	2.81	0.77	0.65	0.31
Lesotho	1.62	1.80	1.89	1.39	1.40	1.64	0.80	16.99	1.03	1.15	1.24	-0.70	-0.65	-0.82
Liberia	0.20	0.17	0.21	0.19	0.23	0.20	19.66	-11.13	0.21	0.14	0.15	-0.06	0.03	-0.08
Libya	0.42	0.47	0.32	0.36	0.34	0.29	-4.07	-14.07	0.38	0.26	0.22	-0.18	-0.19	-0.12
Madagascar	0.44	0.50	0.46	0.45	0.47	0.49	3.46	6.13	0.36	0.33	0.37	-0.12	-0.10	-0.10
Malawi	1.19	1.35	1.27	1.14	1.21	1.39	6.03	15.48	1.22	0.84	1.06	-0.41	-0.33	-0.25
Mali	1.71	2.84	2.96	1.26	3.38	2.27	168.48	-32.79	0.93	2.79	1.72	-0.95	0.16	-1.58
Mauritania	0.27	0.34	0.32	0.31	0.37	0.41	16.53	12.43	0.32	0.23	0.31	-0.04	-0.02	0.00
Mauritius	0.82	1.05	1.12	0.97	1.03	1.19	5.50	15.69	0.71	0.72	0.90	-0.09	-0.17	-0.27
Morocco	2.37	2.09	1.67	3.31	3.11	3.09	-6.05	-0.60	2.76	2.46	2.34	0.24	0.73	0.92
Mozambique	4.11	3.08	3.57	3.45	2.64	3.57	-23.50	35.20	3.24	2.56	2.71	-1.86	-0.86	-1.07
Namibia	8.56	8.24	6.53	8.07	6.70	7.39	-16.91	10.23	5.99	5.53	5.60	-2.99	-2.67	-1.10
Niger	0.60	0.57	0.52	0.57	0.51	0.53	-10.28	4.71	0.56	0.42	0.41	-0.20	-0.14	-0.14
Nigeria	2.63	2.63	2.10	8.96	6.45	6.40	-28.03	-0.77	10.11	6.65	4.85	5.55	3.45	3.67
Rwanda	0.86	0.98	0.86	0.73	0.72	0.88	-1.47	21.99	0.84	0.54	0.66	-0.38	-0.39	-0.24
Sao Tome and Principe	0.05	0.05	0.04	0.03	0.03	0.02	-24.57	-5.46	0.03	0.03	0.02	-0.03	-0.03	-0.02
Senegal	1.35	1.59	1.56	1.87	2.12	2.08	13.58	-1.85	1.39	1.75	1.58	0.12	0.31	0.05
Seychelles	0.24	0.26	0.23	0.16	0.17	0.17	3.94	0.69	0.09	0.12	0.13	-0.15	-0.12	-0.13
Sierra Leone	0.82	0.22	0.24	0.55	0.30	0.35	-46.37	17.73	0.69	0.41	0.26	-0.50	0.05	0.04
Somalia	0.84	0.97	0.88	0.58	0.59	0.61	1.07	3.39	0.40	0.43	0.46	-0.50	-0.51	-0.53
South Africa	14.75	14.24	13.42	33.09	29.39	31.98	-11.17	8.81	30.83	24.57	24.24	14.02	13.21	14.54
South Sudan	0.01	0.14	6.26	0.01	0.08	4.07	1300.05	4982.56	0.00	0.07	3.08	-0.01	-0.08	-4.07
Sudan	0.36	0.41	0.41	0.41	0.33	0.35	-20.26	4.30	0.34	0.31	0.26	-0.05	-0.14	-0.19
Swaziland	4.23	4.64	4.33	4.90	4.74	5.13	-3.28	8.21	3.98	3.64	3.89	-0.57	-0.53	-0.50
Tanzania	1.50	1.67	1.55	3.28	2.61	2.77	-20.44	5.96	2.76	2.44	2.10	1.34	0.71	0.75
Togo	0.46	0.40	0.37	0.74	0.73	0.77	-1.51	5.32	0.52	0.55	0.58	0.15	0.27	0.28
Tunisia	1.61	1.67	1.43	2.14	2.11	1.94	-1.39	-8.32	1.59	1.74	1.47	0.06	0.22	0.07
Uganda	1.45	1.39	1.36	1.97	1.83	2.03	-6.89	10.81	1.47	1.46	1.54	0.09	0.25	0.27
Zambia	7.53	7.73	7.74	6.56	5.82	6.59	-11.29	13.18	5.97	4.87	4.99	-3.17	-2.97	-3.47
Zimbabwe	5.45	6.09	5.43	6.00	6.11	4.80	1.82	-21.36	4.88	4.45	3.64	-1.04	-0.82	-2.25
TOTAL	100.00	100.00	100.00	134.68	121.23	131.94	-9.98	8.83	100.00	100.00	100.00	5.42	7.54	10.87

* Revised. ** Estimates. a) Exports do not necessarily equal imports as they are quoted on FOB and imports on CIF basis. n/a not available.

Sources: 1) IMF (2014) Direction of Trade Statistics (Database). 2) IMF (2001) Direction of Trade Statistics - Yearbook.2) EIU, Country Risk Service (various issues).52 Afreximbank Staff estimates.

The Operating Environment

Box 2.2: African Continental Free Trade Area and Intra-African Trade Prospects

The African Continental Free Trade Area (AfCFTA) signed by African governments earlier this year in Kigali, Rwanda, will the largest free trade area created since the formation of the World Trade Organisation (WTO)[1]. The African Continental Free Trade Area will bring together 55 African countries with a combined population of more than 1.2 billion people and a combined gross domestic product (GDP) exceeding US$2.5 trillion[2]. The AfCFTA has the potential for deepening the process of economic integration and accelerating the structural transformation of African economies as envisaged under the Lagos Plan of Action of 1980 and the Abuja Treaty of 1991.

The AfCFTA Agreement will provide a comprehensive and mutually beneficial trade agreement among the member states of the African Union, covering trade in goods and services, investment, intellectual property rights and competition policy. Negotiations towards the AfCFTA have been divided into two phases. Phase I negotiations covers Trade in Goods and Services and Dispute Settlement, while Phase II negotiations addresses Intellectual Property, Investment and Competition Policy (see Figure B2.2.1). The agreement signed in Kigali includes a framework agreement and protocols related to trade in goods and trade in services. With respect to trade in goods, the AfCFTA requires members to eliminate tariffs on 90 percent of their tariff lines, with the remaining 10 percent retained as either "sensitive" products with longer liberalisation periods, or as "excluded" products at the same tariff level. With regard to services, the protocol on trade in services provides that parties "shall undertake successive rounds of negotiations based on the principle of progressive liberalisation accompanied by the development of regulatory cooperation, and sectoral disciplines." AfCFTA members have opted to use a positive list approach for services negotiations—only sectors explicitly identified are subject to liberalisation. In terms of the protocol, AfCFTA members are expected to identify nine priority sectors that will be subject to liberalisation.

Following signature, AfCFTA members, individually or as part of a customs union, are expected to develop and submit schedules of concessions for trade in goods detailing the 90 percent of products that are to be liberalised, the sensitive products to be liberalised over a longer time period, and the excluded products that are to be temporarily exempted from liberalisation. A related complement to the schedules of concessions for trade in goods is the list of product-specific rules of origin which is still being negotiated, as is the protocol on dispute resolution. For trade in services, scheduling will call for a review of the regulatory framework of the identified sectors in view of preparing the initial market access offers, which will then be subject to negotiations.

1 A total of 44 African countries signed the AfCFTA Agreement in Kigali, including its protocols, annexes, and appendices, which form an integral part of the accord. In addition, 47 countries also signed the "Kigali Declaration" which, in the absence of executive authority to sign the AfCFTA into law, serves as an instrument demonstrating support and solidarity for the agreement, and 30 countries signed a protocol on the free movement of persons.
2 GDP in current prices.
3 For more details see Mevel and Karingi (2012). Deepening Regional Integration in Africa: A Computable General Equilibrium Assessment of the Establishment of a Continental Free Trade Area followed by a Continental Customs Union.

Table B.2.2.1: Key Features of the AfCTFA

AGREEMENT ESTABLISHING THE AFRICAN CONTINENTAL FREE TRADE AREA	
Phase I Negotiations	
Protocol on Trade in Goods	– Tariff liberalization – Non-tariff barriers – Rules of Origin – Customs Cooperation – Trade Facilitation and Transit – Trade remedies – Product standards – Technical regulations – Technical assistance, capacity-building and cooperation
Protocol on Trade in Services	– Transparency of service regulations – Mutual recognition of standards, licensing and certification of services suppliers – Progressive liberalization of services sectors – National Treatment for foreign service suppliers in liberalized sectors – Provision for general and security exceptions
Protocol on Dispute Settlement	To be agreed
Phase II Negotiations	
Protocol on Intellectual Property Rights	To be agreed
Protocol on Investment	To be agreed
Protocol on Competition Policies	To be agreed

Source: AU, Afreximbank

The Operating Environment

African Continental Free Trade Area and Intra-African Trade Prospects (continued)

The AfCFTA Agreement will enter into force after 22 Member States have submitted their instruments of ratification. Negotiations on Phase II issues are set to commence later in 2018. Upon conclusion, the Phase II negotiations will provide a more conducive environment for recognising African intellectual property rights, facilitating intra-African investment, and addressing anti-competitive behavior. Institutional arrangements to support implementation of the AfCFTA include a dedicated Secretariat; the African Business Council, which will aggregate and articulate the views of the private sector; as well as a Trade Observatory, which will ensure effective monitoring and evaluation. Regional economic communities (RECs) will remain important partners coordinating the implementation and measures for resolving non-tariff barriers, harmonising standards and monitoring implementation.

Intra-African Trade Potential and Benefits of the AfCFTA

The AfCFTA is an important step towards rationalising Africa's regional trade arrangements to deepen economic integration and draw on economies of scale and development of regional value chains to accelerate the process of structural transformation of African economies. Preliminary estimates and simulations suggest that under the AfCFTA intra-African trade will increase by 52.3 percent by 2022, and more than double within the first decade of implementation if the implementation of the AfCFTA is accompanied by robust trade facilitation measures. And in an environment where intra-African trade is dominated by products with increasingly high technological content the AfCFTA could significantly expand industrial production and accelerate the diversification of sources of growth, with intra-African trade in industrial products increasing by US$60 billion annually.

An integrated African market is also likely to see enhanced flow of foreign direct investment (FDI) and could shift FDI from natural resources to industry and manufacturing as investors seek to take advantage of increased market size. Implementation of the AfCFTA will also enhance the integration of African economies into the global economy, and strengthen the process of engagement between Africa and its main trading partners, multilaterally within the World Trade Organization (WTO) framework and bilaterally with other trading partners such as Brazil, China, the European Union, India, and the United States.

Challenges and Risks to Implementation of the AfCFTA

While the AfCFTA provides an opportunity for Africa to boost intra-African trade and accelerate the process of structural transformation to reduce the vulnerability of its economies to external shocks, the implementation of the agreement will be complex given the large number, diverse nature and different stages of economic development of Member States. At the same time integration may carry significant adjustments costs for some countries, including fiscal adjustments. In this regard, implementation will need to be structured and sequenced appropriately and compensatory or adjustment mechanisms may need to be put in place to ensure broad-based gains for all Member States.

In addition, the realisation of the potential offered by the AfCFTA will hinge on a supportive and facilitative trade environment. In particular, effective implementation of the AfCFTA will require: (i) investments in trade facilitating infrastructure to ensure that the market access benefits are fully realized; (ii) implementation of the AU's Action Plan for the Accelerated Industrial Development of Africa (AIDA); (iii) major investment in trade information, in particular the AU's Trade Observatory and Afreximbank's Trade Information Portal; (iv) effective implementation of the Programme for Infrastructure Development in Africa (PIDA); and (v) availability of appropriate trade finance and risk-bearing facilities that can facilitate the trade. Likewise, implementation of the Boosting Intra-African Trade (BIAT) Action Plan will provide the framework for the supportive policies and environment that are key to the AfCFTA's success.

Afreximbank Interventions in Support of the AfCFTA

Given the alignment between the Bank's Fifth Strategic Plan dubbed IMPACT 2021 and the ambitions of the AfCFTA, the Bank—which worked closely with the AU Commission during the period leading to the launch of the AfCFTA—will greatly benefit from its successful implementation and the transition towards an African Single Market. The Bank has among others prioritised intra-African trade, industrialisation and export development, and trade finance leadership as pillars of its strategy. In support of intra-African trade, it will disburse about US$25 billion dollars during the five years of Plan V implementation ending in 2021. To facilitate the confirmation of letters of credit in support of intra-African trade it has opened credit lines amounting to US$800 million to 55 banks across Africa and aims to extend such lines to at least 500 African banks by 2021. To diversify sources of growth and expand intra-African trade the Bank is supporting the development of industrial parks and special economic zones across the region.

The Bank is also working closely with the AU Commission to support implementation of the AfCFTA through a number of strategic initiatives, including the inaugural Intra-African Trade Fair this year in Cairo, Egypt, to connect African buyers and sellers; development of an intra-African Trade Payments and Settlement Platform that will facilitate the clearing and settlement of intra-African trade transactions in African currencies; the launch in 2018 of an African Customer Due Diligence Repository Platform (ACDIRP) aimed at improving access to trade finance by reducing compliance costs; and establishment of a Pan-African Private Sector Trade and Investment Committee to enhance African private sector participation in trade negotiations and investment policy formulation.

3

Chapter Three

Operations & Activities

Operations & Activities

3.1 OPERATIONS

The Bank's operations and activities in 2017 were undertaken in line with the objectives of the 2017 Budget and Work Programme derived from the Bank's fifth Strategic Plan covering 2017–21. The Bank conducted its operations in the context of the global and Africa-specific socio-political and economic environment outlined in Chapter 2.

3.1.1 Review of Lending Operations

In 2017, the Bank reinforced its support to its growing number of member states and customers through a variety of new and existing programmes and products.

As in 2016, lending and guarantee operations in 2017 were largely driven by the Bank's Countercyclical Trade Liquidity Facility (COTRALF), an emergency two-year intervention facility approved by the Board of Directors in December 2015 in response to the commodity price and terrorism-induced shocks many of the Bank's member states were then experiencing. The facility was introduced to enable central and designated commercial banks in affected countries to meet a backlog of trade debt payment obligations and to avert trade finance defaults (seen in the 1980s) that could otherwise lead to long-term economic dislocation across the continent. The ultimate goal of the facility was to enable affected countries achieve an orderly adjustment to shocks. Disbursements under the facility reached a peak at the end of 2017, bringing the Bank's gross loans outstanding and asset size to all-time highs of US$11 billion and US$14 billion, respectively.

As African economies experienced a marked improvement in 2017, and in line with its initial plan, the Bank began to wind down the COTRALF during the year. In this regard, the Bank's facility approvals fell by 34.08 percent in 2017 to US$7.93 billion, down from US$12.03 billion in 2016, as not many new approvals occurred during the year (Figure 3.1). Outstanding loans declined by 17.79 percent to US$8.48 billion as at the end of 2017 from US$10.31 billion in December 2016 as matured COTRALF facilities were repaid (Figure 3.2).

The details of the Bank's interventions by programmes and products in 2017 are discussed below.

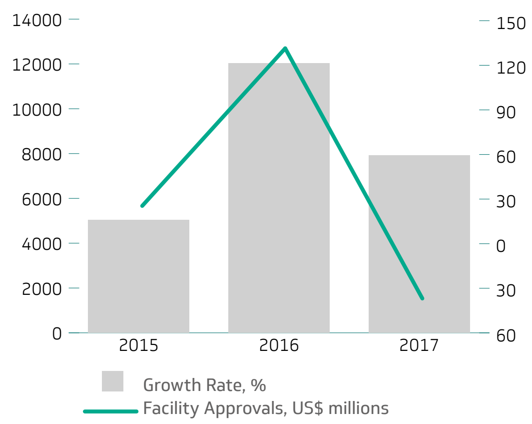
3.1.1.1 Line of Credit Programme

The Bank provides funded and unfunded credit lines through the Line of Credit Programme (LOCP) to creditworthy African and non-African banks active in African trade finance. The LOCP is an instrument through which the Bank provides loan and guarantee facilities through intermediary banks to small and medium-sized trading entities whose balance sheet size and trade turnover would not normally qualify them for the Bank's direct lending. The facilities provided under the LOCP include the Trade Finance (Export-Import) Facility, Pre- and Post-Export Financing Facility, Letter of Credit Confirmation and Refinancing Facility, and Reimbursement Guarantee Facility.

As the COTRALF was implemented under the LOCP, total approvals under the LOCP decreased by 49.67 percent to US$4.03 billion in 2017, down from US$8.00 billion in 2016. However, it remained much higher than the level recorded in 2015 (US$2.56 billion). This decrease is mainly attributed to the fact that the Bank began to wind down the COTRALF in 2017, in line with its approval terms and noticeable stabilisation and recovery of African economies during the year. For the same reasons, outstanding loans under the programme fell by 36.95 percent from US$5.80 billion as at December 2016 to US$3.66 billion as at December 2017. Nevertheless, the programme accounted for the largest share (43.18 percent) of the Bank's loans portfolio (Table 3.1 and Figure 3.3).

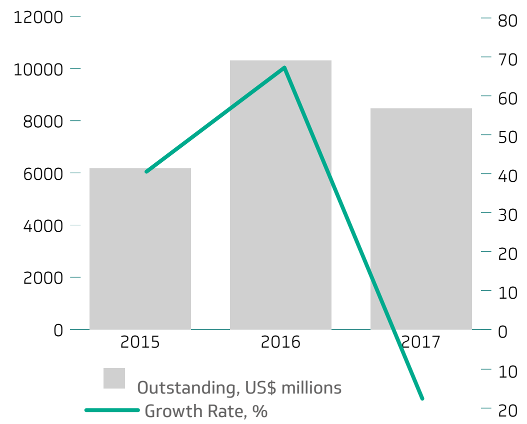
The COTRALF had a tremendously positive impact on the beneficiaries of the facility, thereby also enhancing the Bank's relevance. Most notably, it helped them avert trade debt payment difficulties and provided them with elbow room to introduce more market-oriented foreign exchange policies.

Figure 3.1 Afreximbank: Facility Approvals, 2015-2017



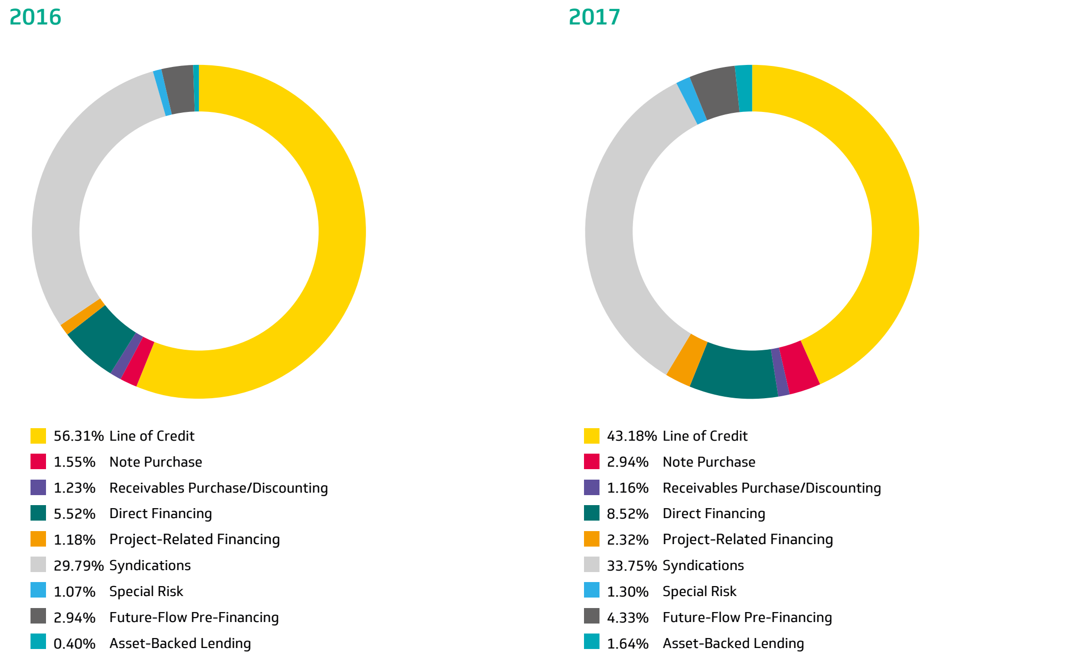
Source: Afreximbank

Figure 3.2 Afreximbank: Credit Outstanding as at December 31, 2015-17



Source: Afreximbank

Figure 3.3 Afreximbank: Distribution of Outstanding Loans, by Type of Programme, 2016-17



Source: Afreximbank

Operations & Activities

Table 3.1. Afreximbank: Distribution of Loan Approvals and Outstandings by Type of Programme, 2015-17

Type of Programme	Approvals (Millions of US dollars)			Growth Rate (Percent)		Share of Approvals by Type of Programme (Percent)		
	2015	2016	2017	2015/16	2016/17	2015	2016	2017
Line of Credit	2,567.33	8,008.00	4,030.65	211.92%	-49.67%	50.94%	66.56%	50.83%
Note Purchase	0.00	0.00	75.00	-	-	0.00%	0.00%	0.95%
Receivables Purchase/Discounting	130.00	0.00	29.35	-100.00%	-	2.58%	0.00%	0.37%
Direct Financing	925.42	1,934.50	1,320.41	109.04%	-31.74%	18.36%	16.08%	16.65%
Project and Export Development Financing	245.42	70.00	25.00	-71.48%	-64.29%	4.87%	0.58%	0.32%
Syndications[1]	921.87	1,968.73	2,243.00	113.56%	13.93%	18.29%	16.36%	28.28%
Special Country Risk[2]	0.00	0.00	0.00	-	-	0.00%	0.00%	0.00%
Future-Flow Pre-Financing	150.00	49.99	0.00	-66.67%	-100.00%	2.98%	0.42%	0.00%
Asset-Backed Lending	100.00	0.00	100.00	-100.00%	-	1.98%	0.00%	1.26%
Export Development Programme	0.00	0.00	107.00	-	-	0.00%	0.00%	0.00%
Memorandum								
Country Programme	600.23	366.00	883.38	-39.02%	141.36%	11.91%	3.04%	11.14%
COTRALF	-	-	-	-	-	-	-	-
Total	5,040.04	12,031.22	7,930.41	138.71%	-34.08%	100.00%	100.00%	100.00%
Cumulative Totals[3]	36,666.96	48,698.18	56,628.59	32.81%	16.28%			

Type of Programme	Outstandings (Millions of US dollars, end of period)			Growth Rate (Percent)		Share of Outstandings by Type of Programme (Percent)		
	2015	2016	2017	2014/15	2015/16	2015	2016	2017
Line of Credit	2806.08	5808.74	3662.12	107.01%	-36.95%	45.49%	56.31%	43.18%
Note Purchase	100.00	159.80	249.26	59.80%	55.98%	1.62%	1.55%	2.94%
Receivables Purchase/Discounting	167.07	127.13	98.24	-23.91%	-22.72%	2.71%	1.23%	1.16%
Direct Financing	392.71	569.52	722.33	45.02%	26.83%	6.37%	5.52%	8.52%
Project and Export Development Financing	147.09	122.05	196.93	-17.02%	61.35%	2.38%	1.18%	2.32%
Syndications[1]	1905.08	3073.30	2862.26	61.32%	-6.87%	30.89%	29.79%	33.75%
Special Country Risk[2]	151.18	109.99	109.99	-27.25%	0.00%	2.45%	1.07%	1.30%
Future-Flow Pre-Financing	344.93	303.73	367.09	-11.94%	20.86%	5.59%	2.94%	4.33%
Asset-Backed Lending	153.97	41.36	138.84	-73.14%	235.69%	2.50%	0.40%	1.64%
Export Development Programme	0.00	0.00	73.48	-	-	0.00%	0.00%	0.87%
Memorandum								
Country Programme	955.39	1070.14	1176.63	12.01%	9.95%	15.49%	10.37%	13.87%
COTRALF	1224.00	5000.00	1600.00	308.50%	-68.00%	19.84%	48.47%	18.87%
Total	6,168.11	10,315.62	8,480.54	67.24%	-17.79%	100.00%	100.00%	100.00%
Cumulative Totals[3]								

1) Includes cofinancing and participations. 2) Contingent liabilities. 3) Since the Bank began operations in September 1994
Note: Gaps represent infinity. Source: Afreximbank

3.1.1.2 Syndications Programme

The Syndications Programme is a risk-sharing programme used by the Bank to leverage international financing in support of trade-and project-related activities across the continent. Under this programme, the Bank arranges or joins a syndicate or club of reputable international and/or African banks to provide financing to African entities.

Approvals under the programme amounted to US$2.24 billion in 2017, up 13.93 percent from US$1.96 billion in 2016, making it the second largest programme (about 28 percent of total approvals) after the LOCP. Outstanding loans under the programme decreased by 6.87 percent to US$2.86 billion in 2017 from US$3.07 billion in 2016, but their share in the total portfolio remained high at 33.75 percent (Table 3.1 and Figure 3.3).

The strong performance of the Syndications Programme reflects the Bank's growing role as a leader in syndicated loans in Africa. In this regard, the Bank, in 2017, lead/co-lead 11 transactions amounting to US$3.11 billion and was ranked in the top 30 mandated lead arrangers of syndicated loans in Africa. Through its increasingly visible and active role in arranging syndicated loans on the continent, the Bank was able to leverage its capital and better serve its clients during the year.

3.1.1.3 Direct Financing Programme

Under the Direct Financing Programme (DFP), the Bank provides pre- and post-export financing directly to corporates with a balance sheet size of at least US$2 million and an annual trade turnover of at least US$10 million. The DFP was the third largest programme in terms of approvals in 2017, with US$1.32 billion of facilities approved, a decrease of 31.74 percent relative to 2016 (US$1.96 billion). The programme accounted for 16.65 percent of total approvals during the year, slightly higher than the 16.08 percent recorded in 2016. Outstanding loans under the programme amounted to US$722.33 million in 2017, 26.83 percent higher than in 2016

Operations & Activities

Table 3.2. Afreximbank: Distribution of Loan Approvals and Outstandings by Sector, 2015-17

Sector Financed	Approvals (Millions of US dollars)			Growth Rate (Percent)		Share of Approvals by Sector (Percent)			Outstandings (Millions of US dollars, end of period)			Growth Rate (Percent)		Share of Outstandings by Sector (Percent)		
	2015	2016	2017	2015/16	2016/17	2015	2016	2017	2015	2016	2017	2015/16	2016/17	2015	2016	2017
Agriculture	280.94	249.75	368.22	-11.10%	47.44%	5.57%	2.08%	4.64%	349.49	412.33	633.89	17.98%	53.73%	5.67%	4.00%	7.47%
Energy	698.87	1052.00	677.95	50.53%	-35.56%	13.87%	8.74%	8.55%	1,382.63	1,633.98	1,720.48	18.18%	5.29%	22.42%	15.84%	20.29%
Services	210.73	179.99	294.47	-14.59%	63.60%	4.18%	1.50%	3.71%	172.03	287.97	358.03	67.40%	24.33%	2.79%	2.79%	4.22%
Metals and Minerals	11.00	170.00	60.86	1445.45%	-64.20%	0.22%	1.41%	0.77%	30.98	175.85	23.66	467.62%	-86.55%	0.50%	1.70%	0.28%
Transportation	150.00	33.52	113.00	-77.65%	237.11%	2.98%	0.28%	1.42%	475.95	318.69	277.56	-33.04%	-12.91%	7.72%	3.09%	3.27%
Manufacturing	182.80	140.18	1210.26	-23.32%	763.36%	3.63%	1.17%	15.26%	160.98	146.58	272.73	-8.95%	86.06%	2.61%	1.42%	3.22%
Telecommunications	65.84	119.50	105.00	81.50%	-12.13%	1.31%	0.99%	1.32%	283.62	275.04	327.50	-3.03%	19.07%	4.60%	2.67%	3.86%
Financial Institutions	3439.86	10086.28	5100.65	193.22%	-49.43%	68.25%	83.83%	64.32%	3,312.43	7,065.18	4,866.68	113.29%	-31.12%	53.70%	68.49%	57.39%
Total	5,040.04	12,031.22	7,930.41	138.71%	-34.08%	100.00%	100.00%	100.00%	6,168.11	10,315.62	8,480.54	67.24%	-17.79%	100.00%	100.00%	100.00%
Cumulative Totals[1]	36,666.96	48,698.18	56,628.59	32.81%	16.28%											

1) Since the Bank began operations in September 1994
Note: Gaps represent infinity
Source: Afreximbank

US$
29.35ml
Approvals: receivables/ purchase discounting

(US$569.52 million). The DFP accounted for 8.52 percent of the total loans portfolio as at the end of 2017 (Table 3.1 and Figure 3.3).

In addition to prioritising the use of the COTRALF to stabilise trade finance markets, the Bank also committed significant resources towards supporting corporates as another way of filling the gap in the African trade finance markets during the period.

3.1.1.4 Special Risks Programme

The Special Risks Programme (SRP) is designed to provide comfort to lenders, extending facilities to African sovereigns, banks, and corporates by transferring some of the financing risks not normally amenable to market solutions, to the Bank's credit risk. There were no transactions approved under the programme in 2017, given the large emergency interventions under the COTRALF, which only began to unwind late in the year. The outstanding amount of risk remained unchanged at US$109.99 million, accounting for about 1.3 percent of the total portfolio (Table 3.1 and Figure 3.3).

3.1.1.5 Note Purchase Programme

Through the Note Purchase Programme, the Bank provides financing to corporates via the purchase of promissory notes or similar instruments issued or accepted by them and avalized or guaranteed by an acceptable bank or other corporates. With US$249.26 million in outstanding loans in 2017 (up from US$159.8 million in 2016), the programme accounted for 2.94 percent loans outstanding during the year, up from 1.55 percent in 2016 (Table 3.1 and Figure 3.3). The use of the Note Purchase Programme has slowed in recent years for many reasons, especially the Bank's long experience with many of the usual beneficiaries, which has enabled them to migrate to other financing programmes.

Operations & Activities

Table 3.3. Afreximbank: Distribution of Loan Approvals and Outstandings by Type of Beneficiary Institution, 2015-17

Type of Beneficiary Institution	Approvals (Millions of US dollars)			Growth Rate (Percent)		Share of Approvals by Type of Beneficiary Institution (Percent)			Outstandings (Millions of US dollars, end of period)			Growth Rate (Percent)		Share of Outstandings by Type of Beneficiary Institution (Percent)		
	2015	2016	2017	2015/16	2016/17	2015	2016	2017	2015	2016	2017	2015/16	2016/17	2015	2016	2017
Corporate/Government Agency/Parastatal	1600.18	1358.21	2679.76	-15.12%	97.30%	31.75%	11.29%	33.79%	2,629.76	2,725.14	2,802.31	3.63%	2.83%	42.63%	26.42%	33.04%
Financial Institutions	3439.86	10236.28	5100.65	197.58%	-50.17%	68.25%	85.08%	64.32%	3,538.35	7,412.73	5,053.17	109.50%	-31.83%	57.37%	71.86%	59.59%
Government	0.00	436.73	150.00	-	-65.65%	0.00%	3.63%	1.89%	-	177.75	625.07	-	251.66%	0.00%	1.72%	7.37%
Total	**5,040.04**	**12,031.22**	**7,930.41**	**138.71%**	**-34.08%**	**100%**	**100%**	**100%**	**6,168.11**	**10,315.62**	**8,480.54**	**67.24%**	**-17.79%**	**100%**	**100%**	**100%**
Cumulative Totals[1]	**36,666.96**	**48,698.18**	**56,628.59**	**32.81%**	**16.28%**											

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

US$
100ml
Approvals: Asset-Backed Lending Programme

3.1.1.6 Receivables Purchase/ Discounting Programme

The Receivables Purchase/Discounting Programme comprises a family of facilities involving purchase of specific or groups of receivables from the sale of goods and services to foreign or domestic buyers, with or without recourse to the seller. The facilities operated under this programme are: Forfaiting, Invoice/Receivables Discounting, Factoring and Receivables Management, and Joint Bill Discounting/Financing and Refinancing.

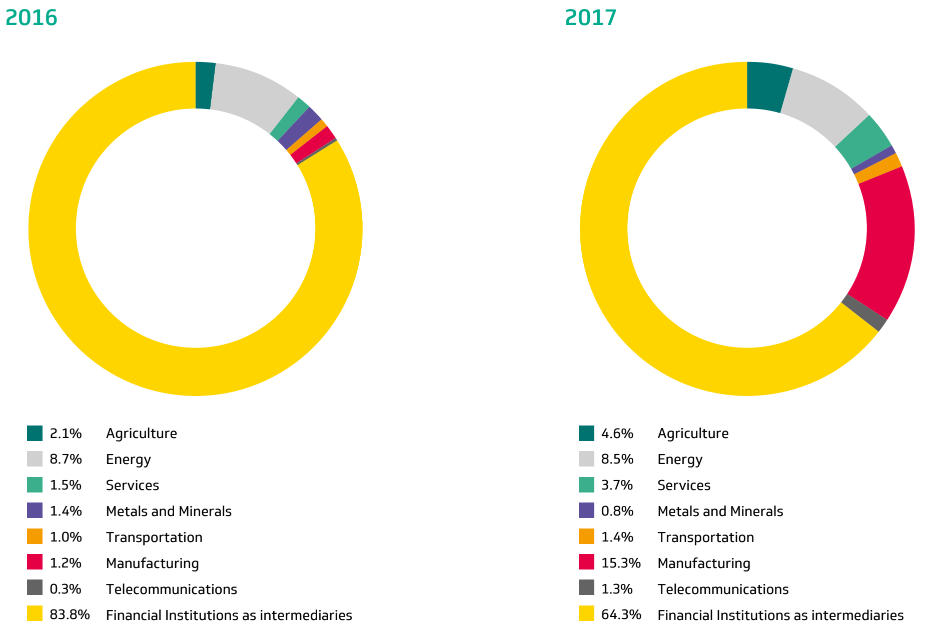
In 2017, the Bank approved US$29.35 million under this programme. Outstanding loans under the programme stood at US$98.24 million in 2017, accounting for 1.16 percent of total loans outstanding (Table 3.1 and Figure 3.3).

3.1.1.7 Project Financing Programme

Under the Project Financing Programme, the Bank provides limited recourse financing in support of export projects, including mining manufacturing and related projects, and infrastructure projects that facilitate exports or that generate services related to trade-enabling infrastructure, such as, among others, power, ports, and telecommunications. Furthermore, the programme aims to assist private sector operators and African government agencies executing essential projects that may not be directly export-generating but that create a conducive environment for investment in the export sector.

Loans outstanding under the programme amounted to US$196.93 million in 2017, up from US$122.05 million in 2016. Activities under the programme accounted for about 2.32 percent of the total loans portfolio in 2017 compared with 1.18 percent in 2016 (Table 3.1 and Figure 3.3).

Figure 3.4 Afreximbank: Distribution of Loan Approvals by Sector, 2016-17



Source: Afreximbank

Operations & Activities

Table 3.4. Afreximbank: Distribution of Loan Approvals and Outstandings by Trade Direction, 2015-17

Trade Direction	Approvals (Millions of US dollars)			Growth Rate (Percent)	
	2015	2016	2017	2015/16	2016/17
Intra-African[1]	375.25	283.35	2,468.83	-24.49%	771.30%
Extra-African[2]	483.90	316.77	148.76	-34.54%	-53.04%
Mixed-directional[3]	4,180.89	11,431.10	5,312.82	173.41%	-53.52%
Total	**5,040.04**	**12,031.22**	**7,930.41**	**138.71%**	**-34.08%**
Cumulative Totals[4]	**36,666.96**	**48,698.18**	**56,628.59**	**32.81%**	**16.28%**

Trade Direction	Share of Approvals by Trade Direction (Percent)			Outstandings (Millions of US dollars, end of period)			Growth Rate (Percent)		Share of Outstandings by Trade Direction (Percent)		
	2015	2016	2017	2015	2016	2017	2015/16	2016/167	2015	2016	2017
Intra-African[1]	7.45%	2.36%	31.13%	750.95	799.89	692.18	6.52%	-13.47%	12.17%	7.75%	8.16%
Extra-African[2]	9.60%	2.63%	1.88%	299.46	284.73	329.39	-4.92%	15.69%	4.85%	2.76%	3.88%
Mixed-directional[3]	82.95%	95.01%	66.99%	5,117.70	9,231.00	7,458.97	80.37%	-19.20%	82.97%	89.49%	87.95%
Total	**100.00%**	**100.00%**	**100.00%**	**6,168.11**	**10,315.62**	**8,480.54**	**67.24%**	**-17.79%**	**100.00%**	**100.00%**	**100%**
Cumulative Totals[4]											

1) Related to transactions which are expected to have impact exclusively on intra-African Trade
2) Related to transactions which are expected to have impact exclusively on extra-African Trade
3) Related to transactions which are expected to have impact on both intra- and extra-African Trade (mixed-directional Trade)
4) Since the Bank began operations in September 1994
Source: Afreximbank

3.1.1.8 Export Development Programme

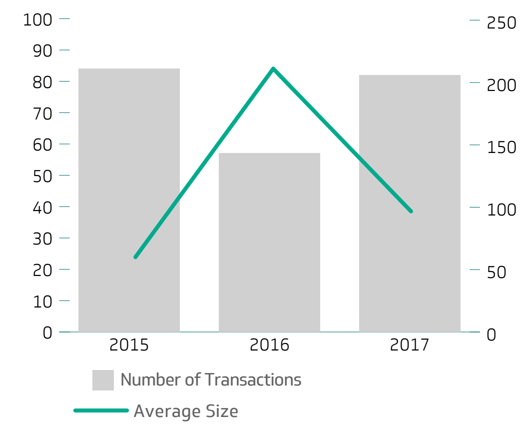
The Bank's Export Development Programme combines credit, risk bearing, twinning, market access, and advisory services geared towards creating non-commodity export products for sale to a broad range of export markets. Through the programme, the Bank aims to facilitate non-commodity export production, especially export manufacturing, and foster the implementation of regional projects, including tradable infrastructure services. In line with its Industrialisation and Export Development strategic pillar, the Bank approved US$107 million under the programme in 2017 pertaining to projects in the manufacturing and agro-processing sectors as well as a special economic zone in Gabon. The financing of these projects aims to contribute to higher value-addition and export development in these countries. Outstanding loans under the programme stood at US$73.48 million as at the end of 2017 (Table 3.1 and Figure 3.3).

3.1.1.9 Future Flow Pre-Financing Programme

Financial future-flow transactions refer to future-flow debt offerings that rely, for their repayment, upon receivables not generated from the export of physical goods. These receivables include, among others, credit card or cheque receivables, tourism receivables, migrant remittances, royalties arising from bilateral air services agreements, overflight fees, and fishing royalties. Future flows debt offerings provide flexibility in financing difficult transactions, especially when other forms of collateral are not easily available.

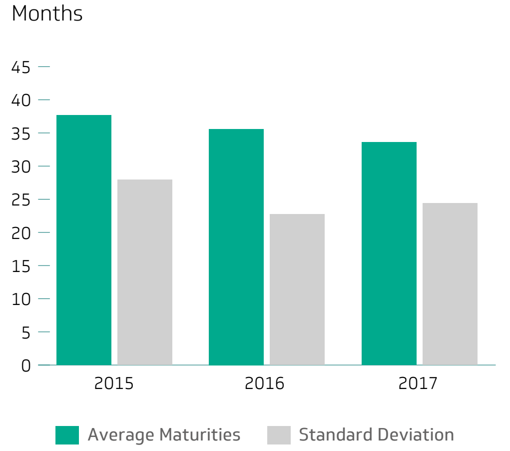
Outstanding loans under the programme stood at US$367.09 million in 2017, up from US$303.73 million in 2016. The programme accounted for 4.33 percent of the Bank's total loans portfolio during the year (Table 3.1 and Figure 3.3).

Figure 3.5 Afreximbank: Number and Average Size of Approved Transactions, 2015-17



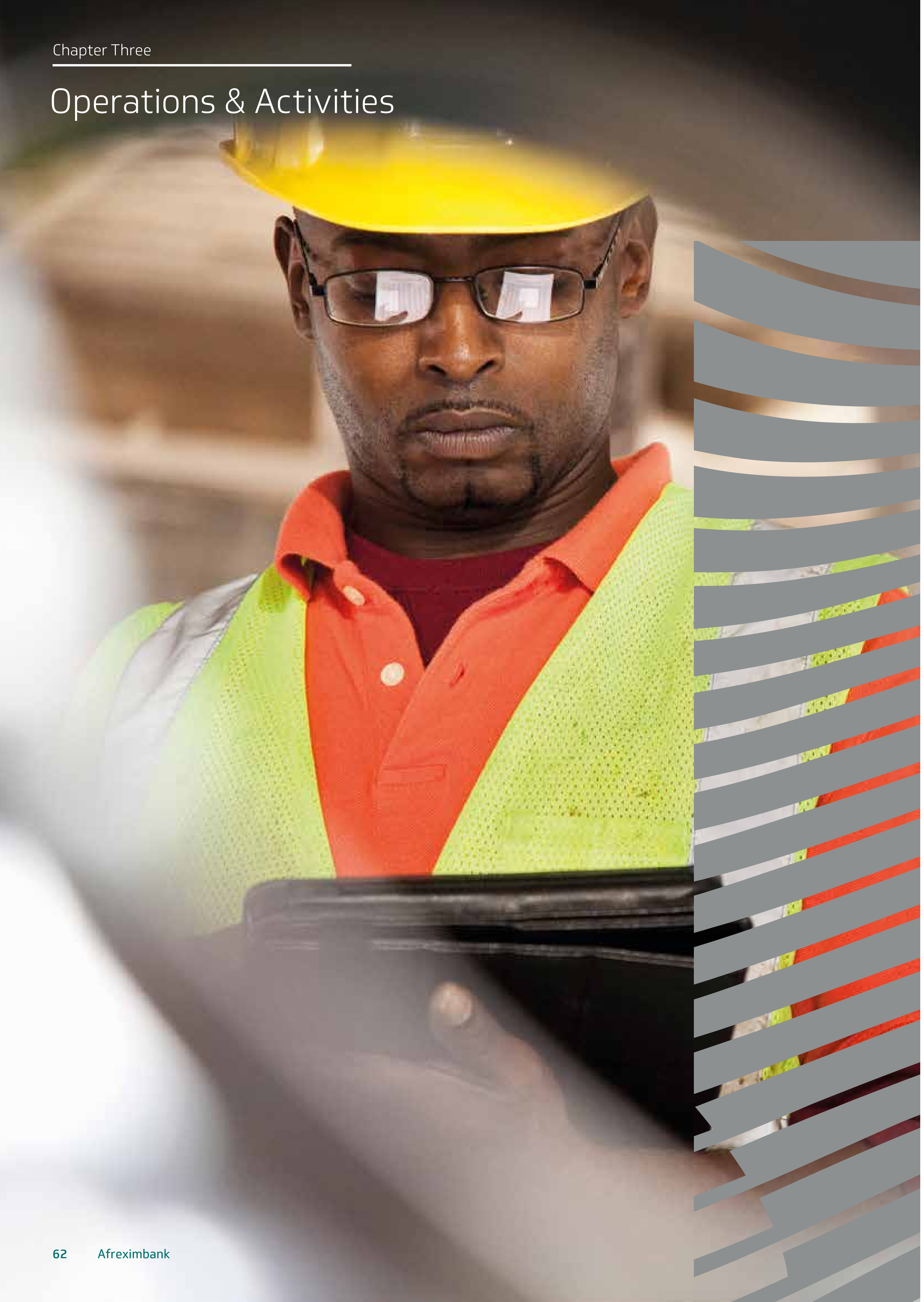
Source: Afreximbank

Figure 3.6 Afreximbank: Average Maturity and Standard Deviation of Approved Transactions 2015-17



Source: Afreximbank

Operations & Activities



US$
2.31bn
Total approvals under the syndications programme

3.1.1.10 Asset-Backed Lending Programme

The Asset-Backed Lending Programme helps meet African entrepreneurs' growing demand for financing to acquire physical assets within the framework of privatisation and local-content-promotion opportunities. One of the advantages of this programme is that the assets can serve as solid collateral, as their values are normally expected to rise with inflation.

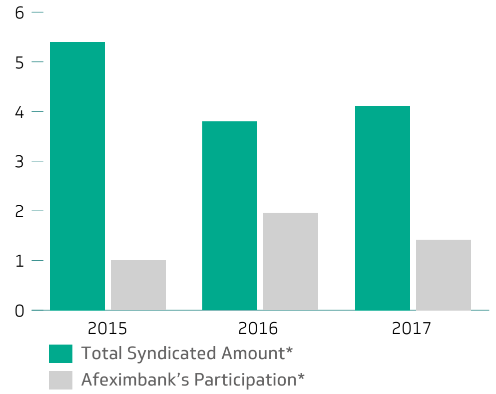
In 2017, the Bank approved US$100 million under the programme. Outstanding loans rose to US$138.84 million in 2017, up from US$41.36 million in 2016. The programme's share in the total loans portfolio was 1.64 percent at the end of the reporting period (Table 3.1 and Figure 3.3).

3.1.1.11 Country Programmes

The Bank uses Country Programmes to assist its member countries in peculiar circumstances not amenable to solutions offered by any one of the products on the Bank's menu. The programmes may be designed to assist a country undergoing economic difficulties or to support the economic development strategy of a country calling for a multiplicity of financing products. As at the end of 2017, Country Programmes were operating in Côte d'Ivoire, Sudan, and Zimbabwe in support of various sectors including, among others, agro-processing, manufacturing, trade-enabling infrastructure, and financial services. Total loan approvals under Country Programmes amounted to US$883.38 million, up from US$366 million in 2016. Outstanding loans increased by 9.95 percent, reaching US$1.17 billion in 2017 compared with US$1.07 billion in 2016 (Table 3.1 and Figure 3.3).

Figure 3.7 Syndications and Club Deals Arranged or co-arranged by the Afreximbank, 2015–17

Billions of US dollars



Source: Afreximbank
*Include the amount attracted per US dollar participation by the Afreximbank

3.1.2 Analysis of Transactions

3.1.2.1 Sectors Financed

The Bank's facility approvals to financial institutions amounted to US$5.1 billion in 2017, down from US$10.08 billion in 2016. Financial institutions remained the main beneficiary sector of the Bank's lending operations during the year, consistent with the Bank's operating model, which relies on trade finance intermediaries as key channels of product delivery. Financial institutions also accounted for the largest share (57.39 percent, or US$4.86 billion) of loans outstanding at the end of the year.

Approvals in support of the manufacturing sector increased sharply from US$140.18 million in 2016 to US$1,210.26 million in 2017 (accounting for a share of 15.26 percent of total approvals), reflecting the Bank's efforts to foster industrialisation and value-added exports across the continent in line with its Industrialisation and Export Development strategic pillar. Loans outstanding to the manufacturing sector increased by 86.06 percent from US$146.58 million in 2016 to US$272.73 million in 2017, as most of the approvals in 2017 were still under documentation during the year.

Approvals to the agriculture sector also rose significantly during the year, up from US$249.75 million in 2016 to US$368.22 million in 2017 (an increase of 47.44 percent). Outstanding loans for the agriculture sector rose by 53.73 percent to US$633.89 million as at the end of 2017. Approvals to the services and transportation sectors increased by 63.60 percent (to US$294.47 million in 2017) and 237.11 percent (to US$113 million in 2017), respectively. Outstanding loans for the services sector increased by 24.33 percent to US$358.03 million as at the end of 2017, while outstanding loans to the transportation sector decreased by 12.91 percent to US$277.73 million as at the end of 2017.

In contrast to the marked growth of approvals to the manufacturing sector, the Bank's approvals to the energy sector decreased by 35.56 percent to US$677.95 million in 2017, reflecting the Bank's efforts to further diversify its sectorial exposure beyond energy. In terms of loans outstanding, exposure to the energy sector stood at US$1.72 billion in 2017, accounting for about 20 percent of the total loans portfolio (Table 3.2 and Figure 3.4).

3.1.2.2 Beneficiary Institutions

As credit approvals to banks decreased in 2017 following the winding down of the COTRALF, the share of approvals to corporates increased by 33.79 percent to US$2.67 billion compared with US$1.35 billion in 2016. In terms of outstanding loans, the share of facilities to corporates stood at 33.04 percent of the total portfolio while the share to banks stood at 59.59 percent against a share of 71.86 percent in 2016. Total outstanding loans to governments amounted to US$625.07 million as at the end of 2017, accounting for 7.37 percent of the total loans exposure (Table 3.3).

3.1.2.3 Direction of Trade Financed

Mixed-directional (both extra and intra) trade accounted for the largest share of approvals and outstanding loans in 2017 at US$5.31 billion (66.99 percent) and US$7.45 billion (87.95 percent), respectively.

In support of the Bank's Intra-African Trade strategic pillar, approvals for intra-African trade facilities rose from US$283.35 million in 2016 to US$2,468.83 million in 2017, accounting for 31.13 percent of total approvals against a share of 2.36 percent in 2016. In addition, a share of approvals to intra-African trade is captured under the mixed directional trade. For outstanding loans, exposure to intra-African trade transactions stood at US$692.18 million in 2017, accounting for 8.16 percent of the Bank's total loans portfolio compared with a share of 7.75 percent in 2016 (Table 3.4).

3.1.2.4 Transaction Size and Other Transaction Features

In 2017, the Bank approved 82 transactions compared with 84 and 57 in 2015 and 2016, respectively. The average size of approved transactions fell from US$211.1 million in 2016 to US$96.7 million in 2017. This drop reflected a normalisation, as the average size of approved transactions in 2016 was driven upward by large COTRALF transactions (Figure 3.5).

During the year, the average maturity of approved transactions decreased to 33.6 months from 35.6 months and 37.7 months in 2016 and 2015, respectively. The standard deviation of maturity of approvals increased slightly to 24.4 months in 2017 from about 22.7 months in 2016 (Figure 3.6). The average maturity of the loan book remained unchanged at 17 months in 2017.

3.1.2.5 Leveraging Financing into Africa

Traditional instruments used by the Bank to leverage international financing into Africa include arranging or co-arranging syndications and club deals, and inviting others to share the risk of such deals; granting lenders taking African exposures with 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 be unable to access international financial markets; and providing advisory services that encourage the flow of loans and foreign direct investment into Africa.

In 2017, the Bank was the mandated lead/co-lead arranger of 11 syndicated transactions totalling US$3.11 billion. Total approvals under the Syndications Programme stood at US$2.31 billion in 2017 (including one transaction in which the Bank was not mandated lead/co-lead arranger). The Bank's final hold on these approved transactions stood at US$1.42 billion.

The total amount of syndicated loans supported by the Bank reached US$4.11 billion in 2017 compared with US$3.78 billion in 2016. This corresponds to a leverage ratio of 3 (US$3 leveraged into the continent for each US$1 committed by the Bank) compared with a ratio of 2 in 2016 (Figure 3.7).

3.2 ACTIVITIES

3.2.1 Treasury Activities, Risk Management, and Compliance

3.2.1.1 Treasury Activities

In 2017, the Bank pursued its treasury activities in accordance with policies and procedures enshrined in the Bank's Risk Management Policies and Procedures (RMPPs). In line with its funding and investment strategies for 2017, as well as the Bank's fifth Strategic Plan, the main treasury operations conducted during the year included funding the Bank's requirements as approved by the Board in December 2016, hedging the Bank's non-US dollar exposures, and investing any surplus and/or strategic liquid resources. Some of the key treasury activities in 2017 are highlighted below.

In 2017, the Bank mobilised about US$4.8 billion, spread across diverse sources. It raised US$1.80 billion under the Bank's Central Bank Deposit Programme (CENDEP), which seeks to mobilise part of the foreign exchange reserves of African central banks, and US$310 million from non-central bank African institutions. The funds raised under the Bank's Africa resource mobilisation initiative have gone a long way in financing viable trade and project ventures in Africa; reducing the Bank's cost of funds and, hence, the pricing of its facilities; and containing overreliance on non-African sources. The proportion of the Bank's treasury liabilities raised in Africa was 28 percent in 2017. In addition, about US$388 million and US$180 million, respectively, was raised from bilateral lines and development finance institutions/export credit agencies/money market lines.

In addition to these fundraising activities, the Bank concluded three notable transactions between January and December 2017: (1) a syndicated Samurai loan issuance; (2) a euro-currency syndicated loan; and (3) an international bond issuance under the Bank's Euro Medium-Term Note (EMTN) Programme.

In March 2017, the Bank closed a dual-currency (US dollar/Japanese yen) US$105 million-equivalent syndicated Samurai loan in Japan in an exercise meant to buttress the Bank's efforts to geographically diversify its sources of funding and investor base. The portion raised in Japanese yen was swapped into US dollars, realizing the all-in cost of approximately 22 basis points below the Bank's US dollar funding cost curve. Through an accordion clause provision, the amount of the Samurai loan was increased by an equivalent of US$50 million in November 2017.

In May 2017, the Bank closed an approximately US$1.16 billion- equivalent dual-currency (US$632.9 million and €499.55 million) dual-tenor (two and three years) syndicated term loan in the euro syndicated loans market. About 70 percent of the commitments came from Asia and the Middle East. This facility greatly enhanced the Bank's drive to diversify its funding book by investor type, geography, and tenor. The facility attracted aggregate commitments amounting to the equivalent of US$1.36 billion, which was scaled back to a final facility size equivalent to US$1.16 billion, with 35 banks joining the syndicate. About 80 percent of the funds were for the three-year tenor, which helped the Bank lengthen the tenor of its funding in the euro currency loan market space.

In June, the Bank tapped the international debt capital markets by issuing a seven-year US$750 million note through its EMTN in an issuance that was oversubscribed and competitively priced, with the final order book reaching US$2.25 billion. The EMTN Programme was updated between April and May and its limit increased from US$3 billion to US$5 billion. Comprehensive roadshows were held in the Far East, Middle East, mainland Europe, and the United Kingdom, ensuring a wider marketing of the issuance. The deal was executed within a short window and priced lower than all of the Bank's prior five-year issuances. The spread achieved for the seven-year issue—220 basis points over mid-swaps—was 100.5 basis points lower than for the outstanding 2019s, which were priced at m/s + 320.5 basis points, and 80 basis points lower than the outstanding 2024s, which were priced at m/s + 300 basis points (both being five-year issues). The competitive pricing is testimony to the continued investor confidence in the Bank's credit strength and a manifestation of the fruits of the Bank's efforts to establish strong investor relations, punctuated by comprehensive investor engagements during and before issuance.

209%

liquidity coverage ratio after major repayments

The main maturities that the Bank repaid during the first half of 2017 included US$200 million of bilateral and US$60 million development finance institution maturities (in March), and US$216 million of bilateral and US$911 million syndicated loans (in May). During the second half of the year, the Bank repaid US$80 million of export credit agency/development finance institution facilities, €41 million bilateral lines (in October); about US$35 million bilateral lines and US$2 billion CENDEP deposits (in November); and €76 million worth of bilateral lines and US$1 billion CENDEP deposits (in December). Despite these major repayments, the Bank ended the year with a very strong liquidity position, posting a liquidity coverage ratio of 209 percent.

During the review period, the Bank continued to manage foreign exchange risk arising from its financing operations by borrowing in currency of lending and/or entering into foreign exchange derivative contracts with creditworthy counterparties. All foreign exchange derivatives that the Bank entered into in 2017 yielded a cost that was competitive and well below the funding cost in the Bank's functional currency.

The Bank also placed funds in liquid, short-term investment instruments with investment-grade-rated counterparties approved by the Board of Directors. As at 31 December 2017, a total of US$2.35 billion was placed with a number of approved counterparties and about US$772 million was maintained in current accounts to ensure sufficient liquid balances to fund recurring financial obligations as they fell due, as per the Bank's liquidity management policy.

In 2017, the Bank resourced the Africa Resources Mobilisation Unit under the Treasury Department, which is charged with mobilising resources from Africa. This effort, in turn, facilitated intensified marketing of the CENDEP to member countries' central banks and stepped-up outreach to non-central bank African institutions for deposits. As a result, the Bank raised US$2.1 billion raised from Africa during the year, accounting for 28 percent of the Bank's liabilities in 2017.

The Bank also started to respond to customer demands for local currency funding in its member countries. To that end, the Board approved the Local Currency Funding Programme, which is aimed at raising funds in African local currencies and lending them to customers in the same currency. The process of raising funds in local currency in selected markets began in earnest in 2017 and the Bank expects to issue its debut local-currency bond in 2018.

Furthermore, during the period under review, the Bank's Treasury Department embarked on three critical information technology systems projects aimed at improving the department's efficiency. More specifically, it: (1) automated its processes by implementing a trading platform and interfaced it with the Treasury Management System, which, in turn, is interfaced with the Bank's payment and settlement platform (SWIFT); (2) introduced an asset and liability management system, which, once completed, will result in major improvements in reporting and decision-making; and (3) began to upgrade its Treasury Management System to adapt to ever-evolving technologies, a changing economic environment, and best market practices.

3.2.1.2 Risk Management

The Bank faces a number of risks—business and strategic, credit, operational, liquidity, compliance, market, and reputational—the proper management of which is critical to its profitability and fulfilment of its mandate and strategic goals.

Ownership of risk is at the business level, which forms the first line of defence. The Bank's Risk Management Department plays a second line of defence role in the Bank's risk control framework, with the risk assurance activities of Internal Audit providing a third line of defence. The Risk Management Department is tasked with the maintenance and effective implementation of the Bank's RMPPs. To that end, the department is responsible for embedding of a strong risk culture and creating risk awareness across the organisation; and facilitating the identification, measurement, monitoring, controlling, and aggregated reporting of the Bank's principal risks.

In 2017, risk management activities focused on improving, strengthening, and enhancing the Bank's risk management framework. Key initiatives in this regard included the ongoing comprehensive review and enhancement of the RMPPs; adoption of a revised delegation of credit approval authority framework; adoption of the Bank's Risk Appetite Statement; implementation of operational risk management tools, including Risk Control Self Assessments and Key Risk Indicators, for the core departments of the Bank; implementation of the Bank's revised loan grading system; and management and recovery of problem credit facilities.

3.2.1.3 Compliance Processes

The Bank has a set of compliance policies and procedures that include a system of controls and supervision, which provide reasonable assurance that the Bank and each individual acting on its behalf comply with the Bank's charter and other requirements governing its operations to manage associated risks. To that end, the Compliance Department establishes and maintains compliance processes; monitors, assesses, and reports non-compliance to senior management; and produces quarterly reports on compliance matters, through the Management Compliance Committee, to the Board of Directors.

In 2017, the department's role continued to expand to include the monitoring of the Bank's activities related to compliance with its statutes and to promote an overall compliance culture in the Bank. During the year, regular monitoring and testing was conducted on a number of compliance matters, including, among others, accuracy of disclosures made to investors, clients, and regulators; conflicts of interest; anti-money laundering obligations, including proper identification collection and risk assessment; accuracy of books and records; and protection of the privacy of client records and information.

During the year, the Compliance Department undertook the following activities: compliance training, facilitated by an external expert, in which all Bank staff participated; Customer Due Diligence Assessments for all of the Bank's on-boarded relationships, including periodic reviews of existing relationships as part of ongoing monitoring; and review and updating of the Bank-wide Corporate Governance Charter.

Box 3.1: Countering the Effects of De-Risking on African Entities

De-risking—defined by the Financial Action Task Force (FATF), an inter-governmental body established in 1989, as "a phenomenon of financial institutions terminating or restricting business relationships with clients or categories of clients to avoid, rather than manage, risk in line with the FATF's risk-based approach"—is on the rise. While the practice of de-risking may provide some comfort to financial institutions, it also has negative consequences for various African entities. As such, the Afreximbank is taking steps aimed at lessening the burden of de-risking.

Main Characteristics of De-Risking

A 2015 World Bank report notes that 75 percent of the large international banks surveyed had reported a decline in their correspondent banking relationships since 2014, and the most recent (2018) World Bank study on de-risking shows that it has had effects on cross-border transactions, especially in the Southern African Development Community. According to the study, pan-African banks have been under pressure from their correspondents to stop undertaking certain business (for example, supplying foreign currencies) in neighboring countries to maintain their correspondent banking relationships. Consequently, US dollar clearing has been terminated or restricted in several countries, which in turn further weakens local economies.

Furthermore, a 2016 International Finance Corporation survey reports that, in sub-Saharan Africa, the percentage of banks with a negative outlook increased from 0 percent to 27 percent since 2013, resulting in Africa witnessing significant levels of de-risking. Increased capital requirements, coupled with rising compliance costs of Know-Your-Customer (KYC), Anti-Money-Laundering (AML), and Combating-the-Financing-of-Terrorism (CFT), have resulted in the exit of several global banks from cross-border relationships with many emerging market clients and markets, particularly in the correspondent banking business.

Studies show that, while de-risking is largely carried out by international banks, local banks also engage in de-risking exercises of their own due to perceived high risk of money laundering and illicit financial flows on local counterparties. One example is the closure of foreign exchange bureaus in Zimbabwe to deter parallel foreign currency markets. As their cross-border counterparty banks face financing challenges, local banks are finding it difficult to absorb regulatory compliance requirements as well. In most cases, local banks do not receive explanations for terminated correspondent banking relationships, hindering their ability to respond or adjust.

Research, in 2017, by the Eastern and Southern Anti-Money Laundering Group concludes that de-risking represents a market failure because all invested stakeholders (banks, regulators, and bank customers and clients) appear to be acting reasonably and in their own best interest but, in fact, by engaging in de-risking, they have created impediments for financial inclusion goals. De-risking also creates problems along the supply chain, making it difficult to import and export goods. This has a direct impact on levels of poverty and unemployment.

Motivation behind De-Risking

According to the 2015 World Bank study, the main reasons for the decline in correspondent banking relationships are broadly that some banks terminated correspondent banking relationships purely because they did not find the relationship to be cost effective; and some banks cut off the relationship because of money laundering and terrorist financing risks that they were not able to manage, including fear of enforcement action by international/regional regulators.

Studies carried out by the International Monetary Fund (2016) and Durner and Shetret (2015) show that the drivers of de-risking of perceived or assessed risk on respondent banks include significant compliance costs; regulatory obligations; and enhanced enforcement, including economic and trade sanctions. Other drivers include AML/CFT requirements, anti-bribery and tax evasion regulations, United Nations Security Council Resolutions targeted financial sanctions, client profitability, reputational concerns, and enhanced corporate and individual accountability.

AML compliance costs have risen 53 percent since 2011, according to a 2014 KPMG survey. A 2016 survey of financial services compliance professionals worldwide by Dow Jones and the Association of Certified AML Specialists found that most respondents had increased their AML investment by up to 24 percent since 2013. Because of simultaneous reserve capital and compliance requirement increases, banks are perceived to be de-risking from certain markets and clients.

Compliance risk increases costs for financial institutions in several ways:

- The risk of large penalties for violations raises the potential cost of cross-border exposure. The additional scrutiny of banks' clients raises costs, particularly for adding new client relationships or markets. For example, HSBC was fined $1.9 billion for allowing possible money laundering to occur through its institution.
- Banks are unable to execute transactions without bearing the costs of putting new processes, procedures, and tools in place that link customer due diligence to transaction monitoring systems that raise flags and investigate suspicious activity continuously in real time.
- A lack of harmonization in compliance requirements raises costs for banks as they seek to understand and apply local requirements.
- Changes to, and tightening of, compliance requirements in any single jurisdiction, along with divergence in levels of enforcement, require additional time, resources and costs to adapt.

Countering the Effects of De-Risking on African Entities (continued)

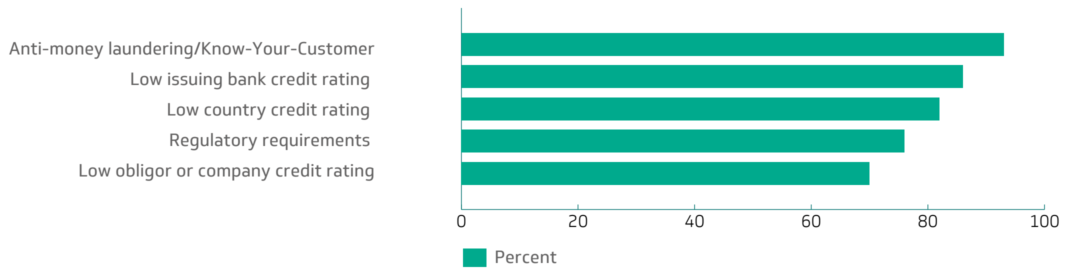
Impact of De-Risking

When access to traditional banking channels is cut off, there is a risk that individuals will be forced to find other methods of making and receiving payments—whether that means using money remittance services or physically transporting suitcases of cash across borders. Ironically, the adoption of less well-regulated channels may bring additional risks. The growing use of less well-regulated payment channels also undermines the aims of financial crime compliance regulations and create more opportunities for money launderers to thrive.

Trade finance: Trade finance, an important subset of correspondent banking, is also affected by de-risking. Evidence shows that a 1 percent increase in a country's trade share raises income per capita by 2 percent. Furthermore, trade supports the availability of goods critical to economic function and life. In Africa, 21 countries in sub-Saharan Africa rely on imports for more than 90 percent of their energy needs. And half of the top 20 rice importers globally are from among the poorest countries in Africa. In addition, domestic producers often require imports of agricultural inputs, such as seeds, fertilizer, agrichemicals, irrigation, and equipment during pre-planting phases and throughout the crop cycle. For goods to be shipped, a confirming bank must be willing to take the payment risk of the local bank. This may not be possible if exposure constraints exist for the client or the country, or the potential return on this exposure does not merit the risk taken. In a 2016 survey by the International Chamber of Commerce, increased costs for AML/KYC continued to be a challenge, with 93 percent of respondents confirming that these factors continue to be a strong impediment to facilitating trade finance (Figure B.3.1.1) and 62 percent noting that they had seen trade finance transactions decline due to AML/KYC considerations.

In today's environment, many international banks with trade finance expertise face increased risk-based capital constraints and other regulatory pressures that have an impact on their emerging market operations.

Figure B.3.1.1



Smaller markets: De-risking affects sectors and stakeholders across emerging markets, with some correspondents terminating over 60 percent of their correspondent banking relationships. Data collected under a 2015 World Bank survey of national regulatory bodies and local banks show that the global de-risking footprint and its resulting financial exclusion have especially affected smaller developing economies in Africa, the Caribbean, Central Asia, Europe, and the Pacific.

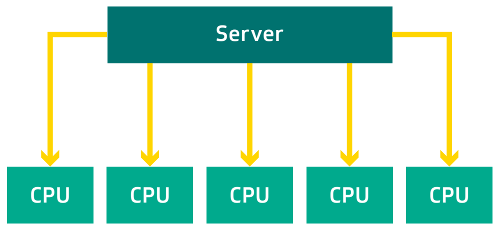
Smaller firms: Small and medium-sized enterprises (SMEs) are among those that are likely to be severely affected by de-risking, particularly as they constitute the majority of businesses in Africa. Research suggests that the reason for this may be the so-called flight to quality. Statistics indicate that, globally, over half of trade finance requests by SMEs were rejected in 2015. This is of consequence, as SMEs in emerging markets are perceived to contribute 80 percent of total employment and almost 40 percent of total exports, both of which are critical to economic growth.

Social impact: De-risking can have a significant impact not only on banks, but also on their end-customers. Many African economies also rely heavily on remittances sent to families from workers abroad. The money passes through money transfer and remittance operators. While many of these are global companies, some are local and have accounts in correspondent banks. De-risking also puts these accounts at risk.

Afreximbank's Role in Mitigating the Effects of De-Risking in Africa

In light of the above factors, several institutions have engaged to support the clarification and consideration of broad guidance on compliance, application of said guidance by individual regulators, and the implications on participants in the formal financial system. For its part, the Afreximbank, as the "Trade Finance Bank for Africa" with a mandate of promoting intra- and extra-African trade, is participating in a number of initiatives that are aimed at lessening the burden of de-risking and improving visibility on Africa. Key among these initiatives is the annual Customer Due Diligence and Corporate Governance Forum. The forum brings global financial sector participants, standard-setting bodies, corporates and regulators together to address, among other things, sharing best practice on having robust customer due diligence processes as well as encouraging good corporate governance, thus improving investor confidence in Africa and reducing the likelihood of being de-risked. It is through this annual forum that global and regional participants endorsed a communique that gave the Afreximbank the mandate to establish a central source of KYC information for African financial institutions and corporates—the Africa Customer Due Diligence Repository Platform (ACDIRP) (Figures B.3.1.2 and B.3.1.3).

Countering the Effects of De-Risking on African Entities (continued)

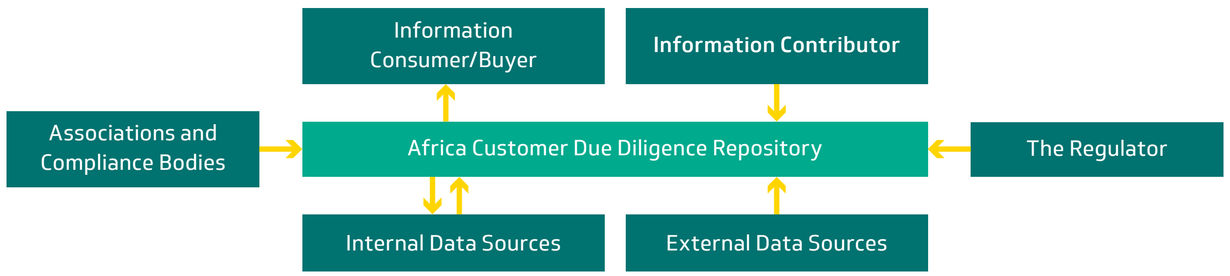


The ACDIRP is a technological innovation that delivers a central repository for gathering and storing primary data required to conduct customer due diligence checks on counterparties in Africa, in accordance with best practices. African corporates and financial institutions, as contributors, upload their information onto the platform, which undergoes a rigorous assessment and verification process before it is published for access by subscribers across the globe. Access to the platform comes via various packages, which gives subscribers the privilege of being partial or full subscribers, and the packages determine the level of access in terms of information viewership and uploading. The platform was developed in line with best practice and guidance from the Bankers Association for Finance and Trade, FATF, and Wolfsberg Group, among other global bodies.

Africa Customer Due Diligence Repository (ACDIRP) Architecture

The objectives of the ACDIRP are primarily to:

- Have an Africa-focused centralized secured database of all customer due diligence information about Africa's financial institutions and corporates;
- Ensure availability of due diligence information on African entities, which will eliminate subjective evaluation of customers and mitigate against perceived risk of trading with African counterparties;
- Help reduce the cost of compliance burden on financial institutions by standardizing the process of on-boarding clients (financial institutions can rely on ACDIRP for accessing KYC information about their African customers); and
- Promote customer due diligence and corporate governance standards in Africa through standardization of information across the continent.



According to research by the International Finance Corporation in 2014, developing a central KYC registry to facilitate the due diligence process is one of the initiatives that will help manage rising compliance costs; this is supported by a 2106 Bank of International Settlements report, reiterating that the use of KYC utilities is a means of reducing the compliance burden for some KYC procedures. As such, the ACDIRP is in line with global innovations to reduce the cost of compliance, thus countering the effects of de-risking in Africa.

The ACDIRP is a step forward in demonstrating greater transparency, hence promoting good governance over Africa's financial institutions and corporates' activities and compliance measures to reduce the likelihood of being de-risked.

The Afreximbank has taken a giant step in ensuring that ACDIRP's global users fully benefit from the platform as a one-stop shop. This benefit, known as the CIN benefit—Customer Due Diligence, Invest in Africa, and News and Events (Figure 4), ensures that all the relevant information about African banks and corporates and intelligence about Africa's product offerings, metrics, and statistics are accessible through one portal, accompanied by latest news and events, hence, improving visibility on Africa.

The CIN Benefit of ACDIRP: Africa's One Stop Shop

With the growth of ACDIRP, there will be more collaboration within Africa, resulting in standardized due diligence processes to assess risk for counterparties or by actors along the payment process, including the trade finance supply chain, remittance flows, and others.

3.2.2 Shareholders' Matters

The shareholders held their 24th Annual General Meeting on 1 July 2017 at the Kigali Convention Centre in Rwanda, where they approved the Annual Report and Financial Statements, together with the declaration and distribution of dividends for the year ended 31 December 2016, as recommended by the Board of Directors. They also approved the reappointment of Deloitte & Touche, Ghana, and the appointment of KPMG, Egypt, as joint external auditors for 2017. In addition, shareholders were updated on the status of the implementation of the ongoing equity mobilisation exercise, as well as various initiatives for optimising the Bank's capital, including loan asset distribution activities (on funded and unfunded basis), credit enhancement of the Bank's callable capital, and a capital protection facility under development. A key highlight was the proposed issuance and listing (on Mauritius' stock exchange) of depositary receipts linked to the Bank's Class D in the amount of US$300 million.

Annual General Meeting activities also included a programme of seminars under the theme "Trade as a Catalyst for Industrialising Africa", a meeting of the Bank's Advisory Group on Trade Finance and Export Development on the theme "Expanding Africa's Trade in a World of Rising Protectionism", and a trade exhibition and investment forum under the theme "Investment Opportunities to Deepen Integration within the East African Countries". Various side events were also held, including the first roundtable discussion with Intra African Champions; introduction to Bank products and facilities, in particular lessons from the CENDEP; and presentations on various themes, including "The Implications of Trade-Based Money Laundering for Intra-African Trade Financing", "Sudan Returns to Market – Challenges and Opportunities", and the "Ecobank Africa—Africa Forum". Among the highlights of the week was a discussion with His Excellency Mr. Paul Kagame, president of Rwanda, following his formal opening of the meetings, on the theme "The Path for a Continental Free Trade Area", moderated by veteran newscaster, Mr. Riz Khan.

In line with the Bank's equity mobilisation efforts in 2017, seven new shareholders joined the Bank—Togo and Chad in Class A; Rwanda Social Security Board, MBCA Bank Ltd (Zimbabwe), and Export Credit Insurance Corporation (South Africa) in Class B; JSC Russian Export Centre in Class C; and SBM Securities Ltd in Class D as issuer of a depositary receipt on the stock exchange of Mauritius—based on which the Bank raised US$287 million during the year from a wide range of investors. In addition, one existing Class B shareholder, Afriland First Bank Guinea, transferred part of its shares to its parent company (Afriland First Holdings) and to three other subsidiaries of the group (Afriland First Bank Côte d'Ivoire, Afriland First Bank Cameroon, and Afriland First Bank Democratic Republic of Congo); all four transferees are new shareholders. As a result, the number of the Bank's shareholders increased to 146 in 2017 from 135 in 2016. The new shareholders acquired 11,335 shares, bringing in US$366.97 million in paid-in capital, with US$62.46 million remaining as callable capital. At the end of 2017, the total number of shares subscribed stood at 107,687 units with a nominal value of US$1.08 billion, up from 94,195 shares with a nominal value of US$941.95 million at the end of 2016.

3.2.3 Meetings and Cooperation

During 2017, consistent with its strategic objectives, the Bank organised and participated in several meetings, seminars, conferences and workshops. Selected actions taken by the Bank in this regard are highlighted below.

3.2.3.1 Events Organised by Afreximbank

Annual General Meeting

During 28–30 June 2017, the Bank organised the 23rd edition of the seminars of the Bank's Advisory Group on Trade Finance and Export Development in Kigali, Rwanda. The event was marked by an exceptional attendance of more than 2,000 delegates from across Africa and the world, and by the presence of more than 100 eminent and high-level speakers, including His Excellency Paul Kagame, president of Rwanda, and His Excellency Olusegun Obasanjo, former president of Nigeria. The main themes of the event were "Industrialisation as a Catalyst for Economic Development in Africa", "Boosting Intra-African Trade for Regional Integration", and "Sustaining African Trade and Growth in a World of Rising Protectionism".

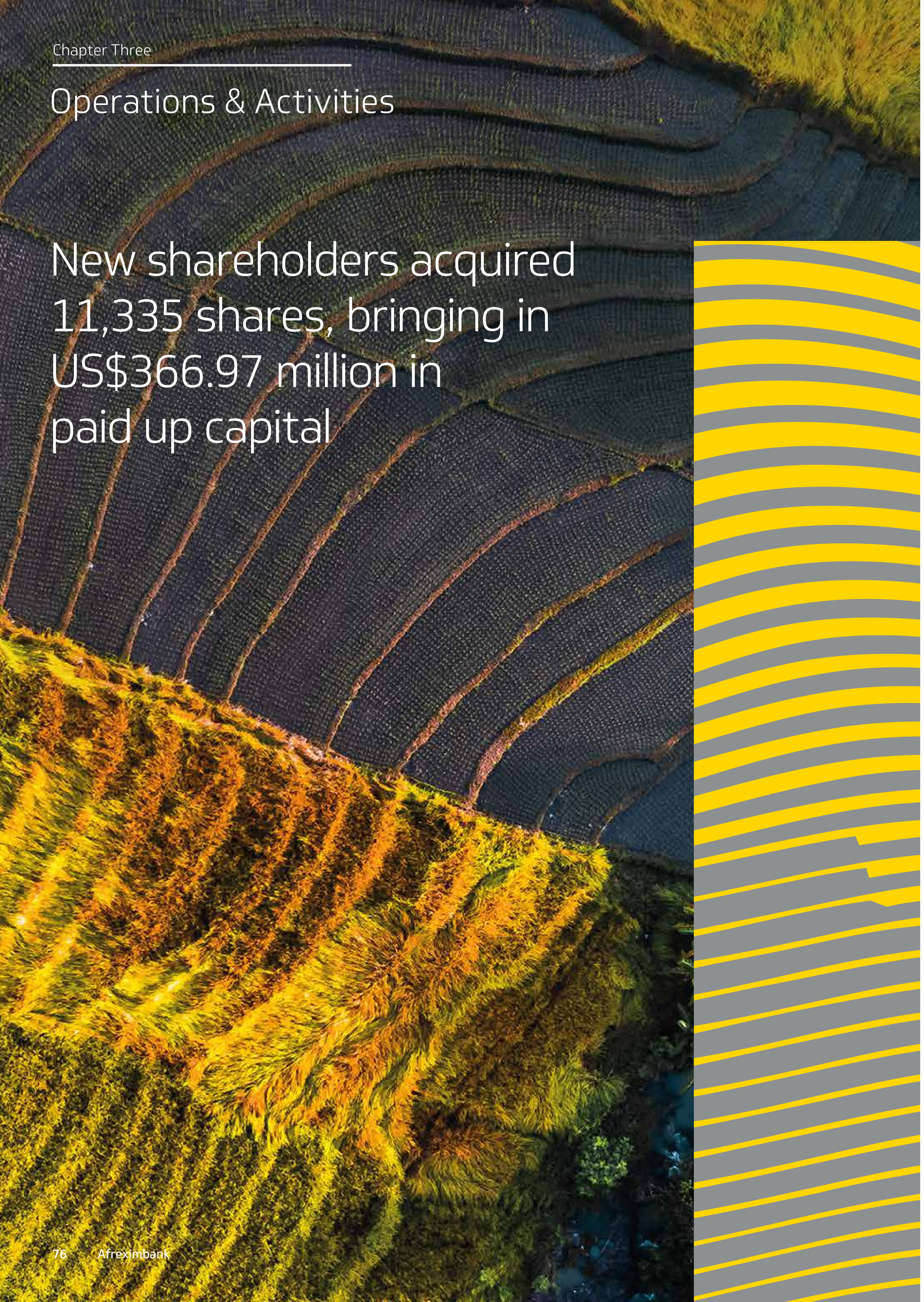
The event provided an opportunity to formulate a number of recommendations with respect to Africa's industrialisation and regional integration, including the importance of positioning intra-African trade as a pillar of economic growth and sustainable development in Africa, and fostering the role of multilateral development institutions in

1.2 bn people

Africa will be one of the world's largest free trade areas

Operations & Activities

New shareholders acquired 11,335 shares, bringing in US$366.97 million in paid up capital



promoting the industrialisation and intra-regional trade across the continent. During the event, the Bank's Intra-African Trade Division hosted the first meeting of Intra-African Trade Champions, which attracted more than 100 business leaders from Africa.

Belarus-Africa Trade Forum
The Bank and the Development Bank of Belarus co-organised the Belarus-Africa Trade Forum (with the theme "Belarus and Africa: New Frontiers") in collaboration with the Belarus Ministry of Foreign Affairs and with the support of the Belarus Ministry of Agriculture. The overarching objective of the forum, held 6–7 June 2017 in Minsk, Belarus, was to provide a platform for businesses from African countries, who are the Bank's stakeholders, to meet and connect with representatives of Belarusian businesses and authorities to explore opportunities for trade and to develop business links.

More than 70 business people from 13 African countries (Angola, Burkina Faso, Cameroon, Ghana, Mozambique, Namibia, Nigeria, Senegal, Sierra Leone, South Africa, South Sudan, Togo, and Zimbabwe) attended the event, which provided them with networking opportunities with Belarusian entities.

During the forum, the Bank and the Development Bank of Belarus announced that they had put in place an US$800 million Belarus-Africa Trade and Investment Finance Facility with the objective of providing trade and project financing and risk cover for African and Belarusian entities to support trade between Africa and Belarus.

Babacar Ndiaye Lecture Series
In October 2017, the Bank organised the maiden edition of the Babacar Ndiaye Lecture Series in Washington, DC, on the sidelines of the 2017 World Bank/International Monetary Fund Annual Meetings, in memory of the late Dr. Babacar Ndiaye, the former president of the African Development Bank and a founding father of the Afreximbank. The lecture series was launched to immortalise Dr. Ndiaye and to celebrate his exceptional contributions to the development of Africa. The keynote speech was delivered by Professor Joseph Stiglitz, a Nobel Laureate in Economics.

The main points of his presentation titled "From Manufacturing Led-Export Growth to a 21st Century Inclusive Growth Strategy for Africa", were: (1) Africa, in the 1970s and 1980s, began to experience deindustrialisation at a time when industrial development aggressively took off across Asia. Wrong domestic policy choices and pockets of political instability, coupled with wrong policy prescriptions from the Bretton Woods institutions severely hampered and reversed the industrial take-off experienced across many countries and sectors in Africa during the early 1970s; (2) the import substitution industrialisation strategies introduced by many African countries were not necessarily bad—some limited form of such a strategy may still be necessary for industrialisation in Africa today; (3) the "standalone" export-led manufacturing or industrial strategies that drove industrial transformation of many nations during the 1960s to 1980s may not work today nor in the future. It is the case that industrial strategies and policies must be multipronged to ensure effective forward, backward, and horizontal linkages among the agriculture, manufacturing, and services sectors; and (4) governments' role in structural transformation remains a critical success factor.

Structured Trade Finance Seminar
In November 2017, the Bank held its 17th annual Structured Trade Finance Seminar in Cape Verde under the auspices of the government of Cape Verde. The four-day event was attended by more than 200 delegates, including CEOs and senior officers representing banks and other financial institutions and corporates from Africa and beyond. The seminar provided a high-level certifying training on a wide range of issues and topics pertaining to advanced structured trade finance. The objective was to capacitate African trade finance specialists from various backgrounds with the required skills needed in structured trade finance. Several eminent speakers from Africa, Asia, and Europe intervened during the various sessions.

The seminar featured two workshops on forfaiting and factoring, with discussions covering instruments, such as reverse factoring, and mechanisms that could promote and support the growth of small and medium-sized enterprises in Africa.

Trade and Development Seminar Series
On 5 December 2017, the Bank held the second session of its Trade and Development Seminar Series in Cairo. His Excellency Ambassador Albert Muchanga, the African Union trade commissioner, delivered the keynote lecture on the theme "The Continental Free Trade Area in an Era of Pessimism over Multilateralism: Critical Success Factors and Prognosis". The commissioner highlighted the importance of strong regional integration in Africa in the current state of physical de-globalisation. In this context, he explained that the establishment of the Continental Free Trade Area (CFTA) flowed

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from the vision of the African Union to achieve an integrated, prosperous, and peaceful Africa, driven by its dynamic force in the international system. He added that the CFTA was poised to become one of the largest free trade areas in the world, given the continent's huge demographic potential, with more than 1.2 billion people, including a growing middle class and more than US$3.4 trillion in aggregate GDP. Furthermore, the CFTA would bring about economic stability and growth in Africa and would address issues related to trade policy, trade facilitation, productive capacity, and trade information on the continent.

3.2.3.2 Events Organised by Other Parties

A Bank delegation, led by the president, took part in the World Economic Forum on Africa (WEFA) and the Initiative for Global Development (IGD) forum held in Durban, South Africa during 3–6 May 2017. The theme of these events, respectively, was "Achieving Inclusive Growth through Responsive and Responsible Leadership" and "Driving Sustainable Economies: Private Sector Action to Spur Job Creation and Innovation for Inclusive Growth in Africa". The two events convened regional and global leaders from business, government, and civil society to explore solutions to create economic opportunities for all.

The Bank's delegation engaged with partner institutions and participated in knowledge sharing and exchange on the topics under discussion. The delegation also held several bilateral meetings with strategic business partners and clients on the sidelines of the event.

In May 2017, a delegation of the Bank, led by the president, attended the African Development Bank's (AfDB) 52nd Annual Meetings held in Ahmedabad, India. The theme of the event was "Transforming Agriculture for Wealth Creation in Africa". The event gathered thousands of delegates and participants from across Africa and the world, representing governments, the business sector, civil society, think-tanks, and academia.

During the event, the Bank's representatives held a number of bilateral meetings with numerous stakeholders, including current and potential business partners, government and central bank representatives, and AfDB officials. These meetings provided an opportunity for the delegation to expound the Bank's vision and strategy to achieve structural transformation of the African continent through the promotion of intra-African trade and industrialisation. In addition to business meetings, the delegation held several meetings in the context of membership mobilisation efforts.

3.2.4 The Board of Directors

The Board of Directors and its committees held 18 meetings throughout the year and complied with all of its statutory meeting requirements. One highlight was the reconfiguration of the Audit and Risk Committee into two separate committees—the Strategy and Risk Committee and the Audit Committee—to enhance the Board's strategy and governance oversight functions.

The Board considered the Annual Report and Financial Statements for 2016; the declaration and distribution of dividends for the year ended 31 December 2016; and the reappointment of external auditors, along with their fees, recommending them for shareholders' approval. The Board reviewed progress in the implementation of various strategic initiatives, including the intra-African trade platform; the establishment of centres of excellence for healthcare in Africa; development of industrial parks, export processing zones, quality inspection and certification centres for non-traditional exports promotion; the arrangement of a capital protection facility; the proposed intra-African trade fair; the new trade services strategy; and the loan asset securitisation initiative.

The Board also approved the setting up and implementation of a Fund for Africa Export Development (FUNFED), the Food Emergency Contingent Trade Finance Facility (FECONTRALF), the Project Preparation Facility, the delegation of some approval authority from the Board Executive Committee (EXCO) to the Management Credit Committee (CRECO), and a revised Dividend Policy, among others.

One Class B director, Ms. Caroline Abel, Governor of the Central Bank of Seychelles, retired in 2017. She was replaced by her alternate, Mr. Kee Chon Li Kwong Wing, Chairman of SBM Mauritius Ltd.

The Board also discussed and/or noted various internal audit reports, progress made on the 2017 external audit programme, and the internal and external audit scope of work for 2018. The Board also received event-triggered country and sector reports and provided direction on actions to be taken to manage the impact of these developments on the Bank's loan assets, business operations, and other activities. Particular attention was paid to reports covering the status of the Bank's operations, compliance, investment, borrowings, and advisory services. The Board commended the success of the COTRALF, noting that the facility had been very well received by the beneficiary member countries and had helped reassert the Bank's policy relevance.

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5856sq.

metres land acquired for new regional office in Abuja

Branch offices' reports were considered to ascertain their operational and administrative performance and were in all instances deemed satisfactory. However, the East Africa Branch Office was not opened as planned due to the fact that negotiations with potential host governments could not be concluded within the expected timelines.

The Remuneration Committee reviewed and approved the changes to the Staff Retirement Benefits Scheme to be implemented with effect from January 2018.

3.2.5 Membership Mobilisation

The number of African countries that were shareholders and/or participating states stood at 49 at the end of 2017, up from 41 at the end of 2016, following the signature of the Bank Agreement by the governments of Burundi, South Sudan, Madagascar, Comoros, Eritrea, and the Central African Republic, with Mozambique and South Africa being shareholders. This was the result of intensified efforts to attract those African countries that were not yet participating states. Efforts to encourage member states that had not yet ratified the Bank agreement to do so were also intensified. The number of countries that had ratified the Bank agreement accordingly also increased to 33 at the end of 2017, up from 29 in 2016 following ratification by Rwanda, Togo, Morocco, and Chad.

3.2.6 Branch Offices

In 2017, the activities of the Bank's branch offices in Abidjan, Abuja, and Harare were in line with set operational targets.

3.2.6.1 Harare Branch Office

Concerning the performance of the Harare Branch Office (HBO), the volume of business generated by the HBO increased by 75 percent year-on-year to US$4.54 billion, up from US$2.59 billion, compared with a 66 percent increase in 2016. Of this volume, total approvals amounted to US$2.93 billion in 2017, representing an increase of about 370 percent compared with US$623 million in 2016. The volume of operational facilities at the end of the review period amounted to US$2.09 billion, representing a notable increase of 32 percent compared with the level at the end of 2016 (US$1.58 billion). These trends in business activities translated into annual revenue attributable to the HBO of US$88.60 million in 2017—a 54.7 percent increase when compared with 2016. In addition, the HBO continued to effectively monitor transactions and government relationships in its area of coverage during the review period.

In 2017, the government of Zimbabwe granted the Bank a piece of land measuring about 12,000 square metres in a choice Harare suburb for the development of the Bank's regional office under the Bank's new Africa Trade Centre concept.

3.2.6.2 Abuja Branch Office

The volume of business generated by the Abuja Branch Office (ABO) in 2017 amounted to US$2.74 billion compared with US$4.63 billion in 2016. The total amount of loans disbursed in 2017 amounted to US$1.03 billion, about 100 percent lower than the US$2.04 billion disbursed in 2016. Total outstanding loans at the end of 2017 amounted to US$3.31 billion, 27 percent higher than the comparable figure for 2016 of US$2.6 billion. The ABO maintained its rising trend in income from US$96.10 million recorded in 2016 to US$256.24 million in 2017, an increase of 166.63 percent. In 2017, the government of Nigeria granted the Bank a piece of land measuring about 5,856 square metres in the central business district in Abuja for the development of the Bank's permanent regional office under the new Africa Trade Centre concept.

3.2.6.3 Abidjan Branch Office

In 2017, the Abidjan Branch Office (ABIBO), which covers francophone West and Central Africa, generated a volume of new business in the amount of US$1.4 billion. Of this volume, transactions approved amounted to US$457 million. The volume of outstanding loans at the end of the review period amounted to US$1.4 billion. Translating this outturn into income, total fees and interest generated by the branch stood at US$97.2 million in 2017 compared with US$49.2 million in 2016.

3.2.7 Trade Information

In 2017, the Bank provided its various stakeholders, including clients and partners, with country reports, financial sector reports, commodity market reports, and reports on international trade issues of interest to them, taking advantage of the fact that senior management had taken important steps to update the trade database and expand the institutional capacity to deliver trade information services.

Given the importance of trade information to the promotion of intra-African trade, in 2017 the Bank took steps to create internal capacity towards the generation and dissemination of trade information. In that regard, a Trade Information Unit was created and staffed during the period. It is envisaged that by 2018 the unit will become a fully operational revenue centre.

3.2.8 HUMAN RESOURCES AND ADMINISTRATION

3.2.8.1 Human Resources

Resourcing – The Bank's human resources capacity grew from 166 staff as at 31 December 2016 to 189 staff as at 31 December 2017. The additional staff were recruited in the areas of advisory and capital markets, banking operations, client relations, credit quality assurance, credit assessment, guarantees and specialised finance, information technology, legal, research, risk management, strategy and innovation, trade information, and treasury. Key appointments made in 2017 were for directors in legal, advisory, and capital markets, and banking operations.

Learning and Development – The Bank continued to effectively implement its learning and development plan for 2017 to ensure that staff members were fully up-skilled to deliver the Bank's fifth Strategic Plan. In 2017, staff attended training sessions in various areas, including trade finance, project finance, syndications, risk management, credit management, loan remediation, IFRS9, and leadership skills. One of the key milestones in this area in 2017 was the graduation of the 2016 and first cohort for the Certificate of Finance in International Trade Programme, which was held in partnership with the University of Malta in collaboration with Factors Chain International (FCI). This has now become an annual event where the Bank provides opportunities to individuals from its African partner institutions to improve their skills in international trade finance matters. The Bank also initiated and successfully implemented the Staff Secondment Programme in collaboration with partner institutions such as the Export-Import Bank of India and China Eximbank.

To further support the Bank's learning and development agenda, nine knowledge sharing sessions were organised and attended by Bank staff, covering various topical subjects such as promoting innovation in the organisation, programme monitoring evaluation and learning, compliance, information technology security, blockchain and other emergent technologies, internal audit best practice, credit quality assurance, and the Bank's research and knowledge management practices.

Building the Afreximbank through Performance – With the objective to create a robust performance management culture in the Bank, an automated performance management system, "MySuccess", was fully rolled out and implemented in 2017 using the Balanced Scorecard Framework. In addition, an e-learning management system was integrated into existing human resource management systems to provide better linkages between staff performance and staff learning and development needs. The rollout of this system is expected to be fully implemented in 2018.

Reward and Wellness – With the realisation that the Bank's continued success depends on it achieving its objectives in line with its mandate, and on all staff deriving personal satisfaction from their work, 2017 saw the launch of the Bank's Employer/Employee Value Proposition (E²VP©). This demonstrated the Bank's commitment to its staff for the opportunity to contribute to Africa's growth and development through open competitive recruitment, recognition and performance support, personal development, competitive pay and benefits, and family health and support. The objective was to ensure that staff feel empowered, challenged, enthused, and energised towards ensuring that the Bank is "The Trade Finance Bank" for Africa.

In 2017, following a detailed study by an independent consultant, the Bank considered shifting its retirement arrangements from a provident fund to a more comprehensive retirement scheme operating on a defined contribution basis. This was to ensure that the Bank's reward offering was geared to attract and retain staff with the required skills and experience to deliver on the Bank's mandate. The key consideration was an adequate retirement provision for employees in a cost-effective way. The new scheme was approved by the Board of Directors for implementation starting in 2018.

3.2.8.2 Administration

Premises and Office Management – To ensure a safe, conducive, and secure work environment for Bank staff and to safeguard and preserve the functionality of Bank premises and assets, the Bank developed and implemented an annual security, operation, and maintenance plan for headquarters, branches, and residences. The Bank enlisted a range of professional contractors and service providers who carried out a series of planned and unplanned preventive and regular maintenance works.

Afreximbank – Africa Trade Centre – As part of the efforts to bridge the intra-African trade information gap on the African continent and enhance the Bank's brand equity, management championed and the Board approved the development of the concept for the transformation of the Banks' existing and future buildings into iconic business complexes with integrated one-stop trade services shop to be branded "Afreximbank—Africa Trade Centres (A-ATC)". A detailed framework proposed an A-ATC prototype along with the range of trade and commercial services an A-ATC could offer, and made recommendations for registration, physical attributes, branding, partnerships, financing, and scaling of A-ATCs across Africa.

In Harare, plans were under way in 2017 to commence construction of the permanent Southern Africa regional office as an A-ATC in 2018. In Abuja, following the allocation of a parcel of land by the government of Nigeria, the Bank finalised arrangements for securing the land and making plans to commence construction of the permanent anglophone West Africa regional office and A-ATC.

3.2.8.3 Business Continuity and Crisis Management

In view of the evolving political and security environment of its various operational locations, which could have a bearing on Bank staff, operations and assets, the Bank continued to monitor the situation closely and put in place a number of standby measures. It continued to enhance and exercise its Business Continuity Plan, Crisis Management Plan, and Security Evacuation Plan, and further embed Business Continuity Management in the Bank's day-to-day operations. In addition, the Bank carried out a number of recovery tests, with the results indicating inherent organisational resilience. The Bank also maintained and continued to strengthen the capabilities of its Abuja, Nigeria, and Harare, Zimbabwe, contingency sites.

3.2.9 Information and Communication Technology

The Bank successfully implemented a number of key information technology initiatives in 2017 in support of its fifth Strategic Plan. In the area of business applications, a new core banking system was successfully selected for implementation to improve process efficiency and enable new products as well future scalability. SWIFT, the payment platform for financial institutions, was successfully upgraded to a more resilient cloud-based, SWIFT-hosted platform. Another notable development was the upgrade of the salesforce system, which improved customer relationship management and credit origination processes. The Bank also enhanced its information security systems and carried out a proactive assessment and awareness campaign. Finally, a fully functional disaster recovery site was successfully tested outside Egypt, and separate business continuity management readiness tests were carried out from offsite locations.

Operations & Activities

3.2.10 Banking Relationships

During 2017, the Bank continued to deepen the scope and depth of its relationships with African and non-African partner financial institutions. Given the increased focus on business development, the Bank continued to receive at its headquarters delegations from major African and non-African institutions seeking to develop business relationships 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 through participating in syndicated and/or club deals originated by some of those partner banks, as well as through co-origination of some of the trade and project finance deals accomplished during the review period.

3.3 OTHER MAJOR OPERATIONAL HIGHLIGHTS

3.3.1 Depositary Receipts

In September 2017, the Bank conducted a landmark depositary receipt issuance on the stock exchange of Mauritius, scoring a string of firsts in the process: the first multilateral organisation to issue depositary receipts, executing the first such issuance on the Stock Exchange of Mauritius; it was also a first such issuance for the Bank's lead arranger in the transaction, SBM Mauritius Asset Managers Ltd. The issuance also marked the launch of the Bank's Class D shares and paved the way for the Bank to have twin sources of capital—a market-based source via the depositary receipts and the traditional source. The successful execution of the depositary receipt transaction will go a long way in strengthening the Bank's capital in the years ahead. SBM (NBFC) Holdings Ltd, a Class B shareholder of the Bank, advised on the issuance, which received the strong support of the government of Mauritius and the stock exchange of Mauritius.

3.3.2 Afreximbank Guarantee Programme

In November 2017, the Bank launched its new guarantee programme (AFGAP), with the objective of unlocking capital and leveraging financing into Africa. The aim is for the programme to play a major role in de-risking African transactions to make them more attractive to African and international investors and financiers. It will offer a wide range of credit enhancement solutions to African clients as part of the Bank's Exim-plus strategy that was developed by the Bank to position itself as a comprehensive trade facilitation and financing centre in Africa. Some of the key programmes and facilities under AFGAP include the Afreximbank Letter of Credit Confirmation Guarantee, Country Risk Guarantee Facility, Letter of Guarantee Facility, Note Purchase Cover, Buyer/Supplier Credit Guarantee, Project Finance Guarantee, Investment Guarantee, Export Credit Agency Plus Guarantee, Sovereign Obligations Guarantee, Bonding Facilities, Construction Completion Guarantee, and Trade Contract Availability Guarantee Facility.

3.3.3 Fund for Africa Export Development

FUNFED is a Bank initiative aimed at facilitating the inflow of foreign direct investment into Africa's export sector. The Bank sees foreign direct investment as key to transforming the continent's export sectors. The objective of FUNFED is to provide equity capital and related financial, non-financial, and support services to promote intra- and extra-African trade and export development. FUNFED was established as a subsidiary of the Bank, and a coordinator was appointed to manage its operations.

Potential equity investments to be undertaken by FUNFED, include (1) limited partnership funds: FUNFED is to create specific funds to which it will contribute and mobilise others to participate in; (2) principal investment funds: FUNFED to make core strategic investments in institutions that may offer an efficient avenue and faster means of achieving its objectives and serving its clientele better; and (3) special situation funds: non-core investment into companies where the investment may be of a lower return (but at least meet the Bank's return on equity) or too risky to attract private investment, but has strategic importance and/or has a strong development impact.

3.3.4 Project Preparation Facility

In 2017, the Bank's Board of Directors approved the establishment of a Project Preparation Facility (PPF), which aims to assist African governments and corporates to prepare and develop projects from concept stage to bankability. The PPF will fast-track the supply of bankable projects, which, in turn, will crowd in the private sector, thereby bridging Africa's project finance gap. The PPF has the objective of not only leveraging the private sector's financial resources but also tapping into its technical expertise, thus fostering closer public-private sector collaboration. The initial seed capital investment of the PPF is estimated at US$15 million, to be drawn down in two equal tranches in 2018 and 2019.

Box 3.2: Afreximbank's Depository Receipts Issuance

Recognising the need to be adequately resourced to effectively discharge its mandate, Afreximbank ("the Bank") made a decision to arrange a market-based source of permanent capital to supplement and complement the equity capital contributed by its anchor shareholders (African states), enabling it to diversify and reduce equity mobilization risks. Accordingly, in 2012, the Bank created a new class of shares, namely Class D shares, which are fully paid on subscription and open for subscription by all categories of investors (unlike the Classes A, B, and C shares, which are partially paid and restricted to specific investors). Given that Class D shares are primarily targeted at financial investors, the Bank considered it necessary for this class of shares and/or instruments derived therefrom to be listed on stock exchanges to provide a clear exit for investors. As a result, the Bank created an instrument, the Depositary Receipts (DR), which were linked to Class D Shares based on which it raised additional equity capital without needing to directly list its Class D shares, while also providing a clear exit for DR investors through the listing of the DR on a stock exchange.

Overview of the Depository Receipts Issuance

Through its maiden issuance of DR on the Stock Exchange of Mauritius in October 2017 in the Bank raised an amount of US$297 million as at the end of 2017 against a target of US$150 million for the year, making the transaction the first equity raisings to be concluded by an African multilateral on an African stock exchange. The speed with which a significant amount of funds was raised validates that the Bank's assumption that equity capital markets can serve as an equity buffer for the Bank. Salient features of the DR issuance structure included:

- A block of the Bank's Class D shares (depositary shares) were deposited with SBM Securities Limited Mauritius, which acted as depositary based on a depositary agreement entered with the Bank;
- The depositary held, in trust, all rights pertaining to the Class D shares including dividends, for the sole benefit of holders of the DR. All costs related to the depositary were borne by the Bank;
- SBM Bank Mauritius Limited was appointed custodian to hold the depositary shares;
- On the back of the depositary shares, SBM Securities Limited issued DR to investors at a price of US$4.30 each, on the basis of 10,000 DR for each depositary share (the depositary shares were priced at US$43,000 derived from the Bank's audited net asset value per share for the year ending 31 December 2016); and
- SBM Fund Services Limited acted as the registrar and paying agent for the DR.

The main motivation behind the Bank's DR issuance was to:

- Broaden the Bank's shareholding structure in line with its founding philosophy of creating a pan-African multilateral trade finance bank, with strong private sector participation;
- Class A shares are held by African governments and African public institutions, Class B shares are held by Africa private institutions, and Class C shares are held by non-Africa public and private institutions;
- Deepen Africa's capital markets by introducing DR of African multilateral institutions on African stock exchanges;
- Raise new capital while providing liquidity to investors, but without directly listing the Bank's underlying Class D shares;
-
- Meet additional capital required to fund projected growth in assets under the Bank's 2017–21 Strategic Plan while maintaining the capital adequacy ratio of 20 percent and above (the Bank's self-imposed minimum);
- Create a window for a source of permanent capital for the Bank, thereby diversifying the sources of equity capital for the Bank; and
- Bring beneficial market discipline on the operations of the Bank without diluting its developmental orientation.

Unique Nature of the Depository Receipts Issuance

The Bank's DR issuance is considered a groundbreaking achievement as it:

Facilitated the launch of the Bank's Class D shares
The DR issuance enabled the Bank to launch its Class D shares in October 2017, a class of shares that hitherto had not been subscribed for. The DR structure adopted by the Bank provided Class D investors with liquidity on their investment and enabled the Bank to raise significant new equity without the usually onerous compliance burden associated with a direct listing. By breaking down the Bank's shares into smaller units, the Bank was also able to mobilize equity through Class D shares from retail investors who would ordinarily not have been in a position to subscribe for a whole share, given its high unit price.

Represents the first depository receipts issuance by a multilateral organisation
The Bank's DR issuance was the first in the world to be implemented by a multilateral organization. This represents a major breakthrough in the field of development financing as it demonstrates that, with a strong equity investment proposition, development finance institutions can also tap into regulated capital markets to raise equity without any change in their developmental agenda.

Represents the first DR listing on the stock exchange of Mauritius
The Bank's DR was the first to be carried out on the Stock Exchange of Mauritius. Introduction of this new instrument assisted in deepening the Mauritian stock exchange, which is one of Africa's major capital markets, thereby paving the way for both private and public sector African entities to mobilize capital using similar instruments. In recognition of the novelty of the Bank's DR structure, the Stock Exchange of Mauritius conferred on the Bank a special award in October 2017.

The underlying instrument was not listed
The typical DR issuance structure involves issuing DR on the back of underlying shares that are already listed on a stock exchange. The Bank's DR were, however, structured on the back of unlisted Class D shares. Sophisticated investors from Africa, Europe, the Gulf Cooperation Council, North America, and the United Kingdom subscribed to the DR based on this novel structure.

First equity instrument conferred with prescribed asset status
The Bank's DR was the first equity instrument to be conferred prescribed asset status by the Insurance and Pensions Commission of Zimbabwe. This status made the Bank's DR an allowable instrument for investment by Zimbabwean insurance companies and pension funds who previously had been constrained, by law, to invest in offshore assets.

"We take these awards not as a mission accomplished, but as a reminder for the work still to be done."

Afreximbank Awards for 2017 transactions

IJGlobal Africa Power Deal of the Year

Awarded to
Hakan Peat-Fired
(Rwanda)

Best Supranational Syndication Loan

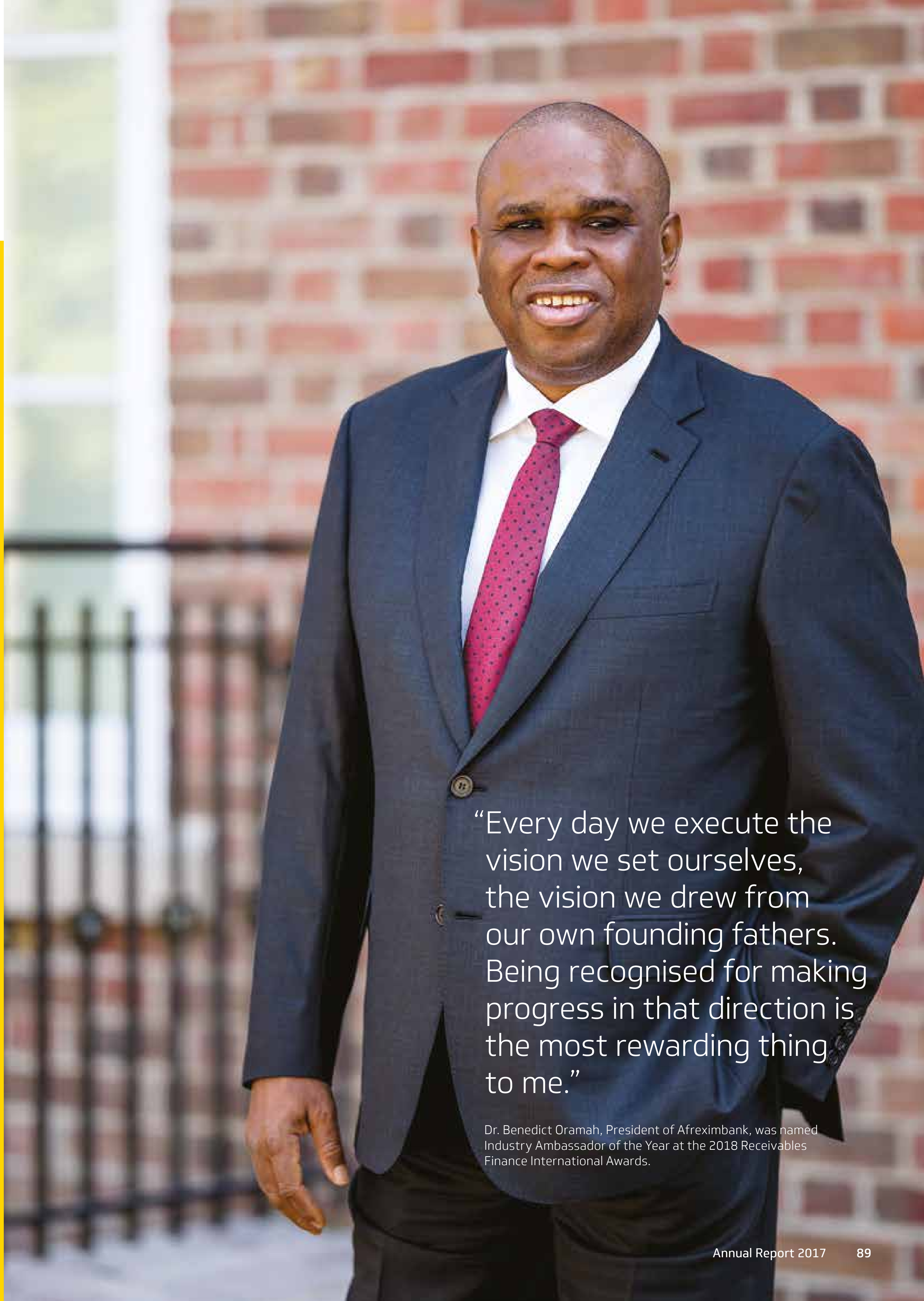
Awarded to
Dual Currency Syndicated Term Loan

Best Structured Finance Deal

Awarded to
El Sewedy Power's Syndicated Notes

Industry Ambassador of the Year

Awarded to
Dr. Benedict Oramah
President Afreximbank



"Every day we execute the vision we set ourselves, the vision we drew from our own founding fathers. Being recognised for making progress in that direction is the most rewarding thing to me."

Dr. Benedict Oramah, President of Afreximbank, was named Industry Ambassador of the Year at the 2018 Receivables Finance International Awards.

4

Chapter Four

Trade-Development Impact of the Bank's Operations and Activities

Trade Development Impact of the Bank's Operations and Activities

The primary purpose of establishing the Bank was to promote trade, regional economic integration and structural transformation in Africa. The implementation of the Bank's fifth Strategic Plan offers a compelling opportunity to transform African trade. The Bank works to maximise the development impact of its clients' activities. In doing so, the Bank conducts its business in a manner consistent with the commercial and development expectations of its stakeholders.

2017 was the first full year of implementing the Bank's fifth Strategic Plan. The new strategies entail major financial commitments over the next five years. Accordingly, the Bank ended 2017 with a US$7.93 billion in credit approval in favour of entities across Africa. This is expected to contribute towards trade and economic development in the Bank's member countries.

As noted in Chapter 1, at the centre of the Bank's transformation agenda are the four strategic pillars: Intra-African Trade, Industrialisation and Export Development, Trade Finance Leadership, and Financial Soundness and Performance. The following initiatives have an impact on these four strategic pillars, with most initiatives having an impact on more than one strategic pillar:

- Intra-African trade
- Manufacturing and agro-processing
- Trade-enabling infrastructure
- Local content in extractive sector
- Small and medium-sized enterprises
- Export diversification through service exports
- Effect of global shocks on the Bank's member countries

This chapter puts into context the extent to which the Bank's major investments and activities, during its first full year of delivering on the above initiatives, reflected its trade and development objectives.

4.1 INTRA-AFRICAN TRADE

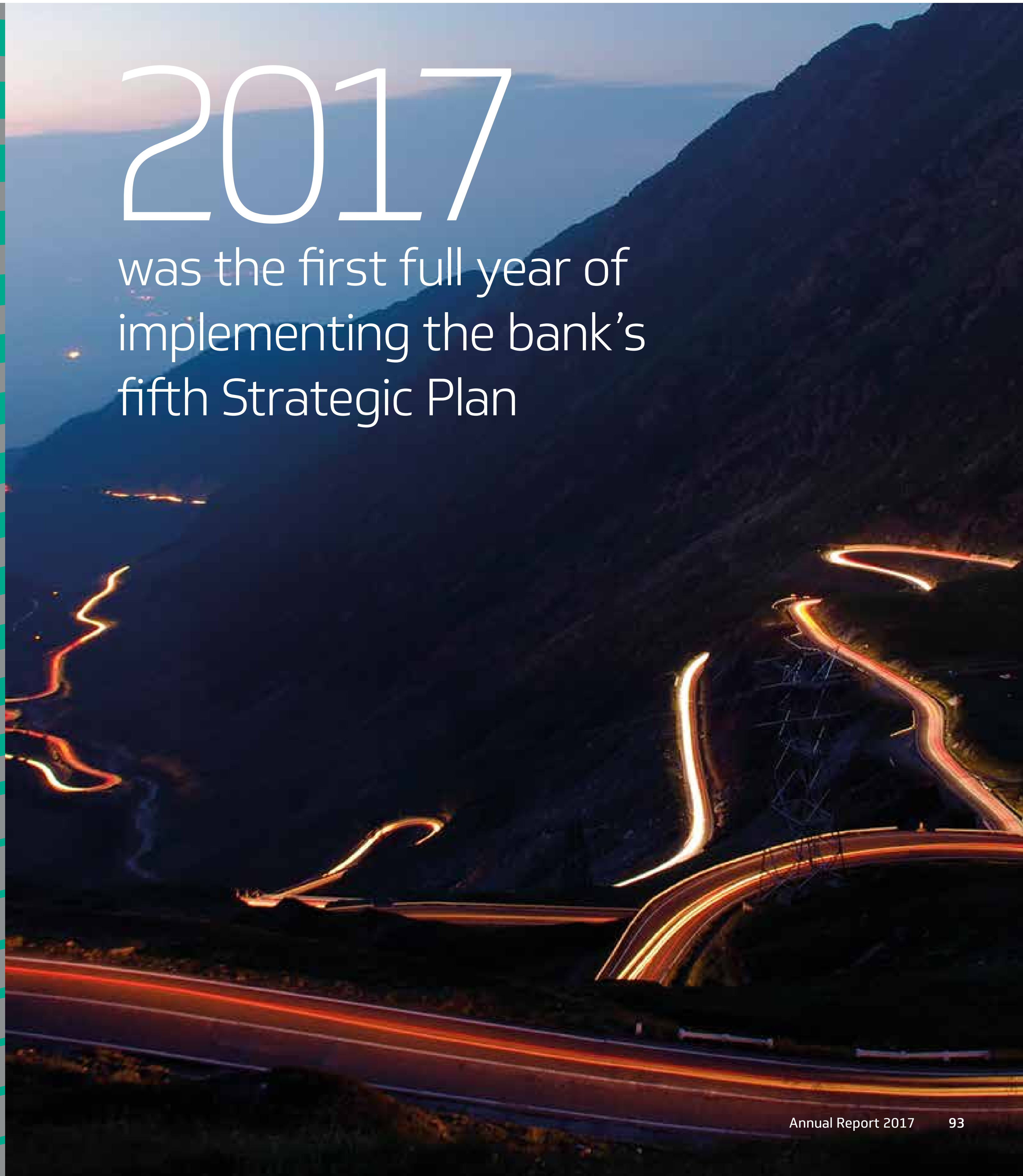
Intra-African trade holds the key to Africa's development. Many African economies are small and need to import most inputs to manufacture. They also lack a large domestic market that would provide some form of natural protection for their manufacturers. These challenges are ultimately surmountable through increased intra-African trade. By focusing on intra-African trade, the Bank also aims to ensure that, over the medium to long term, member countries develop the capacity to deal adequately with global shocks and recurrent adverse terms of trade.

4.1.1 Supporting Intra-African Trade in Manufactures

In keeping with its renewed emphasis on promoting intra-African trade as a strategic pillar, the Bank continued to provide financing and advisory services to businesses it deems as facilitating intra-African trade—the so-called Intra-Africa Trade Champions. Accordingly, the Bank disbursed US$165 million to a company in Mauritius in 2017 to help finance the company's expansion of its commodity warehousing and processing capacity across Africa. The company owns and manages a vertically integrated agriculture supply chain that includes origination, procurement, processing, warehousing, transport, distribution, and merchandising. It is active in 22 African countries as well as in China, India, and Southeast Asia, and is one of the largest suppliers to the World Food Programme in East and Southern Africa. The company's main difference from other trading companies is its ability to procure commodities at the farm gate level and store them for extensive periods of time. This ability allows the company to take advantage of importing and supplying commodities in times of market shortages and hoarding them in times of surpluses.

The funded facility will provide capacity for local production in those African countries where the company operates and trades; the Bank considers this intervention vital for enhancing the competitiveness of the continent's agri-business through the creation of economies of scale and scope. It is also an opportunity for the Bank's member countries to develop production capacity for future export of processed goods, which will assist them in mitigating adverse shocks, including commodity price volatility.

Cognizant of the Bank's goal of promoting growth of Intra-African Trade Champions, in 2017, it also provided financing and related assistance in support of supply contracts awarded to an integrated power and energy solutions company based in Egypt to undertake various projects relating to the electricity sector in Angola. The Egyptian entity is one of the largest manufacturers in the Middle East and Africa, and the Bank is of the view that the company enjoys comparative advantages in providing power and energy to near markets. The Angolan government, as part of its strategy of increasing electricity production capacity in the country awarded a contract to the Egyptian entity to supply, install, and commission mobile turbine generators for a power station in Luanda and to supply power transformers and distribution transformers to the Ministry of Energy and Water. The Bank supported the transaction by



Trade Development Impact of the Bank's Operations and Activities

providing an additional US$75 million tranche under the existing US$501 million Syndicated Promissory Notes Discounting Facility.

The projects financed are considered very important to the both Egypt and Angola, given the crucial role of energy to activity across all sectors as well as the rising importance of exports to the Egyptian economy. The expectation is that enhanced access to power will enable more small and medium-sized enterprises to participate in the economy, thereby facilitating job creation in Angola. The Bank's financing will capacitate and enable the African supplier to provide services to countries in the region at a competitive price while contributing to strengthening economic integration and boosting intra-regional trade.

4.1.2 Promoting Local Content in Africa's Extractive Industries

Local content promotion has the potential to stimulate broad-based economic development in Africa, which is necessary to alleviate poverty, achieve prosperity, and ensure sustainable economic and social outcomes. By supporting entities that provide services to mining and oil and gas companies operating on the continent, the associated social and economic benefits— with multiplier effects of rent, wages and salaries, interest and profits—further boost domestic economic development and enable African entities to move up the global value chains.

To that end, the Bank arranged a US$600 Million Syndicated Dual Tranche Amortising Gold Pre-Financing Facility in favour of the Reserve Bank of Zimbabwe in 2017. The gold mining sector in Zimbabwe has traditionally played a critical role in generating foreign currency resources for the country. The country is rich in gold reserves, with an excess of 4,000 recorded gold deposits. Underground gold reserves are estimated at about 13 million tons, of which only 586 tons have been officially mined, implying that most gold reserves remain underexploited. Economic instability over the past decade, along with the withdrawal of international support by international financial institutions, have adversely affected the sector and subdued production. Increasing local capacity, on the back of rising gold prices, should help to rapidly increase production.

Artisanal gold producers have become the country's top producers of the yellow metal. In 2017, they accounted for 53 percent of gold deliveries. The Bank's support is expected to capacitate small-scale artisanal miners across the country to boost productivity and graduate from artisanal to large mining corporations. The transaction carries significant trade development impact by ensuring timely payment of gold producers to help them improve cash flow management. The facility will also assist gold producers in Zimbabwe to increase capacity, hence contributing to Zimbabwe's exports and GDP, with a trickle-down effect on employment levels and foreign currency generation.

In 2017, the Bank also participated, in the amount of US$75 million, in a US$1 billion Syndicated Pre-Export Financing Facility in support of an oil exploration and production company in Nigeria. The company's focus is on development of brownfield assets across 12 onshore and offshore oil and gas licenses in Nigeria. The Bank's financial assistance is expected to assist in unlocking more than 242 million barrels of reserves, thereby generating significant foreign currency earnings for the country.

In 2017, the Bank also participated in a US$500 million Syndicated Receivables Purchase Facility in support of a financial institution in Angola. The potential development impact of the funded facility is likely to be significant. The petroleum sector remains a critical sector in Angola as the primary source of foreign exchange earnings (up to 95 percent) and is a significant contributor to the Angolan fiscus. Oil revenues are critical for supporting Angola's industrial, manufacturing, transport, and various other sectors. Almost half of the country's crude oil is sold to China, which supports the Bank's strategy of promoting Africa–South trade.

4.2 INDUSTRIALISATION AND EXPORT DEVELOPMENT

Structural change in the manufacturing sector is an effective and sustainable means to economic transformation. The support provided by the Bank to develop processing and manufacturing plants in Africa is designed to increase value addition and promote the diversification of African economies, and in the process, reduce their vulnerability to commodity price volatility and adverse terms of trade shocks.

Trade Development Impact of the Bank's Operations and Activities

4.2.1 Promoting Export Diversification through Financing of Processing of Commodities

In 2017, the Bank participated in a seven-year US$1,250 million Syndicated Term Loan Facility in support of an Egyptian petrochemical company. The Bank's involvement was driven by the project's expected contribution towards maximising the value-added of natural resources, especially Egyptian natural gas and its derivatives, which underpins the Egyptian government's petrochemical master plan. Low-cost production in Egypt gives the country a competitive edge in global markets, and the project is ideally located for serving European and African markets.

4.2.2 Supporting Small and Medium-Sized Enterprises Operating in Export Supply Chains

The Bank recognises the important role that small and medium-sized enterprises play on the continent in fostering industrial development and restructuring, satisfying growing local demand for services, allowing for increased specialisation, and supporting larger firms with inputs and services. In this regard, the Bank has identified factoring as one of the instruments to support small and medium-sized enterprises that can serve as indirect exporters in export supply chains. The Bank believes that factoring will drive down credit costs and allow African small businesses to trade more competitively through the use of open accounts and other modes of payment (outside of letters of credit). Consequently, the Bank has designed and implemented a strategy around five pillars: (1) Financial Intervention, (2) Legal and Regulatory Frameworks, (3) Awareness and Capacity Building, (4) Services, and (5) Strategic Partnerships.

To support its strategy and facilitate greater contribution by small and medium-sized enterprises to regional and global supply chains, the Bank has been providing credit lines to factors, capacity-building and workshops, policy and regulatory inputs, advisory services and technical assistance to promote best practices in Africa. The Bank's model law on factoring was also developed and adapted to suit different local regulatory environments.

The Bank, in collaboration with the Nigerian Export-Import Bank, is working with Nigeria's National Assembly and the Organization for the Harmonization of Business Law in Africa to institute and harmonise factoring law in Nigeria and 17 other member countries in West and Central Africa, using the Bank's model law as guide. It is expected that through these efforts, the Bank will establish factoring as a means of trade financing to no less than 30 countries in Africa over the next five years.

The Bank is also creating awareness and building capacity through training for adoption of factoring in Africa and has continued to work with the University of Malta and Factors Chain International (FCI) to roll-out the Certificate of Finance in International Trade (COFIT) Programme. The programme is expected to deliver a competitive, industry-focused educational programme that will provide African businesses and professionals with understanding of all aspects of international trade, import and export business, finance of international trade, supply chain and commercial finance, including factoring, invoice discounting, and asset-based lending, among other areas.

The Bank had approved US$83 million for factors in Africa and is currently assessing factoring lines totalling US$ 90 million. To guarantee the Bank's factoring portfolio and other small and medium-sized enterprise transactions, the Africa Guarantee Fund and the Bank signed a memorandum of understanding in 2017. The Bank, through its networks, leveraged US$100 million in approvals from partner banks in Africa. During 2017, the Bank organised two factoring workshops in Cameroon and Cape Verde aimed at developing the skills of African factors, creating awareness of the potential benefits of the product, and promoting the development of factoring businesses across the continent. It also conducted three membership mobilisation missions with FCI (in Cameroon, Morocco, and South Africa), and two sensitisation seminars (in Kenya and Nigeria).

Trade Development Impact of the Bank's Operations and Activities

Some considerable progress has been made. The continent has witnessed growth and emergence of new factors, most notably in Cameroon, Congo Republic, Botswana, Egypt, Ghana, Kenya, Mauritius, Morocco, Nigeria, and Senegal. This is in part thanks to the development of the model law on factoring by the Bank, the removal of burdensome stamp duty taxes, the development of inclusive policies at the central bank level to promote and support financing for small and medium-sized enterprises through factoring, and the push for development of cross-border factoring.

Africa's factoring volume stood at €27.6 billion in 2016, up from €24 billion in 2012, and is projected to reach €200 billion by 2020. COFIT 2017 will graduate seven students in early 2018. Through the efforts of the Bank and FCI, four companies have joined the FCI in 2017: Factoring and Supply Chain Limited (Nigeria), Société Générale Marocaine de Banques (Morocco), Firstrand Bank/FNB (South Africa), and Lusis (Cameroon). Over the period ahead, the Bank aims to increase factoring transaction volumes and ensure stronger legal frameworks for factors in Africa.

4.2.3 Promoting Export Product Diversification through Support for Service Exports

As part of its goal of promoting service exports in Africa, the Bank, through its Construction/Tourism-Linked Relay Facility (CONTOUR) programme, support the tourism industry, which has been identified as one of the key service export industries with enormous capacity to contribute to the growth and development of African economies through foreign exchange earnings, direct and indirect employment creation, skills transfer, and development of supply chains.

Under the CONTOUR programme, the Bank finances and promotes the development of world-class hotels and tourism facilities in Africa. In 2017, the Bank provided a €34.3 million facility in support of the development of a five-star hotel in Cape Verde with one of the main aims being job creation. The service sector, centred on tourism, remains the engine of growth, employment, and export receipts in Cape Verde. The country aims to increase the tourism sector's contribution to GDP and employment by more than 20 percent and 60 percent, respectively, over the next few years.

4.3 TRADE-ENABLING INFRASTRUCTURE

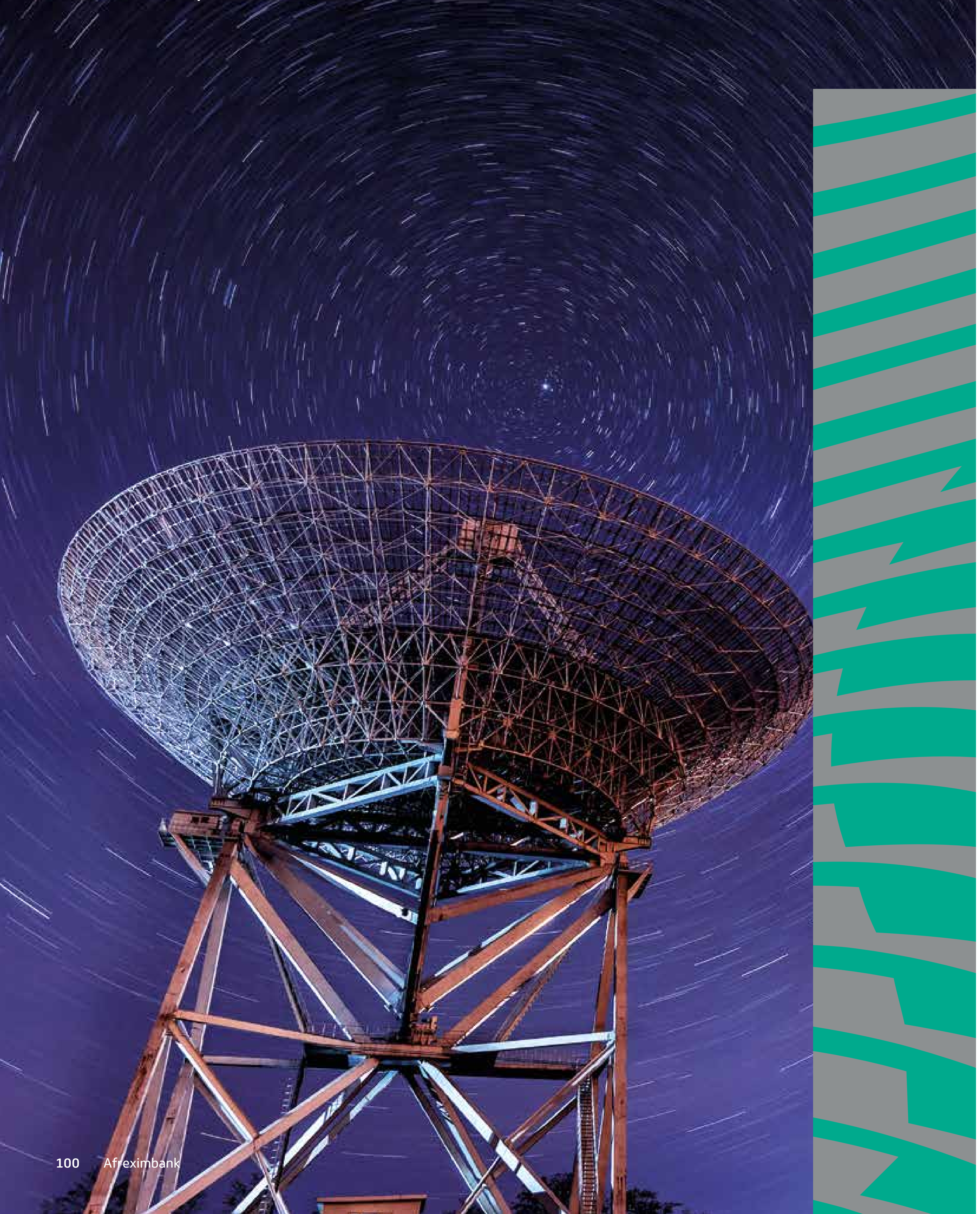
Infrastructure development forms the backbone of industrialisation and intra-African trade promotion. As part of its efforts to improve competitiveness of African economies and foster their integration into the global economy, and thereby contribute to socio-economic development in its member countries, the Bank finances the development of trade-related infrastructure.

In 2017, the Bank provided a €50 million Dual Tranche Equipment and Trade Finance Facility in support of a company in Guinea. Being a reputable, leading entity in Guinea's building and construction sector— having successfully completed several major projects related to mining works, government buildings, roads, health centres, among others—the company secured the willingness of the Central Bank to issue a guarantee for the finance facility.

The projects financed under the facility are deemed important elements of the country's socio-economic development and economic growth strategies, given the crucial role of infrastructure development for activity across all sectors. With the Bank's intervention, the company has the potential to create 50,000 new jobs and improve the standard of living in Guinea. Equipment is being procured from China, which supports the Bank's strategy of promoting Africa-South Trade. The company has also expanded its building and construction business into neighbouring countries, including Senegal, Sierra Leone, and Mali, which indicates that their performance and experience is gaining ground in the sub-region. This provides the Bank with the added advantage of indirectly participating in the development of these countries (where the equipment the Bank will finance will also be used to execute projects) and supporting intra-African trade.

Another example of the Bank's interventions in support of the development of trade-enabling infrastructure across the continent in 2017 is the Bank's provision of a 12-month US$85 million facility in favour of a pan-Africa fibre network company in Mauritius. The company carries international voice and data traffic for network operators across Africa. It builds its own cross-border fibre backhaul network, currently stretching more than 24,000 kilometres across Botswana, the Democratic Republic of Congo, Kenya, Rwanda, South Africa, Tanzania, Uganda, Zambia, and Zimbabwe. In addition to employment creation and contribution

Trade Development Impact of the Bank's Operations and Activities



7,800
new jobs created in Gabon

4.3 TRADE-ENABLING INFRASTRUCTURE (CONTINUED)

to fiscal revenue in the form of taxes, the financial support is also expected to advance the Bank's strategic goal of promoting the creation of requisite physical infrastructure, such as telecommunication service, at lower costs to support intra-African trade. The transaction will also help promote South-South trade, as most of the telecom network equipment are procured from China.

Consistent with its Industrialisation and Export Development strategic pillar, the Bank co-arranged and participated in raising a €72 million Term Loan Facility in favour of Gabon Special Economic Zone Infrastructures SA (GSEZ Nkok Phase II). The successful completion of GSEZ Nkok Phase I created assets worth €322 million as at September 2017. More than 67 percent of saleable areas were sold under Phase I; investment commitments with a total value of €1.45 billion have been received from 75 investors from 17 countries (of which six are African); and 44 manufacturing/production units have become operational at the GSEZ, creating more than 7,000 jobs.

GSEZ Nkok, the first special economic zone in Gabon, is one of the most successful on the continent, according to the World Bank's Policy Notes on Gabon's Export Diversification and Competitiveness Report. Gabon boasts the second largest forestry potential in Africa (the sector is one of the main contributors to the country's development) and aims to become a world leader in the supply of value-added tropical timber products. GSEZ Nkok Phase II is expected to create 7,800 new jobs, directly and indirectly, and to result in €361.93 million in export earnings for Gabon.

In recognition that technology spillovers among firms located close to one another will help make them more competitive, drive down production costs, and increase local value addition, the Bank signed a framework agreement in 2017 with the government of Côte d'Ivoire for the development of the first pilot industrial park on PK-24 site, with an area of 100 hectares, in Abidjan. Abidjan PK-24 was identified as the most suitable site to develop and operate a multi-sector industrial park under the public-private partnership model. The feasibility study for the pilot project is expected to be completed in early 2018. This intervention is expected to create new jobs each year in the industrial sector, increase foreign exchange earnings, and attract foreign direct investment in Côte d'Ivoire.

In Egypt, the Bank is collaborating with the Suez Canal Economic Zone on investment promotion activities to attract international investors. In September 2017, a joint mission was undertaken to Germany, where the Suez Canal Economic Zone authorities presented opportunities for German companies to invest in the zone, and the Bank presented its portfolio of financial instruments available to potential investors. Other countries that the Bank has engaged with in developing industrial parks include Kenya, Malawi, Nigeria, Rwanda, and Togo.

In a similar vein, the Bank is also in the process of developing internationally accredited Inspection and Certification Centres. The feasibility study and business plan for the first pilot project (in Nigeria), which defined the scope of the centre's services—testing, inspection and certification, and capacity building—concept design, and costing, was submitted in December 2017. This initiative aims to assist member states to improve market access, facilitate export growth and trade, increase foreign exchange earnings, enhance equity and safety of products, promote intra-African trade and integration into global value chains, and create jobs.

Trade Development Impact of the Bank's Operations and Activities

4.4 TRADE FINANCE LEADERSHIP

Over the years, the reduced appetite of international financiers to finance large public investment programs in Africa— driven by uncertainty in the global economy, declining commodity prices, and a slowdown in developing economies—has posed severe challenges for Africa's net oil-exporting countries.

4.4.1 Supporting Countries Adversely Affected by Global Shocks

In 2017, the Bank extended US$250 million Financial Future Flow Pre-Financing Facility in favour of one of its member countries in response to the limited capacity of local banks and reduced credit appetite of international financiers. This support is in line with the Bank's counter-cyclical programme designed to assist member countries facing foreign exchange liquidity constraints in trade financing.

The proceeds of the facility will be used to implement a capital investment plan to ramp up oil production (a precondition for improving oil fields productivity, in line with a production sharing agreement with major oil companies), to meet cash calls, and to finance trade pipeline investments in the oil and gas sector and other related logistic facilities in the member country. The financial support is expected to translate into improved living standards in the member country and serve as a catalyst for accelerated growth and transformation of the sub-region.

In 2017, the Bank granted 41 trade finance lines to more than 15 African countries to meet their trade financing needs, including the importation of trade-related equipment and strategic commodities. Further, these lines went to supporting small and medium-sized enterprises in light manufacturing, development of oil fields in upstream operations, and completion of a convention centre.

In 2017, the Bank also provided a number of its member countries' central banks with US$1.1 billion in financial support to enable them to meet maturing trade payment obligations, ensure an orderly adjustment to economic shocks, and secure continued supplies of raw materials and capital goods for manufacturing and export development as well as essential consumer goods, with the aim of reducing the risk of derailing the continent's growth and structural transformation agenda.

4.5 TRADE DEVELOPMENT IMPACT ASSESSMENTS

In the context of ongoing efforts to increase the efficiency and development impact of its operations, the Bank accelerated its work in 2017 to develop a framework to consistently monitor and evaluate its projects during their implementation life cycle and to gauge beneficiaries' performance vis-à-vis the Bank's objectives of boosting intra-African trade, Africa-South and value-added export competitiveness, investment, employment creation, and income equality.

Box 4.1: Trade Development Impact Framework

Africa is now widely seen as a region of great opportunities mainly due to the impressive economic growth story of the last one and a half decades. However, the growth performance remains highly vulnerable to external shocks due to the region's reliance on primary commodities. It is also the least diversified region in the world, both in terms of its production and export bases. Because of population growth many more people are poor despite significant improvements in the growth of the region. With continued high levels of poverty and unemployment, the Afreximbank needs to increasingly demonstrate the development impacts of its operations and thoroughly report on them.

The Bank's Fifth Strategic Plan advocates a stronger orientation of monitoring systems towards development results. The Bank under Plan V plans to establish a mechanism for development impact measurement and reporting as a means of holding itself accountable towards the development goals it sets, and driving value creation.

As the Bank matures, investment portfolios are generating a growing set of impact data. The more the impact measurement makes it possible to relate progress in achieving trade development outcomes to inputs and outputs, the more compelling its investments will become. The Bank's impact and value to clients depend on its ability to track and learn from results. Learning and adaptation, based on results measurement, can help ensure better design of projects and greater impact.

Apart from drawing on experiences of other development finance institutions, the Bank also considered the following in designing its development impact framework.

- Intra-African trade is limited, and African markets remain highly fragmented. Because of low industrialisation, countries trade unprocessed commodities with limited added value or technological content.
- The industrialisation of the continent remains slow because of the low attention given to agro-processing and light manufacturing sectors.
- Limited access to competitively-priced inputs due to lack of trade-enabling infrastructure hampers value addition and makes it difficult for Africa to compete in manufactured exports.

The newly developed framework will assist the Bank in assessing the impact its interventions are making with respect to development objectives of increased intra-African trade, Africa-South and value-added exports competitiveness, investment, employment creation and better income distribution. It will also help the Bank understand its contributions to Africa's development and use this understanding to inform its operational and investment decisions and have more informed conversations with stakeholders.

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Chapter Five

Management's discussion and analysis of the Financial Year ended 31 December, 2017

Management's discussion and analysis of the Financial Year ended 31 December, 2017

5.1 INTRODUCTION

The financial statements of the Bank include the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Shareholders' Equity, Statement of Cash Flows and the accompanying notes. The following discussion presents the Bank's audited financial statements for the year ended 31 December 2017, paying particular attention to the factors that influenced the observed results.

5.2 STATEMENT OF COMPREHENSIVE INCOME

The Bank realized a Net Income of US$220.49 million, a 34% growth from prior year performance of US$165.03 million. The results achieved reflected the benefits of the re-organisation initiated in 2016 which strengthened client relations and risk management functions of the Bank and resulted in high operating efficiency levels. Significantly improved equity levels also supported the Net Income growth.

The Net Income achievement was primarily driven by a solid growth in net interest income from US$273.25 million in 2016 to US$338.33 million in 2017, a 24% growth rate on the back of a 22% growth in average loan portfolio during the year. The winding down of the Bank's 2-year Counter-cyclical Trade Liquidity Facility (COTRALF) nonetheless led to a marked reduction in loans at year end.

COTRALF was a 2-year emergency intervention instrument approved by the Board of Directors in December 2015 and which was actively implemented in 2016. It was introduced by the Bank to enable its member countries to achieve an orderly adjustment to the commodity price and terrorism induced shocks that increased in intensity in Africa during 2015-2016. The direct goal of the Bank's intervention was to enable beneficiaries avert potential trade debt payment defaults that would have been triggered by sharp declines in commodity prices. Over the last two years, there has been a significant improvement in commodity prices which has seen some economies recover leading to large repayments of the loans disbursed by the Bank under the facility. In addition to the impressive growth in interest earnings, the Bank maintained high operating efficiency levels reflected in contained increase in operating expenses.

In line with the increase in net income, the Bank achieved a 11.76% (2016: 11.41%) return on average shareholders' equity (ROAE) and a 1.87% (2016: 1.75%) return on average assets (ROAA) as at 31 December 2017. The increase in the earnings ratios was due to higher growth in net income and was in line with set targets. Basic earnings per equivalent of fully paid share increased from US$ 4,627 in 2016 to US$ 5,584 in 2017 due to higher profitability.

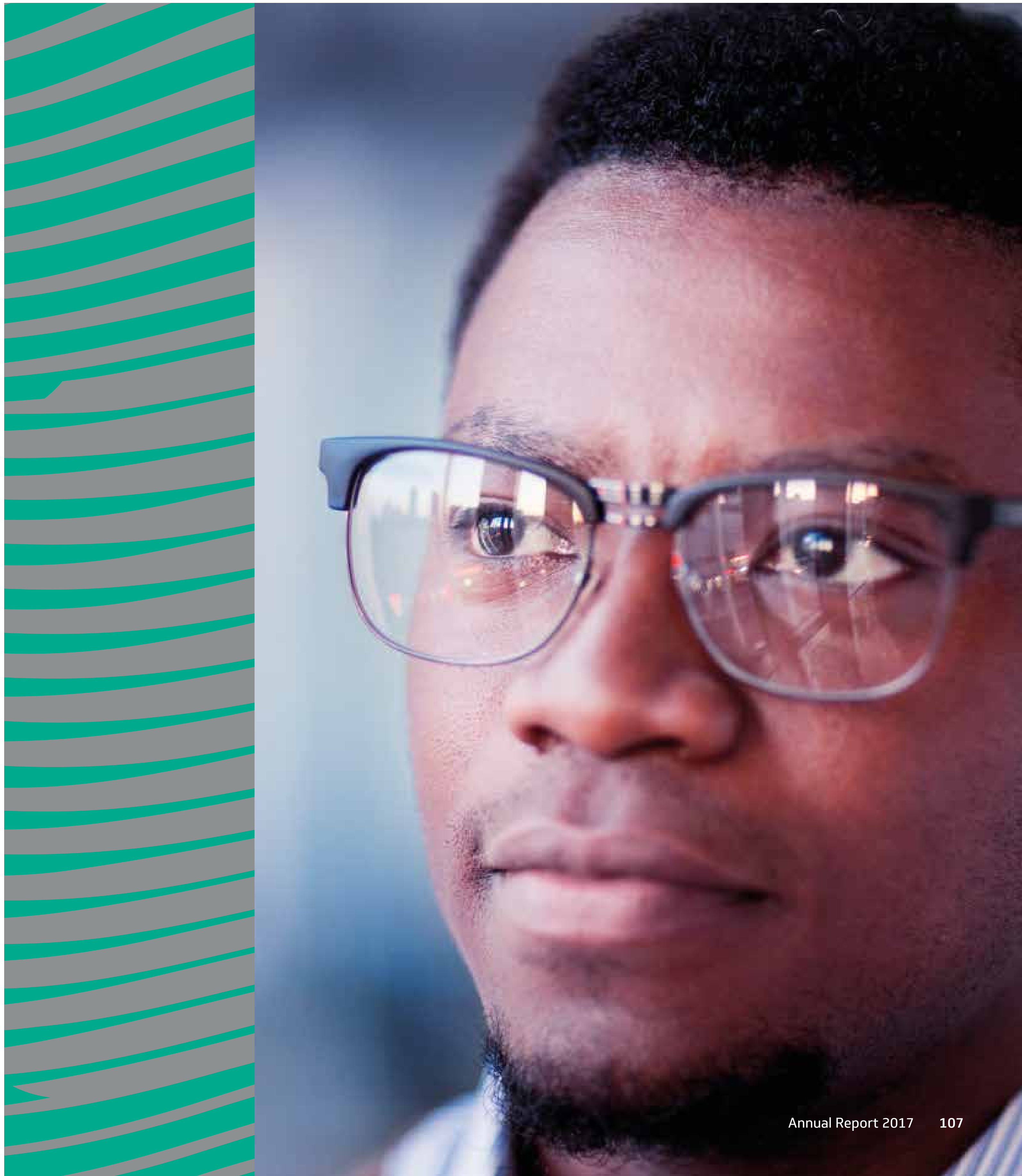
Total Comprehensive Income for the year increased by 103% from US$ 113.30 million in 2016 to US$ 230 million in 2017 primarily driven by higher net income generated in 2017. In addition, a revaluation gain of US$ 9.3 million on the Headquarters building in Cairo as a result of the recovery in the property market which weakened considerably towards the last quarter of 2016 also helped to improve OCI.

The Bank's Capital Adequacy Ratio stood at a strong position of 26% (2016: 23%), an improvement from prior year mainly due to higher profit and additional capital raised from the equity mobilization initiatives being pursued by the Bank to support its business growth. The reported position was in line with the Bank's Capital management policy targets. A further detailed analysis of the Statement of Comprehensive Income is presented hereunder.

5.2.1 Net Interest Income and Margin

The Bank generated net interest income amounting, to US$ 338.33 million, a 24% growth from prior year`s performance of US$273.25 million mainly driven by significant increase in interest and similar income. Interest and similar income rose by 25% from US$484.01 million in 2016 to US$606.07 million in 2017 as a result of higher interest rates during the year and 22% growth in average loan portfolio over the year, from an average loan portfolio position of US$8.64 billion in 2016 to a position of US$10.55 billion. In order to fund the average growth in the loan book during the year, average interest-bearing liabilities grew by 16% to US$7.11 billion (2016: US$6.14 billion). This resulted in interest and similar expenses growth of 27% to reach US$267.75 million (2016: US$210.76 million) during the period under review.

Net interest margin declined slightly to 2.64% in 2017, from 2.7% in 2016 mainly due to relatively lower margins earned on the cash-backed COTRALF in 2017. The Bank's cost of funds also reduced due to improvements in the Bank's efficiency in managing its treasury activities mainly through a more diversified mix of interest bearing liabilities which saw lower priced Africa-sourced liabilities capturing an increased share of the funding pool. In 2016, Management set up and staffed an Africa Resource Mobilization unit under Treasury Department. The Unit was very successful in raising



Management's discussion and analysis of the Financial Year ended 31 December, 2017

Operating income grew by

22%

to reach US$372.13 million

liabilities from African sources during the year. Although the net interest margin was almost flat, the observed performance was in line with strategic targets of the Bank.

5.2.2 Non-Interest Income

Net Fee and Commission Income was almost unchanged from prior year performance at US$ 30.36 million (2016: US$ 30.44 million) mainly due to increase in fee and commission expenses by about 51% to US$ 8.88 million (2016: US$ 5.86 million). Growth in borrowing and credit enhancement costs offset the growth in fee and commission income. Fee and commission income increased in 2017 by 8% to US$ 39.25 million (2016: US$ 36.29 million) mainly due to an increase in guarantee fees by 41% and commission from letters of credit confirmation by 200% reflecting good progress in the strategy of the Bank in the use of guarantees for capital management and leveraging purposes. The re-organisation exercise of the Bank which commenced in 2016 resulted in the recruitment of the Director for Advisory and Capital Markets and staffing of the Trade Services unit in the second half of the year which assisted in the growth of fee income in line with the strategic focus of the Bank.

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 22% in 2017 to US$ 372.13 million (2016: US$ 305.36 million). The increase is explained mainly by higher net interest income arising from growth in average loan assets.

5.2.4 Operating Expenses

Operating expenses increased by US$ 10.45 million or 19% in 2017 compared with 2016 reflecting the significant growth in professional staff recruitment in support of the re-organisation exercise embarked upon under the Bank's 5th Strategic Plan In addition, general and administrative expenses increased by 28% in support of the various strategic initiatives that the Bank was pursuing.

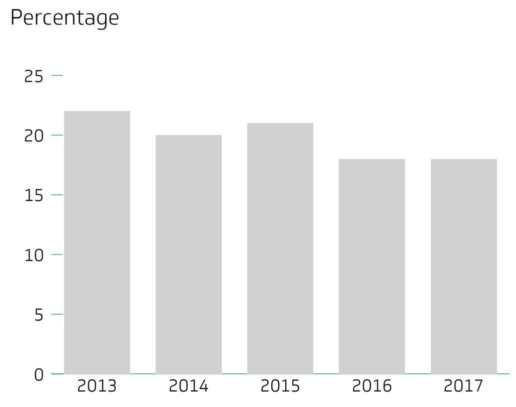
5.2.5 Cost Income Ratio

Figure 5.1 below, shows that the cost-income ratio recorded by the Bank was 18% in line with prior year's performance. The outcome reflected effective cost controls and higher operating efficiency by the Bank during the year, compared to industry average.

5.2.6 Allowance For Impairment On Loans And Advances

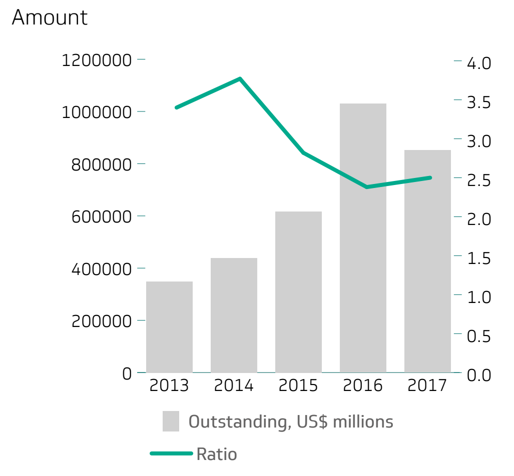
The allowance for impairment on Loans and Advances decreased by 23% to close the period at US$ 63.4 million (2016: US$ 82.75 million). The decrease arose mainly from lower specific impairment allowance on non-performing loans as a result of improved quality of the Bank's loan assets in 2017. The Bank's asset quality was within acceptable levels as reflected in the non-performing loans (NPL) ratio of 2.50% (2016: 2.38%). The sound asset quality reflected the high quality of collateral including highly liquid assets backing a preponderance of the assets. In addition, the provisions coverage ratio was well above the 100% minimum threshold at 141% (2016: 133%).

Figure 5.1 Afreximbank: Cost to income ratio: 2013-2017



Source: Afreximbank

Figure 5.2 Afreximbank: NPL Ratio vs Gross Loans (US$ thousands): 2013-2017



Source: Afreximbank

Management's discussion and analysis of the Financial Year ended 31 December, 2017

In order to maintain the high asset quality, the Bank established a Credit Quality Assurance Unit in 2016, the objective of which is to ensure that any approved loan maintains a high-quality standard all through its life in order to ensure that the NPL ratio remains within set targets.

5.2.7 Dividends

On account of higher net income achieved during the year and considering the need to meet expectations of investors in fully paid Class D shares issued to back the Depository receipts listed on the Stock exchange of Mauritius, the Board of Directors recommends a dividend payout amounting to US$ 57.53 million (2016: US$ 37.96 million) to shareholders, reflecting a 26% (2016: 23%) payout ratio*. The proposal maintains the tradition of higher dividends payments to shareholders from year to year. As the Bank is raising capital to support business growth, shareholders will have an option of receiving the dividend entitlement through acquiring additional 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 factors considered included profit performance, need to retain earnings to support on-going business growth, capital adequacy, inflation, as well as the need to balance internal and external financing.

* Classes A, B and C shares are partially paid, that is 40% at subscription with 60% remaining as callable capital.

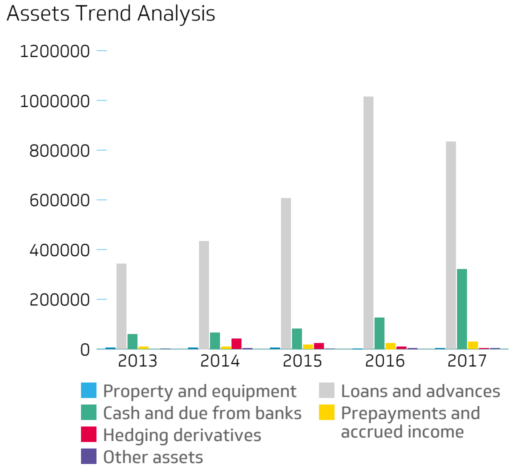
5.3 STATEMENT OF FINANCIAL POSITION

The statement of financial position shows the position of the Bank's assets and liabilities as well as its net worth or shareholders' funds at the reporting date. A detailed discussion of these items with respect to 2017 is presented hereunder.

5.3.1 Assets

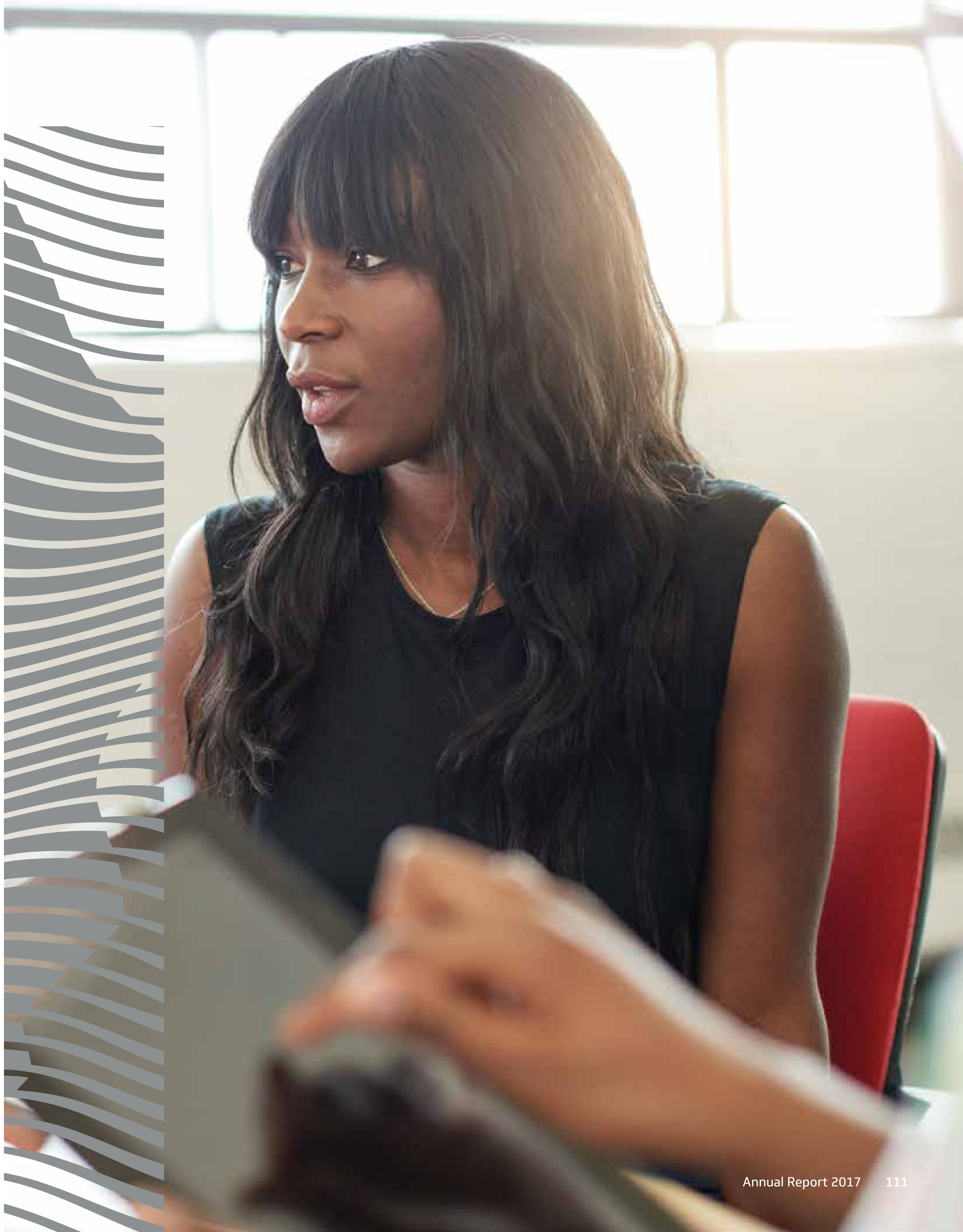
The Bank's total assets grew by 1.6% from US$11.73 billion as at 31 December 2016 to US$11.91 billion as at 31 December 2017 explained mainly by the Bank's liquid assets which increased significantly to end the year at US$ 3.21 billion (2016: US$1.27 billion) and accounted for 27% (2016:11%) of total assets. Gross loans and advances at US$ 8.5 billion (2016: US$ 10.3 billion) contributed significantly to the total assets position of the Bank at 70% (2015: 87%). Loans and advances declined in 2017 compared to prior year due to the winding down of facilities under the Countercyclical Trade Liquidity Facility (COTRALF) which constituted 49% of the loan portfolio amounting to US$ 5 billion as at 31 December 2016. By 31 December 2017, the COTRALF facilities had declined to US$1.5 billion as disbursed facilities got repaid as scheduled.

Figure 5.3 Afreximbank: Assets (US$ thousands): 2013-2017



Source: Afreximbank

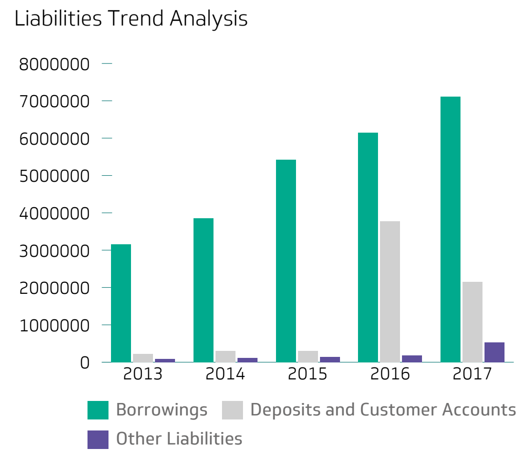
Most of the loans are structured trade finance facilities, either funded directly by the Bank or within syndicates. An analysis of the loan portfolio by beneficiary as at end of 2017 shows that corporates' share of the portfolio including state owned enterprises was 33% (2016: 26%), financial institutions' share was 60% (2016: 72%) of the portfolio and government's share was 7% (2016: 2%) of the portfolio. The Bank also provides financial institutions with credit lines to support their trade finance business with local counterparties who cannot access financing from the Bank directly. The average maturity of loans remained in line with prior year position at 17 months (2016:17 months) given that the typical loans extended by the Bank were short term, self-liquidating trade finance facilities. The Bank continued to achieve a wider geographical diversification of the portfolio with the Bank operating facilities in 31 (2016: 26) countries.



Chapter Five

Management’s discussion and analysis of the Financial Year ended 31 December, 2017

Figure 5.4 Afreximbank: Liabilities (US$ thousands): 2013-2017



Source: Afreximbank

5.3.2 Liabilities

The Bank’s total liabilities declined slightly by about 3% year-on-year to US$ 9.79 billion (2016: US$ 10.10 billion) as at 31 December 2017. The main reason for the decrease in total liabilities was the customer deposit accounts which decreased by US$ 1.63 billion as cash collaterals backing certain loans reduced as the loans were repaid. Borrowing balance went up by 16% from US$ 6.14 billion in 2016 to US$ 7.11 billion in 2017. The increase in borrowings supported the growth of the average loan book throughout the year. Total borrowings (due to banks and debt securities) accounted for about 73% (2016: 61%) of total liabilities while customer deposits and balances accounted for about 22% (2016: 37%) of total liabilities in line with the Bank’s strategy to diversify its sources of funding to manage cost of funds as well as reduce concentration risk.

Major components of debt liabilities were syndicated loans and debt securities. In terms of geographical distribution, the outstanding borrowings were spread across mainland Europe, UK, Asia, Middle East, Africa, North and South America.

A significant proportion of deposit accounts held with Afreximbank were mostly accounts used as structural elements in trade finance transactions. Most deposit accounts were held with Afreximbank until the client’s borrowing or outstanding amounts were fully repaid. The deposits may be used to retire the loans. Customers who deposited funds in the Bank were mainly sovereigns, corporates and financial institutions.

5.3.3 Shareholders’ Funds

The Bank’s shareholders’ funds increased by 30% from prior year position of US$1.63 billion to US$2.12 billion primarily driven by capital injections from the equity mobilization plan that the Bank embarked on to fund expected business growth in line with its strategic plan. As part of the equity raise plan, the Bank raised an amount of about US$ 391 million from issuance of shares mainly in classes A, B, C and fully paid class D. In addition, the Bank also generated internal capital arising from higher profitability which contributed to the increase in the Bank’s net worth. The Bank’s callable capital as at 31 December 2017 amounted to US$ 655 million (2016: US$ 567.7 million). The Bank maintains the callable capital as an additional buffer in case of need. Most of the callable capital has been credit enhanced as part of the Bank’s capital management initiatives.

CONCLUSION

The financial results of the Bank show that the Bank achieved commendable performance in line with expectations under its current 5-year strategic plan. In this regard, the Bank achieved higher profitability, strong earnings growth and sustainable business growth whilst maintaining a strong capital adequacy, liquidity position and asset quality despite the prevailing challenging economic environment.

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Chapter Six

Financial statements for the year ended 31 December 2017

Financial statements

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Chapter Six

Financial statements for the year ended 31 December 2017

Report of the Audit and Risk Committee to the board of directors and general meeting of the African Export-Import Bank

In compliance with the provisions of Article 30 (1) and (3) of the Charter of the African Export-Import Bank and pursuant tothe terms of Resolution No. Afrexim/BD/9/95/02 concerning the establishment, membership, functions and powers of the Audit Commitee of the African Export-Import Bank (as amended), the Audit Commitee considered the audited Financial Statements for the year ended 31 December, 2017, at its meeting held on 15 March 2018.

In our opinion, the scope and planning of the audit for the year ended 31 December, 2017 were adequate.

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

Attributable earnings amounted to US$220.5 million (2016: US$165 million), a 34% growth compared to the prior year. The Bank maintained low cost to income ratio of 2.5% (2016: 18%) The Return on Average assets (ROAA) and Return on Average Equity (ROAE) were satisfactory and in line with internal targets at 1.87% (2016: 1.75%) and 11.76% (2016: 11.41%) respectively. These all indicate operating efficiencies at quite satisfactory levels.

Despite lower loan portfolio, asset quality remained relatively high with NPL ratio of 2.5% (2016: 2.4%) while loan loss coverage ratio stood at 141% (2016: 133%) well above the minimum target of 100%. The Bank's Shareholders' funds at US$2.12 billion grew by 30% year on year on the back of capital injections and internally generated capital arising from higher profitability, indicating that the Bank's capitalisation is improving.

After due consideration, the Commitee accepted the Report of the Auditors to the effect that the Financial Statements were prepared in accordance with the ethical practice and international financial reporting standards and gave a true and fair view of the state of affairs of the Bank's financial condition as at 31 December 2017.

The Commitee, therefore, recommended that the audited Financial Statements of the Bank for the Financial Year ended 31 December 2017 and the Auditors' Report thereon be approved by the Board and presented for consideration by Shareholders at the twenty fith General Meeting.

The Commitee accepted the provision made in the Financial Statements for the remuneration of the Auditors and recommends that the Board accepts same. Furthermore, the Audit Commitee recommends to the Shareholders the reappointment of KPMG Hazem of Egypt and appointment of PricewaterhouseCoopers Zimbabwe as the Bank's External Auditors for the Financial Year 2018.

Jean-Marie Benoit Mani
Chairman, Audit Commitee

Members of the Committee
Mr J-M B. Mani, Dr Mahmoud Isa Dutse, Ms Xu Yan; Mr Ronald. S. Ntuli

Financial statements for the year ended 31 December 2017

Report of the independent joint auditors to the shareholders of african export - import bank

REPORT ON THE FINANCIAL STATEMENTS

Opinion

We have audited the accompany ing financial statements of African Export - Import Bank (the " Bank") which comprise the statement of financial position as at 31 December 2017, and the statements of profit or loss and other comprehensive income , changes in equity, and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies. In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Africa n Ex port - Import Bank as at 31 December 2017 , and its financial performance and its cash flows for the year then ended In accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit In accordance with International Standards on Auditing (ISAs) . Our responsibilities under those standards are further described in the Auditors ' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) and we have fulfilled our other ethical responsibilities in accordance with these requirements . We believe that the audit evidence we have obtained Is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional Judgement, were of most significance in our audit of the financial statements of the current period . These matters were addressed in the context of our audit of the financial statements as a whole, and informing our opinion thereon, and we do not provide a separate opinion on these matters.

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KEY AUDIT MATTER	How our audit addressed the key audit matter
Impairment of loans and advances to customers	
Impairment of loans and advances is a key audit matter due to the significance of the balances, and complexity and subjectivity over estimating timing and amount of impairment. The risk is that the amount of impairment may be misstated. The estimation of the impairment loss allowance on an individual basis requires management to make judgements to determine whether there is objective evidence of impairment and to make assumptions about the financial condition of borrowers and expected future cash flows. The collective impairment loss allowance is made against the remainder of the loans and advances.In relation to which specific impairment losses have not been made. The disclosures relating to impairment of loans and advances to customers which are included in note 3.9, note 6(a) and note 17 & 18 to these financial statements provide details relating to the impairment of loans and advances to customers. The collective impairment loss allowance is made against the remainder of the loans and advances.	We evaluated and tested the design and implementation of the key controls over the impairment of loans and advances to customers. Also, our procedures included among others, selecting samples of loans and advances and considering whether there is objective evidence that impairment exists for these loans and advances. We also assessed whether impairment losses for loans and advances were reasonably determined in accordance with the requirements of IFRS. For the sample selected, we performed the following : - An evaluation of management's key assumptions over specific impairment calculation, including the calculation methodology, the basis of the underlying expected cash flows, and the realizable value of collaterals and expected period of realization of the collaterals. - We determined whether the cash flow projections were supported and consistent with the financial information in the borrower's loan file. - We evaluated the loan's effective Interest rate used In discounting expected future cash flows and recalculated the estimate of loss using the cash flow projections and the loan's effective Interest rate. - We tested the adequacy of the collective loan loss allowance by evaluating the assumptions and loss rates used by management in the calculation of the collective Impairment allowance. We considered past experience and current economic and other relevant conditions, including changes In factors such as lending policies, nature and volume of the portfolio, volume and severity of both past and recently identified Impaired loans and concentration of credit. We also considered the consistency of the approach with the prior year and evaluated the adequacy of the Bank's disclosures on impairment of loans and advances to customers.
Valuation of derivatives	
The Bank has entered into various derivatives for trading purposes as disclosed in note 5 to the financial statements. These derivatives include: – Interest rate swaps IAS 39 requires that all derivatives are marked at fair value (marked to market). IFRS 13 sets out a hierarchy of the determination of fair value. Depending on whether the instruments are traded in active markets or not, a quoted price or recent market transactions data should be used.	We evaluated and tested the design and implementation of key controls over the valuation of interest rate swaps (IRS) and currency swaps and forwards. We performed the following procedures: – Assessed the appropriateness of the valuation models used to value the derivative financial instruments. – Reperformed the valuation of a sample of each type of derivative financial Instruments . Applied relevant derivative pricing theory and market practice, in order to determine an appropriate valuation methodology for each derivative instrument.

Financial statements for the year ended 31 December 2017

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KEY AUDIT MATTER	How our audit addressed the key audit matter
However, for instruments for which there Is no active market, a valuation technique is used. Discounting cash flows at different times is a routine but key part of derivatives valuations. Discount rates for varying periods can be implied from pure interest rate instruments such as government bond, interest rate futures, interest rate swaps, treasury bills, money market deposits. There is a risk of improper valuation of derivative instruments in line with !AS 39. The discount rates or swap curves used in the derivatives valuation may not be accurately compiled. We also considered there to be a risk that the derivative financial instruments disclosures included in note 2.19 and note 5 are not complete.	– Compared the fair value adjustments passed by management to our recalculation. – Assessed the sources and accuracy of key inputs used In the valuations such as the risk free rates, spot rates and implied forward rates, and benchmarked these rates against external sources. We obtained third party confirmations for the open positions as at 31 December 2017. We assessed whether the disclosures on derivative financial intruments are complete and adequate.

Other information

Management is responsible for the other information. The other information comprise the Report of the Audit Committee (but does not include the financial statements and our auditors' report thereon), which we obtained prior to the date of this auditors' report, and the information included in the Annual Report, which is expected to be made available to us after that date.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained In the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we have obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

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Those charged with governance are responsible for overseeing the Bank's financial reporting processes.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance Is a high level of assurance, but is not a guarantee that an audit conducted In accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit In accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the over ride of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances , but not for the purpose of expressing an opinion on the effectiveness of the Bank's Internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public Interest benefits of such communication.

Financial statements for the year ended 31 December 2017

Deloitte. | KPMG Hazem Hassan Public Accountants & Consultants

Report on Other Legal Requirements

In accordance wi th the Bank s charter, we also report that we have obtained all the information and explanations we consider necessary for the purposes of our audit. In our opinion, the Bank keeps proper books of account and the financial statements are in agreement thereto.

The engagement partners on the audit resulting in this independent auditors ' report are Daniel Kwadwo Owusu (ICAG/P/1327) and Abdel Hadi M. Ibrahim (GRAA/18795).

Deloitte & Touche
Chartered Accountants
The Deloitte Place
Plot No. 71, Off George Walker
Bush Highway, North Dzorwulu,
Accra - Ghana

29.03.18
Date

KPMG Hazem Hassan
KPMG Hazem Hassan
Public Accountants & Consultants
Pyramids Heights Office Park
Km 22 Cairo/Alexandria Desert Road
Cairo - Egypt

29.3.2018
Date

AFRICAN EXPORT-IMPORT BANK

Statement of financial position for the year ended 31 December 2017

	Note	2017 US$ 000	2016 US$ 000
ASSETS			
Cash and cash equivalents	16	3,214,573	1,269,080
Loans and advances to customers	17	8,329,943	10,148,202
Derivative assets held for risk management	5	3,574	8,792
Prepayments and accrued income	19	298,102	241,556
Financial investments - held to maturity	21	30,268	30,268
Other assets	20	2,931	3,069
Property and equipment	24	32,838	24,466
Intangible Assets	25	1,248	814
Total assets		11,913,477	**11,726,247**
LIABILITIES			
Due to banks	22	4,231,374	4,050,912
Debt securities in issue	23	2,881,622	2,091,114
Deposits and customer accounts	26	2,149,356	3,778,493
Derivative assets held for risk management	5	21,467	22,018
Other liabilities	27	505,624	157,342
Total liabilities		9,789,443	**10,099,879**
CAPITAL FUNDS			
Share capital	28	470,816	378,488
Share premium	29	562,350	355,310
Warrants	33	91,723	98,716
Reserves	30	474,733	364,406
Retained earnings	31	524,412	429,448
Total capital funds		2,124,034	**1,626,368**
Total liabilities and capital funds		11,913,477	**11,726,247**

The financial statements were approved by the Board of Directors on 17 March 2018 and signed on its behalf as follows:

Dr. Benedict Okey Oramah
Chairman of the Board of Directors

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

Financial statements for the year ended 31 December 2017

AFRICAN EXPORT-IMPORT BANK

Statement of profit or loss and other comprehensive income for the year ended 31 December 2017

	Note	2017 US$ 000	2016 US$ 000
Interest and similar income	8	606,074	484,012
Interest and similar expense	9	(267,749)	(210,758)
Net interest and similar income		338,325	**273,254**
Fee and commission income	10	39,245	36,290
Fee and commission expense	11	(8,883)	(5,855)
Net fee and commission income		30,362	**30,435**
Other operating income	12	3,439	1,675
Operating income		372,126	**305,364**
Personnel expenses	13	(38,758)	(32,283)
General and administrative expenses	14	(24,672)	(19,325)
Depreciation and amortisation expense	24, 25	(3,113)	(4,483)
Operating expense		(66,543)	**(56,091)**
Exchange adjustments		(1,641)	2,124
Fair value loss from derivatives		(4,718)	–
Cash flow hedge adjustments (discontinued)	30	(13,476)	–
Operating profit before impairment and provisions		285,748	**251,397**
Loan impairment charges	18	(63,397)	(82,747)
Impairment in other assets & accrued income	18	(1,857)	(3,616)
PROFIT FOR THE YEAR		220,494	165,034
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Cashflow hedges	30	–	(33,087)
Total other comprehensive income to be reclassified to profit or loss in subsequent periods		–	**(33,087)**
Other comprehensive income not to be reclassified to profit or loss in subsequent periods			
Gains (losses) on revaluation of land and buildings	24	9,279	(18,650)
Total Other comprehensive income not to be reclassified			
		9,279	**(18,650)**
Total other comprehensive income		9,279	**(51,737)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		229,773	**113,297**
Earnings per share			
Basic earnings per share (expressed in US$000 per share)	15	5.58	4.63
Diluted earnings per share (expressed in US$000 per share)	15	2.25	1.85

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 31 December 2017

	Share Capital (Note 28) US$ 000	Share Premium (Note 29) US$ 000	Warrants (Note 33) US$ 000	General Reserve (Note 30) US$ 000	Asset Revaluation Reserve (Note 30) US$ 000	Cashflow hedge reserve (Note 30) US$ 000	Project preparation facility Fund reserve (Note 30) US$ 000	Retained Earnings (Note 31) US$ 000	Total US$ 000
Balance at 1 January 2017	378,488	355,310	98,716	366,282	11,600	(13,476)	–	429,448	**1,626,368**
Total comprehensive income									
Profit of the year	–	–	–	–	–	–	–	220,494	**220,494**
Other comprehensive income									
Recycling of fair value adjustment to profit and loss	–	–	–	–	–	13,476	–	–	**13,476**
Asset revaluation reserve	–	–	–	–	9,279	–	–	–	**9,279**
Transactions with equity owners of the Bank									
Project preparation facility Fund reserve	–	–	–	–	–	–	7,500	(7,500)	–
Transfer to general reserve	–	–	–	81,480	–	–	–	(81,480)	–
Depreciation transfer: buildings	–	–	–	–	(1,408)	–	–	1,408	–
Warrants retirement	–	–	(198,575)	–	–	–	–	–	**(198,575)**
Issued and Paid in capital during 2017	92,328	207,040	191,582	–	–	–	–	–	**490,950**
Dividends for year 2016 (Note 32)	–	–	–	–	–	–	–	(37,958)	**(37,958)**
Balance at 31 December 2017	**470,816**	**562,350**	**91,723**	**447,762**	**19,471**	–	**7,500**	**524,412**	**2,124,034**
Balance at 1 January 2016	307,152	203,861	46,316	302,744	31,878	19,611	–	355,147	**1,266,709**
Total comprehensive income									
Profit of the year	–	–	–	–	–	–	–	165,034	**165,034**
Other comprehensive income									
Effective portion of changes in fair value of cash flow hedge	–	–	–	–	–	(33,087)	–	–	**(33,087)**
Asset revaluation reserve	–	–	–	–	(18,650)	–	–	–	**(18,650)**
Transactions with equity owners of the Bank									
Transfer to general reserve	–	–	–	63,538	–	–	–	(63,538)	–
Depreciation transfer: buildings	–	–	–	–	(1,628)	–	–	1,628	–
Paid in capital during 2016	71,336	151,449	–	–	–	–	–	–	**222,785**
Warrants retirement	–	–	(46,316)	–	–	–	–	–	**(46,316)**
Issued during the year	–	–	98,716	–	–	–	–	–	**98,716**
Dividends for year 2015 (Note 32)	–	–	–	–	–	–	–	(28,823)	**(28,823)**
Balance at 31 December 2016	**378,488**	**355,310**	**98,716**	**366,282**	**11,600**	**(13,476)**	–	**429,448**	**1,626,368**

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

Financial statements for the year ended 31 December 2017

AFRICAN EXPORT-IMPORT BANK

Statement of cash flows for the year ended 31 December 2017

	Note	2017 US$ 000	2016 US$ 000
CASHFLOW FROM OPERATING ACTIVITIES			
Profit for the year		220,494	**165,034**
Adjustment for non-cash items:			
Depreciation of property and equipment	24	2,641	3,861
Amortization of intangible assets	25	472	622
Net interest income		(338,325)	(273,254)
Allowance on impairment on loans and advances	18.1(b)	63,397	82,747
Impairement on other assets	18.2(b)	598	1,074
Impairement on accrued income	18.2(b)	1,259	2,542
Leave pay expense		206	306
Net loss from cash flow hedge		18,194	–
Gain on disposal of property and equipment		–	(7)
		(31,064)	**(17,075)**
Changes in :			
Money market placements - Maturity more than 3 months		(2,094,442)	(150,196)
Prepayments and accrued income		(54,624)	(28,959)
Hedging derivatives instruments		(52)	3,163
Other assets		(460)	(1,083)
Other liabilities		346,892	22,026
Deposits and customer accounts		(1,629,137)	2,470,350
Loans and advances to customers		1,754,862	(4,199,901)
		(1,708,025)	**(1,901,675)**
Interest receievd		559,979	411,773
Interest paid		(224,835)	(178,182)
Net cash outflows from (used in) operating activities		(1,372,881)	**(1,668,084)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases and additions to property and equipment	24,25	(2,640)	(2,472)
Proceeds from sale of property and equipment		–	7
Net cash outflows used in investing activities		(2,640)	**(2,465)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Net cash from capital subscriptions and share premium		283,790	204,205
Proceeds from issue of warrants	33	191,582	98,716
Retirement of warrants	33	(198,575)	(46,316)
Dividends paid		(21,195)	(20,254)
Proceeds from borrowed funds and debt securities		9,339,015	7,226,436
Repayment of borrowed funds and debt securities		(8,368,045)	(5,497,446)
Net cash inflows from financing activities		1,226,572	**1,965,341**
Net increase in cash and cash equivalents		(148,949)	294,792
Cash and cash equivalents at 1 January		1,118,884	824,092
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		969,935	**1,118,884**
Represented in:			
Cash and Cash Equivalent as presented in the statement of financial position	16	3,214,573	1,269,080
Money market placements - Maturity more than 3 months		(2,244,638)	(150,196)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		969,935	**1,118,884**

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 31 December 2017

1 GENERAL INFORMATION

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), Harare (Zimbabwe), Abidjan (Cote D'Ivoire) and Nairobi (Kenya).

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, except for the amendments to IFRS effective as of 1 January 2017 as disclosed in note 2.1.1 below 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 International Accounting Standards Board (IASB).

The financial statements are prepared on a historical cost basis 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 financial statements are presented in US Dollars and all values are rounded to the nearest thousand (US$'000). 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 Initial application of new amendments to the existing Standards effective for current financial period.

The following new amendments to the existing standards issued by the International Accounting Standards Board are effective for current financial period:

- **Amendments to IAS 7 "Statement of Cash Flows"** - Disclosure Initiative (effective for annual periods beginning on or after 1 January 2017).

The amendments to IAS 7 Statement of Cash Flows are part of the IASB's Disclosure Initiative and require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. On initial application of the amendment, entities are not required to provide comparative information for preceding periods.

- **IFRS 12 "Disclosure of Interests in Other Entities"** - Clarification of the scope of the disclosure requirements in IFRS 12 (effective from 1 January 2017).

The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10–B16, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

The adoption of these amendments to the existing standards and interpretations has not led to any changes in the Bank's accounting policies.

2.1.2 New Standards and amendments to existing standards in issue not yet adopted

At the date of authorisation of these financial statements the following new standards and amendments to existing standards were in issue but not yet effective. Impact of intial application of the below IFRS is not known:

- **IFRS 9 "Financial Instruments"** (effective for annual periods beginning on or after 1 January 2018).

In July 2014, the IASB issued IFRS 9 "Financial Instruments", which replaces IAS 39, "Financial Instruments: Recognition and Measurement". IFRS 9 introduces new requirements for how an entity should classify and measure financial assets, requires changes to the reporting of 'own credit' with respect to issued debt liabilities that are designated at fair value, replaces the current rules for impairment of financial assets and amends the requirements for hedge accounting. The standard also requires entities to provide users of financial statements with more informative and relevant disclosures. IFRS 9 is effective for annual periods beginning on or after January 1, 2018.

Financial statements for the year ended 31 December 2017

Implementation program

The Bank has a centrally managed IFRS 9 committee chaired by the Bank's Executive Vice President (FABS) and includes subject matter experts on methodology, data sourcing and modeling, IT processing and reporting. The Bank's work to date has covered performing an assessment of the population of financial instruments impacted by the classification and measurement requirements of IFRS 9 and developing an impairment methodology to support the calculation of the Expected Credit Loss allowance. Specifically, during 2017 the Bank developed its approach for assessing significant increase in credit risk, incorporating forward looking information, including macro-economic factors (to be implemented in 2018) and preparing the required IT systems and process architecture. The Bank envisages performing parallel runs in 2018 to ensure procedural readiness and further improve the data quality of new data required. Overall governance of the program's implementation is through the IFRS 9 Steering Committee and includes representation from Finance, Banking operation, Treasury, Risk and IT. Guidance and training on IFRS 9 across the Bank is delivered across businesses and functions as part of the Bank's internal control systems. The Bank is in the process of enhancing its existing governance framework to ensure that appropriate validations and controls are in place over new key processes and significant areas of judgment. Governance over the Expected Credit Loss calculation process is split across Risk, Credit assessment and Finance functions.

Classification and Measurement of Financial Assets and Liabilities

IFRS 9 requires that an entity's business model and a financial instrument's contractual cash flows will determine its classification and measurement in the financial statements. Upon initial recognition each financial asset will be classified as either fair value through profit or loss ('FVTPL'), amortized cost, or fair value through Other Comprehensive Income ('FVOCI'). As the requirements under IFRS 9 are different than the assessments under the existing IAS 39 rules, some differences to the classification and measurement of financial assets under IAS 39 are expected. The classification and measurement of financial liabilities remain largely unchanged under IFRS 9 from current requirements. In 2017, the Bank made an initial determination of business models and assessed the contractual cash flow characteristics of the financial assets to determine the potential classification and measurement changes as a result of IFRS 9. As a result of the analysis performed thus far, the Bank has identified a population of financial assets which are expected to be measured at either amortized cost or fair value through other comprehensive income, which will be subject to the IFRS 9 impairment rules. However, the actual impact that IFRS 9 classification and measurement will have on the Bank is mainly dependent on the business models and the inventory of financial assets which exist at the effective date, and as such the Bank will roll forward our analysis during 2018 to take into consideration any changes in business strategies and composition of financial assets. Where issued debt liabilities are designated at fair value, the fair value movements attributable to an entity's own credit risk will be recognized in Other Comprehensive Income rather than in the Statement of Income. The standard also allows the Bank the option to elect to apply early the presentation of fair value movements of an entity's credit risk in Other Comprehensive Income prior to adopting IFRS 9 in full. The Bank has not early adopted this requirement.

Impairment of Financial Assets

The impairment requirements of IFRS 9 apply to financial assets that are measured at amortized cost or FVOCI, and off balance sheet lending commitments such as loan commitments and financial guarantees (hereafter collectively referred to in this note as financial assets). The determination of impairment losses and allowance will move from an incurred credit loss model whereby credit losses are recognized when a defined loss event occurs under IAS 39, to an expected loss model under IFRS 9, where provisions are taken upon initial recognition of the financial asset (or the date that the Bank becomes a party to the loan commitment or financial guarantee), based on expectations of potential credit losses at that time under IFRS 9. Currently, the Bank first evaluates individually whether objective evidence of impairment exists for loans that are individually significant. It then collectively assesses loans that are not individually significant and loans which are significant but for which there is no objective evidence of impairment available under the individual assessment. Under IFRS 9 for financial assets originated or purchased, the Bank will recognize a loss allowance at an amount equal to 12-month expected credit losses, if the credit risk at the reporting date has not increased significantly since initial recognition (Stage 1). This amount represents the expected credit losses resulting from default events that are possible within the next 12 months. The interest revenue is calculated on the gross carrying amount for financial assets in Stage 1. IFRS 9 requires the recognition of credit losses over the remaining life of the financial assets ('lifetime expected losses') which are considered to have experienced a significant increase in credit risk (Stage 2) and for financial assets that are credit impaired at the reporting date (Stage 3). The lifetime expected credit losses represent all possible default events over the expected life of a financial instrument. The Bank leverages existing risk management indicators (e.g. watch list, fair risk), credit rating changes and taking into consideration reasonable and supportable information which allows the Bank to identify whether the credit risk of financial assets has significantly increased. This process includes considering forward-looking information, including macro-economic factors. Furthermore, financial assets will be transferred to Stage 2 if 30 days past due. The interest revenue is calculated on the gross carrying amount for financial assets in Stage 2. As the primary definition for credit impaired financial assets moving to Stage 3, the Bank will apply the default definition as laid out in CRR Article 178. Interest revenues are calculated on the net carrying amount for these financial assets only. Forward-looking information, including macro-economic factors must be taken into account to measure IFRS 9 compliant expected credit losses. IFRS 9 does not distinguish between individually significant or not individually significant financial instruments. Therefore, the Bank decided to measure the allowance for credit losses on an individual transaction basis. Similarly, the assessment for transferring financial assets between Stages 1, 2 and 3 will also be made on an individual transaction basis. For detailed information on the current impairment approach under IAS 39 please refer to Note 2.8 "Impairment of loans and advances". The Bank uses three main components to measure expected credit losses which are a probability of default ('PD'), a loss given default ('LGD') and the exposure at default ('EAD'). Therefore, the Bank will leverage the existing parameters of the regulatory framework and risk management practices as much as possible on transaction level. For the purpose of IFRS 9 the allowance for credit losses is affected by a variety of key characteristics, such as, but not limited to the expected balance at default and the related amortization profile as well as the expected life of the financial asset. As a consequence, the allowance for credit losses for Stage 2 financial assets will increase with the expected lifetime or the expected EAD. Incorporating forecasts of future economic conditions into the measurement of expected credit losses will additionally cause an impact on the allowance for credit losses for each stage. In order to calculate lifetime expected credit losses, the Bank's calculation includes deriving the corresponding lifetime PDs from migration matrices that reflect the economic forecasts. To determine whether a financial asset is credit impaired and thus must be classified as Stage 3, one or more events must be identified that have a detrimental impact on the estimated future cash flows.

As a result of IFRS 9, there will be an increase in subjectivity as the allowance for credit losses will be based on reasonable and supportable forward-looking information which take into consideration future macro-economic scenarios as provided by Afreximbank Bank Research. These macro-economic scenarios are continuously monitored and in addition to being used for the Bank's expected credit loss calculation, this information also forms the basis for performing the Bank's capital planning and stress-testing. This information provided by Afreximbank Bank Research is used to generate possible future scenarios by utilizing the Bank's stress testing infrastructure with appropriate modifications to align with IFRS 9 requirements. The Bank is in the process of analyzing synergies with the capital forecasting and stress-testing processes. The transition impact and effects resulting from the continuous application of IFRS 9 are reflected in the Bank's capital planning for 2018 and onwards. The general use of forward-looking information, including macro-economic factors as well as adjustments taking into account extraordinary factors will be monitored by a governance framework. IFRS 9 is estimated to result in an increase in the overall level of allowances for credit losses as noted above. This estimated increase is driven by the requirement to record an allowance equal to 12 months expected credit losses on those instruments whose credit risk has not significantly increased since initial recognition and driven by the larger population of financial assets to which lifetime expected losses must be applied.

Hedge accounting

IFRS 9 also incorporates new hedge accounting rules that intend to align hedge accounting with risk management practices. Generally, some restrictions under current rules have been removed and a greater variety of hedging instruments and hedged items become available for hedge accounting. The requirements for general hedge accounting have been simplified for hedge effectiveness testing and may result in more designations of groups of items as the hedged items are possible.

Transition impact

Based on December 31, 2017 data and the current implementation status of IFRS 9 as described in further details above the Bank couldn't estimate the figures for the current year.

- **IFRS 15 "Revenue from Contracts with Customers"** and further amendments (effective for annual periods beginning on or after 1 January 2018).

IFRS 15 specifies how and when an IFRS reporter will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard supersedes IAS 18 "Revenue", IAS 11 "Construction Contracts" and a number of revenue-related interpretations. Application of the standard is mandatory for all IFRS reporters and it applies to nearly all contracts with customers: the main exceptions are leases, financial instruments and insurance contracts. The core principle of the new Standard is for companies to recognise revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services. The new Standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements.

The impact of applying IFRS 15 on the Bank's financial statements can not be reasonable estimated.

- **IFRS 16 "Leases"** (effective for annual periods beginning on or after 1 January 2019).

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Financial statements for the year ended 31 December 2017

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

In 2018, the bank will continue to assess the potential effect of IFRS 16 on its financial statements.

- **IFRS 17 "Insurance contracts"** (effective for annual periods beginning on or after 1 January 2021).

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective,

IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features.

A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts.

IFRS 17 is effective for reporting periods beginning on or after 1 January 2021, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17.

- **Amendments to IFRS 2 "Share-based Payment"** - Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018).

The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met.

- **Amendments to IAS 40 "Investment Property"** - Transfers of Investment Property (effective for annual periods beginning on or after1 January 2018).

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. Entities should apply the amendments prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments.

An entity should reassess the classification of property held at that date and, if applicable, reclassify property to reflect the conditions that exist at that date. Retrospective application in accordance with IAS 8 is only permitted if it is possible without the use of hindsight.

Effective for annual periods beginning on or after 1 January 2018. Early application of the amendments is permitted and must be disclosed.

- **IFRIC Interpretation 22 "Foreign Currency"** -Transactions and Advance Consideration (effective for annual periods beginning on or after 1 January 2018).

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the transaction date for each payment or receipt of advance consideration. Entities may apply the amendments on a fully retrospective basis.

Alternatively, an entity may apply the Interpretation prospectively to all assets, expenses and income in its scope that are initially recognised on or after:

i. The beginning of the reporting period in which the entity first applies the interpretation Or

ii. The beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

- **Amendments to various standards "Improvements to IFRSs (cycle 2014-2016)"** issued in December 2016. They include:
- **IFRS 1 "First-time Adoption of International Financial Reporting Standards"** -Deletion of short-term exemptions for first-time adopters (effective from 1 January 2018).

Short-term exemptions in paragraphs E3–E7 of IFRS 1 were deleted because they have now served their intended purpose.

- **IAS 28 "Investments in Associates and Joint Ventures"** - Clarification that measuring investees at fair value through profit or loss is an investment-by investment choice (effective from 1 January 2018).

The amendments clarifies that:

- An entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss.
- If an entity, that is not itself an investment entity, has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which: (a) the investment entity associate or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent.

The amendments should be applied retrospectively and are effective from 1 January 2018, with earlier application permitted. If an entity applies those amendments for an earlier period, it must disclose that fact.

- **Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - Amendments to IFRS 4 -** (effective from 1 January 2018).

The amendments clarifies that:

The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing IFRS 17 Insurance Contracts, which replaces IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach. An entity may elect the overlay approach when it first applies IFRS 9 and apply that approach retrospectively to financial assets designated on transition to IFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying IFRS 9.

- **Amendments to IFRS 10 "Consolidated Financial Statements"** and IAS 28 "Investments in Associates and Joint Ventures" - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date was deferred indefinitely until the research project on the equity method has been concluded).

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture.

The Bank has elected not to adopt these new standards and amendements to existing standards in advance of their effective dates and the Bank is in the process of assesing the impact of these amendments on its financial statements.

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 (EIR) 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.

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2.4 Other operating income
Other operating income consists mainly of rental income which is accounted for on a straight-line basis over the lease terms on ongoing leases. And recoveries from previously written-off facilities.

2.5 Operating expenses
Operating expenses are recorded on accrual basis.

2.6 Foreign currencies
Transactions in foreign currencies are initially recorded at their respective functional currency spot rate prevailing 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 profit or loss and comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction and are not subsequently restated. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of gain or loss on change in fair value of the item (i.e. translation differences on items whose fair value gain or loss is recognized in other comprehensive income or profit or loss are also recognized in other Comprehensive income or profit or loss, respectively).

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 Impairment of loans and advances
The Bank assesses at each reporting date whether there is objective evidence that a loan is impaired (see note 6). 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 an 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 carrying amount of the loan and the present value of estimated future cash flows discounted at the loan's 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. Further details on estimates and assumptions used in impairment of loans and advances are shown in **note 6**.

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. The amount of provision is based on historical loss experience for loans.

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 as a reduction to loan impairment charges in profit or loss.

2.9 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. Cost includes expenditure that is directly attributable to the acquisition of the items. Repair and maintenance costs are recognized in profit or loss as incurred.

Depreciation is calculated on the straight line basis at annual rates estimated to write off the carrying amounts 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. Please refer to **(Note 2.14)** on impairment of non-financial assets for further information about impairment.

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 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. Further details on key estimates and assumptions made are disclosed in note 6.

The Headquarters' land and building are measured at fair value less accumulated depreciation on buildings and impairment losses recognized at the date of revaluation.

Valuations are performed by an independent valuer at the reporting date to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

A revaluation surplus is recorded in other comprehensive income and credited to the asset revaluation reserve in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognized in profit or loss, the increase is recognized in profit or loss. A revaluation deficit is recognized in the profit or loss, except to the extent that it offsets an existing surplus on the same asset recognized in the asset revaluation reserve. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings. An annual transfer from the asset revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued amount of the asset and depreciation based on the asset original cost.

2.10 Intangible assets
The Bank's other intangible assets include the value of computer software.

An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Bank. Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life, or the expected pattern of consumption of future economic benefits embodied in the asset, are accounted for by changing the amortisation period or methodology, as appropriate, which are then treated as changes in accounting estimates.

Amortisation is calculated using the straight–line method to write down the cost of intangible assets to their residual values over their estimated useful lives, as follows:

– Computer & Core application software 4 years

2.11 Government grants
Government grants related to assets, including non-monetary grants at fair value, are presented in the statement of financial position by deducting the grant in arriving at the carrying amount of the asset. the grant is deducted in calculating the carrying amount of the asset. The grant is recognised in profit or loss over the life of a depreciable asset as a reduced depreciation expense.

2.12 Earnings per share
Basic earnings per share (EPS) is calculated by dividing the net profit for the year attributable to equity holders of the Bank by the weighted average number of shares outstanding during the year. Diluted EPS is calculated by dividing the net profit attributable to equity holders of the Bank (by the weighted average number of shares outstanding during the year plus the weighted average number of shares that would be issued on the conversion (warrants) of all the dilutive potential ordinary shares into ordinary shares.

2.13 Employee benefits
i. Defined contribution plan
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.

ii. Other long term benefits
The Bank's net obligation in respect of long-term employees benefits is the amount of future benefits that the employee have earned in return for their service in current and prior periods that benefits are recognized in profit or loss on an accrual basis.

iii. Termination benefits
Termination benefits are expensed at the earlier of when the Bank can no longer withdraw the offer of those benefits and when the Bank recognizes cost for a restructing . If benefits are not expexted to be wholly setteled within 12 months of the reporting date, then they are discounted

iv. Short term employee benefits
Short tern employee benefits are expensed as the related service is provided. A liabity is recognized for the amount expected to be paid if the Bank has legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

2.14 Financial instruments
Financial assets and financial liabilities are recognized when the Bank becomes a party to the contractual provisions of the instrument. 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.

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Financial assets and liabilities, with the exception of loans and advances to customers and balances due to customers, are initially recognised on the trade date. Loans and advances to customers are recognised when funds are transferred to the customers' account.

i) Classification and measurement of financial assets
Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity financial assets and available-for-sale financial assets. All financial assets are recognized initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Loans and receivables
Loans and receivables including loans and advances to customers and cash and deposits with banks 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 receivables 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.

Loans with renegotiated terms
The contractual terms of a loan may be modified for a number of reasons including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognized and the negotiated loan recognised as a new loan at fair value.

Financial assets at fair value through profit or loss
A financial asset is classified as at fair value through profit or loss if it is classified as held for-trading or is designated as such on initial recognition. Directly attributable transaction costs are recognised in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value and changes therein, including any interest or dividend income, are recognised in profit or loss.

Available-for-sale financial assets
These assets are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on debt instruments, are recognised in OCI and accumulated in the fair value reserve. When these assets are derecognised, the gain or loss accumulated in equity is reclassified to profit or loss.

Financial investments - Held to maturity
Held-to-maturity financial investments are non–derivative financial assets with fixed or determinable payments and fixed maturities that the Bank has the intention and ability to hold to maturity. After initial measurement, held-to-maturity financial investments are subsequently measured at amortised cost using the EIR less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortisation is included in interest and similar income in the income statement. The losses arising from impairment of such investments are recognised in the income statement within credit loss expense. If the Bank were to sell or reclassify more than an insignificant amount of held-to- maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available-for-sale. Furthermore, the Bank would be prohibited from classifying any financial asset as held-to-maturity during the following two years.

ii) De-recognition of financial assets
A financial asset (or, where applicable, a part of a financial asset is primarily derecognized (i.e. removed from the Bank's statement of financial position) when:

- The rights to receive cash flows from the asset have expired, or
- The Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Bank has transferred substantially all the risks and rewards of the asset, or (b) the Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

iii) Impairment of financial assets
The Bank assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset is deemed to be impaired if there is objective evidence of impairment that, as a result of one or more events that has occurred since the initial recognition of the asset (an incurred loss event) and that loss event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Objective evidence of impairment could include; the Bank's past experience of collecting payments, an increase in the number of delayed payments past the average credit period, delinquency, and initiation of bankruptcy proceedings as well as observable changes in economic conditions that correlate with default on receivables.

For certain categories of financial assets, such as loans and advances to customers, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Bank's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the period of 90 days, as well as observable changes in economic conditions that correlate with default on receivables.

If the terms of the financial asset are renegotiated or modified or an existing asset is replaced with a new one due to financial difficulties of the borrower.

For financial assets carried at amortised cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of loans and advances, where the carrying amount is reduced through the use of an allowance account. When loans and advances are considered uncollectible, they are written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to other income. Changes in the carrying amount of the allowance account are recognized in profit or loss.

iv) Classification and measurement of Financial liabilities
Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Bank determines the classification of its financial liabilities at initial recognition. The Bank has not designated any financial liabilities at fair value through profit or loss. All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Bank's financial liabilities include amount due to banks, debt securities in issue and customer deposits which are initially measured at fair value, net of directly attributable transaction costs. Subsequently, they are measured at amortised cost.

v) 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. Derivatives are initially recognized at fair value at the date the derivative contract is entered into and are subsequently measured at their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately. A derivative with a positive fair value is recognized as a financial asset; a derivative with a negative fair value is recognized as a financial liability. See Note 5 for further details.

vi) De-recognition of financial liabilities
A financial liability is derecognized when the obligation under the liability is discharged or cancelled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in profit or loss.

vii) Offsetting of financial instruments
Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a currently enforceable legal right to set off the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

2.15 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. Staff bonuses are recognized in profit or loss as an expense.

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

2.16 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.

i) Bank as lessee
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 Bank has entered into operating lease agreements for leasing of office premises. These leases have an average life of between two and five years, with renewal option included in the contracts.

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.

ii) Bank as lessor
Leases in which the Bank does not transfer substantially all the risks and benefits of ownership of an asset are classified as operating leases. The Bank has entered into operating lease agreements for leasing of office space on its building. These leases have an average life of between two and five years, with renewal option included in the contracts.

2.17 Impairments 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 in expense categories consistent with the function of the impaired asset, except for properties previously revalued with the revaluation taken to OCI. For such properties, the impairment is recognised in OCI up to the amount of any previous revaluation.

The recoverable amount is the greater of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using

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a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

For all assets, an assessment is made at each reporting date to determine whether there is an indication that previously recognized impairment losses no longer exist or have decreased. If such indication exists, the Bank estimates the asset's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. The reversal of impairment losses is recognised in profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.Further details on key estimates and assumptions used are as shown in Note 6.

2.18 Debt securiries 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 amortized cost using effective interest method.

2.19 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 profit or loss 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 profit or loss.

(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 profit or loss 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 profit or loss 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 profit or loss.

(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 in other comprehensive income and accumulated 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 profit or loss.

When the hedged cash flow affects profit or loss, the gain or loss on the hedging instrument is recorded in the corresponding income or expense line of profit or loss. 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 separately in equity and is transferred to profit or loss when the hedged forecast transaction occurs. 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 profit or loss.

2.20 Dividends 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.

2.21 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 adjusted for transaction costs that are directly attributable to the issuance of the guarantee. 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 profit or loss and other 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 profit or loss under operating expenses.

2.22 Fair value measurement

The Bank measures financial instruments, such as derivatives, and non-financial assets, such as land and buildings, at fair value at each reporting date. Also, fair values of financial instruments measured at amortised cost are disclosed in note 4.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability. The principal market or the most advantageous market must be accessible by the Bank.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable Information on the Bank's fair value hierarchy is provided in note 4.

2.23 Warrants

Proceeds from the issuance of warrants, net of issue costs, are credited to share warrants account. Share warrants account is non-distributable and will be transferred to share capital and premium accounts upon the exercise of warrants.

3 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

3.1 Risk management

The Bank's business involves taking on risks in a reasonable 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 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.

3.2 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

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review and implementation; and (iv) Risk Management Department, responsible for risk policies development and monitoring..

3.3 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 gross carrying amounts of cash and deposits with banks, loans and advances to customers and derivative financial instruments represent the maximum amount exposed to credit risk.

3.4 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.

3.5 Credit risk management

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

Bank's Internal Ratings Scale

Bank's rating grade range	Description of the rating
1-3	Low risk
4-8	Satisfactory risk
9-10	Fair risk
11	Watch list
12	Sub-Standard risk
13	Doubtful and bad
14	Loss

3.6 Impairment and provisioning policies

The impairment allowance shown in the statement of financial position is derived from each of the fourteen internal rating grades. However, the impairment allowance is composed largely of the thirtenth grading above. 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.

	2017	
Bank's rating	Loans & advances (%)	Impairment allowance(%)
Low risk	0.9	2.3
Satisfactory risk	60.1	4
Fair risk	18.1	4
Watch list	13.4	1.9
Sub-standard risk	4.7	1.9
Doubtful and bad	2.8	85.9
	100	100

	2016	
Bank's rating	Loans & advances (%)	Impairment allowance(%)
Low risk	44.5	6.1
Satisfactory risk	28.2	3.9
Fair risk	8.6	1.2
Watch list	9.1	1.3
Sub-standard risk	7.2	1.0
Doubtful and bad	2.4	86.5
	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. Further details on key estimates and assumptions used are detailed in **note 6**.

3.7 Maximum exposure credit risk before collateral held or other credit enhancements

	2017 US$ 000	2016 US$ 000
Credit risk exposures relating to on-statement of financial position items are as follows:		
Deposits with other banks	861,307	618,770
Loans and advances to customers	8,510,543	10,315,620
Derivative assets held for risk management	3,574	8,792
Money market placements	2,353,176	650,235
Accrued income	240,427	201,164
Financial investments - held to maturity	30,268	30,268
Credit risk exposures relating to off-statement of financial position items are as follows:		
Letters of credit	319,939	245,070
Guarantees	376,680	500,375
Loan commitments and other credit related liabilities	321,242	453,478
	13,017,156	13,023,772

The above table represents a worst case scenario of credit risk exposure to the Bank at 31 December 2017 and 31 December 2016, without taking account of any collateral held or other credit enhancements attached. For on-statement of financial position assets, the exposures set out above are based on gross carrying amounts.

Collaterals held under Loans and advances to customers represent 83% of total loans.

3.8 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 gross amounts (without taking into account any collateral held or other credit support), as categorized by geographical region as at 31 December 2017 and 31 December 2016 of the Bank's counterparties.

	%	2017 US$ 000	%	2016 US$ 000
West Africa	46.6	3,967,914	43.7	4,509,508
North Africa	22.8	1,939,793	42.3	4,364,785
Regional	0.8	64,943	1.1	108,396
East Africa	9.0	764,793	4.3	441,939
Central Africa	9.2	779,005	1.3	137,290
Southern Africa	11.6	994,095	7.3	753,702
Total (Note 17)	**100**	8,510,543	**100**	**10,315,620**

3.8.1 Concentration risks of loans and advances to customers with credit risk exposure (continued)

b) Industry sectors

The following table breaks down the Bank's credit exposure at their gross amounts (without taking into account any collateral held or other credit support), as categorized by industry sector as at 31 December 2017 and 31 December 2016 of the Bank's counterparties.

	%	2017 US$ 000	%	2016 US$ 000
Agriculture	7.5	633,895	4.0	412,335
Energy	20.2	1,720,484	15.8	1,633,969
Services	4.2	358,028	2.8	287,965
Metals and minerals	0.3	23,658	1.7	175,851
Transportation	3.3	277,563	3.1	318,696
Manufacturing	3.2	272,731	1.4	146,582
Telecommunications	3.8	327,500	2.7	275,039
Financial institutions	57.5	4,896,684	68.5	7,065,183
Total (Note 17)	**100**	8,510,543	**100**	**10,315,620**

3.9 Loans and advances

Loans and advances are summarised as follows:

	2017 US$ 000	2016 US$ 000
Neither past due nor impaired	8,002,634	9,745,457
Past due but not impaired	295,007	324,953
Impaired	212,902	245,210
Gross loans and advances (Note 17)	8,510,543	**10,315,620**
Less: Allowance for impairment (Note 18.1)	(180,600)	(167,418)
Net loans and advances	8,329,943	**10,148,202**
Individually impaired	152,244	144,373
Collective impairment	28,356	23,045
Total	180,600	**167,418**

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The total impairment charge for loans and advances is US$ 63,397,000 (2016: US$ 82,747,000) of which US$ 58,086,000 (2016: US$ 79,763,000) represents the individually impaired loans and the remaining amount of US$ (5,311,000) (2016: US$ 2,984,000), represents the collective impairment allowance. Further information of the impairment allowance for loans and advances to customers is provided in note 17.

(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:

Grade	2017 US$ 000	2016 US$ 000
Low risk	1,235,900	4,587,982
Satisfactory risk	2,385,735	2,912,861
Fair risk	2,276,492	869,297
Watch list	1,047,682	917,851
Sub-Standard risk	1,056,825	457,466
Total	8,002,634	**9,745,457**

(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:

	2017 US$ 000	2016 US$ 000
Past due up to 30 days	10,635	188,255
Past due 30-60 days	4,272	5,182
Past due 60-90 days	7,250	6,714
Past due over 90 days	272,850	124,802
Total	295,007	**324,953**
Fair value of collateral	412,925	**714,934**

(c) Loans and advances impaired

	2017 US$ 000	2016 US$ 000
Impaired loans	212,902	245,210
Fair value of collateral	119,343	**159,629**

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. There were no collaterals repossessed during the year. The collaterals held against these loans are in the form of cash cover, insurance, bank guarantees, mortgage bonds and charge over assets.

3.10 Market risk

3.10.1 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 2017. It includes the Bank's financial instruments at carrying amounts (non-derivatives), categorized by the period of contractual re-pricing.

As at 31 December 2017	Up to 3 months US$ 000	3-6 months US$ 000	6-12 months US$ 000	Over 1 year US$ 000	Non interest bearing US$ 000	Fixed Rate US$ 000	2017 Total US$ 000
Financial assets							
Cash and due from banks	861,307	--	–	–	90	–	861,397
Deposits with other banks	2,152,584	200,592	–	–	–	–	2,353,176
Loans and advances to customers	1,354,182	1,831,709	1,495,325	1,871,432	–	1,957,895	8,510,543
Accrued income	–	–	–	–	239,329	–	239,329
Other assets	–	–	–	–	2,931	–	2,931
Financial investments - held to maturity	–	–	–	–	–	30,268	30,268
Total financial assets	**4,368,073**	**2,032,301**	**1,495,325**	**1,871,432**	**242,350**	**1,988,163**	**11,997,644**
Financial liabilities							
Due to banks	72,313	100,000	466,000	1,702,601	–	1,890,460	4,231,374
Debt securities in issue	–	400,000	–	1,275,000	–	1,206,622	2,881,622
Deposits and customer accounts	386,517	–	–	–	–	1,762,839	2,149,356
Other liabilities	–	–	–	–	85,713	–	85,713
Total financial liabilities	**458,830**	**500,000**	**466,000**	**2,977,601**	**85,713**	**4,859,921**	**9,348,065**
Total interest gap	**3,909,243**	**1,532,301**	**1,029,325**	**(1,106,169)**	–	–	–
Cumulative gap	**3,909,243**	**5,441,544**	**6,470,869**	**5,364,700**			

As at 31 December 2016	Up to 3 months US$ 000	3-6 months US$ 000	6-12 months US$ 000	Over 1 year US$ 000	Non interest bearing US$ 000	Fixed Rate US$ 000	2016 Total US$ 000
Financial assets							
Cash and due from banks	618,770	–	–	–	75	–	618,845
Deposits with other banks	650,235	–	–	–	–	–	650,235
Loans and advances to customers	9,293,445	268,712	313,560	–	–	439,903	10,315,620
Prepayments and accrued income	–	–	–	–	198,316	–	198,316
Other assets	–	–	–	–	3,069	–	3,069
Financial investments - held to maturity	–	–	–	–	–	30,268	30,268
Total financial assets	**10,562,450**	**268,712**	**313,560**	-	**201,460**	**470,171**	**11,816,353**
Financial liabilities							
Due to banks	1,580,803	410,310	107,811	–	–	1,951,988	4,050,912
Debt securities in issue	1,736,000	–	–	–	–	355,114	2,091,114
Deposits and customer accounts	148,425	–	–	–	–	3,630,068	3,778,493
Other liabilities	–	–	–	–	71,507	–	71,507
Total financial liabilities	**3,465,228**	**410,310**	**107,811**	-	**71,507**	**5,937,170**	**9,992,026**
Total interest gap	**7,097,222**	**(141,598)**	**205,749**	–	–	–	**7,161,373**
Cumulative gap	**7,097,222**	**6,955,624**	**7,161,373**	**7,161,373**			

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3.11 Interest rate risk sensitivity analysis

At 31 December 2017, if interest rates at that date had been 54 basis points higher with all other variables held constant, profit and reserves for the year would have been US$ 28,970,000 (2016: US$ 38,673,000) lower, arising mainly as a result of thehigher decrease in interest income on loans than the decrease in interest expense on borrowing. If interest rates had been 54 basis points (2016: 54 basis points) lower, with all other variables held constant, profit would have been US$ 28,970,000 (2015: US$ 38,673,000) higher, arising mainly as a result of higher increase in interest income on loans than the increase in interest expense on borrowings. The sensitivity is higher in 2017 than in 2016 due to increase in interest rate sensitive assets and liabilities.

The table below summarizes the impact on profit or loss and equity for each category of financial instruments held as at 31 December 2017 and comparatives. It includes the Bank's financial instruments at carrying amounts.

	Carrying amount 2017 US$ 000	Impact on profit or loss and equity 2017 US$ 000	Impact on profit or loss and equity 2017 US$ 000	Carrying amount 2016 US$ 000	Impact on profit or loss and equity 2016 US$ 000	Impact on profit or loss and equity 2016 US$ 000
Changes in interest rates		+54bp of US$1R	(-)54bp of US$1R		+54bp of US$1R	(-)54bp of US$1R
Financial assets						
Cash due from banks	861,397	4,652	(4,652)	618,845	3,342	(3,342)
Deposits with other banks	2,353,176	12,707	(12,707)	650,235	3,511	(3,511)
Gross loans and advances to customers	6,552,648	35,384	(35,384)	9,875,717	53,329	(53,329)
Impact from financial assets	9,767,221	52,743	(52,743)	11,144,797	60,182	(60,182)
Financial liabilities						
Due to banks	2,340,914	(12,641)	12,641	2,098,924	(11,334)	11,334
Debt securities in issue	1,675,000	(9,045)	9,045	1,736,000	(9,374)	9,374
Deposits and customer accounts	386,517	(2,087)	2,087	148,425	(801)	801
Impact from financial liabilities	4,402,431	(23,773)	23,773	3,983,349	(21,509)	21,509
Total increase/(decrease) on profit or loss and equity	5,364,790	28,970	(28,970)	7,161,448	38,673	(38,673)

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. Please refer to **note 5** for further details on derivative financial instruments.

The table below summarises the Bank exposure to foreign currency exchange rate risk as at 31 December 2017. Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency:

As at 31 December 2017	Euro US$ 000	NGN US$ 000	Other Currencies US$ 000	Total US$ 000
Assets				
Cash and due from banks	227,444	1,215	1,016	229,675
Loans and advances to customers	911,619	–	–	911,619
Total financial assets	1,139,063	1,215	1,016	1,141,294
Liabilities				
Due to banks	1,202,441	–	55,016	1,257,457
Deposits and customer accounts	109,997	956	–	110,953
Derivative for risk management	–	–	55,016	55,016
Other liabilities	2,306	304	–	2,610
Total financial liabilities	1,314,744	1,260	110,032	1,426,036
Net exposure on statement of financial position	(175,681)	(45)	(109,016)	(284,742)
Credit commitments & financial guarantees	1,842,535	–	–	1,842,535

As at 31 December 2016	Euro US$ 000	NGN US$ 000	Other Currencies US$ 000	Total US$ 000
Assets				
Cash and due from banks	8,786	1,834	46	10,666
Loans and advances to customers	917,120	–	–	917,120
Total financial assets	925,906	1,834	46	927,786
Liabilities				
Due to banks	764,060	–	–	764,060
Deposits and customer accounts	16,254	2,685	–	18,939
Hedging derivatives	157,383	–	–	157,383
Other liabilities	1,520	–	–	1,520
Total financial liabilities	939,217	2,685	–	941,902
Net exposure on statement of financial position	(13,311)	(851)	46	(14,116)
Credit commitments & financial guarantees	288,342	–	–	288,342

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3.12.1 Foreign exchange risk sensitivity analysis

At 31 December 2017, 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$ 17,569,000 (2016: US$ 1,330,000) lower, arising mainly as a result of more financial liabilties than financial assets in Euro. If foreign exchange rates had been 10 percent higher, with all other variables held constant, profit would have been US$ 17,569,000 (2016: US$ 1,330,000) higher , arising mainly as a result of decline in revaluation of financial assets than financial liabilities in Euro.

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 or loss and equity for each category of Euro financial instruments held as at 31 December 2017. It includes the Bank's Euro financial instruments at carrying amounts.

	Carrying amount 2017 US$ 000	Impact on profit or loss and equity 2017 US$ 000	Impact on profit or loss and equity 2017 US$ 000	Carrying amount 2016 US$ 000	Impact on profit or loss and equity 2016 US$ 000	Impact on profit or loss and equity 2016 US$ 000
Changes in value of USD against Euro		10% increase	10% decrease		10% increase	10% decrease
Financial assets						
Cash due from banks	227,444	22,744	(22,744)	8,786	879	(879)
Gross loans and advances to customers	911,619	91,162	(91,162)	917,120	91,712	(91,712)
Impact from financial assets	1,139,063	113,906	(113,906)	925,906	92,591	(92,591)
Financial liabilities						
Due to banks	1,202,441	(120,244)	120,244	764,060	(76,406)	76,406
Deposits and customer accounts	109,997	(11,000)	11,000	16,254	(1,625)	1,625
Hedging derivatives	–	–	–	157,383	(15,738)	15,738
Other liabilities	2,306	(231)	231	1,520	(152)	152
Impact from financial liabilities	1,314,744	(131,475)	131,475	939,217	(93,921)	93,921
Total increase/(decrease) on profit or loss and equity	(175,681)	(17,569)	17,569	(13,311)	(1,330)	1,330

3.13 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. Liquidity ratio is 27% (2016: 11%)

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 2017 and the amounts disclosed in the table are the contractual undiscounted cash flows:

As at 31 December 2017	Up to 1 month US$ 000	1-3 months US$ 000	3-12 months US$ 000	1-5 years US$ 000	Over 5 years US$ 000	2017 Total US$ 000
Financial assets by type						
Non-derivative assets						
Cash and due from banks	790,445	–	–	–	–	790,445
Deposits with other banks	2,152,584	–	200,592	–	–	2,353,176
Loans and advances	1,373,877	1,368,728	4,263,787	1,920,358	54,602	8,981,352
Derivative assets						
Derivative assets held for risk management	–	–	–	2,766	–	2,766
Total assets	4,316,906	1,368,728	4,464,379	1,923,124	54,602	12,127,739
Financial liabilities						
Non-derivative liabilities						
Due to banks	125,966	421,314	1,208,211	2,593,474	68,937	4,417,902
Debt securities in issue	–	–	508,648	1,824,962	946,917	3,280,527
Deposits and customer accounts	881,235	400,827	502,097	–	–	1,784,159
Derivative liabilities						
Derivative liabilities held for risk management	–	–	135	22,892	–	23,027
Total liabilities	1,007,201	822,141	2,219,091	4,441,328	1,015,854	9,505,615
Net liquidity gap	3,309,705	546,587	2,245,288	(2,518,204)	(961,252)	2,622,124
Cumulative liquidity gap	3,309,705	3,856,292	6,101,580	3,583,376	2,622,124	

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3.13 Liquidity Risk (continued)

As at 31 December 2016	Up to 1 month US$ 000	1-3 months US$ 000	3-12 months US$ 000	1-5 years US$ 000	Over 5 years US$ 000	2016 Total US$ 000
Financial assets						
Non-derivative assets						
Cash and due from banks	618,846	–	–	–	–	618,846
Deposits with other banks	650,235	–	–	–	–	650,235
Loans and advances	1,292,167	335,401	5,561,745	3,056,551	77,606	10,323,470
Derivative assets						
Derivative assets held for risk management	-	-	1,320	7,472	-	8,792
Total assets	**2,561,248**	**335,401**	**5,563,065**	**3,064,023**	**77,606**	**11,601,343**
Financial liabilities						
Non-derivative liabilities						
Due to banks	89,694	338,640	1,636,757	1,926,054	228,884	4,220,029
Debt securities in issue	–	–	–	2,125,112	–	2,125,112
Deposits and customer accounts	113,616	–	3,163,100	507,167	–	3,783,883
Derivative liabilities						
Derivative liabilities held for risk management	1,071	–	–	20,947	–	22,018
Total liabilities	**204,381**	**338,640**	**4,799,857**	**4,579,280**	**228,884**	**10,151,042**
Net liquidity gap	**2,356,867**	**(3,239)**	**763,208**	**(1,515,257)**	**(151,278)**	**1,450,301**
Cumulative liquidity gap	**2,356,867**	**2,353,628**	**3,116,836**	**1,601,579**	**1,450,301**	

3.13 Liquidity Risk (continued)

The table below analyses the contractual expiry by maturity of the Bank's contingent liabilities. For issued financial guarantees contract, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

As at 31 December 2017	Up to 1 month US$ 000	1-3 months US$ 000	3-12 months US$ 000	1-5 years US$ 000	Over 5 years US$ 000	2017 Total US$ 000
Letters of credit	1,912	–	253,064	64,963	–	**319,939**
Financial guarantees	–	150,000	127,392	62,005	37,284	**376,681**
Total	**1,912**	**150,000**	**380,456**	**126,968**	**37,284**	**696,620**
As at 31 December 2016						
Letters of credit	–	–	77,217	167,853	–	245,070
Financial guarantees	460	197,524	141,551	123,556	37,284	500,375
Total	**460**	**197,524**	**218,768**	**291,409**	**37,284**	**745,445**

3.14 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 at least three per cent above minimum ratio prescribed from time to time 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 requirements.

Capital adequacy is reviewed regularly by management using techniques based on the guidelines developed by Basel Committee. With effect from 1 January 2009, the Bank is complying with the provisions of the Basel II framework in respect of capital.

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 exposures.

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3.14 Capital management (continued)

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

	2017 US$ 000	2016 US$ 000
Capital adequacy		
Share capital	470,816	378,488
Share premium	562,350	355,310
Warrants	91,723	98,716
Reserves	455,262	366,282
Retained earnings	524,412	429,448
Total Tier 1 capital	2,104,563	**1,628,244**
Asset revaluation reserve	9,395	5,220
Collective impairment allowance	28,356	23,045
Total Tier 2 capital	37,751	**28,265**
Total capital base	2,142,341	**1,656,509**
Risk weighted assets		
On-statement of financial position	7,261,266	6,291,657
Off-statement of financial position		
Credit risk	427,131	514,139
Operational risk	568,056	462,977
Market risk	763	11,450
Total risk weighted assets	8,257,216	**7,280,223**
Basel capital adequacy ratio (Total capital base/Total risk weighted assets)	26%	**23%**

The increase of the capital in 2017 is primarily due to increase in profits and share capital subscriptions in class (D). The increase of risk weighted assets arises mainly from the growth in the bank's business.

4 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an ordinary transaction between market participants at the measurement date. 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 amount		Fair value	
	2017 US$ 000	2016 US$ 000	2017 US$ 000	2016 US$ 000
Financial assets				
Loans and advances	8,329,943	10,148,202	8,518,544	10,327,704
Financial investments - held to maturity	30,268	30,268	30,268	30,268
Financial liabilities				
Due to banks	4,231,374	4,050,912	4,441,546	4,240,870
Debt securities in issue (gross)	2,891,500	2,100,000	2,944,415	2,132,246

- 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.
- Financial Liabilities
  The estimated fair value of due to banks and debt securities in issue represents the discounted amount of estimated future cash flows expected to be paid. Expected cash outflows are discounted at current market rates to determine fair value.

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

Fair value hierarchy

IFRS 13 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 source of input parameters like LIBOR yield curve or counterparty credit risk is Bloomberg.
- Level 3 – Inputs for the asset or liability that are not based on observable market data. 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.

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

Level 2	2017 US$ 000	2016 US$ 000
Assets		
Interest rate swap	3,274	7,472
Foreign exchange forward contracts	–	1,320
Cross Currency Swap	300	–
	3,574	**8,792**
Liabilities		
Interest rate swap	(21,467)	(20,947)
Foreign exchange forward contracts	–	(1,071)
	(21,467)	**(22,018)**
	(17,893)	**(13,226)**

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4 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

(ii) The table below shows the fair values of non-financial assets measured at fair value at year-end.

Level 3	2017 US$ 000	2016 US$ 000
Revalued property and equipment		
Land and building	29,069	21,193

(iii) The table below shows the assets and liabilities for which fair values are disclosed.

Level 2	2017 US$ 000	2016 US$ 000
Financial assets		
Loans and advances	8,518,544	10,327,704
Financial liabilities		
Due to banks	4,441,546	4,240,870
Debt securities in issue (gross)	2,944,415	2,132,246
	7,385,961	6,373,116

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.

(iv) Movements in level 3 non financial assets measured at fair value.

The following table shows a reconciliation of the opening and closing amounts of level 3 non-financial assets which are recorded at fair value:

Revalued property and equipment	Land and building	
	2017 US$ 000	2016 US$ 000
Valuation as at 1 January	21,193	42,237
Addition in the year	5	156
Total gain/(loss) recorded in other comprehensive income	9,279	(18,650)
Accumulated depreciation eliminated on revaluation	(1,408)	(2,550)
Valuation as at 31 December	29,069	21,193

The following methods and assumptions were used to estimate the fair values:

– The Bank enters into derivative financial instruments with various counterparties, principally financial institutions with investment grade credit ratings. Derivatives valued using valuation techniques with market observable inputs are mainly interest rate swaps and foreign exchange forward contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates, interest rate curves and forward rate curves. The changes in counterparty credit risk had no material effect on the hedge effectiveness assessment for derivatives designated in hedge relationships and other financial instruments recognized at fair value.

– Fair values of the Bank's debt securities in issue and loans and advances are as disclosed in **Note 4(a)**.

– Methods and assumptions used in the valuation of land and building are detailed in **Note 6**.

Impact on fair value of level 3 non financial assets due to changes in key assumptions.

The significant unobservable valuation input used in obtaining the value of the land and building was annual market rentals of similar properties. The table below shows the impact on the fair value of the land and building assuming that the annual market rentals increase or decrease by 10%. The positive and negative effects are approximately the same.

	31 Dec 2017		31 Dec 2016	
	Carrying amount US$000	Effect of 10% change in annual market rentals US$000	Carrying amount US$000	Effect of 10% change in annual market rentals US$000
Property and equipment	29,069	2,907	21,193	2,119

5 DERIVATIVES HELD FOR RISK MANAGEMENT

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.

	2017 US$ 000	2016 US$ 000
Derivative assets		
Interest rate swap	3,274	7,472
Foreign exchange forward contracts	–	1,320
Cross currency swap	300	–
	3,574	8,792
Derivative liabilities		
Interest rate swap	(21,467)	(20,947)
Foreign exchange forward contracts	–	(1,071)
	(21,467)	(22,018)

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 interest rates, 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 notional value of interest rate derivative contracts that the Bank held at 31 December:

	2017 US$ 000	2016 US$ 000
Interest rate swap	1,675,000	1,675,000

The Bank entered into interest rate swap till 1 January 2017 amounting to US$ 1,675 million to hedge interest received from the loan portfolio disbursed in June 2013, July 2014 and May 2016 with floating interest rates. The swap exchanged fixed rate for floating rate on funding to match floating rates received on assets. In this respect a cash flow hedge loss of US$ 13,476 on the hedging instruments at the end of year 2016. At the beginning of the year, management recycled fair value losses arising from discontinuation of hedge accounting for the Interest Rate Swaps due to the prevailing environment where interest rates are rising and expected to continue on the same trend.

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The time periods in which the discounted derivatives cash flows are expected to occur and affect profit or loss are as follows:

	2017 US$ 000	2016 US$ 000
Assets		
Up to one year	–	–
One to five years	3,274	7,472
	3,274	**7,472**
Liabilities		
Up to one year	(219)	–
One to five years	(21,248)	(20,947)
	(21,467)	**(20,947)**

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 profit or loss. 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. Further details on the carrying amount of loans and advances are set out in **note 17**. The key assumptions and estimates used are provided in **note 2.8** and **3.6**.

(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. Refer to **note 4** for further information on fair value of financial assets and liabilities.

(c) Revaluation of property, plant and equipment

The Bank measures land and buildings at revalued amounts with changes in fair value being recognized in Other Comprehensive Income. The Bank engaged an independent valuation specialist to assess fair value as at 31 December 2017. Land and buildings were valued by reference to market-based evidence, using comparable prices adjusted for specific market factors such as nature, location and condition of the property. The carrying amount at the reporting date is as set out in note 24.

(d) Impairment of non-financial assets

Impairment exists when the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the greater of fair value less costs of disposal 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. Refer to **note 2.14** for further information.

(e) Property, plant and equipment

Critical estimates are made by the Bank in determining depreciation rates for property and equipment. The rates used are set out in accounting policy **(note 2.9)** above. The assets residual values, useful lives and methods of depreciation are reviewed at each reporting date, and adjusted prospectively if appropriate. The carrying amount at the reporting date is as set out in note 24.

(f) Going Concern

The bank's management has made an assessment on its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the forseable future. Furthermore, management is not aware of any material uncertainities that may cost significant doubt on the bank's ability to continue as a going concern.

Therefore, the financial statements continue to be prepared on a going concern basis.

7 CONTINGENT LIABILITIES AND COMMITMENTS AND LEASE ARRANGEMENTS

7.1.1 Contingent liabilities

	2017 US$ 000	2016 US$ 000
Letters of credit	319,939	245,070
Guarantees	376,680	500,375
	696,619	**745,445**

The credit risk associated with these transactions is considered minimal. To limit credit risk, the Bank deals exclusively with creditworthy counterparties.

7.1.2 Commitments

Credit lines and other commitments to lend

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

	2017 US$ 000	2016 US$ 000
Less than one year	22,075	333,010
More than one year	299,167	120,468
	321,242	**453,478**

7.2 Lease arrangements

7.2.1 Operating lease commitments – Bank as lessee

The Bank has entered into operating lease agreements for leasing of office premises. These leases have an average life of between two and five years, with renewal option included in the contracts. Where the Bank is the lessee, the future minimum lease payments under non- cancellable operating leases are as follows:

	2017 US$ 000	2016 US$ 000
Less than one year	554	210
After one year but not later than five years	767	151
	1,321	**361**

Included in administrative expenses is minimum lease payments recognised as an operating lease expense amounting to US$381,000 (2016 : US$213,000).

7.2.2 Operating lease commitments – Bank as lessor

The Bank has entered into operating lease agreements for leasing of office space on its building. These leases have an average life of between two and five years, with renewal option included in the contracts. Where the Bank is the lessor, the future minimum lease receivables under non-cancellable operating leases are as follows:

	2017 US$ 000	2016 US$ 000
Less than one year	335	1,054
After one year but not later than five years	152	-
	487	**1,054**

Included in other operating income recognized as an operating lease income amounting to US$ 1,100 (2016 : US$1,135)

8 INTEREST AND SIMILAR INCOME

	2017 US$ 000	2016 US$ 000
Loans and advances	577,516	468,960
Interest on derivative contracts	4,359	10,439
Interest on money market investments	22,686	3,726
Interest on investments held to maturity	1,513	887
	606,074	**484,012**

Interest income accrued on impaired financial assets is US$ 2,541,929 (2016: US$2,344,679).

9 INTEREST AND SIMILAR EXPENSE

	2017 US$ 000	2016 US$ 000
Due to banks	158,295	87,540
Debt securities in issue	109,318	91,936
Shareholder and customer deposits	136	31,282
	267,749	**210,758**

10 FEES AND COMMISSION INCOME

	2017 US$ 000	2016 US$ 000
Advisory fees	21,308	26,822
Commission on L/Cs	8,511	2,833
Guarantee fees	9,368	6,629
Structuring Fees	58	6
	39,245	**36,290**

11 FEES AND COMMISSION EXPENSE

	2017 US$ 000	2016 US$ 000
Bond issue fees	1,147	1,951
Legal and agency fees	700	1,064
Other fees paid	7,036	2,840
	8,883	**5,855**

12 OTHER OPERATING INCOME

	2017 US$ 000	2016 US$ 000
Rental income	1,100	1,135
Other income	2,339	540
	3,439	**1,675**

13 PERSONNEL EXPENSES

Personnel expenses are made up as follows:

	2017 US$ 000	2016 US$ 000
Wages and salaries	25,087	20,136
Staff provident fund costs (Note 2.10)	2,301	1,863
Other employee benefits	11,370	10,284
	38,758	**32,283**

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14 GENERAL AND ADMINISTRATIVE EXPENSE

General and administrative expenses are made up as follows:

	2017 US$ 000	2016 US$ 000
Operational missions and statutory meetings	10,314	7,667
Professional service fees	6,031	4,354
Communications	2,849	2,019
Operational lease	382	213
Other general and administrative expenses	5,096	5,072
	24,672	**19,325**

Professional services fees include US$ 90,000 (2016: US$100,000) 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.

	2017 US$ 000	2016 US$ 000
Net income attributable to equity holders of the bank	220,494	165,034
Weighted average number of ordinary shares in issue (basic) (note 15.1)	39,488	35,669
Weighted average number of ordinary shares in issue (Diluted) (note 15.2)	98,164	89,173
Basic earnings per share (expressed in US$000 per share)	5.58	**4.63**
Diluted earnings per share (expressed in US$000 per share)	2.25	**1.85**

15.1 Weighted average number of ordinary shares in issue (basic)

	2017 US$ 000	2016 US$ 000
Issued ordinary shares at 1 Janaury	35,669	30,715
Issued during the year	3,819	4,954
Weighted average number of ordinary shares at 31 Decemeber	39,488	**35,669**

15.2 Weighted average number of ordinary shares in issue (diluted)

	2017 US$ 000	2016 US$ 000
Weighted average number of ordinary shares in issue (basic)	39,488	35,669
Effect of warrants issuance	1,244	–
Effect of partly paid shares	57,432	53,504
Weighted average number of ordinary shares at 31 Decemeber	98,164	**89,173**

Subsequent to the year end the bank issued 1,645 shares in classes (A & B) amounting to US$17.9 million. In addition the bank retired warrants worth US$ 49.2 million in 8 January, 2018

16 CASH AND CASH EQUIVALENTS

	2017 US$ 000	2016 US$ 000
Cash in hand	90	75
Deposits with other banks	861,307	618,770
Money market placements (note 16.1)	2,353,176	650,235
	3,214,573	**1,269,080**
Current	2,123,409	650,235
Non-current	229,766	–
	2,353,176	**650, 235**

17 LOANS AND ADVANCES TO CUSTOMERS

	2017 US$ 000	2016 US$ 000
Loans and advances to customers	8,510,543	10,315,620
Less: Allowance for impairment (note 18.1)	(180,600)	(167,418)
Net loans and advances	8,329,943	**10,148,202**
Current	7,006,391	7,189,313
Non-current	1,323,552	2,958,889
	8,329,943	**10,148,202**

18 ALLOWANCE FOR IMPAIRMENT ON LOANS AND ADVANCES AND IMPAIRMENT ON OTHER ASSETS

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

	2017 US$ 000	2016 US$ 000
Balance as at 1 January	167,418	106,502
Impairment charge for the year (note 18.1b)	63,397	82,747
Revaluation effect of provisions of loans in EURO	1,757	**(1,635)**
Loans written off during the year as uncollectible	(51,972)	(20,196)
Balance as at 31 December (note 17)	180,600	**167,418**

(b) Statement of Comprehensive Income

Individual impairment charge for the year	58,086	85,731
Collective impairment charge for the year	5,311	(2,984)
	63,397	**82,747**

18.2 Impairment on other assets and accrued income

Reconciliation of provisions is as follows :

(a) Statement of Financial Position

	2017 US$ 000	2016 US$ 000
Balance as at 1 January	8,423	7,795
Impairment charge for the year (note 18.2b)	1,857	3,616
Written-off during the year	(4,859)	(2,988)
Balance as at 31 December	5,421	**8,423**

(b) Statement of Comprehensive Income

Impairment on other assets	598	1,074
Impairment on accrued income	1,259	2,542
	1,857	**3,616**

19 PREPAYMENTS AND ACCRUED INCOME

	2017 US$ 000	2016 US$ 000
Accrued income	240,427	201,022
Other prepayments	58,774	43,240
Less: Impairment on accrued income	(1,099)	(2,848)
	298,102	**241,556**

Accrued income relates to interest, fees and commisions receivable. Other prepayments include fees and commissions on borrowings, prepaid rent expenses.

20 OTHER ASSETS

	2017 US$ 000	2016 US$ 000
Other receivables	4,589	4,240
Sundry debtors	2,664	4,404
Less: Impairment on other assets	(4,322)	(5,575)
	2,931	**3,069**

Other receivables above mainly relate to taxes recoverable from some member countries arising from payment of invoices inclusive of tax. In accordance with Article XIV of the agreement for Establishment of African Export Import Bank, the Bank is exempt from all taxation and custom duties **(note 38).**

21 FINANCIAL INVESTMENTS – HELD TO MATURITY

	2017 US$ 000	2016 US$ 000
Begining balance at 01 January	30,268	–
Additions during the year	–	30,268
Balance as at 31 December	30,268	**30,268**

22 DUE TO BANKS

	2017 US$ 000	2016 US$ 000
Money market placements	1,733,393	2,077,769
Loans from financial institutions	2,497,981	1,973,143
	4,231,374	**4,050,912**

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22.1 Due to banks

	2017 US$ 000	2016 US$ 000
Money market placements	452,030	426,940
Loans from financial institutions	3,779,344	3,623,972
	4,231,374	4,050,912

There is no collateral against the above amounts of loans from financial institutions.

Loans from financial institutions, have both short-term and long-term borrowings ranging from tenor periods of one month to 12 years with interest rates ranging from 0.5% to 4.65%. Note that the long-term tenor borrowings are matched with specific assets with the same tenor.

The Bank has not had any defaults of principal, interest or other breach with respect to its debt securities during the year ended 31 December 2017 and 2016. The debt securities in issue are unsecured.

23 DEBT SECURITIES IN ISSUE

The Bank issued, under the Euro Medium Term Note Programme (EMTN), US$ 2,850 million bonds (2016: US$2,100 million) with different maturities and coupon rates. Further, the Bank issued under an EMTN Programme, US$41.5 million (2016: US$0million) private placement with floating rate. Fitch Ratings and Moody's assigned these bonds an investment grade rating BBB-, and Baa2 respectively.

Debt securities at amortised cost:	Coupon (%)	2017 US$ 000	2016 US$ 000	Date of Issuance	Date of Maturity
Fixed rate debt securities due 2018	3.88	500,000	500,000	Jun 2013	Jun 2018
Fixed rate debt securities due 2019	4.75	700,000	700,000	Jul 2014	Jul 2019
Fixed rate debt securities due 2021	4.00	900,000	900,000	May 2016	May 2021
Fixed rate debt securities due 2024	4.13	750,000	–	Jun 2017	Jun 2024
Floating rate private placement note due 2021	–	41,500	–	Jul 2017	Jul 2021
Less: Discount on bond payable		(11,429)	(10,880)		
Add: Premium on bond payable		1,551	1,994		
		2,881,622	2,091,114		

The Bank has not had any defaults of principal, interest or other breach with respect to its debt securities during the year ended 31 December 2017 and 2016. The debt securities in issue are unsecured.

24 PROPERTY AND EQUIPMENT

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

	Land US$ 000	Building US$ 000	Motor Vehicles US$ 000	Furniture and equipment US$ 000	Leasehold improvements US$ 000	Assets under construction US$ 000	Total US$ 000
YEAR ENDED 31 DECEMBER 2016							
COST							
Cost/valuation as at 1 January 2016	13,410	28,827	307	11,048	1,034	11	54,637
Re-classified to Intangible asset	–	–	–	(2,722)	–	–	(2,722)
Additions	–	132	485	991	–	557	2,165
Capitalisation of assets under construction	–	24	–	–	–	(24)	–
Disposals	–	–	(73)	(407)	–	–	(480)
Revaluation	(6,768)	(11,882)	–	–	–	–	(18,650)
Transfer*	–	(2,550)	–	–	–	–	(2,550)
Cost/valuation as at 31 December 2016	**6,642**	**14,551**	**719**	**8,910**	**1,034**	**544**	**32,400**
ACCUMULATED DEPRECIATION							
Accumulated depreciation as at 1 January 2016	–	–	(218)	(7,466)	(1,012)	–	(8,696)
Re-classified to Intangible asset	–	–	–	1,593	–	–	1,593
Charge of the year	–	(2,550)	(82)	(1,219)	(10)	–	(3,861)
Disposals	–	–	73	407	–	–	480
Transfer*	–	2,550	–	–	–	–	2,550
Total accumulated depreciation as at 31 December 2016	**–**	**–**	**(227)**	**(6,685)**	**(1,022)**	**–**	**(7,934)**
Net carrying amount as at 31 December 2016	**6,642**	**14,551**	**492**	**2,225**	**12**	**544**	**24,466**

24 PROPERTY AND EQUIPMENT (CONTINUED)

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

	Land US$ 000	Building US$ 000	Motor Vehicles US$ 000	Furniture and equipment US$ 000	Leasehold improvements US$ 000	Assets under construction US$ 000	Total US$ 000
YEAR ENDED 31 DECEMBER 2017							
COST							
Cost/valuation as at 1 January 2017	6,642	14,551	719	8,910	1,034	544	32,400
Additions	–	5	90	1,308	–	331	1,734
Capitalisation of assets under construction	–	–	–	–	–	–	–
Disposals	–	–	–	–	–	–	–
Revaluation	(734)	10,013	–	–	–	–	9,279
Transfer*	–	(1,408)	–	–	–	–	(1,408)
Cost/valuation as at 31 December 2017	**5,908**	**23,161**	**809**	**10,218**	**1,034**	**875**	**42,005**
ACCUMULATED DEPRECIATION							
Accumulated depreciation as at 1 January 2017	–	–	(227)	(6,685)	(1,022)	–	(7,934)
Charge of the year	–	(1,408)	(146)	(1,078)	(9)	–	(2,641)
Disposals	–	–	–	–	–	–	–
Transfer*	–	1,408	–	–	–	–	1,408
Total accumulated depreciation as at 31 December 2017	**–**	**–**	**(373)**	**(7,763)**	**(1,031)**	**–**	**(9,167)**
Net carrying amount as at 31 December 2017	**5,908**	**23,161**	**436**	**2,455**	**3**	**875**	**32,838**

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

During the year the bank received a land from government of Zimbabwe in order to establish a regional office to facilitate the business of the Bank in Southern Africa region.

The fair value of the building and the land which reflects market conditions at the reporting date was US$ 23,161,000 (2016: US$ US$ 14,551,000) and US$ 5,908,000 (2016: US$ 6,642,000) respectively. The fair value was determined using an independent valuer on 31 December 2017.The valuer used was Arab Group for Technical Consultant who has experience in similar projects. The net carrying amount of the Headquarters' land and building would have been US$ 34,000 (2016:US$ 34,000) and US$ 8,796,000 (2016:US$ 9,562,000) respectively if both classes had not been revalued.

25 INTANGIBLE ASSETS

	2017 US$ 000	2016 US$ 000
Cost 1 January	3,029	2,722
Additions	906	307
Cost 31 December	3,935	3,029
Accumulated amortization		
As at 1 January	(2,215)	(1,593)
Amortization charges for the year	(472)	(622)
As at 31 December	(2,687)	(2,215)
Net value as 31 December	1,248	**814**

26 DEPOSITS AND CUSTOMER ACCOUNTS

	2017 US$ 000	2016 US$ 000
Shareholders' deposits for shares	9,151	8,866
Deposit accounts	57,134	25,942
Customer accounts	2,083,071	3,743,685
	2,149,356	**3,778,493**
Current	1,649,356	3,278,493
Non-Current	500,000	500,000
	2,149,356	**3,778,493**

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 the carrying amount, as they have variable interest rates.

27 OTHER LIABILITIES

	2017 US$ 000	2016 US$ 000
Prepaid and unearned income	84,926	63,899
Dividends payable	14,784	13,600
Deposits from tenants	423	423
Accrued expenses	70,929	57,907
Sundry creditors	327,411	14,808
Legal fees deposits	7,151	6,705
	505,624	**157,342**

28 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 instalments, 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 entitlement to acquire more shares.

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

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

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

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

	2017 US$ 000	2016 US$ 000
Authorised capital	5,000,000	5,000,000
500,000 ordinary shares of US$ 10,000 each		
Paid in capital -class A	248,868	240,416
Paid in capital -class B	109,092	98,976
Paid in capital -class C	46,076	39,096
Paid in capital -class D	66,780	-
	470,816	**378,488**

As at 31 December 2017 the authorised capital comprised 500,000 ordinary shares (2016: 500,000 ordinary shares). The number shares issued but not fully paid as at 31 December 2017 was 101,009 (2016: 94,622). The number of fully paid shares as at 31 December 2017 was 6,678 (2016: nil). The nominal value per share is US$10,000.

Shareholders rights are the same for all classes from the perspective of voting rights. Dividends are shared prorata according to number of shares subscribed.

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

	2017 No of shares	2017 US$ 000	2016 No of shares	2016 US$ 000
At 1 January	94,622	378,488	76,788	307,152
Paid up from dividends during the year	908	3,632	1,420	5,680
Paid up in cash during the year	12,157	88,696	16,414	65,656
At 31 December	107,687	470,816	94,622	378,488

29 SHARE PREMIUM

Premiums from the issue of shares are reported in the share premium account.

The movement in share premium account is summarised as follows:

	2017 No of shares	2017 US$ 000	2016 No of shares	2016 US$ 000
At 1 January	94,622	355,310	76,788	203,861
Paid up from dividends during the year	908	11,946	1,420	12,901
Paid up in cash during the year	12,157	195,094	16,414	138,548
At 31 December	107,687	562,350	94,622	355,310

Financial statements for the year ended 31 December 2017

In July 2013, the Bank appealed to its shareholders to increase equity through acquisition of additional shares of which some of the shareholders responded favorably. During the Extra Ordinary Meeting held on 20 September 2014, the shareholders approved a rights issue to raise $ 500 million of equity. Further, the shareholders approved to issue such shares at a discount of 45% to motivate the shareholders exercise their rights. During 2015 the board and shareholders approved to apply the 45% discount retrospectively effective July 2013 to all existing shareholders who responded to the capital increase appeal. Accordingly, 1,121 additional shares were reallocated to the affected shareholders who acquired shares between July 2013 and December 2014 and the related effect on share capital and share premium balances were reflected in 2015.

30 RESERVES

	General Reserves US$ 000	Asset revaluation Reserve US$ 000	Cashflow hedge Reserve US$ 000	Project preparation facility Fund reserve US$ 000	Total US$ 000
Balance as at 1 January 2016	302,744	31,878	19,611	–	354,233
Revaluation of land	–	(6,768)	–	–	(6,768)
Revaluation of building	–	(11,882)	–	–	(11,882)
Depreciation transfer : buildings	–	(1,628)	–	–	(1,628)
Transfer to cashflow hedge reserve	–	–	(33,087)	–	(33,087)
Transfer from retained earnings (note 31)	63,538	–	–	–	63,538
Balance as at 31 December 2016	**366,282**	**11,600**	**(13,476)**	**–**	**364,406**
Balance as at 1 January 2017	366,282	11,600	(13,476)	–	364,406
Revaluation of land	–	(734)	–	–	(734)
Revaluation of building	–	10,013	–	–	10,013
Depreciation transfer : buildings	–	(1,408)	–	–	(1,408)
Recycling of fair value adjustment to profit and loss	–	–	13,476	–	13,476
Transfer from retained earnings (note 31)	81,480	–	–	7,500	88,980
Balance as at 31 December 2017	**447,762**	**19,471**	**–**	**7,500**	**474,733**

The asset revaluation and cashflow hedge reserves are restricted from distribution to the shareholders.

At the beginning of the year, Management recycled fair value losses arising from discontinuation of hedge accounting for the Interest Rate Swaps due to the prevailing environment where interest rates are rising and expected to continue on the same trend.

Nature and purpose of reserves

a. General reserve

The general reserve is set up in accordance with the Bank's policy in order to cover general banking risks, including future losses and other unforeseeable risks or contingencies. Each year the Bank transfers 50% of profit after deduction of dividends to general reserves.

b. Asset revaluation reserve

The revaluation reserve is used to record increases in the fair value of land and building and decreases to the extent that such decrease relates to an increase on the same asset previously recognised in equity. An annual transfer from the asset revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued amount of the asset and depreciation based on the asset original cost. When revalued assets are sold, the portion of the revaluation reserve that relates to those assets is effectively realised and transferred directly to retained earnings.

c. Cash flow hedge reserve

The cash flow hedge reserve represents the cumulative effective portion of gains or losses arising from changes in fair value of hedging instruments entered into for cash flow hedges. The cumulative gain or loss arising on changes in fair value of the hedging instruments that are recognised and accumulated under the heading of cash flow hedge reserve will be reclassified to profit or loss only when the hedged transaction affects the profit or loss, or included as a basis adjustment to the nonfinancial hedged item, consistent with the relevant accounting policy.

d. Project preparation facility Fund reserve

The Project Preparation Facility Fund was approved by the Board in December 2017 for the purposes of setting funds aside to be utilized by the Bank during project preparation phase. Project preparation phase will comprise the entire set of activities undertaken to progress a project from conceptualization through concept design to financial close. It will entail the provision of technical and financial support services - such as technical, environmental, market, financial, legal and regulatory, advocacy services that may be required to a point where the project can attract revenue from investors (both debt and equity).
The Project Preparation Facility Fund was approved for a total amount of USD15 million to be appropriated from the Bank's profits equally over two years from 2017 to 2018. The fund will be operated on a full cost recovery revolving basis and solely deployed towards project preparation work and related activities.

31 RETAINED EARNINGS

	2017 US$ 000	2016 US$ 000
Balance as at 1 January	429,448	355,147
Profit for the year	220,494	165,034
Transfer to general reserve	(81,480)	(63,538)
Transfer to Project preparation facility	(7,500)	–
Depreciation transfer: buildings	1,408	1,628
Dividends for prior year	(37,958)	(28,823)
Balance as at 31 December	524,412	429,448

32 DIVIDENDS

After reporting date, the directors proposed dividends appropriations amounting to US$ 57,534,000 (2016: US$ 37,958,000). The 2017 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 equity as an appropriation of retained earnings in the year ending 2018.

Dividends per share is summarised as follows:

	2017 US$ 000	2016 US$ 000
Proposed dividends per share		
Dividends appropriations	57,534	37,958
Number of shares at 31 December	107,687	94,622
Dividends per share	0.53	0.40
Dividends per share declared and paid		
Dividends appropriations	37,958	28,823
Number of shares at 31 December of the previous year	94,622	76,788
Dividends per share	0.40	0.38

The Bank considered the equivalent number of fully paid up shares in calculation of the dividends given that Classes A, B and C shares are partially paid, that is 40% at subscription with 60% remaining as callable capital.

Financial statements for the year ended 31 December 2017

33 WARRANTS

	2017 No. of warrants	2017 US$ 000	2016 No. of warrants	2016 US$ 000
At 1 January	2,424	98,716	1,224	46,316
Retirement during the year	(4,778)	(198,575)	(1,224)	(46,316)
Issued during the year	4,869	191,582	2,424	98,716
At 31 December	2,515	91,723	**2,424**	**98,716**

The Bank held an Extra Ordinary Meeting on 20 September 2014, where the shareholders authorised an equity increase of $500 million from existing shareholders. The shareholders also approved that an arrangement be put in place whereby a third party entity (entities or investors) would provide bridging financing to pre-finance the expected subscribed amounts in terms of the equity raising plan. The third party entity (entities or investors) could achieve this in various ways, including among others, the issue of debt instruments. It was therefore in this context that the Bank put in place the Equity Bridge Bond. Under the Equity Bridge Bond Structure, the Bank created an "orphan Special Purpose Vehicle- SPV" registered in the Seychelles. The shares of the SPV are held by a non-charitable trust with the trustee being an administration company. The SPV is the issuer of the bond. As at 31 December 2017, for 2,515 warrants for an aggregate principal amount of up to approximately US$ 91,723,835 with an average tenor for 2 years. The issuer used the proceeds of the bonds to subscribe for warrants representing Class D shares of African Export-Import Bank.

34 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 related party transactions are as follows:

34.1 Key management personnel compensation

Salaries and benefits to management personnel

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

	2017 US$ 000	2016 US$ 000
Salaries and short-term benefits	8,522	6,483
Other long-term benefits	2,287	1,652
Post-employment benefits	554	460
Termination benefits	200	114
	11,563	8,709

Short -term benefits above include meeting allowances for Board members and staff allowances for children's education, dependency, home leave and housing.

Loans and advances to management personnel
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 policies. The movement in loans and advances to management during the year ended 31 December 2017 was as follows:

	2017 US$ 000	2016 US$ 000
Balance as at I January	225	162
Loan disbursements during the year	612	481
Loan repayments during the year	(330)	(418)
Balance as at 31 December	507	225

Interest income from staff loans amounted to US$ 24,268 (2016: US$ 17,675). There were no loan loss provisions on staff loans in both current and prior year.

No loans to related parties were written off in 2017 and 2016.

35 SEGMENT REPORTING

35.1 Operating Segments

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. The Bank's primary reporting format for business segments includes Lending and Treasury operations. Lending activities represent investments in facilities such as loans, letters of credit and guarantees, which promote intra and extra African trade. Treasury activities include raising debt finance, investing surplus liquidity and managing the Bank's foreign exchange and interest rate risks.The Bank's distribution of loans and advances by geographical and industry sectors is as disclosed in **note 3.8.**

	Lending 2017 US$ 000	Treasury 2017 US$ 000	Total 2017 US$ 000	Lending 2016 US$ 000	Treasury 2016 US$ 000	Total 2016 US$ 000
Statement of profit or loss and other comprehensive income						
Interest income	576,985	29,089	606,074	469,348	14,664	484,012
Net fees and commission	39,418	(9,056)	30,362	30,435	–	30,435
Other operating income	3,439	–	3,439	1,675	–	1,675
Total segment revenue	619,842	20,033	639,875	**501,458**	**14,664**	**516,122**
Less: interest expense	(137)	(267,612)	(267,749)	(73)	(210,686)	(210,758)
Foreign exchange adjustments and fair value adjustment	(18,169)	(1,666)	(19,835)	5,295	(3,170)	2,124
Less: personnel and other admin. expenses	(61,262)	(2,169)	(63,431)	(49,957)	(1,652)	(51,609)
Less: depreciation and amortisation	(3,039)	(75)	(3,114)	(4,383)	(100)	(4,483)
Segment income before impairment	537,235	(251,489)	285,746	**452,340**	**(200,944)**	**251,396**
Less: loan impairment charges	(63,397)	–	(63,397)	(82,747)	–	(82,747)
Less: provisions	(1,857)	–	(1,857)	(3,616)	–	(3,616)
Net income for the year	471,980	(251,489)	220,493	**365,977**	**(200,944)**	**165,034**
Financial Position						
Segment assets	8,662,712	3,248,125	11,910,837	**10,415,912**	**1,307,863**	11,723,775
Capital expenditures	2,350	290	2,640	2,196	276	2,472
Total assets at year end	8,665,062	3,248,415	11,913,477	10,418,108	1,308,139	**11,726,247**
Segment liabilities	2,654,980	7,134,463	9,789,443	**3,935,828**	**6,163,910**	10,099,879
Capital funds	–	–	2,124,034	–	–	1,626,368
Total liabilities and capital funds	8,665,062	3,248,415	11,913,477	**10,418,108**	**1,308,139**	**11,726,247**

The segment income are 100% external, thus there are no inter-segment income. The Bank did not have any transactions with a single customer exceeding 10% of the Bank's total revenue.

Transfer prices between operating segments are based on the bank's pricing framework.

36 TAXATION

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

37 EVENTS AFTER THE REPORTING DATE

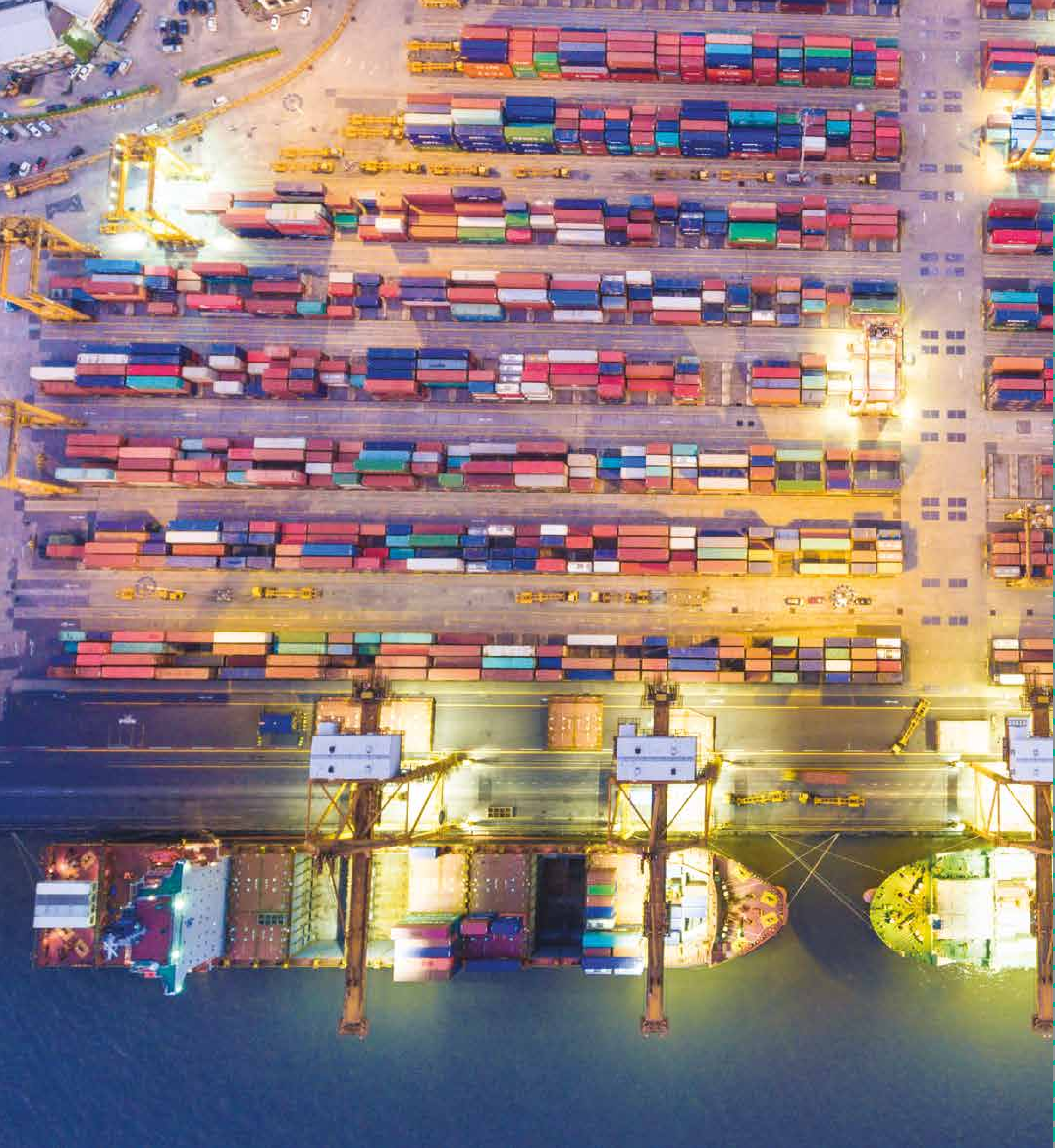
There are no material events after the reporting date that would require adjustment to these financial statements. Subsequent to year end the bank raised additional capital and retired warrants as disclosed in (note 15).

38 RECLASSIFICATION FOR COMPARATIVE FIGURES

Some of the comparative figures have been reclassified to be consistent with the classification of the financial statements for the current year.

39 APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on 17 March 2018.



7

Chapter Seven

Investor information

Investor information

African Export-Import Bank ("Afreximbank" or the "Bank") is a supranational financial institution based in Cairo, Egypt and with operations in Abuja, Abidjan and Harare.

The Bank has four classes of shares; A, B, C and D. Class D shares are currently issued as Depository Receipts ("DR"s) that were listed on the Stock Exchange of Mauritius on October 4, 2017. The bank's current number of DRs outstanding is 66,780,000 with an average daily trading volume of 2,986 Depositary Receipts. A summary of the DR trading data is shown below:

Depository Receipts ("DR") Data as at 31 December 2017

SEM Ticker	AFREXIMBANK
DR price (US$)	4.30
Number of DRs in issue (000)	66,780
DR Market capitalization (US$'000)	287,154
3 Months average trading volume	2,986
Year high DR price (US$)	4.40
Year low DR price (US$)	4.30

SHARE CAPITAL (AUTHORIZED AND FULLY PAID)

The bank's Authorized Share Capital as of 31 December 2017 amounted to US$5,000,000,000 consisting 500,000 ordinary shares of US$10,000 each. Of this amount, 107,687 shares have been issued, while 47,080 shares have been fully paid for. The unpaid portion of our capital are callable upon our shareholders within Classes A, B and C. The total shares attributable to DR holders are 6,678 shares and they are fully paid for. They are the underlying shares for our 66,780,000 depository receipts that are listed on the Stock Exchange of Mauritius.

CALLABLE CAPITAL AS AT 31 DECEMBER 2017

As at 31 December 2017, the Bank has callable capital amounting to $654.5 million as analyzed in the table below:

Shareholding class	Callable capital (US$)
A	386,912,078
B	163,954,513
C	103,633,747
D	–
Total	**654,500,338**

SHAREHOLDERS

As at 31 December 2017 of 2017, Afreximbank's shares were held by a total of 146 shareholders as analyzed in the table below:

	Number of Shares Held	% of Total Shareholding	Number of Shareholders	% of Total Shareholders
Class A	62,217	57.78%	45	30.82%
Class B	27,273	25.33%	86	58.90%
Class C	11,519	10.70%	14	9.59%
Class D	6,678	6.20%	1	0.68%
Total	**107,687**	**100%**	**146**	**100%**

Note: we considered only the Depository, the custodian of DRs, as the holder of Class D shares.

DETAILS/ANALYSES OF SHAREHOLDERS

Class A	Class B	Class C	Class D
– African governments and government institutions – 45 shareholders – 57.78%	– African non-government investors – 86 shareholders – 25.33% of total issued shares – of total issued shares	– Non-African investors – 14 shareholders – 10.7% of total issued shares	– Open to any person – 1 shareholder – 6.20% of total issued shares

ANALYSIS OF SHAREHOLDING RANGE

	Number of Shares Held	% of Total Shareholding	Number of Shareholders	% of Total Shareholders
10 -100	2,001	1.86%	63	43.15%
101-200	2,884	2.68%	22	15.07%
201-300	4,912	4.56%	20	13.70%
301-1000	9,583	8.90%	17	11.64%
1001-5000	41,015	38.09%	17	11.64%
5001 & above	47,292	43.92%	7	4.79%
Total	**107,687**	**100%**	**146**	**100%**

Investor information

TOP 20 SHAREHOLDERS AS AT 31 DECEMBER 2017

	Shareholder's Name	Country	Share Class
1	Central Bank of Egypt	Egypt	A
2	Central Bank of Nigeria	Nigeria	A
3	SBM Securities Limited	Mauritius	D
4	Reserve Bank of Zimbabwe	Zimbabwe	A
5	National Bank of Egypt	Egypt	B
6	Federal Republic of Nigeria	Nigeria	A
7	China Eximbank	China	C
8	African Development Bank	Regional	A
9	Government of Cote d'Ivoire	Cote d'Ivoire	A
10	Banque du Caire	Egypt	B
11	Banque Misr	Egypt	B
12	Government of Congo Brazzaville	Rep. of Congo	A
13	Banque Centrale De Tunisie	Tunisia	A
14	Standard Chartered Bank	United Kingdom	C
15	Bank of Uganda	Uganda	A
16	Export Credit Insurance Corporation of South Africa	South Africa	B
17	Republique du Cameroun	Cameroun	A
18	JSC Russia Export Centre (REC)	German	C
19	Nigerian Export Import Bank	Nigeria	B
20	SBM (NBFC) Holdings Limited	Mauritius	B

TEN-YEAR HISTORY OF SHARE CAPITALIZATION

	2007	2008	2009	2010	2011	2012
1 Authorized Capital (500,000 ordinary shares of US$ 10,000 each from 2012)	750,000	750,000	750,000	750,000	750,000	5,000,000
Paid-Up Share Capital - Class A (US$'000)	104,309	104,881	105,442	105,495	108,087	109,349
Paid-Up Share Capital - Class B (US$'000)	42,945	43,029	43,676	43,685	43,885	43,948
Paid-Up Share Capital - Class C (US$'000)	14,162	17,172	17,182	17,192	17,200	17,200
Paid-Up Share Capital - Class D (US$'000)	–	–	–	–	–	–
Total Paid-up Share Capital (US$'000)	**161,416**	**165,082**	**166,300**	**166,372**	**169,172**	**170,497**

Investor information

TEN-YEAR HISTORY OF SHARE CAPITALIZATION (CONTINUED)

	2013	2014	2015	2016	2017
1 Authorized Capital (500,000 ordinary shares of US$ 10,000 each from 2012)	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000
Paid-Up Share Capital - Class A (US$'000)	110,081	119,168	180,224	240,416	248,868
Paid-Up Share Capital - Class B (US$'000)	44,340	45,204	88,072	98,976	109,092
Paid-Up Share Capital - Class C (US$'000)	21,200	21,200	38,856	39,096	46,076
Paid-Up Share Capital - Class D (US$'000)	–	–	–	–	66,780
Total Paid-up Share Capital (US$'000)	**175,621**	**185,572**	**307,152**	**378,488**	**470,816**

TEN-YEAR HISTORY OF RESERVES, RETAINED EARNINGS AND SHAREHOLDERS' FUNDS

	2007	2008	2009	2010	2011	2012
Reserves (US$'000)	82,270	97,641	114,448	131,649	154,783	222,863
Retained Earnings (US$'000)	89,240	104,611	122,417	140,619	165,352	193,556
Total Shareholders' Funds (US$'000)	346,119	383,939	421,167	456,679	512,100	612,271

TEN-YEAR HISTORY OF RESERVES, RETAINED EARNINGS AND SHAREHOLDERS' FUNDS (CONTINUED)

	2013	2014	2015	2016	2017
Reserves (US$'000)	257,538	298,578	354,233	364,406	474,733
Retained Earnings (US$'000)	234,819	300,744	355,147	429,448	524,412
Total Shareholders' Funds (US$'000)	706,610	919,069	1,266,709	1,626,368	2,124,034

TEN-YEAR DIVIDEND PAYMENT HISTORY

Year Ended	Date Declared	Total Amount (US$)	Dividend per Share (US$)	% Dividend ratio
31-Dec-17	14-Jul-18	57,534,000	534	26%
31-Dec-16	1-Jul-17	37,958,000	400	23%
31-Dec-15	23-Jul-16	28,823,000	380	23%
31-Dec-14	13-Jun-15	24,147,000	510	23%
31-Dec-13	7-Jun-14	20,500,000	–	–
31-Dec-12	22-Jun-13	14,800,000	340	23%
31-Dec-11	14-Jul-12	11,600,000	270	20%
31-Dec-10	25-Jun-11	10,000,000	240	23%
31-Dec-09	24-Jul-10	9,000,000	220	21%
31-Dec-08	4-Jul-09	8,000,000	194	21%
31-Dec-07	1-Nov-08	8,000,000	198	22%

Note: i. This dividend payment relates to the Shares of the Bank
ii. The computation of dividends for the DRs is different from the above

CREDIT RATING SUMMARY

As of December 31, 2017	Fitch	GCR	Moody's
Short term rating	F3	A2	P-2
Long term rating	BBB-	BBB+	Baa1
Previous rating	Unchanged	Unchanged	Unchanged
Outlook	Negative	Stable	Stable

ACCESS TO MORE SHAREHOLDER INFORMATION

The bank maintains an investor relations section on its website (www.Afreximbank.com), which allows access to relevant financial information and corporate actions on the Bank. More details on the information disclosed in this chapter of the annual report may be obtained from the investor relations section of our website.

Contact us:

For all enquiries on shareholding, financial and business update, please contact our investor relations desk as follows:

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You can also visit the investor relations section of our website for more information. www.afreximbank.com

Notes